Historical information (continued)

understanding of the financial information. Such items are included within the income statement caption to which they relate. An analysis of exceptional items for continuing operations is as follows:

	Year ended 30 June 2010 £ million	2009 £ million	2008 £ million	2007 £ million	2006 £ million
Items included in operating profit					
Restructuring programmes	**(142)**	(170)	(78)	—	—
Brand impairment	**(35)**	—	—	—	—
Disposal of Park Royal property	**—**	—	—	40	—
	(177)	(170)	(78)	40	—
Sale of businesses					
(Losses)/gains on disposal and termination of businesses	**(15)**	—	9	(1)	6
Gain on disposal of General Mills shares	**—**	—	—	—	151
	(15)	—	9	(1)	157
Items included in taxation					
Tax credit on exceptional operating items	**39**	37	8	—	—
Tax credit on other exceptional items	**10**	—	—	—	2
Settlements agreed with tax authorities	**—**	155	—	—	313
	49	192	8	—	315
Exceptional items in continuing operations	**(143)**	22	(61)	39	472
Discontinued operations net of taxation	**(19)**	2	26	139	—
Exceptional items	**(162)**	24	(35)	178	472

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

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

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

Historical information (continued)

representing four ordinary shares) at the noon buying rate on each of the respective dividend payment dates.

		2010	2009	2008	2007	2006
		Year ended 30 June				
		pence	**pence**	**pence**	**pence**	**pence**
Per ordinary share	Interim	**14.60**	13.90	13.20	12.55	11.95
	Final	**23.50**	22.20	21.15	20.15	19.15
	Total	**38.10**	36.10	34.35	32.70	31.10
		$	**$**	**$**	**$**	**$**
Per ADS	Interim	**0.90**	0.82	1.05	0.99	0.84
	Final	**1.41**	1.46	1.46	1.64	1.43
	Total	**2.31**	2.28	2.51	2.63	2.27

Note: Subject to shareholders' approval the final dividend for the year ended 30 June 2010 will be paid on 19 October 2010, and payment to US ADR holders will be made on 25 October 2010. In the table above, an exchange rate of £1 = $1.50 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 19 October 2010.

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 swaps and forwards used to manage borrowings) less cash and cash equivalents and other liquid resources.

6 Share capital During the year ended 30 June 2010 the company did not repurchase any ordinary shares for cancellation or to be held as treasury shares. During the year ended 30 June 2009, the company repurchased 38 million ordinary shares as part of its share buyback program at a cost including fees and stamp duty of £354 million (2008 – 97 million ordinary shares, cost of £1,008 million; 2007 – 141 million ordinary shares, cost of £1,405 million; 2006 – 164 million ordinary shares, cost of £1,407 million).

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

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

	2010	2009	2008	2007	2006
	Year ended 30 June				
	$	$	$	$	$
Year end	**1.50**	1.65	1.99	2.01	1.85
Average rate(a)	**1.57**	1.60	2.01	1.93	1.78

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Historical information (continued)

The following table shows period end, high, low and average US dollar/pound sterling noon buying exchange rates by month, for the six-month period to 31 August 2010, expressed in US dollars per £1.

						2010
	August	July	June	May	April	March
	$	$	$	$	$	$
Month end	**1.53**	**1.57**	**1.50**	**1.45**	**1.53**	**1.52**
Month high	**1.60**	**1.57**	**1.51**	**1.53**	**1.55**	**1.54**
Month low	**1.53**	**1.50**	**1.40**	**1.43**	**1.52**	**1.48**
Average rate(b)	**1.57**	**1.53**	**1.48**	**1.47**	**1.53**	**1.51**

Average exchange rate for the period 1 to 8 September 2010 was £1 = $1.54 and the noon buying rate on 8 September was £1 = $1.55.

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

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

(c) 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, operating globally across spirits, beer and wine.

Diageo plc is incorporated as a public limited company in England and Wales. Diageo plc's principal executive office is located at Lakeside Drive, Park Royal, London NW10 7HQ and its telephone number is +44 (0) 20 8978 6000.

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

Diageo produces and distributes a leading collection of branded premium spirits, beer and wine. These brands include Johnnie Walker, Smirnoff, Baileys, Captain Morgan, JeB, Tanqueray and Guinness. In addition it also has the distribution rights for the Jose Cuervo tequila brands in North America and many other markets.

Strategy

Diageo is one of a small number of premium drinks companies that operate globally across spirits, beer and wine. Diageo is the leading premium spirits business in the world by volume, by net sales and by operating profit. It manages eight of the world's top 20 spirits brands as defined by Impact Databank. Diageo's beer brands include the only global stout brand, Guinness, and beer in total accounts for approximately 22% of Diageo's net sales. Diageo's wine brands are sold predominantly in North America and Europe and they comprise approximately 6% of Diageo's net sales.

Diageo's size provides for scale efficiencies in production, distribution, selling and marketing. In addition to these cost efficiencies, Diageo is committed to the dissemination of best practice in business operations across markets and brands, allowing Diageo to serve its customers and consumers better.

All of the above factors enable Diageo to attract and retain talented individuals with the capabilities necessary to deliver Diageo's strategy of growing its premium drinks business organically while looking to selectively acquire premium drinks brands that add long term value for shareholders.

Diageo's brands have broad consumer appeal across geographies. The company and its employees are proud of the responsible manner in which the brands are marketed and the positive role that moderate consumption of these brands plays in the lives of many people.

Diageo acknowledges that when misused, alcohol – like many other products – may lead to health or social problems for the individual or society as a whole. Diageo seeks to be at the forefront of industry efforts to promote responsible drinking and works with other stakeholders to combat alcohol misuse. Diageo's approach is based on three strategic approaches: setting high company and industry standards in responsible marketing, implementing initiatives to minimise alcohol misuse and promoting effective and targeted alcohol policies through stakeholder dialogue.

Market participation Diageo manages its business through four regions: North America, Europe, International and Asia Pacific. The North American region, comprising the United States and Canada, accounts for the largest proportion of Diageo's net sales and operating profit. The second largest, Europe, is comprised of Great Britain, Ireland, Iberia, Northern Europe, Southern Europe, and Russia and Eastern Europe. The International region is made up of three distinct business units: Latin America and the Caribbean (including Mexico), Africa and Global Travel and Middle East (GTME). The Asia Pacific region comprises South Korea, Japan, the People's Republic of China, India and other

Business description (continued)

Asian markets, Australia and New Zealand. In the past financial year roughly two-thirds of net sales were derived from developed markets (mainly North America and Western Europe) and one-third from developing markets (mainly Latin America and the Caribbean, Africa and Asia Pacific). In 2005 approximately four-fifths of net sales arose in developed markets and one-fifth in developing markets.

Product offering Diageo classifies eight brands as global priority brands: Smirnoff, Johnnie Walker, Baileys, Captain Morgan, JeB, Jose Cuervo, Tanqueray and Guinness. These brands are the main focus for the business and receive the majority of the marketing spend. In aggregate, they comprise 54% of Diageo's net sales.

Several other brands also have leading positions in the markets in which they are distributed. They drive growth on a significant scale but with a narrower geographical reach than the global priority brands. Examples of brands with regional strength are Crown Royal Canadian whisky and Ketel One vodka in North America, Buchanan's scotch whisky in Latin America and the Caribbean, and Windsor Premier scotch whisky in Asia Pacific.

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

Incorporation Diageo was incorporated as Arthur Guinness Son & Company Limited on 21 October 1886. The group was formed by the merger of Grand Metropolitan Public Limited Company (GrandMet) and Guinness PLC (the Guinness Group) in December 1997.

Premium drinks

Diageo is engaged in a broad range of activities within the beverage alcohol industry, with products sold in approximately 180 markets around the world. Its operations include producing, distilling, brewing, bottling, packaging, distributing, developing and marketing a range of brands. Diageo markets a wide range of recognised beverage alcohol brands including a number of the world's leading spirits and beer brands. In calendar year 2009, the Diageo brand range included 17 of the top 100 premium distilled spirits brands worldwide.

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

In the year ended 30 June 2010, Diageo sold 114.9 million equivalent units of spirits (including ready to drink), 25 million equivalent units of beer and 3.5 million equivalent units of wine. In the year ended 30 June 2010, ready to drink products contributed 5.9 million equivalent units of total volume, of which Smirnoff ready to drink variants accounted for 3.9 million equivalent units. Volume has been measured on an equivalent units basis to nine-litre cases of spirits. An equivalent unit represents one nine-litre case of spirits, which is approximately 272 servings. A serving comprises 33ml of spirits, 165ml of wine, or 330ml of ready to drink or beer. Therefore, to convert volume of products other than spirits to equivalent units, the following guide has been used: beer in hectolitres divide by 0.9, wine in nine-litre cases divide by five, ready to drink in nine-litre cases divide by 10 and certain pre-mixed products that are classified as ready to drink in nine-litre cases divide by five.

Diageo's portfolio of premium drinks comprises brands owned by the company as a principal and brands held by the company under agency or distribution agreements. Diageo's agency agreements vary depending on the particular brand, but tend to be for a fixed number of years. Diageo's principal agency brand is Jose Cuervo in North America and many other markets (with distribution rights extending to 2013). Diageo also brews and sells other companies' beer brands under licence, including

Business description (continued)

Budweiser and Carlsberg lagers in Ireland, Heineken lager in Jamaica and Tiger beer in Malaysia. There can be no assurance that Diageo will be able to prevent termination of distribution, manufacturing or licence agreements or to renegotiate distribution, manufacturing or licence agreements on favourable terms when they expire.

Diageo classifies its brands as global priority brands and other brands. The classification of brands as 'local priority brands' and 'category brands' has been discontinued for reporting purposes.

Global priority brands:
Johnnie Walker scotch whiskies
Smirnoff vodka and Smirnoff ready to drink products
Baileys Original Irish Cream liqueur
Captain Morgan rum and rum based products
Jose Cuervo tequila (agency brand in North America and many other markets)
JeB scotch whisky
Tanqueray gin
Guinness stout

Diageo has eight global priority brands that it markets worldwide. Diageo considers these brands to have the greatest current and future earnings potential. Each global priority brand is marketed consistently around the world, and therefore can achieve scale benefits. The group manages and invests in these brands on a global basis. Figures for global priority brands include related ready to drink products, unless otherwise indicated.

In the year ended 30 June 2010, global priority brands accounted for 57% of total volume (81.9 million equivalent units) and contributed net sales of £5,267 million.

Johnnie Walker scotch whiskies comprise Johnnie Walker Red Label, Johnnie Walker Black Label and several other brand variants. During the year ended 30 June 2010, Johnnie Walker Red Label sold 10 million equivalent units, Johnnie Walker Black Label sold 5.3 million equivalent units and the remaining variants sold 0.7 million equivalent units. The Johnnie Walker franchise was ranked, by volume, as the number one premium scotch whisky and the number three premium spirit brand in the world.

Smirnoff achieved volume of 28.3 million equivalent units in the year ended 30 June 2010. Smirnoff vodka volume was 24.3 million equivalent units. It was ranked, by volume, as the number one premium vodka and the number one premium spirit brand in the world. Smirnoff ready to drink volume totalled 3.9 million equivalent units.

Baileys was ranked, by volume, as the number one liqueur in the world, having sold 6.6 million equivalent units in the year ended 30 June 2010.

Captain Morgan was ranked number two in the world by volume, amongst its competitive set, the rum category, with volume of 8.9 million equivalent units in the year ended 30 June 2010.

Guinness is the group's only global priority beer brand, and for the year ended 30 June 2010 achieved volume of 10.7 million equivalent units.

Other global priority brands were also ranked, by volume, among the leading premium distilled spirits brands by Impact Databank. These include: Jose Cuervo, ranked the number one premium tequila in the world; JeB scotch whisky (comprising JeB Rare, JeB Reserve, JeB Exception and JeB Jet), ranked the number three premium scotch whisky in the world; and Tanqueray, ranked the number

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Business description (continued)

four premium gin brand in the world. During the year ended 30 June 2010, Jose Cuervo, JeB and Tanqueray sold 4.5 million, 4.9 million and 2.0 million equivalent units, respectively.

Other spirits brands include:
Crown Royal Canadian whisky
Buchanan's scotch whisky
Ketel One vodka (exclusive worldwide distribution rights)
Windsor Premier scotch whisky
Gordon's gin and vodka
Old Parr scotch whisky
Seagram's 7 Crown whiskey and Seagram's VO whisky
Cacique rum
Bundaberg rum
Bell's scotch whisky
The Classic Malts scotch whiskies
Cîroc vodka
White Horse scotch whisky
Don Julio tequila
Bushmills Irish whiskey

For the year ended 30 June 2010, other spirits brands contributed volume of 33 million equivalent units, representing 23% of total volume, and net sales of £2,811 million.

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

In the year ended 30 June 2010, Diageo sold 14 million equivalent units of beers other than Guinness, achieving net sales of £985 million. Other beer volume was mainly attributable to owned brands with a minority being attributable to beers brewed and/or sold under licence, such as Tiger beer in Malaysia and Heineken lager in Jamaica.

Wine brands include:
Blossom Hill
Sterling Vineyards
Beaulieu Vineyard
Chalone Vineyard
Navarro Correas
Rosenblum Cellars
Santa Rita

For the year ended 30 June 2010, wine volume was 3.5 million equivalent units, contributing net sales of £545 million.

Production Diageo owns production facilities including maltings, distilleries, breweries, packaging plants, maturation warehouses, cooperages, vineyards, wineries and distribution warehouses. Production

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Business description (continued)

also occurs at plants owned and operated by third parties and joint ventures at a number of locations internationally.

Approximately 85% of total production is undertaken by Global Supply organised into four production centres, namely Europe Supply, America Supply, Global Beer Supply and Asia Supply. The remaining production activities of the group are integrated with the distribution organisation, principally in Africa within International. The majority of Global Supply's production centres have several production facilities. The locations, principal activities, products, packaging production capacity and packaging production volume of Global Supply's principal production centres in the year ended 30 June 2010 are set out in the following table:

Production centre	Location	Principal activities and products	Production capacity in millions of equivalent units*	Production volume in 2010 in millions of equivalent units
Europe Supply	United Kingdom	Scotch whisky, gin, vodka, rum, ready to drink	73	45
	Ireland (Baileys)	Irish cream liqueur, vodka	15	8
	Italy (Santa Vittoria)	Vodka, wine, rum, ready to drink	10	7
America Supply	United States, Canada	Vodka, gin, tequila, rum, Canadian whisky, American whiskey, progressive adult beverages, ready to drink	45	39
	United States	Wine	1	1
Global Beer Supply	Ireland (Guinness)	Beer	11	8
	Jamaica	Beer	1	1
Asia Supply	Australia	Rum, vodka, ready to drink	2	2

* 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 2010 adjusted for the elimination of unplanned losses and inefficiencies, and taking into account planned manning levels for the coming year.

Spirits are produced in distilleries located worldwide. The group owns 30 scotch whisky distilleries in Scotland, an Irish whiskey distillery in Northern Ireland, two whisky distilleries in Canada, and vodka/gin distilleries in the United Kingdom and the United States. Diageo produces Smirnoff vodka internationally, Popov vodka and Gordon's vodka in the United States, and Baileys in the Republic of Ireland and Northern Ireland. Rum is blended and bottled in the United States, Canada, Italy and the United Kingdom, and is distilled, blended and bottled in Australia and Venezuela. All of Diageo's maturing scotch whisky is located in warehouses in Scotland (primarily at Blackgrange), its maturing Canadian whisky in La Salle and Gimli in Canada and all its maturing American whiskey in Kentucky and Tennessee in the United States.

On 1 July 2009, the group announced a restructuring of its operations in Scotland. The plans included the consolidation of distilling, packaging and warehousing activities and involved the closure of a packaging plant, a distillery and a cooperage over a two-year period. New investment is concentrated

Business description (continued)

in the production sites at Leven in Fife where work has begun on the expansion of the packaging facility which is due to be fully operational within two years, at Shieldhall near Glasgow and at Cambus near Alloa.

In June 2008, Diageo and the government of the US Virgin Islands announced a public/private initiative for the construction and operation of a high capacity distillery in St Croix. This new facility, expected to become operational by January 2011, will have the capacity to distil up to 12 million equivalent units annually and will supply all bulk rum used to produce Captain Morgan branded products for the United States.

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

Diageo's principal brewing facilities are at the St James's Gate brewery in Dublin and in Kilkenny, Waterford and Dundalk in the Republic of Ireland, and in Nigeria, Kenya, Ghana, Cameroon, Malaysia and Jamaica. Ireland is the main export centre for the Guinness brand. In other countries, Guinness is brewed by third parties under licence arrangements.

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

Diageo announced the restructuring of its brewing operations in Ireland in 2008 with the intention of consolidating operations to a new greenfield brewery in the Dublin area and decommissioning the existing brewing infrastructure. The project was reviewed in 2009 due to the changing economic conditions both globally and locally in Ireland. A review of options continued in 2010 to examine the desirability of network consolidation. The project remains under review and a business case for investment behind consolidation is being developed for approval.

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

Property, plant and equipment Diageo owns or leases land and buildings throughout the world. The principal production facilities are described above. As at 30 June 2010, Diageo's land and buildings are included in the group's consolidated balance sheet at a net book value of £746 million. Diageo's largest individual facility, in terms of book value, is St James's Gate brewery in Dublin. Diageo's properties are primarily a variety of manufacturing, distilling, brewing, bottling and administration facilities spread across the group's worldwide operations, as well as vineyards and wineries in the United States. Approximately 39%, 22% and 20% of the book value of Diageo's land and buildings comprise properties located in Great Britain, Ireland and the United States, respectively. Approximately 91% by value of the group's properties are owned and approximately 3% are held under leases running for 50 years or longer.

In June 2010 Diageo entered into a sale and leaseback arrangement in respect of vineyards and facilities located in Napa Valley, California. The vineyards and facilities were purchased and leased back to Diageo under a 20-year lease, with Diageo holding options to extend the lease at fair value for up to 80 years in total. Diageo remains the operator of the properties under the lease agreement and

Business description (continued)

retains ownership of the brands, vines and grapes, which remain a strategic part of Diageo's wine business.

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

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

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

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

Diageo has a supply agreement with Destiléria Serrallés Inc, a Puerto Rican corporation, under which Diageo purchases all bulk rum for use in Captain Morgan products sold in the United States. Diageo is entitled to terminate this contract with effect from the end of December 2011, at which time Diageo intends to source rum for its Captain Morgan products from the distillery that is being built in the US Virgin Islands.

Marketing and distribution Diageo is committed to investing in its brands. In the year ended 30 June 2010, £1,419 million was spent worldwide on marketing brands with a focus on the eight global priority brands that accounted for 64% of total marketing spend.

Diageo makes extensive use of magazine, newspaper, point of sale and poster and billboard advertising, and uses radio, cinema, television and internet advertising where appropriate and permitted by law. Diageo also runs consumer promotional programmes in the on trade (for example, licensed bars and restaurants). Diageo also uses sponsorship to market its brands and is a sponsor of the Formula One Racing Team Vodafone McLaren Mercedes, a NASCAR racing team and the Johnnie Walker golf championships.

Diageo markets and distributes its brands through four regions: North America, Europe, International and Asia Pacific.

Business analysis In the year ended 30 June 2010, North America, Europe, International and Asia Pacific contributed 39%, 29%, 26% and 6%, respectively, of the group's operating profit before exceptional items and corporate costs.