DIAGEO

Annual Report 2019

Our performance 2019

Financial

Volume (equivalent units EU)

2019	EU245.9m
2018	EU240.4m
Reported movement	↑ 2.3%
Organic movement	↑ 2.3%

Operating profit

2019	£4,042m
2018	£3,691m
Reported movement	↑ 9.5%
Organic movement	↑ 9.0%

Earnings per share (eps)

2019	130.7p
2018	121.7p
Reported movement	↑ 7.4%
Eps before exceptional items movement [ii]	↑ 10.3%

Net sales[i]

2019	£12,867m
2018	£12,163m
Reported movement	↑ 5.8%
Organic movement	↑ 6.1%

Net cash from operating activities

2019	£3,248m
2018	£3,084m

2019 increase of £164m
2019 free cash flow[ii] £2,608m

Total recommended dividend per share[iii]

2019	68.57p
2018	65.3p
	↑ 5%

Non-financial

Positive drinking[iv]

2019	66.02m

Number of people reached with moderation messages from our brands

Health and safety

2019	0.98Δ
2018	1.00

Lost-time accident frequency[v]

Water efficiency[vi]

2019	4.64l/lΔ
2018	4.94l/l

(i) Net sales are sales less excise duties.
(ii) See definitions and reconciliations on pages 60-65.
(iii) Includes recommended final dividend of 42.47p.
(iv) We launched a new Positive Drinking strategy last year and 2019 is the first year we have reported against this 2025 target.
(v) Per 1,000 full-time employees.
(vi) Data for the year ended 30 June 2018 has been restated where relevant in accordance with Diageo's environmental reporting methodologies.
Δ Within PwC's independent limited assurance scope. For further detail and the reporting methodologies, see our Sustainability & Responsibility Performance Addendum 2019.

Performance by region 2019

	North America		Europe and Turkey		Africa		Latin America and Caribbean		Asia Pacific	
Volume (equivalent units)	EU49.4m		EU45.4m		EU33.6m		EU22.4m		EU95.1m	
	Reported	↑ 2%	Reported	↓ 2%	Reported	↑ 1%	Reported	↑ 1%	Reported	↑ 5%
	Organic	↑ 2%	Organic	↓ 2%	Organic	↑ 1%	Organic	↑ 1%	Organic	↑ 5%
Net sales[i]	£4,460m		£2,939m		£1,597m		£1,130m		£2,688m	
	Reported	↑ 8%	Reported	↑ 0%	Reported	↑ 7%	Reported	↑ 6%	Reported	↑ 7%
	Organic	↑ 5%	Organic	↑ 4%	Organic	↑ 7%	Organic	↑ 9%	Organic	↑ 9%
Operating profit[ii]	£1,948m		£1,014m		£275m		£365m		£703m	
	Reported	↑ 4%	Reported	↓ 1%	Reported	↑ 44%	Reported	↑ 19%	Reported	↑ 24%
	Organic	↑ 3%	Organic	↑ 2%	Organic	↑ 50%	Organic	↑ 19%	Organic	↑ 26%
	Read more **p30-31**		Read more **p32-33**		Read more **p34-35**		Read more **p36-37**		Read more **p38-39**	

(i) Excluding corporate net sales of £53 million (2018 – £52 million).
(ii) Excluding exceptional operating charges of £74 million (2018 – £128 million) and net corporate operating costs of £189 million (2018 – £158 million).

Diageo in 2019

Diageo is a global leader in beverage alcohol with an outstanding collection of brands across spirits and beer.

Our products are sold in more than 180 countries around the world. Our brands include Johnnie Walker, Crown Royal, JεB, Buchanan's and Windsor whiskies, Smirnoff, Cîroc and Ketel One vodkas, Captain Morgan, Baileys, Don Julio, Tanqueray and Guinness.

Our performance ambition is to be one of the best performing, most trusted and respected consumer products companies in the world.

We are proud of the brands we make and the enjoyment they give to millions. We are passionate about the role alcohol plays in bringing people together, to celebrate life every day, everywhere.

Contents

Cover image: Tanqueray gin served in a Copa glass with tonic, ice and lime.

For more information about Diageo, our people and our brands, visit www.diageo.com.

Visit Diageo's global responsible drinking resource, www.DRINKiQ.com, for information, initiatives and ways to share best practice.

In addition to the economic, social and environmental disclosures in this Annual Report, Diageo has prepared a Sustainability & Responsibility Performance Addendum 2019, in line with the Global Reporting Initiative Sustainability Reporting Standards, the Sustainability Accounting Standards Board and the United Nations' Global Compact advanced reporting criteria. It is available at www.diageo.com.

Diageo is listed on both the London Stock Exchange (DGE) and the New York Stock Exchange (DEO).

This is the Annual Report 2019 of Diageo plc for the year ended 30 June 2019. The Annual Report is made available to all shareholders on Diageo's website (www.diageo.com).

This report includes names of Diageo's products, which constitute trademarks or trade names which Diageo owns or which others own and license to Diageo for use. In this report, the term 'company' refers to Diageo plc and the terms 'group' and 'Diageo' refer to the company and its consolidated subsidiaries, except as the context otherwise requires.

Diageo's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU) and IFRS as issued by the International Accounting Standards Board (IASB). References to IFRS hereafter should be construed as references to both IFRS, as adopted by the EU, and IFRS, as issued by the IASB. Unless otherwise indicated, all financial information contained in this document has been prepared in accordance with IFRS.

Unless otherwise stated in this document, percentage movements refer to organic movements which are non-GAAP financial measures. For a definition of organic movement and reconciliations of non-GAAP measures to GAAP measures see pages 60-65. Share refers to value share. Percentage figures presented are reflective of a year-on-year comparison, namely 2018-2019, only.

The brand ranking information presented in this report, when comparing information with competitors, reflects data published by sources such as Impact Databank. Market data information and competitive set classifications are taken from independent industry sources in the markets in which Diageo operates.

Diageo plc is incorporated and domiciled as a public limited company in England and Wales.

Diageo was incorporated as Arthur Guinness Son and Company Limited on 21 October 1886. The group was formed by the merger of Grand Metropolitan Public Limited Company (GrandMet) and Guinness PLC (the Guinness Group) in December 1997. Diageo plc's principal executive office is located at Lakeside Drive, Park Royal, London NW10 7HQ and its telephone number is +44 (0) 20 8978 6000.

Cautionary statement: this document contains 'forward-looking' statements. For our full cautionary statement, please see page 170.

Non-financial information statement

We aim to comply with Section 414CA and 414CB of the Companies Act 2006 so non-financial reporting is integrated across our Annual Report. This includes our business model (page 6), strategy (page 8), our KPIs (pages 12-13) and risk, anti-bribery and corruption (pages 20-23). Other key sections are:

Chairman's statement

"We want to have a positive impact wherever we operate and we are determined to earn trust and respect by doing business in the right way, from grain to glass. For Diageo to thrive, we must focus on the long term and continue to demonstrate the value we create for those around us."

Javier Ferrán
Chairman

Recommended final dividend per share

42.47p ↑5%

2018: 40.4p

Total dividend per share(i)

68.57p ↑5%

2018: 65.3p

Total shareholder return (%)

27%

2018: 23%

(i) Includes recommended final dividend of 42.47p.

I am pleased to report another year of strong and consistent performance. Diageo continues to make good progress towards its ambition of becoming one of the best performing, most trusted and respected consumer products companies in the world and I would like to express my thanks to all our employees for their continued passion and commitment.

Culture

Under Ivan's leadership, Diageo is being transformed into a more entrepreneurial and creative business. Proximity to the consumer and to the trade, the agility to adapt to a changing environment and speed in execution are increasingly the way in which Diageo operates, every day.

A culture of discipline and efficiency has also been embedded. This has resulted in significant operational savings, which have largely been reinvested in the most attractive opportunities. These investments not only support the growth of our brands and strengthen our portfolio, but have also allowed us to build more advanced capabilities through new technology and enhanced training.

Notwithstanding the progress we have made, we are not complacent and we continue working towards further improvement.

Opportunities for growth

We are a global leader in an industry that is growing and premiumising at the same time. Around the world, consumers are looking for more premium brands and experiences. Growth in total beverage alcohol is underpinned by strong consumer fundamentals: in developed markets, spirits are well positioned, on trend and premiumising. In emerging markets, we expect an additional 750 million consumers to be able to afford international-style spirits by 2030.

While we are leaders in global premium spirits and have a substantial presence in selected beer markets, we produce just 1.7% of the total formal beverage alcohol consumed around the world. So there is ample opportunity for us to grow share. We continue to see consumers switching from beer and wine into spirits. In the United States, spirits are taking share from beer; in Europe, spirits are taking share from beer and wine; and in many markets in Africa, consumers are trading up from illicit alcohol into a regulated, well-manufactured product. Beer consumers are also trading up to more premium, flavourful and differentiated products. The trend to 'drink better, not more,' is well established in many markets.

Our deep consumer insights and strong customer relationships, combined with the strength and breadth of our portfolio, mean that we are well positioned to take advantage of these favourable long-term growth trends.

The global environment

Diageo's brands are enjoyed in more than 180 countries and international trade is at the heart of our business. Although we are not immune from volatility in the global environment, our broad footprint, across markets and categories, makes us more resilient and provides a natural hedge against instability in our operating environment.

In particular, while there is considerable uncertainty around Brexit, we have robust plans in place to cover all scenarios. We do not believe the direct financial impact to Diageo will be material. Nevertheless, we look forward to a clear resolution that will bring certainty to business in the United Kingdom.

Our stakeholders

We are committed to engaging and working constructively with all our stakeholders. Listening and responding to the views and needs of those who are touched by our operations is fundamental to building a sustainable future for our business, our brands and the communities in which we live, work, source and sell. More detail about our key stakeholder groups can be found on page 16.

The Board was particularly pleased that our 2019 'Your Voice' employee survey showed that 89% of our employees are proud to work for Diageo and 77% are extremely satisfied with Diageo as a place to work.

We are committed to engaging with our employees and ensuring that their voices are heard at the highest levels in our business. In December, the Board agreed that I will take responsibility for workforce engagement, as the designated non-executive under the 2018 UK Corporate Governance Code. I look forward to working with our employees around the world in order to represent their views in the Boardroom. From 2020, we will issue an annual 'workforce engagement statement' explaining how the Board has gathered and reviewed employees' views and how these have been considered in the Board's decision making.

Diageo in society

We want to have a positive impact wherever we operate and we are determined to earn trust and respect by doing business in the right way, from grain to glass. At the core of our approach is a commitment to positive drinking through encouraging moderation and tackling misuse, which Ivan outlines in more detail in his statement.

For Diageo to thrive, we must focus on the long term and continue to demonstrate the value we create for those around us. Social purpose was a driving force for the founders of many of our brands and is part of the fabric of our company today.

Communities

As a global company, we have an important role to play in helping the communities where we live and work to thrive. This is why we are focused on the issues we believe matter most in the communities where we source our raw materials and where we make and sell our products. We take great care to build sustainable supply chains and work hard to protect the environment and the natural resources on which we rely. Our women's empowerment programmes have supported around 400,000 women around the world. They provide women with equal access to the skills and resources they need to build a better future for themselves and their families.

Our Water of Life programme has reached more than 10 million people in India and Africa since 2006 – making a real difference by supplying vulnerable communities with clean water, sanitation and hygiene. This year, we reached 232,000 people through these programmes.

Our Learning for Life programme gives people around the world the opportunity to reach their full potential and enhance their employment opportunities, through training and education in the hospitality industry and other sectors. Since launching in 2008, over 140,000 people have participated in Learning for Life, and typically, more than 70% move into permanent jobs.

Creating value

In fiscal 2019, we have delivered another year of strong, consistent performance. And we continue to make good progress across the four areas of performance we measure: efficient growth, value creation, credibility and trust, and engaged people.

Our efficient growth key performance indicators (KPIs) continue to improve. At the same time, return on average invested capital (ROIC) and total shareholder return (TSR) both increased, to 15.1% and 27% respectively, reflecting continued value creation.

We continue to target dividend cover (the ratio of basic earnings per share before exceptional items to dividend per share) of between 1.8 and 2.2 times. The recommended final dividend is 42.47 pence per share, an increase of 5%. This brings the recommended full-year dividend to 68.57 pence per share and dividend cover to 1.9 times. We expect to maintain dividend increases at a mid-single digit rate until our dividend cover is comfortably back in range. Subject to shareholder approval, the final dividend will be paid to UK shareholders on 3 October 2019. Payment will be made to US ADR holders on 8 October 2019. This year, we purchased 94.7 million shares, returning £2.8 billion to shareholders. On 25 July, the Board approved plans for a further return of capital of up to £4.5 billion to shareholders over the three years ending 30 June 2022.

Board changes

In March 2018, we agreed with Ursula Burns that her appointment as Non-Executive Director would be delayed, as a result of her appointment as Executive Chairman at VEON Ltd, on an interim basis. In December, we agreed with Ursula that, in light of her continued commitments at VEON Ltd, she would not take up her appointment on the Diageo Board.

In April 2019, we announced the appointment of Debra Crew as a Non-Executive Director. Debra's significant experience in FMCG and in executive management, as a former CEO, should serve Diageo well and complement the current Board.

Looking ahead

We have continued to improve performance, while building a culture of which we can all be proud. There is, of course, more to do and we are very aware of current volatility in trade and geo-politics. Nevertheless, for the benefit of our stakeholders, we shall continue to focus on delivering sustainable performance and long-term value, which are the primary areas of focus for the Board and executive leadership team.

Javier Ferrán
Chairman

Chief Executive's statement

"We are determined to build a company that will prosper over the very long term. We continue to improve the quality and pace of execution in every part of our business: we are combining creative flair with leading-edge technology and we are investing in brand building, innovation, our route to consumer and data analysis."

Ivan Menezes
Chief Executive

Volume movement
2.3% ↑
2018: 0.7% ↓

Organic volume movement
2.3% ↑
2018: 2.5% ↑

Net sales movement
5.8% ↑
2018: 0.9% ↑

Organic net sales movement
6.1% ↑
2018: 5.0% ↑

Reported operating profit movement
9.5% ↑
2018: 3.7% ↑

Organic operating profit movement
9.0% ↑
2018: 7.6% ↑

Our ambition is to be one of the best performing, most trusted and respected consumer product companies. We have delivered another year of strong and consistent performance, thanks to the dedication and hard work of my 28,400 colleagues across Diageo. I am very proud of the company we are building together and the positive social and economic impact we have on the many communities around the world where we make and sell our brands.

Creating value

The global economy is becoming more volatile, with significant challenges to international trade and the institutions that have underpinned prosperity for many decades. Our business will not be immune to international disruption but the depth and breadth of our portfolio, as well as the discipline and focus of our people, give us confidence in our resilience as we navigate these headwinds.

We are determined to build a company that will prosper over the very long term. We continue to improve the quality and pace of execution in every part of our business. We combine creative flair with leading-edge technology and invest in brand building, innovation, our route to consumer and data analysis.

Our people are also proud of the positive impact our business makes around the world. The reach of our brands and marketing allows us to promote moderation and tackle alcohol misuse. We believe we are one of the leading companies in reducing carbon emissions and water use. Our global skills and empowerment programmes have helped hundreds of thousands of people in the communities where we live, work, source and sell.

Performance

Fiscal 2019 has been another year of strong performance. We have continued to execute our strategy consistently and effectively to deliver growth. Our broad geographic footprint and leading portfolio position us well to capture future growth. In international spirits, we have a leading position in the United States, the world's largest profit pool, alongside leadership positions in many other markets. We strive to win with consumers through the combination of creative flair and data-led insight in marketing and innovation. This, coupled with our culture of everyday efficiency and financial discipline, supports our ambition to be a reliable compounder of growth. Our strategy is delivering consistent

top-line performance, sustained margin expansion and increased investment in our brands and business.

Reported net sales were up 5.8%, with organic growth partially offset by acquisitions and disposals. All regions contributed to broad based organic net sales growth, which was up 6.1%. We delivered organic operating profit growth of 9.0%, ahead of net sales growth. This was driven by improved price/mix and benefits from our focus on everyday efficiency, partially offset by an 8% increase in marketing investment, and cost inflation. Reported operating profit grew 9.5%, driven by organic growth.

Reported and organic net sales grew across all categories, with the exception of rum. Our global giant brands grew organic net sales 5%, with Johnnie Walker up 7%, Tanqueray up 19%, Guinness up 2%, Baileys up 4% and Smirnoff up 3%. Captain Morgan was down 2%. Our local stars were up 6% and reserve was up 11%, with particularly strong performances from Chinese white spirits, Ketel One and Don Julio, up 22%, 10% and 26% respectively. Earnings per share before exceptionals was strongly up again this year, increasing 10.3%. This was primarily driven by higher organic operating profit and lower finance charges. We achieved another year of strong consistent free cash flow performance, delivering £2.6 billion.

We continue to invest and innovate to build our brands for the future. 'White Walker by Johnnie Walker' successfully recruited new consumers into the Johnnie Walker brand (see more on page 17). We also announced a £150 million investment in Scotch whisky tourism, including a new Johnnie Walker Experience in Edinburgh; a $130 million expansion of our Bulleit distillery in Kentucky; and we increased our shareholding in Sichuan Shuijingfang Co., Ltd, our super-premium baijiu business in China, from 40% to 63%.

Trusted and respected

We are proud to be the stewards of some of the most iconic brands in the world. These were built over generations by people who understood the importance of building a business for the long term, not just today. We are also determined to build a business that makes a positive impact on the issues that matter most to wider society.

We are passionate about the role our brands play in celebrations around the world and are committed to ensuring our products are used in a responsible way. We have a long-standing commitment to promoting positive drinking through encouraging moderation and tackling alcohol misuse. Thanks to the commitment and efforts of our colleagues around the world, we are making rapid progress towards our 2025 targets to educate five million young people, parents and teachers about the dangers of underage drinking; collect 50 million pledges to never drink and drive; and reach 200 million people with moderation messages through our brands.

Our customers around the world are rightly concerned about the environment and climate change, as we see extreme weather events and the resulting social dislocation becoming more common. We are determined to act and our progress is being recognised. Many of you will be familiar with CDP, formerly the Carbon Disclosure Project, the leading global disclosure system for environmental reporting. In February, Diageo and only 19 other companies out of 7,000 globally, were rated "Double A" for climate and water performance. We were the only alcohol company to achieve this status year on year.

I am particularly pleased that we have been recognised for our work to promote inclusion and diversity. I believe inclusivity is at the heart of our company and the more we become representative of the consumers we serve, the more it will fuel our success. This year, we ranked fourth in the Thomson Reuters Global Diversity and Inclusion Index; were recognised in the Bloomberg Gender Equality Index; and were also ranked by Equileap as the top company for gender equality in the United Kingdom. Today, 40% of Diageo's Executive Committee are women and we want our global senior leadership team to reach the same level of female participation by 2025 (we are currently at 36%).

This year, we put in place ground-breaking family leave policies for both men and women to support and retain parents within our business and to ensure that we continue to attract the best people possible to build their careers at Diageo. In April, we announced that all parents employed by Diageo in the United Kingdom are eligible for the same fully paid 26 weeks' leave, retaining benefits and bonuses regardless of gender. In May, we started a global roll-out of this ambitious new family leave policy, which offers female employees in all markets a minimum of 26 weeks of fully paid maternity leave. This policy sets a global minimum standard of four weeks' paternity leave on full pay in all markets, with a significant number of our businesses moving to 26 weeks' fully paid paternity leave.

Outlook

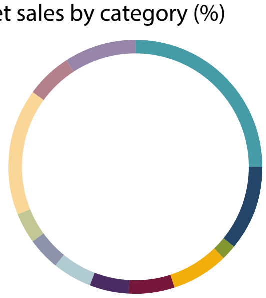
Today, Diageo is a stronger, more agile business. We have embedded a culture of everyday efficiency and removed complexity, and we seek continuously to improve the way we operate. This enables us to anticipate and adapt to changing consumer trends and economic conditions more quickly.

As we look ahead to the three years ending 30 June 2022, I expect Diageo to maintain organic net sales growth in the mid-single digit range and to grow organic operating profit ahead of net sales in the range of 5% to 7%.

Our strategy is delivering, but we are not complacent and we continue to challenge ourselves. As we look to fiscal 2020 and beyond, we remain focused on building a strong and sustainable future for our business, our brands and the societies and communities where we live and work.

Ivan Menezes
Chief Executive

2019 net sales by category (%)



Scotch	**25%**	Liqueurs	**5%**
Vodka	**11%**	Gin	**4%**
US Whiskey	**2%**	Tequila	**4%**
Canadian Whisky	**7%**	Beer	**16%**
Rum	**6%**	Ready to drink	**6%**
IMFL Whisky	**5%**	Other	**9%**

Our business model

Diageo is a global leader in beverage alcohol with a portfolio of iconic spirits and beer brands.

We have a broad portfolio across categories and price points. Our portfolio and geographic reach position us to deliver sustainable performance and create value for our shareholders.

The consumer is at the heart of our business. Using our proven marketing and innovation skills, we aim to build and sustain strong brands that play a positive role in society.

Our organisation is structured in a market-based model. This means we have greater agility and can better apply our strategy in individual countries to meet the diverse needs of our consumers and customers. It also enables us to quickly identify and shape consumer trends to support growth.

We use our local and global market expertise to identify and deliver against the most valuable growth opportunities. Our global supply capabilities enable us to manufacture and distribute our brands efficiently and effectively. Where it makes sense to do so, we source and produce locally.

We are passionate about our role in society and the responsibility we have to our stakeholders, communities and the environment.

What we do

We innovate

Led by consumer insights, we unlock new opportunities to recruit and re-recruit consumers to our brands. We innovate with new offerings that meet changing consumer demands.

We make

We are the makers of premium spirits and beer, committed to the highest quality and standards.

We market

We invest in world-class marketing to responsibly build vibrant brands that resonate with our consumers.

We sell

We extend our sales reach through leading activations and advocacy to ensure our brands are part of consumer celebrations around the world.

Key highlights

200+ Brands

180 Countries

150+ Production sites

28,400 Employees

How we operate

Broad portfolio
Each market has the flexibility to select the best portfolio of brands to capture unique consumer opportunities. We then invest in opportunities that we believe offer the most valuable growth.

Markets
We operate through a market-based structure so we can act on local consumer insights and identify trends quickly to deliver locally relevant solutions.

Global functions, support and governance
Our markets are supported by global functional teams and a broad range of shared services. Together, these drive the sharing of best practice, enhance efficiency and help build in-market capabilities. We set our standards for governance, compliance and ethics globally.

Our people
We want all our employees around the world to reach their full potential and play their part in the success of our business. We have created an inclusive and diverse culture with shared values and a common purpose.

Our values
Passionate about consumers; be the best; freedom to succeed; proud of what we do; valuing each other.

Our role in society
We are committed to playing a positive role in society. We work to reduce alcohol harm and promote moderation, increase access to opportunities for local communities and reduce our environmental impact.

Our brands
We own two of the world's five largest spirits brands by value, Johnnie Walker and Smirnoff, and 23 of the world's top 100 spirits brands by value[i]. We own Guinness, the 4th largest premium beer brand by value[ii].

Our geographic footprint
We have broad reach in the United States and Europe and leading positions in many of the markets that are expected to generate most of the medium-term industry growth.

Brilliant execution
We use cutting-edge consumer insights and marketing. We innovate at scale and we develop winning relationships with our customers through distribution and sales.

Efficient supply and procurement
We work to high-quality manufacturing and environmental standards.

Financial strength
We aim to deliver consistent net sales value growth and margin expansion, as well as strong cash generation.

(i) Impact Databank Value Ratings, May 2019.
(ii) Global Data, 2018.

Our strategy

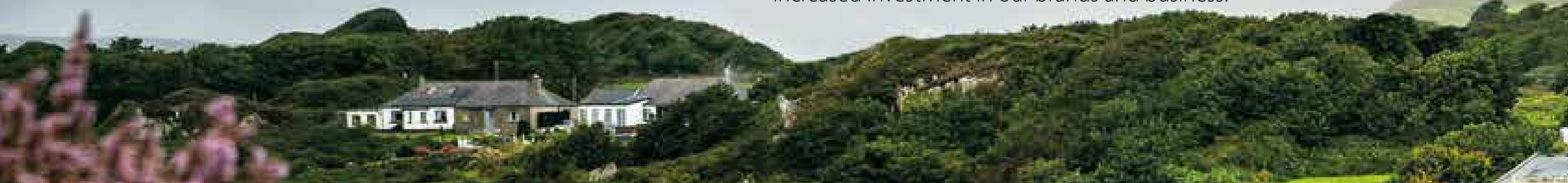
The global spirits category has shown resilient, long-term growth. Our strategy is to support premiumisation in developed and emerging countries.

Everywhere we operate, we aim to do so in a responsible and sustainable way. Our broad portfolio means we can access different consumer occasions with our brands, across price points.

In developed markets, we support premiumisation through our premium core and reserve brands. In emerging markets, we aim to grow participation in international premium spirits. To support this, we selectively participate in attractive mainstream spirits segments. This means consumers can access our brands at affordable price points and we can shape responsible drinking trends by introducing consumers to branded products.

Beer is our second largest category after scotch and our global beer business is led by our premium brand, Guinness. Guinness is available in approximately 130 countries. We use a variety of routes to the consumer, depending on the most efficient model for each market. In Africa, we have a large beer business with a broad portfolio that reaches across price points.

Our focus on consumers, the balance of creative flair and data-led insight in our marketing and our track record for innovation, combined with our financial discipline and everyday efficiency, all support our goal to be a reliable compounder of growth. We aim to combine these to deliver a virtuous circle of consistent top-line performance, margin expansion and increased investment in our brands and business.



Our strategy is delivered through

Six executional priorities

Our strategy in action pages 17 – 19

KEEP PREMIUM CORE VIBRANT
Ensuring we have a vibrant premium core is critical to our overall performance.

INCREASE PARTICIPATION IN MAINSTREAM SPIRITS
Mainstream spirits is a sizeable and growing opportunity. We have invested in mainstream spirits and have a strong foundation from which to drive growth.

CONTINUE TO WIN IN RESERVE
We build our reserve brands by ensuring they are available in the most influential outlets. We also build their reputations with the bartenders and consumers who set trends.

BUILD ADVANTAGED ROUTES TO CONSUMER
Using insights, we understand where to invest our resources so that our brands are available in the right formats and locations for our consumers.

DRIVE INNOVATION AT SCALE
We build on our existing brands, anticipate new consumer occasions and create the brands of tomorrow with a focus on scale and speed.

EMBED PRODUCTIVITY TO DRIVE OUT COSTS AND INVEST IN GROWTH
We are focused on everyday efficiency, effectiveness and agility to reduce costs and create fuel for our growth.

Our sustainability and responsibility priorities and our commitment to governance and ethics

Our strategy in action pages 17 – 19

PROMOTING POSITIVE DRINKING
We are committed to promoting positive drinking through encouraging moderation and tackling misuse.

REDUCING OUR ENVIRONMENTAL IMPACT
We aim to preserve the natural resources on which our long-term success depends. We are working to reduce our impact in the areas of water, carbon, packaging and waste.

BUILDING THRIVING COMMUNITIES
We want to continue to make Diageo a great, safe, inclusive and diverse place to work for our people. We want to build sustainable supply chains and create programmes that empower communities and individuals, making a positive difference everywhere we live, work, source and sell.

HIGHEST STANDARDS OF GOVERNANCE AND ETHICS
We are constantly looking for ways to strengthen our culture of integrity and help our people make the right choices, to do business the right way, from grain to glass.

Outcomes of our strategy

1. Efficient growth
2. Consistent value creation
3. Credibility and trust
4. Engaged people

We measure progress against our strategy using the following financial and non-financial indicators

Organic net sales growth	1
Organic operating margin improvement(i)	1
Earnings per share before exceptional items	1
Free cash flow	1
Return on average invested capital	2
Total shareholder return	2
Reach and impact of responsible drinking programmes	3 4
Health and safety	3 4
Water efficiency	3
Carbon emissions	3
Employee engagement index	3 4

(i) From July 2019, this financial indicator will be organic operating profit growth.

Our brands

We have built a leading portfolio of brands across key categories and price points.

We invest in the sustainable growth of these brands and ensure they are positioned to meet the consumer opportunity in each market.

We own two of the world's five largest spirits brands by value, Johnnie Walker and Smirnoff, and 23 of the world's top 100(i).

Guinness, our premium beer brand, is the 4th largest premium beer in the world by value(ii).

Global giants(iii)

Our business is built around six of our biggest global brands.

Local stars(iv)

Can be individual to any one market and provide a platform for our business to grow.

Reserve(v)

Exceptional spirits brands at premium price points to capture the global luxury opportunity.

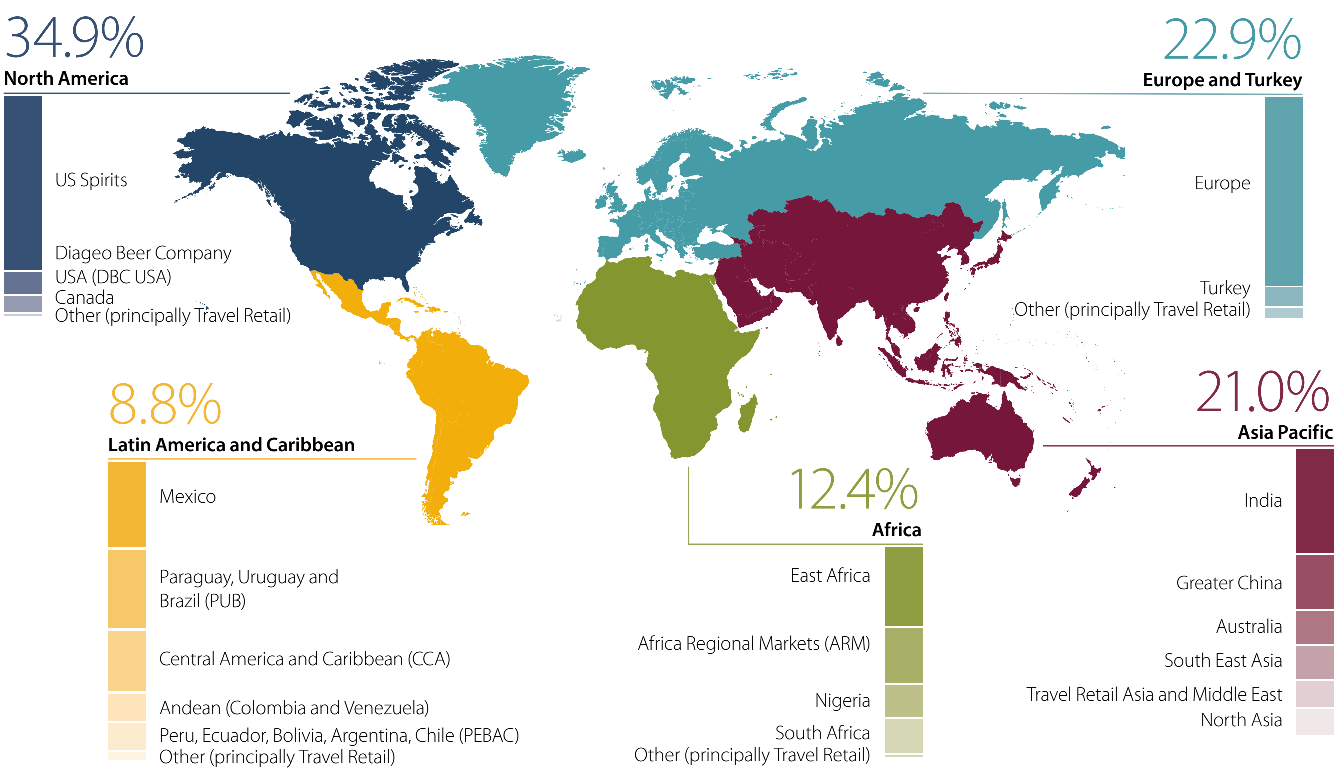
(i) Impact Databank Value Ratings, May 2019.
(ii) Global Data, 2018.
(iii) Global giants represent 41% of Diageo net sales.
(iv) Local stars represent 20% of Diageo net sales.
(v) Reserve brands represent 19% of Diageo net sales.

Our global reach

Our regional profile provides us with exposure to the greatest consumer growth opportunities in our sector.

We operate as a market-based business and our products are sold in over 180 countries. Each of our markets is accountable for its own performance and for driving growth. We employ 28,400 talented people across our global business.

% share of net sales by region(i)(ii)



(i) The above diagram is intended to illustrate general geographic regions of the world in which Diageo has a presence and/or in which its products are sold, and is not intended to imply that Diageo has a presence in and/or that its products are sold in every country within a geographical region.
(ii) Based on reported net sales for the year ended 30 June 2019. Does not include corporate net sales of £53 million.

% share by region	North America	Europe and Turkey	Africa	Latin America and Caribbean	Asia Pacific
Volume	20.1	18.4	13.7	9.1	38.7
Net sales(i)	34.9	22.9	12.4	8.8	21.0
Operating profit before exceptional items(ii)	45.2	23.6	6.4	8.5	16.3
Operating profit(iii)	45.8	23.4	6.5	8.6	15.7
Water withdrawal	12.2	39.5	38.5	1.3	8.5
Carbon emissions(iv)	9.3	40.5	38.9	3.2	8.1
Employees(v)	9.7	36.9	15.0	8.8	29.6

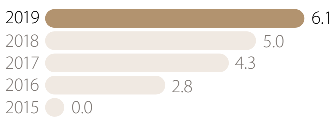
(i) Excluding corporate net sales of £53 million.
(ii) Excluding exceptional operating charges of £74 million (2018 – £128 million) and net corporate operating costs of £189 million (2018 – £158 million).
(iii) Excluding net corporate operating costs of £210 million (2018 – £158 million).
(iv) Excludes corporate offices which account for <2% of combined impacts.
(v) Employees have been allocated to the region in which they reside.

How we measure performance

Key performance indicators

Financial
Organic net sales growth (%)

6.1%



Definition
Sales growth after deducting excise duties, excluding the impact of exchange rate movements, acquisitions and disposals.

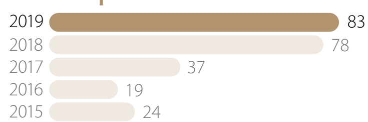
Why we measure
This measure reflects our performance as the result of the choices made in terms of category and market participation, and Diageo's ability to build brand equity, increase prices and grow market share.

Performance
Organic net sales grew 6.1%, driven by 2.3% volume growth and 3.8% positive price/mix. Growth was broad based with all regions delivering net sales growth.

More detail on page **25**

Financial
Organic operating margin improvement (bps)

83bps



Definition
The percentage point movement in operating profit before exceptional items, divided by net sales after excluding the impact of exchange rate movements and acquisitions and disposals.

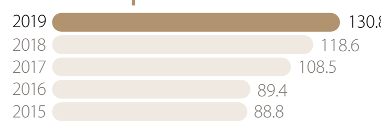
Why we measure
The movement in operating margin measures the efficiency of the business. Consistent operating margin improvement is a business imperative, driven by investment choices, our focus on driving out costs across the business and improving mix.

Performance
Organic operating margin improved 83bps driven by improved price/mix and our productivity programme partially offset by higher marketing spend.

More detail on page **25**

Financial
Earnings per share before exceptional items (pence)[i]

130.8p



Definition
Profit before exceptional items attributable to equity shareholders of the parent company, divided by the weighted average number of shares in issue.

Why we measure
Earnings per share reflects the profitability of the business and how effectively we finance our balance sheet. It is a key measure for our shareholders.

Performance
Eps before exceptional items increased 12.2 pence driven by organic operating profit growth and lower finance charges partially offset by the impact from acquisitions and disposals and a higher tax expense.

More detail on page **26**

Non-financial
Positive drinking

Number of young people, parents and teachers educated about the dangers of underage drinking

Number of pledges collected never to drink and drive through #JoinThePact

Number of people reached with moderation messages from our brands

Definition
We report against three indicators for positive drinking.

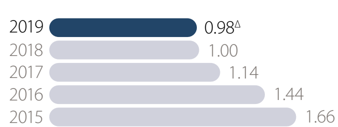
Why we measure
We support the World Health Organization's (WHO) goal of reducing harmful drinking by 10% across the world by 2025 and we put resources and skills into a range of programmes around the world that aim to reduce harm and change behaviour. We have set ourselves stretching targets to measure our contribution to this area, focusing on tackling underage drinking and drink driving, in addition to promoting moderation.

Performance
We launched a new Positive Drinking strategy last year and this is the first year we have reported against these targets for 2025.

More detail on pages **45-47**

Non-financial
Health and safety (lost-time accident frequency per 1,000 full-time employees)

0.98Δ



Definition
Number of accidents per 1,000 full-time employees and directly supervised contractors resulting in time lost from work of one calendar day or more.

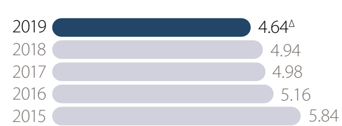
Why we measure
Health and safety is a basic human right: everyone has the right to work in a safe and healthy environment, and our Zero Harm philosophy is that everyone should go home safe and healthy, every day, everywhere.

Performance
We achieved a milestone safety performance level of 0.98 lost-time accidents (LTAs) per 1,000 employees, our lowest rate ever. This represents a 7% reduction in LTAs compared with 2018. We continued to focus on markets in particular need of support, delivering improvements by increasing compliance with our core standards and programmes. We also maintained strong performance in our more established markets.

More detail on page **58**

Non-financial
Water efficiency[ii] (l/l)

4.64l/lΔ



Definition
Ratio of the amount of water required to produce one litre of packaged product.

Why we measure
Water is the main ingredient in all of our brands. We aim to improve efficiency, and minimise our water use, particularly in water-stressed areas. This will ensure we can sustain production growth, address climate change risk and respond to the growing global demand for water, as scarcity increases.

Performance
Water efficiency improved by 6% compared to 2018, and 43.8% versus our 2007 baseline.

More detail on pages **52-57**

We use the following 11 key performance indicators (KPIs) to measure our financial and non-financial performance.

Relevance to strategy
1 Efficient growth
2 Consistent value creation
3 Credibility and trust
4 Engaged people

Financial ® 1
Free cash flow
(£ million)

£2,608m

2019	2,608
2018	2,523
2017	2,663
2016	2,097
2015	1,963

Definition
Free cash flow comprises the net cash flow from operating activities aggregated with the net cash received/paid for loans receivable and other investments, and the net cash cost paid for property, plant and equipment, and computer software.

Why we measure
Free cash flow is a key indicator of the financial management of the business and reflects the cash generated by the business to fund payments to our shareholders and acquisitions.

Performance
Free cash flow continued to be strong at £2.6 billion. Operating profit growth was partially offset by reduced operating working capital improvements year on year, increased investment in maturing inventory and higher tax payments.

More detail on page **26**

Financial 2
Return on average invested capital
(ROIC) (%)

15.1%

2019	15.1
2018	14.3
2017	13.8
2016	12.1
2015	12.3

Definition
Profit before finance charges and exceptional items attributable to equity shareholders divided by average invested capital. Invested capital comprises net assets aggregated with exceptional restructuring costs and goodwill at the date of transition to IFRS, excluding post employment liabilities, net borrowings and non-controlling interests.

Why we measure
ROIC is used by management to assess the return obtained from the group's asset base. Improving ROIC builds financial strength to enable Diageo to attain its financial objectives.

Performance
ROIC before exceptional items increased 80bps as organic operating profit growth was partially offset by the impact from acquisitions and disposals and higher underlying tax charges.

More detail on page **26**

Financial ® 2
Total shareholder return
(%)

27%

2019	27
2018	23
2017	12
2016	17
2015	2

Definition
Percentage growth in the value of a Diageo share (assuming all dividends and capital distributions are re-invested).

Why we measure
Diageo's Directors have a fiduciary responsibility to maximise long-term value for shareholders. We also monitor our relative TSR performance against our peers.

Performance
Diageo delivered total shareholder return of 27% as dividends increased, a share buyback programme of £2.8 billion was executed and the share price benefited from underlying business improvements.

Non-financial 3
Carbon emissions(iii)
(1,000 tonnes CO_2e)

586Δ

2019	586Δ
2018	623
2017	633
2016	672
2015	731

Definition
Absolute volume of carbon emissions, in 1,000 tonnes.

Why we measure
Carbon emissions are a key element of Diageo's, and our industry's, environmental impact. Reducing our carbon emissions is a significant part of our efforts to mitigate climate change, positioning us well for a future low-carbon economy, while creating energy efficiencies and savings now.

Performance
Carbon emissions reduced by 5.9% in 2019, and cumulatively by 44.7% against the 2007 baseline, despite increased production volume.

More detail on pages **52-57**

Non-financial 3 4
Employee engagement index
(%)

75%

2019	75
2018	76
2017	75
2016	77
2015	75

Definition
Measured through our Your Voice survey; includes metrics for employee satisfaction, loyalty, advocacy and pride.

Why we measure
Employee engagement is a key enabler of our strategy and performance. The survey allows us to measure, quantitatively and qualitatively, how far employees believe we are living our values. The results inform our ways of working, engagement strategies and leadership development.

Performance
94% of our people participated in our Your Voice survey (22,615 of the 24,129 invited). 75% were identified as engaged, a decrease of 1% on last year. 89% declared themselves proud to work for Diageo, down 1% on 2018. Despite this small shift, we have maintained a strong engagement score in line with best in class benchmarks.

More detail on page **59**

Remuneration
Some KPIs are used as a measure in the incentives plans for the remuneration of executives. These are identified with the symbol ®.

See our Directors' remuneration report from page 80 for more detail.

(i) For reward purposes this measure is further adjusted for the impact of exchange rates and other factors not controlled by management, to ensure focus on our underlying performance drivers.
(ii) In accordance with Diageo's environmental reporting methodologies, data for each of the four years in the period ended 30 June 2018 has been restated where relevant.
(iii) In accordance with Diageo's environmental reporting methodologies and WRI/WBCSD GHG Protocol, data for each of the four years in the period ended 30 June 2018 has been restated where relevant.
Δ Within PwC's limited assurance scope. See page 173 for further details.

Market dynamics

Total beverage alcohol is an attractive industry, with a natural runway for growth when compared with other consumer goods categories.

Like all consumer sectors, the total beverage alcohol industry faces possible disruption, ranging from changes in consumer trends and regulation through to economic volatility and tariff changes. Our broad and diverse global portfolio provides a natural hedge to any volatility we may encounter. Our extensive consumer knowledge, gained through our local presence and use of data-driven insights, gives us a strong position from which to grow.

The global alcohol market today: broad based, growing, profitable[(i)]

550 million
new legal purchase age consumers are expected to enter the market by 2030.

750 million
consumers are expected to be able to afford international-style spirits over the next decade.

53%
of the global alcohol market, by volume, is spirits.

6 billion
equivalent units of alcohol sold each year.

£747 billion
retail sales value.

(i) Diageo estimates, Euromonitor, IWSR, internal analysis.

Key trends

We believe that drinking in a responsible way is part of a balanced lifestyle in many societies around the world. Drinking occasions and practices vary hugely depending on local culture, traditions and customs. They are constantly evolving, but long-term trends are positive for the industry – with sustained premiumisation, a growing preference for spirits and population growth all playing a part.

Consumers choosing to 'drink better'

Consumers are 'drinking better, not more.' People are looking for products that stand out for their superior quality, authenticity and taste.

In developed markets, in response to sustained premiumisation of spirits, our premium-and-above brands are growing fastest. Our Reserve portfolio of brands capitalises on this premiumisation trend and recent launches, such as our new Villa Ascenti gin, strengthen our position.

In emerging markets, rising prosperity is enabling consumers to trade up to our international spirits brands. Meanwhile, our mainstream spirits brands, like Royal Challenge whisky in India, offer safe, affordable products to consumers in markets where informal alcohol – which is estimated to account for around 25% of global alcohol sales despite the associated health risks and loss of tax revenue – is widespread.

Growing preference for spirits

Consumers who drink alcohol are moving into spirits and away from beer and wine; as well as from illicit alcohol across Africa. This is a long-term trend – spirits are now 53% of total beverage alcohol by volume, up from 48% ten years ago. Gin is an example of a category benefiting from switching, starting in Europe and now accelerating in markets like Australia, South Africa and Brazil. In Brazil, consumer spend on the gin category has grown over 100% a year in the last five years and we have driven growth through the Tanqueray brand. Growth via the on-trade has been the key driver, ensuring a perfect serve with ice and tonic in premium occasions through our Copa Glass programme, supported by investments in marketing and ensuring availability in the right places. This has brought new consumers into the brand and into spirits – 20% of consumers are new to spirits; 50% coming from beer.

Drinking occasions and the route to consumer are changing

In developed markets, consumers are shifting away from late-night occasions towards food-related and more informal occasions.

Our market insight enables us to innovate existing brands, anticipate new consumer occasions and create the brands of tomorrow. In response to the growing early-evening occasion, we recently launched Smirnoff Infusions in the United Kingdom and United States. It is a new zero-sugar spirits-based drink infusing Smirnoff vodka with real fruit essences, designed to be served in a wine glass with soda and ice. Perfect for long summer evenings, it has an ABV of 23%, with the recommended serve containing 87 calories.

Our focus on route to consumer means we are well placed to seize new innovation opportunities. Our partnership with HBO, for which we have created 'White Walker by Johnnie Walker', has recruited new

consumers to our iconic Johnnie Walker Scotch brand and to the category, with social media and e-commerce playing a part (see more on page 17). Technology and e-commerce are also changing the route to market. They are shifting the retail landscape, our interactions with on-trade and off-trade customers and the way we interact with consumers. Through our use of data we are constantly evolving our approach to each market and delivering multi-channel customer strategies (see more on page 18).

The global economy

Political instability and changes in economic variables continue to have an impact across the global economy. We cannot change the environment in which we operate, but our global scale helps provide a natural hedge to changing variables. Our market-based model gives us the flexibility to identify and respond quickly to local dynamics. Our broad portfolio of brands means consumers can trade up or down depending on the economic environment.

Macro-economic trends are key considerations for our risk planning, outlined on pages 20-23. Understanding the long-term dynamics of our markets means we can anticipate, innovate and respond to key trends and unlock growth by drawing on the strength of our diverse portfolio and acting with agility.

Safeguarding our future by earning trust and respect

The expectations for businesses to be transparent, open and clear about their purpose have arguably never been greater. That is why earning trust and respect continue to be at the heart of our performance ambition. Stakeholders are increasingly challenging all businesses to show how they make a positive impact and the United Nations' Sustainable Development Goals provide a framework for businesses to demonstrate their contribution to society.

Earning trust and respect is particularly important for our industry. While the majority of people who choose to enjoy alcohol do so moderately and responsibly, we know the misuse of alcohol can harm individuals and those around them. This can also have adverse impacts on our industry's reputation and our long-term operating environment. As a global leader in premium alcohol, we are committed to promoting positive drinking, so that our brands and our business have a sustainable future.

As the stewards of brands which have been part of communities around the world for centuries, we understand the importance of long-term thinking and of earning the trust and respect of those around us. Our future success depends on us continuing to promote positive drinking, fostering inclusive economic growth and reducing our environmental impacts, while making sure we do business with integrity and respect for human rights.

Promoting positive drinking

We want to offer consumers the opportunity to 'drink better, not more' – an approach that both supports our social values and aligns with our commercial interests as a business making premium drinks. That means we are committed to promoting moderation, while campaigning to reduce harmful drinking and improving laws and industry standards. Our Positive Drinking strategy, described on pages 45-46, includes ambitious targets for areas in which we can have the greatest impact in reducing harm: drink driving, underage drinking and excessive drinking. Through our work, we support the World Health Organization's (WHO) goal of reducing harmful drinking by 10%.

Acting responsibly in a regulated marketplace

The beverage alcohol industry is highly regulated and that regulation varies widely between countries and jurisdictions. We comply with all laws and regulations, wherever we operate, as a minimum requirement. But we also advocate laws and industry standards, including minimum legal purchase age laws and maximum blood-alcohol concentration driving limits, in countries where these are not already in place. Such measures, as well as protecting individuals and communities, help ensure a sustainable market in which our products can be enjoyed responsibly. At the same time, we advocate against measures that are not based on evidence or which could have unintended consequences, such as pushing consumers toward illicit alcohol, which can be a risk to public health.

Promoting inclusivity and human rights

'We value each other.' This statement is one of our five core values and it has never been more relevant. Consumers, employees and many other stakeholders expect businesses to respect human rights and create an inclusive culture. Within our business, this is reflected in a strong policy framework and a strategic commitment to inclusion and diversity, including gender balance and health and safety (see more on pages 58-59). And it extends across our value chain: to our suppliers, distributors and consumers,

through our human rights framework and our community programmes designed to empower women, help people develop their skills, and increase access to water, sanitation and hygiene (see more on pages 48-51). This commitment strengthens our supply chain, builds our employer brand and gives us the resilience we need to continue to perform in the future.

Climate change, water stress and a responsible environmental strategy

Any business that relies on agricultural raw materials and water has both a responsibility to the environment around it and an exposure to environmental risks. Our environmental strategy, described in more detail on pages 52-57, is critical to our long-term success. Our programmes reduce carbon emissions and water use throughout our value chain. They also address waste and packaging, including plastic, and the use of more sustainable packaging materials. The linked phenomena of climate change and water stress are particularly material to our business and to the communities around us. With the oversight of our Climate Change Working Group, we are integrating the management of climate-related issues into our business.

Our Water Blueprint defines our approach to water stewardship and prioritises our actions in areas we have defined as water-stressed, as illustrated on page 53. Along with improving water efficiency, we are replenishing the water used in water-stressed areas, supporting catchment area management to benefit all water users, and helping farmers improve water management in agriculture.

Our stakeholders

We aim to maintain open and positive dialogue with all our stakeholders. This helps us make choices as a business and shape the role that we can and should play in society.

Our mission, values and purpose help guide these relationships across the globe, supported by our local market-based model.

Suppliers

We rely on resilient, thriving supply chains for the raw materials we use to make our brands. Together with our suppliers, we work hard to improve our collective impact, from our environmental footprint to supporting smallholder farmers.

Read more on page 49

Employees

We aim to create a trusting, respectful and inclusive culture. We want our people to be proud of their work, empowered to succeed, and to know that their safety and human rights are respected.

Read more on page 58

Government and Regulators

We focus on evidence-based engagement to build trust and reputation with governments and regulators and to ensure we have an effective network of stakeholders on public policy matters. We promote moderation and advocate industry standards.

Communities

Investing in sustainable growth means supporting and empowering the communities where we live, work, source and sell. By ensuring we make a positive contribution, we can help build thriving communities and strengthen our business.

Read more on page 48

Customers

Our customers are business partners and experts in the products they buy and sell, as well as the experiences they deliver. We work with both the on-trade and off-trade to ensure a mutually beneficial relationship that delivers the best outcome for our consumers.

Shareholders

Through regular financial reporting and events such as our Annual General Meeting and Capital Markets Day, we ensure an ongoing conversation with shareholders. Our Board's role is to ensure we create sustainable long-term value for shareholders in a manner which contributes positively to wider society.

Read more on page 69

Consumers

Our brands are made with pride and made to be enjoyed responsibly – we want people to drink better, not more. In our interactions with consumers, we use our marketing expertise to promote positive drinking.

Read more on page 45

Our strategy in action

These case studies demonstrate how we are putting our strategy into action at a market and global level. They also show how our approach to sustainability and responsibility supports everything we do.

KEEP PREMIUM CORE VIBRANT

Our Guinness Clear responsible drinking advert won a Gold at the Cannes Lions for Brand Experience and Activation

Guinness Six Nations: the power of connections

Europe's premier international rugby tournament celebrates the humanity and friendship that underpin one of sport's fiercest rivalries. It's an ideal partner for Guinness, a brand with decades of ties to rugby. In 2019, we were proud to become the title sponsors of the Guinness Six Nations Rugby Championship and Official Sponsor of the Women's Six Nations Championship.

The partnership is a perfect opportunity to connect with consumers, grow our brand, reinforce our responsible drinking message and demonstrate our commitment to gender equality. Our award-winning Guinness Clear responsible drinking adverts, described on page 47, were a key element in a campaign that was deeply rooted in the values shared by Six Nations rugby and Guinness. Overall, we reached over 172 million consumers globally[(i)], tracked more than 55,000 uses of the #GuinnessSixNations hashtag[(ii)] and broke through our own targets on reach in traditional media. Our tracking showed that Guinness is, for the first time ever, the brand most associated with rugby in Great Britain and Ireland[(iii)].

(i) Nielsen 2019.
(ii) 31.1 – 31.3.19 Twitter, Facebook and Instagram.
(iii) Kantar 2019.

WIN IN RESERVE

Johnnie Walker Blue Label's Ghost and Rare limited edition whisky

Johnnie Walker Blue Label: authenticity and new experiences

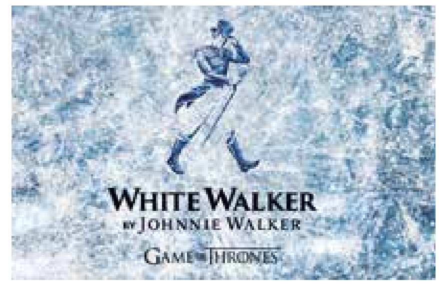
As the premiumisation trend continues, consumers are increasingly looking for products of superior quality, authenticity and taste. We are connecting consumers with the amazing craftsmanship and history of our Reserve brands through our creative marketing. We are focused on educating consumers about Johnnie Walker Blue Label's liquid credentials of rarity, distinct flavour and depth of character, through limited edition releases and exclusive experiences.

This year, launches included Johnnie Walker Blue Label Ghost and Rare Port Ellen. The Port Ellen distillery closed in 1983 and its liquid is one of the most sought-after whiskies in the world.

We are also using our data to ensure we reach the right consumers. Key influencers in each market are targeted with exciting experiences like the intimate Johnnie Walker Blue Label 'Bothy', recently held in Hong Kong and named after Scotland's unique hideaways. Handfuls of invitees were able to sample some of the rarest Johnnie Walker Blue Label whiskies paired with a Michelin starred tasting menu in a unique setting. The two-week project reached almost 13 million people[(iv)], with more planned for other markets in fiscal 2020.

(iv) Internal analysis of print, broadcast, social media reach.

DRIVE INNOVATION AT SCALE



'White Walker by Johnnie Walker' recruited new consumers to the brand

Breakthrough products that recruit new consumers

We look to innovate in three ways: recruit, re-recruit or disrupt. Our focus is increasingly on 'recruit' innovations that are grounded in strong consumer insights and bring new consumers into our brands.

Our willingness to take our established brands to new places is helping whisky win new consumers. The launch of the limited edition 'White Walker by Johnnie Walker', a collaboration with HBO's hit TV series Game of Thrones, shows that with the right balance of consumer research, insight and creativity a 200-year-old brand can reach a new audience. In the run up to the final series of Game of Thrones, Johnnie Walker became the most talked-about whisky on social media[(v)].

We also launched our Ketel One Botanical innovation in the United Kingdom this year. It is a 30% ABV spirit drink infused with real fruit, bringing Ketel One to new consumers in a new occasion for the brand, the early-evening occasion. In the United States, it was the industry's top-selling spirits innovation in the 2018 calendar year[(vi)].

(v) Sprinklr, 10.4 – 16.4.19
(vi) Nielsen.

>50%

of our innovations this year focused on recruiting new consumers, versus around 30% four years ago.

INCREASE PARTICIPATION IN MAINSTREAM SPIRITS

Over half a million people have signed the #ChallengeAccepted petition, including some of India's top cricketers

Royal Challenge whisky: pushing the boundaries for women in India

In India, our local star brands each have their own unique cultural identity that connects with Indian consumers' passions. Our Royal Challenge whisky connects through cricket, India's most-watched sport. It owns the Royal Challengers Bangalore cricket team, who play in the Indian Premier League (IPL) and boasts India's men's cricket captain in its ranks.

Royal Challenge has a strong brand identity that is not afraid to take on stereotypes. Through purpose-led marketing, it created the #ChallengeAccepted campaign, which sets out to achieve a more progressive and inclusive space for women everywhere.

Royal Challenge is asking India's millions of cricket fans a crucial question: given the enormous talent of India's women cricketers, why shouldn't they play in the same top sides as men? The campaign sees India's leading women cricketers and India's men's team captain demand that the boundaries be pushed. And it is calling on consumers to get real and support the first ever mixed-gender T20 cricket match by voting on its website – aiming to reach one million votes.

And people are responding. There was a 300% increase in engagement in the brand's social media channels in the first four weeks of the campaign and over half a million have so far voted(vii) in favour of holding the match in September 2019.

(vii) As of 25 July 2019.

BUILD AN ADVANTAGED ROUTE TO CONSUMER

In the United States, we have collected more than four million data points over the last two years

EDGE: data and analytics accelerating sales in outlets in the United States

We are using new technologies and advanced analytics to unlock growth by transforming our understanding of customers, consumers and shoppers. Our suite of 'Every Day Great Execution' (EDGE) technology tools capture in-store data and, through predictive analytics, revolutionise our ability to offer the right brands, in the right outlets, in the right way.

This means we can work with customers so that each outlet has specific standards and recommendations that help boost incremental sales.

For example, our TRAX technology uses image recognition to analyse a picture of the inside of a store, then automatically identifies products, shelf placement, display, price and more. We can then generate scorecards based on these key performance indicators and provide targeted recommendations via our advanced analytics team on how to improve in each area. This information helps us and our customers.

In the United States, we have collected more than four million data points over the last two years. And the programme is producing results. Since we embedded EDGE in early 2019, we've seen average volume in outlets that have adopted our recommendations grow three times faster than non-participating outlets. We are now expanding our use of EDGE to new markets.

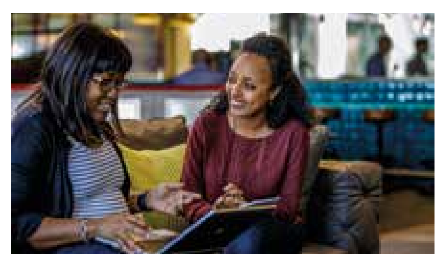
EMBED PRODUCTIVITY TO DRIVE OUT COSTS AND INVEST IN GROWTH

Intelligent automation: delivering everyday efficiency at scale

We have embedded a mindset of 'everyday efficiency' across Diageo, a shift in culture that, over the last three years, has helped us save £700 million. And we're looking forward, for new ways of working that continue to make us a more efficient organisation.

Intelligent automation, now used in more than 100 applications across the business, is a key example. Through predictive analytics, machine learning and robotics process automation, we are growing more productive and more competitive.

Our Sales Order Capture Automation, for example, uses artificial intelligence technology and machine learning algorithms to extract and process data from more than a million customer sales orders per year. Our end-to-end Source to Pay process automatically validates invoices against purchase orders, interacts with banks and executes payments. And we are working on scaling our intelligent automation across a range of functions, from simplifying HR processes and financial reporting, to forecasting how we use our



We are looking for new ways of working that continue to make us more efficient

commodities and assess market pricing in order to plan the optimum time to purchase.

As intelligent automation increases accuracy, we improve compliance and data quality and create savings. We also improve our decision making and free up our people to use their talents to create greater value.

>100

Intelligent automation is now used in more than 100 applications across the business.

Our Sustainability & Responsibility Strategy in action

PROMOTING POSITIVE DRINKING: GLOBAL

Chase Carey, CEO and Chairman of the Formula One Group, pledges to never drink and drive

#JoinThePact races to 16.88 million pledges

We believe that a single accident caused by drinking and driving is one too many. Reducing drink driving is a core part of our commitment to reducing alcohol-related harm and to promoting positive drinking. Our flagship programme, #JoinThePact, is recruiting millions of people to the cause.

When people sign up to #JoinThePact, they pledge never to drink and drive. And with support from a wide range of our brands, the campaign has collected more than 16.88 million signatures since 2008.

Johnnie Walker's sponsorship of Formula 1 partnerships has played a major part in raising awareness and helping us pass our initial target of five million pledges back in 2017. Based on that success, we expanded our ambition to 50 million pledges by 2025, running the campaign in more than 40 countries across five continents.

The connection with Formula 1 is still driving results. At the Formula 1 2018 Johnnie Walker Belgian Grand Prix in Spa-Francorchamps alone, we collected 1,169,338 commitments.

Our #JoinThePact campaign runs alongside multi-agency drink driving programmes that address education and enforcement. Our collaborations with governments and enforcement agencies, as well as our programmes to tackle underage drinking and binge drinking, are described on pages 45-47.

1.17m

Pledges never to drink and drive collected at the Formula 1 2018 Johnnie Walker Belgian Grand Prix.

BUILDING THRIVING COMMUNITIES: INDIA

Clean water and fresh opportunities for women entrepreneurs

Access to clean drinking water can transform communities. In fact universal, affordable access to what is known as WASH – water, sanitation and hygiene – is a critical public health issue and the focus of UN Sustainable Development Goal 6.

As a business that relies on water, we have a clear responsibility to contribute – and our Water of Life programme has reached more than 10 million people in India and Africa since 2006. But we also see providing access to clean water as an opportunity to broaden our positive social impact in other ways too.

Across India, for example, we have been supporting an innovative programme to install 'water ATMs'. Inspired by cash-vending machines, water ATMs enable people to buy clean, low-cost drinking water, typically provided by a solar-powered borehole and treatment plant. Our 25 ATMs in Nagpur alone have given 45,000 people access to water this year.

Official opening ceremony of one of the 25 water ATMs installed across Nagpur, run by women in the community

And the ATMs create further benefits. In Nagpur and Bhopal, we have trained 287 women entrepreneurs so they can maintain and run the facilities – increasing their incomes, while ensuring the ATMs are at the heart of their communities. For more details of our focus on skills training, gender equality and WASH, see pages 50-51.

REDUCING OUR ENVIRONMENTAL IMPACT: AFRICA

Water treatment technology at one of our facilities in Kenya

Investing £180 million in a climate-resilient future for Africa

Reducing our carbon footprint and improving our water efficiency are core elements of our global environmental programme – and of our long-term commitment to addressing climate change.

In May 2019, we announced a £180 million commitment to sustainable energy and water infrastructure in one of our key regions – Africa.

Through investment in equipment and ongoing maintenance and supply, we are bringing new solar energy, renewable biomass power and water efficiency initiatives to breweries in seven African countries.

New biomass boilers at three breweries in Kenya and Uganda will produce renewable energy, replacing heavy fuel oil. At the same time, we are installing solar power at 12 breweries. Each will produce up to 20% of the brewery's electricity demand.

To improve our water efficiency, we are installing new water recovery and reuse facilities across five sites in Africa, which will save more than a billion litres of water a year.

The investments in Africa are part of our wider approach. We are committed to sourcing 100% of our electricity from renewable sources by 2030. Since 2007, globally we have reduced our greenhouse gas emissions from our operations by 44.7%, and we have improved our water efficiency by 43.8%.

How we protect our business

Our principal risks and risk management

Well-managed risk-taking lies at the heart of our performance ambition. Great risk management drives better commercial decisions, protects our assets and supports a growing, resilient and sustainable business.

Monitor and report
Quality reporting enables great discussion, which is at the heart of our risk management approach

Continuous review
Continually utilise our information to drive insightful discussion and effective decision making

Identify
Identifying the risks our business faces is the first step in effective risk management

Assess
Assessing the likelihood and impact of risks to drive effective, prioritised mitigations

Mitigate
Taking actions to manage our key risks

VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the group over the three years to 30 June 2022, considering our current position and prospects, our strategy, the Board's risk appetite and our principal risks as set out on pages 22 to 23 in the Strategic report.

Although the prospects of the company are considered over a longer period the Directors believe that a three-year assessment is most appropriate as it aligns with our normal three-year strategic business planning processes.

The three-year business plan is based on our current strategy. This plan has been stress tested by modelling severe but plausible downside scenarios, and combinations of scenarios, linked to our principal risks. Key scenarios considered include:

- severe marketing and/or route to market restrictions or fiscal changes introduced by local governments;
- material negative changes in the macro-economic environment that could impact both developed and emerging markets;
- unfavourable exchange movements in foreign currencies, mainly the euro and US dollar against sterling;
- a failure to adapt to or participate fully in critical industry developments; and
- increased potential tax rate due to changes in the international tax environment.

The principal risks considered in the most likely combination of downside scenarios are identified with the symbol 'V' on pages 22 to 23.

None of these scenarios individually threaten the viability of Diageo, therefore the combined impact of these scenarios has been evaluated as the most severe stress scenario.

Stress testing considers the effectiveness of mitigation actions and internal control systems, makes certain assumptions about temporary reductions in discretionary spending including capital expenditure and dividend payments and considers whether additional financing facilities would be required.

Based on the results of this analysis the Directors confirm they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period to 30 June 2022.

Our approach

Our approach to risk management is simple. We believe that great risk management starts with the right conversations to drive better business decisions. Our approach to risk management covers all types of risks – strategic, financial, operational, reputational, environmental and compliance risks. Our approach is holistic and integrated, and our global risk and compliance programme brings together our approaches to risk management, internal controls, and compliance and ethics, ensuring that our activities across this agenda focus on the risks that could have the greatest impact.

Accountability for managing risk is embedded into our management structures. Each market and function undertakes an annual risk assessment, establishes mitigation plans and monitors risk on a continual basis. Similarly, our Executive annually assesses risk and the Board independently reviews the assessment. Our Executive Audit & Risk Committee receive regular reports on the risks faced across the business and the effectiveness of the actions taken to mitigate these risks. We use data to monitor our risks to make proactive interventions. We also establish cross-functional working groups and leverage experts where necessary to ensure significant risks are effectively managed, and where appropriate escalate these to the Executive and Board for consideration. We also conduct horizon-scanning activities to identify potential disruptive forces that could alter the risk profile for our business and adapt our mitigation plans accordingly.

Further details about our risk management approach are described in the Corporate governance report on page 69 and in the Audit Committee report on page 77.

Focus in the year

The Executive and Board considered the group's principal risks and reviewed our risk appetite, setting the level of risk we wish to take to achieve our strategic objectives.

Our principal risks are unchanged since last year and continue to reflect a challenging external environment. Actions to manage and mitigate those risks and developments in the year are set out in the table on pages 22 to 23. As well as looking at our overall risk profile, the Executive and Board specifically considered

cyber security, data management and migration risks, data privacy risk, environmental and climate risk, Brexit and trade war risks and discrimination and harassment.

Potential emerging risks are also a key focus. We undertake horizon scanning in conjunction with our corporate strategy team to monitor any potential disruptions that could dramatically change our industry and/or our business from both a risk and opportunity perspective. We perform scenario planning and leverage external thinking and research to consider the changes around us.

Emerging risks can be new risks, where we have not been able to fully assess the impact or known risks that continue to evolve as new information becomes available. We involve experts where necessary to understand how our risk profile could change over a longer time period. Our risk management approach considers short term to be one year, medium term to be three to five years and long term to be more than five years.

Climate risk

Climate risk continues to evolve, and we will regularly assess and aim to mitigate the impact where possible. We recognise the importance of considering climate-related risks and opportunities in business decisions and acknowledge that adopting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) is an important step in supporting a smooth transition to a low-carbon economy.

This year we brought together a cross-functional working group to fully examine our priority areas and diagnose issues related to climate risk. Through this collaboration, we are assessing the range of risks and opportunities that climate change poses to Diageo and options for managing these. Going forward, climate risk will be managed holistically by this group and regular updates will be provided to the Executive and Board.

We have completed a number of assessments in specific countries to better understand the impact of climate change including water scarcity, and the possible impact on our supply chains.

In the coming year, we will progress further with the implementation of the TCFD recommendations, including completing in-depth climate risk assessments in a number of key markets – and aligning our short-, medium- and long-term outlook on climate risk with the business's principal risk time horizons.

This Annual Report contains additional disclosures on our climate risks and opportunities on page 56.

Brexit

We continue to monitor and where possible mitigate the implications of Brexit, leveraging a cross-functional approach to understand the risks that Brexit poses. The mitigations for this risk are covered within Risk 2 of our principal risks (Economic change) on page 22 and Brexit is discussed in more detail in the financial disclosures section on page 170.

We remain deeply committed to operating in the right way in everything we do. Compliance and conducting our business with integrity are non-negotiables, and our approach to risk and compliance helps us go beyond the basics to encourage the right behaviours and attitudes everywhere, every day.

Our global Code of Business Conduct (Code), available in 20 languages, is the backbone of how we manage compliance risk. The Code sets out what we stand for as a company and how we operate to enable all our employees to understand what is required of them in the conduct of our business across a range of compliance areas.

We undertake mandatory global training, with an integrated Annual Certification of Compliance (ACC) for all managers. In 2019, the ACC was completed by 100% of eligible employees, 9,771 people. Global training is delivered in an easily accessible eLearning format with classroom training delivered to those employees who do not have regular access to a computer.

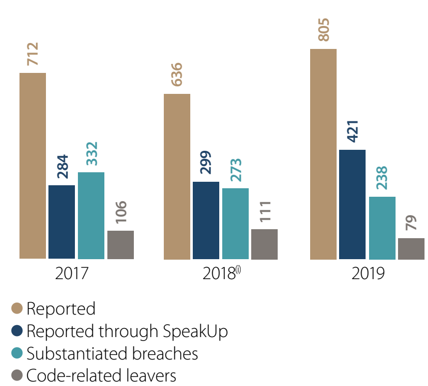
Another area of potential compliance risk is our interactions with third parties. Our Know Your Business Partner programme is designed to help us evaluate the risk of doing business with a third party prior to entering into a contractual relationship, as well as monitor any changes throughout our interactions. We assess all our business partners for potential compliance risks such as bribery corruption, money laundering, tax evasion facilitation, data privacy or other reputational red flags, and we implement additional due diligence processes on those that pose a potential higher risk. Central oversight is provided by our global compliance team which undertakes regular reviews on the effectiveness of the programme.

We encourage our employees, and anyone we do business with, to raise concerns about potential breaches of our Code or policies. Our confidential whistleblowing helpline, SpeakUp, is available via phone or web portal, enabling anyone to report a concern. Additionally we encourage employees to come forward to their line manager, legal, HR or risk and compliance partners. Reports can be made in any of our 20 Code languages.

This year 805 allegations of breaches were reported, of which 238 were subsequently substantiated. There were more allegations than last year, which is in line with external benchmarks and due to increased awareness of workplace behaviour. The number of substantiated breaches has declined versus last year. Three of the substantiated breaches related to human rights.

All allegations are taken seriously, investigated and where required consequence management is performed. We monitor all breaches to identify trends or common areas where further action may be required. This year 79 people exited the business as a result of breaches of our Code or policies versus 111 people in the year ended 30 June 2018. Fewer breach leavers is due to a reduction in severity and type of breaches this year.

Reported and substantiated breaches



(i) 2018 data restated in accordance with Diageo's reporting methodologies for reported and substantiated breaches of the Code of Business Conduct.

1 Efficient growth 2 Consistent value creation 3 Credibility and trust 4 Engaged people V Risk included in viability assessment

Risk	Impact	How we mitigate	Developments in 2019
1. Market restrictions and indirect tax Fiscal pressures and/or failure to address perceived growth in anti-alcohol sentiment. V 1 2 3	• Regulators in major markets impose indirect tax increases, trade barriers and/or restrictions on marketing and availability. • Damage to our corporate reputation.	• Multi-year public policy plans, regulatory policy risk tracking and policy modelling. • Positive Drinking programmes supported by a global industry platform to promote responsible drinking. • Evidence-based engagement to build trust and reputation with governments and other stakeholders. • Capability building on government affairs, alcohol policy and campaigning.	• Protectionism and uncertainty in the international trading environment continue to increase adding pressure on tariffs, indirect taxation and regulation. Anti-alcohol sentiment continues to put pressure on governments to increase taxes and impose tighter regulations; however, we are well placed to manage these risks. • Improved monitoring, analysis and advocacy to mitigate policy risks. • Strengthened capability in managing marketing and availability regulations; and enhanced network of stakeholders on public policy matters. • We are at the forefront of industry initiatives in promoting responsible drinking and will be introducing a new digital marketing self-regulation commitment.
2. Economic change Significant local volatility or upheaval, uncertainty or failure to react quickly enough to increasing volatility, including the UK's exit from the EU. V 1 2	• Social unrest, liquidity issues, generalised downturn, currency instability, inflationary pressures, possible changes to customs duties and tariffs and/or eroded consumer confidence, impacting business forecasting and/or performance.	• Local and global monitoring of key business drivers and performance to prepare for rapid changes in external environment. • Group level strategic analysis and scenario planning to strengthen market strategies and risk management. • Strategic business reviews by CEO and senior executives of local strategies. • Multi-country investment strategy, and local sourcing strategies (e.g. to minimise currency risk). • Hedging strategy and currency monitoring. • Monitor and analyse data on a regular basis; changes in economic data are updated into our economic models which are then recalibrated.	• Volatility has been mainly driven by political or legislative issues, rather than GDP or economic volatility. While the macro environment continues to be uncertain, we believe this risk remains stable. • Ongoing risk identification and mitigation planning to respond to the risks associated with Brexit and the potential impact of any trade wars. We remain focused on identifying critical decision points to ensure potential operational disruption is mitigated as effectively as possible.
3. Critical industry developments Failure to shape or participate in critical consumer, customer or competitor developments. V 1 2 3	• Consumers move away from our brands to alternative products. • Suboptimal routes to consumers and customers. • Less efficient business model compared to key competitors.	• Highly diversified portfolio of brands to ensure coverage of consumer occasions and price points. • Rigorous processes of strategy and innovation development at corporate and market level. • Systematic review of a broad range of macro and micro forces acting on our industry and ecosystem including emerging consumer and route to consumer trends and potential disruptive technologies. • Continuous assessment and optimisation of business efficiencies and investments.	• Industry developments and consumer trends continue to evolve; however we believe our management of this risk is strong and our risk outlook remains stable. • We focus our innovation on our strategic priorities and the biggest consumer opportunities through global brand extensions and new-to-world products. The Distill Ventures model complements our internal innovation by enabling us to invest in exciting early stage brands/entrepreneurs. • We continue to build capabilities and business structures that enable us to be agile in responding to shifting consumer trends.
4. Non-compliance with laws and regulations Non-compliance with local laws or regulations, or breach of our internal global policies and standards and/or significant internal control breakdown. 1 2 3 4	• Severe damage to our corporate reputation and/or significant financial penalty.	• Code of Business Conduct and supporting policies and standards set out compliance requirements. • Risk assessment framework to identify, assess and monitor business and compliance risks. • Regular training, communications, annual certification and engagement activities to embed employee understanding. • Well embedded SOX and COSO control assurance programme. • Global third party due diligence process supported by technology and central oversight.	• New regulations in a number of countries in which we operate; however, this risk remains stable as we manage increasing requirements within our existing processes and structures. • Introduced analytic and visualisation tool to improve the monitoring of high-risk compliance areas. • Introduced a new interactive leadership engagement tool to further embed compliance understanding and capability.
5. Sustainability and responsibility Failure to manage key sustainability risks or meet key sustainability goals. 1 2 3 4	• Harm to future growth either directly or indirectly via reputational impact, reducing trust among consumers and other stakeholders.	• Sustainability & Responsibility Strategy credible with stakeholders and operationalised to deliver against majority of our targets. • Resource scarcity issues identified and mitigated, including water and energy use. • Human rights interventions delivering against UN Guiding Principles and UK Modern Slavery Act requirements. • Key external partnerships in place to strengthen delivery and strategy.	• Our progress towards achieving the majority of sustainability and responsibility metrics and our position with external stakeholders leads us to believe this risk remains stable. • Cross-functional group developing approach to climate change risk reporting, guided by Task Force on Climate-related Financial Disclosures (TCFD) recommendations. • Water Blueprint extended to include suppliers. • Human rights impact assessments in South Africa and Nigeria completed this year (see pages 48-49). • First full year of progress against 2025 positive drinking targets, focused on moderation and reducing harm (see pages 45-47).

Risk	Impact	How we mitigate	Developments in 2019
6. Cyber threat Theft, loss and misappropriation of our most important digital assets. 1 2 3 4	• Financial loss, operational disruption and reputational damage.	• Focus on insider threat by tightening 'privileged access' to critical applications. • Mandatory global eLearning and regular phishing exercises. • Experts perform intelligence-led, proactive hunting and monitoring of threats. • Advanced malware detection and blocking. • High-risk market cyber stress tests. • Regular ethical hacking exercises to improve surveillance monitoring and response.	• Increased number of indiscriminate or opportunistic attacks targeting organisations across industries. • Despite the increasing frequency of cyber attacks (including phishing, ransomware and potential disruptions to production operations), we believe that we have the right strategies in place to, where possible, effectively mitigate the risk. • Increased investment in intelligence-led threat analysis to better predict and proactively manage the most serious threats and improve our control environment. • Programme of employee awareness campaigns and training to help employees appropriately respond to potential cyber threats.
7. Political instability and terrorism Impacts from political instability and security threats including terrorism. 1 3 4	• Diageo employees, sites or supply chain threatened and/ or harmed. • Our ability to operate in key markets is disrupted.	• In-country security managers overseeing people and physical security and above market subject matter experts. • Monitoring of local security situations. • Global Business Continuity and Crisis Management Framework. • Global travel security programme for all Diageo travellers. • Global and market liaison with government, academia and industry on evolving threats and responding to incidents.	• Increasingly unstable geo-politics and decreasing multilateralism has raised the risk of conflict, trade wars and state sponsored cyber attacks. We have also seen the continued confluence between organised crime, terrorism and state actors, especially in creating increasing cyber risks. • Introduced terrorism crisis simulation exercises across various markets and established quarterly cross-functional threat reviews. • Implementation of Diageo Incident Management Database to monitor security incidents and trends. • Increased intelligence capacity through extra internal resources and third party threat monitoring.
8. Data privacy Breach of data protection laws or regulations. 1 2 3 4	• Harm to our reputation with consumers, customers and/or our people. • Non-compliance with data protection regulation. • Significant financial penalty of up to 4% of global turnover.	• Global Data Privacy programme with global data privacy policy, training and communications. • Use of Privacy Impact Assessments in key risk areas of the business concerning the proper use of data. • Minimum standard for compliance set globally with a focus on key risk areas.	• The introduction of the GDPR in the EU in 2018 and high-profile data breaches by other companies has heightened consumer awareness and led to greater regulatory scrutiny. There is a trend of GDPR shaping regulations in other jurisdictions. The overall risk outlook is increasing due to emerging regulations globally increased enforcement action and significant regulatory fines. • Embedded a global incident response process to identify, investigate, risk assess and respond effectively to any personal information security incidents. This has been expanded to cover third-party incidents affecting our people and consumers.
9. International tax Significant changes to the international tax environment such as responding to concerns around the 'digital economy' and EU anti-tax abuse measures alter our operating position. V 1 2 3	• Increase in the cost of doing business arising from an increase in our effective and cash tax rates. • Changing tax laws and audit activity lead to additional tax exposures and uncertainty.	• Ongoing review of our tax policy in light of changing rules and stakeholder expectations. • Monitoring and, where appropriate, expressing views on the formulation of tax laws either directly or through trade associations or similar bodies. • End-to-end review of our processes to continually improve our tax control/ governance environment. • Submission of our Country-by-Country Report to the relevant tax authorities on an annual basis ensures they have full visibility of our tax footprint.	• The international tax environment has been subject to increased scrutiny and change in recent years, increasing the overall levels of risk to business and is expected to continue. • Investment by governments in the 'digitisation of tax administration' will facilitate enhanced access to and analysis of our data, which is likely to increase audit activity. • The OECD's work on digitalisation may result in changes to how multinationals are taxed and could result in unilateral and punitive tax measures if a consensus-based approach cannot be found. • In common with other multinationals, we face scrutiny from certain authorities, as outlined in our contingency liability note.
10. Product quality Contamination of raw materials or finished product, or unsafe counterfeit product is supplied to the market. 2 3	• Harm to consumers and/or • Our corporate and brand reputation is damaged.	• Food Safety System 22000 Certification in place for owned brewing and packaging sites, and third party site audit programme in place. • Physical security standards and vetting procedures in place across our production sites. • Anti-counterfeiting measures embedded in our packaging deter against reuse and make our products more difficult to copy. • Active programme at market level, with global oversight and technical support to identify high-risk areas, engaging with customs and law enforcement authorities and participating in industry initiatives to monitor and prevent counterfeit activity. • Application of unique lot-codes on all products for product recall requirements. • Food fraud and food threat risk assessments regularly undertaken.	• Strong controls in place in line with best practice and we assess this risk as stable. • Global Food Safety Initiative assurance strategy being rolled out across wholly owned breweries and packaging sites. This is also being expanded to our key third party production sites. • Brand protection and anti-counterfeit activities focused on high-risk markets and on new technology to assist with product verification, and pro-actively working with online market places to identify inappropriate activities and seek to close them out.

Group financial review

This is another strong set of results with consistent and improved delivery on all our measures of efficient growth and value creation. Organic net sales growth of 6% was broad based and underpinned by volume growth and an acceleration in price mix. We have embedded a culture of everyday efficiency which provides the fuel for us to smartly invest in brands and capabilities to deliver sustainable medium-term growth and to expand margins. Over the last year we have increased marketing spend by 8% while expanding organic operating margin by 83bps. Through the year we continued our disciplined conversion of profit into cash with free cash flow delivery of £2.6 billion and we returned a total of $4.4 billion to shareholders through dividends and share buybacks. Our clear strategy and high-performance culture give me confidence that we are well positioned to continue to deliver consistent sustainable growth and create value for all of our stakeholders.

Kathryn Mikells, Chief Financial Officer

Reported net sales were up

5.8%

as organic growth was partially offset by acquistions and disposals

Reported operating profit was up

9.5%

driven by organic growth, lower exceptional operating charges and favourable exchange, partially offset by acquisitions and disposals

Organic results improved with volume growth of

2.3%

Organic net sales growth of

6.1%

Organic operating profit grew

9%

Free cash flow continued to be strong at

£2.6bn

Net cash from operating activities was

£3.2bn

Basic eps of

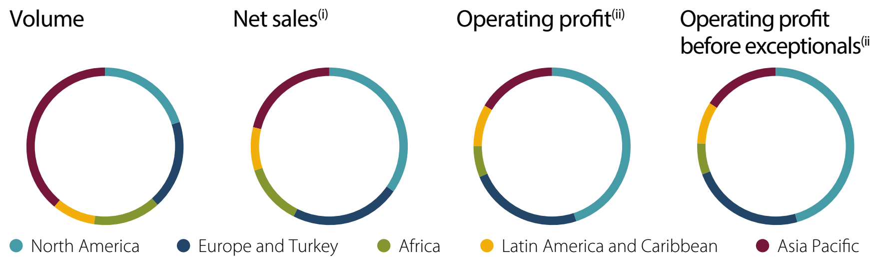
130.7 pence

was up 7.4%

Eps before exceptional items increased

10%

to 130.8 pence



(i) Excluding corporate net sales of £53 million (2018 – £52 million).
(ii) Excluding net corporate cost of £210 million (2018 – £158 million).
(iii) Excluding exceptional operating charges of £74 million (2018 – £128 million) and net corporate operating costs of £189 million (2018 – £158 million).

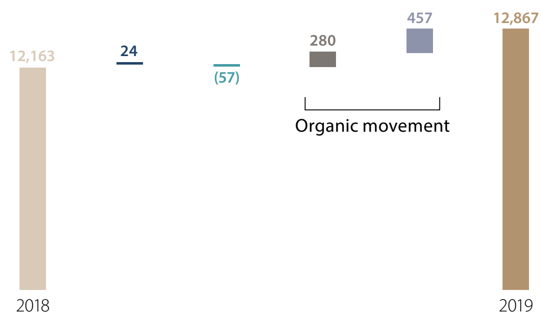
Summary financial information		2019	2018
Volume	EUm	**245.9**	240.4
Net sales	£ million	**12,867**	12,163
Marketing	£ million	**2,042**	1,882
Operating profit before exceptional items	£ million	**4,116**	3,819
Exceptional operating items(i)	£ million	**(74)**	(128)
Operating profit	£ million	**4,042**	3,691
Share of associate and joint venture profit after tax	£ million	**312**	309
Non-operating exceptional gain(i)	£ million	**144**	–
Net finance charges	£ million	**(263)**	(260)
Exceptional taxation (charge)/credit(i)	£ million	**(39)**	203
Tax rate including exceptional items	%	**21.2**	15.9
Tax rate before exceptional items	%	**20.6**	20.7
Profit attributable to parent company's shareholders	£ million	**3,160**	3,022
Basic earnings per share	pence	**130.7**	121.7
Earnings per share before exceptional items	pence	**130.8**	118.6
Recommended full year dividend	pence	**68.57**	65.3

(i) For further details of exceptional items see pages 123 to 124.

	Volume %	Net sales %	Marketing %	Operating profit(i) %
North America	2	8	15	4
Europe and Turkey	(2)	–	3	(1)
Africa	1	7	10	44
Latin America and Caribbean	1	6	3	19
Asia Pacific	5	7	6	24
Diageo – reported growth by region(ii)	**2**	**6**	**9**	**8**
North America	2	5	11	3
Europe and Turkey	(2)	4	6	2
Africa	1	7	3	50
Latin America and Caribbean	1	9	6	19
Asia Pacific	5	9	7	26
Diageo – organic growth by region(ii)	**2**	**6**	**8**	**9**

(i) Before exceptional operating items.
(ii) Includes Corporate. In the year ended 30 June 2019 corporate net sales were £53 million (2018 – £52 million). Net corporate operating costs were £189 million (2018 – £158 million).

Net sales (£ million)
Reported net sales grew 5.8%
Organic net sales grew 6.1%



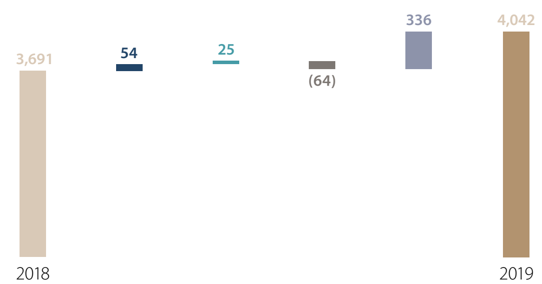
● Exchange[i]
● Acquisitions and disposals
● Volume
● Price/mix

(i) Exchange rate movements reflect the translation of prior year reported results at current year exchange rates.

Reported net sales grew 5.8%, driven by organic growth and favourable exchange which was partially offset by acquisitions and disposals.

Organic volume growth of 2.3% and 3.8% positive price/mix delivered 6.1% organic net sales growth. All regions reported organic net sales growth.

Operating profit (£ million)
Reported operating profit grew 9.5%
Organic operating profit grew 9.0%



● Exceptional operating items
● Exchange
● Acquisitions and disposals
● Organic movement

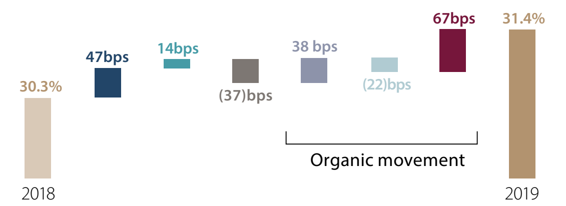
Reported operating profit was up 9.5% driven by organic growth, lower exceptional operating charges, and favourable exchange, partially offset by acquisitions and disposals.

Organic operating profit grew ahead of net sales at 9.0%.

Acquisitions and disposals

The impact of acquisitions and disposals on the reported figures was primarily attributable to the disposal of a portfolio of 19 brands to Sazerac which was completed on 20 December 2018 and to the prior year acquisition of the Casamigos brand.

Operating margin (%)
Reported operating margin increased 107bps
Organic operating margin increased 83bps



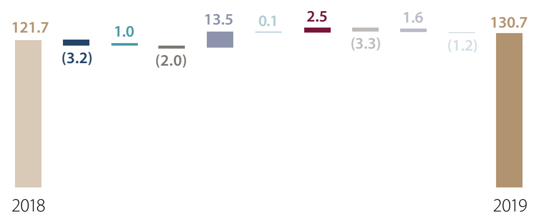
● Exceptional operating items
● Exchange
● Acquisitions and disposals
● Gross margin
● Marketing
● Other operating expenses

Reported operating margin increased 107bps driven by organic operating margin improvement, lower exceptional operating charges and favourable exchange partially offset by the impact from acquisitions and disposals.

Organic operating margin improved 83bps driven by improved price/mix and productivity benefits from everyday cost efficiencies, partially offset by cost inflation and higher marketing investment.

Basic earnings per share (pence)

Basic eps increased 7.4% from 121.7 pence to 130.7 pence
Eps before exceptional items increased 10.3% from 118.6 pence to 130.8 pence



- Exceptional items after tax
- Exchange on operating profit
- Acquisitions and disposals
- Organic operating profit growth(i)
- Associates and joint ventures
- Net finance charges(ii)
- Tax
- Share buyback
- Non-controlling interests

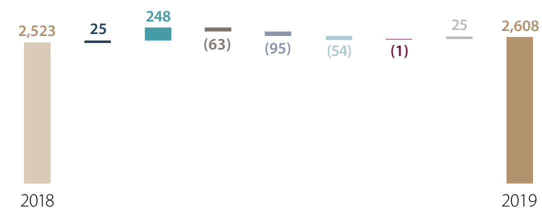
(i) Excluding exchange.
(ii) Net finance charges in relation to share buyback and acquisitions and disposals are reflected in the respective categories.

Eps before exceptional items increased 12.2 pence as organic operating profit growth and lower finance charges more than offset the higher tax charge and impact from acquisitions and disposals.

Basic eps increased 9.0 pence impacted by an increase in net exceptional charges.

Free cash flow (£ million)

Net cash from operating activities(i) was £3,248 million
Free cash flow was £2,608 million



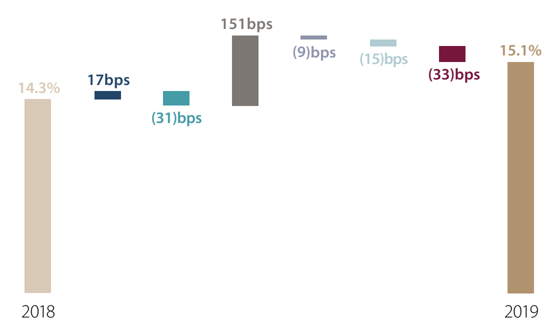
- Exchange(ii)
- Operating profit(iii)
- Working capital(iv)
- Capex
- Tax
- Interest
- Other(v)

(i) Net cash from operating activities excludes net capex and movements in loans and other investments (2019 – £(640) million; 2018 – £(561) million).
(ii) Exchange on operating profit before exceptional items.
(iii) Operating profit excluding exchange, depreciation and amortisation, post employment charges and non-cash items but including exceptional operating items.
(iv) Working capital movement includes maturing inventory.
(v) Other items include post employment payments, dividends received from associates and joint ventures, and movements in loans and other investments.

Net cash from operating activities was £3.2 billion, an increase of £164 million compared to last year. Free cash flow continued to be strong at £2.6 billion, an increase of £85 million. This was largely driven by operating profit growth and favourable exchange movement which more than offset the reduced working capital gains and increased investment in maturing stock, increased capex and higher tax payments.

Return on average invested capital (%)(i)

ROIC improved 80bps



- Exchange
- Acquisitions and disposals
- Organic operating profit growth
- Associates and joint ventures
- Tax
- Other

(i) ROIC calculation excludes exceptional items.

ROIC increased 80bps largely driven by organic operating profit growth which was partially offset by the impact of acquisitions and disposals, higher tax charges and other movements, primarily net capex and maturing stock.

Income statement

	2018 £ million	Exchange (a) £ million	Acquisitions and disposals (b) £ million	Organic movement[i] £ million	Reclassification[ii] £ million	2019 £ million
Sales	18,432	(234)	(61)	1,157	–	19,294
Excise duties	(6,269)	258	4	(420)	–	(6,427)
Net sales	12,163	24	(57)	737	–	12,867
Cost of sales	(4,634)	(9)	9	(232)	–	(4,866)
Gross profit	7,529	15	(48)	505	–	8,001
Marketing	(1,882)	(5)	(1)	(144)	(10)	(2,042)
Other operating expenses	(1,828)	15	(15)	(25)	10	(1,843)
Operating profit before exceptional items	3,819	25	(64)	336	–	4,116
Exceptional operating items (c)	(128)					(74)
Operating profit	3,691					4,042
Non-operating items (c)	–					144
Net finance charges	(260)					(263)
Share of after tax results of associates and joint ventures	309					312
Profit before taxation	3,740					4,235
Taxation (d)	(596)					(898)
Profit for the year	3,144					3,337

(i) For the definition of organic movement see page 60.
(ii) For the year ended 30 June 2018 marketing costs of £10 million in South Africa have been reclassified from overheads to marketing.

(a) Exchange

The impact of movements in exchange rates on reported figures for net sales and operating profit is principally in respect of the weakening of sterling against the US dollar, the euro and the Kenyan shilling, partially offset by strengthening of sterling against the Turkish lira, the Indian rupee and the Australian dollar.

The effect of movements in exchange rates and other movements on profit before exceptional items and taxation for the year ended 30 June 2019 is set out in the table below.

	Gains/ (losses) £ million
Translation impact	15
Transaction impact	10
Operating profit before exceptional items	25
Net finance charges	(9)
Associates – translation impact	–
Profit before exceptional items and taxation	16

	Year ended 30 June 2019	Year ended 30 June 2018
Exchange rates		
Translation £1 =	$1.29	$1.35
Transaction £1 =	$1.33	$1.36
Translation £1 =	€1.13	€1.13
Transaction £1 =	€1.13	€1.16

(b) Acquisitions and disposals

The acquisitions and disposals movement was mainly attributable to the disposal of a portfolio of 19 brands (see the list of brands disposed of on page 60) to Sazerac completed on 20 December 2018 and to the prior year acquisition of the Casamigos brand.

See note 11 and note 12 for further details.

(c) Exceptional items

Exceptional operating charges in the year ended 30 June 2019 were £74 million before tax (2018 – £128 million).

On 26 October 2018, the High Court of Justice of England and Wales issued a judgment in a claim between Lloyds Banking Group Pension Trustees Limited (the claimant) and Lloyds Bank plc (defendant) that UK pension schemes should equalise pension benefits for men and women for the calculation of their guaranteed minimum pension liability. The judgment concluded that the claimant has a duty to amend their pension schemes to equalise benefits and provided comments on the method to be adopted to equalise the benefits. This court ruling impacts the majority of companies with a UK defined benefit pension plan that was in existence prior to 1997. For the Diageo Pension Scheme (DPS) an estimate was made of the impact of equalisation which increased the liabilities of the DPS by £21 million with a corresponding charge to exceptional operating items. Additional work will be carried out to finalise the charge in the year ending 30 June 2020.

Following recent assessments of competitors' indirect tax in respect of certain channel accounts and a recent regulatory change in Korea, Diageo has made a provision, in the year ended 30 June 2019, of £35 million in respect of prior years.

In July 2019 Diageo reached agreement with the French tax authorities resulting in penalty charges of £18 million (see Taxation below).

In the year ended 30 June 2018, there was an impairment charge of £128 million in respect of the Meta brand, Ethiopian tangible fixed assets, associated spare parts reported in inventory and goodwill allocated to the Africa Regional Markets cash-generating unit.

Non-operating exceptional items in the year ended 30 June 2019 were £144 million income before tax (2018 – £nil).

Diageo completed the sale of a portfolio of 19 brands to Sazerac on 20 December 2018 for an aggregate consideration of $550 million (£435 million) resulting in a profit before taxation of $198 million (£155 million).

The disposal of United National Breweries (UNB), Diageo's wholly owned sorghum business in South Africa, was agreed in December 2018 and is subject to regulatory approvals. The prospective sale has resulted in an exceptional loss of approximately ZAR 156 million (£9 million).

The disposal of the Indian wine business resulted in a loss of £2 million.

See page 60 for the definition of exceptional items.

(d) Taxation

The reported tax rate for the year ended 30 June 2019 was 21.2% compared with 15.9% for the year ended 30 June 2018. Included in the tax charge of £898 million for the year ended 30 June 2019 is a net exceptional tax charge of £39 million.

As disclosed in the interim announcement for the six month ended 31 December 2018, Diageo has been in discussions with the French tax authorities over the deductibility of certain interest costs, and assessments had been issued denying tax relief for interest costs incurred in the periods ended 30 June 2011 to 30 June 2017 with a maximum potential liability of €241 million (£213 million). In July 2019 Diageo reached a resolution on the treatment of interest costs for all open periods which resulted in a total exceptional charge of €100 million (£88 million), comprising a tax charge of €69 million (£61 million), penalties of €21 million (£18 million) and interest of €10 million (£9 million). This brings to a close all open issues with the French tax authorities for periods up to and including 30 June 2017.

During the year ended 30 June 2019 the Dutch Senate agreed to a phased reduction in the Dutch corporate tax rate which is effective from 1 January 2020. An exceptional tax credit of £51 million principally arose from remeasuring the deferred tax liabilities in respect of the Ketel One vodka distribution rights from 25% to 20.5%.

In addition, in the year ended 30 June 2019 there was a £33 million exceptional charge in respect of the disposal of a portfolio of 19 brands to Sazerac and an exceptional tax credit of £4 million in respect of the equalisation of liabilities for males and females in the Diageo Pension Scheme.

For the year ended 30 June 2018 there was an exceptional tax credit of £203 million comprising the favourable impact of applying the Tax Cuts and Jobs Act, enacted on 22 December 2017, in the United States of £354 million, which was partially offset by the additional exceptional tax charge in respect of the transfer pricing agreement in the United Kingdom of £143 million and other net exceptional charges of £8 million.

The tax rate before exceptional items for the year ended 30 June 2019 was 20.6% compared with 20.7% in the prior year. The year ended 30 June 2019 benefitted from one-off items which are not expected to repeat. This combined with our changing business mix is expected to result in a tax rate before exceptional items for the year ending 30 June 2020 to be in the range of 21% to 22%.

(e) Dividend

The group aims to increase the dividend each year and the decision in respect of the dividend is made with reference to dividend cover as well as current performance trends including sales and profit after tax together with cash generation. Diageo targets dividend cover (the ratio of basic earnings per share before exceptional items to dividend per share) within the range of 1.8-2.2 times. For the year ended 30 June 2019 dividend cover is 1.9 times. The recommended final dividend for the year ended 30 June 2019 is 42.47 pence, an increase of 5% consistent with the interim dividend increase. This brings the full year dividend to 68.57 pence per share. It is expected that a mid-single digit increase in the dividend will be maintained until the cover is operating comfortably in the policy range.

Subject to approval by shareholders, the final dividend will be paid to holders of ordinary shares and US ADRs on the register as of 9 August 2019. The ex-dividend date both for the holders of the ordinary shares and for US ADR holders is 8 August 2019. The final dividend will be paid to shareholders on 3 October 2019. Payment to US ADR holders will be made on 8 October 2019. A dividend reinvestment plan is available to holders of ordinary shares in respect of the final dividend and the plan notice date is 12 September 2019.

(f) Share buyback

On 26 July 2018, a share buyback programme was approved to return up to £2.0 billion to shareholders during the year ending 30 June 2019. On 20 December 2018 Diageo completed the sale of a portfolio of 19 brands to Sazerac. The net proceeds of approximately £340 million, after corporate tax and transaction costs, were returned to shareholders through an increase to the share buyback programme. On 30 January 2019 the Board approved an incremental share buyback programme of £660 million, bringing the total programme up to £3.0 billion for the year ending 30 June 2019.

In the year ended 30 June 2019, 94.7 million shares were repurchased for an aggregate consideration of £2.8 billion. After the year end a further 0.3 million shares were purchased for an aggregate consideration of £26 million, including settlement payments for the full tranche, which were recognised as a financial liability at 30 June 2019. The shares purchased under the share buyback programmes were cancelled.

On 25 July 2019, the Board approved plans for a further return of capital up to £4.5 billion to shareholders for the three year period to 30 June 2022.

Movement in net borrowings and equity

Movement in net borrowings	2019 £ million	2018 £ million
Net borrowings at the beginning of the year	(9,091)	(7,892)
Free cash flow (a)	2,608	2,523
Acquisitions (b)	(56)	(594)
Sale of businesses and brands (c)	426	4
Share buyback programme	(2,775)	(1,507)
Proceeds from issue of share capital	1	1
Net sale of own shares for share schemes (d)	50	8
Dividends paid to non-controlling interests	(112)	(80)
Rights issue proceeds from non-controlling interests of subsidiary company	–	26
Net movements in bonds (e)	1,598	1,041
Purchase of shares of non-controlling interests (f)	(784)	–
Net movements in other borrowings (g)	721	(26)
Equity dividends paid	(1,623)	(1,581)
Net increase/(decrease) in cash and cash equivalents	54	(185)
Net increase in bonds and other borrowings	(2,331)	(1,015)
Exchange differences (h)	(22)	80
Other non-cash items	113	(79)
Net borrowings at the end of the year	(11,277)	(9,091)

(a) See page 26 for the analysis of free cash flow.

(b) In the year ended 30 June 2019 Diageo has made a number of small acquisitions of brands, distribution rights and equity interests in various drinks businesses.

In the year ended 30 June 2018 acquisitions included $706 million (£549 million) in respect of the completion of the acquisition of Casamigos. See note 9 for further details.

(c) In the year ended 30 June 2019, sale of businesses and brands represents the cash received on the disposal of a portfolio of 19 brands sold to Sazerac net of transaction costs.

(d) Net sale of own shares comprised purchase of options over own shares and treasury shares for the future settlement of obligations under the employee share option schemes of £16 million (2018 – £68 million) less receipts from employees on the exercise of share options of £66 million (2018 – £76 million).

(e) In the year ended 30 June 2019, the group issued bonds of €2,600 million (£2,270 million) and £496 million (including £4 million discount and fee) and repaid bonds of €1,350 million (£1,168 million). In the comparable period the group issued bonds of €1,275 million (£1,136 million) and $2,000 million (£1,476 million) and repaid bonds of $2,100 million (£1,571 million).

(f) In the year ended 30 June 2019 purchase of shares of non-controlling interests comprised RMB 6,774 million (£775 million) and transaction costs of £9 million in respect of the acquisition of 23.43% of the share capital of Sichuan Shuijingfang Company Limited (SJF) in two separate transactions. This took Diageo's shareholding in SJF from 39.71% to 63.14%. SJF is a manufacturer and distributor of Chinese white spirits located in Sichuan province in China and was controlled and therefore consolidated prior to the transactions in the year.

(g) In the year ended 30 June 2019 the net movement in other borrowings principally arose from the issue of commercial paper.

(h) The exchange arising on net borrowings of £22 million is primarily driven by unfavourable exchange movements on US dollar and euro denominated borrowings partially offset by a favourable movement on foreign exchange swaps and forwards.

Movement in equity	2019 £ million	2018 £ million
Equity at the beginning of the year	**11,713**	12,028
Profit for the year	**3,337**	3,144
Exchange adjustments (a)	**255**	(609)
Remeasurement of post employment plans net of taxation	**36**	368
Purchase of shares of non-controlling interests (b)	**(784)**	–
Rights issue proceeds from non-controlling interests of subsidiary company (c)	**–**	26
Dividends to non-controlling interests	**(114)**	(101)
Equity dividends paid	**(1,623)**	(1,581)
Share buyback programme	**(2,801)**	(1,507)
Other reserve movements	**137**	(55)
Equity at the end of the year	**10,156**	11,713

(a) Exchange movement in the year ended 30 June 2019 primarily arose from exchange gains in respect of the US dollar and the Indian rupee partially offset by exchange losses on the Turkish lira.

(b) In the year ended 30 June 2019 Diageo acquired an additional 23.43% of the share capital of SJF which was already controlled and therefore consolidated prior to the transaction. This took Diageo's shareholding in SJF from 39.71% to 63.14%.

(c) In the year ended 30 June 2018 a rights issue was completed by Guinness Nigeria (GN) where Diageo's controlling equity share in GN increased from 54.32% to 58.02%. The transaction resulted in a credit of £31 million to non-controlling interests and a charge of £5 million to reserves.

Post employment plans

The net surplus of the group's post employment benefit plans increased by £151 million from £63 million at 30 June 2018 to £214 million at 30 June 2019. The increase primarily arose due to an increase in the market value of the assets held by the post employment schemes and the cash contributions paid into the post employment plans being in excess of the impact of the changes in financial assumptions and income statement charge.

The operating profit charge before exceptional items decreased by £34 million from £84 million for the year ended 30 June 2018 to £50 million for the year ended 30 June 2019 primarily due to changes made to future pension increases for members of the UK scheme (including a Pension Increase Exchange (PIE) option offered to current pensioners) and changes to the principal Irish scheme which resulted in an aggregate past service credit of £54 million (2018 – £21 million in respect of changes to future pension increases in the principal Irish scheme).

Total cash contributions by the group to all post employment plans in the year ending 30 June 2020 are estimated to be approximately £170 million.

North America

North America remains the largest premium drinks market worldwide. For Diageo, North America represents approximately one third of our net sales and approximately half of our operating profit.

The consumer lies at the heart of our business. We are focused on delivering sustainable performance through investment behind our brands, data led insights and executional excellence in our route to market. We have observed our portfolio achieving market share gains during the year ended 30 June 2019. We also disposed of 19 brands to Sazerac, enhancing our focus on the higher growth segment of our portfolio.

Our markets

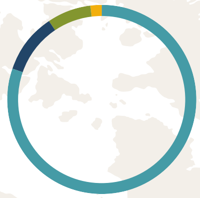
Diageo North America is presently headquartered in Norwalk, Connecticut, but is relocating to New York, in early 2020. The business is comprised of US Spirits, Diageo Beer Company USA (DBC USA), and Diageo Canada, headquartered in Toronto.

Supply operations

With nine domestic production facilities across the United States, Canada and the US Virgin Islands, Diageo North America's supply function is one of the largest producers of beverage alcohol on the continent. We have made major investments in innovation and sustainability driving efficiency and best in class operations.

In addition to beginning construction on our new Bulleit Frontier Whiskey Visitor Center in Shelbyville, Kentucky, in 2018 we opened our new Guinness Open Gate Brewery, in Relay, Maryland, and announced plans to invest £100 million to build a new distillery and warehousing facility in Lebanon, Kentucky. Production at the new distillery is expected to commence in 2021.

Net sales by markets (%)



Net sales by categories (%)

Key financials

	2018 £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2019 £ million	Reported movement %
Net sales	4,116	176	(48)	216	4,460	8
Marketing	662	24	1	75	762	15
Operating profit	1,882	74	(60)	52	1,948	4

Route to consumer

The route to consumer in the United States is through the three-tier system. We distribute our products through approximately 40 spirits distributors and brokers, and more than 400 beer distributors. We have consolidated our US Spirits business into single distributors or brokers in 41 states and the District of Columbia, representing more than 80% of our spirits volume.

Our strategy is to continue driving excellence in our route to consumer through insights-driven execution, which allows us to better leverage available data and deliver sustained performance. This includes key capabilities around commercial execution, robust performance management and using more granular data analytics to provide competitive differentiation at the outlet level, including changing the way we collect outlet level data using technology.

US Spirits is responsible for the sale of our portfolio of spirits products and manages sales through two divisions focused on Open (distribution through private distributors) and Control (distribution through governmental entities) states. DBC USA sells and markets brands including Guinness and Smirnoff Ice. Beer distribution generally follows the three-tier open state regulations across the United States. Diageo Canada distributes our portfolio of spirits, ready to drink and beer brands across all Canadian provinces, which generally operate within a highly regulated federal and provincial system. Diageo Canada manages all sales operations with the provincial liquor control boards and national chain account customers directly, utilising brokers to support the execution at the point of sale.

Sustainability and responsibility

Both brand activity and business-wide programmes continue to support our focus on responsible drinking. Our 'Decisions: Party's Over' experience, which uses virtual reality to educate consumers about the dangers of binge drinking, has amassed millions of views across social media and other platforms. Our Crown Royal brand is using its involvement in the NFL (National Football League) as a platform to remind sports fans to take a water break and to encourage moderation. It reached over 44 million adults this year.

We are also making meaningful progress on environmental performance. This year we improved water use efficiency by 4.5%. We are continuing to assess options to eliminate waste to landfill for the six remaining sites in the region that currently dispose of low quantities in this way. This will support our zero waste to landfill target for 2020.

We continue to work with communities through a range of activities, including our six-week Learning Skills for Life (LSFL) programme, which has reached over 600 unemployed people with basic employability skills, specialist training and work experience within the hospitality industry.

North America delivered net sales growth of 5%, with growth across all three key markets. The disposal of a portfolio of 19 brands to Sazerac resulted in an estimated 40bps improvement in organic net sales growth. In US Spirits, net sales increased 5%. Crown Royal net sales increased by 6% and the brand gained share, driven by strengthened marketing investment fuelling the growth of Crown Royal Regal Apple and by the Crown Royal Peach limited time offer. Bulleit net sales were up 8% and it continued to gain share in US whiskey. Scotch grew net sales by 7% and gained share with strong innovation performance recruiting new consumers into scotch. Vodka net sales were flat, an improvement over the prior year, reflecting growth in Ketel One and Smirnoff and decline in Cîroc. Ketel One net sales grew by 10% and gained share in the category, driven by Ketel One Botanical with improvement in core Ketel One vodka performance. Smirnoff net sales grew by 2% due to stabilisation of the base business and the launch of Smirnoff Zero Sugar Infusions. Captain Morgan net sales declined 5%. In tequila, both Don Julio and Casamigos delivered strong double digit growth and gained share in the category. Diageo Beer Company USA net sales grew 10%, largely driven by growth in ready to drink as a result of successful prior year innovation launches. Beer net sales grew by 2%, improving over prior year and gaining share. Net sales in Canada increased 5% with broad based growth, including strong ready to drink performance. North America operating margin declined 103bps, mainly driven by up-weighted marketing investment behind US Spirits, with some impact from market mix shift and higher commodity and logistics costs partially offset by overhead efficiencies.

Markets:	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
North America	2	2	5	8
US Spirits(i)	2	(2)	5	8
DBC USA	8	8	10	15
Canada	3	3	5	4
Spirits	2	2	5	8
Beer	(4)	(4)	1	5
Ready to drink	18	17	18	21

Global giants, local stars and reserve(ii):	Organic volume movement(iii) %	Organic net sales movement %	Reported net sales movement %
Crown Royal	6	6	10
Smirnoff	2	3	7
Captain Morgan	(3)	(4)	–
Johnnie Walker	1	5	9
Ketel One(iv)	10	10	15
Cîroc vodka	(10)	(10)	(6)
Baileys	–	2	6
Guinness	(3)	2	6
Tanqueray	2	1	5
Don Julio	20	26	32
Bulleit	11	8	13
Buchanan's	8	4	9

(i) Reported US Spirits volume growth was impacted by acquisitions and disposals.
(ii) Spirits brands excluding ready to drink.
(iii) Organic equals reported volume movement.
(iv) Ketel One includes Ketel One vodka and Ketel One Botanical.

Key highlights

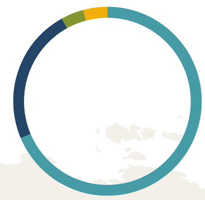
- Net sales in **US Spirits** were up 5%, broadly in line with depletions. Crown Royal grew net sales by 6% and gained share in its category, driven by continued growth of Crown Royal Regal Apple and Crown Royal Vanilla underpinned by strong marketing investment and the Crown Royal Peach and Crown Royal Salted Caramel limited time offers. In scotch, Johnnie Walker and Buchanan's gained share. Johnnie Walker net sales increased 6% with the successful launch of "White Walker by Johnnie Walker" inspired by the TV series Game of Thrones, which recruited new consumers into scotch. In vodka, net sales were flat, an improvement on the prior year's decline of 3%, despite continued weakness in Cîroc. Ketel One net sales were up 10%, benefitting from the success of Ketel One Botanical. Smirnoff returned to growth, up 2%, with strong marketing support reflected in the stabilisation of the base business and strengthened brand equity and with growth fuelled by the launch of Smirnoff Zero Sugar Infusions in May. Captain Morgan net sales declined by 5% in a category that is also in decline. Baileys net sales grew by 3% and gained category share as it continued its year-round focus on Baileys as an everyday treat. In tequila, Don Julio and Casamigos had strong double digit growth and gained share in the tequila category with Don Julio significantly up-weighting media investment to drive awareness and Casamigos focusing on public relations, social media and targeted events.
- **DBC USA** net sales increased 10%, driven by ready to drink growth of 18% as Smirnoff Spiked Seltzer and Smirnoff Ice Smash success continued. In beer, net sales were up 2% with Guinness up 3%. The opening of the Guinness Open Gate Brewery and Barrel House in Maryland and expanding at-home consumption occasions supported Guinness growth.
- Net sales in **Canada** grew 5%, driven by growth in spirits and ready to drink. Spirits net sales were up 3% with broad based growth across all categories, including a strong performance from "White Walker by Johnnie Walker". Ready to drink benefitted from innovation, particularly the Smirnoff Ice Berry Blast ready to drink.
- **Marketing** grew 11%. Up-weighted investment coupled with the use of marketing effectiveness analytic tools to help make better investment decisions continued to strengthen brand equity and deliver sustainable growth.

Europe and Turkey

Within the geography of Europe there are two markets: Europe and Turkey. Our Europe business is driving consistent share gaining performance through execution at scale of our consumer marketing programme across the market as well as continuing to optimise our route to market. The economic environment in Turkey continues to be challenging but we remain focused on executing our strategy through growth of international premium spirits and premiumisation.

Net sales by markets (%)

Net sales by categories (%)



Key financials

Key financials	2018 £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2019 £ million	Reported movement %
Net sales	2,932	(95)	(2)	104	2,939	–
Marketing	474	(10)	–	26	490	3
Operating profit before exceptional items	1,028	(35)	(1)	22	1,014	(1)
Exceptional operating items[(i)]	–				(18)	
Operating profit	1,028				996	(3)

(i) For further details on exceptional operating items see pages 123 to 124.

Our markets

Europe comprises Great Britain, Ireland, France, Continental Europe (including Northern Europe, Central Europe, Iberia, the Mediterranean and the Europe Partner Markets distribution businesses) and Russia, whilst Turkey is a standalone market. Europe is managed as a single market with country teams focusing on sales and customer marketing execution.

Supply operations

A number of Diageo's International Supply Centre (ISC) operations are located in Europe including production sites in the United Kingdom, Ireland and Italy. The group owns 29 distilleries in Scotland, a Dublin based brewery, distillery, and maturation and packaging facilities in Scotland, England, Ireland and Italy. The ISC leads all supply chain activities for Europe and manufactures whisky, vodka, gin, rum, beer, cream liqueurs, and other spirit-based drinks which are distributed in over 180 countries.

In 2018 we announced a £150 million investment in visitor experiences in Scotland over the next two years. We are transforming our Scotch whisky visitor experiences through investment in our 12 malt whisky distillery visitor centres with a focus on the 'Four Corners distilleries', Glenkinchie, Caol Ila, Clynelish and Cardhu, celebrating the important role these single malts play in the flavours of Johnnie Walker. Also, as part of the investment programme, formal permission for plans to create a global flagship visitor experience for Johnnie Walker in Edinburgh city centre has been received. Raki and vodka are produced at a number of sites in Turkey and other local brands are produced in Russia.

Route to consumer

In Great Britain we sell and market our products through Diageo GB (spirits, beer and ready to drink) and Justerini & Brooks Fine Wines (wines private clients). Products are distributed through independent wholesalers and directly to retailers. In the on-trade, products are sold through major brewers, multiple retail groups and smaller regional independent brewers and wholesalers. In the Republic of Ireland and Northern Ireland, Diageo sells and distributes directly to the on-trade and the off-trade as well as wholesalers. In France our products are sold through a joint venture arrangement with Moët Hennessy. In Continental Europe and Russia, we distribute our spirits brands primarily through our own distribution companies, except in Europe Partner Markets where we typically use distributors.

In Turkey, we sell our products via the distribution network of Mey İçki, our wholly owned subsidiary. Mey İçki distributes both local brands (raki, other spirits and wine) and Diageo's global spirits brands.

Sustainability and responsibility

Encouraging moderation and tackling harmful drinking remain key strategic priorities. Our 'Stay Yourself' moderation campaign, which began on university campuses in 2018, reached a further five million students this year through online and offline channels, and we reached over 42,000 people through our 'Smashed' theatre-based education programme.

Our Learning for Life (L4L) skills programme goes from strength to strength. More than 600 people graduated this year in the UK, Spain, Portugal, the Netherlands, Belgium and Germany. We launched new L4L programmes in Italy and Greece, and in Ireland we launched the 'Open Doors' initiative, aimed at refugees, asylum seekers and people with disabilities. We received the inaugural Inclusion and Diversity Chambers award in Ireland for our L4L work with refugees and asylum seekers.

Forty-eight of our sites in Europe recorded zero lost-time accidents, maintaining the strong performance of last year. Our commitment to progress on environmental performance is reflected by a 10.8% improvement in our water use efficiency. Turkey performed particularly strongly, recording an improvement of nearly 16% this year. In April, we announced a £16 million investment in reducing the plastic content of our beer packaging through the use of 100% recyclable and biodegradable cardboard.

Europe and Turkey delivered 4% net sales growth, reflecting another year of consistent performance in Europe where net sales were up 3% with double digit growth in Turkey. Europe growth was driven by Continental Europe, Great Britain and Ireland. Strong growth in gin continued with Tanqueray and Gordon's growing double digit. Western Europe continued to gain market share in gin. Both Gordon's and Tanqueray benefitted from strong growth across their core and innovation variants. Beer was up 1%. Lager net sales grew 5% driven by Rockshore in Ireland, while Guinness Draught grew 1%. Scotch net sales were flat as growth in Johnnie Walker and scotch malts was largely offset by the weaker performance of JεB. Baileys was up 2% largely driven by the launch of Baileys Strawberries & Cream in Continental Europe. Smirnoff net sales declined 2% driven by Great Britain and Continental Europe, partially offset by growth in Ireland. Tequila grew double digit with growth across all markets. Ready to drink grew 17% driven by the Gordon's premix range. In Turkey, net sales were up 11% due to inflation and excise duty led price increases. Operating margin declined 49bps as positive price/mix and productivity savings were offset by up-weighted marketing investment, as well as inflationary cost pressure, particularly in Turkey.

Markets:	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
Europe and Turkey	(2)	(2)	4	–
Europe	–	–	3	2
Turkey	(13)	(13)	11	(20)
Spirits	(2)	(2)	3	(1)
Beer	1	1	1	–
Ready to drink	13	13	16	15

Global giants and local stars(i)**:**	Organic volume movement(ii) %	Organic net sales movement %	Reported net sales movement %
Guinness	1	1	1
Johnnie Walker	(2)	3	1
Smirnoff	(4)	(1)	(1)
Baileys	(2)	3	3
Yenì Raki	(19)	6	(24)
Captain Morgan	1	–	(2)
JεB	(8)	(8)	(10)
Tanqueray	14	21	21

(i) Spirits brands excluding ready to drink.
(ii) Organic equals reported volume movement.

Key highlights

- In **Europe**, net sales were up 3%:
  - In **Great Britain**, net sales grew 4%, with Diageo gaining share across beer and spirits. Gordon's and Tanqueray both delivered strong double digit growth, both benefitting from strong growth of their innovation variants. Ready to drink grew 17% driven by the Gordon's premix range. Guinness net sales grew 4%, driven by a strong performance for Guinness Draught and the continued growth of Hop House 13 Lager. Across Baileys, Smirnoff and Captain Morgan supply chain actions as well as commercial negotiations following recent pricing decisions have resulted in net sales decline.
- **Ireland** grew net sales 3%. Beer net sales were flat. Lager net sales grew 4% driven by strong growth in Rockshore. Guinness net sales declined 2% impacted by difficult competitive conditions. In spirits, net sales grew double digit largely driven by Smirnoff, Baileys and Gordon's.
  - In **Continental Europe**, net sales were up 3%:
  - **Iberia** net sales grew 1%. Growth was driven by strong performance in Baileys and gin with growth across both Tanqueray and Gordon's. Scotch declined 3% as growth in Cardhu and Johnnie Walker was offset by declines in JεB. In Spain, market share in scotch was broadly flat, as the category continued to decline.
  - In **Central Europe**, net sales grew 4% driven by the launch of Baileys Strawberries & Cream and double digit growth in gin which more than offset the impact of pricing actions in Germany.
  - In **Northern Europe** net sales were up 9% driven by growth across both Benelux and the Nordics partially driven by net revenue management initiatives.
  - In the **Mediterranean Hub**, net sales were down by 6% driven by lapping strong comparable performance in Italy in the prior year and a continuing tough economic environment in Greece.
  - **Europe Partner Markets** grew net sales 6% driven by strong scotch performance and continued growth in Guinness and gin.
  - **Russia** net sales declined 3% driven by a volatile external environment and lapping strong comparables in the prior year.
  - **France** net sales grew 1%. Double digit net sales growth in Captain Morgan was partially offset by a decline in JεB.
- In **Turkey**, net sales grew 11% despite volume decline of 13%, reflecting the impact of price increases, which were taken in response to increases in excise duties and inflation. Growth was largely driven by Yenì Raki which grew net sales by 7%, wine and scotch which grew double digit, led by strong growth in Johnnie Walker.
- **Marketing** investment increased 6%, ahead of net sales, largely driven by increased investment in beer and gin. Beer marketing investment growth was primarily driven by the Six Nations rugby sponsorship agreement supporting the Guinness brand. Up-weighted investment in gin was across both Gordon's and Tanqueray.

Africa

In Africa our strategy is to grow through participation in beer and spirits across price points. We leverage the full range of the Diageo portfolio. Guinness, Malta and several local brands lead our brewing portfolio while Johnnie Walker and Smirnoff are at the heart of our international premium spirits offerings. Locally we produce a range of mainstream spirits. We are focused on consistent, profitable growth in the markets and categories in which we participate and continue to invest in manufacturing and partnerships to access more consumers across the continent.

Local sourcing is very important to our strategy, directly supporting our commercial operations whilst bringing wider benefits to local communities, farmers and society as a whole.

Our markets

The region comprises East Africa (Kenya, Tanzania, Uganda, Burundi, Rwanda and South Sudan), Africa Regional Markets (including Ghana, Cameroon, Ethiopia and Angola), Nigeria and South Africa.

Supply operations

During the financial year our operation in Africa consisted of 13 breweries in Africa, two sites that produce sorghum beer in South Africa, one cider plant and ten facilities which provide blending and malting services. In the year ended 30 June 2019 we established a site in Angola to produce spirits and ready to drink products and started production in a new brewery in Kisumu in Kenya increasing our capacity in an attractive market. We are in the process of selling the sorghum beer business in South Africa.

In addition, our beer and spirits brands are produced under license by third parties in 15 African countries.

Net sales by markets (%)

Net sales by categories (%)

Key financials

	2018 £ million	Exchange £ million	Reclassification[i] £ million	Acquisitions and disposals £ million	Organic movement £ million	2019 £ million	Reported movement %
Net sales	1,491	8	–	(2)	100	1,597	7
Marketing	158	1	10	–	5	174	10
Operating profit before exceptional items	191	(6)	–	(1)	91	275	44
Exceptional operating items[ii]	(128)					–	
Operating profit	63					275	337

(i) Reclassification comprises a reallocation of costs from overheads to marketing.
(ii) For further details on exceptional operating items see pages 123 to 124.

Route to consumer

In Nigeria we own a 58.02% controlling stake in a listed company whose principal products are Guinness, Malta Guinness and Dubic, and in East Africa we own a 50.03% controlling equity stake in East African Breweries Limited (EABL).

EABL produces and distributes beer and spirits brands to a range of consumers in Kenya and Uganda, and also owns 51% of Serengeti Breweries Limited located in Tanzania. Within Africa Regional Markets, we have wholly owned subsidiaries in Cameroon, Ethiopia and Reunion and Diageo controlled subsidiaries in Ghana, Angola and the Seychelles. In South Africa we sell spirits and ready to drink products through our wholly owned subsidiary. Diageo has agreements with the Castel Group who brew and distribute Guinness under license in several countries across Africa Regional Markets. Diageo sells spirits through distributors in the majority of other sub-Saharan countries.

Sustainability and responsibility

We aim to create value in Africa beyond our significant contribution as an employer and taxpayer. Our supply chain is a key opportunity: more than 72,000 smallholder farmers and suppliers provide us with our raw materials, and we work with farmers to improve farm yield, livelihoods, and environmental and labour standards. This year we sourced 82% of our agricultural raw materials locally, and completed human rights impact assessments in South Africa and Nigeria.

This year we announced an investment of £180 million in projects at 11 breweries across Africa that include solar and biomass energy, and water treatment plants. We also co-founded the Africa Plastics Recycling Alliance while developing the Ghana Recycling Initiative by Private Enterprises (GRIPE) partnership to build plastic collection and recycling infrastructure.

We continue to partner with the NGO WaterAid to deliver safe sources of water and sanitation, which we aim to combine with our other community objectives, including skills training and women's empowerment. This year, for example, alongside the launch of a new water system in Maroua, Cameroon, which provides water for two villages and irrigates local farmland, we trained 2,000 smallholder farmers in agricultural best practices and helped an additional 150 women create new water-related businesses. Project Heshima, in Kenya, provides vocational training to women at risk of consuming or producing illicit alcohol, empowering them economically while counteracting a serious public health risk.

As part of our focus on responsible drinking, we expanded our 'Smashed' underage drinking campaigns in Nigeria and Cameroon reaching 114,000 students. Our #DriveDry campaign in South Africa reached more than 40 million people.

Africa delivered 7% net sales growth, with growth across East Africa, Africa Regional Markets and South Africa partially offset by a decline in Nigeria. In East Africa and Africa Regional Markets net sales grew 13% and 8%, respectively, driven by growth across both beer and spirits. East Africa partially benefitted from lapping prior year weakness in the first half. Net sales grew 6% in South Africa driven by growth in spirits. Nigeria net sales declined by 7% driven by the continued tough economic and competitive environment in the lager segment. Across Africa, beer net sales were up 5% driven by double digit growth in Senator Keg, Serengeti Lite, and Malta Guinness, partially offset by declines in Satzenbrau. Spirits delivered strong net sales growth driven by mainstream spirits and scotch across all key markets as well as strong growth of Tanqueray in South Africa. Scotch net sales were up 8% driven by Johnnie Walker, up 10%, partially as a result of a strong launch of "White Walker by Johnnie Walker" in South Africa. Operating margin improved by 494bps driven by improved price/mix and the continued benefit from productivity initiatives more than offsetting cost inflation.

Markets:	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
Africa	1	1	7	7
East Africa	12	11	13	18
Africa Regional Markets(i)	(3)	3	8	9
Nigeria	(10)	(10)	(7)	(3)
South Africa(i)	(2)	(10)	6	(6)
Spirits	5	5	13	10
Beer	1	1	5	8
Ready to drink	(3)	(3)	4	2

Global giants and local stars(ii):	Organic volume movement(iii) %	Organic net sales movement %	Reported net sales movement %
Guinness	(1)	2	3
Johnnie Walker	4	10	9
Smirnoff	–	12	9
Other beer:			
Malta Guinness	8	15	13
Tusker	(5)	1	6
Senator	21	22	28
Serengeti	40	46	49

(i) In the year ended 30 June 2019 the following countries, Mozambique, Zambia, Zimbabwe, St Helena and Malawi, moved on a management basis from South Africa to Africa Regional Markets. This reallocation has been reflected in the organic reporting.
(ii) Spirits brands excluding ready to drink.
(iii) Organic equals reported volume movement.

Key highlights

- In **East Africa**, net sales grew by 13%. Kenya continued to grow strongly driven by double digit growth in beer and mainstream spirits as well as partially benefitting from lapping prior year weakness in the first half as a result of the 2017 presidential election. Tanzania continued to grow double digit. Beer net sales grew 13% led by continued strong growth in Serengeti Lite in Tanzania and double digit growth of Senator Keg in Kenya. Guinness net sales grew by 4%.
- In **Africa Regional Markets**, net sales increased by 8% with double digit growth in Ghana and Angola and a return to growth in Cameroon as it lapped prior year challenges in the distributor network. Beer grew 6% driven by strong performance in Malta Guinness. Scotch also returned to growth driven by net revenue management actions.
- **South Africa** net sales returned to growth of 6% driven by strong spirits performance in Tanqueray, double digit growth in Smirnoff 1818 and Captain Morgan and the launch of "White Walker by Johnnie Walker".
- In **Nigeria**, net sales declined by 7% driven by Satzenbrau, as a result of a tough economic and competitive environment impacting the lager segment. Net sales grew in Malta Guinness, Guinness and spirits.
- **Marketing** investment increased by 3% largely driven by up-weighted investment in Tusker marketing activities and media campaigns, the relaunch of Guinness Foreign Extra Stout, an evolution of Guinness' successful football campaign across Africa, led by Guinness brand ambassador Rio Ferdinand, and the continuation of Serengeti's sponsorship of the Tanzanian national football team.

Latin America and Caribbean

In Latin America and Caribbean the strategic priority is to continue to lead in scotch, while broadening our category range through tequila, vodka, rum, liqueurs and local spirits. We continue to invest in routes to market and in the breadth and depth of our portfolio of leading brands. We are also enhancing our supply structure to enable the business to provide both the emerging middle class and an increasing number of affluent consumers with the premium brands they aspire to. Our presence is supported by our reputation as a trusted and respected business, based on our stance on responsible drinking, and community development programmes.

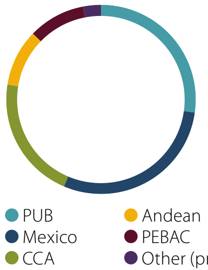
Our markets

Our Latin America and Caribbean (LAC) business comprises five markets: PUB (Paraguay, Uruguay and Brazil), Mexico, CCA (Central America and Caribbean), Andean (Colombia and Venezuela) and PEBAC (Peru, Ecuador, Bolivia, Argentina and Chile).

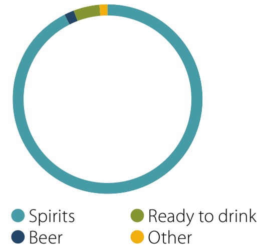
Supply operations

Many of the brands sold in the region are manufactured by our International Supply Centre in Europe, but we also own manufacturing facilities in Mexico that produce tequila, in Brazil that produce cachaça, and in Guatemala that produces Zacapa rum. We also work with a wide array of local co-packers, bottlers, and licensed brewers throughout Latin America and the Caribbean.

Net sales by markets (%)



Net sales by categories (%)



Key financials

	2018 £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2019 £ million	Reported movement %
Net sales	1,069	(29)	–	90	1,130	6
Marketing	196	(7)	–	12	201	3
Operating profit	308	(2)	–	59	365	19

Route to consumer

We drive an efficient route to consumer through differentiated models tailored to each markets' size and needs. In Mexico and Brazil our in-market companies sell to a wide network of retailers, wholesalers, and resellers which make our product available to shoppers in on and off premise outlets. In most of Central America and the Caribbean, Argentina, Ecuador, Bolivia, and Venezuela, we partner with geographically exclusive distributors who are in charge of the sales execution and marketing programmes. In Colombia, Peru, and Chile, we use hybrid models where Diageo sells directly to some key accounts while distributors are used to improve our products' physical availability.

Sustainability and responsibility

Partnership is central to our work in LAC, as it enables us to increase our impact by working with a range of stakeholders in areas such as community empowerment, encouraging moderation and tackling alcohol-related harm. For example, through our partnership with the United Nations Institute for Training and Research (UNITAR), we have worked with law-enforcement and government agencies in the Dominican Republic and Mexico to address drink driving and road safety. We have also supported an industry-wide initiative working with government to launch the use of breathalysers in the Dominican Republic.

In Brazil, we have launched the Diageo Institute, a not-for-profit entity supported by Diageo and Ypióca Industrial. It aims to generate social impact in the state of Ceará through partnerships, and brings together our work on positive drinking, skills programmes and the environment. As well as our longstanding Learning for Life programme, the Diageo Institute will oversee two new programmes: 'Weaving the Future', which encourages carnauba straw craftsmanship; and 'Real Talk', an education programme addressing underage drinking.

We deliver local and global programmes in Spanish and Portuguese across our markets to meet the needs of our communities. 'Fala Sério', which is an adaptation of Diageo's theatre-based education programme 'Smashed', reached more than 10,000 young people in Brazil and Colombia this year. 'Teiquirisi Club' helps educate children aged seven to ten in Mexico to avoid underage drinking, and has reached 2,000 children, teachers and parents. 'La Bomba', launched this year in Peru, has reached 5,300 students and approximately 400 parents.

We continue to drive environmental improvements. In PUB we have reduced carbon emissions by 82% versus the baseline. The energy for our new facilities in Jalisco, Mexico, will be predominantly from renewable sources. Finally, work continues to eliminate waste to landfill across the region, particularly in Mexico and PEBAC.

Latin America and Caribbean delivered 9% growth in net sales with strong performance in Brazil, Mexico, Colombia and CCA. Net sales in Brazil grew 11% largely driven by gin, and partially benefitting from a one-off incentive related credit. Mexico grew 8% led by double digit growth in tequila. Colombia grew 19% largely driven by scotch. CCA benefitted from lapping the impact of last year's hurricanes. Growth in the region was broad based across key categories. Scotch grew 7% with continued solid performance of Johnnie Walker and primary scotch growing 5% and 14% respectively. Buchanan's was up 8% and Old Parr returned to growth as both brands benefitted from lapping last year's tax changes in Colombia. Don Julio delivered double digit growth led by Mexico. Gin grew double digit driven by the strong growth of Tanqueray in Brazil. Operating margin for the region increased 288bps benefitting from improved price/mix, productivity led efficiencies and a one-off tax benefit in other income in Brazil.

Markets:	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
Latin America and Caribbean	1	1	9	6
PUB	(1)	(1)	6	(3)
Mexico	4	4	8	8
CCA	5	5	13	14
Andean	(16)	(15)	19	14
PEBAC	13	13	6	3
Spirits	1	1	9	6
Beer	2	2	(4)	(7)
Ready to drink	(4)	(4)	8	4

Global giants and local stars[(i)]:	Organic volume movement[(ii)] %	Organic net sales movement %	Reported net sales movement %
Johnnie Walker	3	5	3
Buchanan's	5	8	7
Smirnoff	11	19	10
Old Parr	5	3	1
Baileys	3	17	13
Ypióca	(7)	(1)	(11)
Black & White	8	5	–

(i) Spirits brands excluding ready to drink.
(ii) Organic equals reported volume movement.

Key highlights

- In **PUB** (Paraguay, Uruguay and Brazil), net sales grew 6%. Brazil delivered 11% growth driven by strong growth in gin, and partially benefitting from a one-off incentive related credit. Tanqueray drove the growth in gin supported by scaled up commercial activations in conjunction with media support. Scotch net sales grew 6% led by White Horse. Black & White declined as it was impacted by a state tax change in Brazil.
- In **Mexico**, net sales increased 8%. Growth was broad based but led by Don Julio which continued to gain share in the tequila category, reflecting strong brand momentum and well-executed marketing campaigns and commercial platforms. Scotch grew 4% with Johnnie Walker up 7% and Black & White up 4% supported by an increased focus on brand availability through trade activations. Baileys grew strong double digit driven by distribution expansion, new brand communication focusing on Baileys' indulgent treat positioning and the launch of new flavours.
- In **CCA** (Caribbean and Central America), net sales increased 13% as it benefitted from lapping the impact of the hurricanes in the prior year. Growth was broad based but led by Johnnie Walker Black Label which grew double digit as it benefitted from greater visibility with the "Keep Walking" campaign. Smirnoff ready to drink grew 19% driven by innovations with Guarana and Green Apple flavours.
- **Andean** (Colombia and Venezuela) net sales increased 19% driven by Colombia, which partially benefitted from lapping the impact of tax changes last year. Scotch delivered double digit net sales growth. Buchanan's strong performance was supported by occasion driven consumer activations with local media campaigns. Black & White benefitted from route to consumer expansion and recruiting new consumers from local spirits and beer. Johnnie Walker grew double digit partially driven by the "White Walker by Johnnie Walker" innovation. Venezuela volume remained in decline as economic conditions continued to deteriorate.
- **PEBAC** (Peru, Ecuador, Bolivia, Argentina and Chile) delivered 6% net sales growth, driven by Ecuador and Chile partially offset by Bolivia and Peru, which were impacted by tax changes. Growth was driven by scotch with a strong contribution from Johnnie Walker Red Label and "White Walker by Johnnie Walker".
- **Marketing** investment increased 6% driven by the key campaigns including Johnnie Walker "We are all Human", Buchanan's "Vivamos Grandes Momentos", Old Parr "Cambia el Guión" and Tanqueray "Tanqueray Mixed Gin Bar".

Asia Pacific

In Asia Pacific our focus is to grow in both developed and emerging markets across our entire portfolio ranging from international and local spirits to ready to drink formats and beer. We have a clear long-term strategy that enables us to allocate resources behind brands that win in key consumer occasions and categories. We manage our portfolio to meet the increasing demands of the growing middle class and aim to inspire our consumers to drink better, not more. This strategy ensures that we deliver consistent and efficient growth with a key focus on developing our premium and super deluxe segments across the region.

Net sales by markets (%)

Net sales by categories (%)

Key financials

	2018 £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2019 £ million	Reported movement %
Net sales	2,503	(36)	(5)	226	2,688	7
Marketing	388	(3)	–	27	412	6
Operating profit before exceptional items	568	(6)	(2)	143	703	24
Exceptional operating items[i]	–				(35)	
Operating profit	568				668	18

(i) For further details on exceptional operating items see pages 123 to 124.

Our markets

Asia Pacific comprises India, Greater China (China, Taiwan, Hong Kong and Macau), Australia (including New Zealand), South East Asia (Vietnam, Thailand, Philippines, Indonesia, Malaysia, Singapore, Cambodia, Laos, Myanmar, Nepal and Sri Lanka), North Asia (Korea and Japan) and Travel Retail Asia and Middle East.

Supply operations

We have distilleries at Chengdu, in China that produces Chinese white spirit (baijiu) and in Bundaberg, Australia that produce rum. United Spirits Limited (USL) operates 16 owned manufacturing units in India. In addition, USL and Diageo brands are also produced under licence by third party manufacturers. We also have bottling plants in Korea, Thailand and Australia with ready to drink manufacturing capabilities.

Route to consumer

In South East Asia, spirits and beer are sold through a combination of Diageo companies, joint venture arrangements, and third party distributors. In Thailand, Malaysia and Singapore, we have joint venture arrangements with Moët Hennessy, sharing administrative and distribution costs. Diageo operates wholly owned subsidiaries in the Philippines and Vietnam. In addition, in Vietnam, we own a 45.57% equity stake in Hanoi Liquor Joint Stock Company which manufactures and sells vodka. In Indonesia, Guinness is brewed by, and distributed through third party arrangements.

In Greater China our market presence is established through our 63.14% equity investment in Sichuan Shuijingfang Company Limited which manufactures and sells baijiu, and our wholly owned entity Diageo China Limited, selling Diageo brands, and a joint venture arrangement with Moët Hennessy where administrative and distribution costs are shared. Diageo operates a wholly owned subsidiary in Taiwan. In 2019, a newly created venture between Jiangsu Yanghe Distillery and Diageo in China has resulted in the creation of a new-to-world whisky, Zhong Shi Ji, which fuses the skills, craftsmanship and heritage of Chinese Baijiu and Scotch whisky master blenders.

In India, we manufacture, market and sell Indian whisky, rum, brandy and other spirits through our 54.78% shareholding in USL. Diageo also sells its own brands through USL.

In Australia, we manufacture, market and sell Diageo products. In New Zealand we operate through third party distributors. In North Asia, we have our own distribution company in South Korea. In Japan, the majority of sales are through joint venture agreements with Moët Hennessy and Kirin. Airport shops and airline operators are serviced through a dedicated Diageo sales and marketing organisation. In the Middle East, we sell our products through third party distributors.

Sustainability and responsibility

Tackling drink driving and underage drinking are priorities. Our partnership with the United Nations Institute for Training and Research (UNITAR), has gathered experts, government officials, educators and business leaders to address road safety in Thailand, South Korea and the Philippines. In India, our 'Road to Safety' programme has trained 7,228 police officers and gathered over one million pledges against drink driving.

We are also working to embed human rights and empower communities. We continued programmes in India that combine providing safe drinking water with skills development and women's empowerment, such as our new 'water ATM' programme, which trains women to maintain new water systems.

Our facilities in India have delivered our 2020 targets on carbon emissions and water use one year ahead of schedule and continue to identify new opportunities to minimise the impacts of climate change.

Asia Pacific delivered 9% growth in net sales with strong growth across the region except North Asia. Greater China grew 19% driven by strong performance in both Chinese white spirits and scotch. Net sales in India grew 8% driven by IMFL whisky and scotch. Travel Retail Asia and Middle East grew 13% mostly from Johnnie Walker. South East Asia grew 8% driven by Johnnie Walker and Guinness. Scotch net sales were up 9% across the region led by strong performance in Johnnie Walker, which benefitted from the successful launch of the "White Walker by Johnnie Walker" innovation and scotch malts, which more than offset the net sales decline of Windsor in Korea. Gin grew double digit largely driven by strong growth in Australia. Net sales of Reserve brands were up 19% largely driven by Chinese white spirits and Johnnie Walker super deluxe variants. Operating margin increased 341bps driven by positive price/mix and productivity led savings.

Markets:	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
Asia Pacific	5	5	9	7
India	5	5	8	4
Greater China	11	11	19	19
Australia	3	3	6	2
South East Asia	2	2	8	9
North Asia	12	11	(2)	–
Travel Retail Asia and Middle East	4	9	13	15
Spirits	5	5	10	8
Beer	1	1	5	(2)
Ready to drink	3	3	6	6

Global giants and local stars[i]:	Organic volume movement[ii] %	Organic net sales movement %	Reported net sales movement %
Johnnie Walker	6	11	13
McDowell's	7	9	5
Windsor	(1)	(16)	(15)
Smirnoff	(4)	2	1
Guinness	1	5	(1)
Bundaberg	(4)	(1)	(5)
Shui Jing Fang[iii]	16	23	22

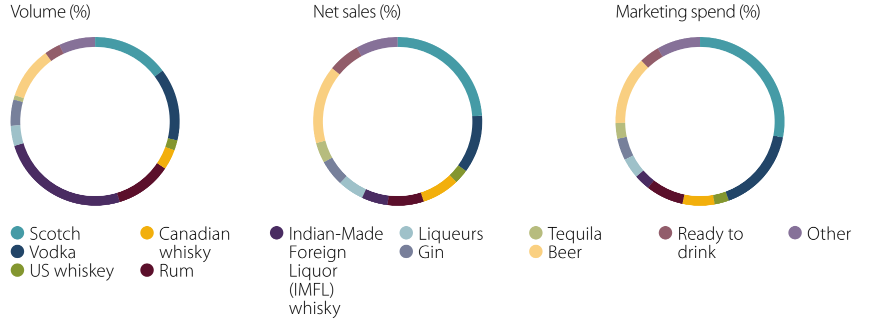
(i) Spirits brands excluding ready to drink.
(ii) Organic equals reported volume movement except for Johnnie Walker 7% largely due to the reallocation of the results of Travel Retail.
(iii) Organic growth figures represent total Chinese white spirits of which Shui Jing Fang is the principal brand. Organic growth adjusted to remove bulk sales reported in the prior comparable period. Reported volume was up 17%.

Key highlights

- In **India** net sales increased 8% with growth from the "Prestige and Above" segment up 12%, led by double digit growth in scotch, driven by Johnnie Walker and Black & White. This was supported by solid performance from McDowell's No.1 enhanced by the launch of its new Platinum range and good growth in Royal Challenge and Signature. Vodka net sales were up 5%, supported by Smirnoff consumer activation. Net sales in the popular brands segment increased 1%.
- In **Greater China** net sales increased 19%, with double digit growth in both Chinese white spirits and scotch. Chinese white spirits grew 23% partly driven by route to consumer expansion. Scotch net sales increased 13% with continued growth in scotch malts and Johnnie Walker super deluxe in mainland China and a return to growth from Johnnie Walker in Taiwan.
- Net sales in **Australia** grew 6%, driven by strong performance in the ready to drink and gin portfolio. Ready to drink net sales increased 7% fuelled by innovation geared towards more premium products such as Gordon's Premium Pink Gin & Soda and Tanqueray & Tonic. Gin grew double digit as the fastest growing spirit in Australia supported by innovation from Gordon's Pink and House of Tanqueray. Bundaberg net sales stabilised on the back of the "Unmistakably Ours" campaign.
- In **South East Asia**, net sales increased 8% driven by growth across all key countries except Thailand. Scotch was the main growth driver with net sales growth of 6%, led by "White Walker by Johnnie Walker" and Johnnie Walker super deluxe. Guinness grew 11% driven by solid performance in Indonesia supported by focus on modern on-trade recruitment and by route to consumer expansion of Guinness Draught in Singapore.
- In **North Asia**, net sales declined 2% with growth in Japan being offset by continued weakness in Korea. In Korea net sales declined 9% due to a continued weak Windsor performance, as a result of the contraction of the scotch category. Japan net sales grew 10% driven by primary scotch, Johnnie Walker and the successful relaunch of the Guinness Draught in Can.
- **Travel Retail Asia and Middle East** net sales grew 13% driven by successful launches within the Johnnie Walker portfolio, including "White Walker by Johnnie Walker" and Johnnie Walker Blue Label innovation.
- **Marketing** investment increased 7% driven by increased investment in Chinese white spirits, Johnnie Walker and scotch malts in Greater China and a new culture leading campaign "#ChallengeAccepted" for Royal Challenge in India.

Category review

- **Scotch** represents 25% of Diageo's net sales and was up 6% with broad based growth across all regions except Europe. Scotch growth was driven by Johnnie Walker, which delivered a strong performance with net sales up 7%, benefitting from the successful launch of "White Walker by Johnnie Walker" inspired by the TV series Game of Thrones. Primary scotch brands grew 9% largely driven by Black & White in Asia Pacific and White Horse in Latin America and Caribbean and Asia Pacific. Buchanan's grew 8% in Latin America and Caribbean and 4% in North America. Scotch malts were up 12% with growth coming from Asia Pacific, North America and Europe benefitting from the launch of the "Game of Thrones Single Malt Scotch Whisky Collection". Old Parr returned to growth this year, as the brand lapped tax changes in Colombia. J&B continued to be under pressure in Europe led by the challenged scotch category in Iberia. Scotch continued to decline in Korea driven by declines in Windsor.
- **Vodka** represents 11% of Diageo's net sales and returned to growth with net sales up 2% and growth across all the regions except Europe. Vodka growth was driven by Smirnoff and Ketel One partially offset by a decline in Cîroc vodka. Overall, Smirnoff grew 3%, with net sales up 2% in US Spirits and 4% outside of the US, where performance was largely driven by double digit growth in Brazil and South Africa. Ketel One grew net sales by 10%, with US Spirits being the largest contributor to growth, benefitting from the success of Ketel One Botanical. The decline in Cîroc vodka was driven by US Spirits.
- **US whiskey** represents 2% of Diageo's net sales and grew 4%. Performance continued to be driven by good growth in Bulleit in US Spirits.
- **Canadian whisky** represents 7% of Diageo's net sales and grew 6%. Solid growth of Crown Royal in US Spirits was driven by strengthened marketing investment fuelling the growth of Crown Royal Regal Apple and by the Crown Royal Peach limited time offer. The brand also grew share within its category.
- **Rum** represents 6% of Diageo's net sales and declined 2% largely driven by Captain Morgan decline in US Spirits, in a category that is also in decline.



Key categories	Organic volume movement[iii] %	Organic net sales movement %	Reported net sales movement %
Spirits[i]	3	7	6
Scotch	2	6	6
Vodka[ii][iv]	2	2	4
US whiskey	2	4	9
Canadian whisky	6	6	8
Rum[ii]	(3)	(2)	(3)
Indian-Made Foreign Liquor (IMFL) whisky	6	8	3
Liqueurs	1	4	4
Gin[ii]	17	22	23
Tequila	19	29	37
Beer	1	3	4
Ready to drink	7	12	12

(i) Spirits brands excluding ready to drink.
(ii) Vodka, rum, gin including IMFL brands.
(iii) Organic equals reported volume movement except for Canadian whisky 5%, gin 16%, and tequila 21%, which were impacted by acquisitions and disposals.
(iv) Vodka includes Ketel One Botanical.

- **IMFL whisky** represents 5% of Diageo's net sales and grew 8% driven by the strong performance of the McDowell's trademark, Signature and Royal Challenge.
- **Liqueurs** represent 5% of Diageo's net sales and grew 4% with growth in all regions. Baileys was up 4% led by Europe, US Spirits and Mexico, with performance driven by continued focus on reminding consumers of Baileys' indulgent treat year-round positioning.
- **Gin** represents 4% of Diageo's net sales and grew 22% with double digit growth across all regions except North America. Strong growth in gin continued with Tanqueray and Gordon's growing double digit with both Gordon's and Tanqueray benefitting from strong growth across their core and innovation variants. We continued to gain share in the gin category in Western Europe.
- **Tequila** represents 4% of Diageo's net sales and grew 29%. The performance was driven by strong double digit growth of Don Julio in US Spirits and Latin America and Caribbean as well as Casamigos in US Spirits.
- **Beer** represents 16% of Diageo's net sales and grew 3%. In Africa beer grew 5%, largely driven by Senator Keg in Kenya and Serengeti Lite in Tanzania partially offset by decline in Satzenbrau in Nigeria. Guinness grew 2% with growth largely driven by Guinness Foreign Extra Stout, as well as Guinness Draught and the continued growth of Hop House 13 Lager in Europe. In Ireland lager net sales grew 4% driven by strong growth in Rockshore.
- **Ready to drink** represents 6% of Diageo's net sales and grew 12% primarily driven by North America and Europe.
- **Global giants** represent 41% of Diageo's net sales and grew 5%. Growth was broad based across all brands with the exception of Captain Morgan. Captain Morgan was down 2%, driven by a 5% decline in US Spirits in a category that is also in decline.

- **Local stars** represent 20% of Diageo's net sales and grew 6%, largely driven by strong growth of Chinese white spirits, Crown Royal in US Spirits, McDowell's No. 1 in India, Buchanan's in Latin America and Caribbean and Black & White in Asia Pacific. This was partially offset by declines of Windsor in Korea and JεB in Iberia.
- **Reserve brands** represent 19% of Diageo's net sales and grew 11% largely driven by double digit growth of Don Julio in US Spirits and Mexico, Chinese white spirits and Casamigos in US Spirits partially offset by declines in Cîroc. Net sales of Johnnie Walker reserve variants were up 7%.

Global giants, local stars and reserve[(i)]:	Organic volume movement[(ii)] %	Organic net sales movement %	Reported net sales movement %
Global giants			
Johnnie Walker	2	7	7
Smirnoff	–	3	5
Baileys	–	4	5
Captain Morgan	(1)	(2)	1
Tanqueray	17	19	21
Guinness	–	2	2
Local stars			
Crown Royal	6	6	10
Yenì Raki	(19)	6	(24)
Buchanan's	6	6	8
JεB	(10)	(8)	(9)
Windsor	(1)	(16)	(15)
Old Parr	4	3	1
Bundaberg	(4)	(1)	(5)
Black & White	10	14	9
Ypióca	(7)	(1)	(12)
McDowell's	7	8	4
Shui Jing Fang[(iii)]	16	22	22
Reserve			
Scotch malts	7	12	12
Cîroc vodka	(8)	(8)	(5)
Ketel One[(iv)]	9	10	15
Don Julio	15	26	30
Bulleit	9	7	12

(i) Spirits brands excluding ready to drink.
(ii) Organic equals reported volume movement except for Johnnie Walker 3%.
(iii) Organic growth figures represent total Chinese white spirits of which Shui Jing Fang is the principal brand. Organic growth adjusted to remove bulk sales reported in the comparable period last year. Reported volume was up 17%.
(iv) Ketel One includes Ketel One vodka and Ketel One Botanical.

Sustainability & Responsibility review

Our role in society

We are proud to be the stewards of some of the most iconic brands in the world, built over generations by people who understood the importance of creating value for the long term, not just the present. We too have a responsibility to think about the future – and we are determined to build a business that continues to make a positive impact on the issues that matter most to our stakeholders and to wider society.

How we are contributing to the UN Sustainable Development Goals

Promoting positive drinking – page 45
Building thriving communities – page 48
Reducing our environmental impact – page 52
Our people – page 58

Diageo's purpose is to celebrate life every day, everywhere. We are proud that bringing people together to enjoy our brands creates value for millions of people around the world. Our commercial success depends on us creating a positive impact on society, wherever we live, work, source and sell.

Our ambition is to be among the best performing, most trusted and respected consumer product companies in the world. This requires us to harness our entire business, including our brands and our 28,400 diverse and talented employees, to ensure we promote inclusive growth and support the UN Sustainable Development Goals (SDGs).

This long-term approach to environmental, social and corporate governance issues reflects the values of our founders and the people who make Diageo thrive today. It also makes our business stronger. By deepening our brands' relationships with consumers, earning the trust of stakeholders, attracting and empowering the best and most diverse talent, boosting our resilience and productivity and mitigating risk, our Sustainability & Responsibility (S&R) Strategy will ensure our business creates value for generations to come.

A responsibility – and an opportunity – to build our business sustainably

We take a holistic approach to S&R, building on our brands' connections with consumers, leading the way in promoting positive drinking and attracting, empowering and retaining the best talent. We must ensure

Doing business with integrity and winning trust require a robust and transparent approach to governance and ethics. Our rigorous global risk and compliance framework is set out on pages 20-21.

that our operations and networks meet the highest social and environmental standards and that they contribute to inclusion, diversity and the promotion of human rights.

The relationships we have throughout our value chain are also critical. We connect with millions of people – with the farmers who grow our raw materials, with our many suppliers and contractors, and with the retailers and distributors who link us to our consumers. Our approach aims to ensure all these relationships create value and promote sustainable growth.

Ambitious targets driving progress

In 2015 we set targets for 2020 across each pillar of our S&R Strategy and we have since set additional targets for renewable electricity and plastic packaging. We believe they are among the most ambitious and stretching in our industry. We were an early adopter of absolute, rather than relative, reductions in our environmental impact, in line with the principles of the Science Based Targets initiative. Our targets for supporting communities, encouraging moderation and reducing alcohol-related harm, and improving health and safety have helped to drive positive impacts for millions of people within and beyond our business.

In many areas we have made rapid progress – but we are not complacent. We achieved our 2020 targets to promote positive drinking ahead of schedule. So last year we launched a more ambitious strategy that will reach millions more people with our core aims of promoting moderation and reducing alcohol misuse.

By focusing on inclusion and diversity we reached our 2020 target of having 30% of leadership positions held by women in 2017. We then stretched the target to 35% – a figure we exceeded this year. Similarly, in 2018 we achieved our health and safety target of one lost-time accident (LTA) per 1,000 employees and no work-related fatalities two years early. So this year we started developing an expanded global strategy with further stretching targets to help drive our safety performance towards our ultimate aim of zero harm. Our environmental programmes have achieved a cumulative reduction of 44.7% in our greenhouse gas emissions, improved our water efficiency by 43.8%, and made 98.7% of our packaging recyclable.

We know we face challenges in some areas. We need to work more with partners to improve recycling infrastructure if we are to meet all our ambitious packaging targets. We have also made slower progress than we expected on our target to improve our wastewater performance. While we meet all regulatory requirements for wastewater at our sites, we need to embrace new technologies and solutions to reach the next level.

Overall, we are making good progress across our S&R Strategy. We report against each of our targets in the following pages, with supporting data and commentary in our Sustainability & Responsibility Performance Addendum and our submissions to CDP (formerly known as the Carbon Disclosure Project) on climate change and water.

We are also developing our ambition and objectives beyond 2020, including our role in supporting the delivery of the UN SDGs. Our new commitments will reflect our increasing understanding of our risks and opportunities, including those highlighted by our work on implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), discussed further on pages 21 and 56.

> "We are pleased to see Diageo's focus on making a positive contribution to society. Businesses will play a vital role in creating the better, fairer world envisioned by the Sustainable Development Goals. And it makes business sense – because the only way companies will thrive in the long term is by making a positive impact across their value chains."

Steve Kenzie
Executive Director, UN Global Compact Network UK

Highlights of 2019

The value we create goes far beyond our brands. We are proud of the work we have done this year to strengthen communities and encourage sustainable growth, to build our inclusive and diverse culture, and to act as good stewards of the environment.

12th
in the Gartner Supply Chain Index

232,000+
people gained access to safe water, sanitation and hygiene in Africa and India through our Water of Life programme

Ranked in the **Dow Jones Sustainability World Index**

4th
in the Thomson Reuters Global Diversity and Inclusion Index

6.0%
improvement in water efficiency, as part of a 43.8% improvement since 2007

Signatory to the United Nations Global Compact

Awarded **Double A status** by CDP for our carbon and water performance, putting us in the top 1% of global companies

36%
of our senior managers are women, up from 26% in 2015

66.02m
people reached with moderation messages from our brands

£12.6m
invested in community initiatives in 35 countries

5.9%
reduction in carbon emissions from our direct operations, as part of a 44.7% improvement since 2007

Leading FTSE 100 company for the representation of women on boards, as recognised by the Cranfield School of Management

A constituent of the **FTSE4GOOD** index

10,300
people benefited from skills and empowerment programmes

82%
of our agricultural raw materials used in our African markets are sourced from within Africa

72,000
smallholder farmers in Africa who supply our brands are supported by our sourcing programmes

632,000
young people, parents and teachers educated about the dangers of underage drinking

Named as **Britain's Most Admired Company** by Management Today

16.88m
pledges to never drink and drive collected through #JointhePact

Promoting positive drinking

Our brands have been part of people's celebrations for generations. We make them with pride, and we want them to be enjoyed responsibly. That means our goal is for people to drink better, not more – an approach that both supports our social values, and aligns with our commercial interests as a business making premium drinks. We are committed to promoting moderation, tackling misuse, and improving laws and standards, while respecting the fact that many people choose not to drink alcohol at all.

Our work contributes to the following UN Sustainable Development Goals:

3 GOOD HEALTH AND WELL-BEING | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 17 PARTNERSHIPS FOR THE GOALS

We are proud of the heritage, authenticity and taste of our brands. We are also proud that millions of people around the world enjoy our brands responsibly as part of a balanced lifestyle. At the same time we know that harmful drinking causes significant issues for individuals and for society. Everyone at Diageo recognises the importance of promoting positive drinking, encouraging moderation and tackling the misuse of alcohol. If we do not, we damage our reputation and make it harder to create value. That is why we focus on quality, while also promoting moderation. We want people to 'drink better, not more', which makes commercial sense as consumers choose to trade up to higher-quality, better-tasting drinks.

Promoting moderation, reducing harm and improving standards

We have long supported the World Health Organization's (WHO) goal of reducing harmful drinking by 10% across the world by 2025. We work with partners from within and beyond our industry on initiatives that advance that goal. We have also taken a clear stand on key issues – we were the first to put nutritional information and alcohol content onto our labels – while supporting a range of programmes around the world that aim to reduce harm and change behaviour.

Globally, we have focused our efforts on three core pillars – promoting moderation, campaigning to reduce harmful drinking, and improving laws and industry standards – and we have set ourselves stretching targets to reach by 2025.

"The private sector is a key partner in implementing measures that improve road safety. The United Nations Institute for Training and Research (UNITAR) and Diageo joined forces to launch a capacity-building initiative with a special focus on countries with the highest death rates related to road traffic. Between 2017 and 2018, the initiative reached 1,896 officials from national and local governments from 38 countries, as well as representatives from the private sector, academia and NGOs."

Nikhil Seth
United Nations Assistant Secretary-General and Executive Director, UNITAR

Our targets for 2025

EDUCATE	COLLECT	REACH
5m	**50m**	**200m**
young people, parents and teachers about the dangers of underage drinking	pledges never to drink and drive through #JoinThePact	people with moderation messages from our brands

PROGRESS TO DATE

EDUCATE	COLLECT	REACH
632,000	**16.88m**	**66.02m**

HOW WE WILL ACHIEVE OUR TARGETS

PILLAR 1
Promoting moderation

For most people who drink alcohol, drinking responsibly is common sense. We want to reinforce that understanding of moderation in everything we do.

Brand action
We are using our brands to carry a strong moderation message and combat heavy episodic drinking (see spotlight on page 47).

Providing information to consumers
DRINKiQ.com, our dedicated responsible drinking website, is available in 25 languages and 38 countries. It gives consumers access to a wide range of training and resources on the effects of drinking.

Labels and packaging also help us reach consumers, and our Diageo Consumer Information Standards provide benchmarks for the mandatory minimum information to be included on labels and packaging on all our brands, wherever they are legally permitted.

PILLAR 2
Campaigning to reduce harmful drinking

We focus resources on global programmes that address our priorities for reducing harmful drinking in line with the WHO's goal.

Preventing drink driving
Our global #JoinThePact programme aims to encourage 50 million people to never drink and drive through signing a global pact.

Partnerships with police, local authorities and other agencies support enforcement, provide education for drivers and law enforcers, and support safe rides and public transportation.

A new three-year partnership with UNITAR focuses on high-visibility enforcement in Latin America, Asia and Africa, all identified as high-risk regions.

Addressing underage drinking
Our flagship theatre-based 'Smashed' education programme informs young people about the dangers of underage drinking.

Our 'Ask, Listen, and Learn' programme in the Caribbean, developed and delivered by the Foundation for Advancing Alcohol Responsibility (FAAR), has been introduced to over 20,000 schools.

Our underage programmes have reached more than 632,000 people in the last two years across 20 countries.

Tackling heavy episodic (or binge) drinking
Brand campaigns and night-time economy city demonstration pilots work with a coalition of partners to reduce alcohol-related problems in entertainment districts. We adopted this approach in Toronto, Dublin and Cancún in 2019.

Industry collaboration
We worked with our peers to implement the Global Beer, Wine and Spirits Producers' Commitments to reduce harmful drinking from 2013. A final progress report was issued in September 2018 and can be found at www.producerscommitments.org.

PILLAR 3
Improving laws and industry standards

We comply with all laws and regulations wherever we operate, as a minimum requirement. We advocate sensible new regulation based on evidence, including legal purchase age laws and blood-alcohol volume driving limits in countries where these do not exist.

Support for the global focus on reducing the harmful use of alcohol
Our Chief Executive is Chairman of the CEO group at the International Alliance for Responsible Drinking (IARD).

As an IARD member, we are committed to delivering positive change, and we are fully aligned with the whole-of-society approach to addressing non-communicable diseases (NCDs), as outlined in the 2018 UN Political Declaration on NCDs.

Responsible marketing

The Diageo Marketing Code (DMC) and Digital Code are our mandatory minimum standards for responsible marketing, and we review them every two years to ensure they represent best practice. We published an updated DMC in July 2019, shortly after the financial year 2019 covered by this Annual Report.

The DMC supports our approach to innovative marketing and the entrepreneurial spirit of our marketers, while at the same time ensuring we stay true to our core values and market responsibly. At the heart of the DMC is our commitment to ensuring all our activities depict and encourage only responsible and moderate drinking, and never target those who are younger than the legal purchase age for alcohol.

Across many of our markets, advertising monitoring and industry bodies publicly report breaches of self-regulatory alcohol marketing codes. We report these in our Annual Report.

This year, a complaint was upheld by Australia's ABAC Responsible Alcohol Marketing Scheme about an advertisement for Johnnie Walker on the digital TV channel 9Now in November 2018.

The advert appeared during a programme showing the Adelaide Christmas Pageant, and the grounds of the complaint were that this was a children's programme. While data on viewing of the programme in previous years showed that it was reasonable to expect 75% or more of viewers to be over 18, the ABAC adjudication panel reviewed the programme and concluded that it was primarily focused on families and children. The panel noted that Diageo did not make a specific marketing decision to target the broadcast of the Pageant, but upheld the complaint with the advice that Diageo should take more care in ensuring the ABAC placement rules are satisfied. We have since worked with all free-to-air broadcast partners to implement further content categorisation, and the broadcasters have created a new 'family' category of content.

Complaints about advertising upheld by industry bodies that report publicly(i)

Country	Body	Industry complaints upheld	Complaints upheld about Diageo brands
Australia	ABAC Scheme	16	1
Ireland	Advertising Standards Authority – for Ireland (ASAI)	1	0
United Kingdom	The Portman Group	11	0
	Advertising Standards Authority (ASA)	4	0
United States	Distilled Spirits Council of the United States (DISCUS)	1	0

(i) From 1 July 2018 to 30 June 2019.

SPOTLIGHT

Sometimes less is more: Guinness Clear

Made to a time-honoured recipe, 100% H_2O, and available from all good taps, nationwide: Guinness Clear.

Our Guinness Clear initiative took a fresh approach to an important issue – raising awareness of the effects alcohol has on the body and encouraging moderate drinking. It brought together some of the most famous names in sport to highlight the importance of staying hydrated and in control – and it was a core pillar of one of our biggest and most exciting campaigns of 2019.

As title sponsor of the Guinness Six Nations Rugby Championship, and Official Sponsor of the Women's Six Nations Championship, we knew we had a platform to reach the millions of people engaged by Europe's premier international rugby tournaments.

We used a significant proportion of our marketing investment to encourage adult fans to drink responsibly. Launched with a 30-second television ad that went on to win a Gold award at the Cannes Lions festival, Guinness Clear had a prominent presence at stadiums, including through teams giving water to fans. It reached over 21 million people in the UK and Ireland.

The campaign was a perfect example of our approach. Put simply, we do not see marketing campaigns and responsible drinking campaigns as two separate channels. We invest significant time and money in training our marketers so that all our campaigns deliver responsible drinking messages – because we believe it is both socially and commercially essential for consumers to 'drink better, not more'.

Building thriving communities

Supporting the communities where we live, work, source and sell allows us to strengthen our business while increasing our positive social impact. We aim to promote inclusive growth by embedding and advancing human rights throughout our business, fostering sustainable and inclusive value chains, and delivering programmes that enhance skills and opportunities and empower women.

Our work contributes to the following UN Sustainable Development Goals:

Our principles

We do not tolerate discrimination, harassment, bullying or abuse; we comply with wage and working time laws; we respect our employees' decisions to join or not join a trade union; and we do not tolerate forced labour. Our Modern Slavery Statement describes our activities to prevent slavery and human trafficking in our business operations and supply chain in line with the UK Modern Slavery Act 2015 and the California Transparency in Supply Chains Act 2010. The statement and further details of our policies are available on www.diageo.com.

Respecting human rights throughout our business

Diageo is built on long-term relationships of trust and shared value, underpinned by respect for human rights. We aim to embed respect for human rights into the way we do business in every country and function. We have a well-developed policy framework that addresses human rights and our commitment to integrity, and this year we refreshed the human rights elements of our Code of Business Conduct, which we will launch next financial year.

Respect for human rights also informs the core principles of our supplier code, Partnering with Suppliers. Our commitments apply throughout our entire value chain – we will not work with anyone who does not align with these standards.

We have been signatories to the UN Guiding Principles on Business and Human Rights (UNGP) since 2014. We continue to embed human rights in line with the UNGP, using our comprehensive human rights impact assessment (HRIA) process, which considers our entire value chain. Based on localised risk assessments, we develop mitigation plans for addressing specific human rights risks in order to strengthen our processes and prevent risks arising.

We have identified three external risks as particularly salient to our business: labour rights, including the risk of child labour, especially in agricultural supply networks; labour standards for contract workers; and sexual harassment in the hospitality sector.

We have responded to these risks in a number of ways, such as awareness programmes focused on child protection. As part of this work, in 2018, we developed and rolled out training for a variety of internal and external stakeholders including, in some countries, selected suppliers and aggregators. This year, we commissioned an independent study into contracted labour, which we will use to develop key mitigation strategies for next year and beyond. We also developed new standards and training aimed at protecting brand promotion teams from harassment.

"Through the roll-out of comprehensive human rights assessments across its value chain worldwide, Diageo is able to address its human rights impacts and identify where it can further promote the advancement of human rights in the industry. As we work with companies to embed human rights as part of their business strategy, we see opportunities for companies to support systematic respect for human rights in the communities in which they operate."

Aron Cramer
President and CEO, BSR (Business for Social Responsibility)

TARGET
Act in accordance with the UN Guiding Principles on Business and Human Rights.

KPI
Number of markets in which we have carried out human rights impact assessments (HRIAs).

PROGRESS
We aim to conduct HRIAs in all markets by 2020. This year, we finalised HRIAs in South Africa and Nigeria, bringing our total since 2015 to 14. Both markets have developed action plans to address specific salient risks. The findings of our HRIAs since 2015 have informed the work to address these risks described on page 48.

Creating impact in our supply chains

We rely on resilient, thriving supply chains for the raw materials in our brands. Collaborating with our suppliers also provides a vital opportunity for us to contribute to sustainable development and the UN SDGs. We aim to build our suppliers' capabilities while advancing respect for human rights, so they can be our partners in providing responsibly-sourced goods and services, and to source locally where appropriate.

Our Partnering with Suppliers standard sets out the minimum social, ethical and environmental standards we require suppliers to follow as part of their contract with us, and sets targets for our long-term partners to improve.

We also work through SEDEX, a not-for-profit organisation that allows suppliers to share assessments and audits of ethical and responsible practices with multiple customers, and AIM-PROGRESS, a forum of leading consumer goods companies which promotes responsible sourcing and sustainable supply chains. These platforms allow us to work with suppliers to create action plans that address areas for improvement.

TARGET
Deliver our responsible sourcing commitments with suppliers to improve labour standards and human rights in our supply chains.

KPI
% of potential high-risk supplier sites audited.

PROGRESS
This year, 1,260 of our supplier sites assessed as a potential risk completed a SEDEX self-assessment. Of these, 413 were assessed as a potential high risk, with 89% independently audited over the past three years. Of these audits, we commissioned 224 and 143 came through SEDEX or AIM-PROGRESS mutual recognition audits. 146 of these audits were conducted in the past year.

Focus on sustainable agriculture

We have a Building Sustainable Supply Chains strategy supported by our Sustainable Agriculture Guidelines (SAG). These set out the agriculture-specific standards we expect of suppliers of raw materials, and how suppliers should work towards sustainable farming. These include treating farmers and workers fairly, reducing negative environmental impacts while protecting natural resources, and supporting wider economic benefits for farming communities. Both documents are published on www.diageo.com.

Wherever we work, we aim to promote sustainable agricultural practices that meet our standards, while avoiding process duplication for our suppliers.

Driving progress through Farm Sustainability Assessments

We use the Sustainable Agriculture Initiative (SAI) Platform's Farm Sustainability Assessment (FSA) tool. In 2018 we set the minimum compliance level to meet our SAG requirements as FSA Bronze – a level which must be verified through third-party assurance, either directly, or using a benchmarked standard.

More than 80 global, regional, company or crop-specific standards have now been benchmarked against the FSA, so suppliers that already comply with an equivalent scheme can demonstrate that they meet our requirements.

We hold ourselves to the same standards. This year, for example, our agricultural team in Mexico assessed our own practices against FSA. After implementing an action plan to address gaps, our practices were independently verified as 100% FSA Gold, and Don Julio Agavera has been issued with an FSA Gold attestation.

Partnering with farmers

We also work directly with suppliers at farm level to help them meet our standards. This year in Turkey, for example, we began a project intended to help small-scale aniseed farmers build their climate resilience and improve their livelihoods, including through providing inputs and commissioning research into the best seeds to improve yields. In Africa, where our longstanding connection with farmers has resulted in some of our most developed programmes, we continued to support groups of smallholder farmers through a selection of training, access to seeds and fertilisers, access to capital through micro-loans, and engagement with NGOs and other stakeholders to build financial resilience.

TARGET
Source 80% of our agricultural raw materials locally in Africa by 2020.

KPI
% of agricultural raw materials sourced locally in Africa.

PROGRESS
We sourced 82% of agricultural materials locally within Africa for use by our African markets, compared with 78% last year. We support this target through a range of farmer capacity-building programmes, described above.

TARGET
Establish partnerships with farmers to develop sustainable agricultural supplies of key raw materials.

KPI
Number of smallholder farmers supported.

PROGRESS
We support more than 72,000 farmers in Africa. We buy from a further 39,000 farmers. Our work with farmers is described in 'Partnering with farmers', above.

Global raw materials(i) by volume
(Total – 1.5 million tonnes)

Barley(ii)	38%	Agave	5%
Wheat	13%	Grapes	5%
Maize	12%	Rice	2%
Molasses	9%	Raisins	1%
Sorghum	7%	Dairy	1%
Sugar	6%	Rye	1%

(i) Figures represent raw materials we buy directly, and exclude raw materials used to make the neutral spirit we purchase. Other global raw materials (including aniseed, cassava and hops) are less than 0.5% of the total.
(ii) Includes malted barley.

Empowering communities where we live, work, source and sell
Our distilleries and breweries are at the heart of their communities. Through our full value chain, from grain to glass, we are connected to many more. We are committed to programmes that support the communities around us while at the same time strengthening the commercial aims and sustainability ambitions of our core business. This year Diageo invested £12.6 million or 0.3% (2018 – 0.3%) of operating profit in community initiatives.

"We all have a role to play in creating a fairer, more sustainable world, and businesses are crucial in bringing about change on a global scale, benefiting people, planet and profit. Diageo has successfully developed a model that allows them to create a thriving business while also helping improve access to clean water, decent toilets and good hygiene across the world."

Tim Wainwright
Chief Executive,
WaterAid UK

TARGET
Our community programmes enable those who live and work in our communities, particularly women, to have the skills and resources to build a better future for themselves. We will evaluate and report on the tangible impacts of our programmes.

KPI
Number of women empowered by our programmes.

PROGRESS

Women's empowerment is a priority everywhere we work. We know that every value chain contains barriers to women's equal participation, and that removing these barriers is essential to unlocking the wider economic growth on which a business like ours depends.

As well as aiming to build a truly inclusive and diverse business (see Our People on pages 58-59), our programmes aim to address the root causes of inequality through a combination of research, community programmes and advocacy. We are working in a global partnership for women's empowerment with the NGO CARE International UK.

To date, our programmes have empowered around 400,000 women with access to training and skills.

KPI
Number of people reached through skills and empowerment programmes.

PROGRESS

Skills development programmes help people in communities around the world overcome barriers and build skills that enhance their employability and help them advance in their careers, while strengthening our value chain. Our largest global programme, Learning for Life, which focuses on hospitality, retail and entrepreneurship, has reached more than 140,000 people since its launch in 2008, with typically more than 70% gaining permanent jobs. Through our range of skills programmes, we helped more than 10,300 people around the world this year.

KPI
Number of people reached through Water of Life programmes.

PROGRESS

Water of Life helps build thriving communities by providing access to water, sanitation and hygiene, typically in rural areas that supply our raw materials and support our core business. It has reached more than 10 million people in India and in Africa since 2006, including 232,000 this year.

An example of how we are combining water programmes with women's empowerment and skills to create a holistic impact can be found on page 19.

SPOTLIGHT

A holistic approach delivers far more to villages in Cameroon

Guinness has a big presence in Cameroon – and we see ourselves as both part of and an important contributor to local communities. Our Water of Life programme has already brought clean water to a number of communities in Cameroon, and this year we brought it to 15,000 people living in and around the villages of Moinam and Marouaré. But this latest programme has gone much further than just clean drinking water.

Bringing together the core themes of all our community programmes – WASH (water, sanitation and hygiene), skills development and women's empowerment – into one holistic approach can achieve far more than a single programme on its own. So, in these two villages, as well as installing borehole wells with manual pumps to provide safe drinking water, we invested in awareness sessions about child labour and positive drinking, and encouraged women to take part in a hygiene session. This session covered menstrual hygiene and, as part of it, we distributed reusable sanitary towels to the girls and young women. Lack of access to sanitary products is a big factor in preventing girls getting an education and women entering employment, so this kind of educational effort is fundamental to women's empowerment.

In May, the community held an official handover ceremony, marking the completion of the project, attended by Andrew Ross, Managing Director of Guinness Cameroun and Astrid Bembone, Regional Sales Manager, Center Region. Ndinga Guiwa Jeremie, Chief of Moinam village, expressed the community's gratitude for Diageo's investment, commenting that the clean water had eradicated water-borne diseases, while the awareness programme around positive drinking had helped people make better choices.

Community investment by region

North America	33%
Europe and Turkey, and global functions	31%
Asia Pacific	16%
Latin America and Caribbean	10%
Africa	10%

Community investment by focus area

Community aspects of responsible drinking programmes(i)	43%
Skills empowerment programmes	27%
Brand-led and local community spend(ii)	19%
Water of Life programmes	7%
Women's empowerment programmes	4%

(i) This is a sub-section of the total responsible drinking budget.
(ii) Category includes cause-related brand campaigns, local market giving and disaster relief.

"At CARE we know that we cannot overcome poverty until all people have equal rights and opportunities. When you empower a girl or a woman, she becomes a catalyst for positive change, whose success benefits everyone around her. Diageo's value chain approach to tackling the root causes of gender inequality is an example of the kind of inclusive business models that are critical for tackling poverty."

Laurie Lee
Chief Executive,
CARE International UK

SPOTLIGHT

Learning for Life and empowering people through skills

We want to create opportunities for people around the world to overcome barriers, boost their skills and build a better life for themselves and their families, and since 2008 our flagship Learning for Life (L4L) programme has been leading the way.

From its origins in our Latin America and Caribbean markets, L4L's aim of finding talented people and supporting them to reach their full potential now spans more than 40 countries. At its core, L4L focuses on giving people the tools, training and skills they need to succeed in sectors including hospitality, retail, entrepreneurship and bartending.

After over a decade of programmes, L4L is always looking to break new ground. This year, for example, we ran our first ever L4L initiatives in Greece and Italy, while in Ireland we completed the second year of a L4L programme which aims to create opportunities for refugees through skills and education.

L4L is not our only programme to provide skills empowerment opportunities. In Kenya, for example, Project Heshima provides vocational training to thousands of young people and women at risk of consuming or producing illicit brews. In India, our safe drinking 'water ATM' programmes include training for 287 women entrepreneurs so they can maintain and run the facilities, as described on page 19. We are proud that these initiatives have reached around 140,000 people to date, including 10,300 this year alone. We believe that by empowering disadvantaged people through enhanced skills and employability, our programmes support UN Sustainable Development Goal 8, focused on decent work and economic growth. We are sure it makes Diageo stronger – by helping to create thriving communities where we live, work, source and sell.

Reducing our environmental impact

We are a business which relies on the careful stewardship of natural resources for our long-term success. From the fields in which our raw materials are grown, to the water and energy we use to make our brands, we depend on resources that we share with the communities around us – just as we also share the impacts that result from these resources becoming constrained.

Our work contributes to the following UN Sustainable Development Goals:

Climate change, water scarcity, soil degradation and the loss of biodiversity threaten the prosperity of our communities and the environment, as well as our business. For our own benefit, as well as for the future of those around us, we must use natural resources efficiently across our whole value chain and, wherever possible, have a positive impact on the environment.

This is not new for us – our brands have relied on responsible environmental stewardship for generations. Nonetheless, we need to make sure we keep building on our longstanding commitment to preserving the natural environment, to ensure the continuing viability of the resources and communities that help us create value.

Addressing our most material issues

In 2015 we set ambitious targets for 2020 to reduce our environmental impacts and build resilience in critical areas. We have periodically added new targets to push performance, such as prioritising renewable electricity and addressing plastics. To stretch ourselves and ensure our efforts have a material impact on tackling climate-related issues, many of our targets are absolute, rather than relative reductions. Diageo is part of a pioneering group of companies with approved science-based targets for carbon reduction. In areas such as greenhouse gas emissions or waste to landfill, we believe the most responsible approach is to decouple our impacts from business growth. We report on all our targets in the following pages.

Climate and water: at the heart of our strategy

The need for businesses to act is compelling. We continue to see some of the impacts of climate change and water stress in our supply chain and operations. Drought has affected raw material supplies in Africa, India and Brazil. Hurricanes impacted our business in the Caribbean in 2017, while the extreme summer in Scotland in 2018 led to high water temperatures and the temporary closure of two distilleries. Water availability is inevitably a key consideration in our planning and investments in water-stressed areas.

These impacts reinforce our support for global action on climate change. As members of the UN Global Compact, the CEO Water Mandate and the We Mean Business coalition, we are also making progress on a range of initiatives, including our science-based carbon emissions reduction targets and the elimination of commodity-driven deforestation. To reduce our climate impacts further, we are committed to procuring 100% of our electricity from renewable sources by 2030 and reducing emissions from short-lived climate pollutants such as HFCs.

We also know the importance, both ethical and commercial, of responsible water stewardship. Water is a strategic priority for us and our Water Blueprint provides the framework to reduce our overall impact, especially in sites in water-stressed areas in Africa, India and Brazil, which account for approximately a third of our total production by volume. In 2018 we carried out water

risk assessments of all our third-party manufacturing sites and identified 18 in water-stressed areas. This year we began working with these sites to better understand their water performance and to roll out our water stewardship toolkit.

Our Water Blueprint is delivered through a four-pillared strategic approach and is driven by our key targets for improving water efficiency in our own and third-party operations, replenishing water in water-stressed areas and supporting community water programmes. We continue to advocate for greater collaboration and impact in water management.

Understanding the challenges and looking beyond 2020

We have seen significant, long-term progress against most of our targets. We have reduced absolute greenhouse gas emissions from our direct operations by 44.7% against our 2007 baseline and from our entire supply chain by 27.1%. In the same period, waste to landfill was down by 96.2% and we have improved our water efficiency by 43.8%.

We have made slower progress in some areas, notably the quality of wastewater we discharge and our efforts to reduce the overall weight of our packaging. Although we comply with regulations on wastewater everywhere we operate, for wastewater and packaging the solutions we have explored so far have not produced the improvements in performance we need to meet our stretching 2020 targets. They will continue to be a focus beyond 2020, and, in the next two to three years, we plan to address them through a range of solutions, including further investments in wastewater treatment.

We remain committed to our 2020 targets and we have identified investments that will help us continue our progress. We have also started work to define our ambition and targets for environmental sustainability beyond 2020, which we will share during the next financial year.

"As the severity of environmental risks to business becomes ever more apparent, companies showing environmental leadership are positioning themselves to provide solutions, seize new market opportunities and thrive in the transition to a sustainable economy. I congratulate Diageo on their inclusion in CDP's A List for Climate and Water in 2018, and for joining the Supplier Engagement 2018/9 leader board. We need to urgently scale up environmental action at all levels to meet the goals of the Paris Agreement and the UN Sustainable Development Goals."

Paul Simpson
Chief Executive Officer,
CDP

Diageo sites located in water-stressed areas

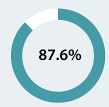
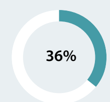
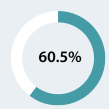
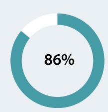
Sites

1 Kenya Brewing, Nairobi, Kenya
2 East Africa Maltings, Nairobi, Kenya
3 Seybrew, Seychelles
4 SA Cider, South Africa
5 Phelindaba Brewery, South Africa
6 Butterworth Brewery, South Africa
7 Khangela Brewery, South Africa
8 Isithebe, South Africa
9 Tlokwe, South Africa
10 Isipingo, South Africa
11 Moshi, Tanzania
12 Dar es Salaam, Tanzania
13 Mwanza, Tanzania
14 UBL, Kampala, Uganda
15 IDU, Kampala, Uganda
16 Accra, Achimota, Ghana
17 Kumasi, Kaasi, Ghana
18 Ogba, Lagos, Nigeria
19 Paraipaba, Ceará, Brazil
20 Agricultural lands, Ceará, Brazil
21 Messejana, Brazil
22 Maracanaú, Brazil
23 Meta Abo, Ethiopia
24 Marracuene, Mozambique

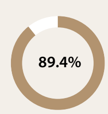
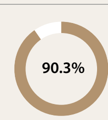
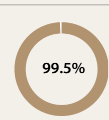
India
25 Alwar, Rajasthan
26 Aurangabad, Maharashtra
27 Baddi, Himachal Pradesh
28 Baramati, Maharashtra
29 Hospet, Karnataka
30 Kumbalgodu, Karnataka
31 Malkajgiri, Telangana
32 Meerut, Uttar Pradesh
33 Nacharam, Telangana
34 Pathankot, Punjab
35 Pioneer, Maharashtra
36 Rosa, Uttar Pradesh
37 Serampore, West Bengal
38 Sovereign, Karnataka
39 Tern, Andhra Pradesh
40 Udaipur, Rajasthan

Performance against 2020 targets[i]

Water stewardship

2020 target	KPI	Performance	Progress
Reduce water use through a 50% improvement in water use efficiency	% improvement in litres of water used per litre of packaged product	6.0%$^{\Delta}$ 2019 **43.8%** **cumulative**	 We have made significant further progress this year at our sites, driven by continuous improvement and innovation projects in brewing, maltings and distilling operations worldwide. This year, 16,442m^3 of water were used for agricultural purposes on land under our operational control. We report this separately from water used in our direct operations. The volume of water we recycled or reused in our own production was 1,029,305m^3, representing 5.2% of total water withdrawals.
Return 100% of wastewater from our operations to the environment safely	% reduction in wastewater polluting power measured in BOD ('000 tonnes)	13.6%$^{\Delta}$ 2019 **36.0%** **cumulative**	 While we met all regulatory requirements on wastewater at our sites and have made good progress this year, we recognise we will not achieve our full target by 2020. Over 80% of our sites have achieved the 2020 target. We are now concentrating on our remaining cluster of sites. As part of a range of solutions, we are planning further investment in wastewater treatment together with the use of new technologies to create value from our by-products.
Replenish the amount of water used in our final product in water-stressed areas	% of water replenished in water-stressed areas (m^3)	11.8% 2019 **60.5%** **cumulative**	 This year we replenished 11.8% of the total water used in our final product, and cumulatively 60.5% of the water used in water-stressed locations is now replenished. Significant progress will be required in Nigeria, Ghana and Kenya in 2020 to ensure we achieve our ambitious target.
Equip our suppliers with tools to protect water resources in our most water-stressed locations	% of key suppliers engaged in water management practices	86% 2019	 We engaged 128 suppliers to disclose their water management practices through CDP's Supply Chain Water Programme, with an 86% response rate. We prioritised more than 100 third-party operators for more in-depth water risk assessment and support, and have begun mapping site water performance and rolling out our water guidance for the most water stressed.

Carbon

2020 target	KPI	Performance	Progress
Reduce absolute greenhouse gas emissions from direct operations by 50%	% reduction in absolute GHG (kt CO_2e)	5.9%$^{\Delta}$ 2019 **44.7%** **cumulative**	 We made important progress this year, achieving a 5.9% decrease in carbon emissions. In addition to continuous improvement at our operations and fuel switching, we have purchased energy attribute certificates to support our decarbonisation strategy. As a signatory to RE100, we aim to source 100% of our electricity from renewable sources by 2030. This year 45.4% of electricity at our production sites came from renewable sources such as wind, hydro and solar (2018 – 18.5%). In the United Kingdom, 100% of our electricity came from renewable sources. We use the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol as a basis for reporting our emissions, and we include all facilities where we have operational control for the full financial year. Diageo's total direct and indirect carbon emissions (location/gross) this year were 785,545$^{\Delta}$ tonnes (2018 – 782,294 tonnes), comprising direct emissions (Scope 1) of 620,573$^{\Delta}$ tonnes (2018 – 620,608 tonnes), and indirect (Scope 2) emissions of 164,971$^{\Delta}$ tonnes (2018 – 164,971 tonnes). The intensity ratio for this year was 185 grams per litre packaged (2018 – 186 grams per litre packaged).
Achieve a 30% reduction in absolute greenhouse gas emissions along the total supply chain	% reduction in absolute GHG (kt CO_2e)	5.9% 2019 **27.1%** **cumulative**	 Our total supply chain carbon footprint this year was 3.165 million tonnes, a 5.9% improvement and important progress towards our target. We engaged suppliers directly on measuring and managing their carbon emissions and made further data analysis improvements. This year we received responses from 86% of the 224 suppliers we engaged through the CDP, and 50% of these suppliers reported that they had emissions reduction targets.
Ensure all our new refrigeration equipment in trade is HFC-free, with a reduction in associated greenhouse gas emissions from 2015	% of new equipment sourced HFC-free from 1 July 2015	99.5% 2019	 Eliminating HFCs plays a role in reducing our overall carbon footprint. 99.5% of the 48,000 new fridges we have purchased since July 2015 were HFC-free.

Waste

2020 target	KPI	Performance	Progress
Achieve zero waste to landfill	% reduction in total waste to landfill (tonnes)	75.7%Δ 2019 **96.2%** **cumulative**	96.2% Following a setback in 2018 caused by hurricanes in the Caribbean, we achieved significant progress this year. Over 80% of our sites have now achieved our 2020 target of zero waste to landfill. We continue to focus on our residual volumes and sites.

Packaging

2020 target	KPI	Performance	Progress
Reduce total packaging by 15%, while increasing recycled content to 45% and making 100% of packaging recyclable	% of total packaging by weight	1.4% 2019 **10.8%** **cumulative**	72% We made significant progress this year in reducing total packaging by weight, predominantly through initiatives to optimise glass and carton weight in India. However, despite recent improvements, delivery of this target in full will stretch beyond 2020.
	% of recycled content by weight	0% 2019 **40.5%** **cumulative**	90% Our commitment to increase recycled content in our packaging, set in 2009, has resulted in a 19% improvement against our baseline. We continue to work with suppliers and other partners to improve recycled content. We reuse returned glass bottles in parts of our business, but do not currently include them in our reported recycled content data. We are reviewing our reporting boundaries for recycled content so that we can consider including returned glass in our recycled content data from 2020.
	% of recyclable packaging by weight	0% 2019 **98.7%** **cumulative**	98.7% As we approach our target, we are finding challenges in the areas of recycling infrastructure and technology solutions. We plan to carry out a review of the options available in order to achieve the final 1.3% to meet our target.
Sustainably source all of our paper and board packaging to ensure zero net deforestation	% of sustainably sourced paper and board packaging	94% 2019	94% We define sustainably sourced as Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) certified, or recycled fibre. To date we have engaged over 280 suppliers, with 93% responding. Collectively these suppliers have self-reported that 94% of the paper and board packaging they supply meets our sustainable sourcing criteria, and we continue to work with our suppliers to deliver our goal of 100% by 2020.

(i) Baseline year is 2007 except for packaging which is 2009 and water replenishment which is 2015.
Δ Within PwC's limited assurance; see page 173 for further details.

Performance against 2025 targets(ii)

Packaging (plastic)

2025 target	KPI	Performance	Progress
Achieve 40% average recycled content in all plastic bottles (and 100% by 2030)	Tonnes (metric) of recycled content/ total tonnes of plastics used	0.02% 2019 **cumulative 0.02%**	0% In our first year of reporting against this target, we have identified opportunities to increase the use of recycled content in plastic (PET) bottles, particularly in North America. Although only 2% of our packaging is made from plastic (PET), we nonetheless consider this an important target.
Ensure 100% of our plastics will be designed to be recyclable, reusable or compostable in countries where we operate	Tonnes (metric) plastics widely recyclable (or reusable/ compostable)/ total tonnes of plastic used	81% 2019 **81%** **cumulative**	81% We continue to work with our suppliers and other partners to remove non-recyclable plastics from our products and to promote better recycling infrastructure in selected markets.

(ii) These targets were introduced in 2018.

Understanding and responding to climate-related risks and opportunities

As part of our drive to increase our understanding of the financial aspects of climate-related risks, and in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we have carried out Sustainability Value Assessments (SVAs) in three key markets.

Water scarcity is our most material risk, and our SVAs examined the potential impact of climate-related water scarcity over a five- and ten-year horizon.

The insights provided by our SVAs feed into our overall approaches to both water stewardship and climate adaptation. This year, we formed a new cross-functional working group, with representatives from our Compliance and Risk, Strategy, Investor Relations, Environment, Procurement, Security, Corporate Relations, and Treasury functions. This group will manage climate risk and provide regular updates to the Executive Committee and the Board.

HIGHLIGHT

Executive oversight of climate risk

David Cutter was appointed Chief Sustainability Officer in November 2018, in addition to his role as President, Global Supply and Procurement. He sits on Diageo's Executive Committee, and chairs the Executive Environment Working Group.

Board oversight of environmental performance is described on page 74.

Our processes for identifying, assessing and managing climate-related risks are described further on page 21.

HIGHLIGHT

Collaborating on climate adaptation

We share knowledge and expertise through the Beverage Industry Environmental Roundtable (BIER), a technical coalition of leading global beverage companies working together to advance environmental sustainability. We are supporting BIER's work exploring options to develop a consistent approach to TCFD scenario planning for the beverage sector.

Global packaging materials[i] by volume

(Total – 1.5 million tonnes)

Glass	**83%**
Corrugate	**7%**
Cartons	**4%**
Closures and crowns	**2%**
PET	**2%**
Cans	**1%**
Other (beverage cartons, labels, sleeves, bags and sachets)	**1%**

(i) Excludes promotional materials.

SPOTLIGHT

Working with others to transform recycling

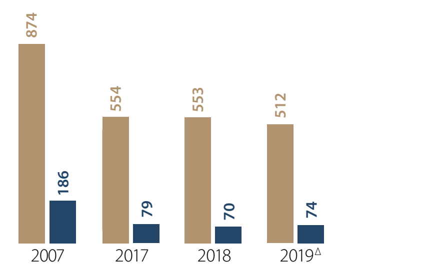
Our long-term commitment is to make our packaging as sustainable as possible at every stage of its life cycle. Increasing our use of recycled materials – and making it as easy as possible for consumers to recycle our packaging after use – is vital to achieving our packaging ambitions, described on page 55.

But with any material, our ability to contribute to a recycling culture is heavily influenced by the available local infrastructure. In some of the places where we operate, consumers have few options to recycle, or none. The only way to change this is to work with others, which makes our partnerships very important.

The Glass is Good initiative in Brazil is a great example. It brings together the entire glass production chain, from glass packaging manufacturers to commercial establishments to major beverage companies, to support the work of local recycling cooperatives. Since 2010, it has enabled 27,000 tonnes of glass to be recycled – equivalent to approximately 50 million one-litre vodka bottles. We are very pleased that this year, other alcohol companies joined us in this effort.

It is this sort of collaborative thinking that we want to expand elsewhere, and to other materials. So in 2019 we co-founded the Africa Plastics Recycling Alliance, which aims to drive collective action by some of the biggest consumer goods businesses to address plastics waste, while creating economic opportunities through better recycling and reprocessing infrastructure. It is early days, but by sharing knowledge, encouraging innovation, and collaborating on technical and other solutions appropriate for Sub-Saharan Africa, we believe we can make a real impact – and ensure that our products are not just enjoyable, but sustainably packaged.

Direct and indirect carbon emissions by weight (1,000 tonnes CO_2e)[(i),(ii)] (market-/net-based)



Carbon emissions by weight by region (1,000 tonnes CO_2e)[(i), (ii)]

Region	2007	2017	2018	2019
North America	211	50	44	54
Europe and Turkey	399	264	279	233
Africa	271	234	225	225
Latin America and Caribbean	8	15	18	19
Asia Pacific	151	58	49	47
Corporate	20	12	8	8
Diageo (total)	**1,060**	**633**	**623**	**586Δ**

(i) CO_2e figures are calculated using the WRI/WBCSD GHG Protocol guidance available at the beginning of our financial year, the kWh/CO_2e conversion factor provided by energy suppliers, the relevant factors to the country of operation, or the International Energy Agency, as applicable.
(ii) 2007 baseline data, and data for each of the intervening years in the period ended 30 June 2018, have been restated where relevant and in accordance with the WRI/WBCSD GHG Protocol and Diageo's environmental reporting methodologies.
Δ Within PwC's independent limited assurance scope. Please see page 173 for further details.

Environmental data by region

Water efficiency by region, by year (l/l)[(i), (ii)]

Region	2007	2017	2018	2019
North America	6.88	5.73	5.55	5.26
Europe and Turkey	7.94	5.78	6.02	5.37
Africa	8.48	4.32	4.28	4.16
Latin America and Caribbean	34.84	3.88	4.66	4.58
Asia Pacific	7.06	4.31	3.63	3.36
Diageo (total)	**8.27**	**4.98**	**4.94**	**4.64Δ**

Wastewater polluting power by region, by year (BOD/t)[(i)]

Region	2007	2017	2018	2019
North America	214	240	343	835
Europe and Turkey	22,610	17,617	23,502	18,353
Africa	9,970	183	151	1,609
Latin America and Caribbean	10	34	14	10
Asia Pacific	92	64	2	2
Corporate	–	–	1	1
Diageo (total)	**32,896**	**18,138**	**24,013**	**20,810**
Total under direct control	**32,070**	**17,936**	**23,751**	**20,531Δ**

(i) 2007 baseline data, and data for each of the intervening years in the period ended 30 June 2018, have been restated where relevant and in accordance with our environmental reporting methodologies.
(ii) In accordance with our environmental reporting methodologies, total water used excludes irrigation water for agricultural purposes on land under the operational control of the company.
Δ Within PwC's independent limited assurance scope. Please see page 173 for further details.

Total waste to landfill by region (tonnes)[(i)]

Region	2007	2017	2018	2019
North America	39,857	146	12,177[(ii)]	276
Europe and Turkey	19,898	1,252	169	195
Africa	37,062	3,937	3,108	2,545
Latin America and Caribbean	243	379	106	84
Asia Pacific	8,583	380	504	549
Corporate	604	719	461	372
Diageo (total)	**106,247**	**6,813**	**16,525**	**4,021Δ**

(i) 2007 baseline data, and data for each of the intervening years in the period ended 30 June 2018, have been restated where relevant and in accordance with our environmental reporting methodologies.
(ii) In September 2017, damage caused by Hurricane Maria meant that by-products from our distillery in St Croix in the US Virgin Islands, which are usually recycled as animal feed, were diverted to landfill. We took remedial action, including upgrading equipment, to minimise the risk of this reoccurring.
Δ Within PwC's independent limited assurance scope. Please see page 173 for further details.

Our people

We aim to create a trusting, respectful and inclusive culture, where people are proud of their work, empowered to succeed, and know that their health, safety and other human rights are respected.

Our work contributes to the following UN Sustainable Development Goals:

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

Health and safety

The health, safety and wellbeing of our employees is our highest priority. Our recently revised global Health and Safety strategy aims to take a holistic approach to the wellbeing, as well as the safety, of our people. Our global Zero Harm programme is designed to ensure that everyone goes home safe and healthy, every day – and it has driven industry-leading progress.

This year, we exceeded our 2020 target of achieving less than one lost-time accident (LTA) per 1,000 employees, and no fatalities, for the second consecutive year. In 18 markets, we operated without any LTAs for the year.

We are proud of this progress, but we know that there is no acceptable level of accidents, and we want to continue to drive our performance. We have started to adopt a new primary safety KPI, total recordable accidents (TRA). This gives us a broader lens on different types of incidents and means we can apply the same rigorous root cause investigations to them, giving us a greater ability to predict and prevent more serious accidents. We are also starting to adopt more advanced technology systems, which will help us gather richer health and safety data insights. We are confident these changes will help the business achieve further step-changes in performance and create an even stronger Zero Harm culture. Our ambition is to develop a new health and safety target using a leading indicator by 2025, but in the shorter term we will report on the new TRA metric from next year.

Sustaining and improving our best practice culture and growing our people's capabilities continue to be core areas of focus. We aim to ensure these are embedded across all areas of our organisation, from supply sites to office and commercial team environments. We are also working to ensure our third-party operations are aligned with our Zero Harm values.

TARGET

Keep our people safe by achieving less than one lost-time accident (LTA) per 1,000 employees and no fatalities.

KPI

Number of LTAs; number of fatalities.

PROGRESS

There were 0.98 LTAs per 1,000 employees this year, compared with 1.00 in 2018. There were also no work-related fatalities. This is the second year we have met our 2020 target of less than one LTA per 1,000 employees. From next year we will report on total recordable accidents as a new KPI (see above).

Lost-time accident frequency rate per 1,000 full-time employees(i)

Region	2014	2015	2016	2017	2018	2019
North America	0.84	1.83	0.37	0.7	0.0	1.76
Europe and Turkey	2.08	2.51	1.28	1.46	1.58	1.00
Africa	0.56	1.2	0.77	1.26	1.35	1.19
Latin America and Caribbean	4.7	0.66	2.27	1.79	0.36	1.13
Asia Pacific	1.62	1.21	2.01	0.81	0.66	0.57
Diageo (total)	**1.66**	**1.66**	**1.44**	**1.14**	**1.00**	**0.98Δ**

(i) Number of accidents per 1,000 employees and directly supervised contractors resulting in time lost from work of one calendar day or more.
Δ Within PwC's independent limited assurance scope. Please see page 173 for further details.

Number of days lost to accidents per 1,000 full-time employees(i)

	2014	2015	2016	2017	2018	2019
Diageo (total)	**49.7**	**89.4**	**57**	**36**	**45**	**67.3**

Fatalities	2014	2015	2016	2017	2018	2019
Diageo (total)	**1**	**1**	**1**	**1**	**0**	**0**

(i) While the number of lost-time accidents decreased this year, the severity of the injuries sustained unfortunately increased. The introduction of our new total recordable accident metric will ensure more accidents will be investigated with the same rigour as lost-time accidents, helping to prevent more serious injuries in the future.

Inclusive, diverse and high-performing culture

Celebrating our inclusive and diverse culture is core to our purpose, and maintaining and growing that culture is a critical business priority. Everyone should have the freedom to succeed, irrespective of their gender, race, religion, disability, age or sexual orientation. We firmly believe that an inclusive and diverse business is a better place to work – and a better-performing business. As just one example of our commitment, in 2019 we were proud to sign the BITC Race at Work Charter, a new initiative designed to improve outcomes for black, Asian and minority ethnic (BAME) employees in the UK, by providing practical help to tackle racial barriers in the workplace.

This year, we continued to develop our policy framework to make sure we give people the opportunity to be the best they can be. In Europe, our new Dignity at Work policy is helping build a culture where everyone feels free and comfortable to discuss anything that has an impact on their health, safety, wellbeing, or ability to do their job effectively. The policy is available in 11 languages, and our new eLearning course is mandatory for all employees and new starters. In May 2019, we announced our new Family Leave Policy, which supports employees through global standards (see highlight below).

HIGHLIGHT

Tackling the barriers to career progression: our industry-leading Family Leave Policy

From May 2019, we began rolling out our global family leave policy, which provides fully-paid 26-week maternity leave for all female employees, and a global minimum standard of four weeks' paternity leave on full rate of pay in all markets. Since April 2019, parents employed by Diageo in the UK have been eligible for the same fully-paid 26 weeks' leave, retaining benefits and bonuses regardless of gender and sexual orientation, whether they become parents biologically, via surrogacy or by adoption. A range of other markets have either moved, or are moving, to a standard of 26 weeks' fully-paid paternity leave.

TARGET
Build diversity, with 35%[i] of leadership positions held by women by 2020 (40% by 2025) and measures implemented to help female employees attain and develop in leadership roles.

KPI
% of leadership positions held by women.

PROGRESS
This year, 36% of leadership roles were held by women. At the most senior level, 44% of our Board members and 40% of our Executive Committee members are women.

(i) We increased the 2020 target from 30% to 35% in 2017.

At the same time, we have continued our drive to make our business more diverse, and more gender equal. We want to be the employer of choice for women in the UK, and globally we are focusing on developing a strong pipeline of female talent for all roles. Currently, 40% of our Executive Committee and 44% of our Board are women. Women currently hold more than 36% of leadership positions, and each of our 21 markets has a strategy in place to foster greater inclusion and diversity. We also seek to promote inclusion, gender balance and equality through our brands and programmes.

Engaged, empowered and proud of what we do

We want our people to be the 'best they can be'. That means working to make sure they are engaged and empowered, so they can be passionate about our strategy, connected to our values and purpose, and motivated to perform at their best as advocates of our brands.

Communications and leadership interventions across the business bring our strategy and purpose to life for employees throughout the year, while a range of campaigns also engage employees on their part in promoting positive drinking. We have a framework of clear policies, competitive reward programmes, coaching and development, and health and wellbeing initiatives, to make sure our people have the opportunity to develop themselves, and their performance.

We report employee engagement on page 13 as one of the overarching KPIs that measure the progress of our business. We use our annual Your Voice survey to help us understand how engaged employees are, as well as to listen to their feedback on the business – and this year we enhanced the survey to give employees more opportunities to make their voices heard. This year's results show that engagement remains high, and employee satisfaction has increased. Most employees have a favourable view of Diageo's culture and a strong relationship with their line manager.

Average number of employees by region by gender[i]

Region	Men	%	Women	%	Total
North America	1,667	61	1,080	39	2,747
Europe and Turkey	6,337	60	4,158	40	10,495
Africa	3,167	74	1,103	26	4,270
Latin America and Caribbean	1,594	64	899	36	2,493
Asia Pacific	6,345	75	2,070	25	8,415
Diageo (total)	**19,110**	**67**	**9,310**	**33**	**28,420**

Average number of employees by role by gender

Role	Men	%	Women	%	Total
Senior manager[ii]	361	64	205	36	566
Line manager[iii]	2,373	69	1,072	31	3,445
Supervised employee[iv]	16,376	67	8,033	33	24,409
Diageo (total)	**19,110**	**67**	**9,310**	**33**	**28,420**

New hires by region by gender[i]

Region	Men	Women	Total	% of headcount
North America	249	125	374	13.6
Europe and Turkey	660	642	1,302	12.4
Africa	280	166	446	10.4
Latin America and Caribbean	296	183	479	19.2
Asia Pacific	525	375	900	10.7
Diageo (total)	**2,010**	**1,491**	**3,501**	**12.3**
Percentage of total new hires	57.4%	42.6%		

Leavers by region by gender[i]

Region	Men	Women	Total	% of headcount
North America	299	198	497	18.1
Europe and Turkey	880	803	1,683	16.0
Africa	438	175	613	14.4
Latin America and Caribbean	228	186	414	16.6
Asia Pacific	1,219	379	1,598	19.0
Diageo (total)	**3,064**	**1,741**	**4,805**	**16.9**
Percentage of total leavers	63.8%	36.2%		

(i) Employees have been allocated to the region in which they reside.
(ii) Top leadership positions in Diageo, excluding Executive Committee.
(iii) All Diageo employees (non-senior managers) with one or more direct reports.
(iv) All Diageo employees (non-senior managers) who have no direct reports.

TARGET
Increase employee engagement to 80%, becoming a top quartile performer on measures such as employee satisfaction, pride and loyalty.

KPI
Employee satisfaction, loyalty, advocacy and pride, measured through our Values Survey.[i]

PROGRESS
94% of our people participated in our annual Your Voice survey (22,615 of the 24,129 invited). 75% identified themselves as being engaged, compared to 76% last year. This remains a strong engagement score, on a par with best-in-class benchmarks. 89% said they were proud to work for Diageo, and 77% agreed with the statement "I am extremely satisfied with Diageo as a place to work".

(i) In 2019 we introduced Your Voice, an enhanced survey to capture deeper insights into employee experiences of working for Diageo.

For more information please see the Sustainability & Responsibility Performance Addendum 2019 which contains detailed disclosures against the GRI Standards, the UN Global Compact and the Sustainability Accounting Standards Board.

Definitions and reconciliation of non-GAAP measures to GAAP measures

Diageo's strategic planning process is based on the following non-GAAP measures. They are chosen for planning and reporting, and some of them are used for incentive purposes. The group's management believes these measures provide valuable additional information for users of the financial statements in understanding the group's performance. These non-GAAP measures should be viewed as complementary to, and not replacements for, the comparable GAAP measures and reported movements therein.

It is not possible to reconcile the forecast tax rate before exceptional items and forecast organic operating profit increases to the most comparable GAAP measures as it is not possible to predict, with reasonable certainty, the future impact of changes in exchange rates, acquisitions and disposals and potential exceptional items.

Volume

Volume is a non-GAAP measure that is measured on an equivalent units basis to nine-litre cases of spirits. An equivalent unit represents one nine-litre case of spirits, which is approximately 272 servings. A serving comprises 33ml of spirits, 165ml of wine, or 330ml of ready to drink or beer. Therefore, to convert volume of products other than spirits to equivalent units, the following guide has been used: beer in hectolitres, divide by 0.9; wine in nine-litre cases, divide by five; ready to drink in nine-litre cases, divide by 10; and certain pre-mixed products that are classified as ready to drink in nine-litre cases, divide by ten.

Organic movements

In the discussion of the performance of the business, 'organic' information is presented using pounds sterling amounts on a constant currency basis excluding the impact of exceptional items and acquisitions and disposals. Organic measures enable users to focus on the performance of the business which is common to both years and which represents those measures that local managers are most directly able to influence.

Calculation of organic movements

The organic movement percentage is the amount in the row titled 'Organic movement' in the tables below, expressed as a percentage of the amount in the row titled '2018 adjusted'. Organic operating margin is calculated by dividing operating profit before exceptional items by net sales after excluding the impact of exchange rate movements and acquisitions and disposals.

(a) Exchange rates

'Exchange' in the organic movement calculation reflects the adjustment to recalculate the prior year results as if they had been generated at the current year exchange rates.

Exchange impacts in respect of the external hedging of intergroup sales of products and the intergroup recharging of third party services are allocated to the geographical segment to which they relate. Residual exchange impacts are reported in Corporate.

(b) Acquisitions and disposals

For acquisitions in the current year, the post acquisition results are excluded from the organic movement calculations. For acquisitions in the prior year, post acquisition results are included in full in the prior year but are included in the organic movement calculation from the anniversary of the acquisition date in the current year. The acquisition row also eliminates the impact of transaction costs that have been charged to operating profit in the current or prior year in respect of acquisitions that, in management's judgement, are expected to be completed.

Where a business, brand, brand distribution right or agency agreement was disposed of, or terminated, in the period up to the date of the external results announcement, the group, in the organic movement calculations, excludes the results for that business from the current and prior year. In the calculation of operating profit, the overheads included in disposals are only those directly attributable to the businesses disposed of, and do not result from subjective judgements of management.

In addition, as part of acquisitions and disposals in the reconciliation for operating profit before exceptional items in the year ended 30 June 2019, there is a charge of £15 million in respect of an increase in the contingent consideration payable to the former owners of the Casamigos brand which was acquired in August 2017.

(c) Exceptional items

Exceptional items are those that in management's judgement need to be disclosed by virtue of their size and/or nature. Such items are included within the income statement caption to which they relate, and are separately disclosed in the notes to the consolidated financial statements, and are excluded from the organic movement calculations.

Exceptional operating items are those that are considered to be material and/or unusual or non recurring in nature and are part of the operating activities of the group such as impairments of fixed assets, indirect tax settlements, property disposals and changes in post employment plans.

Gains and losses on the sale of businesses, brands or distribution rights, step up gains and losses that arise when an investment becomes an associate or an associate becomes a subsidiary and other material, unusual non-recurring items, that are not in respect of the production, marketing and distribution of premium drinks, are disclosed as non-operating exceptional items below operating profit in the consolidated income statement.

Exceptional current and deferred tax items comprising material unusual non recurring items that impact taxation, such as direct tax provisions and settlements in respect of prior years and the remeasurement of deferred tax assets and liabilities following tax rate changes.

It is believed that separate disclosure of exceptional items and the classification between operating and non-operating further helps investors to understand the performance of the group.

Organic movement calculations for the year ended 30 June 2019 were as follows:

	North America million	Europe and Turkey million	Africa million	Latin America and Caribbean million	Asia Pacific million	Corporate million	Total million
Volume (equivalent units)							
2018 reported	48.2	46.3	33.2	22.2	90.5	–	240.4
Disposals(iv)	(2.7)	(0.1)	–	–	(0.1)	–	(2.9)
2018 adjusted	45.5	46.2	33.2	22.2	90.4	–	237.5
Disposals(iv)	**2.8**	**0.1**	**–**	**–**	**–**	**–**	**2.9**
Organic movement	**1.1**	**(0.9)**	**0.4**	**0.2**	**4.7**	**–**	**5.5**
2019 reported	**49.4**	**45.4**	**33.6**	**22.4**	**95.1**	**–**	**245.9**
Organic movement %	**2**	**(2)**	**1**	**1**	**5**	**–**	**2**
Sales							
2018 reported	4,671	5,232	2,083	1,352	5,042	52	18,432
Exchange(i)	200	(291)	12	(35)	(120)	–	(234)
Disposals(iv)	(185)	(7)	(4)	(1)	(10)	–	(207)
2018 adjusted	4,686	4,934	2,091	1,316	4,912	52	17,991
Acquisitions and disposals(iv)	**139**	**3**	**2**	**1**	**1**	**–**	**146**
Organic movement	**249**	**195**	**142**	**127**	**443**	**1**	**1,157**
2019 reported	**5,074**	**5,132**	**2,235**	**1,444**	**5,356**	**53**	**19,294**
Organic movement %	**5**	**4**	**7**	**10**	**9**	**2**	**6**
Net sales							
2018 reported	4,116	2,932	1,491	1,069	2,503	52	12,163
Exchange(ii)	176	(95)	8	(29)	(36)	–	24
Disposals(iv)	(143)	(3)	(3)	(1)	(6)	–	(156)
2018 adjusted	4,149	2,834	1,496	1,039	2,461	52	12,031
Acquisitions and disposals(iv)	**95**	**1**	**1**	**1**	**1**	**–**	**99**
Organic movement	**216**	**104**	**100**	**90**	**226**	**1**	**737**
2019 reported	**4,460**	**2,939**	**1,597**	**1,130**	**2,688**	**53**	**12,867**
Organic movement %	**5**	**4**	**7**	**9**	**9**	**2**	**6**
Marketing							
2018 reported	662	474	158	196	388	4	1,882
Exchange	24	(10)	1	(7)	(3)	–	5
Reclassification(iii)	–	–	10	–	–	–	10
Disposals(iv)	(1)	–	–	–	–	–	(1)
2018 adjusted	685	464	169	189	385	4	1,896
Acquisitions and disposals(iv)	**2**	**–**	**–**	**–**	**–**	**–**	**2**
Organic movement	**75**	**26**	**5**	**12**	**27**	**(1)**	**144**
2019 reported	**762**	**490**	**174**	**201**	**412**	**3**	**2,042**
Organic movement %	**11**	**6**	**3**	**6**	**7**	**(25)**	**8**
Operating profit before exceptional items							
2018 reported	1,882	1,028	191	308	568	(158)	3,819
Exchange(ii)	74	(35)	(6)	(2)	(6)	–	25
Acquisitions and disposals(iv)	(90)	(2)	(2)	–	(2)	–	(96)
2018 adjusted	1,866	991	183	306	560	(158)	3,748
Acquisitions and disposals(iv)	**30**	**1**	**1**	**–**	**–**	**–**	**32**
Organic movement	**52**	**22**	**91**	**59**	**143**	**(31)**	**336**
2019 reported	**1,948**	**1,014**	**275**	**365**	**703**	**(189)**	**4,116**
Organic movement %	**3**	**2**	**50**	**19**	**26**	**(20)**	**9**
Organic operating margin %							
2019	**43.9%**	**34.5%**	**17.2%**	**32.3%**	**26.2%**	**n/a**	**32.0%**
2018	45.0%	35.0%	12.2%	29.5%	22.8%	n/a	31.2%
Margin improvement/(decline) (bps)	**(103)**	**(49)**	**494**	**288**	**341**	**n/a**	**83**

(1) For the reconciliation of sales to net sales see page 27.
(2) Percentages and margin improvement are calculated on rounded figures.

Notes: Information in respect of the organic movement calculations
(i) The exchange adjustments for sales are principally in respect of the strengthening of sterling against the Turkish lira, Indian rupee and the Australian dollar, partially offset by the weakening of sterling against the US dollar, the euro and the Kenyan shilling.
(ii) The exchange adjustments for net sales and operating profit are principally in respect of the weakening of sterling against the US dollar, the euro and the Kenyan shilling, partially offset by strengthening of sterling against the Turkish lira, Indian rupee and the Australian dollar.
(iii) For the year ended 30 June 2018 marketing costs of £10 million in South Africa have been reclassified from overheads to marketing.
(iv) In the year ended 30 June 2019 the acquisitions and disposals that affected volume, sales, net sales, marketing and operating profit were as follows:

	Volume equ. units million	Sales £ million	Net sales £ million	Marketing £ million	Operating profit £ million
Year ended 30 June 2018					
Acquisitions					
Transaction costs	–	–	–	–	4
	–	–	–	–	4
Disposals					
Portfolio of 19 brands	(2.8)	(199)	(153)	(1)	(99)
Nepal	(0.1)	(8)	(3)	–	(1)
	(2.9)	(207)	(156)	(1)	(100)
Acquisitions and disposals	(2.9)	(207)	(156)	(1)	(96)
Year ended 30 June 2019					
Acquisitions					
Casamigos	–	11	10	1	3
Change in contingent consideration	–	–	–	–	(15)
	–	11	10	1	(12)
Disposals					
Portfolio of 19 brands	2.9	135	89	1	44
	2.9	135	89	1	44
Acquisitions and disposals	2.9	146	99	2	32

The group will change its method of calculating the exchange impact used to calculate organic growth in its results for the year ending 30 June 2020. The exchange row will represent the impact of restating the current year at prior year exchange rates rather than the method used presently of restating the prior year results to current year exchange rates. The change will simplify our processes aligning management and organic reporting and will be more consistent with how Diageo's peer group report. The change is not expected to materially impact reported organic percentage movements. A restatement of prior year results under the new methodology will be published later in the calendar year.

Earnings per share before exceptional items

Earnings per share before exceptional items is calculated by dividing profit attributable to equity shareholders of the parent company before exceptional items by the weighted average number of shares in issue.

Earnings per share before exceptional items for the year ended 30 June 2019 and 30 June 2018 are set out in the table below.

	2019 £ million	2018 £ million
Profit attributable to equity shareholders of the parent company	3,160	3,022
Exceptional operating and non-operating items attributable to equity shareholders of the parent company	(61)	128
Exceptional taxation charges / (benefits) attributable to equity shareholders of the parent company	36	(190)
Tax in respect of exceptional operating and non-operating items attributable to equity shareholders of the parent company	29	(13)
	3,164	2,947

Weighted average number of shares	million	million
Shares in issue excluding own shares	2,418	2,484
Dilutive potential ordinary shares	10	11
	2,428	2,495
	pence	pence
Basic earnings per share before exceptional items	130.8	118.6
Diluted earnings per share before exceptional items	130.3	118.1

Free cash flow

Free cash flow comprises the net cash flow from operating activities aggregated with the net cash received/paid for working capital loans receivable, cash paid or received for investments and the net cash cost paid for property, plant and equipment and computer software that are included in net cash flow from investing activities.

The remaining components of net cash flow from investing activities that do not form part of free cash flow, as defined by the group's management, are in respect of the acquisition and sale of businesses and non-working capital loans to and from associates.

The group's management regards the purchase and disposal of property, plant and equipment and computer software as ultimately non-discretionary since ongoing investment in plant, machinery and technology is required to support the day-to-day operations, whereas acquisitions and sales of businesses are discretionary.

Where appropriate, separate explanations are given for the impacts of acquisitions and sale of businesses, dividends paid and the purchase of own shares, each of which arises from decisions that are independent from the running of the ongoing underlying business.

Free cash flow reconciliations for the years ended 30 June 2019 and 30 June 2018 are set out in the table below:

	2019 £ million	2018 £ million
Net cash inflow from operating activities	3,248	3,084
Disposal of property, plant and equipment and computer software	32	40
Purchase of property, plant and equipment and computer software	(671)	(584)
Movements in loans and other investments	(1)	(17)
Free cash flow	2,608	2,523

Return on average total invested capital

Return on average total invested capital is used by management to assess the return obtained from the group's asset base and is calculated to aid evaluation of the performance of the business.

The profit used in assessing the return on average total invested capital reflects operating profit before exceptional items attributable to the equity shareholders of the parent company plus share of after tax results of associates and joint ventures after applying the tax rate before exceptional items for the year. Average total invested capital is calculated using the average derived from the consolidated balance sheets at the beginning, middle and end of the year. Average capital employed comprises average net assets attributable to equity shareholders of the parent company for the year, excluding post employment benefit net assets/liabilities (net of deferred tax) and average net borrowings. This average capital employed is then aggregated with the average restructuring and integration costs net of tax, and goodwill written off to reserves at 1 July 2004, the date of transition to IFRS, to obtain the average total invested capital.

Calculations for the return on average total invested capital for the year ended 30 June 2019 and 30 June 2018 are set out in the table below.

	2019 £ million	2018 £ million
Operating profit	4,042	3,691
Exceptional operating items	74	128
Profit before exceptional operating items attributable to non-controlling interests	(151)	(122)
Share of after tax results of associates and joint ventures	312	309
Tax at the tax rate before exceptional items of 20.6% (2018 – 20.7%)	(881)	(829)
	3,396	3,177
Average net assets (excluding net post employment assets/liabilities)	10,847	12,067
Average non-controlling interests	(1,776)	(1,749)
Average net borrowings	10,240	8,727
Average integration and restructuring costs (net of tax)	1,639	1,639
Goodwill at 1 July 2004	1,562	1,562
Average total invested capital	22,512	22,246
Return on average total invested capital	15.1%	14.3%

Net borrowings to earnings before exceptional operating items, interest, tax, depreciation, amortisation and impairment (adjusted EBITDA)

Diageo manages its capital structure to achieve capital efficiency, provide flexibility to invest through the economic cycle and give efficient access to debt markets at attractive cost levels. The group regularly assesses its debt and equity capital levels to enhance its capital structure by reviewing the ratio of adjusted net borrowings to adjusted EBITDA.

Calculations for the ratio of adjusted net borrowings to adjusted EBITDA for the year ended 30 June 2019 and 30 June 2018 are set out in the table below.

	2019 £ million	2018 £ million
Borrowings due within one year	1,959	1,828
Borrowings due after one year	10,596	8,074
Fair value of foreign currency derivatives and interest rate hedging instruments	(474)	(92)
Finance lease liabilities	128	155
Less: Cash and cash equivalents	(932)	(874)
Net borrowings	11,277	9,091
Post employment benefit liabilities before tax	846	872
Adjusted net borrowings	12,123	9,963
Operating profit	4,042	3,691
Exceptional operating items	74	128
Depreciation, amortisation and impairment (excluding exceptional items)	374	368
Share of after tax results of associates and joint ventures	312	309
Adjusted EBITDA	4,802	4,496
Adjusted net borrowings to adjusted EBITDA (x)	2.5	2.2

Tax rate before exceptional items

Tax rate before exceptional items is calculated by dividing the total tax charge on continuing operations before tax charges and credits in respect of exceptional items, by profit before taxation adjusted to exclude the impact of exceptional operating and non-operating items, expressed as a percentage. The measure is used by management to assess the rate of tax applied to the group's continuing operations before tax on exceptional items.

The tax rates from operations before exceptional and after exceptional items for the year ended 30 June 2019 and year ended 30 June 2018 are set out in the table below:

	2019 £ million	2018 £ million
Tax before exceptional items (a)	859	799
Tax in respect of exceptional items	29	(13)
Exceptional tax charge/(credit)	10	(190)
Taxation on profit (b)	898	596
Profit from operations before taxation and exceptional items (c)	4,174	3,868
Non-operating items	144	–
Exceptional finance charges	(9)	–
Exceptional operating items	(74)	(128)
Profit before taxation (d)	4,235	3,740
Tax rate before exceptional items (a/c)	20.6%	20.7%
Tax rate from operations after exceptional items (b/d)	21.2%	15.9%

Other definitions

Volume share is a brand's retail volume expressed as a percentage of the retail volume of all brands in its segment. Value share is a brand's retail sales value expressed as a percentage of the retail sales value of all brands in its segment. Unless otherwise stated, share refers to value share.

Price/mix is the number of percentage points by which the organic movement in net sales differs to the organic movement in volume. The difference arises because of changes in the composition of sales between higher and lower priced variants/markets or as price changes are implemented.

Shipments comprise the volume of products made to Diageo's immediate (first tier) customers. Depletions are the estimated volume of the onward sales made by our immediate customers. Both shipments and depletions are measured on an equivalent units basis.

References to emerging markets include Russia, Eastern Europe, Turkey, Africa, Latin America and Caribbean, and Asia Pacific (excluding Australia, Korea and Japan).

References to reserve brands include, but are not limited to, Johnnie Walker Blue Label, Johnnie Walker Green Label, Johnnie Walker Gold Label Reserve, Johnnie Walker Aged 18 Years, John Walker & Sons Collection, Johnnie Walker The Gold Route, Johnnie Walker The Royal Route and other Johnnie Walker super premium brands; Roe & Co; The Singleton, Cardhu, Talisker, Lagavulin and other malt brands; Buchanan's Special Reserve, Buchanan's Red Seal; Bulleit Bourbon, Bulleit Rye; Tanqueray No. TEN, Tanqueray Malacca Gin; Cîroc, Ketel One vodka; Don Julio, Casamigos, Zacapa, Bundaberg SDlx, Shui Jing Fang, Jinzu gin, Haig Club whisky, Orphan Barrel whiskey and DeLeón Tequila.

References to global giants include the following brand families: Johnnie Walker, Smirnoff, Captain Morgan, Baileys, Tanqueray and Guinness. Local stars spirits include Buchanan's, Bundaberg, Crown Royal, J&B, McDowell's, Old Parr, Yenì Raki, Black & White, Shui Jing Fang, Windsor and Ypióca. Global giants and local stars exclude ready to drink and beer except Guinness. References to Shui Jing Fang represent total Chinese white spirits of which Shui Jing Fang is the predominant brand.

References to ready to drink also include ready to serve products, such as pre-mix cans in some markets, and progressive adult beverages in the United States and certain markets supplied by the United States.

References to beer include cider and some non-alcoholic products such as Malta Guinness.

The results of Hop House 13 Lager are included in the Guinness figures.

References to the disposal of a portfolio of 19 brands comprise the following brands that were primarily sold in the United States: Seagram's VO, Seagram's 83, Seagram's Five Star, Popov, Myers's, Parrot Bay, Yukon Jack, Romana Sambuca, Scoresby, Goldschlager, Relska, Stirrings, The Club, Booth's, Black Haus, Peligroso, Grind, Piehole and John Begg.

References to the group include Diageo plc and its consolidated subsidiaries.

This Strategic Report, which has been approved by a duly appointed and authorised committee of the Board of Directors, was signed on its behalf by Siobhán Moriarty, the Company Secretary, on 25 July 2019.