DIAGEO PLC
Form 6-K
March 18, 2003

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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

DIAGEO plc

(*Exact name of Registrant as specified in its charter*)

England
(Jurisdiction of incorporation)

8 Henrietta Place, London W1G 0NB
(*Address of principal executive offices*)

indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F [X] Form 40-F [ ]

indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes [ ] No [X]

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b)

This report on Form 6-K shall be deemed to be filed and incorporated by reference in the registration statement on Form F-3 (File No. 333-14100) of Diageo plc, Diageo Investment Corporation and Diageo Capital plc and in the registration statements on Form S-8 (file No. s 333-11460 and 333-11462) of Diageo plc and to be a part thereof from the date on which this report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

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INTRODUCTION

Diageo plc is a public limited company incorporated under the laws of England and Wales. As used herein, except as the context otherwise requires, the term company refers to Diageo plc and the terms group and Diageo refer to the company and its consolidated subsidiaries. Diageo was formed by a merger (the Merger) of Guinness PLC and Grand Metropolitan Public Limited Company, which became effective on 17 December 1997. As used herein, except as the context otherwise requires, the term the Guinness Group refers to the former Guinness PLC and its consolidated subsidiaries, the term GrandMet PLC refers to Grand Metropolitan Public Limited Company, the term GrandMet refers to GrandMet PLC and its consolidated subsidiaries. References used herein to shares and ordinary shares are, except where otherwise specified, to Diageo plc s ordinary shares.

Presentation of financial information

Diageo plc s fiscal year ends on 30 June. GrandMet PLC s fiscal year ended on 30 September of any particular year up until 1997. The company publishes its consolidated financial statements in pounds sterling. In this Form 6-K, references to pounds sterling , sterling , £ , pence or p are UK currency and references to US dollars , US$, $ or ¢ are to US currency. For the convenience of the reader, this Form 6-K contains translations of certain pounds sterling amounts into US dollars at specified rates, or, if not so specified, the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the noon buying rate) on 31 December 2002 of £1 = $1.61. No representation is made that the pounds sterling amounts have been, could have been or could be converted into US dollars at the rates indicated or at any other rates.

Diageo s consolidated financial statements, included in this Form 6-K, have been prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP), which is the group s primary reporting framework. Unless otherwise indicated all financial information contained in this document has been prepared in accordance with UK GAAP. Under UK GAAP, the Merger has been accounted for using merger accounting principles and the results of operations and financial position of Diageo reflect the historical UK GAAP results and financial position of the Guinness Group and GrandMet on a combined basis as though the group had always been one. Under accounting principles generally accepted in the United States (US GAAP), the Merger has been accounted for as an acquisition of the Guinness Group by GrandMet in a purchase transaction on 17 December 1997.

The operating and financial review, selected consolidated financial data and financial information, prepared under UK GAAP, for the six months ended 31 December 2002 and 31 December 2001 that follow have been derived from the published Diageo interim statement. In addition, this Form 6-K contains separate financial information of the group under US GAAP and details of the principal differences between UK and US GAAP relevant to Diageo.

The principal executive office of the company is located at 8 Henrietta Place, London, W1G 0NB, England and its telephone number is +44 (0) 20 7927 5200.

Cautionary statement concerning forward-looking statements

This document contains statements with respect to the financial condition, results of operations and business of Diageo and certain of the plans and objectives of Diageo with respect to these items. These forward-looking statements are made pursuant to the Safe Harbor provisions of the United States Private Securities Litigation Reform Act of 1995. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to Diageo and parties or consortia who have purchased Diageo s assets, actions of parties or consortia who have purchased Diageo s assets, anticipated cost savings or synergy and the completion of Diageo s strategic transactions, are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo s control.

These factors include, but are not limited to:

- Increased competitive product and pricing pressures and unanticipated actions by competitors that could impact Diageo s market share, increase expenses and hinder growth potential;
- The effects of business combinations, acquisitions or disposals and the ability to realise expected synergy and/or costs savings;
- Diageo s ability to complete future acquisitions and disposals;

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- Legal and regulatory developments, including changes in regulations regarding consumption of, or advertising for, beverage alcohol, changes in accounting standards, taxation requirements, such as the impact of excise tax increases with respect to the premium drinks business and environmental laws;
- Changes in the food industry in the United States, including increased competition and changes in consumer preferences;
- Changes in consumer preferences and tastes, demographic trends or perception about health related issues;
- Changes in the cost of raw materials and labour costs;
- Changes in economic conditions in countries in which Diageo operates, including changes in levels of consumer spending;
- Levels of marketing and promotional expenditure by Diageo and its competitors;
- Renewal of distribution rights on favourable terms when they expire;
- Termination of existing distribution rights on agency brands;
- Technological developments that may affect the distribution of products or impede Diageo s ability to protect its intellectual property rights; and
- Changes in financial and equity markets, including significant interest rate and foreign currency rate fluctuations, which may affect Diageo s access to or increase the cost of financing.

Past performance cannot be relied upon as a guide to future performance.

All oral and written forward-looking statements made on or after the date of this document and attributable to Diageo are expressly qualified in their entirety by the above factors and the Risk Factors contained in Diageo s Annual Report on Form 20-F for the year ended 30 June 2002 filed with the Securities and Exchange Commission (SEC).

TRADEMARKS AND TRADE NAMES

This report on Form 6-K includes names of Diageo's products, which constitute trademarks or trade names which Diageo owns or which others own and license to Diageo for their use.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the consolidated financial statements and notes included elsewhere in this report and Diageo s Annual Report on Form 20-F for the year ended 30 June 2002.

Selected Consolidated Financial Data Under UK GAAP

The following table presents selected consolidated financial data for Diageo in accordance with UK GAAP for each of the six months ended 31 December 2002 and 31 December 2001, presented elsewhere in this document, and the five years ended 30 June 2002 and as at the appropriate period ends. The selected consolidated financial data for the four years ended 30 June 2002 and as at the appropriate year ends and as at 30 June 1998 has been derived from Diageo s consolidated financial statements, which have been audited by Diageo s independent auditor. The selected consolidated financial data in accordance with UK GAAP for the six months ended 31 December 2002 and 31 December 2001, and for the year ended 30 June 1998 is derived from unaudited information. The unaudited consolidated interim financial information, in the opinion of Diageo management, includes all adjustments, consisting solely of normal, recurring adjustments, necessary to present fairly the information contained therein. The results of operations for the six months ended 31 December 2002 are not necessarily indicative of the results for the year ending 30 June 2003.

	Six months ended 31 December			Year ended 30 June				
	2002(1) (unaudited)	2002 (unaudited)	2001 (unaudited)	2002	2001	2000	1999	1998 (unaudited)
Profit and loss account data under UK GAAP (4)	$	£	£	£	£	£	£	£
	(in millions, except dividend and per ordinary share data)							
Turnover								
Premium drinks	7,968	4,949	4,458	8,704	7,580	7,117	7,163	7,503
Discontinued operations (2)	771	479	2,020	2,578	5,241	4,753	4,632	4,526
Total turnover	8,739	5,428	6,478	11,282	12,821	11,870	11,795	12,029
Operating profit before goodwill amortisation and exceptional items								
Premium drinks	1,913	1,188	967	1,768	1,432	1,286	1,240	1,317
Discontinued operations (2)	88	55	269	350	695	694	663	625
Total operating profit before goodwill amortisation and exceptional items	2,001	1,243	1,236	2,118	2,127	1,980	1,903	1,942
Goodwill amortisation and exceptional items charged to operating profit (3)	(172)	(107)	(291)	(465)	(254)	(198)	(386)	(572)
Operating profit	1,829	1,136	945	1,653	1,873	1,782	1,517	1,370
Other exceptional items (3)	(2,248)	(1,396)	338	758	(4)	(166)	86	405
(Loss)/profit for the period	(739)	(459)	810	1,617	1,207	990	937	879
Dividend per share	$ 0.16	9.9p	9.3p	23.8p	22.3p	21.0p	19.5p	23.3p
Earnings per share								
- basic	($0.24)	(14.6p)	24.1p	48.8p	35.7p	29.2p	26.5p	23.0p
- diluted	($0.24)	(14.6p)	24.1p	48.7p	35.7p	29.1p	26.4p	22.8p
Earnings before goodwill amortisation and exceptional items per ordinary share								

- basic	$ 0.47	29.5p	26.2p	43.6p	42.4p	37.8p	33.6p	33.0p
- diluted	$ 0.47	29.5p	26.1p	43.5p	42.4p	37.7p	33.4p	32.7p

	As at 31 December			As at 30 June				
	2002(1) (unaudited)	**2002 (unaudited)**	**2001 (unaudited)**	**2002**	**2001**	**2000**	**1999**	**1998**
Balance sheet data under UK GAAP	**$**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
				(in millions)				
Net current assets/(liabilities) (5)	538	334	1,051	(32)	226	(115)	(941)	(26)
Total assets	27,479	17,068	19,548	18,493	17,644	16,089	16,216	17,199
Net borrowings (6)	8,467	5,259	4,994	5,496	5,479	5,545	6,056	4,508
Shareholders equity	8,407	5,222	6,969	6,001	5,123	4,664	3,964	4,574
Called up share capital (7)	1,465	910	976	930	987	990	992	1,139

	No.	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**
				(in millions)				
Number of ordinary shares (7)	3,144	3,144	3,372	3,215	3,411	3,422	3,428	3,594

This information should be read in conjunction with the notes on pages 6 and 7.

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Selected Consolidated Financial Data Under US GAAP

The following table presents selected consolidated financial data for Diageo in accordance with US GAAP for each of the six months ended 31 December 2002 and 31 December 2001, the four years ended 30 June 2002 and the nine months ended 30 June 1998. The selected consolidated financial data for the years ended 30 June 2002 and 30 June 2001 has been based on information contained in Diageo s UK GAAP consolidated financial statements. The selected consolidated financial data for the years ended 30 June 2000 and 30 June 1999 and for the nine months ended 30 June 1998 and as at 30 September 1998 has been extracted from Diageo s US GAAP audited consolidated financial statements. The information for the six months ended 31 December 2002 and 2001 is derived from unaudited information. The unaudited consolidated interim financial information, in the opinion of Diageo management, includes all adjustments, consisting solely of normal, recurring adjustments, necessary to present fairly the information contained therein. The results of operations for the six months ended 31 December 2002 are not necessarily indicative of the results for the year ending 30 June 2003.

	Six months ended 31 December			Year ended 30 June				Nine months ended 30 June
	2002(1) (unaudited)	2002 (unaudited)	2001 (unaudited)	2002	2001	2000	1999	1998
Income statement data under US GAAP (2)(4)(10)	$	£	£	£	£	£	£	£
			(in millions, except per ordinary share and ADS data)					
Sales	8,440	5,242	6,282	10,760	11,868	11,015	11,579	7,399
Operating income (8)	557	346	1,023	1,809	1,335	1,221	898	355
Gains/(losses) on disposals of businesses	31	19	1,412	1,843	(8)	75	(35)	559
Net income	243	151	1,800	2,554	758	798	392	430
Basic earnings per ordinary share	$ 0.08	4.8p	53.6p	77.0p	22.4p	23.5p	11.1p	14.0p
Diluted earnings per ordinary share	$ 0.08	4.8p	53.5p	77.0p	22.4p	23.5p	11.0p	13.9p
Basic earnings per ADS	$ 0.32	19.2p	214.4p	308.0p	89.6p	94.0p	44.4p	56.0p

	As at 31 December			As at 30 June				As at 30 September
	2002(1) (unaudited)	2002 (unaudited)	2001 (unaudited)	2002	2001	2000	1999	1998
Balance sheet data under US GAAP	$	£	£	£	£	£	£	£
				(in millions)				
Total assets	41,041	25,491	26,448	26,153	25,955	24,868	25,586	27,726
Long term obligations (9)	5,923	3,679	4,344	3,892	4,029	3,753	3,431	2,931
Shareholders equity	16,580	10,298	12,607	11,316	11,880	11,802	11,690	13,084

This information should be read in conjunction with the notes on pages 6 and 7.

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Notes to the selected consolidated financial data

(1) For the convenience of the reader, pounds sterling amounts for UK GAAP and US GAAP information for the six months ended 31 December 2002 and as at 31 December 2002 have been translated into US dollars at the noon buying rate on 31 December 2002 of £1 = $1.61.

(2) Included within discontinued operations, under UK GAAP, are the quick service restaurants business (Burger King) and the packaged food businesses (Pillsbury). The quick service restaurants and packaged food businesses have been included in continuing operations under US GAAP. There are no discontinued operations under US GAAP. The UK GAAP consolidated financial statements presented in the 2002 Annual Report on Form 20-F have been restated to reclassify the quick service restaurants business as discontinued and these consolidated financial statements have been included in this Form 6-K. See note (8) for a description of the different accounting treatment of the Burger King transaction under UK and US GAAP.

(3) An analysis of goodwill amortisation and exceptional items before taxation under UK GAAP is as follows:

	Six months ended 31 December		Year ended 30 June				
	2002 (unaudited) £	2001 (unaudited) £	2002 £	2001 £ (in millions)	2000 £	1999 £	1998 (unaudited) £
Charged to operating profit							
Continuing operations							
Goodwill amortisation	(1)	(2)	(2)	(2)	(1)		
Seagram integration costs	(89)	(40)	(164)				
Premium drinks integration costs	(15)	(21)	(48)	(74)			
GrandMet/Guinness merger integration costs					(83)	(262)	(302)
Other restructuring and reorganisation costs				(79)			
José Cuervo settlement		(220)	(220)				
Share option funding costs						(43)	
Agreement with LVMH and employee incentive schemes							(270)
	(105)	(283)	(434)	(155)	(84)	(305)	(572)
Discontinued operations							
Goodwill amortisation	(2)	(8)	(10)	(24)	(16)	(4)	
Other restructuring and reorganisation costs			(21)	(75)	(98)	(77)	
	(2)	(8)	(31)	(99)	(114)	(81)	
	(107)	(291)	(465)	(254)	(198)	(386)	(572)
Other exceptional items							
Continuing operations							
Charged to associates	(15)	(17)	(41)			(8)	(15)
Charged to interest							(58)
(Losses)/gains on disposal of tangible fixed assets	(2)	1	1	25	2	2	6
Gains/(losses) on disposal and termination of businesses	16	34	512	28	(165)	142	580
Merger transaction costs							(85)
	(1)	18	472	53	(163)	136	428
Discontinued operations							
Charged to associates					(3)		
	(1)	(6)	(23)	(6)	3	(12)	(1)

(Losses)/gains on disposal of tangible fixed assets							
(Losses)/gains on disposal and termination of businesses	(1,394)	326	309	(51)	(3)	(38)	(22)
	(1,395)	320	286	(57)	(3)	(50)	(23)
	(1,396)	338	758	(4)	(166)	86	405

(4) The results for the six months ended 31 December 2002 and the year ended 30 June 2002 have been affected by the acquisition of the Seagram spirits and wine businesses on 21 December 2001.

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Notes to the selected consolidated financial data - (continued)

(5) Net current assets/(liabilities) is defined as current assets less current liabilities.

(6) Net borrowings is defined as total borrowings (i.e. short term borrowings and long term borrowings plus finance lease obligations) less cash at bank and liquid resources, interest rate and foreign currency swaps and current asset investments.

(7) The called up share capital represents the number of ordinary shares in issue. During the six months ended 31 December 2002 the group repurchased for cancellation 71 million ordinary shares at a cost of £552 million (six months ended 31 December 2001 - 40 million ordinary shares, cost of £279 million). During the year ended 30 June 2002 the group repurchased for cancellation 198 million of its ordinary shares at a cost of £1,658 million (2001 - 18 million ordinary shares, cost of £108 million; 2000 - 10 million ordinary shares, cost of £54 million; 1999 - 175 million shares, cost of £1,211 million (including £15 million for B shares); nine months ended 30 June 1998 - 540 million B shares, cost of £2,775 million).

(8) An analysis of unusual (charges)/income included in, and affecting the comparability of operating income, under US GAAP is as follows:

	Six months ended 31 December		Year ended 30 June				Nine months ended 30 June
	2002 (unaudited) £	2001 (unaudited) £	2002 £	2001 £ (in millions)	2000 £	1999 £	1998 (unaudited) £
Merger integration costs	(15)	(21)	(48)	(74)	(81)	(232)	(180)
Seagram integration costs	(66)	(28)	(82)				
Restructuring costs				(95)	(34)		(6)
José Cuervo settlement		(198)	(194)				
Derivative instruments in respect of General Mills shares	(60)		166				
Impairment charge			(135)			(74)	
Burger King transaction	(685)						
Plant closure costs						(40)	
Accelerated vesting of share option plans							(90)
	(826)	(247)	(293)	(169)	(115)	(346)	(276)

Under UK GAAP, the sale of Burger King has been accounted for as a disposal and the results prior to the disposal date are presented within discontinued operations. Under US GAAP, the transaction is not accounted for as a disposal due to the size of the investment made by the buyer and Diageo s continuing involvement through the guarantee provided by Diageo in respect of the acquisition finance. Under US GAAP, the results of Burger King prior to 13 December 2002 (the completion date) would be presented within continuing operations in the income statement, and on the completion date of the transaction, a charge for impairment would be recognised rather than a loss on disposal. Following the completion date, Diageo would not recognise profits of Burger King in its income statement but would, generally, reflect losses of Burger King as an impairment charge against the assets retained on the balance sheet. In the US GAAP balance sheet, Diageo includes the total assets and total liabilities (including consideration deferred under US GAAP) within other long term assets and other long term liabilities which at 31 December 2002 were each £1.3 billion. Under US GAAP, the transaction would be accounted for as a disposal when the uncertainties related to the guarantee provided in respect of the acquisition finance have been substantially resolved and/or the buyer s cumulative investment meets or exceeds minimum levels.

The Burger King transaction, included in the table above, reflects an impairment charge of £618 million and costs associated with the transaction.

(9) Long term obligations is defined as long term borrowings and capital lease obligations which fall due after more than one year.

(10)

The results of the Guinness Group have been included in the US GAAP consolidated financial statements from 31 December 1997, the deemed acquisition date.

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CAPITALISATION AND INDEBTEDNESS

The following table sets forth, on a UK GAAP basis, the unaudited actual capitalisation of the Diageo Group as at 31 December 2002:

	31 December 2002
	(unaudited) £ million
Short term borrowings (including current portion of long term borrowings)	3,521
Finance lease obligations	
Long term borrowings	
Due from one to five years	2,848
Due after five years	615
	3,463
Minority interests (equity and non-equity)	535
Shareholders equity	
Called up share capital	910
Share premium account	1,325
Revaluation reserve	126
Capital redemption reserve	3,032
Profit and loss account	(171)
	5,222
Total capitalisation	9,220

Notes

1. At 31 December 2002, the group had cash at bank and liquid resources of £1,360 million and interest rate and foreign currency swaps of £365 million.

2. At 31 December 2002, £38 million of the group s net borrowings due within one year and £219 million of the group s net borrowings due after more than one year were secured.

3. At 31 December 2002, there were potential issues of approximately 5 million new ordinary shares outstanding under Diageo s employee share option schemes.

4. At 31 December 2002, the total authorised share capital of Diageo consisted of 5,329,052,500 ordinary shares of 28 $^{101/108}$ pence each. At such date, 3,143,761,256 ordinary shares were issued and fully paid.

5. There has been no material change in the capitalisation of the group since 31 December 2002.

6. In connection with the disposal of the quick service restaurants business, Diageo has guaranteed up to $850 million (£528 million) of external borrowings of Burger King. These loans have a term of five years although Diageo and Burger King agreed to structure their arrangements to encourage refinancing by Burger King on a non-guaranteed basis prior to the end of five years. At 30 June 2002, in connection with the disposal of Pillsbury, Diageo has guaranteed the debt of a third party to the amount of $200 million (£132 million) until 13 November 2009. Including this guarantee, but net of the amount provided in the financial statements, at 30 June 2002, the group has given performance guarantees and indemnities to third parties of £102 million. Apart from the items referred to above, there has been no material change since 30 June 2002 in the group s performance guarantees and indemnities.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

OPERATING RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

Diageo s strategy is to focus on its branded drinks businesses with international potential. Diageo considers its brands to be important to its operations and the focus of its business strategy is to strengthen and increase international consumer appeal for its key brands. Diageo completed the disposal of its quick service restaurants business on 13 December 2002 and the combination of the group s packaged food business with General Mills, Inc (General Mills) on 31 October 2001.

The unaudited consolidated interim information for the six months ended 31 December 2002, presented in this Form 6-K, includes the results of the quick service restaurants business for the five and half months ended 13 December 2002. In accordance with UK GAAP, the results of the quick service restaurants and packaged food businesses have been included within discontinued operations.

The following discussion is based on Diageo s UK GAAP results for the six months ended 31 December 2002 compared with the six months ended 31 December 2001. In addition, there is an explanation of the significant reconciling items between UK and US GAAP net income for the six months ended 31 December 2002 and 31 December 2001.

There are a number of accounting differences between UK and US GAAP. A reconciliation of net income from UK to US GAAP and an explanation of the differences between UK and US GAAP is set out in the US GAAP unaudited consolidated interim information on pages F-9 and F-10 of this Form 6-K.

Unless otherwise stated, percentage movements given for volume, turnover, net sales, marketing expenditure and operating profit throughout the discussion below are organic movements (at level exchange rates and after adjusting for acquisitions and disposals) for continuing operations. They are before goodwill amortisation and exceptional items. Comparisons are with the equivalent period last year. Organic growth is reported to help a reader more readily understand operating performance from period to period since the percentage movements reflect only operating performance that is comparable. The organic growth calculation is explained in more detail below.

Where a business, brand distribution right or agency agreement was disposed of in the current year, the group would, under organic growth calculations, adjust the results for the prior year to remove 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 growth numbers reflect only comparable performance. Similarly, if a business was disposed of part way through the equivalent prior period then its results would also be completely excluded from that prior period s performance in an organic calculation, since the group enjoyed no contribution from that business in the current year.

For acquisitions, a similar adjustment is made to exclude from the current period s results any profits generated by the acquired business that would not have been enjoyed in the prior comparable period. Again, if a business were acquired part way through the prior period then that period in which the group owned the business in the current year (usually the entire year), but did not in the comparable prior period, would be excluded from an organic growth calculation.

A further adjustment in organic calculations is to exclude the effect of exchange rate movements by restating the prior period s results as if they had been generated at the current period s exchange rates.

In the discussion below, volume has been measured on an equivalent servings basis to 9 litre cases of spirits. Equivalent cases are calculated as follows: beer in hectolitres divide by 0.9, wine in nine litre cases divide by 5, ready to drink in nine litre cases divide by 10. An equivalent case represents approximately 272 servings. A serving comprises 35ml of spirits; 165ml of wine; or 330ml of ready to drink or beer.

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Six months ended 31 December 2002 compared with the six months ended 31 December 2001

The organic growth calculations for turnover, net sales (turnover less excise duty) and operating profit before goodwill amortisation and exceptional items for the six months ended 31 December 2002 against the six months ended 31 December 2001 were as follows:

Turnover

	2001	Exchange	Disposals	2001 restated	Acqui-sitions	Organic growth	2002	Organic growth
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	%
Major markets								
North America	1,147	(68)	(61)	1,018	444	14	1,476	1
Great Britain	845		(80)	765	17	79	861	10
Ireland	518	10	(9)	519	1	2	522	
Spain	224	5	(6)	223	35	(14)	244	(6)
	2,734	(53)	(156)	2,525	497	81	3,103	3
Key markets	1,097	(60)	(15)	1,022	141		1,163	
Venture markets	627	(10)	(12)	605	12	66	683	11
Total	4,458	(123)	(183)	4,152	650	147	4,949	4

Net sales

	2001	Exchange	Disposals	2001 restated	Acqui-sitions	Organic growth	2002	Organic growth
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	%
Major markets								
North America	958	(55)	(56)	847	373	11	1,231	1
Great Britain	515		(49)	466	9	30	505	6
Ireland	344	6	(8)	342	1	7	350	2
Spain	175	2	(5)	172	26	(12)	186	(7)
	1,992	(47)	(118)	1,827	409	36	2,272	2
Key markets	868	(47)	(14)	807	100	4	911	
Venture markets	481	(9)	(10)	462	9	69	540	15
Total	3,341	(103)	(142)	3,096	518	109	3,723	4

Operating profit before goodwill amortisation and exceptional items

	2001	Exchange	Disposals	2001 restated	Acqui-sitions	Organic growth	2002	Organic growth
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	%
Major markets								
North America	253	10	(16)	247	154	12	413	5

Great Britain	136		(11)	125	4	15	144	12
Ireland	86	4	(1)	89			89	
Spain	60	1	(2)	59	11	(9)	61	(15)
	535	15	(30)	520	169	18	707	3
Key markets	287	(15)	(7)	265	39	13	317	5
Venture markets	145		(5)	140	3	21	164	15
Total	967		(42)	925	211	52	1,188	6

Notes

(1) Organic growth is calculated for continuing operations only. Consequently, there are no organic figures presented for the packaged food or quick service restaurants businesses which were sold in October 2001 and December 2002, respectively.

(2) Disposal adjustments for turnover, net sales and operating profit before goodwill amortisation and exceptional items were in respect of the disposal of Malibu rum (£65 million, £56 million and £23 million, respectively); the sale of Croft and Delaforce port and sherry brands (£4 million, £3 million and £2 million, respectively); the sale of Glen Ellen wines (£28 million, £25 million and £4 million, respectively); the termination of the Brown Forman distribution rights in Great Britain (£62 million, £37 million and £8 million, respectively); and other disposals (£24 million, £21 million and £5 million, respectively).

(3) The Seagram spirits and wine businesses accounted for all of the turnover, net sales and operating profit before goodwill amortisation and exceptional items in respect of the acquisitions of £650 million, £518 million and £211 million, respectively.

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

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Diageo group

The results of the group for the six months ended 31 December 2002 and the six months ended 31 December 2001 are summarised below:

	Six months ended 31 December	
	2002 (unaudited) £ million	2001 (unaudited) £ million
Operating profit before goodwill amortisation and exceptional items	1,243	1,236
Goodwill amortisation	(3)	(10)
Operating exceptional items	(104)	(281)
Operating profit	1,136	945
Share of profits of associates before goodwill amortisation and exceptional items	266	162
Other exceptional items	(1,396)	338
Interest payable (net)	(214)	(170)
(Loss)/profit before taxation	(208)	1,275
Taxation	(206)	(423)
Minority interests	(45)	(42)
(Loss)/profit for the period	(459)	810

The group uses a weighted average exchange rate to translate the results of its US subsidiaries in its consolidated financial statements. For the six months ended 31 December 2002, this rate was £1 = $1.55 (six months ended 31 December 2001 - £1 = $1.44).

On a reported basis, turnover decreased by £1,050 million (16%) from £6,478 million in the six months ended 31 December 2001 to £5,428 million in the six months ended 31 December 2002, following the disposals of Pillsbury in October 2001 and Burger King in December 2002. For continuing operations, turnover increased by £491 million (11%) from £4,458 million in the six months ended 31 December 2001 to £4,949 million in the six months ended 31 December 2002. On an organic basis, turnover grew 4%. The Seagram spirits and wine businesses, which were acquired on 21 December 2001, contributed £650 million to turnover during the period.

Reported operating profit before goodwill amortisation and exceptional items increased £7 million from £1,236 million to £1,243 million. Reported operating profit before goodwill amortisation and exceptional items, for continuing operations, increased by £221 million (23%) from £967 million to £1,188 million. On an organic basis, operating profit before goodwill amortisation and exceptional items for continuing operations increased 6%. The Seagram spirits and wine businesses contributed £211 million to operating profit before goodwill amortisation and exceptional items.

On a reported basis, marketing investment for continuing operations increased 21% from £554 million to £668 million. Organically, marketing investment increased 13%.

Reported profit before goodwill amortisation, exceptional items, taxation and minority interests increased by £67 million (5%) from £1,228 million in the six months ended 31 December 2001 to £1,295 million in the six months ended 31 December 2002. In local currency terms this was an increase of 5%. The net interest charge increased by £44 million (26%) from £170 million in the prior period to £214 million in the six months ended 31 December 2002.

Exceptional items before taxation were a charge of £1,500 million in the six months ended 31 December 2002. After goodwill amortisation and exceptional items, the result before taxation and minority interests decreased by £1,483 million from a profit of £1,275 million to a loss of £208 million in the six months ended 31 December 2002. The result for the period decreased by £1,269 million from an £810 million profit to a loss of £459 million.

Premium drinks

Reported turnover increased by £491 million (11%) from £4,458 million in the six months ended 31 December 2001 to £4,949 million in the six months ended 31 December 2002. Reported operating profit before goodwill amortisation and exceptional items increased by £221 million (23%) from £967 million to £1,188 million. On an organic basis, turnover increased 4% and operating profit increased 6%.

Reported volume increased 13% as a result of the addition of 9.4 million equivalent cases from the Seagram acquisition and organic volume growth of 1%. Organic volume growth in global priority brands was 4%, local priority brands declined 3% and category management brands (all brands other than global priority brands and local priority brands) declined 4%. Volume growth of the

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global priority brands excluding RTD was 3%, compared to 4% in the six months ended 31 December 2001. Overall, global priority brand volume performance reflects a more consistent performance across the brands than in prior periods. Johnnie Walker Black Label and Red Label both grew volume, up 6% and 5% respectively, and J&B was the only brand on which volume declined. Local priority brand volume was down 3%, reflecting a 341,000 equivalent case reduction of Dimple in South Korea and the reduction in volume of Buchanan s in Venezuela as a result of economic conditions. Excluding the impact of these, overall performance was in line with the same period last year. Category management brands remained in decline due to weaker volume of low value vodkas in North America, Spey Royal in Thailand and Gilbey s Gin in the Philippines.

Reported net sales increased 11% from £3,341 million to £3,723 million, driven by £518 million of net sales from the Seagram acquisition, a 1% organic increase in volume and a 3% improvement in price and mix. On a reported basis, RTD net sales increased 9% from £382 million to £416 million. Net sales of the global priority brands excluding RTD increased 5%, in line with last year.

Reported marketing investment increased 21% to £668 million and organic growth was 13%. Marketing investment in the global priority brands grew 15% to £421 million, particularly behind Smirnoff Ice, Tanqueray and Guinness. In many markets, particularly in North America, Great Britain and Ireland, share of voice in marketing spend increased as Diageo continued to invest, even in difficult times, behind the drivers of future growth, including new product launches.

The acquisition of certain Seagram businesses, which include the brands Captain Morgan, Crown Royal, Seagram s 7, Seagram s VO, Cacique, Windsor Premier, Myers s Rum and Sterling Vineyards, completed on 21 December 2001. During the six months ended 31 December 2002, volume of these brands was 9.4 million equivalent cases, net sales were £518 million and attributable operating profit was £211 million after a charge of approximately £18 million in respect of the cost of discontinuing Captain Morgan Gold which was launched in May 2002.

Volume and net sales growth by brand classification

	Equivalent cases	Volume growth	Net sales growth
	(millions)	**%**	**%**
Smirnoff	12.6	6	13
Johnnie Walker	6.3	5	5
Guinness	5.7		6
Baileys	4.0	12	14
J&B	3.5	(8)	(7)
Cuervo	2.0		(1)
Tanqueray	1.0	2	5
Total global priority brands	35.1	4	7
Local priority brands	7.2	(3)	(5)
Category management brands	14.2	(4)	
	56.5	1	4
Acquisitions			
Seagram brands	9.4		
Total	65.9		

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Market review

	Global priority brands	Local priority brands	Category management brands	Total
	%	%	%	%
Volume growth by market				
Major markets				
North America	4	(4)	(5)	1
Great Britain	10	1	4	7
Ireland	(1)	(5)	9	(2)
Spain	(13)	(2)	(1)	(11)
	2	(2)	(3)	1
Key markets	1	(6)	(4)	(2)
Venture markets	12	5	(4)	6
Total	4	(3)	(4)	1
Net sales growth by market				
Major markets				
North America	5	(6)	(8)	1
Great Britain	9	(4)	11	6
Ireland	3		4	2
Spain	(11)	(3)	17	(7)
	4	(3)	1	2
Key markets	5	(10)	(2)	
Venture markets	23	6	1	15
Total	7	(5)		4

Review by market

North America

	Reported growth	Organic growth
Volume	38%	1%
Turnover	29%	1%
Net sales	28%	1%
Marketing	32%	8%
Operating profit	63%	5%

Key drivers:

Volume of global priority brands up 4%

Disappointing category management and local priority brand performance

RTD category under pressure

Market share of spirits brands increased by 0.5 percentage points

Reported turnover was up 29% from £1,147 million to £1,476 million in the six months ended 31 December 2002. On an organic basis, this represented growth of 1%. Volume was up 1% and net sales also grew 1%. During the period, organic operating profit growth was 5% and the Seagram spirits and wine businesses contributed £154 million to the total reported operating profit of £413 million.

Diageo North America continued to make good progress on a number of strategic initiatives. The ex-Seagram brands were successfully integrated into the business, providing Diageo with the critical mass necessary to execute the Next Generation Growth initiative. Diageo has now appointed new distribution partners committed to providing a sales force dedicated to Diageo brands in 26 states. This represents over 70% of

Diageo s volume in the United States.

The global priority brands continued to perform well, and volume grew 4% over the comparable period with strong performances from Smirnoff, up 4%, Johnnie Walker Black Label, up 9%, and Baileys, up 12%. Cuervo and Tanqueray also showed volume improvements versus the comparable period with volume up 4% and 1%, respectively. The local priority brands declined 4%, with Beaulieu Vineyard down 18%, and Gordon s Gin down 6%, offset by good volume growth in other local priority brands. Volume of

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category management brands declined due to intense price competition at the lower price points of some categories. Diageo chose not to pursue volume at the expense of value.

Marketing investment increased 8% over the same period last year, driven by investment behind Smirnoff Ice, Cuervo and Tanqueray. In addition to the increased investment in marketing, Diageo North America was able to generate efficiencies from the move to a single media buyer and the increased market presence provided by the addition of the Seagram brands.

Smirnoff volume was up 4%. Excluding RTDs, volume was up 8%, driven by continued strong growth of the Smirnoff flavoured vodka range. Smirnoff Red grew its share of the domestic vodka segment. Smirnoff Ice volume and net sales declined 8% and 5%, respectively. This was due to increasing competition in the RTD category following the entry of a number of new branded RTDs, partially offset by increases in on-premise distribution through the introduction of new packaging formats. While the RTD category has continued to grow and now represents nearly 5% of the sales value of the beer category, Smirnoff Ice s share has declined in the period. Approximately 60,000 equivalent cases of Smirnoff Ice Triple Black were shipped in the period prior to its launch in January 2003.

Johnnie Walker volume increased 1% and net sales grew 7% during the period. This favourable mix was caused by volume growth of 9% in Johnnie Walker Black Label and volume decline of 5% in Johnnie Walker Red Label. However, Johnnie Walker Red Label increased its share of the premium scotch category and Johnnie Walker Black Label grew its share of the deluxe scotch category.

Baileys volume grew 12% during the period with net sales up 16%. Marketing investment was down 12%, although media impact doubled as more effective media planning led to a shift from local to national programming.

While J&B volume declined 1% in the period, net sales were level and contribution from the brand increased 20% as marketing investment was reduced 42%.

Tanqueray volume increased 1% and net sales grew 5%. Price increases were achieved in key states and marketing investment grew 29% following the launch of the Distinctive Since campaign.

Cuervo volume grew 4%, whilst net sales grew 2% reflecting the price decrease as the agave shortage started to alleviate. Marketing investment grew 14% focused behind brand building initiatives.

Volume of Captain Morgan was up 21% and Crown Royal was up 19% against the six months ended 31 December 2001 when, under the previous owners, trade stocks were reduced. For both brands, depletions in the United States were still strong, up 10% and 11% respectively. Captain Morgan and Crown Royal have grown share of the rum and Canadian whiskey categories, respectively.

The performance of the wine brands was mixed in a difficult market. Beaulieu Vineyard volume declined 18% due to temporary disruption caused mainly by changes in the distributor networks and an increasingly price competitive market. In contrast, however, volume of Sterling Vineyards was up 28% as it faced the competitive market with a stronger brand profile. The brand benefited from the increased distribution which has resulted from its integration into the Diageo portfolio and increased marketing investment.

Great Britain

	Reported growth	Organic growth
Volume	Level	7%
Turnover	2%	10%
Net sales	(2)%	6%
Marketing	17%	9%
Operating profit	6%	12%

Key drivers:

Volume growth achieved across the business

Global priority brand volume up 10%

RTD profitability adversely affected by duty increase in April 2002

Volume growth was achieved across Diageo s business in Great Britain. Global priority brands were up 10%, local priority brands were up 1% and category management brands were up 4%. Similarly, spirits volume was up 8%, Guinness was up 1% and wine was up 16%. This strong performance was the result of the comprehensive restructuring of the field sales force carried out in the last year and through continued investment behind proven marketing campaigns. Diageo s sales team now visit 34,000 outlets, up from

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23,000, and, as a result, on-trade distribution gains were evident for many priority brands. Marketing investment grew 19%, including £9 million spent behind new brand launches, and operating profit was up 12% to £144 million.

Volume growth in the RTD category has been adversely impacted by the increase in excise duty in April 2002. Diageo s RTD volume in Great Britain grew 4%. Volume of Smirnoff Ice grew 7% and it has continued to outperform the category with market share now 26%. This performance has been driven by successful renovation through Smirnoff Black Ice. However, volume of Archers Aqua fell 19% in the period. Operating margins on RTD were adversely impacted by the absorption of the excise duty increase through price discounting and by increased competition.

Smirnoff Red volume was up 11% with net sales up 19% as a result of a 6% price increase implemented in September 2002. Smirnoff Red held market share at 33% despite increased price competition in the vodka category.

Baileys continued to deliver impressive volume growth, up 35%. Brand building activity was focused on driving more regular usage. The launch of Baileys Minis continued this focus. Baileys, which is the clear leader in the cream liqueur category, increased its share of the total spirits market.

Guinness volume was up 1% despite a 1% decline in the overall beer category. The brand has reversed the 1% volume decline seen in the six months ended 31 December 2001.

Volume of Gordon s Gin was up 6%, benefiting from the new advertising campaign and packaging. However, the performance of Gordon s Edge, which has sold about 20,000 equivalent cases since its launch in May 2002, has been disappointing.

Bell s volume grew 2%, supported by the Jools Holland advertising campaign and strong promotional activity.

Diageo s wine brands grew strongly in the period driven mainly by the performance of Blossom Hill, where volume grew 10%. Blossom Hill Red is now the best selling wine in the off-trade in Great Britain.

Ireland

	Reported growth	Organic growth
Volume	(3)%	(2)%
Turnover	1%	Level
Net sales	2%	2%
Marketing	12%	12%
Operating profit	3%	Level

Key drivers:

Beverage alcohol market impacted by slowing economy

Guinness volume down 3%

Baileys volume up 11%

RTD volume up 23%

In Ireland, turnover was slightly increased on a reported basis, from £518 million in the six months ended 31 December 2001 to £522 million in the six months ended 31 December 2002. Operating profit was up from £86 million to £89 million. On an organic basis, both turnover and operating profit were level.

Continued economic weakness in Ireland has led to a significant slowdown in consumer spending. As a result, the long alcoholic drinks sector declined 3% after a number of years of modest growth. Over 75% of Diageo s business in Ireland is in this sector and hence the overall volume decline of 2% reflects these trends. Strong volume performance in Baileys, up 11%, Smirnoff, up 3%, including Smirnoff Ice, up 12%, was offset by a 5% decline in the volume of beer brands. Guinness volume declined 3% but it held market share, stabilising its position after a number of years of market share declines. Despite the volume decline, operating profit was level as a result of price increases broadly in line with inflation. Marketing investment grew 12%, driven by increased spend on Guinness and the renovation of the RTD portfolio with the launch of Smirnoff Black Ice. Smirnoff Black Ice and Smirnoff Ice on Draught together now represent 25% of Smirnoff Ice volume in Ireland.

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Spain

	Reported growth	Organic growth
Volume	1%	(11)%
Turnover	9%	(6)%
Net sales	6%	(7)%
Marketing	16%	10%
Operating profit	2%	(15)%

Key drivers:

Spirits market impacted by slowing economy

Market share gains in scotch, premium scotch, cream liqueur and dark rum

Spain reported turnover of £244 million in the six months ended 31 December 2002, up 9% versus the £224 million reported in the prior period. On an organic basis, volume, turnover and net sales declined 11%, 6% and 7%, respectively. The comparison against the same period last year was impacted by the buy-in which occurred last year ahead of the duty increase in January 2002; this was estimated to be worth 5 percentage points of volume growth in that period.

Reported operating profit was up £1 million as a result of the inclusion of Cacique, an ex-Seagram brand, but operating profit was down 15% on an organic basis. Organic operating profit growth was constrained by increased investment in marketing, up 10%, including the launch costs of J&B Twist.

The pace of growth in the premium drinks business in Spain has been adversely impacted by the slowing economy and increasing inflation, particularly in the on-trade. The introduction of an 8% increase in excise duty on spirits in January 2002 also negatively impacted the growth of the spirits industry. Within this overall environment, Diageo has made clear market share gains in the scotch, premium scotch, cream liqueur, and dark rum categories.

The economic environment has particularly affected the standard scotch whisky category, which accounts for 30% of the total spirits market in Spain and which declined in the period. However, although volume of J&B has been affected by this trend and declined 11%, its market share grew. In addition, the premium and malt whisky category continues to grow and Diageo s market share is now over 50%.

Dark rum is the fastest growing category in Spain, and Diageo, with approximately a 45% share of this increasingly important category, is well placed to maximise this opportunity. Cacique and Pampero have both achieved volume growth, up 47% and 5%, respectively, and Diageo gained share in the dark rum category.

Key markets

	Reported growth	Organic growth
Volume	3%	(2)%
Turnover	6%	Level
Net sales	5%	Level
Marketing	9%	5%
Operating profit	10%	5%

Key drivers:

Global priority brand volume up 1%

Impact of difficult economic situation in Latin America

Strong volume and profit growth in Africa and Global Duty Free

Reported turnover in the six months ended 31 December 2002 was £1,163 million, up 6% on the prior period figure of £1,097 million. On an organic basis, turnover was level. Overall growth in key markets, with operating profit up 5% to £317 million, was constrained by the economic situation in Latin America and the decision to change distributors in South Korea. However, several markets performed strongly including Africa and Global Duty Free. During the period, the Seagram brands acquired by Diageo, including Windsor Premier in South Korea and Cacique in Venezuela, contributed £141 million to turnover and £39 million to operating profit.

Volume was down 2%, whilst net sales were level versus the same period last year with price increases achieved in Africa, principally Nigeria, and in Thailand on Johnnie Walker. Marketing investment grew 5%, driven by increased spend behind Guinness in Africa and Johnnie Walker in France, South Korea and Thailand.

Global priority brands achieved volume growth of 1% and net sales growth of 5% during the period. Volume of Guinness was up 7%, reflecting the continued growth in Africa. Volume of Johnnie Walker Red Label increased 7% due to strong performance in Australia and a weak comparative period in Brazil, when distributor de-stocking took place. Volume of Johnnie Walker Black Label was level, with growth in Taiwan offset by the decline in Venezuela. J&B volume declined 9%, mainly due to the Portuguese market where, consistent with Diageo s strategy of maintaining value, it was decided not to follow the large price reductions taken by competitors.

RTD volume was up 22%. New RTDs launched in the period included Archers Aqua and Smirnoff Ice in Australia, Johnnie Walker ONE in Brazil, and Smirnoff Ice in Taiwan.

Local priority brand volume fell 6%, impacted by the change of distribution for Dimple in South Korea described below and a 46% decline in volume of Buchanan s in Venezuela. Category management brands fell 4%, mainly driven by declines in VAT 69 in Venezuela and Spey Royal in Thailand.

Africa, representing nearly 40% of the key markets volume, grew 5% in volume terms and 15% in net sales terms over the prior period. Guinness, which accounts for approximately 24% of African volume, continued to perform well with volume up 7% and net sales up 29%. The continued success of the Michael Power campaign resulted in double-digit volume growth in Ghana, Kenya, Uganda and Cameroon. Volume in Nigeria, however, was level following a price increase taken in July 2002 and a tightening of economic conditions.

Diageo confirmed its position as the leading premium drinks business in Australia as market share grew to 35% in the spirits category and 33% in the RTD category. Overall, volume growth was 20% and net sales increased 15%. There was 25% volume growth in priority brands, excluding RTDs, with Baileys volume up 11%, Smirnoff up 29% and Johnnie Walker up 32%. All priority spirits brands gained market share, and Diageo s RTD products grew strongly with volume up 35%. Margins in RTD declined as a result of the costs associated with new product launches and the decision to reposition prices to a maximum 30% premium to standard beer.

In South Korea, Windsor Premier continued to perform strongly in a growing category and volume grew 25%. Windsor 17 leads the super premium category, and the Windsor Premier brand holds around 25% of the total scotch category. The transfer of the distribution of the Dimple brand to Diageo Korea was successfully completed on 31 December 2002. As anticipated, this change to the new route to market necessitated the run down of stock held by the previous distributor. As a consequence, Diageo recorded no sales of Dimple in the period, a decline of 341,000 equivalent cases against the prior period, and market share fell from 23% to 10%. It is expected that market share will be rebuilt now that the brand has moved to Diageo Korea; in the same way as the performance of Johnnie Walker, Baileys and Smirnoff, which were transferred from the previous distributor in April 2002, have improved in the period, albeit from a smaller base.

In Taiwan, the continued strong growth of Johnnie Walker Black Label in the premium sector, with volume up 17%, was the key driver of overall volume growth of 9%. As part of Diageo s strategy to build improved route to market the sales force in Taiwan was reorganised by region and style of outlet. The reorganisation included the creation of a dedicated RTD sales team and Smirnoff Ice was launched in December 2002. The outlook for Taiwan is uncertain following negative publicity there for an advertisement produced in Great Britain for the Smirnoff Ice Christmas campaign. Diageo is working with the Taiwanese authorities to resolve this.

In Thailand, Johnnie Walker Black Label, which accounts for nearly 60% of net sales, grew both volume and market share as a result of continued successful advertising and stock building in the trade ahead of a duty increase. Net sales grew 21% despite a 1% fall in volume as a result of volume decline in Spey Royal.

The trading performance in Latin America reflects the current economic environment. Overall volume and operating profit declined 17%, driven primarily by the £11 million decline in Venezuela. Diageo s policy of actively destocking to reduce credit risk has also negatively impacted volume growth in the period, while substantially mitigating exposure to risk. Diageo is the leading premium drinks business in the region and the strategy in the current environment is to continue to make market share gains.

The worsening economic and political conditions in Venezuela, as evidenced by industrial action and the currency devaluation, which led to price increases on some Diageo brands of over 40%, have resulted in volume down 46%, net sales down 42% and operating profit down approximately 50%. However, Diageo continues to lead the premium drinks market there and market share has increased in both the off- and on-trade in a number of important categories such as standard and secondary scotch.

Global Duty Free volume increased 11% against the comparable period last year which included the impact of September 11. World events continue to negatively impact the overall level of travel and the duty free market remains very competitive, particularly in Europe. However, mix improved and net sales grew faster than volume as a result of the strong performance of the global priority brands, which grew volume 14%.

Venture markets

	Reported growth	Organic growth
Volume	5%	6%
Turnover	9%	11%
Net sales	12%	15%
Marketing	25%	28%
Operating profit	13%	15%

Key drivers:

Continued strong volume performance of global priority brands, up 12%

Strong performance of spirits brands in the Caribbean, parts of Europe and Asia

Smirnoff Ice launched in Germany, the Nordics and in several Caribbean markets

Reported turnover was £683 million in the six months ended 31 December 2002, up 9% from £627 million in the prior period. Organic operating profit increased 15%, led by top line growth in the Caribbean, parts of Europe and growth of the spirits brands in Asia.

Volume increased 6% during the period, reflecting strong volume growth in priority brands as a result of well executed Christmas campaigns together with the impact of the recent launch of Smirnoff Ice in Germany and the Nordics. In addition, volume benefited modestly from some forward buying in the Netherlands ahead of duty increases and in the Middle East in response to the threat of war in the region. These two factors are estimated to have improved volume growth by 1 percentage point.

Net sales increased 15%, due predominantly to the favourable mix impact. Marketing investment grew 28%, mainly due to increased spend in brand building activities on Johnnie Walker Black Label and Baileys and investment behind the Smirnoff Ice launches.

Global priority brands, which account for more than half of the total volume, performed well, with volume growth of 12% and net sales growth of 23%. The mix improvement was driven by the growth of RTD formats, primarily Smirnoff Ice. Volume growth of Johnnie Walker Black and Deluxe Labels, up 18%, with strong performances across a number of markets, also improved mix. Baileys continued its growth, with volume up 11% and net sales up 10%, again across the majority of markets. Guinness volume declined 6%. Consumers in Indonesia and Singapore continued to move away from stout to lager. Volume of Red Stripe in Jamaica, the venture markets only local priority brand, grew 5% and net sales grew 6% as a result of increased brand building investment.

European markets had strong performances in Belgium, the Nordics and Germany. In Germany, volume of Johnnie Walker Black and Red Labels continued to be impacted by consumer reaction to the inflationary impact of the Euro introduction. Smirnoff Ice has sold 226,000 equivalent cases in the period, following its launch in February 2002. It is now the leading RTD product in Germany.

Performance in Norway during the six months licence suspension was in line with expectations and has benefited from the overall market uplift following the alcohol tax reduction of 15%, implemented on 1 January 2002. Overall, the Nordics delivered a good performance, with strong growth in Baileys and the successful launch of Smirnoff Ice.

Markets in the Caribbean and the Middle East performed strongly as a result of improved sales execution and strong brand equity, particularly in the Johnnie Walker portfolio, Smirnoff and Baileys.

In Asia, continued growth of the spirits brands, particularly Johnnie Walker Black and Deluxe Labels, generated mix improvement. However, Guinness in Asia continued to prove challenging with volume down 13%.

Quick service restaurants

The disposal of the group s quick service restaurants business (Burger King) was completed on 13 December 2002. In the six months ended 31 December 2002 Burger King contributed £479 million to turnover compared with £565 million in the six months ended 31 December 2001. Operating profit, before goodwill amortisation and exceptional items, for the six months ended 31 December 2002 was £55 million compared with £79 million in the six months ended 31 December 2001.

Recent developments

On 7 March 2003, Diageo announced the creation of a 50/50 joint venture with affiliates of José Cuervo S.A. relating to the Don Julio and Tres Magueyes tequilas. Under the terms of the joint venture, affiliates of José Cuervo will acquire a 50% ownership interest in Don Julio, BV from Diageo. The transaction is not expected to have a material impact on profit for the year or shareholders' equity.

Exchange rates

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Exchange rate movements during the six month period, including the effect of the currency option cylinders, beneficially impacted profit before exceptional items and taxation by £1 million. The adverse impact on group trading profit was £7 million (operating profit £6 million and share of profits of associates £1 million), offset by a beneficial impact on the interest charge of £8 million.

Based on current exchange rates, it is expected that the full year impact of exchange rate movements on profit before exceptional items and taxation will not be material. Similarly, based on current exchange rates, the full year impact of adverse exchange rate movements on profit before exceptional items and taxation for the financial year ending 30 June 2004 is estimated to be £40 million.

Post employment plans for year ending 30 June 2003

Diageo continues to comply with the current UK accounting standard on pensions, SSAP 24, in its primary financial statements. The charge at operating profit level in respect of defined benefit schemes in the current year is expected to be approximately £4 million (2002 a credit of £27 million for continuing operations).

FRS 17

Under FRS 17, Diageo s net deficit before taxation, applying recent equity market values and discounting liabilities at bond rates as at 7 February 2003, for all significant defined benefit plans (United Kingdom, Ireland and United States), would be approximately £1,400 million. The adoption of the accounting provisions of FRS 17 for the year ending 30 June 2004, would result in a net charge to profit before exceptional items and taxation of approximately £120 million, compared with a restated £40 million net charge for the year ending 30 June 2003.

Associates

The group s share of profits of associates before exceptional items for the six months ended 31 December 2002 was £266 million compared with £162 million for the same period last year. The 21.4% equity interest in General Mills contributed £157 million (2001 - £46 million for the two months ended 31 December 2001).

Goodwill

Goodwill amortisation in the six months ended 31 December 2002 was £3 million (2001 - £10 million) of which £2 million (2001 - £8 million) was in respect of discontinued operations.

Exceptional items

Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within the profit and loss account caption to which they relate, and are separately disclosed either in the notes to the consolidated financial statements or on the face of the profit and loss account.

Exceptional items in the six months ended 31 December 2002 amounted to a net charge before taxation of £1,500 million comprising integration and restructuring costs of £104 million, a share of associates exceptional charges of £15 million, losses on disposals of fixed assets of £3 million and a loss on the sale of businesses of £1,378 million.

In the six months ended 31 December 2002, £89 million was incurred in respect of the integration of the Seagram spirits and wine businesses, acquired in December 2001 (year ended 30 June 2002 - £164 million). Approximately £26 million of these costs were employee related, £11 million were in respect of writedowns of fixed assets, £23 million was incurred on the Next Generation Growth programme which includes distributor terminations in the United States, and the balance included consultancy and systems costs. The majority of these costs were incurred in North America and the United Kingdom. The cost charged in the six months ended 31 December 2002 includes the redundancies of approximately 530 people. It is expected that the total cost of restructuring and integrating the business will be approximately $700 million (£460 million) of which $590 million (£390 million) is expected to be cash. The majority of the balance of the cost will be incurred in the eighteen months ending 30 June 2004. On completion of the program it is anticipated that 1,785 jobs will have been terminated and that integration synergy will reduce Diageo s annual cost base by approximately £115 million in the year ending 30 June 2005. The above merger synergy represents the latest management estimate and, as a forward-looking statement, involves risk and uncertainty. The expected level of synergy is based on a number of assumptions, including certain expectations concerning: the integration of back offices and sales forces in subsidiary regional offices resulting in headcount reductions and rationalisation of facilities; headcount reductions in central and regional offices; and procurement savings through improvement of supplier terms.

In the six months ended 31 December 2002, £15 million was incurred in respect of the restructuring of the UDV (spirits and wine) and the Guinness (beer) businesses to create premium drinks. It is expected that the total costs of this integration will be approximately £170 million and it is anticipated that the remaining £33 million will be charged in the six months ending 30 June 2003. Incremental synergy achieved in the six months ended 31 December 2002, compared to the six months ended 31 December

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2001, as a result of the integration of the spirits and wine and beer businesses, amounted to £15 million. As a result of the £137 million charged to the profit and loss account in the thirty months ended 31 December 2002, it is expected that approximately 700 jobs will be lost of which 350 had been terminated by 31 December 2002. It is anticipated that, on the completion of the integration of the spirits and wine and beer businesses, approximately 750 jobs (including 700 jobs resulting from the charge to date) will have been terminated.

In the six months ended 31 December 2002, exceptional items for associates comprise £10 million for Diageo s share of General Mills exceptional costs incurred on its restructuring of the acquired Pillsbury business, and £5 million in respect of Diageo s share of restructuring costs incurred by Moët Hennessy.

Burger King was sold on 13 December 2002 for $1.5 billion (£0.9 billion). This sale generated a loss before taxes of £1,395 million, after writing back goodwill previously written off to reserves of £673 million. Following the disposal, Diageo retains $212 million (£132 million) of subordinated debt, with a ten year maturity, from the entity owning Burger King. In addition, Diageo has guaranteed up to $850 million (£528 million) of borrowings of the Burger King company. These loans have a term of five years although Diageo and Burger King agreed to structure their arrangements to encourage refinancing by Burger King on a non-guaranteed basis prior to the end of five years. As a consequence of the transaction, any liability ultimately arising from pending or actual litigation or claims against Burger King, including those potential actions described in note 29, would remain with Burger King. Following completion of the transaction, in the absence of any direct claim or litigation against Diageo, the group s liability in respect of pending or actual litigation or claims against Burger King would be limited to claims made under the contract provision for warranties and indemnities.

Interest

In the six months ended 31 December 2002 the interest charge was £214 million, compared with £170 million for the comparable period last year. The benefits of £65 million arising from the disposal of businesses and £8 million from the effect of exchange rate movements were offset by other factors. These factors include the effect of the Seagram acquisition of £57 million, the share of General Mills interest charge, which has increased £24 million compared with the six months ended 31 December 2001, and the funding of the share repurchases of £31 million.

Income tax

The effective rate of taxation on profit before goodwill amortisation and exceptional items for the six months ended 31 December 2002 was 25%, the same as for the six months ended 31 December 2001. The charge is based on an estimate of the effective tax rate for the financial year as a whole.

NEW ACCOUNTING STANDARDS IN THE UNITED STATES

In November 2002, Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others was issued. The interpretation provides guidance on the guarantor s accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. The accounting guidelines are applicable to guarantees issued or amended after 31 December 2002 and require that a liability be recorded for the fair value of such guarantees in the balance sheet. Diageo does not anticipate the impact of FIN No. 45 to be material to the group.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensations - Transition and Disclosure, an amendment of FASB Statement No. 123. This statement amends SFAS No. 123 Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Diageo does not anticipate on application of SFAS No. 148 that there will be an impact on the financial position or results of operations of the group.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective immediately for all new variable interest entities created or acquired after 31 January 2003. For variable interest entities created or acquired prior to 1 February 2003 the provisions of FIN No. 46 must be applied for the first interim or annual period beginning after 15 June 2003. Diageo does not anticipate the impact of FIN No. 46 to be material to the group.

RECONCILIATION TO US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP)

	Six months ended 31 December	
	2002 **£ million**	**2001** **£ million**
Turnover -UK GAAP	5,428	6,478
-US GAAP	5,242	6,282
Effect on net income of significant differences between UK and US GAAP:		
Net (loss)/income in accordance with UK GAAP	(459)	810
Adjustments to conform with US GAAP:		
Inventories	(30)	(36)
Derivative instruments in respect of General Mills shares	(60)	
Other derivative instruments	(57)	(115)
Disposals of businesses	712	1,052
Other items	45	55
Deferred taxation		34
Net income in accordance with US GAAP	151	1,800

Turnover. UK GAAP turnover (sales in US terminology) for the six months ended 31 December 2002 was £186 million (2001 - £196 million) higher than turnover under US GAAP, as (i) following the adoption of EITF 01-09, £53 million (six months ended 31 December 2001 - £39 million) of marketing expenditure has been reclassified from selling, general and administrative expenses to a reduction in sales under US GAAP, and (ii) the accounting treatment of joint arrangements (between the group and LVMH) is different. Under UK GAAP, the group includes in turnover its attributable share of turnover of joint arrangements, measured according to the terms of the arrangement. Under US GAAP, joint arrangements are accounted for under the equity method of accounting and the group s share of sales of the joint arrangements is not included as part of group sales. Under UK GAAP, sales to joint arrangements by Diageo companies are eliminated on consolidation, but under US GAAP are accounted for as part of external sales. All of the joint arrangements are included in the premium drinks segment.

The significant reconciling items in net income in the six months ended 31 December 2002 compared to the six months ended 31 December 2001 are as follows:

Disposals of businesses. Under UK GAAP, on a pre-tax basis, for the six months ended 31 December 2002, there was a loss of £1,378 million (six months ended 31 December 2001 - gain of £360 million) on the disposals of businesses compared to US GAAP charges on those transactions of £666 million (six months ended 31 December 2001 - gain of £1,412 million).

Net income for the six months ended 31 December 2002 reflects a pre-tax charge in relation to the legal sale of Burger King of £1,395 million and £685 million under UK and US GAAP, respectively, representing £710 million of the total UK/US GAAP difference. Under US GAAP, the transaction is not accounted for as a disposal due to the size of the investment made by the buyer and Diageo s continuing involvement through the guarantee provided by Diageo in respect of the acquisition finance, however, a charge for impairment has been recognised rather than a loss on disposal. The charge for impairment under US GAAP was lower than the loss under UK GAAP principally because the goodwill and brands acquired on the original acquisition of the quick service restaurants business were being amortised over 40 years up to 30 June 2001 (prior to the adoption of SFAS No. 142), whereas no amortisation had been charged on the goodwill and brands under UK GAAP. By the date of disposal, Diageo had incurred additional cumulative amortisation (including related deferred tax) under US GAAP of £609 million on the goodwill and brands of Burger King. Other differences arising between UK and US GAAP, principally in respect of derivative instruments, reduced the charge under US GAAP by £101 million.

Net income for the six months ended 31 December 2001 reflects a pre-tax gain in relation to the disposal of Pillsbury of £326 million and £1,373 million under UK and US GAAP, respectively, representing £1,047 million of the total UK/US GAAP difference. The gain under US GAAP was higher principally because the goodwill and brands acquired in the original acquisition of The Pillsbury Company were being amortised over 40 years up to 30 June 2001 (prior to the adoption of SFAS No. 142), whereas no amortisation had been charged on the goodwill and brands under UK GAAP. By the date of disposal, Diageo had incurred additional cumulative amortisation (including related deferred tax) under US GAAP of £871 million in respect of The Pillsbury Company. In addition, under UK GAAP, the cumulative exchange gains arising on the unhedged net assets of The Pillsbury Company remain in reserves on the subsequent disposal of the business. Under US GAAP, the cumulative exchange gains on the unhedged net assets of £133 million, on disposal of the business have been credited to the profit and loss account. Other differences arising between UK and US GAAP increased the gain on disposal of The Pillsbury Company

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under US GAAP by £47 million principally due to a guarantee given by Diageo to third parties.

Derivative instruments in respect of General Mills shares*:* Under UK GAAP, the contingent value right received in connection with the disposal of The Pillsbury Company and the premium received from the sale of options to General Mills over 29 million ordinary shares of Diageo s holding in that company are deferred in the balance sheet. The contingent value right will be recognised in the profit and loss account when its receipt becomes virtually certain, and the premium on exercise or lapse of the option. Under US GAAP, the contingent value right and the option premium represent derivatives under SFAS 133 and are accordingly held at their estimated fair values at the balance sheet date with changes in fair value included in the profit and loss account.

Other derivative instruments*:* The group uses derivative financial instruments for risk management purposes. Under UK GAAP, changes in the fair value of interest rate derivatives, derivatives hedging forecast transactions and currency option cylinders are not recognised until realised. Changes in the fair value of derivatives hedging the translation of net assets of overseas operations are taken to the statement of total recognised gains and losses. Under US GAAP, all derivatives are carried at fair value at the balance sheet date. Certain of the group s derivatives qualify for and are designated as hedges under US GAAP which reduces the effect on net income from gains and losses arising from changes in their fair values. Gains and losses arising from changes in the fair value of derivatives which do not qualify for US GAAP hedge accounting treatment are charged or credited in determining net income under US GAAP. In the six months ended 31 December 2002, losses of £50 million were recognised on foreign exchange derivatives (six months ended 31 December 2001 gains of £60 million) and losses of £12 million were recognised on interest rate instruments (six months ended 31 December 2001 losses of £190 million). The year on year movements are a product of that portion of the group's hedging instruments for which mark to market movements are taken to net income under US GAAP but not under UK GAAP, and the movements in exchange and interest rates in each period. Other differences arising between UK and US GAAP on derivative instruments amounted to gains of £5 million (six months ended 31 December 2001 gains of £15 million).

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LIQUIDITY AND CAPITAL RESOURCES

Cash flow

A summary of the cash flow and reconciliation to movement in net borrowings for the six months ended 31 December 2002 compared to the six months ended 31 December 2001 is as follows:

	Six months ended 31 December	
	2002 £ million	2001 £ million
Operating profit before exceptional items	1,240	1,226
Goodwill amortisation	3	10
Operating profit before goodwill amortisation and exceptional items	1,243	1,236
Depreciation and other amortisation	144	156
Working capital	(540)	(457)
Restructuring and integration	(99)	(70)
Other items	6	(44)
Operating cash flow	754	821
Interest less dividends from associates	(182)	(157)
Taxation	(15)	(115)
Net purchase of own shares and investments	(78)	(70)
Net capital expenditure	(178)	(191)
Free cash flow	301	288
Acquisitions and disposals	694	792
Equity dividends paid	(459)	(452)
Issue of share capital	1	4
Own shares purchased for cancellation	(552)	(279)
Exchange	241	176
Non-cash items	11	(44)
Decrease in net borrowings	237	485

The primary sources of the group s liquidity over the last three fiscal years have been cash generated from operations and cash received from disposals. A portion of these funds has been used to fund acquisitions and capital expenditure, to pay interest, dividends and taxes, and to repurchase Diageo shares.

Free cash inflow generated was £301 million, compared with £288 million in the prior period. Cash inflow from operating activities was £754 million compared with £821 million in the comparable period. Discontinued operations contributed £60 million (2001 - £226 million) to operating cash flow. Operating cash flow was after £99 million (2001 - £70 million) of integration costs and a £540 million (2001 - £457 million) increase in working capital mainly due to seasonal factors. The incremental increase in working capital of £83 million, against the same period last year, arose from increased sales in premium drinks, a £15 million increase in respect of Burger King and an £83 million decrease in respect of Pillsbury (1 July 2001 to 31 October 2001).

Sale of businesses generated £803 million of which £664 million arose from the disposal of Burger King and $89 million (£58 million) from the call option agreements granted to General Mills over 29 million of General Mills ordinary shares held by Diageo. In the six months ended 31 December 2001, sale of business generated £4,294 million arising principally from the disposal of the packaged food businesses.

Acquisitions in the six months ended 31 December 2002 cost £109 million compared with £3,502 million in the six months ended 31 December 2001. £101 million (six months ended 31 December 2001 - £3,454 million) of this cost was in respect of the Seagram spirits and wine businesses.

Capital repayments. The group s management is committed to enhancing shareholder value, both by investing in the businesses and brands so as to improve the return on investment and by managing the capital structure so as to reduce the cost of capital, while maintaining prudent financial ratios. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest rate risk in Diageo s 2002 Annual Report on Form 20-F.

In the six months ended 31 December 2002, the company acquired, and subsequently cancelled, 71 million (six months ended 31 December 2001 - 40 million) for a consideration including expenses of £552 million (2001 £279 million). The group continues to review its capital structure and will continue to conduct share buy-backs when appropriate.

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Borrowings. The group s policy is to maintain the proportion of borrowings maturing within one year at below 60% of total borrowings, and to maintain the level of commercial paper at below 50% of total borrowings. In addition, it is group policy to maintain backstop facility terms from relationship banks to support commercial paper obligations.

The group s net borrowings comprise the following:

	As at 31 December 2002 £ million
Borrowings due within one year (including overdrafts of £182 million)	(3,521)
Borrowings due between one and three years	(2,217)
Borrowings due between three and five years	(631)
Borrowings due after more than five years	(615)
	(6,984)
Cash at bank and liquid resources	1,360
Interest rate and foreign currency swaps	365
	(5,259)

The group s net borrowings (after the impact of foreign currency swaps) and cash and bank deposits at 31 December 2002 were denominated in the following currencies:

	Total	US dollar	Sterling	Euro currencies	Other
	£ million	%	%	%	%
Net borrowings	(5,259)	76	(5)	27	2
Cash at bank and liquid resources	1,360	53	17	13	17

The effective interest rate for the six months ended 31 December 2002, based on average net borrowings was 6.3%.

The following table summarises the group s borrowings excluding overdrafts and net of interest rate and foreign currency swaps:

	As at 31 December 2002 £ million
Global bonds	1,242
Yankee bonds	745
Zero coupon bonds	701
Guaranteed notes	248
Preferred capital securities	466
Medium term notes	563
Commercial paper	1,481
Others	991
	6,437

During the six months ended 31 December 2002 the group borrowed $1 billion (£0.6 billion) in the form of a global bond. This global bond matures in 2007.

The £237 million decrease in net borrowings from 30 June 2002 to 31 December 2002 reflects free cash inflow of £301 million noted above, net receipts for acquisitions and disposals of businesses of £694 million and exchange movements of £241 million less decreases due to dividends paid of £459 million and own shares purchased for cancellation of £552 million.

At 31 December 2002, the group had available undrawn committed bank facilities of £1,987 million. Of the facilities, £1,180 million expire in the period up to May 2003 and £807 million expire in the period up to May 2007. Commitment fees are paid on the undrawn portion of these facilities. Borrowings under these facilities will be at prevailing LIBOR rates plus an agreed margin, which is dependent on the period of drawdown. These facilities can be used for general corporate purposes and, together with cash and cash equivalents, support the group s commercial paper programmes. The committed bank facilities are subject to a minimum interest cover ratio (defined as the ratio of UK GAAP trading profit to net interest, trading profit being the profit on ordinary activities before taking into account exceptional items charged to operating profit and profits on the sale of property and net interest) of 2 times.

At 30 June 2002, the group had minimum payments due under operating leases of £1,117 million (£138 million due in the year ending 30 June 2003). £774 million (£88 million in the year ending 30 June 2003) of these minimum payments were in respect of Burger King which was sold on 13 December 2002.

In connection with the disposal of the quick service restaurants business, Diageo has guaranteed up to $850 million (£528 million) of external borrowings of Burger King. These loans have a term of five years although Diageo and Burger King agreed to structure their arrangements to encourage refinancing by Burger King on a non-guaranteed basis prior to the end of five years. At 30 June 2002, in connection with the disposal of Pillsbury, Diageo has guaranteed the debt of a third party to the amount of $200 million (£132 million) until 13 November 2009. Including this guarantee, but net of the amount provided in the financial statements, at 30 June 2002, the group has given performance guarantees and indemnities to third parties of £102 million. Apart from the items referred to above, there has been no material change since 30 June 2002 in the group s performance guarantees and indemnities.

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TREND INFORMATION

The following comment was made on current trading in the Interim Announcement published on 20 February 2003.

As indicated at the time of the Annual General Meeting trading update, trading conditions worsened in the six months ended 31 December 2002. However, despite facing more challenging conditions Diageo has delivered organic operating profit growth in premium drinks of 6%. With the inclusion of the Seagram acquisition, which continues to exceed original expectations, reported operating profit growth in premium drinks was 23%. In North America and Great Britain, volume and net sales growth were driven by the growth of global priority brands. In Ireland and Spain, trading conditions in beverage alcohol reflected weakening consumer confidence in these economies, and Diageo s trading performance in those countries has been adversely affected. Key markets operating profit is up 5% despite a decline in reported operating profit in Venezuela of £20 million. In addition, the decision to transfer distribution of Dimple in South Korea reduced key market operating profit by £13 million. Venture markets continued to deliver strong growth in global priority brands and operating profit was up 15%.

Marketing investment grew ahead of net sales growth as Diageo continued to build the brand franchise of the priority brands and invest behind new product launches.

The brands acquired from Seagram are now integrated. With attributable operating profit of £211 million in the period, the original targets set for the acquisition have now been exceeded. The management structure with Pernod Ricard, established at the time of the acquisition to manage certain businesses, has ended. Those brands designated for disposal have been sold and proceeds in excess of £250 million were in line with expectations.

Diageo continued to deliver on its strategic focus on premium drinks in the period. The sale of Burger King was completed on 13 December 2002. The consideration of $1.5 billion comprised a cash element of $1.2 billion, $86 million of assumed debt and the balance by means of subordinated debt held by Diageo with a principal amount of $212 million. Diageo has guaranteed up to $850 million (£528 million) of external borrowings of Burger King. These loans have a term of five years although Diageo and Burger King agreed to structure their arrangements to encourage refinancing by Burger King on a non-guaranteed basis prior to the end of five years.

Paul Walsh, Chief Executive of Diageo, commenting on the six months ended 31 December 2002 said:

When we announced our preliminary results in September and again in our Annual General Meeting trading update, we anticipated that we would face more challenging market conditions in many markets. That caution proved correct and this has been a tough six months. Top and bottom line growth has been constrained by economic weakness particularly in Latin America and parts of Europe. However, we have delivered strong performances in North America, in Great Britain, in many of our key markets especially in Africa and across our venture markets.

Our scale, our diverse geographic reach and our unrivalled range of brands has enabled us to increase market share and deliver organic operating profit growth even in difficult times. This has been achieved as we continue to invest for the future growth of the business, for example by changing our distribution arrangements in South Korea and increasing marketing investment.

In premium drinks, 6% organic operating profit growth coupled with the strength of the acquired Seagram brands, which are performing ahead of our expectations, resulted in reported operating profit growth of 23%. Together with our share buy-back programme, this has driven EPS growth of 13%.

Diageo is benefiting from its position as the world s leading premium drinks business and is well placed to deliver superior levels of growth.

Commenting on current trading, Paul Walsh said:

Diageo has the scale, geographic reach and brands to face the current challenging environment with confidence. We acknowledge that these are without doubt uncertain times. However, in the absence of any significant change to market trends we expect Diageo s organic growth performance in the second half to improve against the first half. In that period we will compare against a lower second half growth rate in 2002 and benefit from the inclusion of the Seagram brands, which continue to perform ahead of our expectations.

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FOR THE SIX MONTHS ENDED 31 DECEMBER 2002 AND 31 DECEMBER 2001

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UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Six months ended 31 December 2002			Six months ended 31 December 2001		
	Before goodwill and exceptional items	Goodwill and exceptional items	Total	Before goodwill and exceptional items	Goodwill and exceptional items	Total
	£ million	£ million	£ million	£ million	£ million	£ million
Turnover						
Continuing operations	4,949		4,949	4,458		4,458
Discontinued operations	479		479	2,020		2,020
	5,428		5,428	6,478		6,478
Operating costs	(4,185)	(107)	(4,292)	(5,242)	(291)	(5,533)
Operating profit	1,243	(107)	1,136	1,236	(291)	945
Continuing operations	1,188	(105)	1,083	967	(283)	684
Discontinued operations	55	(2)	53	269	(8)	261
Operating profit	1,243	(107)	1,136	1,236	(291)	945
Share of associates profits	266	(15)	251	162	(17)	145
Trading profit	1,509	(122)	1,387	1,398	(308)	1,090
Disposal of fixed assets		(3)	(3)		(5)	(5)
Sale of businesses		(1,378)	(1,378)		360	360
Interest payable (net)	(214)		(214)	(170)		(170)
Profit/(loss) before taxation	1,295	(1,503)	(208)	1,228	47	1,275
Taxation	(324)	118	(206)	(307)	(116)	(423)
Profit/(loss) after taxation	971	(1,385)	(414)	921	(69)	852
Minority interests						
Equity	(28)		(28)	(24)		(24)
Non-equity	(17)		(17)	(18)		(18)
Profit/(loss) for the period	926	(1,385)	(459)	879	(69)	810
Interim dividend	(304)		(304)	(309)		(309)
Transferred (from)/to reserves	622	(1,385)	(763)	570	(69)	501
Pence per share						
Basic earnings	29.5p	(44.1)p	(14.6)p	26.2p	(2.1)p	24.1p
Diluted earnings	29.5p	(44.1)p	(14.6)p	26.1p	(2.0)p	24.1p
Interim dividend	9.9p		9.9p	9.3p		9.3p
Average shares			3,143m			3,358m

UNAUDITED CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Six months ended 31 December 2002	Six months ended 31 December 2001
	£ million	£ million
(Loss)/profit for the period - group	(588)	731
- associates	129	79
	(459)	810
Exchange adjustments	(140)	(83)
Tax on exchange in reserves		6
Total recognised gains and losses	(599)	733

The accompanying notes are an integral part of this unaudited consolidated financial information

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UNAUDITED CONSOLIDATED BALANCE SHEET

	31 December 2002		30 June 2002		31 December 2001	
	£ million	£ million	£ million	£ million	£ million	£ million
Fixed assets						
Intangible assets		4,496		5,434		5,589
Tangible assets		1,916		2,545		2,360
Investments		3,340		3,183		3,225
		9,752		11,162		11,174
Current assets						
Stocks	2,239		2,316		2,271	
Debtors	3,717		3,419		3,817	
Cash at bank and liquid resources	1,360		1,596		2,286	
	7,316		7,331		8,374	
Creditors - due within one year						
Borrowings	(3,521)		(3,718)		(3,446)	
Other creditors	(3,461)		(3,645)		(3,877)	
	(6,982)		(7,363)		(7,323)	
Net current assets/(liabilities)		334		(32)		1,051
Total assets less current liabilities		10,086		11,130		12,225
Creditors - due after one year						
Borrowings	(3,463)		(3,711)		(4,132)	
Other creditors	(62)		(49)		(62)	
		(3,525)		(3,760)		(4,194)
Provisions for liabilities and charges		(804)		(814)		(488)
		5,757		6,556		7,543
Capital and reserves						
Called up share capital		910		930		976
Reserves		4,312		5,071		5,993
Shareholders funds		5,222		6,001		6,969
Minority interests						
Equity	185		184		189	
Non-equity	350		371		385	
		535		555		574
		5,757		6,556		7,543

The accompanying notes are an integral part of this unaudited consolidated financial information

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 December 2002		Six months ended 31 December 2001	
	£ million	£ million	£ million	£ million
Net cash inflow from operating activities		754		821
Dividends received from associates		30		48
Returns on investments and servicing of finance				
Interest paid (net)	(200)		(184)	
Dividends paid to equity minority interests	(12)		(21)	
		(212)		(205)
Taxation		(15)		(115)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(199)		(212)	
Net purchase of own shares and investments	(78)		(70)	
Sale of fixed assets	21		21	
		(256)		(261)
Free cash flow		301		288
Acquisitions and disposals				
Purchase of subsidiaries	(109)		(3,502)	
Sale of subsidiaries	803		4,294	
		694		792
Equity dividends paid		(459)		(452)
Cash flow before liquid resources and financing		536		628
Management of liquid resources		237		(226)
Financing				
Issue of share capital	1		4	
Own shares purchased for cancellation	(552)		(279)	
(Decrease)/increase in loans	(93)		11	
		(644)		(264)
Increase in cash in the period		129		138

UNAUDITED MOVEMENTS IN NET BORROWINGS

	Six months ended 31 December 2002	Six months ended 31 December 2001
	£ million	£ million
Increase in cash in the period	129	138
Cash flow from change in loans	93	(11)
Change in liquid resources	(237)	226
Change in net borrowings from cash flows	(15)	353

Exchange adjustments	241	176
Non-cash items	11	(44)
Decrease in net borrowings	237	485
Net borrowings at beginning of the period	(5,496)	(5,479)
Net borrowings at end of the period	(5,259)	(4,994)

The accompanying notes are an integral part of this unaudited consolidated financial information

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM INFORMATION

1 Basis of preparation

The interim financial information has been prepared on the basis of accounting policies consistent with those applied in the accounts for the year ended 30 June 2002. The information is unaudited. The information does not comprise the statutory accounts of the group. The statutory accounts of Diageo plc for the year ended 30 June 2002 have been filed with the registrar of companies. KPMG Audit Plc have reported on these accounts; their report was unqualified and did not contain any statement under section 237 of the Companies Act 1985. The interim financial information for the six months ended 31 December 2002 and 31 December 2001 reflects the quick service restaurants business (Burger King) as a discontinued operation.

2 Segmental analysis

	2002		2001	
	Turnover	Operating profit	Turnover	Operating profit
	£ million	£ million	£ million	£ million
Class of business:				
Major markets				
North America	1,476	413	1,147	253
Great Britain	861	144	845	136
Ireland	522	89	518	86
Spain	244	61	224	60
	3,103	707	2,734	535
Key markets	1,163	317	1,097	287
Venture markets	683	164	627	145
Premium drinks	4,949	1,188	4,458	967
Discontinued operations	479	55	2,020	269
	5,428	1,243	6,478	1,236
Geographical area by destination:				
Europe	2,365	439	2,428	433
North America	1,825	464	2,790	501
Asia Pacific	544	130	504	119
Latin America	313	113	403	120
Rest of World	381	97	353	63
	5,428	1,243	6,478	1,236

The above analysis of operating profit is before goodwill amortisation and exceptional items. The geographical analysis is based on the location of the third party customers. The discontinued operations comprise quick service restaurants (Burger King) and the packaged food businesses (Pillsbury).

	2002	2001
	£ million	£ million
Net assets by class of business:		

Premium drinks	8,501	8,772
Discontinued operations		1,482
Net operating assets	8,501	10,254
Investments in associates	2,885	2,927
Tax, dividends and other	(370)	(644)
Net borrowings	(5,259)	(4,994)
	5,757	7,543
Net operating assets by geographical area:		
Europe	4,046	4,090
North America	3,260	5,450
Asia Pacific	816	286
Latin America	173	247
Rest of World	206	181
	8,501	10,254

Weighted average exchange rates used in the translation of profit and loss accounts were US dollar - £1 = $1.55 (2001 - £1 = $1.44) and euro - £1 = 1.57 (2001 - £1 = 1.61). Exchange rates used to translate assets and liabilities at the balance sheet date were US dollar - £1 = $1.61 (2001 - £1 = $1.46) and euro - £1 = 1.53 (2001 - £1 = 1.63). The group uses option cylinders and foreign exchange transaction hedges to mitigate the effect of exchange rate movements.

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM INFORMATION - (continued)

3 Goodwill and exceptional items

	2002		2001	
	£ million	£ million	£ million	£ million
Operating costs				
Continuing operations				
Goodwill amortisation	(1)		(2)	
Seagram integration	(89)		(40)	
Guinness UDV integration	(15)		(21)	
José Cuervo settlement			(220)	
		(105)		(283)
Discontinued operations				
Goodwill amortisation		(2)		(8)
		(107)		(291)
Associates		(15)		(17)
Disposal of fixed assets				
Continuing operations	(2)		1	
Discontinued operations	(1)		(6)	
		(3)		(5)
Sale of businesses				
Continuing operations				
Premium drinks brands	16		(1)	
Guinness World Records			35	
		16		34
Discontinued operations				
Burger King	(1,395)			
The Pillsbury Company	1		326	
		(1,394)		326
		(1,503)		47

4 Taxation

The £206 million total taxation charge for the six months ended 31 December 2002 comprises a UK tax credit of £43 million, a foreign tax charge of £167 million and tax on associates of £82 million. Included in the total UK credit is current tax payable for the six months ended 31 December 2002 amounting to £6 million.

5 Note of consolidated historical cost profits and losses

There is no material difference between the reported loss shown in the consolidated profit and loss account and the loss restated on an historical cost basis.

6 Movements in consolidated shareholders funds

	2002	2001
	£ million	**£ million**
(Loss)/profit for the period	(459)	810
Dividends	(304)	(309)
	(763)	501
Exchange adjustments	(140)	(83)
Tax on exchange in reserves		6
New share capital issued	1	4
Purchase of own shares for cancellation	(552)	(279)
Goodwill on disposals of businesses	675	1,697
Net movement in shareholders funds	(779)	1,846
Shareholders funds at beginning of the period	6,001	5,123
Shareholders funds at end of the period	5,222	6,969

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM INFORMATION - (continued)

7 Discontinued operations

The discontinued operations comprise the quick service restaurants (Burger King) and the packaged food (Pillsbury) businesses. Burger King was disposed of on 13 December 2002 and contributed £31 million (year ended 30 June 2002 - £61 million) of net profit for the period, excluding the loss on its disposal, and 1.0 pence (year ended 30 June 2002 - 1.8 pence) to earnings per share. Pillsbury was disposed of on 31 October 2001 and contributed £116 million (year ended 30 June 2001 - £260 million) of net profit for the period, excluding the gain arising on its disposal, and 3.5 pence (year ended 30 June 2001 7.7 pence) to earnings per share.

8 Net borrowings

	31 December 2002	30 June 2002	31 December 2001
	£ million	£ million	£ million
Debt due within one year and overdrafts	(3,521)	(3,718)	(3,446)
Debt due after one year	(3,463)	(3,711)	(4,132)
Net obligations under finance leases		(28)	(35)
	(6,984)	(7,457)	(7,613)
Less: Cash at bank and liquid resources	1,360	1,596	2,286
Interest rate and foreign currency swaps	365	365	333
Net borrowings	(5,259)	(5,496)	(4,994)

9 Stocks

	31 December 2002	30 June 2002	31 December 2001
	£ million	£ million	£ million
Raw materials and consumables	201	214	203
Work in progress	11	34	10
Maturing stocks	1,453	1,474	1,546
Finished goods and goods for resale	574	594	512
	2,239	2,316	2,271

10 Net cash inflow from operating activities

	2002	2001
	£ million	£ million
Operating profit	1,136	945
Exceptional operating costs	104	281
Restructuring and integration payments	(99)	(70)
Depreciation and amortisation charge	147	166
Increase in working capital	(540)	(457)

Other items	6	(44)
Net cash inflow from operating activities	754	821

11 Contingent liabilities

In connection with the disposal of the quick service restaurants business, Diageo has guaranteed up to $850 million (£528 million) of external borrowings of Burger King. These loans have a term of five years although Diageo and Burger King agreed to structure their arrangements to encourage refinancing by Burger King on a non-guaranteed basis prior to the end of five years. At 30 June 2002, in connection with the disposal of Pillsbury, Diageo has guaranteed the debt of a third party to the amount of $200 million (£132 million) until 13 November 2009. Including this guarantee, but net of the amount provided in the financial statements, at 30 June 2002, the group has given performance guarantees and indemnities to third parties of £102 million. Apart from the items referred to above, there has been no material change since 30 June 2002 in the group s performance guarantees and indemnities.

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM INFORMATION - (continued)

11 Contingent liabilities - (continued)

The group has extensive international operations and is a defendant in a number of legal proceedings incidental to these operations. The group does not expect the outcome of such proceedings, either individually or in the aggregate, to have a material effect on the group s operations or financial position. Provision is made in the consolidated financial statements for all liabilities which are expected to materialise.

Except as disclosed above, neither Diageo nor any member of the Diageo group is engaged in, nor (so far as Diageo is aware) is there pending or threatened by or against it, any legal or arbitration proceedings which may have a significant effect on the financial position of the Diageo group. Provision is made in these financial statements for all liabilities that are reasonably likely and reasonably quantifiable.

12 Disposals

On 13 December 2002, Diageo completed the disposition of Burger King Corporation to the Burger King Acquisition Corporation, a newly formed company owned by Texas Pacific Group, Bain Capital and Goldman Sachs Capital Partners. The disposition was made pursuant to an agreement which amended and restated an earlier stock purchase agreement signed on 25 July 2002 between Diageo and Burger King Acquisition Corporation. Diageo received approximately $1.2 billion in cash and a subordinated debt instrument issued by the holding company then owning all of the capital stock of Burger King in a principal amount of $212 million. The balance of the consideration was settled by the assumption of net debt, estimated by Diageo to be $86 million. In connection with the disposal, Diageo and certain of its wholly owned subsidiaries agreed to guarantee a $750 million term loan and a $100 million revolving line of credit on behalf of Burger King and its subsidiaries. These loans have a term of five years although Diageo and Burger King agreed to structure their arrangements to encourage refinancing by Burger King on a non-guaranteed basis prior to the end of five years.

Burger King is a leading company in the worldwide quick service restaurant industry and sells a range of hamburger, chicken and associated products. For the six months ended 31 December 2002, quick service restaurants contributed £479 million to turnover, £55 million to operating profit before goodwill amortisation and exceptional items and £53 million to operating profit.

Burger King is presented as a discontinued business in this unaudited consolidated interim financial information prepared under UK GAAP.

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US GAAP UNAUDITED CONSOLIDATED INTERIM INFORMATION

Reconciliation of net income and shareholders equity between UK and US GAAP (unaudited)

Diageo plc is a public limited company incorporated under the laws of England and Wales. UK GAAP differs in certain significant respects from US GAAP. A description of the relevant accounting principles which differ materially between UK and US GAAP for Diageo are set out below:

(a) *Brands, goodwill and other intangibles:* Significant owned brands acquired by the group are recorded on the balance sheet. Under UK GAAP, the group has written off other intangible assets acquired up to 30 June 1998 direct to reserves in the period acquired. All intangible assets acquired from 1 July 1998 have been capitalised in the balance sheet. Where capitalised goodwill and intangible assets are regarded as having limited useful economic lives, their cost is amortised on a straight line basis over those lives up to 20 years. Where intangible assets are regarded as having indefinite useful economic lives, they are not amortised. Under US GAAP, up to 30 June 2001, intangible assets have been capitalised in the balance sheet and amortised through the statement of income over their useful economic lives not exceeding 40 years. On 1 July 2001, the group adopted the provisions of *SFAS No. 142 Goodwill and Other Intangible Assets.* The standard requires that intangible assets arising on acquisitions with estimable useful lives, are amortised to their estimable residual values over their estimated useful lives. Intangible assets with indefinite useful lives are tested for impairment annually in lieu of being amortised. Goodwill arising on a combination of businesses is tested for impairment annually in lieu of amortisation. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful economic lives, acquired prior to 1 July 2001, be tested for impairment on implementation of the standard. No charge for impairment was required as a result of this test.

(b) *Accounting for the merger of the former GrandMet Group and the former Guinness Group:* For UK GAAP, the merger of the GrandMet Group and the Guinness Group was accounted for under merger accounting principles (pooling of interests) where the results, cash flows and balance sheets of both entities, having made adjustments to achieve uniformity of accounting policies, were aggregated with no adjustment to fair value. Under US GAAP, the merger was accounted for as an acquisition of the Guinness Group by GrandMet with an effective acquisition date of 31 December 1997. Consequently the Guinness Group assets and liabilities were recorded at fair values on 31 December 1997. Under US GAAP, the excess of the consideration over the fair value of the net assets has been allocated firstly to identifiable intangible assets based on their fair values with the remainder allocated to goodwill. Fair value adjustments to the recorded amounts of inventories, net of deferred tax, are expensed in the period in which the inventory is utilised.

(c) *Restructuring and integration costs:* The rules for recognising restructuring and integration costs in the statement of income are generally consistent between UK and US GAAP. On the acquisition of a business, however, certain costs of reorganising the acquired business are required to be taken to the profit and loss account under UK GAAP, but are treated as fair value adjustments to goodwill under US GAAP.

(d) *Pensions and other post employment benefits:* There are differences in the methods of valuation required under UK and US GAAP for valuing assets and liabilities of defined benefit pension plans. US GAAP is generally more prescriptive in respect of actuarial assumptions and the allocation of costs to accounting periods. In addition, under US GAAP, a minimum pension liability is recognised, as a component of other comprehensive income, in certain circumstances when there is a deficit of plan assets relative to the projected benefits obligation. Since valuations of pension plan assets are only undertaken on an annual basis, US GAAP shareholders equity at 31 December 2002 does not reflect any additional minimum pension liability which might arise under US GAAP as a result of the fall in equity values subsequent to 30 June 2002. Any additional minimum pension liability would have no impact on US GAAP net income.

(e) *Derivative instruments in respect of General Mills shares:* Under UK GAAP, the contingent value right received in connection with the disposal of The Pillsbury Company is treated as a contingent asset and is therefore not recognised until its receipt becomes virtually certain. Also, under UK GAAP, the premium received from the sale of options to General Mills over 29 million ordinary shares of Diageo s holding in that company would be deferred in the balance sheet pending exercise or lapse of the options. Under US GAAP, the contingent value right and the option premium represent derivatives under SFAS 133 and are accordingly held at their estimated fair values at the balance sheet date with changes in fair value included in the profit and loss account.

(f) *Other derivative instruments:* The group uses derivative financial instruments for risk management purposes. Under UK GAAP, changes in the fair value of interest rate derivatives, derivatives hedging forecast transactions and currency option cylinders are not recognised until realised. Changes in the fair value of derivatives hedging the translation of net assets of overseas operations are taken to the statement of total recognised gains and losses. Under US GAAP, all derivatives are carried at fair value at the balance sheet date. Certain of the group s derivatives qualify for and are designated as hedges under US GAAP which reduces the effect on net income from gains and losses arising from changes in their fair values. Gains and losses arising from changes in the fair value of derivatives which do not qualify for US GAAP hedge accounting treatment are charged or credited in determining net income under US GAAP.

US GAAP UNAUDITED CONSOLIDATED INTERIM INFORMATION - (continued)

Reconciliation of net income and shareholders equity between UK and US GAAP (unaudited) - (continued)

(g) *Disposals of businesses:* Applying the accounting differences between UK and US GAAP can result in changes to the carrying values of assets under UK and US GAAP. As a consequence of these different carrying values, including related tax balances, different gains or losses may arise on the subsequent disposal of the assets. In addition, the timing of the recognition of a loss on a disposal may be different under UK and US GAAP.

On 31 October 2001, the group disposed of The Pillsbury Company and acquired a 22% equity investment in General Mills, Inc. The gain on this disposal under US GAAP is higher than that recorded under UK GAAP, because of such differences in carrying value, particularly in respect of intangible assets and deferred tax. The investment in General Mills under US GAAP is also greater than under UK GAAP. As explained in Note 29 to the consolidated financial statements for the year ended 30 June 2002, in connection with the disposal of Pillsbury, Diageo has guaranteed the debt of a third party to the amount of $200 million (£132 million). Under UK GAAP, Diageo has provided for the amounts which it could have paid to settle the liability or transfer it to a third party as a cost of the transaction. Under US GAAP, rather than providing for the cost as under UK GAAP, Diageo would have deferred that element of the gain on disposal of Pillsbury equivalent to the amount guaranteed. The excess of the gain deferred for US GAAP over the amount provided under UK GAAP, has been charged in determining US GAAP net income with a corresponding effect on shareholders equity in accordance with US GAAP.

Under UK GAAP, the sale of Burger King has been accounted for as a disposal and the results prior to the disposal date are presented within discontinued operations. Under US GAAP, the transaction is not accounted for as a disposal due to the size of the investment made by the buyer and Diageo s continuing involvement through the guarantee provided by Diageo in respect of the acquisition finance. Under US GAAP, the results of Burger King prior to 13 December 2002 (the completion date) would be presented within continuing operations in the income statement, and on the completion date of the transaction, a charge for impairment would be recognised rather than a loss on disposal. Following the completion date, Diageo would not recognise profits of Burger King in its income statement but would, generally, reflect losses of Burger King as an impairment charge against the assets retained on the balance sheet. In the US GAAP balance sheet, Diageo includes the total assets and total liabilities (including consideration deferred under US GAAP) within other long term assets and other long term liabilities which at 31 December 2002 were £1.4 billion and £1.3 billion, respectively. Under US GAAP, the transaction would be accounted for as a disposition when the uncertainties related to the guarantee provided in respect of the acquisition finance have been substantially resolved and/or the buyer s cumulative investment meets or exceeds minimum levels.

(h) *Revaluation of land and buildings:* UK GAAP allows the periodic revaluation of land and buildings. Professional valuations of certain of the group s properties were carried out in 1988 which under US GAAP have not been reflected in the consolidated financial statements.

(i) *Employee share trust arrangements:* Employee share trusts have been established in order to hedge obligations in respect of options issued under certain employee share option schemes. Under UK GAAP, the company s ordinary shares held by the employee share trusts are included at cost in fixed asset investments and are written down over the period until the option vests to the amount of the option price payable by employees upon exercise. Under US GAAP, such shares are treated as treasury shares and are deducted from shareholders equity at cost and are only written off when the employee exercises their option.

(j) *Ordinary dividends:* Under UK GAAP, the proposed dividends on ordinary shares, as recommended by the directors, are deducted from shareholders equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under US GAAP, such dividends are only deducted from shareholders equity at the date of declaration of the dividend.

(k) *Deferred taxation:* UK GAAP permits that no provision for deferred tax should be made on the acquisition of a business where an asset acquired has no tax basis. US GAAP requires a deferred tax liability to be set up on all assets separately identified, apart from goodwill.

(l) *Earnings per ordinary share:* Under UK GAAP and US GAAP, earnings per ordinary share are generally consistent and are based on the weighted average number of ordinary shares outstanding during the period. Earnings per American Depositary Share are calculated on the basis of one American Depositary Share representing four ordinary shares.

(m) *Discontinued operations:* UK and US GAAP have different criteria for determining whether a business is a discontinued operation. Under UK GAAP, the turnover and operating profit of a discontinued business is disclosed separately in the profit and loss account but as part of turnover and operating profit. Under US GAAP, sales and net income arising from discontinued operations are disclosed separately from net income from continuing operations. The Pillsbury Company and Burger King have been treated as discontinued operations under UK GAAP but included within continuing operations under US GAAP.

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US GAAP UNAUDITED CONSOLIDATED INTERIM INFORMATION - (continued)

Reconciliation of net income and shareholders equity between UK and US GAAP (unaudited) - (continued)

Effect on net income of differences between UK and US GAAP:

	Notes	Six months ended 31 December 2002	Six months ended 31 December 2001
		£ million	£ million
Net (loss)/income in accordance with UK GAAP		(459)	810
Adjustments:			
Goodwill and other intangibles	(a)	(4)	4
Inventories	(b)	(30)	(36)
Pensions and other post employment benefits	(d)	18	13
Derivative instruments in respect of General Mills shares	(e)	(60)	
Other derivative instruments	(f)	(57)	(115)
Disposals of businesses	(g)	712	1,052
Employee share trust arrangements	(i)	14	3
Other items		17	35
Deferred taxation:			
- on above adjustments	(k)		39
- other	(k)		(5)
Net income in accordance with US GAAP		151	1,800
Earnings per share	(l)		
Basic earnings per share in accordance with US GAAP		4.8p	53.6p
Basic earnings per American Depositary Share in accordance with US GAAP		19.2p	214.4p

US GAAP net income for the six months ended 31 December 2002 included £31 million (1.0p per ordinary share) (2001- £41 million and 1.2p per ordinary share) in respect of the quick service restaurants business and a £685 million charge (21.8p per ordinary share) arising on the legal disposal of Burger King, including £618 million (19.7p per ordinary share) in respect of the impairment of the quick service restaurants business. US GAAP net income for the six months ended 31 December 2001 included £208 million (6.2p per ordinary share) in respect of the operations of the packaged food businesses and £1,373 million (40.9p per ordinary share) on the disposal of the packaged food businesses.

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US GAAP UNAUDITED CONSOLIDATED INTERIM INFORMATION - (continued)

Cumulative effect on shareholders equity of differences between UK and US GAAP:

	Notes	31 December 2002 £ million	31 December 2001 £ million
Shareholders equity in accordance with UK GAAP		5,222	6,969
Adjustments:			
Brands	(a)	3,036	2,763
Goodwill and other intangibles	(a)	3,657	3,895
Inventories	(b)	194	246
Investment in General Mills	(g)	201	172
Derivative instruments in respect of General Mills shares	(e)	97	
Revaluation of land and buildings	(h)	(35)	(40)
Pensions and other post employment benefits	(d)	(502)	32
Employee share trust arrangements	(i)	(272)	(231)
Ordinary dividends	(j)	307	309
Other differences in accounting principles		(136)	(175)
Deferred taxation:			
- on above adjustments	(k)	38	28
- other	(k)	(1,509)	(1,361)
Shareholders equity in accordance with US GAAP		10,298	12,607

US GAAP summary consolidated cash flow

	Six months ended 31 December 2002 £ million	Six months ended 31 December 2001 £ million
Cash inflow from operating activities	546	531
Cash inflow from investing activities	827	619
Cash outflow from financing activities	(1,277)	(725)
Increase in cash and cash equivalents	96	425
Exchange adjustments	(20)	15
Cash and cash equivalents at beginning of the period under US GAAP	788	1,006
Cash and cash equivalents at end of the period under US GAAP	864	1,446
Short term investments with original maturities of more than three months	496	840
Cash at bank and liquid resources under UK GAAP at end of the period	1,360	2,286

US GAAP summary consolidated balance sheet

31 December

	2002
	£ million
Total current assets	6,575
Property, plant and equipment	1,878
Intangible assets, net	10,854
Other long term assets	6,184
Total assets	25,491
Short term borrowings	3,480
Other current liabilities	3,422
Long term borrowings	3,679
Other long term liabilities	4,077
Minority interests	535
Shareholders equity	10,298
Total liabilities and shareholders equity	25,491

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INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED 30 JUNE 2002

OTHER INFORMATION

The consolidated financial statements for the three years ended 30 June 2002 have been restated from those contained in Diageo s 2002 Annual Report on Form 20-F filed on 12 November 2002 as quick service restaurants business has been disposed of and has been presented as a discontinued operation under UK GAAP.

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INDEPENDENT AUDITOR S REPORT

to the shareholders and Board of Directors of Diageo plc

We have audited the accompanying consolidated balance sheets of Diageo plc and subsidiaries as at 30 June 2002 and 30 June 2001, and the related consolidated profit and loss accounts, statements of total recognised gains and losses and cash flows for each of the years in the three year period ended 30 June 2002 presented on pages F-15 to F-65. These consolidated financial statements are the responsibility of the company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the financial position of Diageo plc and subsidiaries as of 30 June 2002 and 30 June 2001 and the results of their operations and their cash flows for each of the years in the three year period ended 30 June 2002 in conformity with generally accepted accounting principles in the United Kingdom.

As discussed in note 1 to the consolidated financial statements, Diageo changed its method of accounting for deferred taxes in the year ended 30 June 2002 as a result of the adoption of FRS 19 Deferred tax.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected net income for the years ended 30 June 2002, 2001 and 2000 and shareholders equity as at 30 June 2002 and 2001, to the extent summarised in note 33 to the consolidated financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London, England
4 September 2002,
except as to the third paragraph of note 29
which is as of 7 November 2002
and note 32 which is as of 13 December 2002.

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 30 June 2002			Year ended 30 June 2001		
		Before goodwill and exceptional items	Goodwill and exceptional items	Total	Before goodwill and exceptional items (restated)	Goodwill and exceptional items (restated)	Total (restated see note 1)
	Notes	£ million	£ million	£ million	£ million	£ million	£ million
Turnover							
Continuing operations		8,131		8,131	7,580		7,580
Acquisitions		573		573			
		8,704		8,704	7,580		7,580
Discontinued operations		2,578		2,578	5,241		5,241
Total turnover	2	11,282		11,282	12,821		12,821
Operating costs	4	(9,164)	(465)	(9,629)	(10,694)	(254)	(10,948)
Operating profit	2	2,118	(465)	1,653	2,127	(254)	1,873
Continuing operations		1,638	(434)	1,204	1,432	(155)	1,277
Acquisitions		130		130			
		1,768	(434)	1,334	1,432	(155)	1,277
Discontinued operations		350	(31)	319	695	(99)	596
Operating profit	2	2,118	(465)	1,653	2,127	(254)	1,873
Share of profits of associates	6	324	(41)	283	203		203
Trading profit		2,442	(506)	1,936	2,330	(254)	2,076
Continuing operations							
Disposal of fixed assets			1	1		25	25
Sale of businesses	7		512	512		28	28
Discontinued operations							
Disposal of fixed assets			(23)	(23)		(6)	(6)
Sale of businesses	7		309	309		(51)	(51)
			799	799		(4)	(4)
Interest payable (net)	8	(399)		(399)	(350)		(350)
Profit on ordinary activities before taxation		2,043	293	2,336	1,980	(258)	1,722
Taxation on profit on ordinary activities	9	(511)	(121)	(632)	(468)	33	(435)
Profit on ordinary activities after taxation		1,532	172	1,704	1,512	(225)	1,287
Minority interests							
Equity		(49)		(49)	(43)		(43)
Non-equity		(38)		(38)	(37)		(37)

Profit for the year		1,445	172	1,617	1,432	(225)	1,207
Dividends	10	(767)		(767)	(751)		(751)
Transferred to reserves		678	172	850	681	(225)	456
Earnings per share	11						
Basic		43.6p	5.2p	48.8p	42.4p	(6.7)p	35.7p
Diluted		43.5p	5.2p	48.7p	42.4p	(6.7)p	35.7p
Earnings per American Depositary Share							
Basic		174.4p	20.8p	195.2p	169.6p	(26.8)p	142.8p
Diluted		174.0p	20.8p	194.8p	169.6p	(26.8)p	142.8p

The accompanying notes are an integral part of these financial statements

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 30 June 2000		
		Before goodwill and exceptional items (restated)	Goodwill and exceptional items (restated)	Total (restated see note 1)
	Notes	£ million	£ million	£ million
Turnover				
Continuing operations		7,117		7,117
Discontinued operations		4,753		4,753
Total turnover	2	11,870		11,870
Operating costs	4	(9,890)	(198)	(10,088)
Operating profit	2	1,980	(198)	1,782
Continuing operations		1,286	(84)	1,202
Discontinued operations		694	(114)	580
Operating profit	2	1,980	(198)	1,782
Share of profits of associates	6	198	(3)	195
Trading profit		2,178	(201)	1,977
Continuing operations				
Disposal of fixed assets			2	2
Sale of businesses	7		(165)	(165)
Discontinued operations				
Disposal of fixed assets			3	3
Sale of businesses	7		(3)	(3)
			(163)	(163)
Interest payable (net)	8	(363)		(363)
Profit on ordinary activities before taxation		1,815	(364)	1,451
Taxation on profit on ordinary activities	9	(458)	71	(387)
Profit on ordinary activities after taxation		1,357	(293)	1,064
Minority interests				
Equity		(37)		(37)
Non-equity		(37)		(37)
Profit for the year		1,283	(293)	990
Dividends	10	(713)		(713)
Transferred to reserves		570	(293)	277
Earnings per share	11			
Basic		37.8p	(8.6)p	29.2p
Diluted		37.7p	(8.6)p	29.1p

Earnings per American Depositary Share			
Basic	151.2p	(34.4)p	116.8p
Diluted	150.8p	(34.4)p	116.4p

The accompanying notes are an integral part of these financial statements

CONSOLIDATED BALANCE SHEET

	Notes	30 June 2002 £ million	30 June 2002 £ million	30 June 2001 (restated see note 1) £ million	30 June 2001 (restated see note 1) £ million
Fixed assets					
Intangible assets	12		5,434		5,672
Tangible assets	13		2,545		3,176
Investment in associates	14		2,899		1,193
Other investments	14		284		280
			11,162		10,321
Current assets					
Stocks	15	2,316		2,232	
Debtors due within one year	16	2,209		1,965	
Debtors due after one year	16	1,210		1,284	
Cash at bank and liquid resources	17	1,596		1,842	
		7,331		7,323	
Creditors due within one year					
Borrowings	17	(3,718)		(3,602)	
Other creditors	19	(3,645)		(3,495)	
		(7,363)		(7,097)	
Net current (liabilities)/assets			(32)		226
Total assets less current liabilities			11,130		10,547
Creditors due after one year					
Borrowings	17	(3,711)		(3,993)	
Other creditors	19	(49)		(96)	
			(3,760)		(4,089)
Provisions for liabilities and charges	20		(814)		(729)
			6,556		5,729
Capital and reserves					
Called up share capital	22		930		987
Share premium account		1,324		1,314	
Revaluation reserve		129		137	
Capital redemption reserve		3,012		2,954	
Profit and loss account		606		(269)	
Reserves attributable to equity shareholders	23		5,071		4,136
Shareholders funds			6,001		5,123
Minority interests					
Equity		184		207	
Non-equity	25	371		399	
			555		606

	6,556	5,729

The accompanying notes are an integral part of these financial statements

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CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 30 June 2002 £ million	Year ended 30 June 2001 £ million	Year ended 30 June 2000 £ million
Net cash inflow from operating activities	26	2,008	2,276	2,043
Dividends received from associates		87	101	64
Returns on investments and servicing of finance				
Interest paid (net)		(360)	(446)	(405)
Dividends paid to equity minority interests		(40)	(31)	(27)
		(400)	(477)	(432)
Taxation		(311)	(230)	(285)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(585)	(439)	(547)
Purchase/sale of own shares		(64)	(54)	(38)
Sale of fixed assets		57	43	59
		(592)	(450)	(526)
Free cash flow		792	1,220	864
Acquisitions and disposals				
Purchase of Seagram spirits and wine businesses	27	(3,533)		
Purchase of other subsidiaries	27	(59)	(136)	(151)
Sale of The Pillsbury Company	28	4,179		
Sale of other subsidiaries and businesses	28	921	12	638
Sale of associates			19	
		1,508	(105)	487
Equity dividends paid		(758)	(725)	(683)
Cash flow before management of liquid resources and financing		1,542	390	668
Management of liquid resources		92	(572)	(219)
Financing				
Issue of share capital		11	31	12
Own shares purchased for cancellation		(1,658)	(108)	(54)
Redemption of guaranteed preferred securities			(39)	
(Decrease)/increase in loans		(137)	398	(544)
		(1,784)	282	(586)
(Decrease)/increase in cash in the year		(150)	100	(137)
Movements in net borrowings	17			
(Decrease)/increase in cash in the year		(150)	100	(137)
Cash flow from change in loans		137	(398)	544
Change in liquid resources		(92)	572	219
Change in net borrowings from cash flows		(105)	274	626

Exchange adjustments	267	(229)	(119)
Non-cash items	(179)	21	4
(Increase)/decrease in net borrowings	(17)	66	511
Net borrowings at beginning of the year	(5,479)	(5,545)	(6,056)
Net borrowings at end of the year	(5,496)	(5,479)	(5,545)

The accompanying notes are an integral part of these financial statements

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CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		Year ended 30 June 2002	Year ended 30 June 2001 (restated see note 1)	Year ended 30 June 2000 (restated see note 1)
		£ million	£ million	£ million
Profit for the year	group	1,486	1,037	872
	associates	131	170	118
		1,617	1,207	990
Exchange adjustments	group	(38)	121	40
	associates	(55)	(24)	(14)
Tax charge on exchange in reserves			(17)	(7)
Total recognised gains and losses		1,524	1,287	1,009
Prior year adjustment (note 1)		(64)		
Total recognised gains and losses since the last annual report		1,460		

NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

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

The accompanying notes are an integral part of these financial statements

ACCOUNTING POLICIES

Basis of accounting

The accounts are prepared under the historical cost convention, modified by the revaluation of certain land and buildings, and in accordance with applicable UK accounting standards.

Basis of consolidation

The group accounts include the accounts of the company and its subsidiary undertakings (subsidiaries) together with the attributable share of the group s share of the results of joint arrangements and associated undertakings (associates). Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries sold or acquired are included in the profit and loss account up to, or from, the date control passes.

Acquisitions and disposals

On the acquisition of a business, or of an interest in an associate, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets including significant owned brands acquired. Adjustments to fair value include those made to bring accounting policies into line with those of the group. Where statutory merger relief is applicable, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

The profit and loss on the disposal of a previously acquired business includes the attributable amount of purchased goodwill relating to that business, including any goodwill written off direct to reserves prior to 1 July 1998.

Brands, goodwill and other intangible assets

When the cost of an acquisition exceeds the fair values attributable to the group s share of the net assets acquired, the difference is treated as purchased goodwill. Goodwill arising on acquisitions subsequent to 1 July 1998 is capitalised; prior to that date it was eliminated against reserves, and this goodwill has not been restated.

Acquired brands and other intangible assets which are controlled through custody or legal rights and could be sold separately from the rest of the business are capitalised, where fair value can be reliably measured.

Where capitalised goodwill and intangible assets are regarded as having limited useful economic lives, their cost is amortised on a straight-line basis over those lives up to 20 years. Where goodwill and intangible assets are regarded as having indefinite useful economic lives, they are not amortised. Impairment reviews are carried out to ensure that goodwill and intangible assets are not carried at above their recoverable amounts. Wherever events or circumstances indicate that the carrying amount may not be recoverable, the group performs discounted cash flow analyses to compare discounted estimated future operating cash flows with the net carrying value of brands or goodwill. Any amortisation or impairment write downs are charged to the profit and loss account.

Tangible fixed assets

Land and buildings are stated at cost or at professional valuation, less depreciation. Freehold land is not depreciated. Leaseholds are depreciated over the unexpired period of the lease. Other tangible fixed assets are depreciated on a straightline basis to estimated residual values over their expected useful lives within the following ranges: industrial and other buildings 10 to 50 years; plant and machinery 5 to 25 years; fixtures and fittings 5 to 10 years; casks and containers 15 to 20 years; and computer software up to 5 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.

Leases

Where the group has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases, with payments and receipts taken to the profit and loss account on a straightline basis over the life of the lease.

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ACCOUNTING POLICIES - (continued)

Associates and joint arrangements

An associate is an undertaking in which the group has a long term equity interest and over which it exercises significant influence. The group s interest in the net assets of associates is included in investments in the group balance sheet. Joint arrangements, where each party has its own separate interest in particular risks and rewards, are accounted for by including the attributable share of the assets and liabilities, measured according to the terms of the arrangement.

Investment in own shares

Investment in own shares is held for the purpose of fulfilling obligations in respect of various employee share plans around the group. The difference between the purchase price of the shares and the exercise price of the option or grant is amortised over the relevant period (generally the three years from the date of an award), except for savings-related options granted prior to 1 July 1999 where the difference was taken as an exceptional charge on acquisition of the shares in 1999.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, and an appropriate proportion of production and other overheads.

Foreign currencies

The profit and loss accounts and cash flows of overseas subsidiaries and associates are translated into sterling at weighted average rates of exchange, other than substantial exceptional items which are translated at the rate on the date of the transaction. The adjustment to closing rates is taken to reserves.

Balance sheets are translated at closing rates. Exchange differences arising on the re-translation at closing rates of the opening balance sheets of overseas subsidiaries and associates are taken to reserves, less exchange differences arising on related foreign currency borrowings and financial instruments. Tax charges and credits arising on such items are also taken to reserves. Other exchange differences are taken to the profit and loss account.

The results, assets and liabilities of operations in hyper-inflationary economies are determined using an appropriate relatively stable currency as the functional currency. The exchange differences arising from this process are taken to the profit and loss account.

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.

Turnover

Turnover represents the net invoice value of goods and services, including excise duties and royalties receivable but excluding valued added tax. Goods include premium drinks within continuing operations, and packaged food products and retail sales in the group s quick service restaurants within discontinued operations. Services include royalties and other franchise fees primarily related to the group s quick service restaurants.

Turnover for goods is recognised at the point at which ownership transfers which may be at the time of despatch, delivery or some other point depending upon individual customer terms. Provision is made for returns where appropriate. Turnover for goods is stated net of price discounts, allowances for customer loyalty and certain promotional activities and similar items.

Royalties are accrued as earned and other franchise fees are recognised when the related restaurant begins operations.

Advertising

Advertising production costs are charged to the profit and loss account when the advertisement is first shown to the public.

Franchising

Franchising generates initial franchise fees, as well as profits or losses arising from the franchising of developed or purchased outlets previously operated by the group, and ongoing royalty revenues based on sales made by franchisees. Income from franchising is included in operating profit from discontinued operations, apart from any property element which is treated as a disposal of fixed assets.

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ACCOUNTING POLICIES - (continued)

Research and development

Research and development expenditure is written off in the period in which it is incurred.

Pensions and other post employment benefits

The cost of providing pensions and other post employment benefits is charged against profits on a systematic basis, with pension surpluses and deficits arising allocated over the expected average remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to pension or other plans are treated as assets or liabilities. Deferred tax is accounted for on these assets and liabilities. Unfunded post employment medical benefit liabilities are included in provisions in the balance sheet.

Exceptional items

Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within the profit and loss account caption to which they relate, and are separately disclosed either in the notes to the consolidated financial statements or on the face of the consolidated 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 consolidated financial statements and their recognition in the tax computation, using current tax rates. The group does not discount these balances. No deferred tax is provided in respect of any future remittance of earnings of foreign subsidiaries or associates where no commitment has been made to remit such earnings.

Financial instruments

The group uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. If the underlying transaction to a hedge ceases to exist, the hedge is terminated and the profit or loss is recognised immediately. If the hedge transaction is terminated, the profit or loss is held in the balance sheet and amortised over the life of the original underlying transaction.

Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Foreign exchange contracts hedging balance sheet assets and liabilities are revalued at closing rates and exchange differences arising are taken to reserves. Gains and losses on contracts hedging forecast transactional cash flows, and on option instruments hedging the sterling value of foreign currency denominated income, are recognised in the hedged periods.

Cash flows associated with derivative financial instruments are classified in the cash flow statement in a manner consistent with those of the transactions being hedged. Finance costs associated with debt issuances are charged to the profit and loss account over the life of the issue.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As used in the consolidated financial statements and related notes except as the context otherwise requires, the term company refers to Diageo plc; the terms group and Diageo refer to Diageo plc and its subsidiaries; the term the Guinness Group refers to the former Guinness PLC and its consolidated subsidiaries; the term GrandMet PLC refers to Grand Metropolitan Public Limited Company; and the term GrandMet refers to GrandMet PLC and its consolidated subsidiaries.

Diageo was created by the merger of the former GrandMet and Guinness Group businesses on 17 December 1997 (the Merger). Under generally accepted accounting principles (GAAP) the combination, under UK GAAP, has been accounted for as a pooling of interests and the results and cash flows of GrandMet and the Guinness Group are combined as of the beginning of the earliest financial year presented. Under US GAAP the Merger has been accounted for as an acquisition of the Guinness Group by GrandMet. At the time of the Merger, Diageo changed its year end to 30 June.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Acquisitions on the face of the profit and loss account comprise the Seagram spirits and wine businesses.

1 New accounting standards in the United Kingdom

The financial statements comply, to the extent detailed below, with the following new Financial Reporting Standards issued by the UK Accounting Standards Board.

FRS 17 Retirement benefits. This standard replaces the use of actuarial values for assets in a pension scheme 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, interest cost and expected return on assets. The difference between expected and actual returns and changes in actuarial assumptions are reflected in the statement of total recognised gains and losses. The group has continued to account for pensions and other post employment benefits in accordance with SSAP 24 but has complied with the transitional disclosure requirements of FRS 17.

FRS 19 Deferred tax. This standard requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. It only requires recognition when the resulting deferred tax can be justified as an asset or liability in its own right, thus excluding, for example, deferred tax on periodic revaluations of fixed assets and on retained profits in overseas subsidiaries and associates prior to any commitment to remit those profits. The standard allows the optional discounting of all or none of the deferred tax assets and liabilities, and the group has elected not to discount.

The impact of adopting FRS 19 in the year ended 30 June 2002 has been to increase the ordinary and total tax charge by £23 million. Compliance with FRS 19 has increased the 30 June 2001 deferred tax asset by £12 million and the deferred tax provision by £76 million. The tax charge for the year ended 30 June 2001 increased by £19 million (2000 decrease of £14 million). Of this increase, in the year ended 30 June 2001, £13 million (2000 decreased by £18 million) is in respect of profit before goodwill amortisation and exceptional items. The restated effective tax rate before goodwill and exceptional items for the year ended 30 June 2001 is 23.6% (2000 25.2%), compared with the 23% (2000 26.2%) originally reported. Basic earnings per share for the year ended 30 June 2001 has been restated from 36.3p to 35.7p (2000 28.8p to 29.2p).

All appropriate primary statements and notes in the consolidated financial statements have been restated for the two years ended 30 June 2001.

2 Segmental analysis

Each operating segment is individually managed and has separate results that are reviewed by the group s chief operating decision makers. Each segment contains closely related products that are unique to that particular segment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (continued)

2 Segmental analysis - (continued)

The reportable segments are:

Premium drinks, an international manufacturer and distributor of spirits, wines and beer that produces and distributes a wide range of premium brands, including Smirnoff vodka, Johnnie Walker Scotch whiskies, Guinness stout, Baileys Original Irish Cream liqueur, J&B Scotch whisky, Captain Morgan rum and Tanqueray gin. Premium drinks also owns the distribution rights for the Cuervo tequila brands in the United States and other countries.

Premium drinks also owns a number of investments in unconsolidated affiliates, the principal investment being a 34% equity interest in Moët Hennessy SA (Moët Hennessy). Moët Hennessy is based in France and is a leading producer and exporter of champagne and cognac.

Discontinued operations. On 31 October 2001, the group disposed of its worldwide packaged food businesses to General Mills, Inc (General Mills). The packaged food businesses produce and distribute leading food brands including Pillsbury refrigerated dough and other dough based goods, Old El Paso Mexican foods, Progresso soups, Green Giant vegetables and Häagen-Dazs ice cream, as well as operating a foodservice business. Under the transaction, Diageo owns approximately 22% of the issued share capital of General Mills, having exercised an option to sell 55 million of its shares in General Mills on 1 November 2001, and received, in total, approximately $5.8 billion (£4.0 billion) in cash. The principal businesses owned by General Mills are Big G ready-to-eat cereals, Betty Crocker dessert, baking, dinner mix and snack products, Yoplait and Colombo yogurt as well as the businesses that formerly comprised the packaged food businesses. General Mills business is primarily in the United States.

On 13 December 2002, the group disposed of its quick service restaurants business (Burger King) to the Burger King Acquisition Corporation, a newly formed company owned by Texas Pacific Group, Bain Capital and Goldman Sachs Capital Partners. Burger King is a leading fast food hamburger restaurant chain with approximately 11,500 outlets worldwide of which over 8,100 are in the United States. Of the total number of outlets, 91% are franchised and 9% are company operated.

The quick service restaurants and packaged food businesses have been reported within discontinued operations.

(i) Segment information by class of business

	Premium drinks	Other	Total continuing	Discontinued operations	Total
	£ million	£ million	£ million	£ million	£ million
2002					
Turnover	8,704		8,704	2,578	11,282
Operating profit before goodwill amortisation and exceptional items	1,768		1,768	350	2,118
Goodwill amortisation	(2)		(2)	(10)	(12)
Exceptional items charged to operating profit	(432)		(432)	(21)	(453)
Operating profit	1,334		1,334	319	1,653
Sale of businesses	512		512	309	821
Share of profits of associates	158	112	270	13	283
Depreciation and other amounts written off fixed assets	237		237	113	350
Capital expenditure	330		330	255	585
Net assets	9,324	(4,211)	5,113	1,443	6,556
Total assets	11,609	5,183	16,792	1,701	18,493

	Premium drinks	Other	Total continuing	Discontinued operations	Total
	£ million	£ million	£ million	£ million	£ million
2001					

Turnover	7,580		7,580	5,241	12,821
Operating profit before goodwill amortisation and exceptional items	1,432		1,432	695	2,127
Goodwill amortisation	(2)		(2)	(24)	(26)
Exceptional items charged to operating profit	(153)		(153)	(75)	(228)
Operating profit	1,277		1,277	596	1,873
Sale of businesses	28		28	(51)	(23)
Share of profits of associates	177		177	26	203
Depreciation and other amounts written off fixed assets	225		225	260	485
Capital expenditure	176		176	263	439
Net assets	6,213	(6,096)	117	5,612	5,729
Total assets	7,957	3,094	11,051	6,593	17,644

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (continued)

2 Segmental analysis - (continued)

	Premium drinks	Other	Total continuing	Discontinued operations	Total
	£ million	£ million	£ million	£ million	£ million
2000					
Turnover	7,117		7,117	4,753	11,870
Operating profit before goodwill amortisation and exceptional items	1,286		1,286	694	1,980
Goodwill amortisation	(1)		(1)	(16)	(17)
Exceptional items charged to operating profit	(83)		(83)	(98)	(181)
Operating profit	1,202		1,202	580	1,782
Sale of businesses	(165)		(165)	(3)	(168)
Share of profits of associates	175		175	20	195
Depreciation and other amounts written off fixed assets	200		200	174	374
Capital expenditure	262		262	285	547
Net assets	6,101	(6,054)	47	5,191	5,238
Total assets	7,743	2,149	9,892	6,197	16,089

(a) Profit before interest and tax for the year relates to the following activities: premium drinks £2,005 million; other £112 million and discontinued operations £618 million (2001 £1,507 million; £nil and £565 million, respectively; 2000 £1,214 million; £nil and £600 million, respectively). The other segment in the year ended 30 June 2002 represents the group s share of profit before interest and tax from its investment in General Mills.

(b) The group interest expense is managed centrally and is not attributable to individual activities. Inter segmental sales are immaterial and have been eliminated in computing the segmental disclosure.

(c) Corporate expenses are generally allocated on a pro rata basis, based on segmental operating profit before goodwill amortisation and exceptional items. Corporate expenses were £92 million (2001 £75 million; 2000 £73 million) of which £78 million (2001 £51 million; 2000 £48 million) was allocated to premium drinks and £14 million (2001 £24 million; 2000 £25 million) to discontinued operations.

(d) The weighted average exchange rates used in the translation of profit and loss accounts were US dollar £1 = $1.44 (2001 £1 = $1.45; 2000 £1 = $1.60) and euro £1 = 1.61 (2001 £1 = 1.63; 2000 £1 = 1.59). Exchange rates used to translate assets and liabilities at the balance sheet date were US dollar £1 = $1.52 (2001 £1 = $1.41) and euro £1 = 1.54 (2001 £1 = 1.66). The group uses option cylinders and foreign exchange transaction hedges to mitigate the effect of exchange rate movements. The effective exchange rates taking into account the impact of these instruments were US dollar £1 = $1.44 (2001 £1 = $1.58; 2000 £1 = $1.63) and euro £1 = 1.62 (2001 £1 = 1.60; 2000 £1 = 1.50).

(e) Turnover in the discontinued operations included £266 million of royalties and initial franchise fees from franchisees (2001 £265 million; 2000 £248 million). Initial franchise fees, on opening a restaurant, were not material.

(f) The depreciation expense includes £36 million (2001 £54 million; 2000 £9 million) of exceptional tangible asset write downs, £16 million (2001 £34 million; 2000 £20 million) of intangible asset amortisation and £14 million (2001 £25 million; 2000 £16 million) of amortisation of investment in own shares. In addition, in the year ended 30 June 2001 depreciation expense included £23 million for an exceptional writedown of an investment.

(g) The other segment for net assets comprises the net investment in General Mills of £1,837 million (2001 £nil; 2000 £nil), net external borrowings of £5,496 million (2001 £5,479 million; 2000 £5,545 million); tax and external dividend creditors of £1,226 million (2001 £1,126 million; 2000 £876 million); net pension prepayment of £466 million (2001 £458 million; 2000 £422 million); and other net assets of £208 million (2001 net assets of £51 million; 2000 net liabilities of £55 million).

(h) The other segment for total assets comprise: the net investment in General Mills of £1,837 million (2001 £nil; 2000 £nil), cash at bank and liquid resources of £1,596 million (2001 £1,842 million; 2000 £1,063 million); pension prepayment of £485 million (2001 £477 million; 2000 £441 million); investment in own shares of £219 million (2001 £169 million; 2000 £142 million); interest rate and foreign currency swaps of

£365 million (2001 £315 million; 2000 £213 million) and other assets of £681 million (2001 £291 million; 2000 £290 million).

(i) Under UK GAAP net assets represents shareholders funds and minority interests.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (continued)

2 Segmental analysis - (continued)

(ii) Geographical information

	Great Britain	Rest of Europe	North America	Asia Pacific	Latin America	Rest of World	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
2002							
Turnover	1,601	2,603	4,717	1,001	639	721	11,282
Operating profit before goodwill amortisation and exceptional items	206	473	866	231	193	149	2,118
Goodwill amortisation		(1)	(10)		(1)		(12)
Exceptional items charged to operating profit	(55)	39	(430)	(2)	(4)	(1)	(453)
Operating profit	151	511	426	229	188	148	1,653
Long-lived assets	1,984	583	4,476	687	69	180	7,979
2001							
Turnover	1,521	2,552	6,401	990	776	581	12,821
Operating profit before goodwill amortisation and exceptional items	171	443	1,001	206	188	118	2,127
Goodwill amortisation		(1)	(22)	(1)	(2)		(26)
Exceptional items charged to operating profit	(96)	(62)	(76)	6			(228)
Operating profit	75	380	903	211	186	118	1,873
Long-lived assets	1,946	452	5,967	241	82	160	8,848
2000							
Turnover	1,472	2,709	5,639	886	697	467	11,870
Operating profit before goodwill amortisation and exceptional items	157	428	956	170	165	104	1,980
Goodwill amortisation		(1)	(15)		(1)		(17)
Exceptional items charged to operating profit	(30)	(8)	(90)	(35)	(12)	(6)	(181)
Operating profit	127	419	851	135	152	98	1,782
Long-lived assets	1,981	497	5,506	188	97	98	8,367

(a) The geographical analysis of turnover and operating profit is based on the location of the third party customers.

(b) Long-lived assets comprise tangible fixed assets and intangible assets after depreciation and amortisation respectively. The net book value of brands are included in the geographical region in which the brand originated.

(c) Profit before interest and tax, excluding the profit attributable to General Mills and Moët Hennessy, for the year relates to the following geographical areas: North America £721 million; Europe £1,200 million; Asia Pacific £228 million; Latin America £186 million; and Rest of World £148 million (2001 £880 million; £465 million; £234 million; £215 million; and £123 million, respectively; 2000 £868 million; £402 million; £156 million; £146 million; and £107 million, respectively).

3 Turnover

	2002			2001		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£ million	£ million	£ million	£ million	£ million	£ million
Geographical area by origin						

North America	2,680	2,011	4,691	2,107	4,378	6,485
Europe	5,113	371	5,484	4,364	525	4,889
Asia Pacific	801	88	889	780	145	925
Latin America	365	102	467	516	170	686
Rest of World	628	6	634	533	23	556
	9,587	2,578	12,165	8,300	5,241	13,541
Less: Sales to group companies in other geographical areas	(883)		(883)	(720)		(720)
	8,704	2,578	11,282	7,580	5,241	12,821

	2000		
	Continuing operations	Discontinued operations	Total
	£ million	£ million	£ million
Geographical area by origin			
North America	2,019	3,982	6,001
Europe	4,323	487	4,810
Asia Pacific	606	118	724
Latin America	367	158	525
Rest of World	380	27	407
	7,695	4,772	12,467
Less: Sales to group companies in other geographical areas	(578)	(19)	(597)
	7,117	4,753	11,870

Exports from the United Kingdom were £1,614 million (2001 £1,435 million; 2000 £1,285 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (continued)

4 Operating costs

		Continuing operations	Discontinued operations	Total
		£ million	£ million	£ million
2002				
Change in stocks		(71)	(58)	(129)
Raw materials and consumables		2,286	692	2,978
Excise duties	United States	438		438
	Other	1,681		1,681
Advertising, marketing and promotion		1,153	358	1,511
Other external charges		823	644	1,467
Staff costs (note 5)		834	535	1,369
Depreciation and other amounts written off fixed assets		237	113	350
Other operating income		(11)	(25)	(36)
		7,370	2,259	9,629
2001				
Change in stocks		(18)	7	(11)
Raw materials and consumables		1,883	1,341	3,224
Excise duties	United States	353		353
	Other	1,505		1,505
Advertising, marketing and promotion		995	922	1,917
Other external charges		565	1,348	1,913
Staff costs (note 5)		803	802	1,605
Depreciation and other amounts written off fixed assets		225	260	485
Other operating income		(8)	(35)	(43)
		6,303	4,645	10,948
2000				
Change in stocks		5	(7)	(2)
Raw materials and consumables		1,842	1,401	3,243
Excise duties	United States	328		328
	Other	1,451		1,451
Advertising, marketing and promotion		899	807	1,706
Other external charges		416	1,017	1,433
Staff costs (note 5)		781	831	1,612
Depreciation and other amounts written off fixed assets		200	174	374
Other operating income		(7)	(50)	(57)
		5,915	4,173	10,088

(a) Other external charges. These include operating lease rentals for plant and machinery of £20 million (2001 £27 million; 2000 £25 million); other operating lease rentals (mainly properties) of £104 million (2001 £107 million; 2000 £106 million); loss in respect of currency cylinders of £2 million (2001 loss of £90 million; 2000 gain of £13 million)(see note 18(i)); research and development expenditure of £28 million (2001 £71 million; 2000 £69 million); and maintenance and repairs of £65 million (2001 £68 million; 2000 £79 million). Other operating income includes £21 million (2001 £20 million; 2000 £17 million) from operating leases and in 2001 £5 million (2000 £17 million) of exceptional income.

(b) Operating costs for continuing operations. In 2002 operating costs for continuing operations include the following amounts in respect of acquired businesses: decrease in stocks of £14 million; raw materials and consumables of £110 million; excise duties of £122 million; advertising, marketing and promotion of £79 million; other external charges of £80 million; staff costs of £35 million; and depreciation of £3 million.

(c) Goodwill and exceptional operating costs. Operating costs for continuing operations in the year include goodwill amortisation of £2 million (2001 £2 million; 2000 £1 million) and exceptional operating costs of £432 million (2001 £153 million; 2000 £83 million) as follows: other external charges £306 million; staff costs £90 million; and assets write downs £36 million (2001 £59 million; £67 million; and £27 million, respectively; 2000 £34 million; £40 million; and £9 million, respectively). Operating costs for discontinued operations include goodwill amortisation of £10 million (2001 £24 million; 2000 £16 million), exceptional operating costs of £21 million (2001 £80 million; 2000 £115 million) and, in the year ended 30 June 2001, other operating income of £5 million (2000 £17 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (continued)

4 Operating costs - (continued)

(d) Fees paid to auditor. Fees charged to operating profit in respect of the audit during the year were £3,300,000 (2001 £2,800,000; 2000 £2,500,000), including the statutory audit of the company of £23,000 (2001 £23,000; 2000 £23,000). Fees in respect of other services provided by KPMG Audit Plc and its affiliates totalled £18,900,000 (2001 £14,300,000; 2000 £7,000,000) of which £11,000,000 (2001 £9,500,000; 2000 £4,500,000) relates to KPMG in the United Kingdom; and £7,900,000 (2001 £4,800,000; 2000 £2,500,000) relates to its overseas affiliates. The fees in respect of other services included audit related services of £1,500,000 (2001 £1,500,000; 2000 £1,000,000), assistance on acquisitions and disposals of £9,500,000 (2001 £7,500,000; 2000 £1,200,000), tax advice of £6,200,000 (2001 £4,400,000; 2000 £2,600,000) and other fees, including information technology project support, of £1,700,000 (2001 £900,000; 2000 £2,200,000).

5 Employees

	2002			2001			2000		
	Full time	**Part time**	**Total**	**Full time**	**Part time**	**Total**	**Full time**	**Part time**	**Total**
Average number of employees									
Premium drinks	22,841	1,078	23,919	21,363	628	21,991	24,241	450	24,691
Discontinued operations	25,734	12,471	38,205	37,747	11,785	49,532	36,620	11,163	47,783
	48,575	13,549	62,124	59,110	12,413	71,523	60,861	11,613	72,474

In the year ended 30 June 2002, employees for packaged food businesses are included for four months and for the Seagram spirits and wine businesses for six months, reflecting the periods in which the group owned the relevant operations.

	2002	2001	2000
	£ million	**£ million**	**£ million**
Aggregate remuneration			
Wages and salaries	1,281	1,491	1,472
Employer s social security	100	127	129
Employer s pension	(24)	(33)	(7)
Other post employment	12	20	18
	1,369	1,605	1,612

Retirement benefits. The group operates a number of pension plans throughout the world, devised in accordance with local conditions and practices. The plans are generally of the defined benefit type and are funded by payments to separately administered funds or insurance companies. The principal plans are in the United Kingdom, the United States and Ireland. All valuations were performed by independent actuaries using the projected unit method to determine pension costs.

The group has continued to account for pensions and other post employment benefits in accordance with SSAP 24 and the disclosures in (i) below are those required by that standard. FRS 17 Retirement benefits was issued in November 2000 but is not expected to be fully mandatory for the group until the year ending 30 June 2005. Prior to this, transitional disclosures are required which, to the extent they are not given in (i), are set out in (ii).

(i) SSAP 24 disclosures. The principal assumptions for the calculation under SSAP 24 for the year ended 30 June 2002 were: real rate of return on assets 4% (2001 4%; 2000 4%); real annual increase in wages and salaries 2% to 2.5% (2001 2% to 2.5%; 2000 2% to 2.5%); real rate of future dividend growth for UK equities 1% to 1.25% (2001 1%; 2000 1%); and pension increases approximately in line with inflation. Surpluses or deficits on the pension plans arising from the actuarial valuations are spread over the expected average service lives of the members (12 to 17.5 years) of the relevant plan on a straight line basis using the single variation method.

The actuarial value of the assets of those plans at 30 June 2002 was sufficient to cover approximately 123% of the benefits that had accrued to members after allowing for expected future increases in wages and salaries. Provision is made in the financial statements for the benefits accruing to members of unfunded pension plans in accordance with the advice of independent actuaries.

The group also operates a number of plans, primarily in the United States, which provide employees with other post employment benefits in respect of medical costs. The plans are generally unfunded and the liability in respect of these benefits is included in provisions. The liability is assessed by qualified independent actuaries under the projected unit method, assuming that principal assumptions under SSAP 24 were a liability discount rate of 7.5% (2001 7.5%; 2000 7.5%) and medical inflation of 6% reducing by 1% per year to 5% (2001 7% reducing by 1% per year to 5%; 2000 8% reducing to 1% per year to 5%).

The most recent full valuations of the significant defined benefit plans were carried out as follows: United Kingdom on 31 March 2000; United States on 31 March 2002; and Ireland on 31 December 2000. These valuations have been updated to 30 June 2002 by qualified independent actuaries.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (continued)

5 Employees - (continued)

(ii) FRS 17 disclosures.

	United Kingdom		United States		Ireland	
	2002	2001	2002	2001	2002	2001
	%	%	%	%	%	%
Major assumptions for significant defined benefit plans						
Rate of general increase in salaries	4.3	4.3	5.0	5.5	5.0	5.0
Rate of increase to pensions in payment	3.2	3.2			3.0	3.0
Rate of increase to deferred pensions	2.6	2.6			3.0	3.0
Medical inflation			5.0	6.0		
Discount rate for scheme liabilities	5.9	6.3	7.1	7.5	6.0	6.0
Inflation	2.6	2.6	3.0	3.5	3.0	3.0

(a) On full compliance with FRS 17, on the basis of the above assumptions, the amounts that would have been charged to the consolidated profit and loss account and consolidated statement of total recognised gains and losses for the year ended 30 June 2002 are set out below:

	United Kingdom	United States	Ireland	Other	Total
	£ million	£ million	£ million	£ mill	