



THE MARKET

Changing tastes and habits are transforming the world's biggest beer market. America, as a nation, continues to be the world's largest beer consumer despite a decade of sluggish sales and competition from other beverage industries. Contrary to the last decade's dip in overall sales, popularity of import beers has flourished during this time and accounts for roughly 11 percent of America's \$60 billion beer industry.

Americans are increasingly selective about the beer that they drink, favoring light, low-carb, premium, and super-premium beers, such as GUINNESS®, and they're willing to pay more for quality brew. Imports dominate the super-premium segment, which makes up 18 percent of total U.S. beer sales.

Perhaps as a sign of the times, Americans are less likely to belly up to the bar to enjoy their favorite beer. For the first time in 30 years, off-premise beer growth rates are exceeding on-premise. Overall, three-quarters of American beer sales occur outside of bars, restaurants, and clubs.

Shifts in consumer preference and behavior are challenging makers of the most venerable beer brands to redefine the traditional experiences that consumers have. GUINNESS® has responded in its battle for share outside the pub by creating an alternative to the iconic black and white pint: a stylish, technologically enhanced bottle that delivers the GUINNESS® experience anywhere. GUINNESS® draught in a bottle — Brilliant!

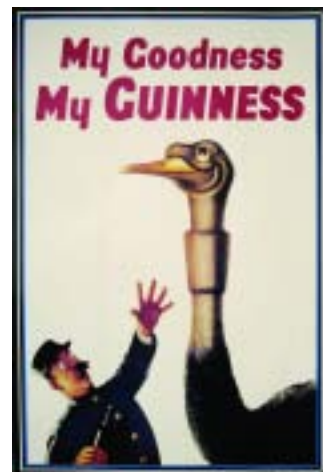
ACHIEVEMENTS

GUINNESS® is the number-one stout in the world and has long been one of the top-selling import beers in the United States, which ranks as the brewer's fourth largest market following Great Britain, Ireland, and Nigeria.

GUINNESS® is brewed in more than 50 countries worldwide and sold in more than 150.



Ten million pints of GUINNESS® are consumed worldwide each day. The original brewery at St. James's Gate in Dublin, Ireland, is the source of all GUINNESS® draught sold in North America.



HISTORY

In 1759, Arthur Guinness, funded by \$150 from his godfather's will, signed a 9,000-year lease for the now famous St. James's Gate Brewery in Dublin. The lease was originally at a rent of \$70 per year and included a copper, a kieve, a mill, two malt houses, stables for 12 horses, and a loft for 200 tons of hay. Talk about rent stabilization: the brewery's rent is still \$70 per year.

At the time, Ireland was the home of 200 breweries, 10 of them located on St. James's Street alone. The four-acre site was initially attractive for its proximity to a pure and guaranteed water supply.

The brewery originally produced ale. In the 1770s a new drink emerged that was popular with the market porters at Covent Garden in London. Arthur Guinness made a bold and defining decision to compete against the London brewers to produce this new beer, known as "porter." The GUINNESS®

brewing process used roasted barley, which gave the porter its dark-amber, nearly black color and strong taste. This style of porter beer became known as "stout."

Under the guidance of Arthur's three sons, GUINNESS® expanded into foreign markets, and within 100 years the GUINNESS® brewery was the largest in Ireland. In 1886, GUINNESS® became the first brewery to be traded on the London Stock Exchange. Before the end of the century, GUINNESS® had made its way to America.

By 1930, a total of 13,940 people (excluding wives, families, or other dependents)

relied on the brewery for their income. Or put another way, about one out of every ten Dublin men looked to it for their livelihood either directly or indirectly.

After World War II, the company established various export companies to manage overseas distribution. In the United States, The Guinness-Harp Corporation was created in 1964, which in 1985 would become Guinness Import Company.

The company focused on innovative technology in the 1980s, making it possible for consumers to enjoy GUINNESS® draught in cans and, most recently, in bottles. The company's merger with consumer goods giant Grand Metropolitan in December 1997 created Diageo. In July 2000, Diageo announced a strategic realignment behind premium drinks leading to the sale of holdings such as Burger King and Pillsbury and acquisition of the Seagram's spirits and wine business.

In April 2004, Diageo announced that it would transfer brewing of GUINNESS® in the United Kingdom to the St. James's Gate brewery in Dublin. The move will result in the closure of the Park Royal brewery in West London and require St. James's Gate brewery to expand production from 8 million to 12 million kegs annually.



THE PRODUCT

The decision to hold the line on quality was made way back by Arthur Guinness II, and the recipe has remained the same for more than 200 years.

While Guinness is exacting about the water sources and ingredients used to brew the beer around the world, Americans are privileged to drink the stout right from the original source. The beer is made from four ingredients: barley, water, hops, and yeast. The ingredients are prepared in five steps.

The barley provides the starch and sugar for the brewing process, and roasting it gives GUINNESS® its color. County Kildare is the source of the GUINNESS® water supply, and is also where Arthur Guinness learned to make beer in his mid-twenties before moving to Dublin. Hops add flavor and aroma to the brew; they also act as a powerful natural preservative. Finally, the yeast that Guinness uses is as close to a secret ingredient as they've got. Yeast has a vital role in the brewing process, pitched into the 600-barrel kettle filled with malted (cooked) barley, water, and hops. The single-celled organism feeds on this sugary liquor known as "wort" and reproduces rapidly; this is fermentation, and it creates alcohol and carbon dioxide.

What's so special about this yeast? Because some yeast from each brew is transferred to the next, the yeast being used to make GUINNESS® today descends from the original yeast used by Arthur Guinness. This strain of yeast is so important to the company that some of it is locked in the director's safe. If anything were to happen to the main supply of yeast, this small reserve culture could replace the entire stock in a matter of hours.

After fermentation, the beer is aged and then clarified. Professional tasters sample the various batches of stout, and they are blended for consistency.

When served, GUINNESS® draught is instantly recognizable for its rich, creamy head as well as its malt and caramel flavor. The head is created by a unique mix of nitrogen gas and carbon dioxide. When served from the tap it is poured in a "two-part" process, tilting the glass at a 45-degree angle and filling it three quarters full. Once the surge has settled, it is topped off.

In addition to GUINNESS® draught, consumers can enjoy GUINNESS® draught in bottles, GUINNESS® draught in cans, and GUINNESS® Extra Stout — which is stronger in taste and alcohol content.

RECENT DEVELOPMENTS

Guinness has matched its embrace of tradition with state-of-the-art technology. Recent innovations have made it possible for GUINNESS® draught to be enjoyed outside of the local pub.



In 1989, draught in cans was introduced. The invention of a "widget," a plastic device inserted in every can, allows GUINNESS® drinkers to pour pub-style pints of draught at home. The widget works by releasing nitrogen, which creates a surge of bubbles when poured into a glass. The bubbles settle to create the famous white head.

The crowning achievement in Guinness' technological innovation occurred with the introduction of GUINNESS® draught in bottles in 2001. This evolution delivers the draught experience straight from the bottle, eliminating the need for a glass. GUINNESS® draught in bottles makes use of a "rocket widget" which releases nitrogen every time the bottle is tipped, refreshing the surge so that the perfect pint taste and texture is delivered with every sip.

PROMOTION

With a mixture of savvy and humor, Guinness launched its first advertising campaign in 1928. The "Guinness is good for you" campaign leveraged the drink's nourishing image and featured posters and ads by artists including John Gilroy. Later campaigns included "Guinness for Strength," which humorously depicted ridiculous feats of strength; a talking toucan who acted as pitchman in their first TV ads in the 1950s; and the "Pure Genius" campaign in the late 1980s, which explored the beer's mysterious qualities.

In 2004 Guinness launched its "Brilliant!" campaign to support its draught in bottles business. The \$14 million campaign by BBDO uses photorealistic imagery and offbeat humor to portray two Irish brewers who have discovered the simple genius of putting GUINNESS® draught in a bottle. As one of the pair describes it, "I fill the bottle with authentic GUINNESS® draught. Then we walk outside . . . bring it to a party, then we drink it. Brilliant!"

A dependable measure of the brand's success is its ability to leverage in the minds of consumers the brand's association with Ireland. A new campaign urges consumers to "Treat St. Patrick's Day like a real holiday." Using Christmas morning as a

metaphor, the humorous TV spot follows a group of grown men waking up on St. Patrick's Day morning and running downstairs to discover a gift-wrapped keg surrounded by a variety of GUINNESS® products — all wrapped in green, of course.

Other U.S. promotional efforts include: GUINNESS® "Believer" — a consumer mentoring program centered on invitation-only events, sponsorship of the GUINNESS® Fleadh music festival from 1997 to 2000, and the 1759 Society, an online community that offers members first-hand information on what's



new with GUINNESS® as well as exclusives and sneak previews of upcoming ad campaigns.

BRAND VALUES

The proper pour, the dramatic surge and settle, the great Guinness pint. It's not just beer — it's theater!

To some it's an acquired taste; to others the GUINNESS® brand is perceived as nourishing, substantial, sophisticated, and mysterious. Roughly 80 percent of GUINNESS® consumers are male, and they view the brand as reflecting their own unique, self-assured, and individualistic characteristics.

THINGS YOU DIDN'T KNOW ABOUT GUINNESS

- *Pionta Guinness led thoil'* is Gaelic for "a pint of GUINNESS®, please."
- At 125 calories per serving, GUINNESS® has fewer calories than most regular beers and even some light beers.
- Doctors once prescribed GUINNESS® as a cure for anemia and to help patients through their convalescence.
- The used grains from the brewing process go to become animal feed, the hops to become fertilizer, and surplus yeast to make yeast extract for health products.
- The O'Neill harp and Arthur Guinness signature were trademarked in 1862.
- It takes 119.5 seconds to pour the perfect pint of GUINNESS®.