DIAGEO PLC
Form 6-K
November 02, 2005

Table of Contents

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
Diageo plc
(Translation of registrant s name into English)
8 Henrietta Place, London W1G 0NB
(Address of principal executive offices)

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

Form 20-F þ Form 40-F o

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

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82 o

TABLE OF CONTENTS

Table of Contents

List identifying information required to be furnished by Diageo plc pursuant to Rule 13a-16 or 15d-16 of The Securities Exchange Act 1934
1 30 September 2005

Information	**Required by/when**
Public Announcements/Press	The Stock Exchange, London

Announcement
Preliminary results announcement
(01 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.
(01 September 2005)

Announcement
Company announces awards made under Total Shareholder Return plan by Diageo Employee Benefit Trust and Messrs Walsh, Rose and those persons discharging managerial responsibility inform the Company of their beneficial interests therein.
(02 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.
(02 September 2005)

Announcement
Company notified of purchase of shares by Employee Benefit Trust. Messrs Walsh and Rose inform the company of their beneficial interests therein.
(05 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.
(05 September 2005)

Announcement
Mr Walsh informs the Company of his beneficial interests. Company notified of transactions in respect of the Employee Benefit Trust. Transfer of Shares by Diageo Share Ownership Trustee Limited and Messrs Walsh, Rose and those persons discharging managerial responsibility inform the Company of their beneficial interests therein. Lord Blyth and Mr Stitzer inform the Company of their beneficial interests.
(12 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.
(12 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.
(13 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.
(14 September 2005)

Announcement
Company announces lodgment of Annual Report and Annual Review with the UK Listing Authority
(19 September 2005)

Announcement
Company announces grant of share options under Senior Executive Share Option Plan and Messrs Walsh, Rose and those persons discharging managerial responsibility inform the Company of their beneficial interests therein.
(20 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.
(06 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.

Announcement
Barclays PLC notifies the Company of its interests.
(26 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.

Table of Contents

List identifying information required to be furnished by Diageo plc pursuant to Rule 13a-16 or 15d-16 of The Securities Exchange Act 1934
1 30 September 2005

Information	Required by/when
Public Announcements/Press	The Stock Exchange, London

(07 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.
(08 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd.
(09 September 2005)

(26 September 2005)

Announcement
Company purchases its own securities through CSFB Europe Ltd. (27 September 2005)

Table of Contents

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 26 October 2005	By /s/ S M Bunn
	Name: S M Bunn
	Title: Company Secretary

Table of Contents

Preliminary results for the year ended 30 June 2005

1 September 2005

Diageo has achieved organic growth in net sales (after deducting excise duties) of 4% and operating margin expansion of 0.6 percentage points resulting in organic operating profit growth of 7%. Continued strong generation of free cash flow at £1.4 billion. EPS before exceptional items 49.1 pence per share. Recommended full year dividend 29.55 pence per share.

Results at a glance

		2005	2004	Reported movement	Organic movement
Volume	equivalent units million	125.6	122.1	3%	3%
Turnover	£million	9,036	8,891	2%	4%
Net sales (after deducting excise duties)	£million	6,729	6,682	1%	4%
Marketing investment	£million	1,023	1,039	(2)%	1%
Operating profit before exceptional items	£million	1,944	1,911	2%	7%
Operating margin before exceptional items	%	21.5	21.5		0.6 ppts

Other organic growth highlights

Net sales (after deducting excise duties) of global priority brands excluding ready to drink grew 6%

Marketing increased 5% excluding ready to drink

Restructuring costs of nearly £90 million charged to operating profit to improve efficiency and reduce costs in future years

Other financial highlights

		2005	2004
Operating profit after operating exceptionals	£million	1,736	1,871
Profit for the year	£million	1,375	1,392
Basic eps before exceptional items	Pence	49.1	48.2
Basic eps	Pence	46.3	45.9
Recommended final dividend per share	Pence	18.2	17.0
Free cash flow	£million	1,441	1,450
Return on invested capital	%	14.9	14.5
Share buybacks	£million	710	306

% movements are organic movements. These movements and operating margins are before

exceptional items. See page 29 for additional information for shareholders and an explanation of non GAAP measures.

Restated for the change in accounting treatment for Diageo s General Mills shareholding eps before exceptional items grew 9%

Paul Walsh, Chief Executive of Diageo, commenting on the year ended 30 June 2005 said:

The range of Diageo s premium drink brands together with our geographic reach gives us the ability to consistently deliver top and bottom line growth and strong cash flow. That is exactly what we have delivered this year. At the same time we have continued to build our brands, with over £1 billion of marketing investment. We have also improved our routes to market, particularly in the world s biggest premium drinks market, the United States and made value creating acquisitions of brands which widen our brand range even further.

1

Table of Contents

We have successfully resolved our exposure to Burger King, monetised the majority of our shares in General Mills and provided certainty as to the value we will receive from our remaining shares when they are sold as we expect they will be in a couple of months.

With the completion of these transactions Diageo s balance sheet is now as focused on our position as the world s leading premium drinks company as our operations have been for a number of years. Therefore, given the continued strong performance of our free cash flow, we will now be able to increase the amount of our share buy back programme. For fiscal 06 we are proposing a programme of around £1.4 billion.

As we said at our recent trading update, we expect that in 06 volume growth will again be 3% and net sales (after deducting excise duties) will be 4%. Better pricing and a stabilising ready to drink trend may give us the opportunity to improve on the net sales (after deducting excise duties) growth we achieved this year. We believe operating profit growth can be similar to that achieved in 05 even after allowing for higher growth in marketing spend and higher pension costs.

Key features of the year

In North America, strong top line growth together with overhead reduction delivered organic operating profit growth of 11%. Volume grew 4% and Diageo gained share in the United States across all three categories spirits, wine and beer in a market which is estimated to have grown by 3.5%. Although volume for the ready to drink sector was flat, Diageo gained share.

In Europe, operating profit grew 3% despite challenging trading conditions and further contraction of the ready to drink segment. Volume and net sales (after deducting excise duties) were down 1% and 2% respectively. Excluding ready to drink, volume and net sales (after deducting excise duties) increased 1% as price increases on global priority brands were offset by weak local priority brands in Ireland. There was an incremental £25 million spent on restructuring initiatives, which was offset by savings of £17 million.

The International business delivered operating profit growth of 4% while increasing marketing investment by 15%. Strong volume growth in Latin America and some Asian markets together with a number of price increases drove net sales (after deducting excise duties) up 9%. Marketing investment was increased in new growth markets such as China and behind the global priority brands where spend was up over 25%.

The global priority brands continue to be the engine for growth with volume and net sales (after deducting excise duties), excluding ready to drink, up 3% and 6% respectively.

Ready to drink now represents 6% of Diageo s volume and around 10% of net sales (after deducting excise duties). Weakness in the ready to drink segment continued and volume and net sales (after deducting excise duties) declined 3% and 5% respectively. This reduced overall net sales (after deducting excise duties) growth by over 1 percentage point.

Excluding ready to drink, marketing investment grew 5%. Spend on global priority brands, excluding ready to drink, increased 6%. Spend on ready to drink brands was reduced 21% to reflect the decline of the segment across Europe and the consolidating competitive environment in North America.

Diageo s decision to dispose of nearly 50 million shares in General Mills improved return on invested capital and raised £1,210 million. Excluding the impact of the sale of the General Mills shares, Diageo delivered eps growth of 9%.

The restructuring programme, which began in fiscal 2004, has continued at a cost of nearly £90 million in the year (2004 - £50 million) focused on streamlining operations in Europe. Incremental synergy of £68 million is expected to accrue in fiscal 2006.

Table of Contents

A further £710 million was returned to shareholers via our on-market share repurchase programme.

Net sales after deducting excise duties	é	4%
Operating profit	é	7%
Operating margin	é	0.6ppts
Free cash flow at £1,441 million	è	
Return on invested capital	é	0.4ppts
EPS	é	2%

Table of Contents

OPERATING AND FINANCIAL REVIEW
For the year ended 30 June 2005

% movements are organic movements. These movements and operating margins are before exceptional items. See page 29 for additional information for shareholders and an explanation of non GAAP measures.

OPERATING REVIEW

Organic volume and net sales (after deducting excise duties) movement by brand

	Equivalent units million	Volume movement %	Net sales* movement %
Global priority brands			
Smirnoff	25.2	3	
Johnnie Walker	12.3	5	12
Guinness	11.4	(2)	5
Baileys	6.7	1	(1)
Captain Morgan	6.5	10	11
J&B	5.9	(1)	
José Cuervo	4.5	7	9
Tanqueray	1.9	(3)	1
Total global priority brands	**74.4**	**3**	**4**
Local priority brands	**22.7**		**1**
Category brands	**28.0**	**4**	**3**
Total	**125.1**	**3**	**4**

* *after deducting excise duties*

Organic volume totalled 125.1 million equivalent units. Reported volume, which includes 0.5 million equivalent units in respect of the acquisitions of Ursus, the Chalone Wine Group Ltd., and a controlling interest in Ghana Breweries, totalled 125.6 million equivalent units.

Smirnoff s performance reflected the continued strong growth of the base brand offset by declines in Smirnoff ready to drink volume of 4% and net sales (after deducting excise duties) of 7%. The base Smirnoff brand grew across all three regions resulting in volume and net sales (after deducting excise duties) growth of 5% and 7% respectively. Smirnoff ready to drink volume declined with growth in International offset by a further decline in Europe.

Johnnie Walker also grew across all three regions. Total volume growth across the Johnnie Walker marque was 5%. The faster growth of the Johnnie Walker super deluxe variants delivered mix improvement and drove net sales (after deducting excise duties) growth of 12%.

The beer market has been tough in all three of Guinness major markets and this has resulted in a 2% volume decline. However, product and packaging innovation and a robust pricing strategy in these three markets led to a 5% increase in net sales (after deducting excise duties).

Baileys volume was up year on year despite weakness in Baileys Glide and Minis. The decline in these two variants has also had an adverse impact on mix. The core Baileys brand however has continued to grow and build share in the key market of Great Britain.

In North America, where over 85% of Captain Morgan s volume is sold, performance remained strong. This together with successful innovation, such as the launch of Captain Morgan Tattoo, delivered double-digit increases in volume and net sales (after deducting excise duties).
JεB s volume declined 1% reflecting the decline of the standard scotch segment in Spain, offset by growth in markets such as South Africa and Korea. Increased pricing in Spain, JεB s single biggest market, mitigated the effect of the volume decline on net sales (after deducting excise duties).
José Cuervo has returned to strong growth year on year with growth of premium variants delivering mix improvement.
Tanqueray has under-performed the imported gin segment in North America where nearly 80% of its volume is sold. The brand s performance towards the end of the year has improved since new advertising has been aired. Stronger pricing delivered mix improvement.

Analysis by region

North America

Summary:

Volume grew 4%, net sales (after deducting excise duties) grew 6% and operating profit grew 11%

Diageo has created a leading position in the world s most profitable beverage alcohol market. The strong growth of the spirits sector along with Diageo s superior route to market are reflected in the results which have been achieved.

Volume growth was led by the global priority brands, which grew 5%. Local priority brands and the category brands also showed consistent volume growth with both up 3%.

This strong performance in the US spirits market has resulted in an overall share gain of 0.5 percentage points to 25.4%.

Ready to drink volume was flat, net sales (after deducting excise duties) grew 2% and marketing investment declined 7% as competitors exited and Diageo grew share of the segment.

Key measures:

	2005 £ million	2004 £ million	**Reported movement** %	**Organic movement** %
Volume			4	4
Turnover	**2,619**	2,641	(1)	6
Net sales (after deducting excise duties)	**2,191**	2,220	(1)	6
Marketing	**341**	359	(5)	
Operating profit before exceptional items	**778**	757	3	11

Reported performance:

Turnover was £2,619 million in the year ended 30 June 2005 down by £22 million from £2,641 million in the comparable prior period. Operating profit before exceptional items increased by £21 million to £778 million in the year ended 30 June 2005.

Table of Contents

Organic performance:
The weighted average exchange rate used to translate US dollar turnover moved from £1 = $1.74 in the year ended 30 June 2004 to £1 = $1.86 in the year ended 30 June 2005. The weakening of the US dollar resulted in a £183 million reduction in turnover that was offset by organic growth of £146 million and the net impact of acquisitions and disposals which contributed £15 million of turnover. Operating profit before exceptional items increased by £21 million, reflecting organic growth of £78 million offset by £57 million of adverse exchange rate movement effects.
Organic brand performance:

	Volume movement %	**Net sales* movement** %
Smirnoff	4	5
Johnnie Walker	3	11
José Cuervo	6	7
Baileys	(3)	(2)
Captain Morgan	11	12
Tanqueray	(4)	
Guinness	5	9
Total global priority brands	**5**	**6**
Local priority brands	**3**	**6**
Category brands	**3**	**1**
Total	**4**	**6**

* *after deducting excise duties*

In North America, global priority brands represent 61% of volume, local priority brands account for 23% of volume while category brands represent the remaining 16%.
Smirnoff vodka grew volume 6% and net sales (after deducting excise duties) 8% behind strong base brand performance and even faster growth of Smirnoff Twist. Share of the vodka category grew by 0.8 percentage points. Smirnoff ready to drink volume was flat although net sales (after deducting excise duties) grew 2%. While share of the segment grew 5.9 percentage points, growth was impacted by comparison against the Smirnoff Twisted V launch in late 2003.
In the prior year, marketing investment behind Smirnoff vodka increased nearly 50% to support the Icon packaging launch. Consequently, year on year Smirnoff vodka marketing declined while Smirnoff ready to drink marketing was focused on continuing to build awareness of Smirnoff Twisted V.
Johnnie Walker volume grew 3% and share increased due in part to increasing demand from ethnic minority and 21-29 year old adults. Net sales (after deducting excise duties) increased 11% driven by the higher growth of the super deluxe variants and price increases. Johnnie Walker Black Label grew volume 2% and net sales (after deducting excise duties) grew 9% as a price increase was implemented in certain areas of the United States. Johnnie Walker Red Label lost share in its segment as competitive pressure increased. Johnnie Walker Green Label was launched in October 2004 and contributed to the growth in the super deluxe variants. Marketing investment increased 7% to support this launch and behind increased gift packaging programmes.

Table of Contents

José Cuervo volume was up 6%, led by growth in Cuervo Gold and José Cuervo Classico. Marketing investment increased 10% as the brand launched its first television advertising campaign. While share declined 0.9 percentage points as competitive pressures from super and ultra premium tequilas increased, José Cuervo remains the category leader.

Baileys had a difficult start to the year as Minis failed to sustain its initial launch success. In the second half of the year however the brand s volume performance has improved.

Captain Morgan continues to grow very strongly with volume up 11% and net sales (after deducting excise duties) up 12% as the brand gained 2.2 percentage points of share. Growth was driven primarily by Captain Morgan Original Spiced Rum, together with the successful launch of Captain Morgan Tattoo and Parrot Bay Passion Fruit. Marketing investment increased 14% to support these launches as well as increased advertising and on trade marketing programmes.

Tanqueray volume fell 4% and the brand lost share although it remains the leading imported gin. A price increase was taken in certain states mitigating the volume decline and therefore net sales (after deducting excise duties) were flat. Marketing investment declined 2% in the year as campaigns were withdrawn to prepare for the fourth quarter launch of a new advertising campaign.

Guinness volume grew 5%, significantly outperforming the import beer category. This was due to growth across all variants: Guinness Draught in Bottle, Guinness Extra Stout and Guinness Draught. This performance is the result of successful marketing particularly around the low calorie message and the consumer trend towards premium brands and taste. Net sales (after deducting excise duties) increased 9% as a result of stronger pricing.

The local priority brands performed well with volume growth and mix improvement driven by the strong performance of Crown Royal. Volume of Crown Royal was up 7%, and net sales (after deducting excise duties) increased 11% benefiting from a price increase in select states. Crown Royal also grew share by 0.4 percentage points. Beaulieu Vineyards and Sterling Vineyard continue to grow strongly with volume up 12% and 19% respectively, boosted by the significant growth of lower value variants, BV Century Cellers and Sterling Vintners Collection. These volume increases were partially offset by a decline in volume of Buchanan s, 7 Crown and VO, all down 1%.

Category brands grew volume 3% led by growth in beer such as Smithwicks and Red Stripe as well as value vodkas such as Popov and Gordon s Vodka. Net sales (after deducting excise duties) grew only 1% principally due to the growth in value vodkas.

Overall marketing investment was flat as growth in Crown Royal, Captain Morgan and José Cuervo was offset by the decline in Smirnoff. The growth in marketing spend for Crown Royal is primarily related to the brand s sponsorship of NASCAR. The Captain Morgan and José Cuervo marketing increases were driven by increased media investment.

Diageo has signed new distributor agreements in a further three states in the past year, bringing the total number of states that have signed new distribution agreements to 39 and the District of Columbia. Across the United States, there are 2,100 distributor sales persons who are exclusively selling over 80% of Diageo s spirits and wines volume.

Performance in Canada, which represents 10% of total North America volume, was negatively affected by a strike in the province of Quebec, which impacted the holiday selling season and the destocking of the Canadian Liquor Control Board and consequently volume declined 3%.

Table of Contents

In February 2005, Diageo completed the acquisition of the Chalone Wine Group Ltd. for US$285 million (£153 million) and has since successfully integrated the brands. In fiscal 2005, Chalone contributed nearly 50,000 equivalent units and £14 million in net sales (after deducting excise duties).

Europe

Summary:

Volume declined 1%, net sales (after deducting excise duties) were down 2% and operating profit increased 3%.

Europe remains a difficult business environment with increased regulation on ready to drink products, health related legislation, a continued shift from the on trade to the off trade and weak economic conditions.

There were £25 million of incremental restructuring charges, partially offset by a reduction of £17 million in costs, which resulted in a 1 percentage point reduction in organic operating profit growth.

Marketing declined 7%, partially driven by a 44% reduction in spend on ready to drink as a result of the continued contraction of the ready to drink segment.

Excluding ready to drink volume and net sales (after deducting excise duties) grew 1%.

Key measures:

	2005 £ **million**	2004 £ million	**Reported movement** %	**Organic movement** %
Volume				(1)
Turnover	**3,852**	3,847		
Net sales (after deducting excise duties)	**2,494**	2,535	(2)	(2)
Marketing	**403**	435	(7)	(7)
Operating profit before exceptional items	**692**	666	4	3

Reported performance:

Turnover in Europe increased in the year ended 30 June 2005 by £5 million to £3,852 million. Operating profit before exceptional items increased by 4% from £666 million to £692 million.

Organic performance:

Turnover increased by £5 million compared with the year ended 30 June 2004. This increase arose due to organic growth of £8 million offset by an overall reduction in turnover arising from disposals and acquisitions of £3 million. Exchange rate movements had no overall impact on turnover in the year. Operating profit before exceptional items increased by £26 million as a result of £18 million of organic growth, beneficial exchange rate movement effect of £7 million and the impact of acquisitions of £1 million.

Table of Contents

Organic brand performance

	Volume movement %	Net sales* movement %
Smirnoff	(3)	(12)
Johnnie Walker	1	2
Guinness	(2)	5
Baileys	2	
J£B	(3)	(2)
Total global priority brands	**(1)**	**(2)**
Local priority brands	**(4)**	**(4)**
Category brands	**4**	**1**
Total	**(1)**	**(2)**

* *after deducting excise duties*

In Europe, global priority brands represent 64% of the volume, local priority brands account for 16%, while category brands represent the remaining 20% of the volume.

Smirnoff s performance reflects the continued decline of the ready to drink segment in Europe. Last year Smirnoff ready to drink represented nearly 20% of total Smirnoff volume and this has fallen to 15% in 2005. Smirnoff vodka grew volume 3% and net sales (after deducting excise duties) grew 4% with good performances and stronger pricing in Great Britain, Ireland and Spain; all markets in which it is the leading vodka brand. Smirnoff ready to drink volume and net sales (after deducting excise duties) declined over 25% and consequently marketing on ready to drink was reduced by more than 40%. However, support behind Smirnoff vodka was up 7% as there was increased investment behind the launch of Smirnoff Norsk and Penka in Great Britain.

Johnnie Walker volume grew 1% and net sales (after deducting excise duties) increased 2%. Volume for Johnnie Walker Black Label and Johnnie Walker super deluxe variants was up 3% and 50% respectively as a result of increased focus on super premium brands in Greece, Russia and Spain. Johnnie Walker Red Label volume was flat as growth in Russia and Greece offset weakness in France and Spain. Marketing was up 6% as a result of increased activities in Greece, Russia and Spain.

Almost 95% of Guinness volume in Europe is sold in Great Britain and Ireland, and therefore the declining beer market in both countries heavily impacted volume, which declined 2%. Robust pricing has offset volume weakness with net sales (after deducting excise duties) up 5%.

Baileys volume was up 2% driven by strong growth in Great Britain, Germany and Russia. Net sales (after deducting excise duties) were flat due to adverse mix as the prior year saw the launch of Baileys Glide. Excluding ready to drink, net sales (after deducting excise duties) were up 2%.

J£B volume declined 3% due to the continued contraction of the standard whisky segment. However net sales (after deducting excise duties) were down by 2% due to improved pricing in Spain and Portugal.

Local priority brand volume and net sales (after deducting excise duties) were down 4% as lagers in Ireland continue to decline due to difficult on trade market conditions.

Category brands grew volume 4% as strong performances from smaller brands offset a 3% decline in Gordon s Gin outside of Great Britain. Blossom Hill continued to grow in Great Britain with volume up 18%. Pampero performed well in Spain and Italy with volume up 8% and 20% respectively, while Haig was particularly strong in Greece with volume up 29%.

Table of Contents

Marketing in Europe was down 7% due to a 44% reduction in spend on ready to drink. Marketing, excluding ready to drink, decreased 1% in response to soft market conditions. However investment in key brands was up-weighted with marketing for Smirnoff excluding ready to drink up 7% driven by increases in Great Britain and Ireland. Johnnie Walker marketing grew 6% to support the brand s growth in Greece and Russia. Investment was also increased behind specific opportunities such as Baileys and Guinness in Great Britain, lagers in Ireland and Cacique in Spain.

The acquisition of the Ursus vodka and the Ursus Roter brands for 146 million (£99 million) was completed on 25 February 2005 and Diageo began selling the brands in Greece late in March.

Great Britain

Through a period of weakening economic and market conditions, Diageo delivered overall top line growth with volume and net sales (after deducting excise duties) up 1% and 2% respectively. This growth has been achieved through share gains in vodka, gin and cream liqueurs. A focused pricing strategy has resulted in price increases on Smirnoff Red, Guinness, Baileys, Gordon s, and Pimms. This strength in core spirits, together with the continued growth of wines, helped offset the negative mix impact of the decline in the ready to drink segment. Excluding ready to drink, volume grew 3% while net sales (after deducting excise duties) were up 7%.

In a buoyant category, Smirnoff vodka continued to outperform. Volume grew 5% and net sales (after deducting excise duties) were up 8% as a result of a price rise in June 2004. Share increased by 1 percentage point due to a strong marketing programme, increased distribution and consistent promotional activities. Share of voice increased 13 percentage points to 29% as a result of a 28% increase in marketing investment which includes support for the launch of Norsk and Penka. Smirnoff ready to drink volume declined 19%, however, the brand remains the segment leader with a 28% share.

In a weak beer market, Guinness volume declined 1%, although price increases in April 2004 and February 2005 led to net sales (after deducting excise duties) growth of 4%. New promotional packaging for Guinness Draught in cans drove off trade growth, while a solid performance in the on trade enabled the brand to hold share. Marketing investment grew 1% and as result share of voice increased 1 percentage point to 17%.

Baileys Glide has not built on its initial success, and volume of the product halved in the year. Consequently, total Baileys volume increased 2% and net sales (after deducting excise duties) were down 3% as a result of the adverse mix impact. Core Baileys volume and net sales (after deducting excise duties) were up 3%. Stock in trade was successfully reduced following the increase in the prior year in preparation for the July 2004 launch of a new bottle with a modern and contemporary look. Marketing investment for Baileys (excluding Glide) was up 3% to support the launch of the new bottle as well as wide reaching media and sampling campaigns.

Local priority brand performance was mixed. Gordon s volume grew 2% driven by an effective advertising campaign and the successful re-launch of Gordon s Sloe gin. Already the leading gin brand in Great Britain, share increased 2 percentage points to 41%. Bell s volume was flat as the brand recovered from tough trading conditions over the Christmas period when competitors pursued an aggressive discounting strategy. It remains the market leader with 15% share. Archers volume declined 12% driven by a 21% decline in the ready to drink variant Archers Aqua.

Category brand volume was up 9% driven by 18% growth in Blossom Hill which, as a result of its continued strong performance, has become Diageo Great Britain s biggest off trade brand.

Table of Contents

Ireland

The results for Ireland reflect the ongoing difficulties in the on trade as well as growth in the value wine and spirits segments. The shift from the on trade to the off trade was further exacerbated by the smoking ban introduced in the Republic of Ireland in March 2004. The on trade declined 5% and now represents 53% of the market while the off trade grew 11% driven by strong growth in wines and spirits. These market dynamics have a major impact on performance in Ireland as the majority of Diageo s business is in the on trade. As a result, volume declined 4% and net sales (after deducting excise duties) were down 5%.

Although Guinness volume was down 3%, net sales (after deducting excise duties) were up 4% due to pricing. The brand s performance in the first half was stronger as it benefited from a cool summer in 2004 compared to the abnormally hot summer in 2003. In the on trade, which accounts for nearly 90% of Guinness volume, share was up by nearly 1 percentage point in the Republic of Ireland and remained flat in Northern Ireland despite the challenging market dynamics.

In spirits, Smirnoff vodka performed well and it continues to be the number one vodka brand in Ireland. Volume increased 11% as a result of the successful introduction of a new bottle and new advertising in 2004. Baileys volume was up 2% with most of the growth coming during the Christmas period as a result of a new and extended marketing campaign.

Local priority volume declined 9% due to continued weak performance in beer. However, performance in the second half was stronger due in part to increased marketing investment.

Spain

In Spain, volume declined 1% in a spirits market that contracted by 2%. The first half saw a trade buy-in ahead of the January 2005 increase in both duty and price. As a result of stronger pricing across a number of brands, net sales (after deducting net excise duties) grew 3%.

JεB volume declined 4%, while net sales (after deducting excise duties) were down only 1% due to higher pricing. Despite a 1 percentage point decrease in share, JεB remains the leader of the standard whisky segment with a 25% share.

Johnnie Walker volume declined 3% while net sales (after deducting excise duties) grew 2% due to stronger pricing on Johnnie Walker Red Label and 6% volume growth in Johnnie Walker Black Label. Johnnie Walker Red Label share was flat while Johnnie Walker Black Label grew share by 1 percentage point.

Baileys volume increased 1% and net sales (after deducting excise duties) were up 4%, again as a result of stronger pricing. Off a small base, José Cuervo volume was up 38% and net sales (after deducting excise duties) increased 50% driven by the introduction of new premium variants and increased consumer interest in the tequila category.

Local priority brand volume was flat while net sales (after deducting excise duties) increased 4% as the result of higher pricing. The dark rum segment continues to grow, although at a more moderate pace, as consumers continue to shift away from whisky and white rum. Cacique volume was flat, while net sales (after deducting excise duties) were up 6% due to pricing. Although the brand lost share due to numerous new entries, it is still the leader of the dark rum segment with 21% share.

Category brand volume was up 7%. Continued momentum behind Pampero led volume to grow 8% and net sales (after deducting excise duties) to increase by 19%. Gordon s volume was up 6% and net sales (after deducting excise duties) grew 7% due to favourable pricing versus the competition.

Table of Contents

Rest of Europe

The rest of Europe represents about a third of Diageo s European business. Total volume declined 1% and net sales (after deducting excise duties) were down 4% driven by the decline in the ready to drink segment in Germany, Switzerland and the Nordics. Performance excluding ready to drink was stronger with volume up 1% and net sales (after deducting excise duties) up 2% as a result of volume growth in Russia and robust pricing in Greece.

In Greece, volume increased 6% and net sales (after deducting excise duties) were up by 5%. Stronger pricing of Johnnie Walker, Smirnoff, José Cuervo and Haig was slightly offset by a 16% decline in ready to drink net sales (after deducting excise duties). In a tough market, volume in France declined by 1% as weakness in Johnnie Walker and Gordon s was partially offset by growth in Smirnoff vodka and J&B. Volume in Germany and Switzerland was down more than 8% as a result of ready to drink volumes declining 71% and 48% respectively as higher duties and increased regulations of the ready to drink category were introduced during the year.

Russia continued its strong growth trajectory, albeit from a relatively small base. Volume grew 51%, while net sales (after deducting excise duties) were up 47%. Johnnie Walker and Baileys were the key growth drivers with volume up 56% and 45% respectively. Johnnie Walker Black Label, Johnnie Walker Red Label and Baileys are the clear leaders in their segments. Diageo entered an agreement with Heineken for the production and distribution of Guinness in Russia which became effective as of July 2005.

International

Summary

Strong growth with volume up 4%, net sales (after deducting excise duties) up 9%, marketing up 15% and operating profit up 4%.

Volume growth was achieved through high growth in Latin America and parts of Asia Pacific. This together with price increases in Latin America and Africa and overall mix improvement delivered a 5 percentage point improvement in price and mix.

Global priority brands performed strongly with volume up 6%. Net sales (after deducting excise duties) grew 12% due to price increases on Smirnoff in Latin America and Guinness in Africa and mix improvement in Johnnie Walker, which offset a decline in volume in Nigeria, Taiwan and Korea.

Significant investments were made in the period to position Diageo for long term growth including an increase in marketing of 27% on global priority brands, the launch of a redesigned Guinness bottle in Nigeria at a cost of £13 million and the launch of a number of product innovations.

The emerging markets of Brazil, India and China continue to grow rapidly resulting in strong Johnnie Walker and Smirnoff growth.

Key measures:

	2005	2004	**Reported movement**	**Organic movement**
	£ million	£ million	**%**	**%**
Volume			5	4
Turnover	**2,503**	2,340	7	8
Net sales (after deducting excise duties)	**1,982**	1,864	6	9
Marketing	**279**	245	14	15
Operating profit before exceptional items	**627**	646	(3)	4

Table of Contents

Reported performance:
Reported turnover in the year ended 30 June 2005 was £2,503 million, up £163 million on the prior year figure of £2,340 million. Operating profit before exceptional items was down 3% at £627 million for the year ended 30 June 2005.
Organic performance:
Turnover in International markets was up £163 million compared with the year ended 30 June 2004. There were unfavourable exchange effects of £45 million, offset by a £194 million improvement in organic performance. Acquisitions contributed turnover of £14 million in the year to 30 June 2005.
There was a £19 million decrease in reported operating profit before exceptional items. This decrease was mainly due to organic improvements in brand performance of £21 million offset by unfavourable exchange rate movements of £41 million.
Organic brand performance:

	Volume movement %	**Net sales* movement %**
Johnnie Walker	8	16
Smirnoff	13	21
Guinness	(4)	5
Baileys	1	1
Total global priority brands	**6**	**12**
Local priority brands		**1**
Category brands	**4**	**8**
Total	**4**	**9**

* *after deducting excise duties*

In International, global priority brands account for 53% of total volume, while local priority brands represent 15% and category brands account for the remaining 32%.
Growth in Johnnie Walker was driven by the brand s strong performance across Latin America and in China and India, offset by weakness in Taiwan and Australia. Higher growth in the Johnnie Walker super deluxe variants gave rise to significant mix benefits.
Strong volume growth was achieved in both Smirnoff vodka, up 9% and Smirnoff ready to drink, up 32%. Smirnoff performance was particularly strong in Latin America, Asia Pacific and India with volume growth of 22%, 15% and 36% respectively. In Latin America, Smirnoff ready to drink grew volume 40% due to a repositioning of the brand in Brazil and the launch of the Smirnoff Black Ice variant. In South Africa, Smirnoff ready to drink volume was up 15% driven by innovation initiatives. Price increases in Latin America coupled with the growth in the ready to drink segment delivered favourable mix benefits.
Guinness volume decline of 4% is primarily due to a 20% volume decline in Nigeria, as the rest of international delivered strong volume growth of 8%. The key drivers of growth were Cameroon, Japan and Ghana as a result of both innovation and packaging initiatives. Net sales (after deducting excise duties) grew 9 percentage points ahead of volume supported by higher pricing in Nigeria.
Baileys volume grew 1% with volume growth in Latin America offset by declines in Australia and global duty free. Growth in Latin America was as a result of strong volume performance in Mexico primarily supported by a new media campaign.

Table of Contents

In local priority brands, strong volume growth from Buchanan s (Venezuela), Pilsner (Kenya) and Bell s (South Africa) was offset by significant declines in Windsor (Korea) and Malta Guinness (Africa).

Mix improvement in the category brands was due to the growth of higher value brands such as Buchanan s (outside of Venezuela) and Old Parr, which was offset by a significant decline in Spey Royal, a value brand, in Thailand.

Overall marketing investment grew 15% with spend behind global priority brands up 27%. In South Africa investment in the global priority brands was up 40%. The drivers included the launch of Smirnoff Triple Spin, the re-launch of Baileys and promotional activities for Smirnoff and JεB. In Nigeria, promotional activities focused around the launch of the redesigned Guinness bottle. In Latin America, higher media spend supported the continued growth of Johnnie Walker and Smirnoff.

Asia Pacific

In Korea, the trading environment for beverage alcohol remains tough due to a difficult economy. The whisky category declined 7% losing share to cheaper local substitutes. While Diageo maintained its leadership in scotch, premium brands such as Windsor and Dimple, both lost share and volume declined 16% and 14% respectively. This was offset by strong volume growth in JåB of 49% and therefore overall volume was down 10%. Net sales (after deducting excise duties) declined 13% due to the negative mix impact of the volume decline in Windsor and Dimple.

In Japan, the global priority brands were up 8% in volume and 14% in net sales (after deducting excise duties). Guinness grew share driven by expanded on trade distribution and increased media spend. Smirnoff ready to drink grew share 13 percentage points in the off trade.

In Thailand, volume was up 1% and mix improvement led to stronger net sales (after deducting excise duties) growth. Johnnie Walker reversed its first half volume decline with overall volume up 1% and net sales (after deducting excise duties) benefited from higher pricing across all variants and positive mix. Additionally, increased media spend supported price increases on Johnnie Walker Red Label and Johnnie Walker Black Label. This was offset by weak Spey Royal performance with volume down 36% as the brand increased price and lost share in the highly competitive standard scotch segment. However, this lost volume was offset by the successful launches of Golden Knight, in January 2005, and Benmore, in March 2005, which compete in the value whisky and standard scotch segments respectively.

Trading conditions in Taiwan were difficult with increased competition from both lower priced local scotch brands and single and blended malt brands. Johnnie Walker Black Label lost share and volume declined by 36%, primarily driven by a volume decline in the first half. However, the brand performed strongly in the second half with volume up 17%. Growth in the Johnnie Walker super deluxe variants delivered mix improvement and overall Johnnie Walker volume and net sales (after deducting excise duties) declined 26% and 16% respectively.

Diageo grew share and maintained its leadership position in both the spirits category and ready to drink segment in Australia. The Australian spirits market was down 4% and Diageo s performance was mixed with volume of Bundaberg and Smirnoff up, but Johnnie Walker and Baileys down. Bundaberg grew share due to the launch of Bundaberg Distillers No. 3, new packaging and increased media spend. Ready to drink volume grew 10% driven by further successful line extensions.

Table of Contents

In India, volume increased 26% off a small base, primarily driven by growth in the global priority brands. This was supported by a significant investment in marketing concentrated on increasing brand awareness of Smirnoff vodka and Johnnie Walker. Smirnoff vodka delivered the highest growth, with volume up 36% and share up 2 percentage points driven by the launch of Smirnoff Flavours and targeted marketing campaigns. A price increase was also implemented on Smirnoff vodka. Johnnie Walker continued its strong performance with volume up 24%.

China too experienced rapid volume and net sales (after deducting excise duties) growth primarily driven by an increase in Johnnie Walker volume of 78%. Johnnie Walker Black Label benefited from a significant increase in marketing investment. Additionally, in April 2005, Diageo successfully hosted the Johnnie Walker Classic, a premier golf tournament, in Beijing. Growth in the global priority brands was also supported by a new route to market model for Guinness, Baileys and Smirnoff vodka, all of which registered volume increases, although off smaller bases.

Latin America and the Caribbean

There was strong growth across all Latin American markets with overall region volume up 11% and net sales (after deducting excise duties) up 20%. The key drivers of growth were the global priority brands with Johnnie Walker and Smirnoff growing volume 13% and 22% respectively as well as strong growth in the local priority brands.

Performance in Brazil, Paraguay and Uruguay benefited from generally strong economies and volume was up 21% and net sales (after deducting excise duties) up 31%. Johnnie Walker contributed to the strong performance with overall volume up 10% and net sales (after deducting excise duties) up 19% due to growth in the previously declining super deluxe variants. Smirnoff vodka grew volume 21% boosted by higher media spend and a new packaging launch. In Brazil, Johnnie Walker Red Label, Johnnie Walker Black Label and Smirnoff vodka all increased share as a result of increased media spend, and maintained leadership of their respective categories.

In Venezuela, a significant improvement in the economic environment led to strong growth with volume up 23% and net sales (after deducting excise duties) up 50%. The key drivers of growth were volume and mix improvement on Johnnie Walker and Buchanan s both of which increased volume over 60% and grew share. Diageo maintained its leadership of the super deluxe, deluxe and standard scotch segments as a result of new media spend. Smirnoff Ice was launched in Venezuela in October 2004 and has positioned itself as the leader within the ready to drink segment supported by increased media spend.

Performance in Mexico was strong with overall volume up 43% and net sales (after deducting excise duties) up 54% primarily driven by growth and share gains across the scotch category. Buchanan s increased share by 4 percentage points and Johnnie Walker Red Label and JåB each increased share by 2 percentage points. Baileys accelerated growth with volume up 26% and share increased 2 percentage points lifted by improved brand visibility from wider distribution and a new media campaign.

In Jamaica, volume declined 1% while net sales (after deducting excise duties) were up 11% as a result of price increases on Guinness and Red Stripe.

Africa

Africa delivered volume growth of 2% despite the weakness of the important Nigerian beer market. Price increases were achieved in a number of major markets including Nigeria and overall net sales (after deducting excise duties) grew 8%. Underlying margin expansion was offset by the cost of the new bottle design in Nigeria.

Table of Contents