DIAGEO PLC
Form 20-F
September 13, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: 30 June 2011

Commission file number 1-10691

DIAGEO plc

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organisation)

Lakeside Drive, Park Royal, London NW10 7HQ, England

(Address of principal executive offices)

Paul Tunnacliffe Company Secretary
Tel: +44 20 8978 6000
E-mail: the.cosec@diageo.com
Lakeside Drive, Park Royal, London NW10 7HQ, England

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Ordinary shares of $28^{101}/_{108}$ pence each	New York Stock Exchange*

*Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report: 2,754,001,095 ordinary shares of $28^{101}/_{108}$ pence each.

Indicate by check mark if each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ý No o

If this report is an annual or transition report, indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No ý

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer ý Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board ý	Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

This document comprises the annual report on Form 20-F and the annual report to shareholders for the year ended 30 June 2011 of Diageo plc (the 2011 Form 20-F).

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Contents (continued)

This is the Annual Report on Form 20-F of Diageo plc for the year ended 30 June 2011. The information set out in this Form 20-F does not constitute Diageo plc's statutory accounts under the UK Companies Acts for the years ended 30 June 2011, 2010 or 2009. KPMG Audit Plc has reported on those accounts; their audit reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for the years ended 30 June 2011, 2010 or 2009. The accounts for 2010 and 2009 have been delivered to the registrar of companies and those for 2011 will be delivered in due course.

This document contains forward-looking statements that involve risk and uncertainty. 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 beyond Diageo's control. For more details, please refer to the cautionary statement concerning forward-looking statements on pages 28 to 30.

The content of the company's website (www.diageo.com and www.diageoreports.com) should not be considered to form a part of or be incorporated into this report. This report includes names of Diageo's products, which constitute trademarks or trade names which Diageo owns or which others own and license to Diageo for use. In this report, the term 'company' refers to Diageo plc and terms 'group' and 'Diageo' refer to the company and its consolidated subsidiaries, except as the context otherwise requires. A glossary of terms used in this report is included at the end of the report.

Diageo's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use in the European Union (EU) and IFRS as issued by the International Accounting Standards Board (IASB). References to IFRS hereafter should be construed as references to both IFRS as adopted by the EU and IFRS as issued by the IASB. Unless otherwise indicated, all financial information contained in this document has been prepared in accordance with IFRS. The brand ranking information presented in this report, when comparing volume information with competitors, has been sourced from data published during 2011 by Impact Databank. Market data information and competitive set classifications are taken from independent industry sources in the markets in which Diageo operates.

Information presented Unless otherwise stated in this document, percentage movements are organic movements. These movements and operating margins are before exceptional items. Commentary, unless otherwise stated, refers to organic movements. Share, unless otherwise stated, refers to value share. See the 'Business review' for an explanation of organic movement calculations. The market data and competitive set classifications contained in this document are taken from independent industry sources in the markets in which Diageo operates.

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Historical information

The following table presents selected consolidated financial data for Diageo prepared under International Financial Reporting Standards (IFRS) as endorsed and adopted for use in the European Union (EU) and IFRS as issued by the International Accounting Standards Board (IASB) for the five years ended 30 June 2011 and as at the respective year ends. References to IFRS hereafter should be construed as references to both IFRS as adopted by the EU and IFRS as issued by the IASB, unless otherwise indicated. The data presented below has been derived from Diageo's audited consolidated financial statements.

						Year ended 30 June
	Notes	2011	2010	2009	2008	2007
		£ million	£ million	£ million	£ million	£ million
Income statement data						
Sales		**13,232**	12,958	12,283	10,643	9,917
Operating profit	1,2	**2,595**	2,574	2,418	2,212	2,160
Profit for the year						
Continuing operations	1,2	**2,017**	1,762	1,704	1,560	1,417
Discontinued operations	3		(19)	2	26	139
Total profit for the year	1,2	**2,017**	1,743	1,706	1,586	1,556
		pence	pence	pence	pence	pence
Per share data						
Dividend per share	4	**40.40**	38.10	36.10	34.35	32.70
Earnings per share						
Basic						
Continuing operations	1	**76.2**	66.3	64.5	58.0	50.2
Discontinued operations			(0.8)	0.1	1.0	5.2
Basic earnings per share	1	**76.2**	65.5	64.6	59.0	55.4
Diluted						
Continuing operations	1	**76.0**	66.2	64.3	57.6	49.9
Discontinued operations			(0.8)	0.1	1.0	5.1
Diluted earnings per share	1	**76.0**	65.4	64.4	58.6	55.0
		million	million	million	million	million
Average shares		**2,493**	2,486	2,485	2,566	2,688

						As at 30 June
		2011	2010	2009	2008	2007
		£ million	£ million	£ million	£ million	£ million
Balance sheet data						
Total assets	1	**19,777**	19,454	18,018	15,992	13,934
Net borrowings	5	**6,450**	6,954	7,419	6,447	4,845
Equity attributable to the parent company's equity shareholders		**5,245**	4,007	3,169	3,463	3,947
Called up share capital	6	**797**	797	797	816	848
	1					

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Historical information (continued)

Notes to the historical information

1 Accounting policies The consolidated financial statements for the five years ended 30 June 2011 were prepared in accordance with IFRS. The IFRS accounting policies applied by the group to the financial information in this document are presented in 'Accounting policies of the group' in the consolidated financial statements.

2 Exceptional items Exceptional items are charges or credits which, in management's judgment, need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information. Such items are included within the income statement caption to which they relate. An analysis of exceptional items for continuing operations is as follows:

					Year ended 30 June
	2011	**2010**	**2009**	**2008**	**2007**
	£ million	**£ million**	**£ million**	**£ million**	**£ million**
Items included in operating profit					
Restructuring programmes	**(111)**	(142)	(170)	(78)	
Duty settlements	**(127)**				
Brand impairment	**(39)**	(35)			
SEC settlement	**(12)**				
Disposal of Park Royal property					40
	(289)	(177)	(170)	(78)	40
Sale of businesses	**(14)**	(15)		9	(1)
Items included in taxation					
Tax credit on exceptional operating items	**51**	39	37	8	
Tax credit on sale of businesses	**3**	10			
Settlements agreed with tax authorities	**66**		155		
	120	49	192	8	
Exceptional items in continuing operations	**(183)**	(143)	22	(61)	39
Discontinued operations net of taxation		(19)	2	26	139
Exceptional items	**(183)**	(162)	24	(35)	178

3 Discontinued operations In the year ended 30 June 2010 discontinued operations comprise a charge of £19 million in respect of the discounted value of anticipated future payments to new thalidomide claimants. In the years ended 30 June 2009, 30 June 2008 and 30 June 2007 discontinued operations are in respect of the quick service restaurants business (Burger King, sold 13 December 2002) and the packaged food business (Pillsbury sold 31 October 2001).

4 Dividends The board expects that Diageo will pay an interim dividend in April and a final dividend in October of each year. Approximately 40% of the total dividend in respect of any financial year is expected to be paid as an interim dividend and approximately 60% as a final dividend. The payment of any future dividends, subject to shareholder approval, will depend upon Diageo's earnings, financial condition and such other factors as the board deems relevant. Proposed dividends are not considered to be a liability until they are approved by the board for the interim dividend and by the shareholders at the annual general meeting for the final dividend.

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Historical information (continued)

The table below sets out the amounts of interim, final and total cash dividends paid by the company on each ordinary share. The dividends are translated into US dollars per ADS (each ADS representing four ordinary shares) at the noon buying rate on each of the respective dividend payment dates.

		Year ended 30 June				
		2011	**2010**	**2009**	**2008**	**2007**
		pence	**pence**	**pence**	**pence**	**pence**
Per ordinary share	Interim	**15.50**	14.60	13.90	13.20	12.55
	Final	**24.90**	23.50	22.20	21.15	20.15
	Total	**40.40**	38.10	36.10	34.35	32.70
		$	**$**	**$**	**$**	**$**
Per ADS	Interim	**1.02**	0.90	0.82	1.05	0.99
	Final	**1.60**	1.48	1.46	1.46	1.64
	Total	**2.62**	2.38	2.28	2.51	2.63

Note: Subject to shareholders' approval the final dividend for the year ended 30 June 2011 will be paid on 24 October 2011, and payment to US ADR holders will be made on 28 October 2011. In the table above, an exchange rate of £1 = $1.61 has been assumed for this dividend, but the exact amount of the payment to US ADR holders will be determined by the rate of exchange on 24 October 2011.

5 Net borrowings definition Net borrowings are defined as gross borrowings (short term borrowings and long term borrowings plus finance lease liabilities plus interest rate hedging instruments, cross currency interest rate swaps and funding foreign currency forwards and swaps used to manage borrowings) less cash and cash equivalents and other liquid resources.

6 Share capital During the years ended 30 June 2011 and 30 June 2010 the company did not repurchase any ordinary shares for cancellation or to be held as treasury shares (2009 38 million ordinary shares, cost of £354 million; 2008 97 million ordinary shares, cost of £1,008 million; 2007 141 million ordinary shares, cost of £1,405 million).

7 Exchange rates A substantial portion of the group's assets, liabilities, revenues and expenses are denominated in currencies other than pounds sterling. For a discussion of the impact of exchange rate fluctuations on the company's financial condition and results of operations, see 'Business review Risk management'.

The following table shows period end and average US dollar/pound sterling noon buying exchange rates, for the periods indicated, expressed in US dollars per £1.

	Year ended 30 June				
	2011	**2010**	**2009**	**2008**	**2007**
	$	**$**	**$**	**$**	**$**
Year end	**1.61**	1.50	1.65	1.99	2.01
Average rate(a)	**1.59**	1.57	1.60	2.01	1.93

(a) The average of the noon buying rates on the last business day of each month during the year ended 30 June.

Historical information (continued)

The following table shows period end, high, low and average US dollar/pound sterling noon buying exchange rates by month, for the six-month period to 31 August 2011, expressed in US dollars per £1. The information in respect of the month of August is for the period up to and including 31 August 2011.

						2011
	August	July	June	May	April	March
	$	$	$	$	$	$
Month end	1.63	1.64	1.61	1.64	1.67	1.61
Month high	1.66	1.64	1.64	1.67	1.67	1.64
Month low	1.62	1.59	1.60	1.61	1.61	1.60
Average rate(a)	1.64	1.62	1.62	1.63	1.64	1.62

The average exchange rate for period 1 to 7 September 2011 was £1 = $1.61 and the noon buying rate on 7 September was £1 = $1.59.

(a) The average of the noon buying rates on each business day of the month.

(b) These rates have been provided for information only. They are not necessarily the rates that have been used in this document for currency translations or in the preparation of the consolidated financial statements. See note 2(e) to the consolidated financial statements for the actual rates used in the preparation of the consolidated financial statements.

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Business description

Diageo is the world's leading premium drinks business, operating globally across spirits, beer and wine.

Diageo plc is incorporated as a public limited company in England and Wales. Diageo was incorporated as Arthur Guinness Son & Company Limited on 21 October 1886. The group was formed by the merger of Grand Metropolitan Public Limited Company (GrandMet) and Guinness PLC (the Guinness Group) in December 1997. Diageo plc's principal executive office is located at Lakeside Drive, Park Royal, London NW10 7HQ and its telephone number is +44 (0) 20 8978 6000.

Diageo is a major participant in the global beverage alcohol industry, producing and distributing a leading collection of branded premium spirits, beer and wine. It brings together world class brands and a management team that seeks to maximise shareholder value over the long term. The management team expects to continue the strategy of investing behind Diageo's strategic brands, launching innovative new products, and seeking to expand selectively either through partnerships or acquisitions that add long term value for shareholders.

Strategy

Diageo is the leading premium spirits business in the world by volume, by net sales and by operating profit and is one of a small number of premium drinks companies that operate globally across spirits, beer and wine. Diageo creates long term value for shareholders through its outstanding brands, its geographical breadth and the expertise of its people.

Diageo manages a broad range of brands across several categories. It manages eight of the world's top twenty premium spirits brands, including Smirnoff, the number one brand by volume and Johnnie Walker, the number one brand by value. In beer, Diageo owns the only global stout brand, Guinness, and a range of lager brands sold primarily in Africa. Diageo's wine brands are sold predominantly in North America and Great Britain across a full range of price points.

Diageo is a global company with its products sold in more than 180 markets around the world. In the developed markets of North America and Europe, Diageo has built scale and strong routes to market. Diageo is also the number one international spirits company in the emerging markets of Africa, Latin America and Asia. These rapid growth markets now comprise approximately one third of Diageo's net sales, up from 22% in 2005. Through continued organic growth driven by infrastructure investments and targeted acquisitions, these markets are expected to contribute to 50% of Diageo's net sales by 2015.

In the majority of markets, Diageo's brands reach customers and consumers through local teams with strong local expertise and networks. In countries where Diageo has not established its own subsidiary, it looks to expand organically through business partners and third party distributors. Diageo is also committed to explore opportunities to expand geographically through acquisitions, within its financial criteria. The acquisition of companies with strong local routes to market and brands that appeal to the growing number of middle class consumers are particularly appealing. The acquisition of Mey Içki in Turkey and the investment in ShuiJingFang in China are two examples of this strategy in action.

Diageo combines the benefits of global scale with local insights into consumer trends and behaviours to deliver world class marketing campaigns. For example, the Keep Walking campaign on Johnnie Walker has been running globally for over 10 years, based on the universal appeal of personal progress. The marketing campaign is true to this insight although the local creative executions look different around the world. Likewise, consumer insights inform Diageo's innovation launches and

Business description (continued)

pipeline. The premiumisation of scotch to appeal to consumers of luxury brands and the development of ready to serve cocktails as at-home consumption increases have been particularly successful.

Diageo is also focused on driving category growth with its customers through shopper insights. The sales ambition is to win at the point of purchase. The 'Diageo Way of Selling' programme equips four thousand salesmen with best practice tools and processes. It builds capabilities in sales execution, customer service and the efficient use of trade investment so that Diageo becomes an indispensable business partner to its customers.

Market participation Since 2005 up to the year ended 30 June 2011 Diageo managed its business through four regions: North America, Europe, International, and Asia Pacific. The North American region, comprising the United States and Canada, accounts for the largest proportion of Diageo's net sales and operating profit. Europe is comprised of Great Britain, Ireland, Iberia, Northern Europe, Southern Europe, and Russia and Eastern Europe. The International region is made up of three business units: Latin America and the Caribbean (including Mexico), Africa and Global Travel and Middle East (GTME). The Asia Pacific region comprises South Korea, Japan, the People's Republic of China, India and other Asian markets, Australia and New Zealand. In the past financial year roughly two-thirds of net sales were derived from developed markets (mainly North America and Western Europe) and one-third from emerging markets (mainly Latin America and the Caribbean, Africa and Asia Pacific). In 2005 approximately four-fifths of net sales arose in emerging markets and one-fifth in emerging markets.

During the year ended 30 June 2011 the group reviewed its operating model across its businesses and commenced a restructuring programme that is expected to be fully implemented by 30 June 2013. The main objective of the programme is to improve the effectiveness and productivity of the group's operations and to deploy resources closer to the market and in those geographical regions where the potential for growth is greatest. This review will result in changes to the group's regional structure and the way it organises its central functions. The principal countries impacted are the United Kingdom, Ireland and the United States.

On 25 May 2011 Diageo announced that the International region from 1 July 2011 will have two autonomous regions: Diageo Latin America and Diageo Africa. The Global Travel business will be divided and each specific duty free operation will be allocated to the market of the geographic region where it is located. The Middle East business will become part of Asia Pacific.

Product offering Diageo classifies 14 brands as global strategic brands: Johnnie Walker, Smirnoff, Baileys, Crown Royal, Captain Morgan, Jose Cuervo, JεB, Buchanan's, Windsor, Ketel One vodka, Cîroc, Tanqueray, Bushmills and Guinness. These brands are the main focus for the business and 78% of the group's marketing spend supports these brands. In aggregate, for the year ended 30 June 2011, they comprised 66% of Diageo's net sales.

Brand performance for the year ended 30 June 2011 is now reported for the 14 strategic brands above which replaces the brand performance reporting of eight global priority brands disclosed in prior years and reflects the way the brands are managed.

Business effectiveness Over the long term, Diageo's strategy continues to focus on driving growth and increasing shareholder value.

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Business description (continued)

Premium drinks

Diageo is engaged in a broad range of activities within the beverage alcohol industry, with products sold in approximately 180 markets around the world. Its operations include producing, distilling, brewing, bottling, packaging, distributing, developing and marketing a range of brands. Diageo markets a wide range of recognised beverage alcohol brands including a number of the world's leading spirits and beer brands. In calendar year 2010, the Diageo brand range included 17 of the top 100 premium distilled spirits brands worldwide.

References to ready to drink products in this report include progressive adult beverages in the United States and certain markets supplied by the United States.

In the year ended 30 June 2011, Diageo sold 118.6 million equivalent units of spirits (including ready to drink), 25.8 million equivalent units of beer and 3.1 million equivalent units of wine. In the year ended 30 June 2011, ready to drink products contributed 5.7 million equivalent units of total volume, of which Smirnoff ready to drink variants accounted for 3.8 million equivalent units. Volume has been measured on an equivalent units basis to nine-litre cases of spirits. An equivalent unit represents one nine-litre case of spirits, which is approximately 272 servings. A serving comprises 33 ml of spirits, 165 ml of wine, or 330 ml of ready to drink or beer. Therefore, to convert volume of products other than spirits to equivalent units, the following guide has been used: beer in hectolitres divide by 0.9, wine in nine-litre cases divide by five, ready to drink in nine-litre cases divide by 10 and certain pre-mixed products that are classified as ready to drink in nine-litre cases divide by five.

Diageo's portfolio of premium drinks comprises brands owned by the company as a principal and brands held by the company under agency or distribution agreements. Diageo's agency agreements vary depending on the particular brand, but tend to be for a fixed number of years. Diageo's principal agency brand is Jose Cuervo in North America and many other markets (with distribution rights extending to 1 July 2013). Diageo also brews and sells other companies' beer brands under licence, including Budweiser and Carlsberg lagers in Ireland, Heineken lager in Jamaica and Tiger beer in Malaysia. There can be no assurance that Diageo will be able to prevent termination of distribution, manufacturing or licence agreements or to renegotiate distribution, manufacturing or licence agreements on favourable terms when they expire.

Diageo classifies its brands as strategic brands and other brands.

The strategic brands:
Johnnie Walker scotch whiskies
Smirnoff vodka and Smirnoff ready to drink products
Baileys Original Irish Cream liqueur
Crown Royal Canadian whisky
Captain Morgan rum and rum based products
Jose Cuervo tequila (agency brand in North America and many other markets)
JεB scotch whisky
Buchanan's scotch whisky
Windsor Premier scotch whisky
Ketel One vodka (exclusive worldwide distribution rights)
Cîroc vodka
Tanqueray gin
Bushmills Irish whiskey
Guinness stout

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Business description (continued)

Diageo has 14 strategic brands that it markets worldwide. Diageo considers these brands to have the greatest current and future earnings potential. Figures for strategic brands include related ready to drink products, unless otherwise indicated.

In the year ended 30 June 2011, strategic brands accounted for 65% of total volume (95.8 million equivalent units) and contributed net sales of £6,576 million.

Johnnie Walker scotch whiskies comprise Johnnie Walker Red Label, Johnnie Walker Black Label and several other brand variants. During the year ended 30 June 2011, Johnnie Walker Red Label sold 10.9 million equivalent units, Johnnie Walker Black Label sold 6.1 million equivalent units and the remaining variants sold 0.8 million equivalent units. The Johnnie Walker franchise was ranked, by volume, as the number one premium scotch whisky and the number three premium spirit brand in the world.

Smirnoff achieved volume of 28.3 million equivalent units in the year ended 30 June 2011. Smirnoff vodka volume was 24.5 million equivalent units. It was ranked, by volume, as the number one premium vodka and the number one premium spirit brand in the world. Smirnoff ready to drink volume totalled 3.8 million equivalent units.

Baileys was ranked, by volume, as the number one liqueur in the world, having sold 6.8 million equivalent units in the year ended 30 June 2011.

Captain Morgan was ranked number two in the world by volume, amongst its competitive set, the rum category, with volume of 9.1 million equivalent units in the year ended 30 June 2011.

Guinness is the group's only strategic beer brand, and for the year ended 30 June 2011 achieved volume of 11 million equivalent units.

Certain strategic brands were also ranked, by volume, among the leading premium distilled spirits brands by Impact Databank. These include: Jose Cuervo, ranked the number one premium tequila in the world; Crown Royal Canadian whisky, ranked the number one Canadian whisky in the world; Tanqueray gin, ranked the number one imported gin in the United States; and JεB scotch whisky (comprising JεB Rare, JεB Reserve, JεB Manhattan and JεB Jet), ranked the number four premium scotch whisky in the world. During the year ended 30 June 2011, Jose Cuervo, Crown Royal, Tanqueray and JεB sold 4.6 million, 5.1 million, 2.0 million and 4.6 million equivalent units, respectively.

Other strategic brands, Buchanan's, Windsor, Bushmills, Ketel One vodka and Cîroc sold 1.5 million, 1.0 million, 0.6 million, 2.1 million and 1.3 million equivalent units, respectively, in the year ended 30 June 2011.

Other spirits brands include:
Gordon's gin and vodka
Old Parr scotch whisky
Bell's scotch whisky
The Classic Malts scotch whiskies
Seagram's 7 Crown whiskey and Seagram's VO whisky
Cacique rum
White Horse scotch whisky
Don Julio tequila
Bundaberg rum

Business description (continued)

For the year ended 30 June 2011, other spirits brands contributed volume of 33.8 million equivalent units, representing 23% of total Diageo volume, and net sales of £1,684 million.

Other beer brands include:
Malta Guinness non-alcoholic malt
Harp lager
Tusker lager
Smithwick's ale
Senator lager
Red Stripe lager

In the year ended 30 June 2011, Diageo sold 14.8 million equivalent units of beers other than Guinness, achieving net sales of £1,029 million. Other beer volume was mainly attributable to owned brands with a minority being attributable to beers brewed and/or sold under licence, such as Budweiser lager and Carlsberg lager in Ireland, Tiger beer in Malaysia and Heineken lager in Jamaica.

Wine brands include:
Blossom Hill
Sterling Vineyards
Beaulieu Vineyard
Navarro Correas
Acacia Vineyard
Rosenblum Cellars
Piat d'Or
Chalone Vineyard
Santa Rita

For the year ended 30 June 2011, wine volume was 3.1 million equivalent units, contributing net sales of £488 million.

Production Diageo owns 106 production facilities including maltings, distilleries, breweries, packaging plants, maturation warehouses, cooperages, vineyards, wineries and distribution warehouses. Production also occurs at plants owned and operated by third parties and joint ventures at a number of locations internationally.

Approximately 85% of total production is undertaken by Global Supply organised into four production centres, namely Europe Supply, America Supply, Global Beer Supply and Asia Supply. The remaining production activities of the group are integrated with the distribution organisation, principally in Africa within International. The majority of Global Supply's production centres have several production facilities. The locations, principal activities, products, packaging production capacity and packaging production volume of Global Supply's principal production centres in the year ended 30 June 2011 are set out in the table below.

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Business description (continued)

Production centre	Location	Principal products	Production capacity in millions of equivalent units*	Production volume in 2011 in millions of equivalent units
Europe Supply	United Kingdom	Scotch whisky, gin, vodka, rum, ready to drink	81	51
	Ireland (Baileys)	Irish cream liqueur, vodka	13	8
	Italy (Santa Vittoria)	Vodka, wine, rum, ready to drink	10	6
America Supply	United States	Vodka, gin, tequila, rum, wine, American whiskey, progressive adult beverages, ready to drink	37	30
	Canada	Vodka, gin, rum, Canadian whisky	9	9
Global Beer Supply	Ireland (Guinness)	Beer	9	8
	Jamaica	Beer	1	1
Asia Supply	Australia	Rum, vodka, ready to drink	4	3
	Philippines	Whisky, gin, vodka	2	1

* Capacity represents ongoing production capacity at any production centre. The production capacities quoted in the table are based on actual production levels for the year ended 30 June 2011 adjusted for the elimination of unplanned losses and inefficiencies, and taking into account planned manning levels for the coming year.

Spirits are produced in distilleries located worldwide. The group owns 29 scotch whisky distilleries in Scotland, an Irish whiskey distillery in Northern Ireland, two whisky distilleries in Canada, a whisky distillery in the United States and vodka/gin distilleries in the United Kingdom and the United States. Diageo produces Smirnoff vodka internationally, Popov vodka and Gordon's vodka in the United States, and Baileys in the Republic of Ireland and Northern Ireland. Rum is blended and bottled in the United States, Canada, Italy and the United Kingdom, and is distilled, blended and bottled in Australia and Venezuela. All of Diageo's maturing scotch whisky is located in warehouses in Scotland (primarily at Blackgrange), its maturing Canadian whisky in La Salle and Gimli in Canada and all its maturing American whiskey in Kentucky and Tennessee in the United States.

In July 2009, the group announced a restructuring of its operations in Scotland. The plans included the consolidation of distilling, packaging and warehousing activities and involved the closure of a packaging plant, a distillery and a cooperage over a three-year period. Investment is concentrated in the production sites at Leven in Fife where a new packaging facility has become operational in the summer of 2011, at Shieldhall near Glasgow and at a new state of the art cooperage at Cambus near Alloa. The Kilmarnock packaging facility will close in the spring of 2012.

In May 2011 Diageo announced the closure of the Menlo Park bottling plant in California and the specialty product building at the Relay plant in Maryland, in the United States. New investment will be made in the North American spirits supply chain over the next 18 months principally in the packaging plants at Plainfield in Illinois and Relay in Maryland.

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Business description (continued)

In the year ended 30 June 2010 Diageo also announced the closure of the Dorval bottling plant in Quebec Canada with the production moved to Delta Beverages in Woodbridge, Ontario. In addition, a restructuring of the Daventry distribution centre in the United Kingdom was announced in 2010.

In June 2008, Diageo and the government of the US Virgin Islands announced a public/private initiative for the construction and operation of a high capacity distillery in St Croix. This new facility became operational in November 2010 and has the capacity to distil up to 13 million equivalent units annually and will supply all bulk rum used to produce Captain Morgan branded products for the United States.

Diageo produces a range of ready to drink products mainly in the United Kingdom, Italy, South Africa, Australia, the United States and Canada.

Diageo's principal brewing facilities are at the St James's Gate brewery in Dublin and in Kilkenny, Waterford and Dundalk in the Republic of Ireland, and in Nigeria, Kenya, Ghana, Cameroon, Tanzania, Malaysia and Jamaica. Ireland is the main exporter of the Guinness brand. In other countries, Guinness is brewed by third parties under licence arrangements. In addition, Diageo owns a 25% equity interest in Sedibeng brewery in South Africa.

All Guinness Draught production is at the St James's Gate brewery in Dublin in the Republic of Ireland. Guinness Draught in cans and bottles is packaged at Runcorn and Belfast in the United Kingdom. The Runcorn facility performs the kegging of Guinness Draught, transported to the United Kingdom in bulk for the Great Britain market.

Diageo announced the restructuring of its brewing operations in Ireland in 2008 with the intention of consolidating operations to a new greenfield brewery in the Dublin area and decommissioning the existing brewing infrastructure. The project was reviewed in 2009 due to the changing economic conditions both globally and locally in Ireland. A review of options continued in 2011 to examine the desirability of network consolidation. The project remains under review and a business case for investment behind consolidation is being developed for approval.

Diageo's principal wineries are in the United States and Argentina. For European markets, wines are mainly bottled in Diageo's facilities in Italy. Wines are sold both in their local markets and overseas.

Property, plant and equipment Diageo owns or leases land and buildings throughout the world. The principal production facilities are described above. As at 30 June 2011, Diageo's land and buildings are included in the group's consolidated balance sheet at a net book value of £734 million. Diageo's two largest individual facilities, in terms of book value, are Leven bottling and blending facility in Scotland and St James's Gate brewery in Dublin. Diageo's properties are primarily a variety of manufacturing, distilling, brewing, bottling and administration facilities spread across the group's worldwide operations, as well as vineyards and wineries in the United States. Approximately 40%, 20% and 19% of the book value of Diageo's land and buildings comprise properties located in Great Britain, Ireland and the United States, respectively. Approximately 90% by value of the group's properties are owned and approximately 3% are held under leases running for 50 years or longer.

During the years ended 30 June 2011 and 30 June 2010 a number of vineyards and facilities located in Napa Valley, California were purchased and leased back to Diageo under a 20-year lease, with Diageo holding options to extend the lease at fair value for up to 80 years in total. Diageo remains the operator of the properties under the lease agreement and retains ownership of the brands, vines and grapes, which remain a strategic part of Diageo's wine business.

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Business description (continued)

Raw materials and supply agreements The group has a number of long term contracts in place for the purchase of significant raw materials including glass, other packaging, tequila, bulk whisky, neutral spirits, cream, rum and grapes. In addition, forward contracts are in place for the purchase of other raw materials including sugar and cereals to minimise the effects of short term price fluctuations.

Cream is the principal raw material used in the production of Irish cream liqueur and is sourced from Ireland. Grapes are used in the production of wine and are sourced from suppliers in the United States and Argentina. Other raw materials purchased in significant quantities for the production of spirits and beer are tequila, bulk whisky, neutral spirits, molasses, rum, cereals, sugar and a number of flavours (such as juniper berries, agave, chocolate and herbs). These are sourced from suppliers around the world.

The majority of products are supplied to customers in glass bottles. Glass is purchased from suppliers located around the world, the principal supplier being the Owens Illinois group.

Diageo has a supply agreement with Casa Cuervo SA de CV, a Mexican company, for the supply of bulk tequila used to make the Jose Cuervo line of tequilas and tequila drinks in the United States. The supply agreement extends to June 2013.

Diageo has a supply agreement with Destilería Serrallés Inc, a Puerto Rican corporation, under which Diageo purchases all bulk rum for use in Captain Morgan products sold in the United States. Diageo and Destilería Serrallés Inc have agreed that this supply agreement will terminate with effect from the end of December 2011, from which time Diageo intends to source rum for its Captain Morgan products from the Diageo distillery that has recently been constructed in the US Virgin Islands.

Diageo has an exclusive and perpetual supply agreement with the Nolet Group, a Dutch company, for the supply of Ketel One vodka.

Marketing and distribution Diageo is committed to investing in its brands. In the year ended 30 June 2011, £1,538 million was spent worldwide on marketing brands with a focus on the fourteen strategic brands that accounted for 78% of total marketing spend.

Diageo makes extensive use of magazine, newspaper, point of sale and poster and billboard advertising, and uses radio, cinema, television and internet advertising where appropriate and permitted by law to engage with consumers and customers. Diageo runs consumer promotional programmes in the on trade (for example, licensed bars and restaurants) and supports customers in both the on and off trades with shopper/consumer promotions. Sponsorship is utilised in brand marketing with Diageo currently active in the sponsorship of the Vodafone McLaren Mercedes Formula One Team, a NASCAR racing team and the Johnnie Walker golf championships.

Business analysis In the year ended 30 June 2011, North America, Europe, International and Asia Pacific contributed 41%, 26%, 26% and 7%, respectively, of the group's operating profit before exceptional items and corporate costs.

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Business description (continued)

An analysis of net sales and operating profit by operating segment for the year ended 30 June 2011 is set out in the table below.

	2011			2010		
	Net sales	Operating profit/(loss) before exceptional items	Operating profit/(loss)	Net sales	Operating profit/(loss) before exceptional items	Operating profit/(loss)
	£ million	£ million	£ million	£ million	£ million	£ million
North America	**3,324**	**1,255**	**1,232**	3,306	1,170	1,132
Europe	**2,614**	**778**	**621**	2,759	859	806
International	**2,747**	**804**	**791**	2,627	771	766
Asia Pacific	**1,181**	**208**	**158**	1,018	176	146
Global Supply			**(35)**			(39)
Corporate	**70**	**(161)**	**(172)**	70	(225)	(237)
Total	**9,936**	**2,884**	**2,595**	9,780	2,751	2,574

North America North America is the largest market for Diageo in terms of operating profit, and the largest market for premium drinks in the world. In the year ended 30 June 2011 Diageo marketed its products through four units: US Spirits, Diageo Chateau & Estate Wines, Diageo-Guinness USA and Diageo Canada. For the year ending 30 June 2012 North America will include the North American operations of Global Travel.

The US Spirits business, while managed as a single business unit, executes sales and marketing activities through 14 teams or clusters. National brand strategy and strategic accounts marketing are managed at the corporate North America level. The spirits clusters market the majority of Diageo's collection of spirits brands (including Smirnoff vodka, Baileys Original Irish Cream liqueur, Jose Cuervo tequila, Johnnie Walker scotch whisky, Captain Morgan, Tanqueray gin, JεB scotch whisky, Crown Royal Canadian whisky, Seagram's 7 Crown American whiskey, Seagram's VO Canadian whisky, Buchanan's scotch whisky, Ketel One vodka and Cîroc vodka) across the United States.

Diageo Chateau & Estate Wines (DC&E) owns, leases and operates wineries in California (including Beaulieu Vineyard, Sterling Vineyards, Chalone Vineyard, Acacia, Rosenblum and Provenance Vineyards) and markets these and other wines across the United States. Over the last 12 months, DC&E completed its rationalisation strategy and disposed of its vineyards and facilities at Canoe Ridge, Echelon, Edna Valley, Sagelands and Moon Mountain and disposed of other brands and assets. Diageo-Guinness USA markets Diageo's US beer brands (including Guinness stout, Harp lager, Red Stripe lager and Smithwick's ale) as well as the group's progressive adult beverages (including Smirnoff Ice, Smirnoff premium mixed drinks, Captain Morgan Parrot Bay Tropical Malt Beverage and Jeremiah Weed ready to drink).

The Canada business unit distributes the group's collection of spirits, wine and beer brands across all Canadian territories. Within the United States, there are generally two types of regulatory environments: open states and control states. In open states, spirits companies are allowed to sell spirits, wine and beer directly to independent distributors. In these open states, Diageo generally trades through a three-tier distribution system, where the product is initially sold to distributors, who then sell it to on and off trade retailers. In most control states, Diageo markets its spirits products to state liquor control boards through the bailment warehousing system, and from there to state or agency liquor stores. There are variations for example, certain states control distribution but not retail sales.

Business description (continued)

Generally, wines are treated in the same way as spirits, although most states that are control states for spirits are open states for wines. Beer distribution generally follows open states regulation across the United States. In Canada, beer and spirits distribution laws are generally consistent and similar to those of control states in the United States. Diageo, however, has some licences to deliver keg beer directly to licensed accounts, which account for approximately 20% of Diageo's beer business in Canada.

Across the United States, Diageo's distributors and brokers have over 2,800 dedicated sales people focused on selling its spirits and wine brands. Diageo has pursued a distribution strategy centred around consolidating the distribution of Diageo's US spirits and wine brands into a single distributor or broker in each state where possible. The strategy is designed to provide a consolidated distribution network, which will limit the duplication of activities between Diageo and the distributor, improve Diageo's and distributors' selling capabilities and enable a number of alternative approaches to optimise product distribution. To date, Diageo has consolidated its business in 41 markets (40 states plus Washington DC), representing over 80% of Diageo's US spirits and wine volume. The remaining states will be consolidated as opportunities arise. Diageo is now focused on building the capabilities and selling tools of the distributors' dedicated sales forces and creating a more efficient and effective value chain.

Europe In the year ended 30 June 2011 Diageo Europe comprised six units: Great Britain, Ireland, Iberia, Northern Europe, Southern Europe, and Russia and Eastern Europe. For the year ending 30 June 2012 Europe will comprise four units: Western Europe, Russia and Eastern Europe, Turkey and the European operations of Global Travel.

In Great Britain, Diageo sells and markets its products via three business units: Diageo GB (spirits, beer and ready to drink), Percy Fox & Co (wines) and Justerini & Brooks Retail (private client wines). Products are distributed both through independent wholesalers and directly to the major grocers, convenience and specialist stores. In the on trade (for example, licensed bars and restaurants), products are sold through the major brewers, multiple retail groups and smaller regional independent brewers and wholesalers. The customer base in Great Britain has seen consolidation in recent years in both the on trade and home consumption channels. In particular, Great Britain's top four national multiple grocers together make up over 60% of home consumption total spirits volume.

Ireland comprises the Republic of Ireland and Northern Ireland. In both territories, Diageo sells and distributes directly to both the on trade and the off trade (for example, retail shops and wholesalers) through a telesales operation, extensive sales calls to outlets and third party logistics providers. The Guinness, Smirnoff and Baileys brands are market leaders in their respective categories of long alcoholic drinks, vodka and liqueurs. Budweiser and Carlsberg lagers, also major products in the Diageo collection of brands in Ireland, are brewed and sold under licence in addition to Smithwick's ale and Harp lager.

In Russia, Diageo operates through its wholly owned subsidiary.

Across the remainder of mainland Europe, Diageo distributes its spirits brands primarily through its own distribution companies with the following exceptions. In France Diageo sells its spirits and wine products through a joint arrangement with Moët Hennessy, and its beer products through Brasseries Kronenbourg (part of the Carlsberg group). In Hungary Diageo sells its brands through its associate company Zwack. In the Baltic states, Czech Republic, Slovakia, Romania, Bulgaria, Cyprus, Malta, various territories in the Balkans, CIS and Israel, Diageo sells and markets its brands via local distributors. In the Nordic countries Diageo has sales offices in Sweden, Norway and Denmark, and representation through third party distributors in Finland and Iceland. In all Nordic markets except

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Business description (continued)

Denmark, off trade sales are controlled by state monopolies, with alcohol tax rates among the highest in the world, and border trade and duty free are important sources of sales. Smirnoff Ice is sold in Nordic countries through Carlsberg.

A specialist unit has been established for the distribution of Diageo's beer brands in mainland Europe in order to achieve synergies in the marketing and distribution of Guinness and Kilkenny brands. The distribution of these brands is managed by this specialist unit with particular focus on the markets in Germany, Russia and France, which are the largest mainland European beer markets by size for Diageo.

International In the year ended 30 June 2011 Diageo International comprised Latin America and the Caribbean (including Mexico), Africa (excluding North Africa) and Global Travel and Middle East business (including North Africa). For the year ending 30 June 2012 Latin America and the Caribbean and Africa will be reported separately, Global Travel will be included in the geographical regions where the individual operations are located and the Middle East will become part of Asia Pacific.

In Latin America and the Caribbean, distribution is achieved through a mixture of Diageo companies and third party distributors. In addition, Diageo owns a controlling interest in Desnoes & Geddes Limited, the Jamaican brewer of Red Stripe lager.

Africa provides some of the longest established and largest markets for the Guinness brand, with the brewing of Guinness Foreign Extra Stout in a number of African countries, either through subsidiaries or under licence. Diageo has a three-way venture with Heineken and Namibia Breweries Limited in South Africa for a combined beer, cider and ready to drink collection of brands. Diageo also has a 25% equity interest in a venture with Heineken which owns a brewery in Gauteng, South Africa. Diageo has a wholly owned brewery in Cameroon and also has majority owned breweries in Nigeria, Kenya, Tanzania, Ghana, Uganda and the Seychelles.

Global Travel and Middle East encompasses a sales and marketing organisation which targets the international consumer in duty free and travel retail outlets such as airport shops, airlines and ferries around the world, and distribution of Diageo brands in the Middle East and North Africa. The global nature of the travel channel and its organization structure allows a specialist Diageo management team to apply a co-ordinated approach to brand building initiatives and to build on consumer insights in this trade channel, where consumer behaviour tends to be different from domestic markets. In the Middle East and North Africa, distribution is achieved through third party distributors. Lebanon is an exception, where a Diageo subsidiary distributes the majority of the Diageo brands sold there.

Asia Pacific In the year ended 30 June 2011, Diageo Asia Pacific comprised India, the People's Republic of China, South Korea, Japan, Thailand, Vietnam, Singapore, Malaysia and other Asian markets, Australia and New Zealand. For the year ending 30 June 2012, Asia Pacific will also comprise the Middle East business and Global Travel operations that are located in that region.

In China, Hong Kong and Macau Diageo distributes the majority of its spirit brands through a joint venture arrangement with Moët Hennessy. Diageo has a wholly owned subsidiary in China for brands not included in the joint venture such as Smirnoff, Windsor and Baileys. On 14 July 2011, Diageo acquired an additional 4% equity stake in Sichuan Chengdu Quanxing Company Ltd. (Quanxing) from Chengdu Yingsheng Investment Holding Co., Ltd. bringing the equity stake owned by Diageo to 53%. Quanxing is a holding company controlling a 39.7% equity stake in Sichuan ShuiJingFang Co., Ltd (ShuiJingFang), a super premium Chinese white spirits company listed on the Shanghai Stock Exchange. Diageo is the sole distributor of ShuiJingFang's Chinese white spirits outside of China.

Business description (continued)

Diageo works with a number of joint venture partners in Asia Pacific. In Thailand, Malaysia and Singapore, Diageo distributes the majority of its spirits brands through joint venture arrangements with Moët Hennessy.

In South Korea, India, Vietnam and Taiwan, Diageo's own distribution companies distribute the majority of Diageo's brands. In Vietnam, Diageo entered into a strategic partnership agreement with Hanoi Liquor Joint Stock Company (Halico) in January 2011. In addition, Diageo acquired a 24.9% equity stake in Halico from VinaCapital Vietnam Opportunity Fund Limited, for £34 million.

In Japan, the joint venture with Moët Hennessy distributes super premium brands, such as the super deluxe variants of Johnnie Walker, while the joint venture with Kirin distributes Diageo's other premium spirits such as Johnnie Walker Black Label and Smirnoff, as well as Guinness and Smirnoff Ice. Other spirit brands, which are not distributed by either Moët Hennessy or the Kirin joint venture, are distributed by third parties.

In Indonesia, Guinness is brewed by PT Multi Bintang Indonesia (MBI), and is distributed through a distribution agreement with PT Dima Indonesia while spirit brands are distributed by government licensed distributors. In the Philippines, Diageo Philippines Inc, a 51% Diageo owned joint venture, distributes the brands. In Malaysia, Diageo's own and third party beers are brewed and distributed by a listed business (Guinness Anchor Berhad) in which Diageo and its partner, Asia Pacific Breweries, have a majority share through a jointly controlled entity. In Singapore, Diageo's beer brands are brewed and distributed by Asia Pacific Breweries.

The remaining markets in Asia are generally served by third party distribution networks monitored by regional offices.

In Australia, Diageo has its own production and distribution company, which handles the majority of products sold in the Australian market. It also has production and distribution arrangements with VOK Beverages and a licensed brewing arrangement with Foster's. In New Zealand, Diageo operates through third party distributors and has a licensed brewing arrangement with Lion Nathan.

Global Supply Global Supply is responsible for the production of approximately 85% of Diageo's products sold globally, for sourcing materials and services through global procurement, for providing consistent technical support through the global technical function and providing logistic and customer services through the global supply chain organisation.

Production is managed by four Global Supply production centres, Europe Supply, America Supply, Global Beer Supply and Asia Supply. Europe Supply comprises Scotland (scotch whisky, gin, vodka, rum and ready to drink), Baileys Ireland (Irish cream liqueur and vodka) and Santa Vittoria Italy (vodka, wine, rum and ready to drink), all producing goods for markets globally. America Supply comprises North America Spirits Supply located in the United States and Canada (vodka, gin, tequila, rum, Canadian whisky, American whiskey, progressive adult beverages, wine and ready to drink) with domestic distribution, Venezuela (rum), US Virgin Islands (rum) and North America wines. Global Beer Supply produces Guinness and other beers in Ireland distributed primarily in Europe and North America and beer in Jamaica. Asia Supply comprises Singapore (Baileys and scotch whisky packaging), the Philippines and Australia (rum, vodka and ready to drink).

Global Procurement has responsibility for sourcing goods and services on behalf of the Diageo group.

A global network of suppliers provides for a wide range of raw materials and packaging items that are necessary to ensure consistency of quality to support the brands. With the high level of dependency

Business description (continued)

on agricultural commodities such as cereals, hops, agave and sugar, forward-buying takes place to minimise value at risk. In marketing, global procurement supports the business in sourcing creative media solutions, sponsorship and point of sale activities. Global Procurement also supports business services, facilities and computer services.

The global technical function develops and implements consistent engineering solutions across the Global Supply organisation and in other production sites in Africa and Asia. The global supply chain function also provides logistics services in Europe and is responsible for a consistent customer service globally.

Corporate Corporate costs which cannot be directly allocated to the business areas are reported separately within Corporate in the analysis of business performance. Also included in Corporate are the revenues and costs related to rents receivable in respect of properties not used by Diageo in the manufacture, sale or distribution of premium drink products and the results of Gleneagles Hotel.

Seasonal impacts The festive holiday season provides the peak period for sales. Approximately 40% of annual net sales occur in the last four months of each calendar year.

Employees Diageo's people, its culture and its values are at the heart of the company's strategy and Diageo's directors believe this to be a source of competitive advantage. It continues to be Diageo's goal to release the potential of all of its people.

Diageo aims to be amongst the most admired companies in all key geographies. Consistent with this, Diageo participated in independent surveys during the year and is currently rated in the top 10 employers in eight of its key markets. Further to this aim, Diageo endeavours to create a workplace that is both welcoming and challenging for all employees. Diageo values diversity in its workforce and works to ensure that the group is inclusive of all people, regardless of their background or style. To enhance diversity, Diageo aims to create opportunities that are attractive to a wide range of candidates, including those with disabilities, and seeks to make working for Diageo compatible with a variety of lifestyles. Diageo sponsors an ever growing number of employee networks around the world that seek to support diverse interest groups. The company also seeks to design and adjust roles to accommodate people's lifestyles, and increasingly encourages flexible working. Not only is this approach to inclusion and diversity consistent with Diageo's values, it is also believed to be important for the long term health of the organisation. As part of Diageo's global policies, Diageo emphasises the importance of treating individuals justly and in a non-discriminatory manner in all aspects of employment, including recruitment, compensation and benefits, training, promotion, transfer and termination. Accordingly, factors not relevant to the requirements of a role, including without limitation race, religion, colour, ethnic or national origin, disability, sexual orientation, gender or marital status, are not considered, and reasonable adjustments are considered (and if necessary appropriate training provided) so that no individual is disadvantaged.

Diageo strongly believes in the value of its employees sharing in the company's success and actively encourage employees to become shareholders. The group seeks out opportunities to extend employee share ownership around the world and in 2011 31 countries operated an all employee share plan. A further two countries will be invited to participate in Diageo's International Sharematch Plan later this year. This, combined with existing employee share plans, will further extend the opportunity to the majority of employees across a significant number of Diageo's markets to share in the company's growth and success. As at 30 June 2011, 16,057 past and present employees held 1.17% (2010 0.74%) of Diageo's ordinary issued share capital.

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Business description (continued)

Diageo strives to keep its employees well informed on and engaged with the company's strategy and business goals as a high priority, focusing on dialogue and consultation (both formal and informal) on changes that affect its employees.

	2011	2010	2009
Average number of employees			
North America	**1,690**	1,615	2,258
Europe	**2,912**	3,007	3,253
International	**5,867**	5,097	4,952
Asia Pacific	**2,705**	2,636	2,668
Global Supply	**7,802**	8,171	8,116
Corporate and other	**2,810**	2,761	2,792
	23,786	23,287	24,039

Supply operations of the US wines business were transferred from North America to Global Supply in the year ended 30 June 2010.

Competition Diageo competes on the basis of consumer loyalty, quality and price.

In spirits, Diageo's major global competitors are Pernod Ricard, Bacardi, Fortune Brands and Brown-Forman, each of which has several brands that compete directly with Diageo brands. In addition, Diageo faces competition from local and regional companies in the countries in which it operates.

In beer, the Guinness brand competes globally as well as on a regional and local basis (with the profile varying between regions) with several competitors, including AB InBev, Heineken, SABMiller, Coors Brewing (Carling) and Carlsberg.

In wine, the market is fragmented with many producers and distributors.

Research and development The overall nature of the group's business does not demand substantial expenditure on research and development. However, the group has ongoing programmes for developing new drinks products. Innovation forms an important part of Diageo's growth strategy, playing a key role in positioning its brands for continued growth. The strength and depth of Diageo's brand range provide solid platforms from which to drive innovation, while insights into shopper trends and changing consumer habits inform product and packaging development.

In the year ended 30 June 2011, the group's research and development expenditure amounted to £17 million (2010 £13 million; 2009 £17 million). Research and development expenditure is generally written off in the year in which it is incurred.

Trademarks Diageo produces, sells and distributes branded goods and is therefore substantially dependent on the maintenance and protection of its trademarks. All brand names mentioned in this document are trademarks. The group also holds numerous licences and trade secrets, as well as having substantial trade knowledge related to its products. The group believes that its significant trademarks are registered and/or otherwise protected (insofar as legal protections are available) in all material respects in its most important markets. Diageo also owns valuable patents and trade secrets for technology and takes all reasonable steps to protect these rights.

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Business description (continued)

Regulations and taxes Diageo's worldwide operations are subject to extensive regulatory requirements regarding production, product liability, distribution, importation, marketing, promotion, sales, pricing, labelling, packaging, advertising, labour, pensions, compliance and control systems and environmental issues. In the United States, the beverage alcohol industry is subject to strict federal and state government regulations covering virtually every aspect of its operations, including production, distribution, marketing, promotion, sales, pricing, labelling, packaging and advertising.

Spirits, beer and wine are subject to national import and excise duties in many markets around the world. Most countries impose excise duties on beverage alcohol products, although the form of such taxation varies significantly from a simple application to units of alcohol by volume, to advanced systems based on imported or wholesale value of the product. Several countries impose additional import duty on distilled spirits, often discriminating between categories (such as scotch whisky or bourbon) in the rate of such tariffs. Within the European Union, such products are subject to different rates of excise duty in each country, but within an overall European Union framework, there are minimum rates of excise duties that can be applied.

Import and excise duties can have a significant impact on the final pricing of Diageo's products to consumers. These duties have an impact on the competitive position as compared to other brands. The group devotes resources to encouraging the equitable taxation treatment of all beverage alcohol categories and to reducing government-imposed barriers to fair trading.

Advertising, marketing and sales of alcohol are subject to various restrictions in markets around the world. These range from a complete prohibition of alcohol in certain countries and cultures, through the prohibition of the import of spirits, wine and beer, to restrictions on the advertising style, media and messages used. In a number of countries, television is a prohibited medium for spirits brands and in other countries, television advertising, while permitted, is carefully regulated.

Spirits, beer and wine are also regulated in distribution. In many countries, alcohol may only be sold through licensed outlets, both on and off trade, varying from government or state operated monopoly outlets (for example, Canada, Norway and certain US states) to the common system of licensed on trade outlets (for example, licensed bars and restaurants) which prevails in much of the western world (for example, most US states and the European Union). In about one-third of the states in the United States, price changes must be filed or published 30 days to three months, depending on the state, before they become effective.

Labelling of beverage alcohol products is also regulated in many markets, varying from health warning labels to importer identification, alcohol strength and other consumer information. As well as producer, importer or bottler identification, specific warning statements related to the risks of drinking beverage alcohol products are required to be included on all beverage alcohol products sold in the United States and in other countries where Diageo operates. Expressions of political concern signify the uncertain future of beverage alcohol products advertising on network television in the United States. Any prohibitions on advertising or marketing could have an adverse impact on sales of the group.

Regulatory decisions and changes in the legal and regulatory environment could increase Diageo's costs and liabilities or impact on its business activities.

Business services Diageo continues to standardise its key business activities with customers, consumers, suppliers and the processes that summarise and report financial performance. In that regard, global processes have been designed, built and implemented across a number of markets and operational entities.

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Business description (continued)

Diageo uses shared services operations to deliver transaction processing and certain central finance activities, using captive and outsourced centres. A captive business service centre in Budapest, Hungary, performs various process tasks for markets and operational entities. Diageo uses third party service centres in Manila, Shanghai and Bucharest to perform these tasks for basic processes. Certain central finance activities, including elements of group financial planning and reporting and treasury, are performed in the business service centre in Budapest.

Associates Diageo's principal associate is Moët Hennessy. It also owns shares in a number of other associates. In the year ended 30 June 2011, the share of profits of associates after tax was £176 million (2010 £142 million; 2009 £164 million), of which Moët Hennessy accounted for £179 million (2010 £134 million; 2009 £151 million).

Diageo owns 34% of Moët Hennessy, the spirits and wine subsidiary of LVMH Moët Hennessy Louis Vuitton SA (LVMH). LVMH is based in France and is listed on the Paris Stock Exchange. Moët Hennessy is also based in France and is a producer and exporter of a number of brands in its main business areas of champagne and cognac. Its principal champagne brands are Moët & Chandon (including Dom Pérignon), Veuve Clicquot and Mercier, all of which are included in the top 10 champagne brands worldwide by volume. Moët Hennessy also owns Hennessy, which is the top cognac brand worldwide by volume, and Glenmorangie, a malt whisky.

Since 1987, a number of joint distribution arrangements have been established with LVMH, principally covering distribution of Diageo's premium brands of scotch whisky and gin and Moët Hennessy's premium champagne and cognac brands in the Asia Pacific region and France. Diageo and LVMH have each undertaken not to engage in any champagne or cognac activities competing with those of Moët Hennessy. The arrangements also contain certain provisions for the protection of Diageo as a minority shareholder in Moët Hennessy. The operations of Moët Hennessy in France are conducted through a partnership in which Diageo has a 34% interest and, as a partner, Diageo pays any tax due on its share of the results of the partnership to the tax authorities.

Acquisitions and disposals Diageo has made a number of acquisitions of brands, distribution rights and equity interests in premium drinks businesses. In the three years ended 30 June 2011 acquisitions include the following:

On 17 December 2008 Diageo purchased the remaining 25% equity stake in the company that owns the Smirnov brand in Russia for £35 million. This company unites the Smirnoff/Smirnov brands in Russia under common ownership and is the exclusive distributor of Smirnov and Diageo's spirits brands in Russia. Diageo currently operates in Russia through this wholly owned subsidiary.

On 16 June 2009, Diageo acquired the remaining 80% of equity in Stirrings LLC for £6 million and provided £7 million as deferred consideration payable in 2014.

On 29 June 2010, Diageo acquired an additional 28.75% equity stake in the London Group, owner of the Nuvo brand, an ultra-premium vodka-based sparkling liqueur, for a consideration of $45 million (£29 million). This increased Diageo's equity stake in London Group to 71.25%. Diageo has an obligation to purchase the remaining equity stake of 28.75% at a pre-agreed profit multiple, reflecting fair value in 2013.

On 30 September 2010, Diageo acquired a 20% equity stake in LNJ Group, LLC, owner of the 22 Marquis brand, a sparkling liqueur, for a consideration of $10 million (£6 million). Depending on the performance of the brand in the next three years Diageo has a contractual right to increase its

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Business description (continued)

ownership to 50% without additional consideration. Diageo also has an option to purchase the remaining 50% equity stake at a pre-agreed profit multiple, reflecting fair value in 2014.

On 22 October 2010, Diageo completed the acquisition of a 51% equity stake in Serengeti Breweries Limited (SBL), a beer business based in Tanzania. SBL owns the Premium Serengeti Lager brand and a number of other brands and three breweries in Tanzania. The enterprise value was £60 million including borrowings acquired of £22 million. The acquisition price included deferred consideration of £6 million. Transaction costs of £2 million were incurred during the year ended 30 June 2011 (2010 £5 million). Diageo owns SBL through its 50.03% subsidiary East African Breweries Limited (EABL) and consolidates 100% of SBL with a 75% non-controlling interest. Diageo has a call option for the remaining 49% equity of SBL exercisable in 2013, calculated on a profit multiple of SBL.

On 13 May 2011, Diageo acquired an 18.67% equity stake in Halico, the largest domestic branded spirits producer in Vietnam, for a consideration of VND 798 billion (£24 million). The purchase of a further 6.26% equity stake in Halico was completed on 26 May 2011 for a consideration of VND 268 billion (£8 million). Additional costs of £2 million in respect of the acquisition have been incurred in the year ended 30 June 2011 (2010 £1 million).

On 5 July 2011, Diageo completed the acquisition of a 50% equity controlling stake in Rum Creations Products Inc (RCP), the owner of the Zacapa rum brand, from Industrias Licoreras de Guatemala (ILG) for a consideration of $225 million (£140 million) (including $35 million of deferred compensation). ILG has a put option to sell the remaining 50% equity stake exercisable from 2016 calculated on a profit multiple. In addition, the transaction provided Diageo with perpetual global distribution rights for Zacapa rum, excluding distribution in Guatemala and the domestic markets of El Salvador, Honduras, Nicaragua, Costa Rica, Belize and Panama. Diageo will consolidate the results of RCP.

On 14 July 2011, Diageo acquired an additional 4% equity stake in Sichuan Chengdu Quanxing Group Company Ltd. (Quanxing) from Chengdu Yingsheng Investment Holding Co., Ltd. The consideration for the additional 4% equity stake was RMB 140 million (£13 million). The acquisition of the 4% equity stake brings Diageo's shareholding in Quanxing to 53%. Quanxing is a holding company controlling a 39.7% equity stake in Sichuan ShuiJingFang Co., Ltd. (ShuiJingFang), a super premium Chinese white spirits company listed on the Shanghai Stock Exchange. Diageo has become the indirect largest shareholder of ShuiJingFang and, in accordance with Chinese takeover regulations and, subject to securing the approval of the China Securities Regulatory Commission (CSRC), expects to make a mandatory tender offer to all the other shareholders of ShuiJingFang. The tender offer is expected to be completed by the end of the calendar year. Were all other ShuiJingFang shareholders to accept the tender offer, the amount payable would be RMB 6.3 billion (£606 million). As required by Chinese law, 20% of the maximum consideration payable under the tender offer (£119 million) was deposited with China's securities depositary and clearing agency, Shanghai branch in the year ended 30 June 2010. Quanxing was accounted for as an associate up to 14 July 2011 but following the acquisition of the additional 4% equity stake it became a subsidiary with a 47% non-controlling interest.

On 6 June 2011 Diageo agreed to purchase SABMiller Africa BV's 20% equity stake in Kenya Breweries Limited (KBL) through its 50.03% subsidiary, EABL, for cash consideration of the US dollar equivalent of 19.5 billion Kenyan shillings at completion (£136 million). The acquisition is dependent on EABL disposing of its 20% equity stake in Tanzania Breweries Limited by way of public offer. Currently EABL owns an 80% equity stake in KBL. KBL has terminated a brewing and distribution agreement with SABMiller International BV and has ceased to distribute SABMiller's brands in Kenya.

Business description (continued)

On 23 August 2011, having received the necessary regulatory clearances, Diageo completed the acquisition of Mey Içki Sanayi VE Ticaret A.S. (Mey Içki) from TPG Capital and the Actera group. The Turkish Competition Authority clearance is conditional upon the subsequent disposal of the Mey Içki brands Hare liqueur and Maestro gin. Diageo anticipates that these disposals will be completed in the year ending 30 June 2012. Mey Içki is the leading producer and distributor of raki in Turkey and also owns other brands including vodka and wine brands. Mey Içki will be fully consolidated and transforms Diageo's existing position in this fast growing spirits market. In the year ended 31 December 2010 Mey Içki had net sales of TRL766 million. The enterprise value for the acquisition is $2.1 billion (£1.3 billion).

During the year ended 30 June 2011 a number of non-strategic wine businesses were sold in the United States and France as part of the restructuring of the US wine operations. In addition, in the year ended 30 June 2011 the group disposed of the Gilbeys wine distribution and wholesale drinks business in Ireland.

Risk factors

Diageo believes the following to be the principal risks and uncertainties facing the group. If any of these risks occur, Diageo's business, financial condition and results of operations could suffer and the trading price and liquidity of securities could decline.

In the ongoing uncertain economic environment, certain risks may gain more prominence either individually or when taken together. The following are examples of ways that any of the risks below may become exacerbated. Demand for beverage alcohol products, in particular luxury or super premium products, may decrease with a reduction in consumer spending levels. Costs of operations may increase if inflation were to become prevalent in the economic environment, or upon an increase in the costs of raw materials. These factors may also lead to intensified competition for market share, with consequential potential adverse effects on volumes and prices. The financial and economic situation may have a negative impact on third parties with whom Diageo does, or may do, business. Any of these factors may affect the group's results of operations, financial condition and liquidity. Diageo has taken and may take steps to manage its business through this challenging economic environment and position its business to benefit from economic recovery as and when it may occur in the various markets in which Diageo operates, but there can be no assurance that the steps taken will have the intended results.

If there is an extended period of constraint in the capital markets, with debt markets in particular experiencing a lack of liquidity, at a time when cash flows from Diageo's business may be under pressure, this may have an impact on Diageo's ability to maintain current long term strategies, with a consequent effect on the group's growth rate. Such developments may adversely affect shareholder returns or share price. Additionally, continued volatility in exchange rates used to translate foreign currencies into pounds sterling may have a significant impact on Diageo's reported results. Decreases in the trustees' valuations of Diageo's pension plans may also increase pension funding requirements.

Diageo faces competition that may reduce its market share and margins Diageo faces substantial competition from several international companies as well as local and regional companies in the countries in which it operates. Diageo competes with drinks companies across a wide range of consumer drinking occasions. Within a number of categories, consolidation or realignment is still possible. Consolidation is also taking place amongst Diageo's customers in many countries. Increased competition and unanticipated actions by competitors or customers could lead to downward pressure on

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Business description (continued)

prices and/or a decline in Diageo's market share in any of these categories, which would adversely affect Diageo's results and hinder its growth potential.

Diageo may not be able to derive the expected benefits from its strategy to focus on premium drinks or its cost-saving and restructuring programmes designed to enhance earnings Diageo's strategy is to focus on premium drinks to grow its business through organic sales, operating profit growth and the acquisition of premium drinks brands that add value for shareholders. There can be no assurance that Diageo's strategic focus on premium drinks will result in opportunities for growth and improved margins.

It is possible that the pursuit of this strategic focus on premium drinks could give rise to further business combinations, acquisitions, disposals, joint ventures and/or partnerships (including any associated financing or the assumption of actual or potential liabilities, depending on the transaction contemplated). There can be no assurance that any transaction will be completed. The success of any transaction will depend in part on Diageo's ability to successfully integrate new businesses with Diageo's existing operations and realise the anticipated benefits, cost savings or synergies. There can be no guarantee that any such business combination, acquisition, disposal, joint venture or partnership would deliver the benefits, cost savings or synergies anticipated, if any.

Similarly, there can be no assurance that the cost-saving or restructuring programmes implemented by Diageo in order to improve efficiencies and deliver cost-savings will deliver the expected benefits.

Regulatory decisions and changes in the legal and regulatory environment could increase Diageo's costs and liabilities or limit its business activities Diageo's operations are subject to extensive regulatory requirements which include those in respect of production, product liability, distribution, importation, marketing, promotion, sales, pricing, labelling, packaging, advertising, labour, pensions, compliance and control systems, and environmental issues. Changes in laws, regulations or governmental or regulatory policies and/or practices could cause Diageo to incur material additional costs or liabilities that could adversely affect its business. In particular, governmental bodies in countries where Diageo operates may impose new labelling, product or production requirements, limitations on the advertising and/or promotion activities used to market beverage alcohol, restrictions on retail outlets, other restrictions on marketing, promotion, importation and distribution or other restrictions on the locations or occasions where beverage alcohol is sold which directly or indirectly limit the sales of Diageo products. Regulatory authorities under whose laws Diageo operates may also have enforcement power that can subject the group to actions such as product recall, seizure of products or other sanctions, which could have an adverse effect on its sales or damage its reputation. An increase in the stringency of the regulatory environment could cause Diageo to incur material additional costs or liabilities that could adversely affect its business.

In addition, beverage alcohol products are the subject of national excise, import duty and other duties in most countries around the world. An increase in excise, import duty or other duties could have a significant adverse effect on Diageo's sales revenue or margin, both through reducing overall consumption and by encouraging consumers to switch to lower-taxed categories of beverage alcohol.

Diageo's reported after tax income is calculated based on extensive tax and accounting requirements in each of its relevant jurisdictions of operation. Changes in tax law (including tax rates), accounting policies and accounting standards could materially reduce Diageo's reported after tax income.

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Business description (continued)

Diageo is subject to litigation directed at the beverage alcohol industry and other litigation Companies in the beverage alcohol industry are, from time to time, exposed to class action or other litigation relating to alcohol advertising, product liability, alcohol abuse problems or health consequences from the misuse of alcohol. Diageo may be subject to litigation with tax, customs and other regulatory authorities, including with respect to the methodology for assessing importation value, transfer pricing and compliance matters, and Diageo is routinely subject to litigation in the ordinary course of its operations. Diageo may also be subject to litigation arising from legacy and discontinued activities. Such litigation may result in damages, penalties or fines as well as reputational damage to Diageo or its brands, and as a result, Diageo's business could be materially adversely affected. For additional information with respect to legal proceedings, see 'Additional information for shareholders Legal proceedings' and note 31 to the consolidated financial statements.

Contamination, counterfeiting or other events could harm the integrity of customer support for Diageo's brands and adversely affect the sales of those brands The success of Diageo's brands depends upon the positive image that consumers have of those brands, and contamination, whether arising accidentally, or through deliberate third party action, or other events that harm the integrity or consumer support for those brands, could adversely affect their sales. Diageo purchases most of the raw materials for the production and packaging of its products from third party producers or on the open market. Diageo may be subject to liability if contaminants in those raw materials or defects in the distillation, fermentation or bottling process lead to low beverage quality or illness among, or injury to, Diageo's consumers. In addition, Diageo may voluntarily recall products in the event of contamination or damage. A significant product liability judgement or a widespread product recall may negatively impact on sales and profitability of the affected brand or all Diageo brands for a period of time depending on product availability, competitive reaction and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, resulting negative publicity could adversely affect Diageo's reputation with existing and potential customers and its corporate and brand image.

In addition, to the extent that third parties sell products which are either counterfeit versions of Diageo brands or inferior brands that look like Diageo brands, consumers of Diageo brands could confuse Diageo products with them. This could cause them to refrain from purchasing Diageo brands in the future and in turn could impair brand equity and adversely affect Diageo's business.

Demand for Diageo's products may be adversely affected by many factors, including changes in consumer preferences and tastes and adverse impacts of a declining economy Diageo's collection of brands includes some of the world's leading beverage alcohol brands as well as brands of local prominence. Maintaining Diageo's competitive position depends on its continued ability to offer products that have a strong appeal to consumers. Consumer preferences may shift due to a variety of factors including changes in demographic and social trends, public health regulations, changes in travel, vacation or leisure activity patterns, weather effects and a downturn in economic conditions, which may reduce consumers' willingness to purchase premium branded products. In addition, concerns about health effects due to negative publicity regarding alcohol consumption, negative dietary effects, regulatory action or any litigation or customer complaints against companies in the industry may have an adverse effect on Diageo's profitability.

The competitive position of Diageo's brands could also be affected adversely by any failure to achieve consistent, reliable quality in the product or service levels to customers.

In addition, both the launch and ongoing success of new products is inherently uncertain especially as to their appeal to consumers. The failure to launch a new product successfully can give rise to inventory write-offs and other costs and can affect consumer perception of an existing brand. Growth in

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Business description (continued)

Diageo's business has been based on both the launch of new products and the growth of existing products. Product innovation remains a significant aspect of Diageo's plans for growth. There can be no assurance as to Diageo's continuing ability to develop and launch successful new products or variants of existing products or as to the profitable lifespan of newly or recently developed products. Any significant changes in consumer preferences and failure to anticipate and react to such changes could result in reduced demand for Diageo's products and erosion of its competitive and financial position. Continued economic pressures could lead to consumer selection of products at lower price points, whether Diageo's or those of competitors, which may have an adverse effect on Diageo's profitability.

If the social acceptability of Diageo's products declines, Diageo's sales volume could decrease and the business could be materially adversely affected In recent years, there has been increased social and political attention directed to the beverage alcohol industry. Diageo believes that this attention is the result of public concern over problems related to alcohol abuse, including drink driving, underage drinking and health consequences from the misuse of alcohol. If, as a result, the general social acceptability of beverage alcohol were to decline significantly, sales of Diageo's products could materially decrease.

Diageo's business may be adversely impacted by unfavourable economic conditions or political or other developments and risks in the countries in which it operates Diageo may be adversely affected by political and economic developments or industrial action in any of the countries where Diageo has distribution networks, production facilities or marketing companies. Diageo's business is dependent on general economic conditions in the United States, countries that form the European Union and other important markets. A significant deterioration in these conditions, including a reduction in consumer spending levels, customer destocking, the failure of customer, supplier or financial counterparties or a reduction in the availability of, or an increase in the cost of financing to, Diageo, could have a material adverse effect on Diageo's business and results of operations. Moreover, a substantial portion of Diageo's operations, representing approximately one third of Diageo's net sales for the year ended 30 June 2011, are carried out in emerging markets, including Brazil, Venezuela, Mexico, Russia and emerging markets in Africa and Asia.

Diageo's operations are also subject to a variety of other risks and uncertainties related to trading in numerous foreign countries, including political or economic upheaval and the imposition of any import, investment or currency restrictions, including tariffs and import quotas or any restrictions on the repatriation of earnings and capital. Political and/or social unrest, potential health issues (including pandemic issues), natural disasters and terrorist threats and/or acts may also occur in various places around the world, which will have an impact on trade, tourism and travel. Many of these risks are heightened, or occur more frequently, in emerging markets. These disruptions can affect Diageo's ability to import or export products and to repatriate funds, as well as affecting the levels of consumer demand (for example, in duty free outlets at airports or in on trade premises in affected regions) and therefore Diageo's levels of sales or profitability. Emerging markets are also generally exposed to relatively higher risk of liquidity, inflation, devaluation, price volatility, currency convertibility and country default. Due to Diageo's specific exposures, any or all of the foregoing factors may affect Diageo disproportionately or in a different manner as compared to its competitors.

Part of Diageo's growth strategy includes expanding its business in certain countries where consumer spending in general, and spending on Diageo's products in particular, has not historically been as great but where there are prospects for growth. There is no guarantee that this strategy will be successful and some of the markets represent a higher risk in terms of their changing regulatory environments and higher degree of uncertainty over levels of consumer spending.

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Business description (continued)

Diageo's operating results may be adversely affected by increased costs or shortages of labour Diageo's operating results could be adversely affected by labour or skill shortages or increased labour costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. Diageo's success is dependent on the capability of its employees. There is no guarantee that Diageo will continue to be able to recruit, retain and develop the capabilities that it requires to deliver its strategy, for example in relation to sales, marketing and innovation capability within markets or in its senior management. The loss of senior management or other key personnel or the inability to identify, attract and retain qualified personnel in the future could make it difficult to manage the business and could adversely affect operations and financial results.

An increase in the cost of raw materials or energy could affect Diageo's profitability The components that Diageo uses for the production of its beverage products are largely commodities that are subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty and/or governmental controls. Commodity price changes may result in unexpected increases in the cost of raw materials, glass bottles, flavours and other packaging materials and Diageo's beverage products. Diageo may also be adversely affected by shortages of raw materials, glass bottles, flavours or packaging materials. In addition, energy cost increases result in higher transportation, freight and other operating costs. Diageo may not be able to increase its prices to offset these increased costs without suffering reduced volume, sales and operating profit. Diageo may experience significant increases in commodity costs and energy costs.

Diageo's operating results may be adversely affected by disruption to production facilities, business service centres or information systems and change programs may not deliver the benefits intended Diageo would be affected if there were a catastrophic failure of its major production facilities or business service centres. See 'Business description Premium drinks Production' for details of Diageo's principal production areas. Diageo operates production facilities around the world. If there were a technical integrity failure, fire or explosion at one of Diageo's production facilities, it could result in damage to the facilities, plant or equipment, their surroundings or the environment, could lead to a loss in production capacity, or could result in regulatory action, legal liability or damage to Diageo's reputation. In addition, the maintenance and development of information systems may result in systems failures which may adversely affect business operations.

Diageo has a substantial inventory of aged product categories, principally scotch whisky and Canadian whisky, which may mature over periods of up to 30 years or more. The maturing inventory is stored primarily in Scotland, and the loss through contamination, fire or other natural disaster of all or a portion of the stock of any one of those aged product categories could result in a significant reduction in supply of those products, and consequently, Diageo would not be able to meet consumer demand for those products as it arises. There can be no assurance that insurance proceeds would cover the replacement value of Diageo's maturing inventory or other assets, were such assets to be lost due to contamination, fire or natural disasters or destruction resulting from negligence or the acts of third parties. In addition, there is an inherent risk of forecasting error in determining the quantity of maturing stock to lay down in a given year for future consumption. This could lead to an inability to supply future demand or lead to a future surplus of inventory and consequent write down in value of maturing stocks.

Any failure of information systems could adversely impact Diageo's ability to operate. As with all large systems, Diageo's information systems could be penetrated by outside parties intent on extracting information, corrupting information or disrupting business processes. Such unauthorised access could disrupt Diageo's business and/or lead to loss of assets or to outside parties having access to privileged

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Business description (continued)

data or strategic information of Diageo and its employees, customers and consumers, or to making such information public in a manner that harms Diageo's reputation. The concentration of processes in business service centres also means that any disruption arising from system failure or physical plant issues could impact a large portion of Diageo's global business.

Certain change programmes designed to improve the effectiveness and efficiency of end-to-end operating, administrative and financial systems and processes continue to be undertaken. This includes moving transaction processing from a number of markets to business service centres. There can be no certainty that these programmes will deliver the expected operational benefits. There may be disruption caused to production processes and to administrative and financial systems as further changes to such processes are effected. They could also lead to adverse customer or consumer reaction.

Climate change, or legal, regulatory or market measures to address climate change, may negatively affect Diageo's business or operations, and water scarcity or poor quality could negatively impact Diageo's production costs and capacity There is a growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on agricultural productivity, Diageo may be subject to decreased availability or less favourable pricing for certain raw materials that are necessary for Diageo's products, such as sugar, cereals, hops, agave and grapes. Water is the main ingredient in substantially all of Diageo's products. It is also a limited resource in many parts of the world, facing unprecedented challenges from climate change, overexploitation, increasing pollution, and poor management. As demand for water continues to increase around the world, and as water becomes scarcer and the quality of available water deteriorates, Diageo may be affected by increasing production costs or capacity constraints, which could adversely affect Diageo's results of operations and profitability.

Diageo's operations and financial results may be adversely affected by movements in the value of its pension funds, fluctuations in exchange rates and fluctuations in interest rates Diageo has significant pension funds. These funds may be affected by, among other things, the performance of assets owned by these plans, the underlying actuarial assumptions used to calculate the surplus or deficit in the plans, in particular the discount rate and long term inflation rates used to calculate the liabilities of the pension funds, and any changes in applicable laws and regulations. If there are significant declines in financial markets and/or a deterioration in the value of fund assets or changes in discount rates or inflation rates, Diageo may need to make significant contributions to the pension funds in the future. Furthermore, if the market values of the assets held by Diageo's pension funds decline, or if the valuations of those assets by the pension trustees decline, pension expenses may increase and, as a result, could materially adversely affect Diageo's financial position. There is no assurance that interest rates or inflation rates will remain constant or that pension fund assets can earn the assumed rate of return annually, and Diageo's actual experience may be significantly more negative.

Diageo may be adversely affected by fluctuations in exchange rates. The results of operations of Diageo are accounted for in pounds sterling. Approximately 36% of sales in the year ended 30 June 2011 were in US dollars, approximately 15% were in euros and approximately 12% were in sterling. Movements in exchange rates used to translate foreign currencies into pounds sterling may have a significant impact on Diageo's reported results of operations from year to year.

Diageo may also be adversely impacted by fluctuations in interest rates, mainly through an increased interest expense. To partly delay any adverse impact from interest rate movements, the group's policy is to maintain fixed rate borrowings within a band of 40% to 60% of forecast net

Business description (continued)

borrowings, and the overall net borrowings portfolio is managed according to a duration measure. See 'Business review Risk management'.

Diageo's operations may be adversely affected by failure to maintain or renegotiate distribution, supply, manufacturing or licence agreements on favourable terms Diageo's business has a number of distribution, supply, manufacturing or licence agreements for brands owned by it or by other companies. These agreements vary depending on the particular brand, but tend to be for a fixed number of years. There can be no assurance that Diageo will be able to renegotiate its rights on favourable terms when they expire or that these agreements will not be terminated. Failure to renew these agreements on favourable terms could have an adverse impact on Diageo's sales and operating profit. In addition, Diageo's sales and operating profit may be adversely affected by any disputes with distributors of its products or with suppliers of raw materials.

Diageo may not be able to protect its intellectual property rights Given the importance of brand recognition to its business, Diageo has invested considerable effort in protecting its intellectual property rights, including trademark registration and domain names. Diageo's patents cover some of its process technology, including some aspects of its bottle marking technology. Diageo also uses security measures and agreements to protect its confidential information and trade secrets. However, Diageo cannot be certain that the steps it has taken will be sufficient or that third parties will not infringe on or misappropriate its intellectual property rights in its brands or products. Moreover, some of the countries in which Diageo operates offer less intellectual property protection than Europe or North America. Given the attractiveness of Diageo's brands to consumers, it is not uncommon for counterfeit products to be manufactured and traded. Diageo cannot be certain that the steps it takes to assist the authorities to prevent, detect and eliminate counterfeit products will be effective in preventing material loss of profits or erosion of brand equity resulting from lower quality or even dangerous counterfeit product reaching the market. If Diageo is unable to protect its intellectual property rights against infringement or misappropriation, this could materially harm its future financial results and ability to develop its business.

It may be difficult to effect service of US process and enforce US legal process against the directors of Diageo Diageo is a public limited company incorporated under the laws of England and Wales. The majority of Diageo's directors and officers, and some of the experts named in this document, reside outside of the United States, principally in the United Kingdom. A substantial portion of Diageo's assets, and the assets of such persons, are located outside of the United States. Therefore, it may not be possible to effect service of process within the United States upon Diageo or these persons in order to enforce judgements of US courts against Diageo or these persons based on the civil liability provisions of the US federal securities laws. There is doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgements of US courts, of civil liabilities solely based on the US federal securities laws.

Cautionary statement concerning forward-looking statements

This document contains 'forward-looking statements'. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook 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 or cost of financing to Diageo, anticipated cost savings or synergies, the completion of Diageo's strategic transactions and restructuring programmes, anticipated tax rates, expected cash payments, outcomes of litigation, anticipated deficit reductions in

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Business description (continued)

relation to pension schemes and general economic conditions. 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:

- global and regional economic downturns;
- 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 Diageo's strategic focus on premium drinks, the effects of business combinations, partnerships, acquisitions or disposals, existing or future, and the ability to realise expected synergies and/or costs savings;
- Diageo's ability to complete existing or future business combinations, restructuring programmes, acquisitions and disposals;
- legal and regulatory developments, including changes in regulations regarding production, product liability, distribution, importation, labelling, packaging, consumption, or advertising; changes in tax law, rates or requirements (including with respect to the impact of excise tax increases) or accounting standards; and changes in environmental laws, health regulations and the laws governing labour and pensions;
- developments in any litigation or other similar proceedings (including with tax, customs and other regulatory authorities) directed at the drinks and spirits industry generally or at Diageo in particular, or the impact of a product recall or product liability claim on Diageo's profitability or reputation;
- developments in the Colombian litigation, Korean customs dispute, thalidomide litigation or any similar proceedings;
- changes in consumer preferences and tastes, demographic trends or perceptions about health related issues, or contamination, counterfeiting or other circumstances which could harm the integrity or sales of Diageo's brands;
- changes in the cost or supply of raw materials, labour, energy and/or water;
- changes in political or economic conditions in countries and markets in which Diageo operates, including changes in levels of consumer spending, failure of customer, supplier and financial counterparties or imposition of import, investment or currency restrictions;
- levels of marketing, promotional and innovation expenditure by Diageo and its competitors;

renewal of supply, distribution, manufacturing or licence agreements (or related rights) and licenses on favourable terms when they expire;

termination of existing distribution or licence manufacturing rights on agency brands;

disruption to production facilities or business service centres, and systems change programmes, existing or future, and the ability to derive expected benefits from such programmes;

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Business description (continued)

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 exchange rate fluctuations and changes in the cost of capital, which may reduce or eliminate Diageo's access to or increase the cost of financing or which may affect Diageo's financial results and movements in the value of Diageo's pension funds.

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 those described in 'Business description Risk factors'. Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made. Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Diageo may make in any documents which it publishes and/or files with the US Securities and Exchange Commission. All readers, wherever located, should take note of these disclosures.

The information in this document does not constitute an offer to sell or an invitation to buy shares in Diageo plc or an invitation or inducement to engage in any other investment activities. This document includes information about Diageo's target debt rating. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating.

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

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Business review

Introduction

Information presented Diageo is the world's leading premium drinks business and operates on an international scale selling all types of beverage alcohol. It is one of a small number of premium drinks companies that operate across spirits, beer and wine. Diageo's brands have broad consumer appeal across geographies, and as a result, the business is organised under the business areas of North America, Europe, International, Asia Pacific and Global Supply. In view of the focus on reporting results by the location of third party customers in explaining the group's performance in the business review, the results of the Global Supply segment have been allocated to the geographic segments. The following discussion is based on Diageo's results for the year ended 30 June 2011 compared with the year ended 30 June 2010, and the year ended 30 June 2010 compared with the year ended 30 June 2009.

In the discussion of the performance of the business, net sales, which is defined as sales after deducting excise duties, are presented in addition to sales, since sales reflect significant components of excise duties which are set by external regulators and over which Diageo has no control. Diageo incurs excise duties throughout the world. In some countries, excise duties are based on sales and are separately identified on the face of the invoice to the external customer. In others, it is effectively a production tax, which is incurred when the spirit is removed from bonded warehouses. In these countries it is part of the cost of goods sold and is not separately identified on the sales invoice. Changes in the level of excise duties can significantly affect the level of reported sales and cost of sales, without directly reflecting changes in volume, mix or profitability that are the variables which impact on the element of sales retained by the group.

The underlying performance on a constant currency basis and excluding the impact of exceptional items, acquisitions and disposals is referred to as 'organic' performance, and further information on the calculation of organic measures as used in the discussion of the business is included in the organic movements calculation and in the notes to that calculation.

In addition, references to reserve brands include Johnnie Walker Green Label, Johnnie Walker Gold Label 18 year old, Johnnie Walker Blue Label, Johnnie Walker Blue Label King George V, The John Walker, Classic Malts, The Singleton of Glen Ord, The Singleton of Glendullan, The Singleton of Dufftown, Buchanan's Special Reserve, Buchanan's Red Seal, Dimple 18 year old, Bulleit Bourbon, Tanqueray No. 10, Cîroc, Ketel One vodka, Don Julio, Zacapa and Godiva.

Presentation of information in relation to the business In addition to describing the significant factors impacting on the income statement compared to the prior year for both of the years ended 30 June 2011 and 30 June 2010, additional information is also presented on the operating performance and cash flows of the group.

There are several principal financial key performance indicators not specifically used in the consolidated financial statements themselves (non-GAAP measures) used by the group's management to assess the performance of the group in addition to income statement measures of performance. These are volume, the organic movements in volume, sales, net sales, gross margin, operating margin, marketing spend, operating profit and free cash flow.

These key performance indicators are described below:

Volume is a non-GAAP measure that has been measured on an equivalent units basis to nine-litre cases of spirits. An equivalent unit represents one nine-litre case of spirits, which is approximately 272 servings. A serving comprises 33ml of spirits, 165ml of wine, or 330ml of ready to drink or beer.

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Business review (continued)

Therefore, to convert volume of products, other than spirits, to equivalent units, the following guide has been used: beer in hectolitres divide by 0.9, wine in nine-litre cases divide by five, ready to drink in nine-litre cases divide by 10 and certain pre-mixed products that are classified as ready to drink in nine-litre cases divide by five.

Organic movements in volume, sales, net sales, gross margin, operating margin, marketing spend and operating profit are non-GAAP measures. The performance of the group is discussed using these measures.

In the discussion of the performance of the business, organic information is presented using pounds sterling amounts on a constant currency basis. This retranslates prior year reported numbers at current year exchange rates and enables an understanding of the underlying performance of the market that is most closely influenced by the actions of that market's management. The risk from exchange rate movements is managed centrally and is not a factor over which local managers have any control. Residual exchange impacts are reported within Corporate.

Acquisitions, disposals and exceptional items also impact on the reported performance and therefore the reported movement in any year in which they arise. Management adjusts for the impact of such transactions in assessing the performance of the underlying business.

The underlying performance on a constant currency basis and excluding the impact of exceptional items, acquisitions and disposals is referred to as 'organic' performance. Organic movement calculations enable the reader to focus on the performance of the business which is common to both years.

Diageo's strategic planning and budgeting process is based on organic movements in volume, sales, net sales, marketing spend and operating profit, and these measures closely reflect the way in which operating targets are defined and performance is monitored by the group's management.

These measures are chosen for planning, budgeting, reporting and incentive purposes since they represent those measures which local managers are most directly able to influence and they enable consideration of the underlying business performance without the distortion caused by fluctuating exchange rates, exceptional items and acquisitions and disposals.

The group's management believes these measures provide valuable additional information for users of the financial statements in understanding the group's performance since they provide information on those elements of performance which local managers are most directly able to influence and they focus on that element of the core brand portfolio which is common to both years. They should be viewed as complementary to, and not replacements for, the comparable GAAP measures and reported movements therein.

Free cash flow is a non-GAAP measure that comprises the net cash flow from operating activities as aggregated with the net purchase and disposal of investments, property, plant and equipment and computer software that form part of net cash flow from investing activities. The group's management believes the measure assists users of the financial statements in understanding the group's cash generating performance as it comprises items which arise from the running of the ongoing business.

The remaining components of net cash flow from investing activities that do not form part of free cash flow, as defined by the group's management, are in respect of the acquisition and disposal of subsidiaries, associates and businesses. The group's management regards the purchase and disposal of property, plant and equipment and computer software as ultimately non-discretionary since ongoing investment in plant, machinery and technology is required to support the day-to-day operations, whereas acquisitions and sale of businesses are discretionary. However, free cash flow does not

Business review (continued)

necessarily reflect all amounts which the group has either a constructive or legal obligation to incur. Where appropriate, separate discussion is given for the impacts of acquisitions and sale of businesses, equity dividends paid and the purchase of own shares, each of which arises from decisions that are independent from the running of the ongoing underlying business.

The free cash flow measure is used by management for their own planning, budgeting, reporting and incentive purposes since it provides information on those elements of performance which local managers are most directly able to influence.

Operating results 2011 compared with 2010

Summary consolidated income statement

	Year ended 30 June	
	2011	**2010**
	£ million	**£ million**
Sales	**13,232**	12,958
Excise duties	**(3,296)**	(3,178)
Net sales	**9,936**	9,780
Operating costs before exceptional items	**(7,052)**	(7,029)
Operating profit before exceptional items	**2,884**	2,751
Exceptional operating items	**(289)**	(177)
Operating profit	**2,595**	2,574
Sale of businesses	**(14)**	(15)
Net finance charges	**(397)**	(462)
Share of associates' profits after tax	**176**	142
Profit before taxation	**2,360**	2,239
Taxation	**(343)**	(477)
Profit from continuing operations	**2,017**	1,762
Discontinued operations		(19)
Profit for the year	**2,017**	1,743
Attributable to:		
Equity shareholders of the parent company	**1,900**	1,629
Non-controlling interests	**117**	114
	2,017	1,743

Sales and net sales On a reported basis, sales increased by £274 million from £12,958 million in the year ended 30 June 2010 to £13,232 million in the year 30 June 2011 and net sales increased by £156 million from £9,780 million in the year ended 30 June 2010 to £9,936 million in the year ended 30 June 2011. Exchange rate movements decreased reported sales by £252 million and reported net sales by £221 million. Acquisitions increased reported sales by £38 million and reported net sales by £30 million for the year. Disposals decreased reported sales by £94 million and reported net sales by £85 million for the year.

Operating costs before exceptional items On a reported basis, operating costs before exceptional items increased by £23 million in the year ended 30 June 2011 due to a decrease in cost of sales of

Business review (continued)

£70 million from £4,053 million to £3,983 million, an increase in marketing spend of £119 million from £1,419 million to £1,538 million, and a decrease in other operating expenses before exceptional costs of £26 million, from £1,557 million to £1,531 million. The impact of exchange rate movements decreased total operating costs before exceptional items by £239 million.

Exceptional operating items Exceptional operating costs of £289 million for the year ended 30 June 2011 (2010 £177 million) comprised a net charge of £111 million (2010 £142 million) in respect of restructuring programmes, an impairment charge of £39 million (2010 £35 million) in respect of the Ursus brand reflecting the impact of the significant downturn in the economy in one of its principal markets, Greece, a charge of £92 million (2010 £nil) in respect of the settlement of the dispute with the Turkish customs authorities regarding import duty payable on beverage alcohol products sold in the domestic channel in Turkey, a charge of £35 million (2010 £nil) in respect of the settlement with the Thai customs authorities regarding a dispute over the price of imported goods and a charge of £12 million (2010 £nil) in respect of the settlement with the Securities and Exchange Commission regarding various regulatory and control matters.

Restructuring programmes totalling £111 million comprise £77 million (2010 £nil) for the operating model review announced in May 2011 primarily in respect of employee termination charges, £24 million (2010 £93 million) for the restructuring of Global Supply operations in Scotland and the United States primarily in respect of accelerated depreciation and redundancies and £10 million (2010 £12 million) for the restructuring of the group's brewing operations in Ireland announced in 2008 in respect of accelerated depreciation. In the year ended 30 June 2010 restructuring programmes also included a charge of £85 million for the global restructuring programme and a £48 million net credit for the restructuring of the wines business in the United States.

In the year ended 30 June 2011 total restructuring cash expenditure was £118 million (2010 £145 million) and the cash payments made for the exceptional SEC and duty settlements amounted to £141 million (2010 £nil). An exceptional charge of approximately £120 million is expected to be incurred in the year ending 30 June 2012 primarily in respect of the operating model review, while cash expenditure is expected to be approximately £200 million.

Post employment plans Post employment net costs for the year ended 30 June 2011 were a charge of £105 million (2010 £133 million) comprising £110 million (2010 £92 million) included in operating costs before exceptional items, pension curtailment gains of £7 million (2010 £6 million) in exceptional items and a charge of £3 million (2010 £47 million) in net finance charges. In the year ending 30 June 2012 the finance income under IAS 19 is expected to be £5 million.

The deficit in respect of post employment plans before taxation decreased by £367 million from £1,205 million at 30 June 2010 to £838 million at 30 June 2011 primarily as a result of an increase in the market value of assets held by the post employment plans. Cash contributions to the group's UK and Irish pension schemes in the year ended 30 June 2011 were £150 million and are expected to be approximately £150 million for the year ending 30 June 2012.

Operating profit Reported operating profit for the year ended 30 June 2011 increased by £21 million to £2,595 million from £2,574 million in the prior year. Before exceptional operating items, operating profit for the year ended 30 June 2011 increased by £133 million to £2,884 million from £2,751 million in the prior year. Exchange rate movements increased both operating profit and operating profit before exceptional items for the year ended 30 June 2011 by £18 million. Acquisitions decreased reported operating profit by £13 million for the year. Disposals decreased reported operating profit by £1 million for the year.

Business review (continued)

Exceptional non-operating items   A net loss before taxation of £14 million on sale of businesses arose on the disposal of a number of small wine businesses in Europe and in the United States and on the termination of a joint venture in India. In the year ended 30 June 2010 sale of businesses comprised a charge of £26 million in respect of the anticipated loss on the disposal of certain non-strategic wine brands in the United States and a gain of £11 million arising on the revaluation of the equity holding in the London Group, the owner of the Nuvo brand, following the acquisition of a majority equity stake in the London Group.

Net finance charges   Net finance charges decreased from £462 million in the year ended 30 June 2010 to £397 million in the year ended 30 June 2011.

Net interest charge decreased by £6 million from £375 million in the prior year to £369 million in the year ended 30 June 2011. The effective interest rate was 4.9% in the year ended 30 June 2011 (2010   4.8%) and average net borrowings excluding interest rate related fair value adjustments decreased by £0.7 billion compared to the prior year. The income statement interest cover was 8.3 times and cash interest cover was 10.6 times (2010   7.7 times and 10.3 times, respectively).

Net other finance charges for the year ended 30 June 2011 were £28 million (2010   £87 million). There was a decrease of £44 million in finance charges in respect of post employment plans from £47 million in the year ended 30 June 2010 to £3 million in the year ended 30 June 2011. Other finance charges also included £16 million (2010   £18 million) on unwinding of discounts on liabilities and a hyperinflation adjustment of £9 million (2010   £16 million) in respect of the group's Venezuela operations. In the year ended 30 June 2010 an additional £4 million other finance income was recognised and a £10 million charge in respect of exchange rate translation differences on inter-company funding arrangements where hedge accounting was not applicable.

Associates   The group's share of associates' profits after interest and tax was £176 million for the year ended 30 June 2011 compared to £142 million in the prior year. Diageo's 34% equity interest in Moët Hennessy contributed £179 million (2010   £134 million) to share of associates' profits after interest and tax.

Profit before taxation   Profit before taxation increased by £121 million from £2,239 million in the prior year to £2,360 million in the year ended 30 June 2011.

Taxation   The reported tax rate for the year ended 30 June 2011 was 14.5% compared with 21.3% for the year ended 30 June 2010. Factors that reduced the reported tax rate included settlements agreed with tax authorities that gave rise to releases of tax provisions and an increase of £115 million in the carrying value of deferred tax assets in respect of brands under the taxation basis applicable at 30 June 2011. In the future it is expected that the tax rate will be below the 22% experienced in the recent past but not as low as the tax rate in the year ended 30 June 2011.

Discontinued operations   Discontinued operations in the year ended 30 June 2010 comprised a charge after taxation of £19 million in respect of anticipated future payments to thalidomide claimants.

Exchange rate and other movements   Foreign exchange movements in the year ended 30 June 2011 decreased net sales by £221 million, increased operating profit before exceptional items by £18 million, decreased profit from associates by £5 million and reduced net finance charges by £1 million.

Foreign exchange movements in the year ended 30 June 2011 were adversely impacted by the Venezuelan bolivar. For the year ending 30 June 2012 foreign exchange movements are estimated to decrease operating profit by about £25 million and are not expected to materially affect the net finance

Business review (continued)

charge based on applying current exchange rates (£1 = $1.63; £1 = €1.15). This guidance excludes the impact of IAS 21 and 39.

Dividend The directors recommend a final dividend of 24.90 pence per share, an increase of 6% from the year ended 30 June 2010. The full dividend will therefore be 40.40 pence per share, an increase of 6% from the year ended 30 June 2010. Subject to approval by shareholders, the final dividend will be paid on 24 October 2011 to shareholders on the register on 9 September 2011. Payment to US ADR holders will be made on 28 October 2011. A dividend reinvestment plan is available in respect of the final dividend and the plan notice date is 3 October 2011.

Analysis by business area and brand

In order to assist the reader of the financial statements, the following comparison of 2011 with 2010 includes tables which present the exchange, acquisitions and disposals and organic components of the year on year movement for each of volume, sales, net sales, marketing spend and operating profit. Organic movements in the tables below are calculated as follows:

(a) The organic movement percentage is the amount in the column headed Organic movement in the tables above expressed as a percentage of the aggregate of the amount in the column headed 2010 Reported, the amount in the column headed Exchange and the amount, if any, in respect of acquisitions and disposals that have benefited the prior year included in the column headed Acquisitions and disposals. The inclusion of the column headed Exchange in the organic movement calculation reflects the adjustment to recalculate the prior year results as if they had been generated at the current year's exchange rates.

(b) Where a business, brand, brand distribution right or agency agreement was disposed of, or terminated, in the current or prior year, the group, in organic movement calculations, excludes the results for that business from the current year and prior year. In the calculation of operating profit, the overheads included in disposals are only those directly attributable to the businesses disposed of, and do not result from subjective judgements of management. For acquisitions in the current year, the post acquisition results are excluded from the organic movement calculations. For acquisitions in the prior year, post acquisition results are included in full in the prior year but are included in the organic movement calculation from the anniversary of the acquisition date in the current year. The acquisition column also eliminates the impact of transaction costs directly attributable to acquisitions that have been publicly announced and charged to operating profit in the current or prior year.

The organic movement calculations for volume, sales, net sales, marketing spend and operating profit for the year ended 30 June 2011 were as follows:

	2010 Reported units million	Acquisitions and disposals[(2)] units million	Organic movement units million	2011 Reported units million	Organic movement %
Volume					
North America	51.8	(0.2)		**51.6**	
Europe	39.2	(0.1)	**(0.6)**	**38.5**	**(2)**
International	40.3	0.6	**3.4**	**44.3**	**9**
Asia Pacific	12.1		**1.0**	**13.1**	**9**
Total volume	143.4	0.3	**3.8**	**147.5**	**3**

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Business review (continued)

	2010 Reported £ million	Exchange[(1)] £ million	Acquisitions and disposals[(2)] £ million	Organic movement £ million	2011 Reported £ million	Organic movement %
Sales						
North America	3,853	(33)	(58)	**91**	**3,853**	**2**
Europe	4,371	(39)	(33)	**(109)**	**4,190**	**(3)**
International	3,222	(281)	36	**407**	**3,384**	**14**
Asia Pacific	1,442	101	(1)	**193**	**1,735**	**13**
Corporate	70				**70**	
Total sales	12,958	(252)	(56)	**582**	**13,232**	**5**
Net sales						
North America	3,306	(25)	(58)	**101**	**3,324**	**3**
Europe	2,759	(32)	(25)	**(88)**	**2,614**	**(3)**
International	2,627	(229)	28	**321**	**2,747**	**13**
Asia Pacific	1,018	65		**98**	**1,181**	**9**
Corporate	70				**70**	
Total net sales	9,780	(221)	(55)	**432**	**9,936**	**5**
Excise duties	3,178				**3,296**	
Total sales	12,958				**13,232**	
Marketing spend						
North America	472	(3)	(1)	**34**	**502**	**7**
Europe	412	(5)	(1)	**(16)**	**390**	**(4)**
International	302	(6)	4	**68**	**368**	**23**
Asia Pacific	233	12	1	**32**	**278**	**13**
Total marketing spend	1,419	(2)	3	**118**	**1,538**	**8**
Operating profit						
North America	1,170	(12)	(1)	**98**	**1,255**	**8**
Europe	859	(12)	(7)	**(62)**	**778**	**(7)**
International	771	(90)	(5)	**128**	**804**	**19**
Asia Pacific	176	8	(1)	**25**	**208**	**13**
Corporate	(225)	124		**(60)**	**(161)**	
Total operating profit before exceptional items	2,751	18	(14)	**129**	**2,884**	**5**
Exceptional items[(3)]	(177)				**(289)**	
Total operating profit	2,574				**2,595**	

Notes: Information relating to the organic movement calculations

(1) The exchange adjustments for sales, net sales, marketing spend and operating profit are the retranslation of prior year reported results at current year exchange rates and are principally in respect of the Venezuelan bolivar, the euro and the US dollar.

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Business review (continued)

(2)
The impacts of acquisitions and disposals are excluded from the organic movement. In the year ended 30 June 2011 the only acquisition that affected volume, sales, net sales, marketing spend and operating profit was the acquisition of Serengeti Breweries which contributed volume, sales, net sales and operating loss of 0.6 million equivalent units, £38 million, £30 million and £7 million, respectively. Disposals in the year ended 30 June 2011 were the disposals as a result of the reorganisation of the group's US wines operations and the disposal of the Gilbeys wholesale wine business in Ireland. An adjustment is also made to exclude directly attributable transaction costs incurred in the year ended 30 June 2011 of £22 million, netted against acquisition costs of £12 million incurred in the year ended 30 June 2010 primarily in respect of the acquisition of Serengeti Breweries, Zacapa, Mey Içki and the additional equity stake in Quanxing.

(3)
Exceptional operating costs of £289 million for the year ended 30 June 2011 (2010 £177 million) comprised a net charge of £111 million (2010 £142 million) in respect of restructuring programmes, an impairment charge of £39 million (2010 £35 million) in respect of the Ursus brand reflecting the impact of the significant downturn in the economy in one of its principal markets, Greece, a charge of £92 million (2010 £nil) in respect of the settlement of the dispute with the Turkish customs authorities regarding import duty payable on beverage alcohol products sold in the domestic channel in Turkey, a charge of £35 million (2010 £nil) in respect of the settlement with the Thai customs authorities regarding a dispute over the price of imported goods and a charge of £12 million (2010 £nil) in respect of the settlement with the Securities and Exchange Commission regarding various regulatory and control matters.

Corporate revenue and costs

Net sales were £70 million in the year ended 30 June 2011, flat relative to the comparable prior period. Net operating charges were £161 million in the year ended 30 June 2011 having been £225 million in the year ended 30 June 2010. The movement was made up of:

- Included in corporate was a benefit of £21 million, versus a charge of £40 million in the year ended 30 June 2010 arising from currency transaction hedging which is controlled centrally;

- A £2 million reduction in underlying corporate costs;

- Beneficial exchange differences of £123 million which arose on the movement between transaction exchange rates achieved in 2011 and those achieved in 2010.

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Business review (continued)

Category review

	Volume* movement	Organic net sales movement	Reported net sales movement
	%	%	%
Category performance			
Spirits	3	6	3
Beer	1	4	3
Wine	(2)	6	(11)
Ready to drink	(3)	(1)	
Total	3	5	2
Strategic brand performance**			
Whisk(e)y:	4	7	2
Johnnie Walker	11	11	11
Crown Royal	1	3	2
JεB	(6)	(8)	(8)
Buchanan's	2	14	(21)
Windsor	3	8	12
Bushmills	9	10	11
Vodka:	2	7	7
Smirnoff	1	(1)	(1)
Ketel One vodka	1	1	
Cîroc	123	126	122
Liqueurs:	3	1	7
Baileys	3	1	
Rum:	2	2	(3)
Captain Morgan	4	4	4
Tequila:	5	5	3
Jose Cuervo	4	3	1
Gin:		2	1
Tanqueray	3	4	3
Beer:	1	4	3
Guinness	2	3	2

*

Organic equals reported movement except for beer which was 3% and wine which was (11)% due to acquisitions and disposals.

**

Spirits brands excluding ready to drink.

Business review (continued)

Spirits: Net sales grew across all spirits categories and across all price segments, with the super premium segment growing significantly faster than the others.

Whisk(e)y: The growth of whisk(e)y delivered almost half of Diageo's incremental net sales, driven by success in emerging markets. **Johnnie Walker** is Diageo's biggest brand and was the biggest contributor to total net sales growth, with the fastest growth coming from super deluxe variants, up 25%. Emerging markets net sales were up 19% supported by incremental marketing investment behind proven global growth drivers, including the 'Walk with Giants' and 'Step Inside the Circuit' campaigns and ongoing grand prix sponsorships.

Innovation drove the growth of **Crown Royal**, with the successful launch of Crown Royal Black, a variant which attracts super premium bourbon consumers. Sold at a higher price point than the base brand, Crown Royal Black improved brand mix, and, together with a reduction in discounting, delivered two percentage points of price/mix improvement as the brand gained share in the growing North American whiskey category.

Overall **J&B** brand performance was impacted by the weak scotch market in Spain, the brand's largest market. However, in its second largest market, France, the brand performed well with net sales up 9% supported by increased marketing spend and campaigns advertising new bottle formats.

Price increases on **Buchanan's** in Latin America, the success of the new Buchanan's Master and increased marketing investment drove double digit net sales growth. In the United States net sales grew 41%. Up-weighted marketing investment and rapidly expanded distribution allowed Buchanan's to reach more of its core multi-cultural consumers and Buchanan's is now the fastest growing scotch in the market.

Windsor extended its scotch leadership position in Korea. Windsor 12 continued to perform strongly and price increases across the variants delivered positive price/mix. Marketing spend was focused on the 'World's No.1' campaign which built on Windsor's gold medal at the prestigious 2010 International Wines and Spirits Competition.

Bushmills grew net sales in all regions with a particularly strong second half, primarily driven by a 29% net sales increase in Russia and Eastern Europe. Marketing spend was focused behind global growth drivers, the 'Bushmills Brothers' campaign and the launch of new packaging for Bushmills single malt.

Vodka: Diageo's vodka portfolio grew net sales 7% in a competitive category. Strong **Smirnoff** growth in International and Asia partially offset net sales decline in the United States and Europe. The decision to reduce promotional activity in the United States resulted in share loss. In Europe, net sales declined due to lower volume and negative channel mix in Great Britain and challenging economic conditions in Spain and Greece. Marketing spend increased 11% behind the Smirnoff 'Nightlife Exchange Project' globally. The majority of the increase focused on emerging markets, especially Latin America and India to position the brand for emerging middle class consumers.

In the United States, **Ketel One vodka** net sales and share were maintained as the brand held its price positioning. There was some weakness in flavours but Ketel One vodka grew, supported by the 'Gentlemen this is vodka' campaign. The roll out of Ketel One vodka into markets outside the United States, particularly in Latin America, drove the net sales growth of the brand globally.

The performance of Diageo's vodka brands was led by **Cîroc**, which more than doubled its net sales. Innovation on the brand, the new Coconut and Red Berry flavours, is supporting growth. The brand's appeal continues to increase and it gained share in the ultra premium vodka segment following

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Business review (continued)

distribution gains and the success of its multicultural marketing programmes. Cîroc is now sold in over 70 countries outside its United States base.

Rum: Diageo's largest rum brand, **Captain Morgan**, grew net sales in every region outside the United States. Growth was particularly strong in Canada, Great Britain and Germany where the brand gained share and delivered double digit growth. In the United States, the brand's net sales declined as smaller competitors have gained share by pricing and discounting aggressively in a flat category. However, Captain Morgan is one of the strongest and most enduring industry icons and the new marketing campaign will build on this.

Net sales of Diageo's second largest rum brand, **Cacique**, declined as growth in Venezuela was offset by declines in its largest market, Spain. **Bundaberg** grew in Australia driven by innovation, led by the launch of Bundy 5, a white rum, and Bundaberg limited editions. In July, Diageo acquired a controlling stake in the super premium rum, **Zacapa**. The brand grew strongly in every region delivering double digit net sales growth on the back of targeted distribution expansion and super premium sampling activities.

Liqueurs: **Baileys** returned to growth with the launch of the new campaign 'Baileys. Let's do this again'. It was supported by strong sales programmes that drove increased visibility and gifting, and the launch of the new Hazelnut flavour. Performance improved in North America and in emerging markets net sales grew 21%.

Tequila: Despite lower competitor pricing **Jose Cuervo** grew in the United States as a result of a successful on trade events programme, innovation in on trade dispense and the strong growth of the super premium segment. Jose Cuervo price/mix was negative but this was offset by the growth of super premium Don Julio and price/mix was flat for the category. **Don Julio's** net sales growth accounted for roughly half of the category growth.

Gin: Growth of **Tanqueray** was driven by Spain, Canada and Global Travel and Middle East. Spain contributed more than a third of growth, where despite the difficult economic conditions, premium gin brands performed well and Tanqueray gained volume share through strong promotional sales drivers in the off trade. In contrast, the United States gin category declined. Tanqueray reduced discounting and focused on visibility drivers to maintain net sales.

Beer: The 4% net sales growth in beer was driven by the emerging markets of Africa and Asia Pacific where incremental marketing spend on **Guinness** and local lager brands, and price increases in selected markets drove positive price/mix for the category. Africa net sales grew 11% and Guinness returned to growth led by Nigeria and Cameroon, supported by an 18% increase in marketing spend across the region. Net sales of Guinness declined in Ireland and Great Britain where the beer category was weak, particularly in the on trade. Local lager brands such as Harp, Senator and Tusker in Africa, and Tiger in Malaysia delivered further growth for the category.

Wine: Volume declined in North America, offset by improved price/mix. In Great Britain, a strong Bordeaux campaign and price increases delivered net sales growth of 14%.

Ready to drink: Weakness in Europe and North America led to a 1% drop in net sales. In the United States, a successful programme of innovation slowed the rate of decline. In Australia, there was a return to growth driven by Smirnoff Ice and the emergence of the new ready to serve segment through innovations such as Smirnoff Signature Serves. Ready to drink continued to grow in emerging markets such as Nigeria and Brazil.

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Business review (continued)

2011

North America

Performance

Key financials	2010 Reported	Exchange	Acquisitions and disposals	Organic movement	2011 Reported	Reported movement
	£ million	£ million	£ million	£ million	£ million	%
Net sales	3,306	(25)	(58)	**101**	**3,324**	**1**
Marketing spend	472	(3)	(1)	**34**	**502**	**6**
Operating profit before exceptional items	1,170	(12)	(1)	**98**	**1,255**	**7**
Exceptional items	(38)				**(23)**	
Operating profit	1,132				**1,232**	**9**

Brand performance	Volume movement*	Organic net sales movement	Reported net sales movement
	%	%	%
Key countries and categories:			
North America		**3**	**1**
United States		**3**	
Canada	**3**	**3**	**8**
Spirits		**4**	**3**
Beer	**1**	**2**	**2**
Wine	**(4)**	**(1)**	**(21)**
Ready to drink	**(3)**	**(3)**	**(4)**
The strategic brands:**			
Johnnie Walker	**(2)**	**1**	
Smirnoff		**(1)**	**(2)**
Baileys	**1**		**(1)**
Captain Morgan	**(2)**	**(2)**	**(2)**
Jose Cuervo	**4**	**3**	**2**
Tanqueray		**1**	
Crown Royal	**1**	**3**	**2**
Ketel One vodka	**(1)**		**(1)**
Buchanan's	**37**	**41**	**39**
Cîroc	**124**	**128**	**126**
Guinness	**3**	**4**	**3**

* Organic equals reported movement for volume, except for wine where reported movement was (19)% due to disposals in the year.

** Spirits brands excluding ready to drink.

"While overall consumer confidence remains subdued we have seen some recovery and, importantly for our business, this recovery has been stronger in the premium, and especially the super premium,

Business review (continued)

segments. Against this background we have focused on value creation. We have reduced the level of promotional activity, invested behind our premium brands and driven strong growth through innovation. The result has been that volume has been maintained while net sales grew 3%. Focus on supply efficiencies and better top line mix led to gross margin improvement. Overheads were reduced as marketing was increased and operating profit grew 8%. We have put in place improvements to our sales structure and distribution footprint that will drive further efficiencies and even better alignment with our wholesalers, all of which will enhance our strong platform."

Ivan Menezes
President, Diageo North America

Key highlights

Performance in **North America** was driven by the growth of spirits in the **United States,** where net sales were up 4%.

Spirits volume in the United States remained flat as the reduction in promotional spend and heavy competition in the vodka and rum categories resulted in share loss.

Positive price/mix in the United States was driven by the growth of Cîroc, Crown Royal Black, Buchanan's and the silver and super premium variants of Jose Cuervo.

Marketing spend increased 7% mainly behind the strategic brands and campaigns such as Cîroc's 'Smooth Talk' and 'Cîroc the New Year' television campaigns; Smirnoff's continued sponsorship of 'Master of the Mix' in the United States and the Smirnoff 'Nightlife Exchange Project' in Canada; new television activations of the 'Gentlemen, this is vodka' campaign for Ketel One vodka; and dedicated television advertising behind the silver variants of Jose Cuervo Especial and Tradicional.

Improved operating margin was driven by positive price/mix and ongoing initiatives to reduce production costs which resulted in cost of goods savings.

Beer volume and net sales growth was driven by Guinness, which offset weakness in Harp and Smithwicks. Price increases on Guinness drove price/mix improvements in beer.

The wine division has been restructured, a number of wine brands sold and the final sale and leaseback of vineyards and facilities in California completed. Price increases on Beaulieu Vineyards reserve tier wines and distribution gains by Acacia Vineyard drove three percentage points of price/mix in wines.

Ready to drink net sales declined 3%. Smirnoff Ice volume was weak but innovations have been successful including Baileys Mudslide, Jeremiah Weed malt based beverages, Jose Cuervo Light Margaritas and Smirnoff Mixed Drinks.

In **Canada** net sales grew 3% and Diageo gained share led by the strong performance of Smirnoff and Captain Morgan.

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Business review (continued)

2011

Europe

Performance

Key financials	2010 Reported	Exchange	Acquisitions and disposals	Organic movement	2011 Reported	Reported movement
	£ million	£ million	£ million	£ million	£ million	%
Net sales	2,759	(32)	(25)	**(88)**	**2,614**	**(5)**
Marketing spend	412	(5)	(1)	**(16)**	**390**	**(5)**
Operating profit before exceptional items	859	(12)	(7)	**(62)**	**778**	**(9)**
Exceptional items	(53)				**(157)**	
Operating profit	806				**621**	**(23)**

Brand performance	Volume movement*	Organic net sales movement	Reported net sales movement
	%	%	%
Key countries and categories:			
Europe	**(2)**	**(3)**	**(5)**
Great Britain		**2**	**2**
Ireland	**(1)**	**(5)**	**(11)**
Iberia	**(18)**	**(18)**	**(21)**
Greece	**(33)**	**(38)**	**(39)**
Russia	**9**	**21**	**23**
Spirits	**(1)**	**(4)**	**(5)**
Beer	**(5)**	**(4)**	**(7)**
Wine	**(1)**	**11**	**2**
Ready to drink	**(4)**	**(8)**	**(9)**
The strategic brands:**			
Johnnie Walker	**(3)**	**(5)**	**(6)**
Smirnoff	**(4)**	**(11)**	**(12)**
Baileys		**(2)**	**(3)**
J&B	**(5)**	**(8)**	**(9)**
Captain Morgan	**40**	**38**	**39**
Guinness	**(5)**	**(4)**	**(5)**

* Organic equals reported movement for volume, except for wine where reported movement was (5)% reflecting the disposal of the Gilbeys wine business and Barton & Guestier and in Ireland where reported movement was (2)% reflecting the disposal of Gilbeys.

** Spirits brands excluding ready to drink.

"The very challenging trading environments of Spain and Greece are well understood and led to the overall decline in net sales for Europe this year. However, excluding these two markets, net sales in the region grew. Strong performances from our scotch and rum brands led to double digit organic net sales

Business review (continued)

growth in Russia, Eastern Europe and Germany, while Great Britain, France, Benelux and Italy were resilient, with single digit growth. Throughout the year we focused our marketing spend on the biggest opportunities. We made the second year of 'Arthur's Day' bigger than the first, extending it to more cities with greater investment. We rolled out Captain Morgan into new markets with significantly increased spend and we continued to fuel the growth and premiumisation of spirits in Russia and Eastern Europe. At the same time, we took further steps to improve our efficiency. We reduced our overhead costs in the second half and the changes we have made to our operating structure in Western Europe will drive further efficiencies in our business. The acquisition of Mey Içki in Turkey will increase our exposure to faster growing categories and markets in fiscal 2012."

Andrew Morgan
President, Diageo Europe

Key highlights

Volume in **Europe** declined 2%. The challenging pricing environment and on trade weakness across most of Europe coupled with the decline of scotch in Southern Europe led to negative price/mix.

In **Great Britain,** VAT and duty increases and the channel shift from the on to the off trade were the main drivers in the beverage alcohol market. Within this context, Diageo spirits performed well and gained share while price increases on beer and wine resulted in small share losses. Positive price/mix was primarily a result of the growth of wine, where net sales grew 14%. The growth of wine had a negative impact on gross margin. Marketing spend increased and the incremental investment was focused on super premium brands and innovation. Net sales of reserve brands grew 30% driven by super deluxe scotch. The launch of three new products and a strong media campaign led to share gains in the fast growing premix segment and Diageo finished the year with over 50% of the segment.

High levels of unemployment and personal tax increases in **Ireland** continued to restrict consumer spending, particularly in the on trade. Guinness remained the best selling beer in Ireland, but net sales declined due to lower sales in the on trade, while the volume of Diageo's packaged beer increased in the growing off trade. Marketing spend on the brand increased, reflecting the growing momentum of 'Arthur's Day' and the Irish rugby sponsorship. Net sales of spirits grew 2% and Diageo gained share led by the continued success of Captain Morgan with investment behind on trade sampling and promotional activity.

Net sales in **Iberia** declined 18%, a deterioration from the first half. This was due to a further reduction in consumer spending in the on trade, which accounts for the majority of scotch and rum sales, as well as some destocking at both the wholesale and retail level. Despite implementing a price increase on spirits in the second half, price/mix remained flat, reflecting the higher proportion of sales through the off trade. There was a strict control of costs resulting in an increase in operating margin for the year.

Net sales in **Greece** declined 38% as significant rises in excise duties on spirits and other austerity measures dramatically reduced consumer spending and confidence. As consumers switched to at home consumption, Diageo increased its focus on the off trade, growing volume share of spirits in the off trade and this year was rated number one supplier among all beverage alcohol suppliers. Marketing spend was reduced broadly in line with net sales and activity was

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Business review (continued)

focused on supporting the launch of ready to serve cocktails and premix brands. Overheads were also reduced, but operating margin declined.

In **Russia and Eastern Europe**, Diageo delivered double digit net sales growth and positive price/mix due to price increases on spirits and an improvement in brand mix as many Russian consumers began to trade back up in spirits. There was strong growth on Johnnie Walker in all markets, while Bell's and White Horse also performed well in Russia, appealing to those consumers seeking a more affordable entry into the scotch category. Marketing spend was focused on premium and super premium scotch, the roll out of Captain Morgan and driving new premium innovation launches such as White Horse 1900.

Elsewhere in Europe, international spirits continued to gain momentum. In **Germany,** Diageo grew net sales 13% and gained share led by Johnnie Walker and the continued success of the Captain Morgan roll out. Diageo resumed shipments to **Turkey** in the second half having reached settlement in a dispute with Turkish customs authorities for which there was an exceptional charge of £92 million.

Business review (continued)

2011

International

Performance

Key financials	2010 Reported	Exchange	Acquisitions and disposals	Organic movement	2011 Reported	Reported movement
	£ million	£ million	£ million	£ million	£ million	%
Net sales	2,627	(229)	28	**321**	**2,747**	**5**
Marketing spend	302	(6)	4	**68**	**368**	**22**
Operating profit before exceptional items	771	(90)	(5)	**128**	**804**	**4**
Exceptional items	(5)				**(13)**	
Operating profit	766				**791**	**3**

Brand performance	Volume movement*	Organic net sales movement	Reported net sales movement
	%	%	%
Key countries and categories:			
International	**9**	**13**	**5**
Latin America and the Caribbean	**12**	**17**	**(6)**
Africa	**7**	**10**	**11**
Global Travel and Middle East	**7**	**14**	**18**
Spirits	**13**	**18**	**3**
Beer	**4**	**10**	**9**
Wine	**(6)**	**16**	**2**
Ready to drink	**(9)**	**1**	**(5)**
The strategic brands:**			
Johnnie Walker	**20**	**23**	**20**
Buchanan's	**(2)**	**10**	**(28)**
Smirnoff	**9**	**16**	**17**
Baileys	**9**	**14**	**8**
Guinness	**10**	**10**	**7**

* Organic equals reported movement for volume, except for wine where reported movement was (14)% primarily due to the disposal of Barton & Guestier and beer where reported movement was 8% due to the acquisition of Serengeti Breweries.

** Spirits brands excluding ready to drink.

"During the year we reinforced our focus on generating growth in International through brand and portfolio development, innovation and customer partnering. In Latin America scotch continued to grow driven by strong marketing, increased sales focus and improved customer relationships. The vodka, rum and liqueur categories also thrived, as we widened our consumer offerings across new price points. Diageo's spirits business drove a third of the growth in net sales in Africa, as distributor relationships were improved and the introduction of 20cl bottles increased accessibility. Guinness returned to growth

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Business review (continued)

in Nigeria and the strong growth of local beers continued, fuelling an 11% increase in net sales for beer in Africa. The role of the Global Travel and Middle East business as the shop window for Diageo's premium brands was reinforced with an increase in marketing spend, significantly ahead of net sales, focusing on scotch and the luxury retail experience. Overall therefore, International delivered net sales growth of 13% and organic operating profit growth of 19%, while continuing to invest in infrastructure, sales execution, innovation and acquisitions, including Serengeti Breweries, creating an enhanced platform for future growth."

Stuart Fletcher
President, Diageo International

Key highlights

In **Latin America**, there was strong performance in both scotch and other spirits categories. All markets posted double digit net sales growth with the exception of Venezuela which held net sales flat in difficult market conditions and Colombia which grew 5%. Marketing spend increased as a percentage of net sales to 17.7%.

A great performance in **Brazil** was buoyed by increased employment and average income and the wider distribution and sales focus across major cities. Growth accelerated as volume increased 23% driven by double digit growth of scotch and vodka. The growth of scotch delivered positive mix and net sales increased by 27%. The market's core innovation, Smirnoff Caipiroska, continued its strong performance with 18% net sales growth. Marketing spend was increased significantly, focused on the Johnnie Walker 'Keep Walking' campaign, on trade recruitment and strong point of sale execution across all channels.

In **North Latin America and Caribbean** net sales grew 15%. Increased consumer demand in key Caribbean and Central American markets, improved customer relationships and pricing drove a strong performance. Johnnie Walker Black Label led net sales growth followed by Buchanan's, Baileys and Smirnoff. A 9% increase in marketing spend was focused on scotch.

Volume in **Mexico** grew 20% driven by scotch and rum. The faster growth of non-scotch brands, as the business increased its category breadth, led to negative price/mix and net sales increased 18%. Marketing spend increased significantly, mainly behind scotch, rum and vodka and Diageo grew its volume share of total spirits.

In **Venezuela** a challenging economic environment with currency restrictions led to lower scotch volume. Diageo's locally produced rum brands, Cacique and Pampero, delivered strong net sales growth. Marketing spend as a percentage of net sales declined as a fall in scotch spend was only partially offset by increased spend behind local brands.

In **Africa** continued investment behind marketing and distribution, driving the strong growth of beer and momentum behind spirits brands, delivered another successful year with double digit net sales growth.

Volume grew 9% in **Nigeria** as Guinness returned to growth, double digit growth of Harp continued and Smirnoff Ice grew strongly as the new can format increased accessibility. Price increases and product mix drove an increase in net sales of 14%. Marketing spend increased, driven by sponsorship of 'Guinness. The Match' and relationship marketing as Guinness reinforced its association with football. Spend also increased behind 'Malta Guinness Street Dance'.