DIAGEO PLC
Form 6-K
August 23, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF THE

SECURITIES EXCHANGE ACT OF 1934

23 August 2012

Commission File Number: 001-10691

DIAGEO plc

(*Translation of registrant's name into English*)

Lakeside Drive, Park Royal, London NW10 7HQ

(*Address of principal executive offices*)

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

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

	Diageo plc (Registrant)
Date: 23 August 2012	By: /s/ J Nicholls Name: J Nicholls Title: Deputy Company Secretary

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Preliminary results, year ended 30 June 2012

Results which show Diageo is a strong business getting stronger

Results summary

- Growth of: 6% net sales; 4 percentage points of positive price/mix; 9% operating profit and 60 basis points of margin expansion
- Emerging markets which amount to almost 40% of Diageo's business, grew net sales 15% and operating profit 23%
- Acquisitions in faster growing markets, primarily Mey İçki in Turkey, added £320 million of net sales and £82 million of operating profit after transaction and integration costs
- Marketing investment up 8%, up 30 basis points to 15.8% of net sales, focused on strategic brands and the fastest growing markets
- Free cash flow of £1.6 billion
- During the year Diageo increased its ownership stake in Shuijingfang and Halico and announced an agreement to acquire the Ypióca brand in Brazil and the intention to invest a further £1 billion in scotch capacity
- eps pre-exceptional items up 13% to 94.2 pence per share
- Recommended 8% increase in final dividend

Paul S Walsh, Chief Executive, commenting on the year ended 30 June 2012

"Diageo is a strong business, getting stronger and the results we released this morning show that very clearly. We have increased our presence in the faster growing markets of the world, through both acquisitions and strong organic growth. We have enhanced our leading brand positions globally, through effective marketing and industry leading innovation and we have strengthened our routes to market. 6% organic top line growth, 9% operating profit growth and 60 basis points of margin expansion is a strong performance and demonstrates our commitment to delivering efficient growth.

A year ago I set out our expectations for the medium term and these results put us firmly on track to meet those goals.

In F12, we have continued to invest to ensure this business is well positioned for the future. Our confidence in the achievement of our medium term guidance is underscored by the 8% recommended increase in our final dividend."

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Key financials:

		2012	2011	Organic growth %	Reported growth %
Volume	EUm	156.5	147.5	2	6
Net sales	£million	10,762	9,936	6	8
Marketing spend	£million	1,691	1,538	8	10
Operating profit before exceptional items	£million	3,198	2,884	9	11
Operating profit	£million	3,158	2,595		22
Profit attributable to parent company's quity shareholders	£million	1,942	1,900		2
Free cash flow	£million	1,647	1,812		
Basic eps	pence	77.8	76.2		2
eps pre-exceptionals	pence	94.2	83.6		13
Recommended full year dividend	pence	43.5	40.4		8

- Operating profit before exceptional items includes directly attributable transaction and integration costs of £61 million (2011 – £21 million) in respect of business acquisitions, including £28 million in respect of business acquisitions not yet completed.

- The tax rate before exceptional items for the year ended 30 June 2012 was 17.7% compared with 17.4% for the year ended 30 June 2011. The reported tax rate, which includes exceptional tax, was 33.3% in the year ended 30 June 2012 compared with 14.5% in the year ended 30 June 2011. During the year tax authority negotiations were concluded resulting in a favourable change to the taxation basis of certain oversees profits and intangible assets.

Organic growth by region:

	Volume %	Net sales %	Marketing spend %	Operating profit %
North America	2	6	7	6
Europe	(1)	(1)	3	3
Africa	5	11	11	20
Latin America and Caribbean	10	19	17	22
Asia Pacific	2	8	11	18

Exchange rate movement

	£million
On net sales	(90)
On operating profit before exceptional items	(10)

Exchange adjustments for net sales and operating profit before exceptional items are the translation of prior year reported results at current year exchange rates.

Using current exchange rates (£1 = $1.57 : £1 = €1.28) exchange rate movements for the year ending 30 June 2013 are not expected to materially affect operating profit or net finance charges. This guidance excludes the impact of IAS 21 and 39.

Definitions

Unless otherwise stated in this announcement:

- volume is in millions of equivalent units
- net sales are sales after deducting excise duties
- percentage movements are organic movements
- commentary refers to organic movements
- share refers to value share

See page 33 for additional information for shareholders and an explanation of non-GAAP measures.

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BUSINESS REVIEW

For the year ended 30 June 2012

North America

Larry Schwartz, President, Diageo North America, commenting on the year ended 30 June 2012, said:

"The North American business has delivered another strong set of results. We have continued to drive price/mix by staying focused on: disciplined promotional spend, growth of our strategic brands and the continued growth of our premium and super premium brands, most notably Johnnie Walker and Cîroc. We've achieved this through consistent investment in targeted campaigns that have improved brand equities. Innovation continues to be a competitive strength and we have both sustained past launches and delivered exciting new products. Previously identified enhancements to our distribution system were implemented in the year and will benefit our future growth. Strong pricing and mix shift to premium products, coupled with our continued focus on cost, drove margin improvement, however this was offset by higher marketing. These measures, taken together, have delivered efficient growth and strengthened our business."

Key financials £m:

	2011	FX	Acquisitions and disposals	Organic movement	2012	Reported movement
Net sales	3,366	18	(26)	198	3,556	6 %
Marketing spend	508	2	1	37	548	8 %
Operating profit before exceptional items	1,275	3	(3)	79	1,354	6 %
Exceptional items	(23)				(11)	
Operating profit	1,252				1,343	7 %

Key markets and categories:

	Volume* %	Organic net sales %	Reported net sales %
North America	2	6	6
United States	1	6	6
Canada	2	5	5
Spirits	2	7	7
Beer	1	4	5

The strategic brands:**

	Volume* %	Organic net sales %	Reported net sales %
Johnnie Walker	9	18	18
Crown Royal	(4)	(3)	(2)
Buchanan's	9	11	11
Smirnoff	3	4	5
Ketel One	8	8	8
Cîroc	58	61	62

Wine	(5)	(7)	(17)	Captain Morgan	5	7	7
Ready to drink	-	3	3	Baileys	3	5	5
				Jose Cuervo	(6)	(7)	(7)
				Tanqueray	(2)	(1)	(1)
				Guinness	9	9	10

* Organic equals reported movement for volume except for: total North America volume 1% and wine (13)% due to disposals
** Spirits brands excluding ready to drink

- Strong delivery of the strategic brands in the **United States** resulted in spirits net sales growth of 7% and drove performance in North America. Incremental net sales were driven by Cîroc, up 61%, as the strong performance of existing variants was amplified by the launch of Cîroc Peach, Diageo's most successful North American product launch to date.
- The performance of beer improved overall as Guinness more than offset softness in other beer brands. The launch of Guinness Black Lager, the performance of Guinness and selective price increases across the brand drove price/mix improvements in beer, and Guinness gained share in the imported beer segment.
- Ready to drink net sales returned to growth, as the strong performance of innovation launches such as Parrot Bay and Smirnoff pouches, and cocktails, including Jose Cuervo Light Margarita, Zero Calorie Margarita Mix and Light Margarita Flavours offset declines on Smirnoff ready to drink.
- The wine restructuring is complete, improving the economics of the business. Wine continues to play a valuable role in the route to market, but it remains a challenging category and pricing pressure is intense.

- Marketing investment was up 7%, an increase of 20 basis points as a percentage of net sales, primarily behind strategic brands. Captain Morgan and Smirnoff regained momentum on the back of compelling new advertising campaigns ‘To Life, Love and Loot’ and a new version of ‘I choose’ which included the launch of Smirnoff Whipped Cream and Fluffed Marshmallow. The strong performance of Johnnie Walker was the result of a scotch marketing spend increase of 24%, as the launch of Johnnie Walker Double Black in October, the ‘Say it without saying it’ campaign and Blue Label engraving, drove a significant shift into higher priced variants and net sales increased 18%.
- Net sales growth of 5% in **Canada** was driven by category leaders Smirnoff and Captain Morgan which delivered increases of 5% and 8% respectively. Guinness net sales grew 8% supported by a national television campaign in English and French, the first of its kind in three years.

Europe

Andrew Morgan, President, Diageo Europe, commenting on the year ended 30 June 2012, said:

“The economy remains very uneven in Europe. We continue to deliver substantial sales and profit growth in Europe’s emerging countries of Russia, Eastern Europe and Turkey, as well as a good performance across Northern Europe. Clearly though, Southern Europe remains challenging. From a category point of view, scotch remained very strong in the emerging markets offsetting decline in Southern Europe. Smirnoff continued to grow in Great Britain and Captain Morgan continued to perform strongly with 18% net sales growth. Weaker Baileys performance was driven by the change in promotional strategy in Great Britain and the challenges in Southern Europe. Overall marketing campaign activity has been maintained and the reinvestment rate increased as we spent more behind scotch and emerging markets while improving effectiveness in Western Europe. In Turkey, the integration of Mey İçki has been completed successfully and the enhanced route to market will be a key growth driver as we bring our international brands to the expanding middle class consumer base there. Finally, the new operating model has delivered further efficiencies and improved operating margin.”

Key financials £m:

	2011	FX	Acquisitions and disposals	Organic movement	2012	Reported movement
Net sales	2,703	(25)	288	(17)	2,949	9 %
Marketing spend	403	(4)	30	10	439	9 %
Operating profit before exceptional items	796	(4)	107	26	925	16 %
Exceptional items	(157)				41	
Operating profit	639				966	51 %

Key markets and categories:

	Volume* %	Organic net	Reported net

The strategic brands:**

	Volume* %	Organic net	Reported net

		sales %	sales %
Europe	(1)	(1)	9
Western Europe	(3)	(3)	(4)
Russia and Eastern Europe	14	16	13
Turkey	7	28	983
Spirits	-	1	17
Beer	(3)	-	(1)
Wine	(5)	(10)	(5)
Ready to drink	(8)	(7)	(7)

		sales %	sales %
Johnnie Walker	5	4	3
J B	(4)	(7)	(8)
Smirnoff	1	5	4
Captain Morgan	20	18	18
Baileys	(9)	(7)	(8)
Guinness	(4)	(2)	(3)

* Organic equals reported movement for volume except for: total Europe volume 12%, spirits 16%, wine (2)% and Turkey 1,081% reflecting the acquisition of Mey İçki this year and sale of Gilbeys in the previous year

** Spirits brands excluding ready to drink

- In increasingly challenging economic conditions in Southern Europe, Diageo Europe’s underlying performance remained relatively consistent throughout the year. Organic net sales growth in Turkey was (12)% in the second half against 114% in the first half as it lapped the customs dispute that was resolved in April 2011. The second half was also impacted by the decision to increase H1 shipments into Eastern European markets to avoid custom administration delays which had occurred in H2 in prior years.

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- Formerly material markets for Diageo, Iberia, Greece and Italy in total represent 5% of net sales globally after a number of years of tough trading. These Southern European markets declined 6% in volume and 9% in net sales as deeper austerity measures put additional pressure on consumption and sales mix. J B and Baileys were the brands impacted most, both declining 8% in net sales in these markets. However, growth of Tanqueray, Captain Morgan and Bushmills partially offset these declines.

- In Ireland, Guinness Draught and Smithwick's grew share in the on trade and Harp in the off trade, but the beer market remains in decline and net sales fell 5%.

- In Great Britain, reduced promotional activities across the portfolio drove 2% decline in net sales with 4 percentage points of positive price/mix. Smirnoff delivered 6% net sales growth, driven by Smirnoff Red gaining share despite the promotional reductions. Beer net sales grew 6% with price increases on Guinness and a successful year for Red Stripe as the brand's sales, distribution and marketing were brought in house.

- The rest of **Western Europe** delivered 6% growth in spirits, fuelled by double digit top line growth of Smirnoff and Captain Morgan. Germany maintained strong momentum on the back of increased customer marketing focus and benefited from the premiumisation trend for international spirits. Captain Morgan saw almost 60% net sales growth with 4 percentage points of share gain. Net sales in France were flat as the second half saw the reversal of the pre excise tax increase buy in coupled with difficult market conditions. The Singleton more than doubled in net sales as the brand gained share in France supported by improved distribution.

- In **Russia and Eastern Europe**, double digit net sales growth was driven by scotch, with Johnnie Walker up 11%, Bell's up 57% and White Horse up 17%. Marketing spend was focused behind Johnnie Walker and also on launching the first ever local campaign for White Horse, the biggest whisky brand in Russia. Black & White, targeting consumers seeking a more affordable entry into the scotch category, performed well following its launch last August. As a result of broadening from scotch into other categories in these fast growing markets, Captain Morgan and Bushmills also contributed to top line growth with net sales growth over 30% for both and share gains within the growing rum and Irish whiskey categories.

- In **Turkey** the integration of Mey İçki has been completed successfully. Net sales growth of 28% reflected the resolution in 2011 of the customs dispute which had impacted imports and also the share gains made as a result of marketing investment behind Johnnie Walker, J B and Smirnoff. The inorganic part of the Turkish business delivered £291 million of net sales as Yeni Raki continued to be the market leader and while the recent duty increase impacted sales in the category, Mey İçki gained 3 percentage points of share on the back of very effective on trade marketing activities and increased penetration into beer led outlets.

Africa

Nick Blazquez, President, Diageo Africa, commenting on the year ended 30 June 2012, said:

"Diageo Africa's strong routes to market and leading brands have harnessed the growth opportunities presented by the region. This has delivered another year of double digit net sales growth with particularly strong growth in East Africa, Ghana and Cameroon. While it was a further year of strong net sales growth in beer, spirits are

now making a meaningful contribution, driving over 40% of total growth and representing 25% of net sales in the region. This increased breadth together with price increases was reflected in operating margin improvement. Fiscal 2012 was another year of investment for growth. We invested in marketing our brands, primarily Guinness, Tusker and Johnnie Walker, and behind innovations such as the launch of Harp Lime in Nigeria. We invested in capital expenditure to expand capacity in Nigeria and East Africa and we broadened our presence across Africa, with the acquisition of the Meta Abo Brewery in Ethiopia. I am particularly proud of our investment in the communities in which we operate, through our flagship Water of Life programme and also through our sustainable business model, supporting the development of local enterprise."

Key financials £m:

	2011	FX	Acquisitions and disposals	Organic movement	2012	Reported movement
Net sales	1,357	(77)	29	138	1,447	7 %
Marketing spend	140	(8)	4	14	150	7 %
Operating profit before exceptional items	333	(22)	4	65	380	14 %
Exceptional items	(7)				(5)	
Operating profit	326				375	15 %

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Key markets and categories:

	Volume* %	Organic net sales %	Reported net sales %
Africa	5	11	7
Nigeria	(1)	4	1
East Africa	8	19	16
Africa Regional Markets	7	15	13
South Africa	8	7	(3)
Spirits	9	20	11
Beer	4	9	6
Ready to drink	(11)	-	(6)

The strategic brands**:

	Volume* %	Organic net sales %	Reported net sales %
Johnnie Walker	35	39	31
J B	18	12	4
Smirnoff	25	20	10
Captain Morgan	1	-	(9)
Baileys	22	26	21
Guinness	3	7	3

* Organic equals reported movement for volume except for: Africa 8%, East Africa 11%, Africa Regional Markets 14%, beer 8% and Smirnoff 26% reflecting the acquisition of Serengeti and Meta Abo Breweries

** Spirits brands excluding ready to drink

- Net sales in **Nigeria** grew 4%. Harp delivered another year of double digit net sales growth, however, net sales of Guinness declined slightly as price increases were implemented to maintain its premium position in a difficult economic environment. Strong spirits net sales growth resulted from more volume of premium plus brands and price increases across the portfolio, delivering positive price/mix. Marketing spend increased 3% driven by the successful launch of Harp Lime.

- **East Africa** delivered a strong performance driven by Senator, Tusker, Guinness and the strong growth of spirits. Investment behind marketing, innovation such as Tusker Lite and improved distribution drove the strong beer performance. Increased sales focus on international spirits and Kenya Cane in new glass bottles drove very strong double digit growth across spirits.

- Cameroon and Ghana represent three quarters of Diageo's **Africa Regional Markets** and delivered approximately 90% of incremental net sales. This was driven by Guinness in Cameroon, and Malta, Guinness and Star in Ghana. Marketing spend increased 5% across Africa Regional Markets, principally focused on Johnnie Walker, with a campaign that included outdoor advertising, trade visibility and mentoring programmes. During the year Diageo completed the acquisition of the Meta Abo Brewery in Ethiopia and continued to build the spirits business in Angola, expanding the distribution footprint in the region.

- Increased headcount and outlet coverage delivered improvements in the route to market in **South Africa**. This drove strong double digit net sales growth of Smirnoff and Johnnie Walker, which offset a decline in ready to drink. Price increases followed a 20% increase in excise duty and net sales grew 7%. Marketing spend was focused behind Johnnie Walker with the 'Step Up' campaign, contributing to brandhouse's 70 basis points of volume share gain in the off trade scotch category. Overall brandhouse grew share of total beverage alcohol by 90 basis points.

Latin America and Caribbean

Randy Millian, President, Diageo Latin America and Caribbean, commenting on the year ended 30 June 2012, said:

"Our performance in Latin America and Caribbean during the year demonstrated the strength and sustainability of our business. In order to capture the consumer opportunity in the emerging middle class, we increased marketing spend to enhance our brand equities in scotch, increase the resonance of vodka and support innovation. We enhanced our routes to market with more dedicated distributors in Brazil, a new distributor agreement in Costa Rica and a new supply distribution centre in Panama. Additionally we have helped more than 12,000 people acquire vocational skills through our Learning for Life programme. We finished the year with the exciting acquisition of Ypióca, which will dramatically expand our presence in Brazil. This sustained investment is building a strong and successful business."

Key financials £m:

	2011	FX	Acquisitions and disposals	Organic movement	2012	Reported movement
Net sales	1,063	(22)	-	198	1,239	17 %
Marketing spend	184	(6)	1	31	210	14 %
Operating profit before exceptional items	318	(2)	(2)	69	383	20 %
Exceptional items	(6)				(2)	
Operating profit	312				381	22 %

Key markets and categories:

	Volume* %	Organic net sales %	Reported net sales %
Latin America and Caribbean	10	19	17
PUB	11	20	15
Andean	18	42	44
Mexico	15	16	9
West LAC	9	16	16
Spirits	11	20	18
Beer	(2)	8	7
Wine	15	21	16
Ready to drink	2	15	10

The strategic brands**:

	Volume* %	Organic net sales %	Reported net sales %
Johnnie Walker	5	14	12
Buchanan's	13	28	25
Smirnoff	18	19	13
Baileys	3	9	6

* Organic equals reported movement for volume
** Spirits brands excluding ready to drink

- Price increases and accelerated reserve brand performance drove 9 percentage points of positive price/mix in **Paraguay, Uruguay and Brazil (PUB)**. Over 60% of net sales growth was driven by scotch, primarily Johnnie Walker and Old Parr. Investment continued behind the route to market, with more distributors on an exclusive basis and behind brands with a 14% increase in marketing spend, over half of which was focused behind Johnnie Walker and the 'Keep Walking Brazil' campaign, driving 17% net sales growth for the brand. The balance of spend focused on vodka, which accounted for over 20% of incremental net sales, driven by both the impressive growth of Smirnoff and Cîroc.

- Venezuela and Colombia make up the **Andean** market. Here growth was driven by a recovery of Venezuelan imports in line with currency availability and a 32% increase in net sales in Colombia. Scotch delivered over two thirds of the market growth while double digit net sales growth in rum and liqueurs also made significant contributions. Diageo gained share in both deluxe and super deluxe scotch, with two thirds of the increase in marketing spend directed towards the scotch category, principally Buchanan's in Venezuela, Old Parr in Colombia and Johnnie Walker and the launch of Haig Supreme across the market.

- Strong growth of scotch drove 16% net sales growth in **Mexico**. Solid growth of Captain Morgan and Zacapa coupled with the launch of Nuvo drove double digit growth in rum and liqueurs. This increased Diageo's category breadth and increased its share of total spirits. Marketing spend increased 12% and focused on both scotch and rum.

- A very good performance in **West Latin America and Caribbean** was delivered by strong growth in Argentina, Chile, Peru, the free trade zones, Costa Rica and Jamaica. Price increases and double digit net sales growth of scotch and reserve brands delivered 7 percentage points of positive price/mix. Marketing spend focused on Johnnie Walker and Smirnoff which grew net sales 9%.

Asia Pacific

Gilbert Ghostine, President, Diageo Asia Pacific, commenting on the year ended 30 June 2012, said:

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"We had another successful year in Asia Pacific maintaining our leadership position in international spirits and gaining share in all key markets and categories. The emerging markets of Asia grew double digit with South East Asia up 15%, Greater China 13% and India 24%. Uncertainty around the global economy led to further contraction of the whisky market in Korea and weaker consumer confidence in Australia which led to roughly flat net sales in developed Asia Pacific. The price increases we implemented in South East Asia, China and Global Travel Asia drove more than half of our incremental top line, and this together with the premiumisation of our portfolio delivered 6 percentage points of positive price/mix. Scotch remained the growth engine of the region delivering more than 80% of net sales growth and almost half of this growth came from our super deluxe brands. Other reserve brands also performed well, with very strong net sales growth from Zacapa, Ketel One vodka and Cîroc. I am also proud of the performance of Guinness, delivering 12% net sales growth through share gains and strong pricing. We continued to invest in infrastructure, sales execution, innovation and acquisitions, including our increased stake in Shuijingfang in China and Halico in Vietnam, creating a stronger platform for future growth. Despite these investments and as a result of our successful premiumisation strategy and focus on pricing, operating margin improved in the year."

Key financials £m:

	2011	FX	Acquisitions and disposals	Organic movement	2012	Reported movement
Net sales	1,377	17	-	107	1,501	9%
Marketing spend	303	6	-	35	344	14%
Operating profit before exceptional items	299	-	(11)	54	342	14%
Exceptional items	(50)				(10)	
Operating profit	249				332	33%

Key markets and categories:

	Volume* %	Organic net sales %	Reported net sales %
Asia Pacific	2	8	9
South East Asia	3	15	14
Greater China	8	13	16
India	17	24	13
Global Travel Asia & Middle East	(5)	11	11
Australia	-	(1)	3
North Asia	(1)	1	3
Spirits	3	10	12
Beer	1	11	11
Ready to drink	(6)	(6)	(2)

The strategic brands:**

	Volume* %	Organic net sales %	Reported net sales %
Johnnie Walker	4	17	18
Windsor	(4)	(1)	-
Smirnoff	1	3	2
Guinness	10	12	12

*Organic equals reported movement for volume
**Spirits brands excluding ready to drink

- Underlying consumption trends continued to be strong in emerging Asia as reflected in the 14% increase in full year net sales. In the fourth quarter route to market changes were implemented in South East Asia which reduced shipments in the period and adversely impacted the market's second half performance. The global slowdown affected consumer sentiment in Australia and the second half was weaker. Diageo Korea net sales also slowed from the first half but Diageo gained share in scotch and vodka.

- **South East Asia** delivered 3% volume growth with 12 percentage points of price/mix as a result of price increases and premiumisation and the market was the biggest contributor to pricing, deluxe and above scotch growth and margin improvement in the region. Deluxe and super deluxe launches, such as Platinum, XR21 and Double Black helped the Johnnie Walker portfolio to gain further share which together with price increases resulted in 23% net sales growth. Guinness had another strong year, breaking the £100 million barrier, with 13% net sales growth through strong pricing and continued share gains in Indonesia on the back of St Patrick's and Arthur's Day and World Series of Pool activations.

- Net sales growth of 13% in **Greater China,** and 16% in China, with 5 and 6 percentage points of positive price/mix, respectively, was due to the successful premiumisation strategy and price increases across the portfolio. Reserve brands net sales increased over 60% in China with continued strong performance from Johnnie Walker super deluxe variants and The Singleton. Baileys posted 37% net sales growth with 18 percentage points of positive price/mix, supported by increased marketing spend, in particular the Baileys 'Perfect Place' participation platform. The launch of Guinness Original in January in Shanghai together with the strategy of super premium pricing drove 17% net sales increase for Guinness. Marketing spend increased ahead of net sales at 20%, with most of the incremental investment going behind Johnnie Walker Deluxe and Super Deluxe in China. Strong premiumisation momentum continued in the second half of the year as reflected in the 7 percentage points of price/mix achieved and underlying consumption trends remained robust. Lower top line growth in the second half was driven by lapping an unusually strong third quarter last year together with shipment phasing in Taiwan.

- Strong momentum across the scotch portfolio, with share gains in every segment, was the main driver of 24% net sales growth in **India**. VAT69 delivered 39% top line growth with 10 percentage points of price/mix, supported by increased marketing spend and the launch of VAT69 Black. Johnnie Walker Black Label net sales increased over 40%, driven by the Formula 1 sponsorship programme, along with the 'Step Inside the Circuit' campaign. Rowson's Reserve, launched in the prestige Indian Made Foreign Liquor segment in October, gained distribution and share.

- Diageo's **Global Travel Asia and Middle East** remained strong. Volume in the Middle East was impacted by price increases and despite 9% positive price/mix, net sales declined 2% as a result. In Global Travel Asia, reserve brands net sales increased 37% supported by the successful launch of Johnnie Walker Platinum, Gold Label Reserve, XR21 and the Blue Label Casks Edition. The increased focus on reserve brands together with price increases and product differentiation strategy for duty free consumers resulted in 31% net sales growth for Global Travel Asia.

- In a weaker market Diageo **Australia** net sales declined slightly, however the business delivered share gains in spirits and ready to drink. The market is expected to return to growth on the basis of strong fundamentals. Increased focus and marketing spend delivered over 80% net sales growth of reserve brands, with Johnnie Walker's ultra premium brands the main contributors. Innovation extended Bundaberg into new segments with the launch of Bundaberg Five into white rum and the limited edition Bundy Masters Distillers Collection into premium to drive 5% growth. Smirnoff also grew 5% on the back of a successful advertising campaign. Baileys gained share but declined in a tough category.

- In **North Asia** strong share gains in a declining scotch category and in the growing beer category in Korea, together with share gains in vodka, resulted in 1% net sales growth. Windsor gained further market share in Korea, however the brand's net sales remained in decline as the contraction of the whisky market accelerated. Guinness grew 18% in Korea and Smirnoff more than doubled with increased marketing spend behind vodka and beer as part of the strategy to build Diageo's footprint outside of the whisky category. Japan delivered 3% net sales growth, lapping the launch of I.W. Harper ready to drink, with strategic brands growing double digit, with Guinness up 17% and Smirnoff up 33%, as the brand increased market share on the back of improved distribution and successful brand activations.

Cost of sales

Diageo cost of sales excluding exceptional items was £4,228 million in the year ended 30 June 2012 compared with £3,983 million in the year ended 30 June 2011. Acquisitions and disposals added £91 million, with Mey İçki being the principal contributor, and favourable exchange movements reduced cost of sales by £38 million. The 2% volume increase together with some mix benefits added £110 million to cost of sales. Cost increases on materials, utilities and logistics amounted to 5% of cost of sales, and half of this increase was offset by cost reductions through asset rationalisation, procurement benefits and operational efficiencies.

Corporate revenue and costs

Net sales were £70 million in the year ended 30 June 2012, flat relative to the comparable prior period. Net operating charges were £186 million in the year ended 30 June 2012 having been £137 million in the year ended 30 June 2011.

The movement was made up of:

- a charge of £12 million versus a benefit of £21 million in the year ended 30 June 2011, arising from currency transaction hedging which is controlled centrally
- £19 million in respect of transaction costs incurred on acquisitions
- a £3 million reduction in underlying corporate costs

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CATEGORY REVIEW
For the year ended 30 June 2012

Key Financials Category performance:

	Volume* %	Organic net sales %	Reported net sales %
Spirits**	3	8	12
Beer	2	5	4
Wine	(3)	(7)	(9)
Ready to drink	(3)	-	-
Total	2	6	8
Strategic brand performance**			
Whisk(e)y:	4	10	9
Johnnie Walker	7	15	14
Crown Royal	(4)	(3)	(3)
J B	(1)	(3)	(5)
Buchanan’s	12	24	23
Windsor	(4)	(1)	-
Bushmills	18	20	19
Vodka:	5	13	15
Smirnoff	5	6	5
Ketel One	9	9	10
Cîroc	60	62	63

	Volume* %	Organic net sales %	Reported net sales %
Rum:	6	8	8
Captain Morgan	9	9	9
Liqueurs:	(2)	1	-
Baileys	(4)	(1)	(1)
Tequila:	(2)	-	-
Jose Cuervo	(4)	(5)	(5)
Gin:	1	3	3
Tanqueray	1	2	2
Beer:	2	5	4
Guinness	1	4	3

* Organic equals reported movement for volume, except for: total volume 6%, spirits 7%, beer 4%, wine (4)%, vodka 8% reflecting the Mey İçki, Meta Abo and Serengeti Breweries acquisitions and disposals last year
** Spirits brands excluding ready to drink

Spirits was 66% of Diageo net sales and delivered over 80% of the group’s growth. Developed markets grew net sales 4% on flat volume and emerging markets grew 18% with 9 percentage points of positive price/mix through strong pricing and favourable mix as consumers move up the price ladder.

Total **Whisk(e)y** was 35% of Diageo portfolio by net sales. Scotch delivered strong growth with net sales up 12%. Premium and super premium drove this growth and price/mix was up 7 percentage points as a result. In the developed markets, weakness in Southern Europe led to declines in value and standard scotch brands. These segments grew double digit in the emerging markets as Diageo continued to drive recruitment through the more affordable brands. Premium and super premium brands grew in all regions on the back of successful innovations and strong marketing. The Singleton more than doubled net sales in Germany and France behind the 'Best tasting Single Malt – You decide' campaign and Old Parr grew 23% with 10 percentage points of positive price/mix through exceptional growth in PUB and Colombia. In the growing North America whiskey segment Bulleit delivered over 60% growth in net sales on the back of the success of Bulleit Rye.

- **Johnnie Walker** had another exceptional year, posting 15% net sales growth, with the fastest growth coming from super deluxe variants. The growth of Red Label was driven by the emerging middle class recruitment programmes with the 'Step Up' activation delivering almost 60% net sales growth in South Africa and the 'Keep Walking Brazil' campaign driving 16% net sales growth in PUB. The continued success of Johnnie Walker Double Black, priced at a 20% premium to Black Label, together with price increases drove 15% net sales growth for the Black Label variant. Super deluxe grew 28% in the year as the brand experienced a significant shift to higher marks in North America,driven by the new Blue Label packaging and the successful engraving advertising campaign, and as Gold Label net sales more than doubled in Asia Pacific. Johnnie Walker XR21 was also very successful within its core geographical target region of Asia Pacific, reaching near 20% share in its segment since launch. Total marketing spend increased 11% with over 80% of the incremental investment directed towards emerging markets, especially Asia Pacific and Latin America, and behind proven global growth drivers, including the 'Walk with Giants' and 'Step Inside the Circuit' campaigns and ongoing grand prix sponsorships.

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- While the economic challenges in Europe have resulted in a 3% reduction in **J B** net sales globally, this represented a significant slowing in the rate of decline versus last year as the J B business is rebalancing between developed and emerging markets. Slowdown in the second half reflected the reversal of the pre excise duty increase buy-in in France, while underlying consumption trends did not change materially. Turkey posted 21% net sales growth and Africa and Latin America also saw double digit top line growth on the back of the 'City Remix' programme significantly increasing consumer engagement with the brand.

- **Buchanan's** delivered strong double digit net sales growth for the third consecutive year, supported by the launch of the 'Share Yourself' campaign and the solid growth of Buchanan's Special Reserve, especially in Venezuela and Colombia. The 12 percentage points of positive price/mix was a result of price increases and premiumisation across the Americas, helped by the successful roll-out of Buchanan's Master, trading consumers up beyond deluxe at an 18% price premium. The brand posted 11% net sales growth in North America.

- **Windsor** grew share and remained the leading scotch brand in Korea, net sales however declined 1% as the whisky market contracted further in the country. Share gain has been achieved through the 'Share the Vision' campaign in the first half, followed by point of sale promotions in the second half. Windsor 12 and 17 variants enjoyed 4 and 2 percentage points of positive price/mix, respectively on the back of price increases put through last year.

- While **Crown Royal** held share in the highly competitive non flavoured North America whiskey segment, the brand's performance was impacted by the lapping of the successful launch of Crown Royal Black last year and also by its segment losing share to flavoured whiskey. Marketing spend was focused behind the launch of the 'Crown Life' programme appealing to the African-American and Hispanic consumers in the United States.

- **Bushmills** delivered double digit increases in both volume and net sales. Its performance was particularly strong in Eastern Europe, where it made some important share gains. Bushmills Honey was launched successfully in the United States and delivered a third of the brand's growth globally.

Vodka, 12% of Diageo net sales, saw 13% growth with positive price/mix as value vodka brands declined and super premium brands grew strongly with volume up almost 30%. The category drove a quarter of the group net sales growth with the super premium segment delivering 74% of that increase through the continued strong performance of Cîroc.

- **Smirnoff** returned to strong growth, driven by a marked acceleration in developed markets and double digit growth in Africa and Latin America. Marketing spend increased 10% focusing on proven growth drivers. Fifty countries participated in the Smirnoff 'Nightlife Exchange Project', which in its second year was expanded by the collaboration with Live Nation and Madonna. In the United States, Smirnoff grew volume share with the highly successful innovation launches of Smirnoff Whipped Cream and Fluffed Marshmallow and also as a result of the Smirnoff 21 'I Choose' campaign. Great Britain, Germany and the Benelux led Smirnoff's growth in Europe through the execution of 'Madonna Limited Edition' campaigns.

- **Ketel One** vodka delivered 8% net sales growth in North America with continued share gains fuelled by the highly successful 'Gentlemen, this is Vodka' campaign. Ketel One vodka is now sold in 63 markets. Latin America and Asia Pacific posted net sales growth over 50%, with PUB, Australia and South East Asia being the key drivers of growth in these regions on the back of leveraging the brand's association with cocktail culture through the media.

- **Cîroc** had another outstanding year with 62% global top line growth supported by 52% increase in marketing spend, mainly behind the 'Cîroc the New Year' campaign and in the digital space. The highly successful launch of Cîroc

Peach together with the continued double digit growth of Red Berry and Coconut depletions helped the brand to gain further share and it is the fastest growing ultra premium vodka in the United States. Outside North America, the brand more than doubled its net sales.

Rum, which was 6% of Diageo net sales, posted 8% growth with 2 percentage points of positive price/mix helped by 32% growth in Latin America and a 7% increase in North America.

- The leading brand of the portfolio, **Captain Morgan** posted 9% net sales growth. In North America, the new 'Life, Love and Loot' campaign supplemented with the launch of Captain Morgan Black Spiced and marketing innovations, such as the 'Captain's Conquest', resulted in share gains and 7% net sales growth. Elsewhere the brand continued to benefit from the long running 'Got a Little Captain in You?' and the 'Captain's Island' campaigns, which drove the 15% increase in marketing spend globally and resulted in strong double digit top line growth in Germany, Ireland, Russia and Eastern Europe, and the brand almost tripled in the Benelux.

- The wider rum category saw very strong double digit growth in Zacapa due to Latin America, Europe and North America. The successful extension of Bundaberg into the white rum segment and the launch of the limited edition premium Bundy Masters Distillers Collection drove growth of Bundaberg in Australia.

Liqueurs were 5% of Diageo net sales. The challenging commercial environment in Western Europe together with the reduction in the depth and frequency of promotions in Great Britain continued to impact **Baileys'** performance. However, Baileys posted 6% growth outside Europe with net sales up 42% in China on the back of a new marketing campaign aimed at female consumers.

Tequila represented 3% of Diageo net sales. Don Julio continued its strong performance with 26% growth, outperforming the fast growing super premium tequila segment with the continued acceleration of 1942, Reposado, Anejo and the successful launch of Tequila Don Julio 70, the world's first Anejo Claro.

- **Jose Cuervo Especial** declined 5%, driven by the impact of distributor destocking on Jose Cuervo Especial Gold in the first half and also by consumers shifting away from dark tequilas. This was partially offset by an increase in Jose Cuervo Especial Silver net sales, helped by consumer trends and the recruitment from the ProBeach Volleyball Series.

Gin represented 3% of Diageo net sales and grew 3%. Emerging market consumer demand drove double digit net sales growth of value gin brands in Africa, while super premium gin grew over 20% in Asia Pacific and Latin America as the category saw a resurgence as the 'white spirit of choice' with bartenders.

- **Tanqueray** grew net sales 2% globally, despite a slight decline in its biggest market, North America, as the brand grew over 10% in its new markets across Western Europe, with Iberia up 24%, and grew 17% in the emerging markets, with both Africa and Latin America posting double digit growth. The new brand strategy and the supporting 'Tonight We Tanqueray' communications campaign drove 11% increase in marketing spend.

Premium local spirits: During the year Diageo completed the acquisition and integration of Mey İçki, the leading spirits company in Turkey. Mey Içki posted £291 million net sales in the year with 5.1 million equivalent units of volume. Raki is the main spirits category in the Turkish market and Mey Içki is a clear market leader in the category with Yeni Raki being the most recognised brand. Mey Içki gained share during the year as marketing spend was focused on modern and traditional raki occasions, building strong brand equities and maintaining executional excellence in store. Diageo also increased its shareholding in Quanxing by 4% and from 29 June has control of Shuijingfang, fiscal 2013 will be the first full year Diageo consolidates the company's results. Chinese white spirits delivered 36% net sales growth outside China, driven by price increases and expanded distribution footprint with Shui Jing Fang now available in the duty free channel at forty airports and on two airlines worldwide and also in seven domestic markets. During the year Diageo also acquired an additional 20.6% stake in Hanoi Liquor Joint Stock Company in Vietnam and agreed to acquire Ypióca, the leading premium cachaça brand in Brazil.

Beer brands represented 21% of Diageo net sales and grew 5% with the developed markets up 1% despite declining volumes and emerging markets growing 9% with 6 percentage points of positive price/mix.

- **Guinness** made up 52% of Diageo's beer business by net sales. The brand delivered 2% net sales growth in the developed markets as the successful launch of Guinness Black Lager together with price increases on Guinness Kegs drove 9% net sales growth for Guinness in North America. In the emerging markets, net sales were up 8% with strong growth across Africa and continued share gains and price increases in Indonesia. Nigeria is now the biggest market for Guinness by net sales and the brand further extended its footprint this year with double digit growth across the other Africa markets. Marketing spend behind the 'Guinness The Match' and 'Guinness Football Challenge' campaigns tapped into African consumers' fervent love of football, and the launch of a landmark new TV campaign 'The Ticket', and 'Guinness VIP', a mobile phone relationship marketing programme with the participation of 2.4 million consumers, drove 7% increase in spend globally.

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Local African beers continued to perform strongly, with Tusker and Harp posting strong double digit top line growth supported by innovations, such as the launch of Harp Lime in Nigeria and Tusker Lite in Kenya. Senator delivered more than a quarter of the beer net sales growth, driven by price increases and footprint expansion in Kenya.

Wine was 4% of Diageo net sales. It remained a challenging category with volume declining in North America and Europe and with a shift to the lower end of the portfolio.

Ready to drink, 7% of Diageo net sales, was flat. Emerging markets posted a 7% increase, offset by a 2% reduction in developed markets, driven by a decline in Australia despite share gains. The transfer of production and sales of Smirnoff ready to drink in South Africa to Diageo's associate had a full point impact on growth rates. Excluding this the category grew 1% globally. Smirnoff Ice posted strong growth across the emerging middle class consumers of Africa and Latin America and the launch of Parrot Bay and Smirnoff Frozen Pouches proved to be a huge success in the United States. The launch of Smirnoff Ice Green Apple and Raspberry Splash revived the Smirnoff Ice portfolio in Asia driving accessibility and recruiting female consumers to the category.

FINANCIAL REVIEW

Summary consolidated income statement

	Year ended 30 June 2012 £ million	Year ended 30 June 2011 £ million
Sales	14,594	13,232
Excise duties	(3,832)	(3,296)
Net sales	10,762	9,936
Operating costs before exceptional items	(7,564)	(7,052)
Operating profit before exceptional items	3,198	2,884
Exceptional operating items	(40)	(289)
Operating profit	3,158	2,595
Sale of businesses	147	(14)
Net finance charges	(397)	(397)
Share of associates' profits after tax	213	176
Profit before taxation	3,121	2,360
Taxation	(1,038)	(343)
Profit from continuing operations	2,083	2,017
Discontinued operations	(11)	-
Profit for the year	2,072	2,017
Attributable to:		
Equity shareholders of the parent company	1,942	1,900
Non-controlling interests	130	117
	2,072	2,017

Sales and net sales

On a reported basis, sales increased by £1,362 million from £13,232 million in the year ended 30 June 2011 to £14,594 million in the year ended 30 June 2012 and net sales increased by £826 million from £9,936 million in the year ended 30 June 2011 to £10,762 million in the year ended 30 June 2012. Exchange rate movements decreased reported sales by £123 million and reported net sales by £90 million. Acquisitions increased reported sales by £741 million and reported net sales by £320 million. Disposals decreased reported sales by £31 million and reported net sales by £29 million.

Operating costs before exceptional items

On a reported basis, operating costs before exceptional items increased by £512 million from £7,052 million in the year ended 30 June 2011 to £7,564 million in the year ended 30 June 2012 due to an increase in cost of sales of £245 million from £3,983 million to £4,228 million, an increase in marketing spend of £153 million from £1,538 million to £1,691 million, and an increase in other operating expenses before exceptional costs of £114 million, from £1,531 million to £1,645 million. Exchange rate movements benefited total operating costs before exceptional items by £80 million.

Exceptional operating items

Exceptional operating charges of £40 million for the year ended 30 June 2012 comprised:

- a gain of £115 million (2011 – £nil) in respect of changes in the calculation of future pension increases for Diageo's principal UK and Irish pension schemes,
- a brand impairment charge of £59 million (2011 – £39 million),
- a charge of £69 million (2011 – £77 million) for the operating model review announced in May 2011 and
- £27 million (2011 – £34 million) for the restructuring of the group's Global Supply operations in Scotland, Ireland and in the United States.

In the year ended 30 June 2011 exceptional operating items also included a charge of £139 million in respect of duty settlements with the Turkish and the Thai customs authorities and settlements with the Securities and Exchange Commission (SEC) in respect of various regulatory and control matters.

In the year ended 30 June 2012 total restructuring cash expenditure was £158 million (2011 – £118 million). In the year ended 30 June 2011 cash payments of £141 million were also made for the duty and the SEC settlements. An exceptional charge of approximately £50 million is expected to be incurred in the year ending 30 June 2013 in respect of the restructuring of Global Supply operations principally in Ireland, while cash expenditure is expected to be approximately £80 million.

Post employment plans

The deficit in respect of post employment plans before taxation increased by £247 million from £838 million at 30 June 2011 to £1,085 million at 30 June 2012 primarily as a result of a decrease in the discount rate assumptions used to calculate the liabilities of the plans partly offset by a decrease in the inflation assumptions and changes in the calculation of future pension increases. Cash contributions to the group’s UK and Irish pension plans in the year ended 30 June 2012 were £133 million (2011 – £151 million) and are expected to be approximately £140 million for the year ending 30 June 2013.

Operating profit

Reported operating profit for the year ended 30 June 2012 increased by £563 million to £3,158 million from £2,595 million in the prior year. Before exceptional operating items, operating profit for the year ended 30 June 2012 increased by £314 million to £3,198 million from £2,884 million in the prior year. Exchange rate movements decreased both operating profit and operating profit before exceptional items for the year ended 30 June 2012 by £10 million. Acquisitions increased reported operating profit by £79 million and disposals decreased reported operating profit by £3 million.

Exceptional non-operating items

In the year ended 30 June 2012 gain on sale of businesses of £147 million included a step up gain of £124 million on the revaluation of the group’s equity holdings in Quanxing and Shuijingfang to fair value as the associates became subsidiaries during the year. In addition, exceptional non-operating items include a gain of £23 million on the sale of the group’s investment in Tanzania Breweries. In the year ended 30 June 2011 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.

Net finance charges

Net finance charges amounted £397 million in the year ended 30 June 2012 (2011 – £397 million).

Net interest charge increased by £13 million from £369 million in the prior year to £382 million in the year ended 30 June 2012. The effective interest rate was 4.7% (2011 – 4.9%) in the year ended 30 June 2012 and average net borrowings increased by £1.1 billion compared to the prior year. For the calculation of effective interest rate, the net interest charge excludes fair value adjustments to derivative financial instruments and borrowings and average monthly net borrowings include the impact of interest rate swaps that are no longer in a hedge relationship but exclude the market value adjustment for cross currency interest rate swaps. The income statement interest cover was 8.9 times and cash interest cover was 9.4 times (2011 – 8.3 times and 10.6 times, respectively).

Net other finance charges for the year ended 30 June 2012 were £15 million (2011 – £28 million). There was a change of £10 million in finance charges in respect of post employment plans from a charge of £3 million in the year ended 30 June 2011 to an income of £7 million in the year ended 30 June 2012. Other finance charges also included £17 million (2011 – £16 million) on unwinding of discounts on liabilities, a hyperinflation adjustment of £3 million (2011 – £9 million) in respect of the group's Venezuela operations and £2 million (2011 – £nil) in respect of net exchange movements on certain financial instruments. In the year ending 30 June 2013 the finance charge in respect of post employment plans is expected to be £12 million.

Associates

The group's share of associates' profits after interest and tax was £213 million for the year ended 30 June 2012 compared to £176 million in the prior year. Diageo's 34% equity interest in Moët Hennessy contributed £205 million (2011 – £179 million) to share of associates' profits after interest and tax.

Profit before taxation

Profit before taxation increased by £761 million from £2,360 million in the prior year to £3,121 million in the year ended 30 June 2012.

Taxation

The reported tax rate increased from 14.5% in the year ended 30 June 2011 to 33.3% in the year ended 30 June 2012. During the year tax authority negotiations were concluded resulting in a favourable change to the taxation basis of certain overseas profit and intangible assets which has reduced the ongoing tax rate but which resulted in the loss of future tax amortisation deductions giving rise to an exceptional write off of the related deferred tax assets of £524 million. The tax rate before exceptional items for the year ended 30 June 2012 was 17.7% compared with 17.4% in the year ended 30 June 2011. In the future it is expected that the tax rate before exceptional items will remain at approximately 18%.

Discontinued operations

Discontinued operations in the year ended 30 June 2012 represent a charge after taxation of £11 million in respect of anticipated future payments to additional thalidomide claimants.

Exchange rate and other movements

Exchange rate movements are calculated by retranslating the prior year results as if they had been generated at the current year exchange rates. The difference is excluded from organic growth. The estimated effect of exchange rate and other movements on profit before exceptional items and taxation for the year ended 30 June 2012 was as follows:

	Gains/(losses) £ million
Operating profit before exceptional items	
Translation impact	(18)
Transaction impact	14
Impact of IAS 21 on operating profit	(6)
Total exchange effect on operating profit before exceptional items	(10)
Interest and other finance charges	
Net finance charges – translation impact	3
Mark to market impact of IAS 39 on interest expense	16
Associates – translation impact	(2)
Total effect on profit before exceptional items and taxation	7

	Year ended 30 June 2012	Year ended 30 June 2011
Exchange rates		
Translation £1 =	$ 1.58	$ 1.59
Transaction £1 =	$ 1.57	$ 1.56
Translation £1 =	€ 1.18	€ 1.16
Transaction £1 =	€ 1.19	€ 1.11

For the year ending 30 June 2013 foreign exchange movements are not expected to materially affect operating profit or net finance charge based on applying current exchange rates (£1 = $1.57 : £1 = €1.28). This guidance excludes the impact of IAS 21 and IAS 39.

Dividend

The directors recommend a final dividend of 26.9 pence per share, an increase of 8% from the year ended 30 June 2011. The full dividend will therefore be 43.5 pence per share, an increase of 8% from the year ended 30 June 2011. Subject to approval by shareholders, the final dividend will be paid on 22 October 2012 to shareholders on the register on 7 September 2012. Payment to US ADR holders will be made on 26 October 2012. A dividend reinvestment plan is available in respect of the final dividend and the plan notice date is 1 October 2012.

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Cash flow

	Year ended 30 June 2012 £ million	Year ended 30 June 2011 (restated) £ million
Cash generated from operations before exceptional costs	3,163	3,118
Exceptional operating costs paid	(158)	(259)
Cash generated from operations	3,005	2,859
Interest paid (net)	(391)	(311)
Taxation paid	(521)	(365)
Net capital expenditure	(445)	(372)
Movements in loans and other investments	(1)	1
Free cash flow	1,647	1,812

Free cash flow decreased by £165 million to £1,647 million in the year ended 30 June 2012. Cash generated from operations increased from £2,859 million to £3,005 million principally as a result of increased operating profit, higher dividends received from Moët Hennessy partially offset by an increase in working capital due to business growth, higher finished goods levels to smooth the impact of upcoming supply chain changes and higher debtors as a result of excise duty increases. Higher interest payments were driven by the impact of the renegotiation of the terms of certain interest rate swaps in the prior year while higher tax payments are a result of increased profits and tax settlements. The increase in net capital expenditure was impacted by lapping the proceeds received last year from the North America wines restructuring and also represents the continued investments made to increase capacity in Africa, to enhance operations in Scotland and to increase efficiencies in operations in North America. See page 38 for the definition of free cash flow. The year ended 30 June 2011 has been restated following a change in the disclosure of dividends paid to non-controlling interests and transaction costs incurred in respect of business acquisitions. For an explanation of the effect of the restatement see note 1.

Balance sheet

At 30 June 2012 total equity was £6,811 million compared with £5,985 million at 30 June 2011. The increase was mainly due to the profit for the year of £2,072 million, partly offset by the dividend paid out of shareholders' equity of £1,036 million and actuarial losses before taxation arising on post employment plans of £495 million.

Total assets were £22,350 million at 30 June 2012, an increase of £2,573 million from £19,777 million at 30 June 2011. Business acquisitions increased total assets by £2,925 million.

Net borrowings were £7,570 million at 30 June 2012, an increase of £1,120 million from £6,450 million at 30 June 2011. The principal components of this increase were £1,420 million (2011 – £97 million) paid for acquisition of businesses primarily in respect of Mey İçki, Zacapa and Meta, £1,036 million (2011 – £973 million) equity dividends paid, adverse non-cash movements of £248 million (2011 – £113 million) predominantly comprising new finance leases and fair value movements less favourable exchange rate movements of £152 million (2011 – £17 million adverse) partially offset by free cash flow of £1,647 million (2011 – £1,812 million).

Diageo manages its capital structure to achieve capital efficiency, maximise flexibility and give the appropriate level of access to debt markets at attractive cost levels in order to enhance long-term shareholder value. To achieve this, Diageo targets a range of ratios which are currently broadly consistent with an A band credit rating. Diageo would consider modifying these ratios in order to effect strategic initiatives within its stated goals, which could have an impact on its rating.

Economic profit

Economic profit increased by £151 million from £1,259 million in the year ended 30 June 2011 to £1,410 million in the year ended 30 June 2012. See page 39 for the calculation and definition of economic profit.

DIAGEO CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 30 June 2012 £ million	Year ended 30 June 2011 £million
Sales	2	14,594	13,232
Excise duties		(3,832)	(3,296)
Net sales	2	10,762	9,936
Cost of sales		(4,259)	(4,010)
Gross profit		6,503	5,926
Marketing		(1,691)	(1,538)
Other operating expenses		(1,654)	(1,793)
Operating profit	2	3,158	2,595
Sale of businesses	3	147	(14)
Net interest payable	4	(382)	(369)
Net other finance charges	4	(15)	(28)
Share of associates' profits after tax		213	176
Profit before taxation		3,121	2,360
Taxation	5	(1,038)	(343)
Profit from continuing operations		2,083	2,017
Discontinued operations	6	(11)	-
Profit for the year		2,072	2,017
Attributable to:			
Equity shareholders of the parent company		1,942	1,900
Non-controlling interests		130	117
		2,072	2,017
Basic earnings per share			
Continuing operations		78.2 p	76.2 p
Discontinued operations		(0.4)p	-
		77.8 p	76.2 p
Diluted earnings per share			
Continuing operations		77.8 p	76.0 p
Discontinued operations		(0.4)p	-
		77.4 p	76.0 p
Average shares (in million)		2,495	2,493

DIAGEO CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 30 June 2012 £ million	Year ended 30 June 2011 £ million
Other comprehensive income		
Exchange differences on translation of foreign operations excluding borrowings		
- group	(74)	(133)
- associates and non-controlling interests*	(222)	93
Exchange differences on borrowings and derivative net investment hedges	210	(51)
Effective portion of changes in fair value of cash flow hedges		
- gains taken to other comprehensive income	29	25
- transferred to income statement	(15)	56
Hyperinflation adjustment	3	6
Net actuarial (loss)/gain on post employment plans	(495)	272
Tax on other comprehensive income	03	(65)
Other comprehensive (loss)/income, net of tax, for the year	(461)	203
Profit for the year	2,072	2,017
Total comprehensive income for the year	1,611	2,220
Attributable to:		
Equity shareholders of the parent company	1,463	2,167
Non-controlling interests	148	53
	1,611	2,220

* Includes £30 million exchange gain recycled to the consolidated income statement on the acquisition of a majority equity stake in Quanxing and obtaining control of Shuijingfang in the year ended 30 June 2012.

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DIAGEO CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2012 £ million	£ million	30 June 2011 £ million	£ million
Non-current assets					
Intangible assets		8,821		6,545	
Property, plant and equipment		2,972		2,552	
Biological assets		34		33	
Investments in associates		2,198		2,385	
Other investments		97		102	
Other receivables		119		118	
Other financial assets		505		305	
Deferred tax assets					