Historical information (continued)

Notes to the historical information

1. Accounting policies The consolidated financial statements for the five years ended 30 June 2013 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 judgement, 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 is as follows:

	Year ended 30 June				
	2013 £ million	2012 £ million	2011 £ million	2010 £ million	2009 £ million
Items included in operating profit					
Restructuring programmes	**(69)**	(96)	(111)	(142)	(170)
Pension changes – past service credits	**20**	115	—	—	—
Brand impairment	**(50)**	(59)	(39)	(35)	—
Duty settlements	**—**	—	(127)	—	—
SEC settlement	**—**	—	(12)	—	—
	(99)	(40)	(289)	(177)	(170)
Sale of businesses	**(83)**	147	(14)	(15)	—
Items included in taxation					
Tax on exceptional operating items	**27**	19	51	39	37
Tax on sale of businesses	**28**	—	3	10	—
Loss of future tax amortisation	**—**	(524)	—	—	—
Settlements with tax authorities	**—**	—	66	—	155
	55	(505)	120	49	192
Exceptional items in continuing operations	**(127)**	(398)	(183)	(143)	22
Discontinued operations net of taxation (note 3)	**—**	(11)	—	(19)	2
Exceptional items	**(127)**	(409)	(183)	(162)	24

3. Discontinued operations In the year ended 30 June 2012 discontinued operations represented a charge after taxation of £11 million (2011 – £nil; 2010 – £19 million) in respect of the discounted value of anticipated future payments to additional thalidomide claimants. In the year ended 30 June 2009 discontinued operations are in respect of 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.

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				
		2013	2012	2011	2010	2009
		pence	pence	pence	pence	pence
Per ordinary share	Interim	**18.10**	16.60	15.50	14.60	13.90
	Final	**29.30**	26.90	24.90	23.50	22.20
	Total	**47.40**	43.50	40.40	38.10	36.10
		$	**$**	**$**	**$**	**$**
Per ADS	Interim	**1.10**	1.05	1.02	0.90	0.82
	Final	**1.79**	1.72	1.59	1.48	1.46
	Total	**2.89**	2.77	2.61	2.38	2.28

Note: Subject to shareholders' approval the final dividend for the year ended 30 June 2013 will be paid on 3 October 2013, and payment to US ADR holders will be made on 8 October 2013. In the table above, an exchange rate of £1 = $1.53 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 3 October 2013.

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.

6. Share capital During the year ended 30 June 2009 the company purchased 38 million ordinary shares for cancellation or to be held as treasury shares at a cost of £354 million as part of a share buyback programme.

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 group's financial position and results of operations, see note 19 to the consolidated financial statements.

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				
	2013	2012	2011	2010	2009
	$	$	$	$	$
Year end	**1.52**	1.57	1.61	1.50	1.65
Average rate*	**1.57**	1.59	1.59	1.57	1.60

* 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 July 2013, expressed in US dollars per £1. The information in respect of the month of July is for the period up to and including 31 July 2013.

	2013					
	July	June	May	April	March	February
	$	$	$	$	$	$
Month end	**1.52**	**1.52**	**1.52**	**1.55**	**1.52**	**1.52**
Month high	**1.54**	**1.57**	**1.56**	**1.55**	**1.52**	**1.58**
Month low	**1.48**	**1.52**	**1.50**	**1.51**	**1.49**	**1.51**
Average rate**	**1.52**	**1.55**	**1.53**	**1.53**	**1.51**	**1.55**

** The average of the noon buying rates on each business day of the month.

The average exchange rate for period 1 to 2 August 2013 was £1 = $1.52 and the noon buying exchange rate on 2 August 2013 was £1 = $1.53.

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.

Business description

Diageo is the world's leading premium drinks business. Its geographic breadth and range of industry leading brands across categories and price points is unparalleled.

The business is balanced having a strong presence in the world's largest and most profitable beverage alcohol market, the United States, an integrated Western European business and a large and increasing presence in the new high growth markets of Africa, Latin America, Asia Pacific, Central and Eastern Europe, Russia and Turkey. Diageo's strong financial position has been built through investing in the growth of its brands, through continuing to improve its routes to market and through expanding its presence in the new high growth markets both organically and through selective acquisitions. Diageo maintains the strength of its brands and enhances its position through world class marketing and industry leading innovation. Diageo has scale but acts with agility to deliver top line growth, margin improvement and improved shareholder return. Diageo is proud of the role its brands play in the social life and celebrations of consumers around the globe.

Diageo plc is incorporated as a public limited company in England and Wales. Diageo was incorporated as Arthur Guinness Son and 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.

Strategy

Diageo's strategy is to drive top line growth and margin expansion in a sustainable and responsible way and to deliver consistent value creation for its shareholders over the long term. To do this Diageo will use its broad brand range, category depth and geographic reach to deliver on consumer needs. Key to achieving its strategy is the expertise of its people who share the same values.

Diageo has a broad range of leading brands across categories and price points. It owns six of the world's top 20 spirit brands by retail sales, including Johnnie Walker, the number one spirit brand by value and Smirnoff, the number one premium spirit brand by volume, making Diageo the leading premium spirits business in the world by volume, net sales and operating profit. In beer, Diageo owns one of the truly global beer brands, Guinness, the number one stout in the world. Diageo's wine brands are sold predominantly in North America and Great Britain where they offer a route to market benefit. Diageo's global brands are complemented by strong local brands to broaden the category range and to create category depth providing access at affordable price points to the increasing number of middle class consumers aspiring to trade up in their drink of choice. Diageo's brands cover a range of price points, from Diageo's reserve brands, including Johnnie Walker Blue Label, Cîroc and Ketel One vodka to more affordable brands, such as VAT69 in India, White Horse in Russia and 20cl bottles of Johnnie Walker Red Label and local beers across Africa.

Diageo is a global company with products sold in more than 180 countries around the world. In the developed markets, primarily in North America and Western Europe, Diageo has built scale and strong routes to market. In the new high growth markets, Diageo is the number one international spirits company in Asia Pacific and Latin America and the leading beer and spirits company in Africa. These rapidly growing markets now contribute more than 40% of Diageo's net sales, up from a fifth in 2005. These markets are expected to contribute 50% of Diageo's net sales by the end of 2015 through double digit organic growth as international spirits penetration expands and with selective acquisitions.

In the new high growth markets Diageo expects to make acquisitions of companies with both strong local routes to market and with brands that can be premiumised and appeal to the growing

Business description (continued)

number of middle class consumers. The acquisitions of Mey Içki in Turkey, Ypióca in Brazil, the Serengeti and Meta breweries in Africa, its major shareholding in Shuijingfang in China, its investment in Halico in Vietnam, and from July 2013 its major shareholding in United Spirits Limited (USL) in India, each demonstrate this strategy in action.

Diageo explores the potential to make acquisitions on an ongoing basis and is currently evaluating a number of such opportunities of which some could be significant although no agreements or commitments for any significant acquisitions currently exist. Funds for any such acquisitions would be drawn from internally generated cash, bank borrowings or the issuance of equity or debt securities (in an amount that cannot now be determined) and the proceeds of any disposals. Other than as described herein, no material disposals are currently contemplated.

Diageo believes it leads the industry in marketing, combining expertise and creative alliances to engage consumers through traditional and digital media channels. This expertise and collaboration, combined with the benefits of global scale and consumer insights, delivers world class marketing campaigns focusing on the range of price points from luxury to more affordable brands; on new consumer groups, such as the emerging middle class, multicultural and female consumers; and on marketing innovation. Marketing spend is focused on the strategic brands and the new high growth markets. Global campaigns are made locally relevant with the use of local agencies. For example, the global Johnnie Walker 'Keep Walking' campaign has been in place for over 10 years and while the campaign is based on the universal appeal of personal progress, each market has local creative executions which reflect local insights.

Diageo's industry leading innovation programme is making a significant contribution to Diageo's net sales and operating profit growth by focusing not only on building a pipeline for the future, but also on sustaining past launches to drive long term value across the brand portfolio. Recent launches have focused on the consumers' desire for luxury, the tastes and increasing affluence of the emerging middle class consumer and increasing the accessibility of spirits through flavour extensions and new packaging and drink formats.

Diageo has strong routes to market which leverage local expertise. In the United States, Diageo is required by law to operate through a three-tier distribution system which separates suppliers, distributors and retailers. Diageo works with distributors who provide a substantial dedicated sales team of nearly 3,000 people. Outside of the United States, Diageo owns and controls the route to market in many countries, and in others the route to market is through joint ventures, associates and third party distributors. The recent acquisitions in the new high growth markets have helped to enhance Diageo's routes to market with the addition of the leading spirits company in Turkey, Mey Içki; the second largest brewery in Ethiopia, Meta Abo; the leader in the premium cachaça segment in Brazil, Ypióca; and with investments in a premium local spirit company in China, Shuijingfang, the leading branded spirit company in Vietnam, Halico and the leading beverage alcohol producer in India, USL.

Diageo works in collaboration with its customers to drive profitable category growth, by building partnerships with retailers and on trade customers. The 'Diageo Way of Selling' or the 'Platform for Growth' programmes equip both Diageo and its customers with the tools to be the best sales force in the industry, provide education to its partners and create commercial and strategic value for all parties. The European Customer Collaboration Centre provides a state of the art facility to bring consumer, shopper, retailer and distributor insights together to facilitate integrated planning with customers. These tools enable Diageo to realise its ambition to become an indispensable business partner to its customers.

Business description (continued)

Diageo has a history of being a sustainable and responsible company dating from Arthur Guinness who undertook philanthropic community programmes and through the 1930s when its predecessor companies marketed their brands in a responsible manner. Diageo understands the social, environmental and economic impact of its activities and has adopted a structured approach to manage these impacts, to build engagement across stakeholders, to create value, especially in the new high growth markets, and to protect Diageo's licence to operate.

Diageo and its employees are proud of the responsible manner in which its brands are marketed and the role that moderate consumption of its brands can play as part of a balanced lifestyle for millions of people. Diageo seeks to be at the forefront of industry efforts to promote responsible drinking and works with key stakeholders to address alcohol misuse.

Diageo's supply organisation is responsible for producing, distilling, brewing, bottling, packaging and distributing its brands. It is committed to efficient, sustainable production. Investment in production facilities is focused on building capacity for the production of spirits and beer, with both high speed and high volume, cost efficient production lines and with flexible production facilities to create an industry leading supply chain for innovation, especially in luxury products. Diageo deploys groundbreaking new technology in its production sites in an effort to deliver cost savings, security of supply and reduction of waste. Diageo is constantly looking at ways to improve water efficiency, reduce water wastage, increase the use of sustainable packaging and reduce pollution, carbon emissions and waste to landfill.

Diageo is committed to generating broad-based prosperity through the value chain and through direct investment in the communities in which it operates, especially in the new high growth markets, by integrating its supply chain into the local community and through direct initiatives such as the 'Learning for Life' and 'Water of Life' programmes in Latin America and Caribbean and Africa.

Diageo believes that industry leading performance will be delivered through a talented and diverse workforce and great leadership. The company has active programmes that ensure the development of its management and leaders. Great leadership combined with a culture of good governance and ethics protect Diageo's reputation and support the sustainable efficient growth of the business.

Business overview

Market participation In the year ended 30 June 2013, Diageo managed its business through five regions: North America; Western Europe; Africa, Eastern Europe and Turkey; Latin America and Caribbean and Asia Pacific. North America is the biggest region by net sales and operating profit and Diageo is the number one spirits company in the region. The main focus of the business in North America is to drive continued top line growth in the on trade, to deliver industry leading innovation and to broaden its reach to the multicultural consumer and to improve its operating margin through pricing, premiumisation and by using its scale to drive cost advantage. Diageo is the largest premium drinks company in Western Europe. Western Europe is managed as a single market with the country teams focusing on sales execution, while marketing and back office functions are integrated at a Western Europe level to drive flexibility and efficiency. In the new high growth markets Diageo's strategy is based on the increased spend by both affluent and middle class consumers on premium beverage alcohol. In Africa the strategy is to grow Diageo's leadership across beverage alcohol through focusing on the emerging middle class consumer and providing a brand choice for every motivation, occasion and stage of consumer evolution. Diageo is focused on increasing its presence in spirits through continued investments behind its brands and infrastructure, through access pricing of the premium international brands and through building on its existing beer route to market. Diageo is

Business description (continued)

increasing its presence in beer in Africa through investments in capacity expansion and targeted acquisitions. In Eastern Europe Diageo is focused on the emerging middle class consumers and in Turkey the focus is on growing local spirits and international spirits. In Latin America and Caribbean the strategic priority is continued leadership in scotch, while broadening the category range to include vodka, rum, liqueurs and local spirits. Diageo continues to invest behind routes to market, the range and depth of its portfolio of leading brands and is enhancing its supply footprint to enable the business to provide the emerging middle class and an increasing number of wealthy consumers with the premium brands they aspire to. The strategy in Asia Pacific which encompasses both developed and new high growth markets is to operate across categories with participation in local spirits, international spirits and beer, focusing on the highest growth categories and consumer opportunities, driving continued development of super and ultra premium scotch and leveraging the emerging middle class consumer opportunity in the new high growth markets through a combination of organic growth and selective acquisitions.

Market leading brands In calendar year 2012, the Diageo brand range included six of the top 20 spirits brands worldwide by value as estimated by Impact Databank. Diageo classifies its brands as spirits, beer, wine and ready to drink. An analysis of the group's volume is as follows:

	2013 Volume units million	**2012 Volume units million**	**2011 Volume units million**
Spirits	**130**	121	113
Beer	**27**	27	26
Wine	**3**	3	3
Ready to drink	**5**	6	6
Total	**165**	157	148

Strategic brands In the year ended 30 June 2013, Diageo classified a group of brands as strategic brands worldwide. Diageo considers that these brands have the greatest current and future earnings potential. Figures for strategic brands exclude related ready to drink products. Strategic brands accounted for 57% of volume and net sales. 71% of the group's marketing spend supported these brands.

Table of Contents

Business description (continued)

Brand#	2013 Volume units million	
Johnnie Walker Scotch whisky	20	The number one Scotch whisky in the world*
Crown Royal Canadian whisky	6	The number one Canadian whisky in the world**
JeB Scotch whisky	4	The number five Scotch whisky in the world*
Buchanan's Scotch whisky	2	The number two premium Scotch whisky in Latin America and Caribbean*
Windsor Premier Scotch whisky	1	The number one super premium Scotch whisky in Asia Pacific*
Bushmills Irish whiskey	1	Distilled at Ireland's oldest working distillery
Smirnoff vodka	26	The number one premium vodka in the world**
Ketel One vodka (exclusive worldwide distribution rights)	2	The number two super premium vodka in the United States†
Cîroc vodka	2	The number two ultra premium vodka in the United States†
Captain Morgan rum and rum based products	10	The number two brand in the rum category in the world**
Baileys Irish Cream liqueur	7	The number one liqueur in the world**
Tanqueray gin	2	The number one imported gin in the United States†[nc_cad,217]
Guinness stout	11	The number one stout in the world‡

* Source: IWSR 2012;

** Source: Impact Databank 2012;

† Source: IRI;

†[nc_cad,217] Source: Beverage Information Group;

‡ Source: Plato Logic;

Portfolio of premium drinks comprises brands owned by the company as a principal and some brands held by the company under agency or distribution agreements.

The distribution agreements entered into among Diageo and certain affiliates of Casa Cuervo SA de C.V (collectively Cuervo) for the distribution of Cuervo products in the United States and other territories around the world, expired on 30 June 2013. Except in those territories, such as the United States, where Cuervo opted to buy the inventory held by Diageo at the time of the expiration of the corresponding distribution agreements, Diageo is able to continue selling such inventory until early November 2013. The distribution of Cuervo products contributed net sales of £308 million and operating profit of £76 million in the year ended 30 June 2013 (2012 – £304 million and £67 million, respectively).

Business description (continued)

Other brands

Other spirits brands include	Other beer brands include*	Wine brands include	Ready to drink brands include
Gordon's gin and Gordon's vodka	Malta Guinness non-alcoholic malt	Blossom Hill	Smirnoff Ice
Old Parr Scotch whisky	Harp lager	Sterling Vineyards	Smirnoff cocktails
Bundaberg rum	Tusker lager	Beaulieu Vineyard	Bundaberg ready to drink
Seagram's 7 Crown whiskey	Senator lager		
Bell's Scotch whisky	Red Stripe lager		
The Classic Malts Scotch whiskies			
Yenì Raki			

* 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.

Production Diageo owns manufacturing production facilities across the globe, including maltings, distilleries, breweries, packaging plants, maturation warehouses, cooperages, vineyards, wineries and distribution warehouses. Diageo's brands are also produced at plants owned and operated by third parties and joint ventures at a number of locations internationally.

During the year ended 30 June 2013, approximately 77% of total manufacturing was undertaken by Global Supply organised into four production centres: Europe Supply, Americas Supply, Global Beer Supply and Asia Pacific Supply. The remaining production activities of the group are integrated into the distribution organisation of the group, principally in Africa. As of 1 July 2013, supply operations have been fully integrated into demand markets while the supply operations in the United Kingdom, Ireland and Italy, which supply multiple international markets, are operated as the International Supply Centre. The locations, principal activities, products, packaging production capacity and packaging production volume of Diageo's principal production centres in the year ended 30 June 2013 are set out in the table below.

Table of Contents

Business description (continued)

Production centre	Location	Principal products	Production capacity in millions of equivalent units*	Production volume in 2013 in millions of equivalent units
Europe Supply	United Kingdom	Scotch whisky, Irish whiskey, gin, vodka, rum, ready to drink	80	54
	Ireland (Baileys)	Irish cream liqueur	12	7
	Italy (Santa Vittoria)	Vodka, wine, rum, ready to drink	10	6
	Turkey	Raki, vodka, gin, liqueur, wine	8	6
Americas Supply	United States, Canada, US Virgin Islands	Vodka, gin, tequila, rum, wine, Canadian whisky, American whiskey, progressive adult beverages, ready to drink	44	38
	United States	Wine	2	1
	Brazil	Cachaça	7	5
Global Beer Supply	Ireland (Guinness)	Beer	9	8
	Jamaica	Beer	1	1
Asia Pacific Supply	Australia	Rum, vodka, ready to drink	4	3
	Singapore	Finishing centre	4	3
Africa Supply	Nigeria	Beer	6	5
	South Africa	Beer and spirits	3	3
	East Africa (Uganda, Kenya, Tanzania)	Beer and spirits	10	9
	Africa Regional Markets (Ethiopia, Cameroon, Ghana, Seychelles)	Beer	3	3

* 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 2013 adjusted for the elimination of unplanned losses and inefficiencies, and taking into account planned manning levels for the coming year.

Spirits 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 and a whiskey distillery in the United States. Diageo produces Smirnoff internationally. Ketel One vodka is purchased as finished product from The Nolet Group. Gin distilleries are located in both the United Kingdom and the United States. Baileys is produced in the Republic of Ireland and Northern Ireland. Rum is blended and bottled in the United States, Canada, Italy and the United Kingdom, and

Table of Contents

Business description (continued)

is distilled, blended and bottled in the US Virgin Islands, Australia, Venezuela and Guatemala. Raki is produced in Turkey, while Chinese white spirits are produced in Chengdu, in the Sichuan province of China. In August 2012, Diageo acquired 100% of Ypióca Bebidas S.A. which owns a farm and a distillery in Ceará State in Brazil and produces cachaça. The company also owns a packaging plant in Fortaleza in northern Brazil and a warehouse in São Paulo. 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 its maturing American whiskey in Kentucky and Tennessee in the United States.

In April 2013, it was announced that Teaninich in Scotland would be the location for a new malt whisky distillery and a new bioenergy plant that will power the distillery and the capacity of the existing Teaninich distillery will be increased. The construction of the new distillery is expected to commence in July 2014 and production is expected to start in January 2016. Diageo also announced a major expansion of its Scotch whisky production in the Speyside area, including a project to substantially increase the capacity of the Mortlach distillery at Dufftown and construction of a new plant at Glendullan to produce biogas which will be used to power the distillery. Elsewhere in Scotland, the company is progressing plans for a major expansion of the Glen Ord Distillery, near Muir of Ord and is progressing with construction of new warehousing at Cluny near Kirkcaldy. These activities are part of a five-year investment plan launched in June 2012 where the group plans to lay down maturing scotch inventory over five years at a cost of over £500 million in order to be able to meet future demand.

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 has been made in the North American spirits supply chain principally in the packaging plants at Plainfield in Illinois and Relay in Maryland. This investment has delivered cost savings, modernised the US bottling manufacturing footprint and created a platform for higher quality, more flexible, more productive and sustainable operations in both Plainfield and Relay.

A distillery was opened in November 2010 in St. Croix as a result of a public/private initiative formed by Diageo and the government of the US Virgin Islands. This new facility has the capacity to distil up to 13 million equivalent units annually and supplies all rum used to produce Captain Morgan and other branded products for the United States.

A restructuring of the group's supply operations in Scotland was announced in July 2009. This resulted in the consolidation of production activities into fewer sites. The Kilmarnock packaging plant ceased operations in March 2012 after production was moved to the newly expanded packaging facility at Leven in Fife.

Beer Diageo's principal brewing facilities are at the St James's Gate brewery in Dublin, Ireland and in Nigeria, Kenya, Ghana, Cameroon, Ethiopia, Tanzania, Uganda, Seychelles, Malaysia and Jamaica. In addition, Diageo also owns a 25% equity interest in Sedibeng brewery in South Africa. Additionally, Guinness is brewed by more than 35 third parties around the world under licence arrangements. Guinness flavour extract is shipped from Ireland to all overseas Guinness brewing operations.

All Guinness Draught production in the Republic of Ireland is at the St James's Gate brewery in Dublin. 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 Great Britain in bulk.

In January 2012, Diageo announced that its Irish breweries will be centralised in Dublin's St James's Gate site as part of an investment project at a cost of €153 million (£123 million). The

Business description (continued)

brewing activities at Dundalk, Kilkenny and Waterford are expected to cease by the end of calendar year 2013.

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

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

Property, plant and equipment Diageo owns approximately 91% of the manufacturing, distilling, brewing, bottling and administration facilities it uses across the group's worldwide operations. It holds approximately 4% of properties on leases in excess of 50 years. The principal production facilities are described above. As at 30 June 2013, Diageo's land and buildings are included in the group's consolidated balance sheet at a net book value of £945 million. Diageo's two largest individual facilities, in terms of book value, are the Leven bottling and blending facility in Scotland and St James's Gate brewery in Dublin. Of the book value of Diageo's lands and buildings approximately 37% are properties located in Great Britain, 17% in Ireland and 14% in the United States.

During the years ended 30 June 2011 and 30 June 2010 a number of vineyards and facilities located in Napa Valley, California were sold 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.

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, spirit, cream, rum and grapes. Forward contracts are in place for the purchase of raw materials including 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 raki and are sourced from suppliers in the United States, Argentina and Turkey. Other raw materials purchased in significant quantities for the production of spirits and beer are molasses, cereals, sugar and a number of flavours (such as juniper berries, agave, aniseed, 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.

Marketing and innovation Diageo is committed to investing in its brands to drive growth and make its brands even stronger. In the year ended 30 June 2013, £1,787 million was spent globally on marketing with a focus on its strategic brands that accounted for 71% of total marketing spend.

Diageo's marketing strategy is to anticipate and respond to the rapidly changing dynamics across all the markets in which it operates, with particular focus on four key areas: price points, consumer groups, cutting edge marketing and geography (both developed and new high growth markets).

Diageo builds its brands through a combination of marketing programs and strategic innovation and views this as a continued source of competitive advantage.