

Edgar Filing: DIAGEO PLC - Form 6-K

DIAGEO PLC  
Form 6-K  
August 26, 2010

List identifying information required to be furnished  
by Diageo plc pursuant to Rule 13a-16 or 15d-16 of  
The Securities Exchange Act 1934  
26 August 2010

Information

Required by/when

Public Announcements/Press

The Stock Exchange, London

Announcement

Preliminary results for the year ended 30 June 2010.  
(26 August 2010)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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

For the month of: August 2010  
Commission File Number: 001-10691

Diageo plc

(Translation of registrant's name into English)

Lakeside Drive, Park Royal, London, NW10 7HQ  
(Address of principal executive offices)

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

Form 20-F  Form 40-F

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

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

SIGNATURES

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

Diageo plc

(Registrant)

Date: 26 August 2010

By: /s/ C. Kynaston  
Name: Claire Kynaston  
Title: Assistant Company Secretary

Preliminary results for the year ended 30 June 2010

Stronger second half performance drives full year growth.

- Strong second half performance; net sales up 6% driving 2% organic net sales growth for the year
- Organic operating profit growth for the year was 2%; cost reduction programmes offset a 14% organic increase in marketing spend in the second half
- eps pre-exceptionals 72.0p, up 13%
- £2 billion free cash flow; tight working capital management was the biggest driver of the £820 million increase
- Recommended 6% increase in final dividend to 23.5 pence per share

Results at a glance

		2010	20091	Organic movement	Reported movement
Volume in millions of equivalent units		143.4	140.8	2%	2%
Net sales	£ million	9,780	9,311	2%	5%
Marketing spend	£ million	1,419	1,327	3%	7%
Operating profit before exceptional items	£ million	2,751	2,588	2%	6%
Operating profit	£ million	2,574	2,418		6%
Profit attributable to parent company's equity shareholders <sup>2</sup>	£ million	1,629	1,605		1%
Free cash flow	£ million	2,024	1,204	£	820m
Basic eps <sup>2</sup>	pence	65.5	64.6		1%
eps pre-exceptionals <sup>3</sup>	pence	72.0	63.6		13%
Recommended full year dividend	pence	38.1	36.1		

1 Restated – see Note 1 on page 32 and additional information on page 44

2 For year ended 30 June 2010 reported tax rate 21.3%. For year ended 30 June 2009 reported tax rate 14.4%

3 eps pre-exceptionals excludes exceptional items in discontinued operations

Paul Walsh, Chief Executive of Diageo, said:

“As expected this has been a year of challenges and opportunities. Our performance was much stronger in the second half than in the first: our performance in the developing markets drove overall growth while markets in North America and Europe remained weak. However, even though markets and categories have been affected in different ways and to differing degrees, we have been consistent in our focus to deliver growth and build a stronger business for the future. We increased marketing in growing categories, delivering 5% organic net sales growth in scotch and 5% organic net sales growth in beer, and in growing markets with organic marketing spend up 13% in International, and behind our leading brands especially Johnnie Walker, Smirnoff and Captain Morgan. As a result we have outperformed and delivered share gains across most of our biggest markets. We launched innovations to meet the opportunities which changing consumer and customer trends offer. We have invested to strengthen our routes to market especially in Asia and we are building industry leading customer marketing skills in the on and off trade with our key customers. We have delivered very strong cash flow and return on invested capital increased to 14.8%.

“The impact of the global economic crisis varied by market and the strength of the recovery appears to be equally variable. However, as we demonstrated this year, the global diversity of our business, together with the strength and

range of our brands and the agility we have demonstrated gives us confidence that in fiscal 2011 we will be able to improve on the organic operating profit growth we have delivered this year. We are recommending a 6% increase in the final dividend and expect to at least maintain this rate of dividend growth in fiscal 2011.”

## Definitions

Unless otherwise stated in this announcement: volume is in millions of equivalent units; net sales are sales after deducting excise duties; percentage movements are organic movements; commentary refers to organic movements and share refers to value share. See page 41 for additional information for shareholders and an explanation of non-GAAP measures including the reconciliation of basic eps to eps pre-exceptionals and to underlying eps.

## Regional performance

North America – Overhead savings and improved mix held operating profit flat while marketing increased

- Volume down 2%
- Net sales down 3%
- Marketing spend up 6%
- Operating profit flat

Although there were some signs of recovery in North America, the economy and consumer confidence remained weak. Volume in North America was down 2% driven mainly by lower volume in US spirits brands where shipments were down 3% and depletion volume was down 1%. The difference in the year on year movement on shipments and depletions reflects the increase in stock levels which was reported in fiscal 2009. In fiscal 2010 shipments and depletions were in line and stock levels were maintained year on year. Diageo estimates that sales in the US spirits industry grew 1% and across NABCA and IRI combined Diageo broadly held share of consumer purchases, growing share 5 basis points. Stronger share gains by Diageo's key brands, including Johnnie Walker, Crown Royal and Captain Morgan drove the overall share performance. Reserve brands performed strongly led by Ciroc and Ketel One vodka as innovation and an improvement in the on trade delivered a return to growth in the super premium segment. Diageo's beer brands, especially Guinness, outperformed other imported beers and gained 10 basis points of share. The wine category was challenging and while volume grew due to a strong performance from Sterling Vineyards, net sales declined as a result of increased promotional activity and innovation was focused on price points at \$10 and below. The wine division was reorganised in the second half to reduce the cost base and improve returns. Weakness in ready to drink continued and constant innovation, such as Smirnoff mixed drinks, is needed to maintain the segment. Marketing spend was significantly up weighted in the second half, up 20% behind proven growth drivers on key brands and innovation. Gross margins increased as a result of production savings and lower raw material costs, which together with overhead savings led to higher operating margins despite the significant increase in marketing spend.

Europe – Robust performance as the economic and consumer environment continued to be challenging

- Volume up 1%
- Net sales down 2%
- Marketing spend down 6%
- Operating profit down 1%

Europe remained a challenging region, impacted by weak consumer confidence and economic uncertainty. Within this difficult context, Diageo delivered a robust performance led by the continued focus on customer relationships and innovation. Strong results were delivered in Great Britain. Volume and net sales were up 9% and 5% respectively and share gains were achieved across spirits in the off trade, following successful implementation of a customer focused strategy. Diageo also delivered a strong performance in Russia with double-digit growth in both volume and net sales. This led to a significant increase in share in scotch as Diageo extended its leadership position. Net sales declined 8% in Ireland but Diageo gained share and the rate of decline in the beverage alcohol market slowed. Trading in southern European markets remained particularly difficult. The on trade continued to decline in Spain and increased excise

taxes and reduced consumer spending led to a sharp slowdown in Greece in the fourth quarter. The trend towards at home consumption across many markets led to increased promotional activity in the off trade and some mix dilution. The weaker trade conditions in Southern Europe and Ireland impacted overall marketing spend as campaigns were reduced in line with consumer trends. Marketing spend was allocated to proven campaigns on key brands such as Captain Morgan in Northern Europe and Smirnoff in Great Britain. A small reduction in gross margin but lower marketing spend led to an operating profit decline of 1%.

International – Double-digit net sales growth and positive price/mix in all three hubs

- Volume up 8%
- Net sales up 13%
- Marketing spend up 13%
- Operating profit up 25%

The growth trajectory of International continued to strengthen as recovery in Global Travel and Middle East added to the overall strength of Diageo’s International business. In Latin America and the Caribbean the growth of scotch, led by Johnnie Walker, and the rum category, led by Cacique, resulted in 15% net sales growth. In Africa net sales grew 10% driven by the strong performance of lager, in particular Harp in Nigeria and Tusker in Kenya. Increased marketing spend and the strong performance of premium and super premium brands led to net sales growth of 19% in Global Travel and Middle East. Marketing spend in the region grew in line with net sales and was focused behind Diageo’s major brands in their largest markets: Johnnie Walker in GTME and Latin America, Guinness in Nigeria and Buchanan’s in Latin America. Improved gross margins contributed to operating profit growth of 25%.

Asia Pacific – Asia Pacific returned to growth in the second half

- Volume up 2%
- Net sales up 1%
- Marketing spend up 3%
- Operating profit up 6%

Asia Pacific returned to net sales growth in the second half, driven mainly by the strong performance of Johnnie Walker but with improved performance across all global priority brands. Double-digit growth in South East Asia and strong growth in Taiwan and Thailand offset destocking in India, further weakness of the premium spirits segment in Japan and a decline in scotch in Korea. In the second half, performance improved in both India and China, whilst Australia weakened. The increase in marketing spend was focused on: the Guinness “250th Celebration”, and Guinness grew share in Indonesia; on Johnnie Walker Grand Prix and “Keep Walking” campaigns which led to share gains in China, Australia, Korea and Thailand; on Smirnoff in South East Asia with share gains in Thailand and the Philippines; and on Windsor in Korea which also grew share. During the year Diageo enhanced the route to market in both Japan, driving improved margin, and in Vietnam, a key growth market. Gross margins improved and a reduction in overheads offset an increase in marketing spend driving operating profit growth of 6%.

Category performance

	Volume movement*	Organic net sales movement	Reported net sales movement
	%	%	%
Spirits	2	1	5
Beer	3	5	5
Wine	8	3	6
Ready to drink	(5)	(3)	4
Total	2	2	5

\* Volume movement is both reported and organic



Spirits: Stronger performance in scotch in the second half, led by strong growth in developing markets and by the recovery in Global Travel and Middle East, resulted in full year net sales growth of 5%. Vodka remained a competitive category and strong net sales growth of the higher priced Ketel One vodka and Cîroc brands only partially offset the net sales decline on Smirnoff. Volume and net sales of Diageo's vodka brands declined 1%. Captain Morgan, Zacapa and other Diageo rum brands continued to expand geographically and net sales growth outside North America contributed significantly to overall rum category growth of 3%. Positive category mix from the faster growth of scotch was offset by some negative pricing and higher levels of promotional activity, in particular in the vodka and liqueurs categories.

Beer: The strong performance of Diageo's beer brands continued in the second half and net sales again grew 5%. The main contributors to this growth were the local lager brands in Africa, in particular Harp in Nigeria and Tusker in East Africa. Guinness net sales were flat. Although the brand grew share in its largest markets of Ireland and Great Britain, net sales in Europe declined 2% as a result of the weak beer market. In Nigeria, consumer weakness led to a 1% net sales decline in Guinness. In contrast, Guinness grew net sales 13% in Asia Pacific. Positive price/mix on beer came from price increases outweighing the negative mix from faster growing, but lower margin, lager brands in Africa.

Wine: Nearly 85% of Diageo's wine net sales are in North America and Great Britain. The wine category in North America continued to be characterised by consumers trading down and discounting leading to net sales decline of 6%. Diageo Chateau & Estates held share by focusing on the \$10 to \$15 price range and innovation priced at \$10 and below. There was a very strong performance in Great Britain where Diageo increased share and grew wine net sales 20% led by Blossom Hill and innovation launches, particularly in the grocery channel.

Ready to drink: In the two largest markets of North America and Australia, competition in the segment intensified and net sales declined 7% and 5% respectively. However, ready to drink grew in International and the developing markets of Asia where these products offer consumers access to international spirits brands. This trend has been evident especially in Brazil, Thailand and Nigeria where net sales of ready to drink grew double-digits.

#### Key brand performance

	Volume movement*	Organic net sales movement	Reported net sales movement
	%	%	%
Global priority brands	-	(1)	3
Other brands	4	5	8
Total	2	2	5
Global priority brands**			
Johnnie Walker	11	7	12
Smirnoff	(1)	(4)	-
Baileys	(1)	(4)	-
Captain Morgan	3	2	6
Jose Cuervo	(13)	(14)	(12)
J B	(7)	(8)	(3)
Tanqueray	1	(1)	2
Guinness	(3)	-	-

\* Volume movement is both reported and organic

\*\* Spirits brands excluding ready to drink

Johnnie Walker: Strong second half growth led by developing markets was the key driver of the full year performance of the Johnnie Walker brand. Johnnie Walker Black Label was the fastest growing variant with double-digit net sales growth driven by GTME, Latin America and South East Asia. Marketing spend increased globally behind the “Walk with Giants” campaign and visibility of the brand was increased in GTME. Four percentage points of negative price/mix resulted from the slower volume growth of super deluxe variants and an increase in price promotional activity.

Smirnoff: In developed markets, which account for over 80% of Smirnoff's net sales, the vodka category was intensely competitive. In North America, Smirnoff net sales declined 7% mainly due to lapping the increase in stock levels of the prior year. Effective marketing campaigns continued to build the brand's equity and strong consumer offers during key selling periods led to volume share gains in the United States. There was a similar trend in promotional activity in Great Britain where volume grew ahead of net sales. In the brand's largest developing markets of Brazil and South Africa, net sales grew solidly reflecting Diageo's confidence in the future growth of the vodka category in these key markets. Globally, marketing spend was increased, accelerating in the second half behind flavour launches and activation of the global marketing programme "Be There".

Baileys: After a difficult first half, the brand grew volume and net sales in the second half as markets increased visibility on shelf through the "Baileys Bows" activation and flavours were launched into new markets. An increase in promotional activity, particularly in Europe over the Christmas period, led to 3 percentage points of negative price/mix.

Captain Morgan: Very strong growth of Captain Morgan in Europe and International offset 3% net sales decline in North America. In the United States, growth of the rum category slowed during the year but Captain Morgan benefited from a range of successful innovations and grew volume and value share. The brand grew strongly in Canada with net sales up 7%. Marketing spend increased 25% in North America and 36% globally. This spend was weighted to the second half and drove net sales up 7% in that period.

Jose Cuervo: The ongoing weakness of the North American on trade and aggressive pricing from competitors led to a sharp decline in Jose Cuervo. The new variant, Especial Silver continued to perform well and is now the fastest growing silver tequila in the US off trade. However, Jose Cuervo's super and ultra premium variants, Tradicional and Platino, were significantly impacted as consumers traded down to less expensive 100% agave tequilas.

J B: The majority of the brand's net sales decline stemmed from Iberia as the spirits market in that region continued to decline, particularly in the on trade. J B grew share in the on trade in Spain but lost share in the off trade as consumers traded down to less expensive brands in that channel. There was improvement in the second half led by growth in developing markets and a reduction in the rate of decline in Spain.

Tanqueray: Double-digit net sales growth in Spain and Great Britain only partially offset 4% net sales decline in North America. Weakness of the higher priced Rangpur and Tanqueray 10 variants led to negative price/mix of 2 percentage points.

Guinness: Guinness, comprising a little over half of total beer net sales, posted flat net sales with strong double-digit growth in South East Asia broadly offsetting a 2% decline in Europe and flat net sales in Africa. In Great Britain and Ireland, Guinness once again gained share but net sales declined as a result of the continued decline of beer in those markets. In Africa, where the brand typically sells at a significant price premium to local lagers, performance slowed as some consumers chose to trade down to less expensive lagers. Performance by market, however, was varied. Strong net sales growth in East Africa was offset by declines in Ghana, due to utility shortages and higher taxes, and in Nigeria where some consumers traded down to less expensive lager brands.

#### Marketing spend

Marketing spend was up 3% driven by major increases in proven campaigns behind Diageo's most important brands and categories in the second half. This resulted in double-digit increases in full year spend behind the vodka and rum categories. Spend on vodka was up 13% mainly behind Smirnoff in North America and International. Marketing spend was also up on Cîroc in the United States and on Ketel One vodka worldwide. Investment behind Captain Morgan grew 36% in the year, up 25% in North America, up over 60% in International and almost doubled in Europe.

Marketing spend on scotch represents Diageo's biggest category spend and while the percentage increase was in single digits the absolute increase was similar to that in vodka and rum. Over half of the increase in spend on scotch was behind Johnnie Walker in International. Baileys marketing spend reduced in absolute terms and as a percentage of net sales as the brand team reviewed the marketing campaign. Reduction in marketing spend behind Guinness in Europe was driven by media deflation and comparison against the prior year when spend was up behind innovation. This was broadly offset by increased marketing spend in beer in the other regions. Spend was down 2% on ready to drink and up 7% on wine.

## Customer marketing

Diageo continued to invest to enhance the capabilities of its customer marketing function which now consists of about 500 people in over 30 countries covering over 80% of Diageo's net sales. This had a tangible impact, creating demand for Diageo's brands at the point of purchase, where on average 40% of final purchase decisions are made. Diageo made it easier for shoppers to find, choose and buy products in the spirits category forming partnerships with customers which helped them offer the right range of products, the appropriate amount of shelf space and providing enhanced navigation through signage. Diageo also delivered a large number of cross brand and category focused campaigns such as the "Summer Spirits" campaign in Great Britain, the multi-brand Christmas campaign in Latin America and the "Whiskey Festival" which was executed in multiple markets.

## Corporate revenue and costs

Net sales were £70 million in the year ended 30 June 2010, down £5 million from £75 million in the prior year. Net operating costs before exceptional items, increased by £14 million in the year ended 30 June 2010 to £225 million. Diageo undertakes the majority of its currency transaction hedging centrally and therefore £104 million of positive year on year transaction impact was taken to corporate. In addition there was a negative year on year translation impact of £2 million in corporate. The geographical regions are reported using forecast transaction exchange rates with the difference between forecast and achieved rates being included in corporate. This amounted to an incremental £82 million cost this year. There was a £34 million increase in underlying corporate net costs mainly due to higher systems investment and business development charges together with the legal and accounting costs associated with ongoing regulatory matters.

## Exchange rate movements and IAS 21 and IAS 39 impact

Foreign exchange movements arising from the retranslation of prior year results increased net sales by £267 million, increased operating profit by £170 million, increased profit from associates by £4 million and reduced net finance charges by £2 million. The impact of IAS 21 and 39 was to reduce operating profit by £44 million and reduce net finance charges by £54 million.

For the year ending 30 June 2011, at current exchange rates (£1 = \$1.56 : £1 = €1.21), foreign exchange movements (excluding the impacts of IAS 21 and 39 and excluding any impact in respect of currency movements of the Venezuelan bolivar fuerte) are estimated to increase operating profit by £80 million and decrease net finance charges by £5 million. The current situation in Venezuela with respect to currency controls and the official exchange rate is uncertain. In the year ended 30 June 2010 the Venezuelan denominated operating profit amounted to VEF485 million which was translated at the official exchange rate, \$1 = VEF2.15 in the six months ended 31 December 2009 and \$1 = VEF4.3 in the six months ended 30 June 2010. If the translation exchange rate is changed in fiscal 2011 this would most likely give rise to an adverse currency movement.

## Taxation

For the year ended 30 June 2009 the reported tax rate was 14.4% and the underlying tax rate was 22.1%. For the year ended 30 June 2010 the reported tax rate was 21.3% and the underlying tax rate was 21.6%. For the year ending 30 June 2011 the underlying tax rate is expected to remain at approximately 22%.

The ongoing underlying cash tax rate is approximately 20%.

## Exceptional operating costs

Exceptional operating costs before tax of £177 million for the year ended 30 June 2010 (2009 - £170 million) comprised:

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- £85 million charge in respect of the global restructuring programme (2009 - £166 million)
- £93 million charge in respect of the restructuring of Global Supply operations (2009 - £nil)
- £12 million charge in respect of the restructuring of the Irish brewing operations (2009 - £4 million)
- £48 million net credit in respect of the restructuring of US wines operations (2009 - £nil)

- £35 million charge in respect of impairment of the Ursus brand (2009 - £nil)

Post employment liabilities

The deficit before taxation in respect of post employment plans decreased by £178 million from £1,383 million at 30 June 2009 to £1,205 million at 30 June 2010. The reduction in the deficit included £147 million transferred into the UK Diageo Pension Scheme (the UK Scheme) from escrow being cash paid by the company in prior years under the deficit funding arrangements. Deficit funding contributions to the group's UK and Irish pension schemes in the year ended 30 June 2010, other than the transfer to the UK Scheme of amounts paid into escrow in prior years, were £55 million and are expected to be approximately £50 million for the year ending 30 June 2011.

Management reports

The Annual Report for the year ended 30 June 2010 will be published on 14 September 2010. Diageo will issue the first interim management statement for the year ending 30 June 2011 at the time of the Annual General Meeting on 14 October 2010.

**BUSINESS REVIEW**  
For the year ended 30 June 2010

**OPERATING REVIEW**

Comparative financial information for the year ended 30 June 2009 has been restated as a result of changes in accounting standards and a change in the group's accounting policy for returnables (see Note 1 on page 32 and additional information on page 44). The following table summarises the impact of the restatement on marketing spend and operating profit before exceptional items by region for the year ended 30 June 2009.

	Marketing spend		Operating profit	
	As previously reported £ million	Restated £ million	As previously reported £ million	Restated £ million
North America	429	431	1,156	1,138
Europe	419	429	856	853
International	256	259	645	649
Asia Pacific	208	208	164	159
Corporate	-	-	(208)	(211)
	1,312	1,327	2,613	2,588

## North America

## Summary:

- Diageo's key spirits brands gained share, outperforming most major competitors
- Shipments and depletions were in line and therefore comparison against fiscal 2009, when shipments exceeded depletions, contributed to the volume decline against the prior year
- Strong performance by reserve brands improved mix in the second half as the super premium segment returned to growth
- Diageo's brands continued to sell at a price premium
- Diageo's beer brands outperformed other imported beers and gained share
- Innovation in the year added significantly to net sales as Diageo addressed changing consumer trends
- Ready to drink declined overall but innovation in the year improved the performance of Smirnoff ready to drink in the United States
- Marketing spend increased by 20% in the second half with investment behind innovation launches and key brands
- Margins benefited from production and overhead cost savings and lower raw material costs

Key measures:	2010 £ million	2009 (restated) £ million	Organic movement %	Reported movement %
Volume (millions of equivalent units)	51.8	53.0	(2)	(2)
Net sales	3,306	3,290	(3)	-
Marketing spend	472	431	6	10
Operating profit before exceptional items	1,170	1,138	-	3
Operating profit	1,132	1,115		2



## Reported performance:

Net sales increased by £16 million in the year ended 30 June 2010 to £3,306 million, from £3,290 million in the prior year. Reported operating profit before exceptional items increased by £32 million in the year ended 30 June 2010 to £1,170 million, from £1,138 million in the prior year.

## Organic performance:

The weighted average exchange rate used to translate US dollar sales and profit moved from £1 = \$1.60 in the year ended 30 June 2009 to £1 = \$1.57 in the year ended 30 June 2010. Exchange rate impacts increased net sales by £91 million, acquisitions and disposals increased net sales by £15 million and there was an organic decrease in net sales of £90 million. Exchange rate impacts increased operating profit before exceptional items by £26 million, acquisitions and disposals increased operating profit before exceptional items by £3 million and there was an organic increase in operating profit before exceptional items of £3 million.

## Brand performance:

	Volume movement*	Organic net sales movement	Reported net sales movement
	%	%	%
Global priority brands	(4)	(5)	(2)
Other brands	(1)	-	4
Total	(2)	(3)	-
Key spirits brands:**			
Johnnie Walker	5	4	6
Smirnoff	(3)	(7)	(4)
Baileys	(7)	(7)	(4)
Captain Morgan	(2)	(3)	-
Jose Cuervo	(15)	(16)	(14)
Tanqueray	(2)	(4)	(1)
Crown Royal	-	(1)	2
Guinness	5	4	8
Ready to drink	(5)	(7)	(2)

\* Volume movement is both reported and organic

\*\* Spirits brands excluding ready to drink

## United States – Share gains by key brands and marketing spend up-weighted in the second half

Johnnie Walker continued to outperform a difficult scotch category. Net sales grew 5% and share grew 1.1 percentage points led by Johnnie Walker Red, Black and Gold Labels. Discounting in the first half and slower net sales growth of some of the higher priced variants led to negative price/mix. Marketing spend increased 23% in the second half focused on the House of Walker mentoring programme, multicultural programmes and Father's Day media.

The premium vodka segment in the United States continued to be highly competitive. Comparison against the prior fiscal year when stock levels rose, led to volume decline of Smirnoff. Smirnoff maintained its position as the leading

vodka gaining 0.4 percentage points of volume share while value share declined 0.1 percentage points as a result of consumer promotions. Marketing spend behind the brand increased 24% behind the “Be There” campaign and launch of the new “I Choose” platform using television, digital, social networking and experiential programming.

Despite continued consumer sentiment that liqueurs are luxury products, Baileys’ performance markedly improved in the second half, driven by a reduction in the price gap against its leading competitor and targeted promotions. Baileys gained 0.4 percentage points of volume share and maintained its value share. Marketing spend reduced as focus was limited to the holiday season and a reduction in non-working dollars, which increased efficiency of the total marketing spend.

Captain Morgan volume declined as stock levels were maintained against an increase in fiscal 2009 and a slowdown of growth in the rum category. Captain Morgan Original Spiced Rum posted strong share gains of 0.6 percentage points despite decline in net sales and volume. This was partially offset by the introduction of Captain Morgan Lime Bite. Increased discounting to meet consumer demand for lower priced alternatives contributed to the decline in net sales. Marketing spend increased dramatically behind the “Calling All Captains” campaign, “Captain and Cola” programming and the launch of Captain Morgan Lime Bite.

Jose Cuervo continued to be impacted as the competitive tequila category and heavy discounting from the leading competitor drove the reduction in volume and net sales. This was partially offset by the strong performance of Especial Silver, which has become the fastest growing silver tequila in the US off trade. Although Jose Cuervo lost share overall in the United States, down 1.7 percentage points, Especial, its leading variant, extended its position and gained 0.8 percentage points of share.

Tanqueray net sales declined 3% as the gin category continued to decline with domestic brands taking share from imports. There was some negative mix caused by the weak performance of Tanqueray 10. Marketing spend increased and brand image improved.

Crown Royal net sales were flat for the full year, but the brand grew strongly in the second half driven by innovation and growth of some of the higher priced variants. Crown Royal Black quickly became the number 1 new product in IRI's new product tracker. Price/mix was flat as price reductions on Crown Royal Extra Rare and Crown Royal Cask 16 offset mix improvement from Crown Royal Black. Crown Royal outperformed the category and gained 0.3 percentage points of share. Marketing on the brand increased behind the NASCAR sponsorship, multicultural marketing programmes and the launch of Crown Royal Black.

Guinness volume growth was driven by the performance of Guinness Draft in Can, Guinness Extra Stout and Guinness Kegs, as it lapped the planned destock of the prior year. Although imported beers declined, Guinness grew share by 0.1 percentage points. Marketing spend increased behind the “250th Celebration”, Arthur's Day and the integrated campaign “Fortune Favors the Bold”.

An increase in marketing behind Bushmills led to volume growth while net sales decreased as a result of discounting in the off trade. The strong performance of Nuvo led Diageo to increase its stake in the joint venture above 70%. In the popular and value segments, Gordon's, Popov, Seagram's 7 Crown and Seagram's VO lost volume and net sales.

The reserve brands performed strongly with volume up 7% and net sales up 9% as the super premium segment returned to growth. Net sales growth was driven predominantly by Ketel One vodka up 4% and Cîroc up 48%, each supported by strong marketing campaigns. Bulleit Bourbon performed well especially in the on trade with net sales up 23%. Buchanan's Special Reserve and Red Seal grew net sales 44% and 32% respectively and became the fastest growing blended scotch brand in the United States. Buchanan's is the clear leader in the US Hispanic market.

Following the planned destock of the prior year, Diageo's beer brands grew volume 4% and net sales 4% driven predominantly by Guinness. Harp and Smithwicks also grew volume and net sales, albeit off a small base. The introduction of Red Stripe Light helped grow net sales of Red Stripe 3%.

Diageo's wine business gained 0.1 percentage points of volume share and held value share. Volume growth in Sterling Vineyards, San Telmo and Stellani di Notte were offset by declines in Beaulieu Vineyard, Chalone Vineyard and Barton & Guestier. Net sales declined as consumers continued to trade down to lower price points. Diageo introduced 9 new wine brands or varietals aimed at addressing the consumer demand for quality wines at value price points and the appeal for blends. In March 2010, Diageo announced the restructuring of the North American wine division (which included a sale and leaseback transaction and the intended sale of non-strategic brands) to reduce the cost base

and improve returns.

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Ready to drink remains challenging for Diageo. Net sales were down 5% and Diageo lost share. Smirnoff malt-based products grew net sales 6% as the strong performance of Smirnoff Ice Mango, Smirnoff Ice Multipack and the introduction of Smirnoff Mixed Drinks, offset the decline of established products. Similarly in the ready to serve segment innovation offset a decline in existing products. In the second half innovation behind Jose Cuervo Margaritas drove improved performance with the introduction of pomegranate and mango flavored margaritas but the segment remains highly competitive.

Diageo launched over 30 innovations during the year spanning spirits, beer, wine and ready to drink and through the fiscal year averaged 5 of the top 10 new items in IRI. Innovation included extensions which enhanced core brands, such as Captain Morgan Lime Bite, Smirnoff Dark Roasted Espresso, Cîroc Coconut and Ketel One Oranje, as well as new brands such as Wily Jack wine and Moon Mountain vodka. Performance of innovation was led by Crown Royal Black, Cîroc Red Berry and Smirnoff mixed drinks.

Marketing spend increased by 7%. In the second half spend was up 23%, focused behind innovation and up-weighted investment on key spirits brands, such as Captain Morgan, Johnnie Walker, Smirnoff, Crown Royal and Cîroc.

Diageo has worked with key accounts at national, regional and local levels to bring shopper and category insights to optimise sales of beverage alcohol in their stores. In addition, Diageo has developed and rolled out shopper-insight driven programmes behind Diageo's brands. These programmes capture the shoppers' attention in off trade stores and on trade restaurants, bars and clubs, meeting shoppers' needs at the point of purchase. Focus on the customer marketing agenda resulted in improved visibility for Diageo's brands in thousands of on and off trade accounts.

Canada – Net sales decline but share gains in a difficult market

Performance in Canada declined with volume down 1% and net sales down 4%. Spirits volume was impacted by destocking in the first half but Captain Morgan and J B grew in the full year. Net sales declined as consumers continued to trade down and there was a shift from spirits to beer and ready to drink. Beer volume increased 17% and net sales grew 15%. Wine grew volume 27% and net sales 31% on the strong growth of Sterling Vineyards. Ready to drink volume declined 15% and net sales declined 18% due to competition in the ready to serve segment.

Europe

Summary:

- Volume increase was led by the strong performance in Great Britain, up 9%, where successful customer focus increased visibility of Diageo's brands in the off trade during key selling periods
- Continued consumer weakness in Spain and Ireland led to a decline in net sales in those markets
- Russia delivered a very strong performance with significant share gains and double-digit growth following the launch of new brands to capture opportunities in the scotch category as consumers traded down
- Marketing spend reduced in line with consumer trends in difficult markets and was focused behind key brands, Smirnoff and Captain Morgan, and innovation
- Guinness grew share in Great Britain and Ireland but volume was down in a tough beer market

Key measures:	2010	2009	Organic	Reported
	£ million	(restated) £ million	movement %	movement %
Volume (millions of equivalent units)	39.2	39.0	1	1
Net sales	2,759	2,750	(2)	-

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Marketing spend	412	429	(6)	(4)
Operating profit before exceptional items	859	853	(1)	1
Operating profit	806	801		1

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## Reported performance:

Net sales increased by £9 million in the year ended 30 June 2010 to £2,759 million, from £2,750 million in the prior year. Reported operating profit before exceptional items increased by £6 million in the year ended 30 June 2010 to £859 million, from £853 million in the prior year.

## Organic performance:

The weighted average exchange rate used to translate euro net sales and profit moved from £1 = €1.17 in the year ended 30 June 2009 to £1 = €1.13 in the year ended 30 June 2010. Exchange rate impacts increased net sales by £53 million, acquisitions and disposals increased net sales by £10 million and there was an organic decrease in net sales of £54 million. Exchange rate impacts increased operating profit before exceptional items by £11 million, acquisitions and disposals increased operating profit before exceptional items by £1 million and there was an organic decrease in operating profit before exceptional items of £6 million.

## Brand performance:

	Volume movement* %	Organic net sales movement %	Reported net sales movement %
Global priority brands	(1)	(3)	(2)
Other brands	5	-	3
Total	1	(2)	-
Key spirits brands:**			
Johnnie Walker	(6)	(4)	(2)
Smirnoff	-	(6)	(5)
Baileys	3	(3)	(1)
J B	(8)	(10)	(6)
Guinness	(4)	(2)	(1)
Ready to drink	(6)	(2)	(1)

\* Volume movement is both reported and organic

\*\* Spirits brands excluding ready to drink

## Great Britain – Growth in volume and net sales, strong spirits performance in the off trade

A strong performance was delivered in Great Britain with volume up 9% and net sales up 5%, driven by double-digit volume growth from spirits and wine. Solid share gains were achieved in spirits in the key off trade channel through a continued promotional strategy although key Diageo brands continued to sell at a price premium relative to their category. The on trade, in contrast, continued to decline in the low single-digits although the rate of pub closures slowed. In this context, Guinness outperformed the beer category with broadly flat net sales through the success of the “Bring It to Life” and “250th Celebration” campaigns. Baileys and Pimm’s both performed well with good volume, net sales and share growth driven by the continued strength of Baileys Flavours and distribution gains of Pimm’s supported by a national television campaign. Smirnoff Flavours continued to grow strongly and have been particularly successful in the off trade, where it is now the best selling flavoured vodka range. The negative price/mix of 4 percentage points in Great Britain was driven by the faster growth of the grocery channel with its competitive promotional environment.

Ireland – Diageo grew share in a declining market although rate of decline slowed

Diageo's volume and net sales declined 6% and 8% respectively in Ireland, primarily driven by the weakness of the key on trade channel, but with share gains in beer and spirits. Guinness net sales decreased 5% but grew share, especially in the key Republic of Ireland on trade channel, where it has shown over 30 months of consecutive share growth, driven partly by the success of the "250th Celebration" campaign. Harp and Smithwicks also grew share following the successful launch of Harp Ice Cold and the repositioning of Smithwicks brand. Carlsberg performed broadly in line with the market while Budweiser lost share.

Iberia – While the market rate of decline slowed, consumers traded down and on trade weakness continued

Difficult economic conditions continued to impact Iberia, with consumer driven sectors still experiencing weakness. The rate of decline of spirits slowed but the category remained adversely affected by consumers trading down to less expensive brands and categories and the shift towards at home consumption. The off trade continued to grow and is now approaching 40% of the total market, although the majority of this growth is being driven by own label brands at lower price points. Diageo's volume and net sales were down 5% and 7% respectively. Aggressive pricing and on trade decline led to negative price/mix. J B was impacted by the fall in scotch consumption in the on trade channel in Spain and volume decreased 12%. In contrast, Johnnie Walker continued to capitalise on its great brand momentum and increased volume, net sales and share. Similarly, cocktail innovation including Cacique Mojito performed well in the off trade.

Eastern Europe – Russia returned to growth in the second half

Double-digit volume and net sales growth were delivered in Russia, reflecting the successful introduction of lower priced scotch brands into the market to appeal to value conscious consumers and maintain category participation. White Horse and Bell's captured this momentum, delivering strong volume and net sales growth. Captain Morgan also achieved good growth following the introduction of smaller sized bottles. In Eastern Europe, net sales declined as distributors and wholesalers continued to reduce their inventories and consumer demand remained weak. However, growth was achieved in certain countries on key brands, such as the double-digit net sales increase on Johnnie Walker Red Label in Poland and Bushmills in Bulgaria.

Other European markets – Difficult macro economic conditions in Greece had limited impact on full year performance

In Greece, net sales declined 4% for the year. Growth in the first half and the resilience of Diageo's scotch brands partly offset the decline in the second half as the government introduced tough austerity measures and excise taxes on alcohol were increased 87%. In Northern Europe, net sales and volume declined 1%, driven by the competitive pricing environment in Germany. Captain Morgan grew volume and net sales strongly following the recent focus on the brand.

Brands and activities

Johnnie Walker volume and net sales declined 6% and 4% respectively, driven by a weak performance in the first half in Eastern Europe and Russia. Price increases in Greece and the growth of Johnnie Walker Black Label in Spain, Greece and Turkey, led to 2 percentage points of positive price/mix. Similarly, Johnnie Walker Red Label showed a very strong performance in Spain and in Poland, gaining share and significantly growing volume and net sales.

Smirnoff volume was flat and net sales were down 6%. This performance was driven by the sharp decline of the vodka category in Ireland and heightened competition in Poland, where local vodka brands returned to popularity during the economic downturn. Despite the difficult context, Smirnoff grew share in Ireland, driven by the on trade and extending its market leading position. In Great Britain, Smirnoff's largest European market, the brand lost share in the on trade but remained the best selling vodka and made strong share gains in the growing off trade.

Baileys increased volume 3% with net sales down 3%. A strong performance in Great Britain, its largest European market, with volume and net sales up 17% and 5% respectively, was driven by the double-digit growth in the off trade and the rapid growth of Baileys Flavours. The marketing strategy focused on in-store activity to improve visibility during key selling periods, such as the joint display of Baileys Original and Baileys Flavours. This performance was offset by weak results in Germany and the decline of the liqueurs category in Eastern Europe.



J B remained in decline with volume and net sales down 8% and 10% respectively, following the continued weakness of the scotch category in Spain and the increased competition by local and own label whisky brands in this market.

Guinness volume and net sales declined across the region by 4% and 2% respectively, mainly caused by the decline of the on trade. In Great Britain, Guinness outperformed the beer category with broadly flat net sales and achieved its highest ever share of the on trade at 8% through the success of the “Bring it to Life” and “250th Celebration” campaigns. Share gains were also achieved in Ireland, led by the performance in the key Republic of Ireland on trade channel. Price/mix was positive mainly because of a price increase on Guinness Draught in Great Britain.

The ready to drink segment remained weak with volume and net sales down 6% and 2% respectively, reflecting the continued decline of the segment across the region and more particularly in the on trade. Smirnoff Ice remained in decline in larger markets, where investment in the brand was focused on improving visibility in the off trade.

Premix cans delivered strong growth in Great Britain with volume and net sales up 23% and 28% respectively, making spirits more accessible to the at home consumer. The successful launch of Smirnoff & Cola in February 2010, supported by television and in-store activity, expanded the range of premix variants to eight. Cacique Mojito in Spain had a strong start and the introduction of Smirnoff Cocktails in Great Britain strengthened Diageo’s offering in the growing ready to serve segment.

As consumer behaviours evolved in Europe, innovation remained a crucial performance driver with particular success in Great Britain, Spain and Russia. In Great Britain performance was driven by a full rollout on Baileys with a hint of Coffee, premix cans and Smirnoff flavoured vodka. The launch of Cacique Mojito ready to serve cocktails in Spain addressed the at home consumption trend. In Russia the launch of Bell’s in the scotch value segment provided a lower priced alternative as consumers traded down from higher priced scotch brands.

The reserve brands grew in Europe focused on Diageo’s single malt scotch brands and good growth was achieved on the Classic Malts range in France, Italy and Great Britain. Talisker and The Singleton of Dufftown also performed well, however Cardhu was impacted by the decline of the brand’s principal on trade channel in Spain. Zacapa benefited from distribution gains across the region and grew net sales 19%.

Marketing spend was down 6% in response to the challenging trading conditions across the region and more particularly in Ireland, Iberia and Eastern Europe. It was increased selectively behind proven campaigns on key brands such as Captain Morgan in Northern Europe, the launch of new flavours of Smirnoff in Great Britain and Johnnie Walker in Russia. Media rate deflation in the largest markets led to the realisation of savings on Guinness and Baileys.

Customer marketing initiatives were designed to ensure the right products are supplied, available and merchandised in the most effective manner in order to win at the point of purchase. The successful collaboration with key grocery customers continued, with seasonal campaigns to increase sales at these key occasions.

#### International

- Latin America and the Caribbean delivered 15% net sales growth, driven by scotch brands Johnnie Walker, Buchanan’s and Old Parr
- Growth of lager brands led to 10% net sales growth in Africa
- Global Travel and Middle East returned to growth, led by the strong growth of premium and super premium brands
- Marketing spend increased ahead of net sales behind the key categories of scotch, beer and vodka



Key measures:	2010 £ million	2009 (restated) £ million	Organic movement %	Reported movement %
Volume (millions of equivalent units)	40.3	37.0	8	9
Net sales	2,627	2,286	13	15
Marketing spend	302	259	13	17
Operating profit before exceptional items	771	649	25	19
Operating profit	766	627		22

## Reported performance:

Net sales increased by £341 million in the year ended 30 June 2010 to £2,627 million, from £2,286 million in the prior year. Reported operating profit before exceptional items increased by £122 million in the year ended 30 June 2010 to £771 million, from £649 million in the prior year.

## Organic performance:

Exchange rate impacts increased net sales by £21 million, acquisitions and disposals increased net sales by £9 million and there was an organic increase in net sales of £311 million. Exchange rate impacts decreased operating profit before exceptional items by £27 million, acquisitions and disposals decreased operating profit before exceptional items by £6 million and there was an organic increase in operating profit before exceptional items of £155 million.

## Brand performance:

Brand performance:	Organic Volume movement* %	Organic net sales movement %	Reported net sales movement %
Global priority brands	7	9	11
Other brands	9	19	19
Total	8	13	15
Key spirits brands:**			
Johnnie Walker	22	17	26
Smirnoff	7	7	18
Baileys	1	2	8
Buchanan's	11	15	13
Guinness	(6)	(1)	(8)
Ready to drink	(7)	7	10

\* Reported volume movements for Other brands and Total were 10% and 9% respectively, primarily due to Windhoek  
 \*\* Spirits brands excluding ready to drink

Latin America and the Caribbean – Volume growth in Mexico and Brazil together with price increases in Venezuela drove performance

Net sales grew 17% in Venezuela driven by price increases taken to reflect inflation and the weaker Bolivar/US dollar exchange rate. However, volume decreased 4% as the slowdown of the economy resulted in category declines within international spirits. This was especially true of the higher priced scotch segments where many consumers either switched into lower priced categories such as rum or locally produced vodka, or traded down within the category to standard variants. Within this environment, Diageo maintained its clear leadership position of both the scotch and rum categories.

Volume grew 22% and net sales 15% in the Brazil hub, led by Johnnie Walker and Smirnoff which both grew share and extended their category leadership positions. Negative price/mix was a result of price reductions made in the second half of fiscal 2009. Marketing spend increased behind global brand campaigns such as Johnnie Walker “Walk with Giants”, category marketing programmes such as the Whiskey Festival and activation behind Smirnoff, Cîroc and Ketel One vodka during the 2010 football World Cup.

In Mexico, the strong performance of Johnnie Walker Red Label and Buchanan's Deluxe extended Diageo's position as the clear leader in scotch and led to volume growth of 25% and net sales growth of 31%. Price increases across the scotch range and the faster growth of deluxe variants resulted in 6 percentage points of positive price/mix. Marketing spend was significantly increased behind Johnnie Walker "Keep Walking" and the "Buchanan's Forever" platform.

Africa – Beer net sales grew strongly led by lager brands. Strong share gains in the largest markets

Despite a challenging economic environment in South Africa, volume and net sales grew 1%. The scotch category was most affected by the reduction in consumer confidence, however Bell's remained the best selling scotch in the market and Diageo's scotch brands grew share. Smirnoff delivered a strong performance, with net sales up 8%. Trading has generally improved in the second half, with signs of trading up starting to appear, particularly in scotch. Sales of beer through the brandhouse joint venture performed very well and grew share.

The strong performance in Nigeria continued with net sales up 23% and Diageo gained share of the beer category. Harp, in particular, performed strongly as distribution gains and increased media activity led to excellent net sales growth for the brand. Guinness net sales declined 1% as a weaker economy led many consumers to trade down to lower priced beers. Marketing activity on Guinness was stepped up significantly, primarily behind television advertising of "The Scout" and activation around the sponsorship of the Nigerian football team, the "Super Eagles", during the 2010 football World Cup.

In the East Africa hub, comprising Kenya, Uganda and Tanzania, trading conditions significantly improved in the second half as the domestic economies showed signs of recovery. Diageo's performance steadily improved and the hub delivered flat volume and net sales growth of 10% for the full year. The positive price/mix was due to price increases coupled with the faster growth of the higher margin Guinness brand, which grew net sales 21%. Tusker in Kenya was another highlight, growing net sales 26%.

Elsewhere in Africa, net sales grew 1% in both Cameroon and Ghana. In Cameroon, growth of Malta Guinness and the introduction of Pilsner lager in November 2009 drove performance. Ghana faced a difficult year as water shortages and power outages reduced production volume while a significant increase in excise duties in January negatively impacted consumer demand. Marketing spend behind Guinness in both Cameroon and Ghana increased significantly.

Global Travel and Middle East – Net sales recovered after a difficult fiscal 2009 led by premium and super premium brands

GTME recovered well from the travel reduction in 2009, with volume growth of 15% and net sales growth of 19%. Marketing spend was increased significantly reflecting the important role of GTME as a brand and category building channel. A greater focus on priority customers, increased resources behind shopper understanding and a step-up in programmes to encourage consumers into stores all contributed to the success. The stand out brand performance was from Johnnie Walker, particularly Black Label where net sales grew 38%. The largest non-scotch brands, Baileys, Smirnoff, Captain Morgan and Tanqueray, also grew net sales. Innovation played a significant role in driving growth, especially the launch of Johnnie Walker Double Black and the sustained momentum of Johnnie Walker King George V and The Singleton single malt scotch.

Brands and activities

Johnnie Walker volume grew 22% and net sales 17% with the rebound in performance from last year evident across Red, Black and Blue Labels. Negative price/mix reflected the re-instatement of promotional activity on scotch in Global Travel and price reductions on Johnnie Walker Red Label in Brazil. Johnnie Walker Red Label responded well to the "Adventure in a Glass" global marketing programme activated across Latin America while improved trading with

customers supplying the duty free outlets on the United States/Mexico border also contributed to the improved growth levels. The majority of growth of Johnnie Walker Black and Blue Labels was driven by GTME where the “Walking with Giants” campaign was activated in 30 airports in the second half.

Volume and net sales of Smirnoff grew 7%, with the three largest markets of Brazil, South Africa and GTME all posting single-digit increases. In Brazil, a price increase partially offset the reduction taken in fiscal 2009, while strong marketing spend behind the Smirnoff “Be There” campaign contributed to the brand returning to growth.

Baileys net sales were up 2% across the region as good growth in the largest markets of GTME and Mexico of 7% and 10% respectively were partly offset by a slowdown in the Caribbean and Central America and an initial adverse impact due to a change of route to market for spirits in Nigeria.

Buchanan’s volume and net sales grew 11% and 15% respectively and marketing spend was increased ahead of net sales supporting the “Buchanan’s Forever” programme, which, in its third year, featured sold out concerts in Caracas, Bogota and Mexico City. Father’s Day and Whiskey Festival promotions across Latin America contributed to improved net sales momentum in the second half.

Guinness volume declined 6% and net sales 1% as some consumers in Africa traded down to lower priced beers. In the largest markets of Nigeria, Cameroon and Ghana, the brand commands a price premium of upwards of 75% compared to mainstream lager brands. To support brand equity and this strong pricing position, marketing spend was significantly increased behind the “250th Celebration” in the first half and in strengthening the brand’s association with football in the second half.

Ready to drink net sales grew 7% led by the strong performance of Smirnoff Ice in Nigeria and Brazil. In South Africa, Smirnoff ready to drink volume declined as consumers traded into less expensive mainstream beer but the launch of premix versions of Captain Morgan and J B helped grow ready to drink net sales 8% in that market.

Marketing spend increased in line with net sales at 13% and was focused behind the largest categories and proven campaigns. By category, the majority of the additional spend was behind scotch as the “Walk with Giants” marketing programme on Johnnie Walker was activated at scale in both Latin America and GTME. Guinness also received significantly more support in fiscal 2010. Marketing spend increased between 30% and 70% in the largest markets of Nigeria, Cameroon and East Africa.

International was the largest contributor to Diageo’s innovation net sales growth mainly due to new beer formats in Nigeria and Kenya and the introduction of super deluxe variants of scotch brands in the domestic markets of Latin America. The launch of premix cans in South Africa and Johnnie Walker Double Black in GTME both showed encouraging early results.

Reserve brands recovered from a difficult year in fiscal 2009 to deliver 9% net sales growth. GTME performed strongly as increased visibility of Johnnie Walker Blue Label, especially in Asian airports, led to strong growth. Higher up the price range, successful launch events for The John Walker gave the brand visibility in some of the most sought after top tier outlets across the region and most importantly attracted high net worth consumers to the brand. In Mexico, a focused strategy of expanding reserve brand distribution into high-end bars and increasing distribution in department stores led to a 44% increase in net sales.

Reflecting the region’s focus on improving customer collaboration and shopper understanding, a dedicated customer marketing function was established in all three hubs. In Latin America and the Caribbean, the “Ease of Shop” programme was rolled out across 3,500 stores. The Whiskey Festival, activated in many markets across the region, was a great example of activating a category platform at scale. In South Africa, strategic partnerships were developed with key customers and Diageo now holds category captaincy positions in its top ten national accounts. Elsewhere in Africa the sales focus was on developing the capabilities of distributor partners. In Global Travel, Diageo has shown leadership in bringing together suppliers, airport authorities and retailers to deliver exciting category events to consumers, both in and out of store.



## Asia Pacific

## Summary:

- Double-digit growth in South East Asia was driven by strong growth in Johnnie Walker and Guinness
- Australia volume and net sales declined slightly driven by weakness of Bundaberg ready to drink in an increasingly competitive segment
- Good depletions of Johnnie Walker and Windsor drove share growth in China as the scotch category returned to growth, although overall performance was held back by destock of Dimple
  - The scotch category was weak in Korea, however share gains extended Diageo's leadership position
    - A strong performance from The Singleton led to 10% net sales growth in Taiwan
- India was impacted by a destock in the first half but the business performed more strongly in the second half
- Marketing spend increased 3% with focused investment on Windsor, Guinness, Johnnie Walker and Smirnoff

## Key measures:

	2010	2009	Organic	Reported
	£ million	(restated) £ million	movement %	movement %
Volume (millions of equivalent units)	12.1	11.8	2	2
Net sales	1,018	910	1	12
Marketing spend	233	208	3	12
Operating profit before exceptional items	176	159	6	11
Operating profit	146	124		18

## Reported performance:

Net sales increased by £108 million in the year ended 30 June 2010 to £1,018 million, from £910 million in the prior year. Reported operating profit before exceptional items increased by £17 million in the year ended 30 June 2010 to £176 million, from £159 million in the prior year.

## Organic performance:

Exchange rate impacts increased net sales by £101 million and there was an organic increase in net sales of £7 million. Exchange rate impacts increased operating profit before exceptional items by £14 million, acquisitions and disposals decreased operating profit before exceptional items by £7 million and there was an organic increase in operating profit before exceptional items of £10 million.

## Brand performance:

	Volume movement*	Organic net sales movement	Reported net sales movement
	%	%	%
Global priority brands	5	3	14
Other brands	(2)	(2)	10
Total	2	1	12
Key spirits brands:**			
Johnnie Walker	14	2	10
Smirnoff	(5)	(1)	11

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Bundaberg	(8)	-	22
Windsor	-	-	9
Guinness	2	13	27
Ready to drink	-	(4)	15

\* Volume movement is both reported and organic  
\*\* Spirits brands excluding ready to drink

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Australia - Net sales growth on spirits but increased competition in ready to drink

In Australia net sales declined 1% as a result of a 5% decline in ready to drink net sales. In spirits the performance was stronger. The “Strides” marketing campaign drove share gains and the strong performance of Johnnie Walker Red Label, with net sales growth of 19%, offset weakness in Baileys which was impacted by imports of the brand from outside Australia. Smirnoff volume was down 4%, however moderate price increases delivered flat net sales in a category that has seen increased competition from own label. Bundaberg volume declined 8% as growth slowed in dark spirits and a price increase held net sales flat. Marketing spend increased 2% and investment focused on the Smirnoff range.

Korea - Increased investment on Windsor and good share gains in scotch

The contraction of scotch in Korea during the global economic downturn combined with consumers trading down, led to a decline in volume and net sales of 8% and 3% respectively. A double-digit increase in marketing spend was focused on Windsor and Johnnie Walker Black Label and delivered 4 percentage points of volume share gain in the scotch category. Price increases on both Windsor 12 year old and Windsor 17 year old delivered price/mix improvement.

South East Asia – Double-digit growth on Johnnie Walker and Guinness

South East Asia, which includes Vietnam, Malaysia and Indonesia, performed well, delivering double-digit volume and net sales growth. Negative price/mix was driven by the increase in the level of business done through third party distributors, which led to a reduction in net sales per case and some destocking of super deluxe brands. Johnnie Walker performed well as a result of a 15% increase in marketing spend which focused on the “Keep Walking” campaign and Grand Prix sponsorship, and drove both share gains and increased brand equity. Guinness posted strong performance and the brand’s price premium drove strong price/mix backed by a significant increase in marketing spend behind the “250th Celebration” and sponsorship of World Series Pool in Indonesia.

Thailand - Net sales growth but adverse mix as consumers traded down

In Thailand volume grew 9% as Johnnie Walker Black Label and Smirnoff both delivered good growth. However, the key growth driver in the market was Benmore, which delivered double-digit volume and net sales growth, and as a result of improved brand health grew share in a declining category as the uncertain political and economic environment led to trading down. The strong growth of Benmore at a lower price point to Johnnie Walker drove negative price/mix and net sales grew 4% in Thailand.

China - Strong second half growth and share gains on Johnnie Walker

The second half performance in China was very strong although the destocking of Dimple in the first half of the year impacted overall performance, with volume down 1% and net sales down 2% for the full year. Global priority brands grew in China and the strong performance of Johnnie Walker Black Label, delivered over 2 percentage points of share in a scotch category which had returned to growth. Smirnoff and Baileys also performed well, albeit from a smaller base, as brand equity improved. Both brands increased share in their respective categories and trade investment efficiencies delivered positive price/mix. Increased focus behind Windsor delivered strong growth in volume and net sales. A double-digit increase in marketing spend focused on Johnnie Walker and Windsor increased Diageo’s share of voice in the scotch category by 4 percentage points.

India - Full year net sales decline but performance improved in the second half

The business in India was impacted by destocking in the first half following inappropriate shipments in the prior year. As a result both volume and net sales were down. Marketing spend as a percentage of net sales was also below last year as the business was rebased. Marketing spend was focused behind Johnnie Walker, Smirnoff and Vat 69 and investment behind sales capabilities accelerated. Price increases on Smirnoff and Vat 69 in the second half delivered price/mix improvement.

Rest of Asia

Elsewhere in Asia there was strong growth of The Singleton of Glen Ord in Taiwan. In Japan net sales were down, however margins improved as the distribution of premium brands moved to the joint venture with Kirin.

Brands and activities

Johnnie Walker volume grew 14%. Negative price/mix was a result of an increase of competitively priced promotions at Easter in Australia and increased sales through third party distributors in South East Asia and therefore net sales grew 2%. Marketing spend increased behind “Keep Walking”, Grand Prix sponsorship and gifting occasions in China and South East Asia and a major television campaign to drive the quality perception of the brand in Taiwan.

Smirnoff volume declined 5% driven by destocking in India and an increase in the competitive landscape in Australia. A price increase in Australia combined with a strong performance in Thailand and China broadly offset the volume decline with net sales down 1%. Marketing spend was directed towards the “Be There” campaign and innovation. However total spend was down 9% as increased investment in South East Asia and Australia was offset by spend efficiencies in China and a reduction in line with the destock in India.

Bundaberg rum volume was down 8% due to a slowdown in the growth in dark spirits in the second half of the year, which led to more intense competition. A price increase held net sales for the year flat. Growth of Bundaberg Red mitigated some volume decline on the core brand.

Windsor volume and net sales were flat as increased distribution in China offset the decline caused by scotch contraction in Korea. The brand maintained category leadership in Korea, supported by increased investment in the new “Diamond Jubilee Club” campaign, and grew volume share in China, as new packaging of Windsor XR combined with focused brand building activity increased brand equity, supporting further distribution expansion.

Guinness performed well and volume increased 2%. Price/mix improvement was driven by its premium price positioning in South East Asia and net sales grew 13%. Marketing spend increased by over a third to support the brand’s “250th Celebration” activity, the new “Rise Together” campaign and sponsorship of World Series Pool in South East Asia.

Ready to drink volume was broadly flat as the performance of Smirnoff Cocktails and Johnnie Walker ready to drink offset a 3% decline in Bundaberg ready to drink in Australia. Price competition intensified between beer and ready to drink in Australia and net sales declined 4% in the region.

Marketing spend grew 3%, primarily driven by increases in Korea, South East Asia and China. Investment increased behind the Johnnie Walker Grand Prix sponsorship and “Keep Walking” campaigns and the Windsor “Diamond Jubilee Club” programme, driving share gains in those markets. Marketing spend also increased behind Guinness, including the “250th Celebration”, delivering a strong performance and share gains in Indonesia. In addition, investment increased behind Smirnoff innovation in South East Asia and Australia, whilst Baileys and J B spend declined in the region.

Innovation was focused on increasing the accessibility of spirits with Smirnoff Cocktails in Australia and Johnnie Walker gift packs in key scotch markets. Bundaberg Red continued to perform well in Australia, a year after launch.

The performance of reserve brands in the region was mixed. The Singleton of Glen Ord in Taiwan delivered double-digit growth supported by television advertising, but this was more than offset by the destocking of super deluxe scotch in South East Asia and India.

Fiscal 2010 was the inaugural year for customer marketing in Asia Pacific and a dedicated team was established across the region. The strong on trade bias in the region was the focus of this customer marketing activity with investments behind bar staff training across the region, an on trade solutions website in Australia which was used by about 75% of Diageo's on trade accounts, and a Smirnoff versatility tool, "Smirnoff Tower" in China and India. In the Thai off trade, "Ease of Shop" was introduced and delivered increased spend per basket for customers and brand uplift for Diageo in the accounts where the programme was implemented.

## 2. FINANCIAL REVIEW

## Summary consolidated income statement

	Year ended 30 June 2010	Year ended 30 June 2009 (restated)
	£ million	£ million
Sales	12,958	12,283
Excise duties	(3,178)	(2,972)
Net sales	9,780	9,311
Operating costs before exceptional items	(7,029)	(6,723)
Operating profit before exceptional items	2,751	2,588
Exceptional operating items	(177)	(170)
Operating profit	2,574	2,418
Sale of businesses	(15)	-
Net finance charges	(462)	(592)
Share of associates' profits after tax	142	164
Profit before taxation	2,239	1,990
Taxation	(477)	(286)
Profit from continuing operations	1,762	1,704
Discontinued operations	(19)	2
Profit for the year	1,743	1,706
Attributable to:		
Equity shareholders of the parent company	1,629	1,605
Non-controlling interests	114	101
	1,743	1,706

## Sales and net sales

On a reported basis, sales increased by £675 million from £12,283 million in the year ended 30 June 2009 to £12,958 million in the year ended 30 June 2010. On a reported basis net sales increased by £469 million from £9,311 million in the year ended 30 June 2009 to £9,780 million in the year ended 30 June 2010. Exchange rate movements increased reported sales by £346 million and reported net sales by £267 million.

## Operating costs before exceptional items

On a reported basis, operating costs before exceptional items increased by £306 million in the year ended 30 June 2010 due to an increase in cost of sales of £175 million, from £3,878 million to £4,053 million, an increase in marketing expenses of £92 million from £1,327 million to £1,419 million, and an increase in other operating expenses before exceptional costs of £39 million, from £1,518 million to £1,557 million. The impact of exchange rate movements increased total operating costs before exceptional items by £141 million.

## Exceptional operating items

Exceptional operating costs of £177 million for the year ended 30 June 2010 (2009 - £170 million) comprised a net charge of £142 million (2009 - £170 million) in respect of restructuring programmes and an impairment charge of £35 million (2009 - £nil) in respect of the Ursus brand reflecting the impact of the significant downturn in the economy in

one of its principal markets, Greece. Restructuring programmes comprise £85 million (2009 - £166 million) for the global restructuring programme announced in February 2009 primarily in respect of employee and contract termination charges, £93 million (2009 - £nil) for the restructuring of Global Supply operations announced in July 2009 principally in Scotland, £12 million (2009 - £4 million) for the restructuring of brewing operations in Ireland announced in 2008 in respect of accelerated depreciation, and a £48 million net credit (2009 - £nil) for the restructuring of the wines business in the United States comprising an £89 million gain on the sale and leaseback of land, a £17 million charge for the write down of inventories and other charges of £24 million.

The total restructuring cash expenditure in the year ended 30 June 2010 is £145 million (2009 - £53 million) of which £122 million relates to the global restructuring programme. A charge of approximately £30 million is expected to be incurred in the year ending 30 June 2011 primarily in respect of the restructuring of Global Supply operations, while cash expenditure is expected to be approximately £150 million.

#### Post employment plans

Post employment net costs for the year ended 30 June 2010 were a charge of £133 million (2009 - £63 million) comprising £92 million (2009 - £98 million) included in operating costs before exceptional items, pension curtailment gains of £6 million (2009 - £33 million) in exceptional operating items and a charge of £47 million (2009 - gain of £2 million) in net finance charges. In the year ending 30 June 2011, the finance charge under IAS 19 is expected to be £5 million.

The deficit before taxation in respect of post employment plans decreased by £178 million from £1,383 million at 30 June 2009 to £1,205 million at 30 June 2010. The reduction in the deficit included £147 million transferred into the UK Diageo Pension Scheme (the UK Scheme) from escrow under the deficit funding arrangements paid by the company in prior years. Deficit funding contributions to the group's UK and Irish pension schemes in the year ended 30 June 2010, other than the transfer to the UK Scheme of amounts paid into escrow in prior years, were £55 million and are expected to be approximately £50 million for the year ending 30 June 2011.

#### Operating profit

Reported operating profit for the year ended 30 June 2010 increased by £156 million to £2,574 million from £2,418 million in the prior year. Exchange rate movements increased operating profit for the year ended 30 June 2010 by £122 million. Before exceptional operating items, operating profit for year ended 30 June 2010 increased by £163 million to £2,751 million from £2,588 million in the prior year. Exchange rate movements increased operating profit before exceptional items for the year ended 30 June 2010 by £126 million.

#### Exceptional non-operating items

A loss of £15 million on sale of businesses comprises a charge of £26 million in respect of the anticipated loss on the disposal of certain non-strategic wine brands in the United States in the year ending 30 June 2011 and a gain of £11 million arising on the revaluation of the current equity holding in the London Group, the owner of the Nuvo brand, to revalue Diageo's stake to fair value, following the acquisition of a majority equity stake in the London Group.

#### Net finance charges

Net finance charges comprising net interest charge and net other finance charges decreased from £592 million in the year ended 30 June 2009 to £462 million in the year ended 30 June 2010.

The net interest charge decreased by £141 million from £516 million in the prior year to £375 million in the year ended 30 June 2010. The reduction in the interest charge arose principally from a decrease in average floating interest rates which resulted in a reduction in interest charges of £90 million, from a decrease in average net borrowings in the year driven by strong cash flow generation and from a positive movement on the revaluation to year end market rates of interest swaps under IAS 39 of £20 million.

The income statement interest cover was 7.7 times and cash interest cover was 10.3 times.

Net other finance charges for the year ended 30 June 2010 were £87 million (2009 - £76 million). There was an increase of £49 million in finance charges in respect of post employment plans from £2 million finance income in the year ended 30 June 2009 to a £47 million charge in the year ended 30 June 2010. Other finance charges also include £18 million (2009 - £21 million) on unwinding of discounts on liabilities, a hyperinflation adjustment of £16 million (2009 - £nil) in respect of the Venezuela operations, £10 million (2009 - £33 million) in respect of exchange rate translation differences on inter-company funding arrangements where hedge accounting was not applicable and £4 million income (2009 - £13 million charge) in respect of other finance charges. In the year ended 30 June 2009 £11 million was recognised in respect of exchange movements on net borrowings not in a hedge relationship.

## Associates

The group's share of associates' profits after interest and tax was £142 million for the year ended 30 June 2010 compared to £164 million in the prior year. Diageo's 34% equity interest in Moët Hennessy contributed £134 million (2009 - £151 million) to share of associates' profits after interest and tax.

## Profit before taxation

Profit before taxation increased by £249 million from £1,990 million in the prior year to £2,239 million in the year ended 30 June 2010.

## Taxation

The reported tax rate for the year ended 30 June 2010 was 21.3% compared with 14.4% for the year ended 30 June 2009. Factors that reduced the reported tax rate in the prior year included settlements agreed with tax authorities that gave rise to changes in the value of deferred tax assets and tax provisions. The underlying tax rate for the year ended 30 June 2010 was 21.6% and for the year ended 30 June 2009 was 22.1%. The underlying tax rate for the year ending 30 June 2011 is expected to remain at approximately 22%.

## Discontinued operations

Discontinued operations in the year ended 30 June 2010 represent a charge after taxation of £19 million in respect of anticipated future payments to new thalidomide claimants. The credit of £2 million in the year ended 30 June 2009 relates to the Pillsbury disposal.

## Exchange rate and other movements

Exchange rate movements are calculated by retranslating the prior year results as if they had been generated at the current year exchange rates. The difference is excluded from organic growth.

The estimated effect of exchange rate and other movements on profit before exceptional items and taxation for the year ended 30 June 2010 was as follows:

	Gains/(losses) £ million
Operating profit before exceptional items	
Translation impact	37
Transaction impact	133
Impact of IAS 21 on operating profit	(44)
Total exchange effect on operating profit before exceptional items	126
Interest and other finance charges	
Net finance charges – translation impact	2
Mark to market impact of IAS 39 on interest expense	20
Impact of IAS 21 and IAS 39 on other finance charges	34
Associates – translation impact	4
Total effect on profit before exceptional items and taxation	186

Year ended 30 June 2010	Year ended 30 June 2009
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Exchange rates			
Translation £1 =	\$	1.57	\$ 1.60
Transaction £1 =	\$	1.67	\$ 2.29
Translation £1 =	€	1.13	€ 1.17
Transaction £1 =	€	1.30	€ 1.40

For the year ending 30 June 2011, at current exchange rates (£1 = \$1.56 : £1 = €1.21), foreign exchange movements (excluding the impacts of IAS 21 and 39 and excluding any impact in respect of currency movements of the Venezuelan bolivar fuerte) are estimated to increase operating profit by £80 million and decrease net finance charges by £5 million. The current situation in Venezuela with respect to currency controls and the official exchange rate is uncertain. In the year ended 30 June 2010 the Venezuelan denominated operating profit amounted to VEF485 million which was translated at the official exchange rate, \$1 = VEF2.15 in the six months ended 31 December 2009 and \$1 = VEF4.3 in the six months ended 30 June 2010. If the translation exchange rate is changed in fiscal 2011 this would most likely give rise to an adverse currency movement.

## Dividend

The directors recommend a final dividend of 23.50 pence per share, an increase of 6% from the year ended 30 June 2009. The full dividend would therefore be 38.10 pence per share, an increase of 5.5% from the year ended 30 June 2009. Subject to approval by shareholders, the final dividend will be paid on 19 October 2010 to shareholders on the register on 10 September 2010. Payment to US ADR holders will be made on 25 October 2010. A dividend reinvestment plan is available in respect of the final dividend and the plan notice date is 27 September 2010.

Cash flow	Year ended	Year ended
	30 June 2010	30 June 2009 (restated)
	£ million	£ million
Cash generated from operations before exceptional costs	3,329	2,707
Exceptional restructuring costs paid	(145)	(53)
Cash generated from operations	3,184	2,654
Interest paid (net)	(305)	(415)
Dividends paid to equity non-controlling interests	(107)	(98)
Taxation paid	(474)	(522)
Net capital expenditure excluding sale and leaseback of land	(365)	(341)
Sale and leaseback of land	134	-
Net increase in other investments	(43)	(24)
Payment into escrow in respect of UK pension fund	-	(50)
Free cash flow	2,024	1,204

Free cash flow increased by £820 million to £2,024 million in the year ended 30 June 2010. Cash generated from operations increased from £2,654 million to £3,184 million principally as a result of improved working capital management. A reduction in working capital increased cash generated from operations in the year ended 30 June 2010 by £334 million principally in respect of lower trade debtors and higher trade payables (2009 – increase in working capital of £253 million). Net capital expenditure on property, plant and equipment increased by £24 million to £365 million. £134 million was received on the sale and leaseback of land in Napa Valley, California. In the year ended 30 June 2010 £50 million paid to the UK Scheme under the deficit funding arrangement is included in cash generated from operations; in the year ended 30 June 2009 £50 million is disclosed separately as the payment was initially made to an escrow account before being transferred to the UK Scheme in the year ended 30 June 2010.

## Balance sheet

At 30 June 2010, total equity was £4,786 million compared with £3,874 million at 30 June 2009. This increase was mainly due to the profit for the year of £1,743 million, partly offset by the dividend paid out of shareholders' equity of £914 million.

Net borrowings were £6,954 million at 30 June 2010, a decrease of £465 million from net borrowings at 30 June 2009 of £7,419 million. The principal components of this decrease were £2,024 million (2009 - £1,204 million) free cash flow partly offset by £914 million (2009 - £870 million) equity dividends paid, adverse exchange rate movements of £429 million (2009 - £784 million) and £206 million (2009 - £102 million) paid in respect of purchase of businesses.

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

#### Economic profit

Economic profit increased by £78 million from £812 million in the year ended 30 June 2009 to £890 million in the year ended 30 June 2010. See page 47 for the calculation and definition of economic profit.

## DIAGEO CONDENSED CONSOLIDATED INCOME STATEMENT

		Year ended 30 June 2010	Year ended 30 June 2009 (restated)
	Notes	£ million	£ million
Sales	2	12,958	12,283
Excise duties		(3,178)	(2,972)
Net sales	2	9,780	9,311
Cost of sales		(4,099)	(3,893)
Gross profit		5,681	5,418
Marketing expenses		(1,419)	(1,327)
Other operating expenses		(1,688)	(1,673)
Operating profit	2	2,574	2,418
Sale of businesses	3	(15)	-
Net interest payable	4	(375)	(516)
Net other finance charges	4	(87)	(76)
Share of associates' profits after tax		142	164
Profit before taxation		2,239	1,990
Taxation	5	(477)	(286)
Profit from continuing operations		1,762	1,704
Discontinued operations	6	(19)	2
Profit for the year		1,743	1,706
Attributable to:			
Equity shareholders of the parent company		1,629	1,605
Non-controlling interests		114	101
		1,743	1,706
Pence per share			
Continuing operations		66.3p	64.5p
Discontinued operations		(0.8)p	0.1p
Basic earnings		65.5p	64.6p
Continuing operations		66.2p	64.3p
Discontinued operations		(0.8)p	0.1p
Diluted earnings		65.4p	64.4p
Average shares		2,486m	2,485m

## DIAGEO CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 30 June 2010	Year ended 30 June 2009 (restated)
	£ million	£ million
<b>Other comprehensive income</b>		
Exchange differences on translation of foreign operations excluding borrowings	531	930
Exchange differences on borrowings and derivative net investment hedges	(429)	(773)
Effective portion of changes in fair value of cash flow hedges		
- net (losses)/gains taken to other comprehensive income	(27)	90
- transferred to income statement	(26)	(71)
Fair value movement on available-for-sale investments	-	4
Hyperinflation adjustment	25	-
Net actuarial gain/(loss) on post employment plans	8	(1,007)
Tax on other comprehensive income	(16)	254
Other comprehensive income for the year, net of income tax	66	(573)
Profit for the year	1,743	1,706
Total comprehensive income for the year	1,809	1,133
<b>Attributable to:</b>		
Equity shareholders of the parent company	1,628	940
Non-controlling interests	181	193
	1,809	1,133

## DIAGEO CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2010		30 June 2009 (restated)
	Notes	£ million	£ million	£ million
<b>Non-current assets</b>				
Intangible assets		6,726		6,215
Property, plant and equipment		2,404		2,326
Biological assets		30		37
Investments in associates		2,060		2,041
Other investments		117		231
Other receivables		115		18
Other financial assets		472		364
Deferred tax assets		529		678
Post employment benefit assets		49		41
			12,502	11,951
<b>Current assets</b>				
Inventories	7	3,281		3,078
Trade and other receivables		2,008		1,977
Assets held for sale	10	112		-
Other financial assets		98		98
Cash and cash equivalents	8	1,453		914
			6,952	6,067
<b>Total assets</b>			<b>19,454</b>	<b>18,018</b>
<b>Current liabilities</b>				
Borrowings and bank overdrafts	8	(587)		(890)
Other financial liabilities		(186)		(220)
Trade and other payables		(2,615)		(2,172)
Liabilities held for sale	10	(10)		-
Corporate tax payable		(391)		(532)
Provisions		(155)		(172)
			(3,944)	(3,986)
<b>Non-current liabilities</b>				
Borrowings	8	(8,177)		(7,685)
Other financial liabilities		(155)		(99)
Other payables		(76)		(30)
Provisions		(318)		(314)
Deferred tax liabilities		(744)		(606)
Post employment benefit liabilities		(1,254)		(1,424)
			(10,724)	(10,158)
<b>Total liabilities</b>			<b>(14,668)</b>	<b>(14,144)</b>
<b>Net assets</b>			<b>4,786</b>	<b>3,874</b>
<b>Equity</b>				
Called up share capital		797		797
Share premium		1,342		1,342
Other reserves		3,245		3,279
Retained deficit		(1,377)		(2,249)

Equity attributable to equity shareholders of the parent company	4,007	3,169
Non-controlling interests	779	705
Total equity	4,786	3,874

DIAGEO CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £ million	Share premium £ million	Other reserves £ million	Retained earnings/(deficit) Other Own shares £ million	Retained earnings £ million	Equity attributable to parent Total £ million	Non-controlling interests £ million	Total equity £ million	
At 30 June 2008 as previously reported	816	1,342	3,163	(2,559)	736	(1,823)	3,498	677	4,175
Prior year adjustments (see note 1)									