OUR BUSINESS

Diageo is a global leader in beverage alcohol with iconic brands in spirits, beer and wine. We provide consumers with choice and quality across categories and price points.

Diageo has built a strong platform for growth through investing in our brands and route to consumer. Over the last five years we have made acquisitions in brands and local distribution while doubling the size of our luxury business. We have also made changes to our operating model and culture aligning Diageo behind the need for greater agility and responsiveness, creating a business that is closer to the consumer.

Our 21 market model[(i)] has established strong local business units, well positioned to win in increasingly competitive and fast paced operating environments.

We know that we must earn the trust and respect of everyone that comes into contact with our company. We must be transparent and authentic, demonstrating good citizenship every day, everywhere.

STRENGTH IN GLOBAL REACH AND ICONIC BRANDS

We have outstanding breadth and depth in our portfolio, with brands across price points and categories to meet consumer demand now and in the future.

DOING BUSINESS THE RIGHT WAY

For us, standards are everything, from how we produce and market our brands, to how we innovate and sell, and in governance and ethics as codified in our Code of Business Conduct.

WE PRODUCE

We produce our brands from more than 200 sites in over 30 countries. We are committed to efficient, sustainable production to the highest quality standards. Our export-led International Supply Centre (ISC) employs over 4,000 people across more than 55 sites in Scotland, England, Ireland, Italy and the Netherlands.

WE MARKET

We invest in world-class marketing to build our brands, focusing on connecting with existing and new consumers. For decades our brands have been at the forefront of marketing innovation and the same remains true today. We take seriously our obligations to market responsibly and help consumers make informed decisions.

WE INNOVATE

Innovation is critical to our continued growth. We are committed to finding breakthrough innovations to serve customers and consumers. We identify emerging trends, and boldly innovate at scale. Innovation is a permanent engine of growth for our business and we are restless in our search for new products.

WE SELL

Everyone at Diageo sells or understands how they can help sell. This is just one expression of the sales-led organisation we are building. In each of our 21 markets, we are passionate about ensuring our products are available where consumers want them. We work to deliver amazing consumer experiences and to extend our sales reach.

CREATING SHARED VALUE

Our distilleries, breweries and wineries are at the heart of the communities where we work. We have a responsibility to create shared value – for our shareholders, our people, and for the societies that enable our business to grow. Within the community, we are proud of our work to address development challenges, including skills, social enterprise and access to clean water, and to encourage responsible drinking.

Our values underpin our business and guide us. We are passionate about our customers and consumers and want to be the best. We give our people the freedom to do the best work of their careers and value everyone's contribution. We are proud of what we do, and how we do it.

Our purpose, celebrating life, every day, everywhere, is to make the most of life – to be the best at work, at home, with friends, in the community, and for the community. For our brands to be part of celebrations big and small.

(i) Throughout this Annual Report 2015, reference to Diageo's 21 geographically based markets will be stated as '21 markets'.

OUR GLOBAL REACH

One of Diageo's key strengths is its geographic reach. We operate as 21 geographically based markets around the world and have a presence in over 180 countries. We employ more than 33,000 talented people across our global business. 43% of Diageo's business is in the emerging markets in Latin America, Asia, Africa, Eastern Europe and Turkey. This presence is balanced through our strong businesses in the world's most profitable beverage alcohol market, the United States, and an integrated Western European business.

% SHARE OF NET SALES BY OUR 21 MARKETS

EACH OF OUR 21 MARKETS IS ACCOUNTABLE FOR ITS OWN PERFORMANCE AND FOR DRIVING GROWTH



	North America	Europe	Africa	Latin America and Caribbean	Asia Pacific
>15%	US Spirits and Wines	Western Europe[i]			
6–10%					India
3–6%	Diageo-Guinness USA (DGUSA)	Turkey	Nigeria East Africa	West LAC	Global Travel, Asia and Middle East
2–3%	Canada		Africa Regional Markets	Paraguay, Uruguay and Brazil	Australia North Asia Greater China
<2%		Russia and Eastern Europe[i]	South Africa	Mexico Venezuela Colombia	South East Asia

Based on reported net sales for the year ended 30 June 2015.
(i) On 1 July 2015, Russia became a standalone market and Eastern Europe was merged with Western Europe to create a Diageo Europe market.

DIAGEO REPORTS AS FIVE REGIONS



% SHARE BY REGION	North America	Europe	Africa	Latin America and Caribbean	Asia Pacific
Volume (%)	19.2	17.9	10.6	8.8	43.5
Net sales[ii] (%)	32.2	24.4	13.2	9.6	20.6
Operating profit[iii] (%)	45.4	25.2	10.0	8.2	11.2
Number of responsible drinking programmes[iv] (%)	21.1	24.5	14.1	19.8	20.5
Water withdrawals[iv] (%)	11.1	45.3	37.2	4.5	1.9
Carbon emissions[iv] (%)	8.5	51.8	35.0	3.2	1.5
Number of employees[v] (%)	9.8	33.0	16.5	8.8	31.9

(ii) Excluding corporate net sales of £80 million. (iii) Excluding exceptional operating charges of £269 million and corporate costs of £123 million. (iv) Excludes United Spirits Limited. See further details on pages 38–47. (v) Employees have been allocated to the region in which they reside.

OUR BRANDS

Our 21 market model affords each market the flexibility to select the right portfolio of brands to capture the unique consumer opportunities that exist in that market and place resources directly against our biggest growth opportunities.

Our 21 market structure means we now look at our brands through the lens of global giants and local stars, alongside our leading reserve brands. Our in-market local star brands can be individual to any one market, and provide a platform to accelerate the growth of our international premium spirits. A selection of these brands are included in the table below.

Global giants(i)

Local stars(ii)

Reserve(iii)

(i) Global giants represent 39% of Diageo net sales. (ii) Local stars represent 16% of Diageo net sales. (iii) Reserve brands represent 13% of Diageo net sales.

OUTSTANDING BREADTH AND DEPTH ACROSS PRICE POINTS

In our portfolio we have brands at almost every price tier of every category. The range of our price points means we are able to capture consumption shifts across the price spectrum. The breadth and depth of our business provide resilience, and enable us to sustain our performance over time.

	Ultra premium(i)	Super premium	Premium	Standard	Value
Scotch whisky	Johnnie Walker Blue Label	The Singleton of Glen Ord	Johnnie Walker Black Label	J&B	VAT 69
Other whisk(e)y	Crown Royal XR	Bulleit Bourbon	Crown Royal	7	
Vodka	Cîroc	Ketel One Vodka	Smirnoff Iced Cake	Smirnoff	Istan Blue
Rum	Ron Zacapa XO	Pampero Aniversario	Captain Morgan Private Stock	Captain Morgan	
Liqueur	Grand Marnier Cuvée du Cent Cinquantenaire 150	Grand Marnier Cuvée Louis Alexandre	Sheridan's	Baileys	Emmets
Tequila	DeLeón	Don Julio			
Gin	Tanqueray No. Ten		Tanqueray	Gordon's	Gilbey's
Local spirits	Shui Jing Fang		Yeni Rakı	Ypióca	McDowell's
Beer		Kilkenny	Guinness	Meta Beer	Dubic

(i) Ultra premium includes prestige.

OUR PERFORMANCE AMBITION

Diageo's Performance Ambition is to create one of the best performing, most trusted and respected consumer products companies in the world.

DIAGEO'S STRATEGY AIMS TO DELIVER OUR PERFORMANCE AMBITION THROUGH:

Prioritised investment in:

Premium core spirits(i)

Read more on page 16.

Reserve

Read more on page 16.

Targeted investment in:

Other spirits(i)

Beer

Wine

(i) Spirits include ready to drink (RTDs).

We measure progress against our Performance Ambition using the following financial and non-financial indicators:

1 Efficient growth
- Organic net sales
- Operating margin
- Earnings per share
- Free cash flow

2 Consistent value creation
- Return on average invested capital
- Total shareholder return

3 Credibility and trust
- Responsible drinking programmes
- Water efficiency
- Carbon emissions

4 Motivated people
- Health and safety
- Employee engagement

See our key performance indicators (KPIs) on pages 12–13.

OUR BUSINESS MODEL

Diageo has grown through investment in our brands and route to consumer, and by acquisitions to broaden our geographical footprint and our category depth and range. Our business model is designed to drive returns for shareholders, while creating value for our customers, employees and the communities in which we operate.

STRONG PLATFORM

- Broad portfolio
- Geographic reach
- Financial strength
- Efficient supply and procurement
- Leading capabilities
- Global functions
- Values

Broad portfolio: Diageo has world-leading brands across categories and price points.

Geographic reach: we have geographic reach through the breadth and depth of our global and local brands.

Financial strength: our competitive advantage is reflected by our strong financial returns and consistent financial performance.

Efficient supply and procurement: across the world we have efficiency in supply and procurement, with our manufacturing operations working to high quality and environmental standards.

Leading capabilities: Diageo's focus is on brilliant execution including breakthrough marketing, scalable innovation, and winning relationships with our customers and consumers through distribution and sales.

Global functions: Diageo's 21 markets are supported by a global structure and shared services designed to share best practice, impart knowledge and help build capability at a local level, as well as apply governance of controls, compliance and ethics.

Values: at the heart of everything we do are our company values: passionate about customers and consumers; be the best; freedom to succeed; proud of what we do; valuing each other.

AGILE OPERATING MODEL

21 markets

- Participation strategy
- Supply management
- Consumer insights

Participation strategy: our participation strategy is to invest behind the biggest growth opportunities, by category and channel, for our brands in our 21 markets.

Supply management: our 21 markets are designated as import markets, import and third party production markets, or import and local production markets.

Consumer insights: our deep consumer insights help us to anticipate and respond to rapidly changing dynamics across all markets, and continue to nurture and grow some of the world's best-loved brands.

FOCUSED INVESTMENT

Performance drivers
Read more on page 16.

Sustainability & Responsibility imperatives
Read more on page 16.

Performance drivers: Diageo has identified six performance drivers which are key to achieving our aims. Each market focuses on the priorities that will drive performance in that market: **premium core brands**; **reserve**; **innovation**; **route to consumer**; **cost**; and **talent**.

Sustainability & Responsibility imperatives:
Alcohol in society – we aim to create a positive role for alcohol in society through partnerships and programmes that reduce harmful drinking.
Thriving communities – we must equip people in our business, our supply chain and our communities, particularly women, with the skills and resources they need to build a better future for themselves.
Environmental impact – we will make our products and business operations more environmentally sustainable, targeting water use, carbon emissions and waste, reducing the volume of packaging we use and sourcing paper and board from sustainable forests.

Our performance drivers and Sustainability & Responsibility imperatives are underpinned by our commitment to the highest standards of governance and ethics.

Value creation: shareholder value; investment in the business; customer, employee and social value

CHAIRMAN'S STATEMENT: WE ARE CREATING ONE OF THE BEST PERFORMING, MOST TRUSTED AND RESPECTED CONSUMER PRODUCTS COMPANIES.

Over the last two years we have taken the necessary steps to strengthen Diageo, to position our company to drive sustainable growth and value for you, our shareholders, and to ensure we are a trusted and respected partner to all our stakeholders around the world.

Interim dividend per share

21.5p (↑9%)

31 December 2013: 19.7p

Final recommended dividend per share

34.9p (↑9%)

30 June 2014: 32.0p

Total dividend per share[(i)]

56.4p (↑9%)

Full year 2014: 51.7p

(i) Includes recommended final dividend.

Diageo is a leader in beverage alcohol, one of the most attractive growth sectors in consumer products. With our portfolio of global and local brands, and the presence we have built in developed and emerging markets, we are well positioned to capture this growth.

Performance and dividend

In a volatile global environment, our commitment to being one of the best performing, most trusted and respected consumer products companies is as strong as ever. Ivan and the Executive Committee have taken actions to strengthen the business to deliver operational and cultural change, greater agility and responsiveness. Performance this year reflects these actions and continued tough conditions in some markets. In addition, currency volatility affected trading, especially in some of our scotch markets where currency devaluation impacted the price of imported goods for local consumers.

We are more focused than ever on managing cost and delivering cash, and I am pleased that we achieved strong cash conversion, over 100%, during the year. This, together with the actions we are taking to realise our full potential, has enabled the Board to recommend a final dividend of 34.9 pence per share. This would bring the total dividend for the year to 56.4 pence per share, an increase of 9% over the prior year. The final dividend will be paid to shareholders on 8 October 2015. Earnings per share to dividend cover at 1.6 times is now outside our cover ratio, and we will look to rebuild cover over time, maintaining dividend increases at a mid-single digit rate until we are back in range.

Strategic progress

Diageo's strategy is delivered through a market focus. In individual markets, we compete with our iconic global brands and local stars while building strong routes to consumer. Our in-market teams are accountable for delivering holistic performance and are empowered to act with speed and agility, supported by the scale and expertise of our global business.

As a business we have been focused on organic growth while capturing inorganic opportunities. For example, we have been capitalising on North American whisk(e)y trends with the launch of Crown Royal Regal Apple and the continuing success of Bulleit and our other craft bourbons. We have also been broadening our participation in new categories and across price points, with the Orijin brand in Nigeria and Haig Club, a single grain Scotch whisky.

Diageo acquired a majority stake in United Spirits Limited (USL) in India in July 2014, consolidating Diageo's position as a local leader in spirits in this exciting growth market. We are now moving into the next phase of integration, prioritising brand investment, driving efficiencies and continuing the implementation of Diageo's operational and governance standards across the business, while putting in place a route to consumer team to further develop USL's already impressive market coverage.

In February 2015, we completed the acquisition of the remaining 50% of tequila brand, Don Julio. In gaining full global ownership and management control of the brand and its supply assets, we enhance our position in the high growth segments of super and ultra premium tequila. With this deal we also repatriated the Smirnoff brand into our in-market company in Mexico which will allow us to extend our leading position in spirits in this attractive market.

We remain committed to reviewing our portfolio to ensure that we are the best owners of our assets. We realised full management control of Don Julio through the sale of Bushmills. While Bushmills is a good brand, this was the right strategic decision for Diageo as we invest behind the biggest growth opportunities. The sale of the Gleneagles Hotels Limited is another example of Diageo's decision to focus on key priorities. Following the success of the Ryder Cup we felt it was an appropriate time to realise value through this sale. We are pleased that the new owner of Gleneagles has committed to be a significant inward investor in Scottish tourism and will work closely with the local community to make a positive contribution to the visitor industry and the Scottish economy.

Sustainability and responsibility

Diageo has a long history of working within the communities where our products are enjoyed, and we understand that the role and impact of alcohol within society must be our primary focus. Our work to promote responsible drinking and reduce alcohol-related harm remains central to our purpose of celebrating life every day, everywhere, and we share the goal of the World Health Organization (WHO) to reduce the harmful use of alcohol by 10% by 2025. In line with the industry's commitments, during the year progress was made on underage drinking, reducing drink driving and strengthening marketing codes.

We are proud of the broad contribution we are making to society, through our economic contribution and through our three community programmes: Learning for Life, Water of Life and Plan W. These programmes have: provided training and skills to more than 100,000 people in the Americas and Britain to help them secure new jobs; delivered access to clean water and sanitation to more than 10 million people in Africa supporting better health; and empowered around 100,000 women across Asia. And within Diageo, we continue to champion diversity and inclusivity. One example of this is the level of female representation at Board and Executive Committee level, at 45% and 40% respectively.

Business environment

With our strong portfolio of Scotch whisky brands, we have a deep commitment to Scotland built on the heritage of some of the industry's greatest entrepreneurs. The current debate over the United Kingdom's role within the European Union is one in which Diageo is actively engaged. We want our Scotch whisky business, which makes a considerable contribution to the British economy, to remain competitive in the global marketplace and believe that the best interests of the whole industry are served by the United Kingdom remaining within a strong, reformed European Union.

Board changes

Having been on the Board for nine years, Laurence Danon will step down at the upcoming Annual General Meeting. On your behalf I would like to thank Laurence for her contribution over a period of progress and growth for Diageo. In July 2015, we announced that Emma Walmsley will join the Board as a Non-Executive Director effective 1 January 2016. Emma is currently Chief Executive Officer of GSK Consumer Healthcare.

Our people

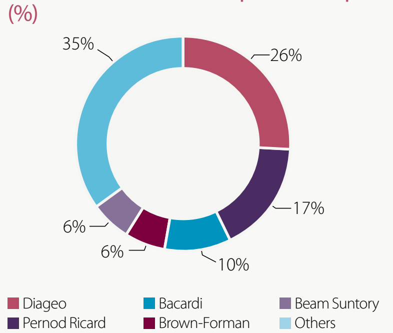
Diageo's success is in the hands of our 33,000 employees around the world. I would like to thank them all for their dedication and hard work during the year. We must create an environment that stretches and challenges our people and enables them to do their best work, living our values each and every day. I am committed to continuing to build such an environment, and look forward to working with my colleagues on the Board and throughout the business to make sure that we do.

Looking ahead

Your Board is confident that Diageo will deliver its Performance Ambition. Over the last two years we have taken the necessary steps to strengthen Diageo, to position our company to drive sustainable growth and value for you, our shareholders, and to ensure we are a trusted and respected partner to all our stakeholders around the world.

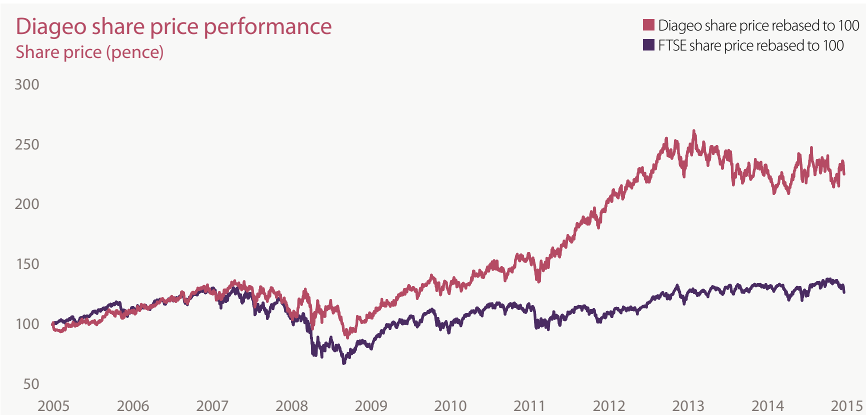
Dr Franz B Humer
Chairman

Global volume share of premium spirits (%)



Source: Impact Databank, February 2015

Diageo share price performance
Share price (pence)



CHIEF EXECUTIVE'S STATEMENT: WE HAVE DELIVERED CHANGES WHICH WILL BUILD STRONG, SUSTAINED PERFORMANCE.

> The fundamentals for future growth remain strong: Diageo will benefit from the increasing penetration of spirits in emerging markets, innovation and the growing appetite for luxury spirits around the world.

In the next decade one billion new consumers will be able to afford our brands and an additional 800 million consumers will reach levels of income where luxury brands are affordable. Diageo has the leading position in the United States, an integrated Western Europe business, a strong beer platform in Africa from which to build spirits, the leading spirits business in India, and a strong presence in the growth markets of Latin America and Asia.

This year we improved cash conversion, strengthened our route to consumer, delivered industry leading innovation at scale, extended our leadership in reserve and accelerated delivery of our programmed cost savings. We have further sharpened our marketing to better navigate changing consumer trends. So, while some markets have been challenging, we remain confident in the long term global demographics and our ability to deliver growth through the business transformation we are effecting.

Driving operational and cultural change

In the past year we have implemented some important changes to strengthen our business. These changes are aimed at providing greater visibility and will allow us to react more quickly to changes in the marketplace, consumer sentiment and demand.

- We have completed our shift to a market-led model, enabling greater speed in the way we execute and local accountability.
- We have shifted our focus to the consumer, allowing us to make better decisions on how we use our marketing spend and run our supply chains.
- We have embedded a productivity discipline, in order to create more opportunity to invest behind growth in our brands.
- We continue to ensure we have the right people with the right capabilities to deliver our plans across our business.

Results

Organic net sales were flat. Volume declined 1% reflecting a destock in South East Asia, lower shipments in the United States and improving price/mix led by the growth of reserve brands.

Organic operating margin was up 24 basis points delivered by cost savings and efficiencies, which more than offset the impact of cost inflation and negative market mix. Our global efficiency programme identified £200 million of cost savings to be delivered by the end of fiscal 2017. We delivered £127 million this year, and as planned reinvested £30 million of the savings.

Free cash flow was up over £700 million this year, to almost £2 billion, as I made cash a clear priority for improvement. To deliver this, incentive programmes were changed and we set clear targets for each market. This focus has led to many examples across markets where we have improved processes and ways of working to reduce our working capital. The sales of the Bushmills brand and the Gleneagles Hotel also generated cash in the year.

Earnings per share before exceptionals fell 7% to 88.8 pence largely as a result of adverse exchange movements and lower income from associates and joint ventures, offset by underlying improvements.

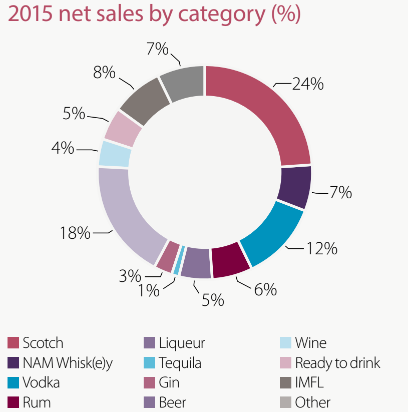
Sustainability and responsibility

In December 2014 we launched our 2020 Sustainability & Responsibility targets. Stretching and industry leading, our 2020 targets address our most material issues: leadership in alcohol in society; building thriving communities; and reducing our environmental impact. The 2020 targets draw on our achievements to date and are aligned with the new, emerging United Nations Sustainable Development Goals.

With these targets, we are going beyond the establishment of programmes on responsible drinking, community development and environmental performance, to focus on measuring their impact, challenging ourselves to strengthen their value, impact and scale. In doing so, we will work in partnership with governments, civil society, individuals, NGOs and other companies to put in place programmes with quantifiable outcomes. We continue to support fully the Global Producers' Commitments, a co-ordinated industry response to support the World Health Organization's (WHO) Global Strategy to Reduce the Harmful Use of Alcohol.

In April this year we announced an ambitious strategy for water stewardship. With water a pressing business and global issue, our Water Blueprint recognises the responsibilities of operating in water-stressed areas and explains how we will support the sustainability of the water resources on which we and those around us rely.

2015 net sales by category (%)



Our Water Blueprint and our progress towards all of our targets are essential parts of our long term plan, not just in enabling sustainable operations but also in creating opportunities for growth.

Our people

It is a privilege to work with Diageo teams across the world. I feel honoured to lead a company where purpose and values are deeply ingrained. The commitment of our people to get behind the decisions taken during the year is encouraging. This was demonstrated in the results of our annual employee Values Survey, with employee engagement improving through a tough performance period. This evidence of the passion and commitment all of us hold for Diageo is the perfect fuel to drive future growth, and I look forward to working with our teams across the business, implementing the exciting plans we have for the year ahead.

Larry Schwartz, President Diageo North America, will retire at the end of this calendar year. Larry has many achievements in a 40-year career in the industry, not least his commitment to deliver growth for Diageo and build our strong North American platform. Deirdre Mahlan, currently Chief Financial Officer and the incoming leader of this business, will have this platform to build on as she drives the next stage of Diageo North America's growth.

Productivity

At the end of July 2015, we announced our intention to deliver productivity gains of a further £500 million over three years from fiscal 2017 to invest in growth and improve margin. As we achieve our productivity gains we expect to deliver mid-single digit organic top line growth on a sustained basis and operating margin expansion of 100 basis points over the same three year period.

Outlook

The fundamentals for future growth remain strong: Diageo will benefit from the increasing penetration of spirits in emerging markets, innovation and the growing appetite for luxury spirits around the world.

We have taken some tough decisions over the last couple of years to set Diageo up to deliver strong, sustained performance. Today we are closer to the consumer, more agile, and focused on productivity, with the people, skills and capabilities to deliver on the opportunity. We are at an exciting point on our journey. In 2016, we believe stronger volume growth will deliver an improved top line performance.

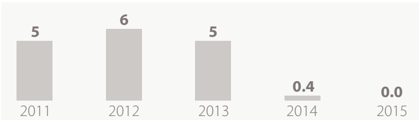
Ivan Menezes
Chief Executive

HOW WE MEASURE PERFORMANCE: KEY PERFORMANCE INDICATORS

FINANCIAL

ORGANIC NET SALES GROWTH (%)

0.0%



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.

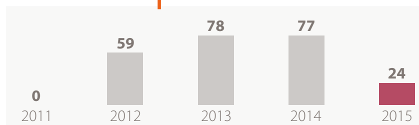
Performance
Organic net sales were flat, with volume decline of 1% reflecting a destock in South East Asia and West LAC, lower shipments in the United States and improving price/mix led by the growth of reserve brands.

See page 23 for more detail.

FINANCIAL

ORGANIC OPERATING MARGIN IMPROVEMENT (BPS)

+24bps



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.

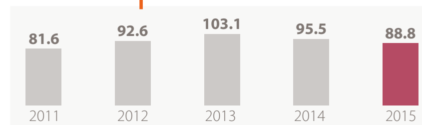
Performance
Margin improved mainly due to cost savings, primarily through our global efficiency programme, partially offset by reinvestment in route to consumer, cost inflation and negative market mix.

See page 23 for more detail.

FINANCIAL

EARNINGS PER SHARE BEFORE EXCEPTIONAL ITEMS (PENCE)[i]

88.8p



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 was down by 6.7 pence per share driven by adverse exchange movements and lower income from associates and joint ventures, offset by underlying improvements.

See page 23 for more detail.

NON-FINANCIAL

ALCOHOL IN SOCIETY[iii] (RESPONSIBLE DRINKING PROGRAMMES)

298 PROGRAMMES

Definition
Programmes supported by Diageo that aim to reduce harmful drinking.

Why we measure
Alcohol-related harm is our most important social issue. These programmes address risks such as: harm to consumers and communities; limitations to our licence to operate; and the loss of trust and respect from our stakeholders.

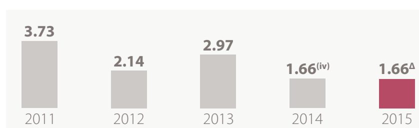
Performance
In shifting our focus towards the Global Producers' Commitments, we supported fewer programmes this year, and in line with our 2020 target, we are prioritising impact, which involves supporting fewer but more effective programmes.

See page 39 for more detail.

NON-FINANCIAL

HEALTH AND SAFETY[iii] (LOST-TIME ACCIDENT FREQUENCY PER 1,000 EMPLOYEES)

1.66$^{\Delta}$



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

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

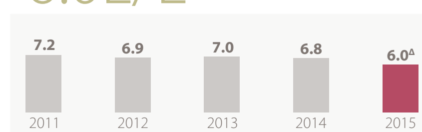
Performance
Our overall lost-time accident frequency rate has remained static – despite improvements in our operations, our accident rate in offices and sales functions has increased. Addressing this will be a key focus for us in 2016.

See pages 44–45 for more detail.

NON-FINANCIAL

WATER EFFICIENCY[iii], [v] (L/L)

6.0L/L$^{\Delta}$



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. To sustain production growth and respond to the growing global demand for water, we aim to improve efficiency, minimising our water use, particularly in water-stressed areas.

Performance
11.8% improvement on 2014, resulting from process optimisations and improvements related to equipment, raw material handling, culture and behaviour towards water stewardship.

See page 41 for more detail.

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

Their relevance to our strategy and our performance against these measures are explained below:

Relevance to strategy

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

FINANCIAL ® 1

FREE CASH FLOW (£ MILLION)

£1,963m

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.

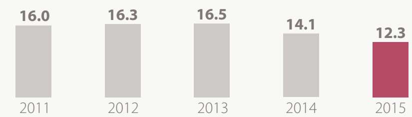
Performance
Improved working capital, primarily due to lower debtors driven by phasing of sales in the last quarter, was the biggest driver of the improvement in free cash flow.

See page 23 for more detail.

FINANCIAL 2

RETURN ON AVERAGE INVESTED CAPITAL (ROIC) (%)(ii)

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.

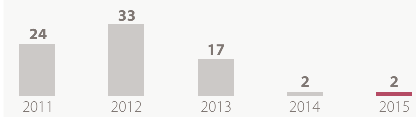
Performance
The additional investment in United Spirits Limited and its full consolidation reduced ROIC by 1.1 pps. Adverse exchange and lower income from associates resulted in a further reduction offset by organic operating profit growth.

See page 23 for more detail.

FINANCIAL ® 2

TOTAL SHAREHOLDER RETURN (%)

2%



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

Why we measure
As a public limited company, Diageo has 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 2% as dividends paid increased by 9% and earnings declined mainly as a result of adverse exchange movements.

NON-FINANCIAL 3

CARBON EMISSIONS(iii), (vi) (1,000 TONNES CO_2E)

652Δ

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

Why we measure
Carbon is a key element of our overall environmental impact and the impact of the industry. We recognise the importance of reducing our carbon emissions, not just to create efficiencies and savings now, but also to mitigate climate change and position us well for a low carbon economy in the future.

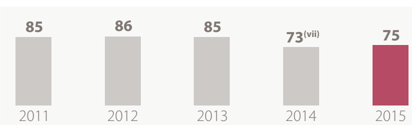
Performance
Improved performance resulting from cumulative impacts of multiple energy efficiency initiatives and switches to renewable fuels, predominately biogas recovery and reuse.

See page 42 for more detail.

NON-FINANCIAL 4

EMPLOYEE ENGAGEMENT INDEX (%)

75%



Definition
Measured through our Values 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 Annual Values Survey. Our people confirmed that one of our core strengths continues to be our employees' pride and strong sense of ownership of our business and our brands.

See pages 44–45 for more detail.

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 63 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) The group has revised the return on average invested capital calculation by excluding the profit and net assets attributable to non-controlling interests. Comparative figures have been restated.

(iii) Excludes United Spirits Limited. See pages 38-47 for further details.

(iv) Revised comparative amount to be consistent with current year presentation, see more details on page 45.

(v) In accordance with Diageo's environmental reporting methodologies, data for each of the four years in the period ended 30 June 2014 has been restated and total water used excludes irrigation water for agricultural purposes on land under the operational control of the company.

(vi) Data for each of the four years in the period ended 30 June 2014 has been restated in accordance with the WRI/WBCSD GHG Protocol and Diageo's environmental reporting methodology.

(vii) In 2014, we reviewed our overall approach to measuring engagement, and adopted a revised index (it is not possible to restate prior year figures under the new method, so 2011-2013 show highly engaged scores based on the former method). The new index allows us to compare our results with other best-in-class organisations, and sets a more challenging benchmark for employee engagement. As part of this process, we changed our key performance indicator from 'super engagement' to 'engagement'.

Δ Within KPMG's independent limited assurance scope. Please see page 143 for further details.

MARKET DYNAMICS

The global beverage alcohol market is large and diverse, with an estimated six billion equivalent units of alcohol sold each year, generating £300 billion of net sales. It is also one of the most regulated in the world, and beverage alcohol companies operate in the context of a range of stakeholder expectations and demands. This environment presents opportunities for a business like Diageo, with our global scale, our diverse range of leading brands, and our high standards of governance and ethics.

A growing global market

Beverage alcohol is a profitable, growing and attractive market in which to participate. Margins are significantly higher than for the overall consumer goods market, while, over the medium term, the industry is expected to grow in both volume and value. While the global market is split almost equally between emerging and developed markets, emerging markets are expected to grow at a faster rate.

Within emerging markets and developed markets, every individual market presents different consumer dynamics and a different outlook determined by specific local conditions. Our 21-market operating model, coupled with tailored local strategies, enables us to meet the specific needs of consumers across different geographies.

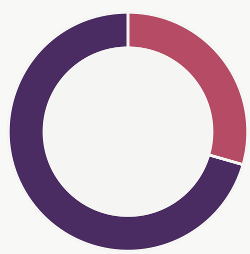
Opportunities in developed markets

In developed markets, the population is ageing, and in aggregate is growing more slowly than in emerging markets – in some countries it is shrinking. Overall, wealth is fairly static but is increasingly polarised as growth is skewed towards the most affluent. The opportunities in developed markets are therefore very different from emerging markets. Given the higher levels of disposable income and the importance of branding, in developed markets consumers are often prepared to pay more for high quality brands with heritage and provenance. Our key opportunities are to offer beer customers other products, particularly spirits, and, as tastes evolve, to encourage consumers to trade up within spirits brands.

Opportunities in emerging markets

Growth of beverage alcohol consumption in emerging markets is driven by strong, underlying consumer fundamentals. The number of people of legal purchasing age is growing worldwide, and is set to increase by over 450 million over the next decade. Wealth is increasing, with the middle class growing. This means more consumers are buying brands and they have more money to spend on them. There is a good opportunity for growth for spirits, as consumer tastes shift and disposable incomes rise.

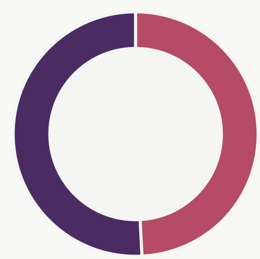
Split of global total beverage alcohol (TBA) volume (EU)



Developed markets
Emerging markets

Year ended 31 December 2014
Source: Diageo estimates

Split of global total beverage alcohol (TBA) net sales (£)



Developed markets
Emerging markets

Year ended 31 December 2014
Source: Diageo estimates

Factors affecting consumer choices

While medium-term prospects for beverage alcohol are robust and positive for the reasons described above, in the short term there are particular challenges that face all consumer goods businesses.

Economic and political instability

Sudden changes to economic variables such as exchange rates and commodity prices, or changes in levels of political security, can reduce consumer confidence and spending power. Over the last year alone we have witnessed considerable economic, social and political upheaval in many places: huge currency devaluations in Venezuela; geo-political conflict in Russia and Ukraine; the Ebola outbreak; and terrorist threats in Nigeria and Kenya, to name some examples. The general operating environment will continue to be a turbulent and unpredictable one in which to compete.

Our approach is based on broad participation across geographies, categories and price tiers, which provides a natural hedge against individual market volatility, while tailored strategies for each market allow us to respond quickly to local dynamics. Operationally, we continue to focus on improving our risk management processes, while our 21-market operating model enables our markets to respond quickly to local events and trends. Our renewed focus on managing the business according to what is actually bought by consumers rather than what we sell to our customers will also help to improve the consistency of our performance across markets.

Increasing expectations of businesses and brands

Consumers today – particularly millennials – have increasing expectations of the businesses behind the brands they love. It is not enough to provide a great product and brand experience: companies must make a contribution that goes beyond economic benefits, to encompass environmental and social benefits as well.

This is reflected in the developing regulatory framework for listed companies, which are expected to be transparent about their key social and environmental issues, and, through reporting, to demonstrate progress. Going beyond what is mandatory has become the norm for global businesses, which are adopting various voluntary frameworks. These include the International Integrated Reporting Framework, published last year, the Global Reporting Initiative Guidelines, launched in 2000 and updated last year, and the United Nations Global Compact principles, established in 2006, all of which we follow in our reporting.

This high and growing level of regulation and scrutiny can be an advantage to companies with good corporate governance and the right approach to sustainability and responsibility.

Creating a positive role for alcohol in society

Diageo has always believed that creating a positive role for alcohol in society is about working in partnership with all the relevant stakeholders, through concerted industry initiatives. We are one of 13 global producers of beer, wine and spirits which, in 2013, launched a set of commitments designed to support Member States' implementation of the World Health Organization's (WHO) global strategy to reduce the harmful use of alcohol. They include a focus on reducing underage drinking, strengthening and expanding marketing codes of practice, providing consumer information and responsible product innovation, reducing drink driving, and enlisting the support of retailers to reduce harmful drinking.

Diageo also believes that the most effective alcohol policies are evidence-based, account for drinking patterns, target at-risk groups, treat all forms of alcohol equally, and involve all stakeholders. Such policies include mandating a minimum legal purchasing age of not less than 18; a maximum blood alcohol concentration (BAC) level for drivers of no more than 0.08mg; and lower BACs for novice and commercial drivers. Also effective are high-visibility enforcement campaigns of drink-driving laws and alcohol interlock devices for convicted drink drivers.

Diageo advocates these policies while opposing measures that are not based on evidence, and are likely to have unintended consequences. For example the use of high taxes to control consumption can in some cases push consumers to unregulated alcohol markets. These are potentially dangerous for consumers – what little is known about this 'unrecorded' alcohol, which the WHO estimates accounts for 25% of alcohol consumed, suggests that some may be contaminated, some toxic, and a risk to public health.

Factors affecting the operational environment

The developments in reporting social and environmental issues noted above are a reflection of their importance to business performance. The interdependence of companies and their local environments, communities and economies is a growing phenomenon, which Diageo has long recognised through our sustainability and responsibility programmes. In December 2014 we launched our 2020 Sustainability & Responsibility targets, which focus on three imperatives: leadership in alcohol in society; building thriving communities; and reducing our environmental impact.

Climate change and water scarcity

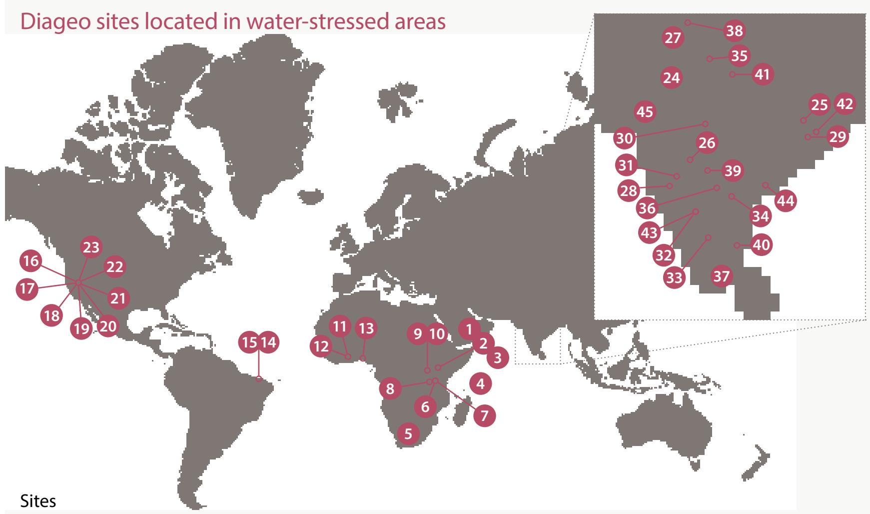
Companies – particularly those that rely on agricultural raw materials – are increasingly being affected by a variety of environmental issues associated with climate change, such as extreme weather events, water scarcity and biodiversity loss.

For the alcohol industry, water scarcity demands particular attention given that water is the main ingredient in all alcoholic beverages. The World Bank expects water scarcity to affect 2.8 billion people directly by 2025, and the increasing importance of water as a global issue is recognised in our Water Blueprint, launched in April 2015, which defines our strategic approach to water stewardship across the value chain. The map below shows our sites located in water-stressed areas where our approach to water stewardship is particularly important.

Local communities and supply chains

Alcohol beverage companies contribute to the economic development of their communities in a variety of ways, whether through direct or indirect employment, taxes or community investment efforts. However, companies can further contribute by leveraging the economic impact of their entire value chain in the way they work with suppliers and customers – and doing so is an increasing expectation of the private sector by government and international development institutions. One powerful trend in the food and beverage industry is a focus on local sourcing in markets with an agricultural economy or the potential for one, and, in Africa, we have a target of sourcing 80% of agricultural materials locally (sourced within Africa and used by our African markets). This helps build trust with government and other stakeholders, can help secure supply, and it delivers wider benefits to the local community.

Diageo sites located in water-stressed areas



Sites

1 Kenya Brewing, Nairobi
2 East Africa Maltings, Nairobi
3 Central Glass, Nairobi
4 Seybrew, Seychelles
5 SA Cider, South Africa
6 Dar es Salaam
7 Moshi
8 Mwanza
9 UBL, Kampala
10 IDU, Kampala
11 Accra, Achimota
12 Kumasi, Kaasi
13 Ogba, Lagos
14 Paraipaba, Ceará
15 Agricultural lands, Ceará
16 Blossom Hill Winery, California
17 Provenance, California
18 Acacia, California
19 Chalone, California
20 Sterling, California
21 Beaulieu, California
22 Sonoma, California
23 Diageo Chateau & Estate Vineyards, California
24 Alwar, Rajasthan
25 Asansol, West Bengal
26 Aurangabad, Maharashtra
27 Baddi, Himachal Pradesh
28 Baramati, Maharashtra
29 Bhadrakali, West Bengal
30 Bhopal, Madhya Pradesh
31 Four Seasons Winery, Maharashtra
32 Hospet, Karnataka
33 Kumbalgodu, Karnataka
34 Malkajgiri, Telangana
35 Meerut, Uttar Pradesh
36 Nacharam, Telangana
37 Palakkad, Kerala
38 Pathankot, Punjab
39 Pioneer, Maharashtra
40 Pondy, Kerala
41 Rosa, Uttar Pradesh
42 Serampore, West Bengal
43 Sovereign, Karnataka
44 Tern, Andhra Pradesh
45 Udaipur, Rajasthan

HOW WE WILL DELIVER OUR PERFORMANCE AMBITION

Diageo's performance drivers and Sustainability & Responsibility imperatives are key to achieving our Performance Ambition. Each of our 21 markets focuses on the priorities that are most relevant to driving growth and creating shared value in that market.

OUR SIX PERFORMANCE DRIVERS

1 Strengthen and accelerate growth of our premium core brands
Our premium core brands are sold in more than 180 countries around the world. They are enjoyed by consumers in developed markets and have wide appeal in emerging markets. They include iconic brands like Johnnie Walker, Smirnoff, Captain Morgan and Baileys.

2 Win in reserve in every market
Our reserve or luxury portfolio accounts for 13% of our total net sales. Over the last six years we have transformed our luxury brand building capabilities and are now the industry leader in the super and ultra premium segments.

3 Innovate at scale to meet new consumer needs
Our ability to innovate is a competitive advantage. A proven driver of growth, it is critical to the performance in each of our markets. Since 2009, innovation has accounted for at least half of Diageo's sales growth, growing double-digit each year.

4 Build and then constantly extend our advantage in route to consumer
Our global programme looks at how we can profitably extend where our brands appear and improve the quality of how they appear at every appropriate drinking or buying occasion, achieving higher rates of sale in an efficient way.

5 Drive out costs to invest in growth
Increasing productivity and efficiency within Diageo will improve profitability and allow us to invest back into the business to drive growth.

6 Ensure we have the talent to deliver our Performance Ambition
We employ bright, collaborative people at all levels in our business, and must continue to do so if we are to achieve our Performance Ambition. Ensuring that we have the best talent – now and in the future – is one of our biggest challenges and one of our greatest opportunities.

OUR THREE SUSTAINABILITY & RESPONSIBILITY IMPERATIVES

1 Leadership in alcohol in society
Creating a positive role for alcohol in society is our primary focus, and over the last decade we have supported hundreds of programmes to tackle harmful drinking and encourage responsibility. We will continue these efforts with our various stakeholder partners as well as focus on delivering the five Global Producers' Commitments[(i)].

2 Building thriving communities
Our distilleries, breweries and wineries are at the heart of our communities, and we have a responsibility to create shared value throughout our supply chain.
Our targets commit us to further partnerships with local farmers and agricultural communities to develop more sustainable supply chains and secure our raw material supply.

3 Reducing our environmental impact
Recognising that our impact on the environment is not limited to our own sites, our targets reflect the need to better manage water stewardship and carbon emissions across our whole supply chain. We will work increasingly with suppliers, striving to decouple the growth of our business from our impact on the environment.

(i) For more information on the Beer, Wine and Spirits Producers' commitments, visit www.producerscommitments.org.

Here we share a selection of case studies that demonstrate how we are executing our performance drivers at a market and global level. The case studies also show how our approach to Sustainability & Responsibility, including our commitment to governance and ethics, supports everything we do to deliver our Performance Ambition.

INNOVATING ON OUR PREMIUM CORE BRANDS

EUROPE – WESTERN EUROPE (GREAT BRITAIN)

Guinness, Gordon's, Smirnoff and Captain Morgan – between them, these iconic premium core brands share a rich heritage. These are brands that for years have delighted consumers, and in 2015, they are all building on their strengths and innovating to unleash their full potential.

In Great Britain there is good potential to grow the spirits industry – not by getting people to drink more, but by getting them to drink better. Focus on strengthening and innovating on our premium core brands – with launches this year of Captain Morgan White Rum, Smirnoff Ice Double Black, the Guinness Dublin and West Indies Porters, and Gordon's pouches – is key to unlocking growth. This year nearly 11% of our net sales in Great Britain were delivered by innovation. Diageo will continue to innovate to meet consumer needs, driving growth for our customers and our business.

Launching market-leading innovations across a variety of price points is no small undertaking – we have around 180 people working in innovation roles around the world, with 35 people working in innovation research and development in Great Britain. Finding and keeping the right people is a real challenge here, with so many companies fighting for talent. But we have an advantage. Our reputation for ground-breaking innovation, our leadership in alcohol in society, and the opportunities we offer employees to give something back through working with young adults on our Learning for Life programme, are at the heart of Diageo's appeal as the custodian of the great brands people enjoy – and love to celebrate with – every day, everywhere.

WINNING IN RESERVE IN MEXICO

LATIN AMERICA AND CARIBBEAN – MEXICO

Overall our business in Mexico grew 13% this year. We have a strong scotch portfolio and benefit from a range of brands across price points. We are also winning in reserve in Mexico, an important growth area for Diageo. We now have a market share of over 80% in luxury spirits, and we continue to invest. This year we continued to grow at a high double-digit rate, led by Zacapa and Johnnie Walker Blue Label, and we further strengthened our reserve portfolio with the acquisition of full global ownership and control of luxury brand Don Julio Tequila.

In a growing market that presents many opportunities, but also a changing regulatory landscape, building our business in Mexico needs to be underpinned by a significant and important focus on building trust and respect for Diageo, both nationally and locally in key cities.

We aim to be trusted and respected by the authorities who affect our business through regulation and taxation through both our broader approach to promoting responsible lifestyles and our Learning for Life training programme, helping people find jobs in the hospitality industry. Our Actuando Mejor or Model Cities programme is perhaps one of the most successful responsible drinking programmes we have ever developed. In the three years since it was launched, it has moved beyond Diageo to become a social movement and, as a recent evaluation shows, is shifting consumer attitudes with regards to drink driving and consumption patterns, and attitudes of vendors with regards to selling to minors.

Diageo is well placed to drive financial performance in Mexico, and is committed to the long term development of the beverage alcohol industry, which includes building economic and social value.

Strategic report
Governance
Financial statements
Additional information for shareholders

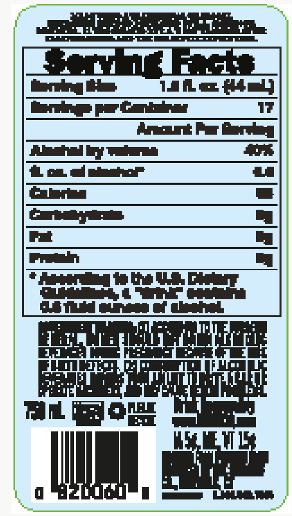
INNOVATION IN NORTH AMERICAN WHISK(E)Y

NORTH AMERICA – SPIRITS AND WINES

The beverage alcohol market in North America is competitive, and it's been a challenging year. The attractiveness of the market means it is one that others want to enter, leading to brand proliferation in most categories. To address this we have focused keenly on our innovation performance driver. This year, we launched our successful Crown Royal Regal Apple innovation. Crown Royal Regal Apple responds to the growing trend for flavour innovations in whisk(e)y and is an example of how we use innovation to rapidly respond to changing consumer tastes.

We also know that consumers have increasing expectations of the companies behind their favourite brands, expecting them to deliver environmental and social, as well as economic, benefits. This focus from consumers is aligned with our commercial interests. Sustainable manufacturing delivers efficiencies in our supply chain, while minimising our impact at a local level. For example, Diageo is building a new distillery in Shelbyville, Kentucky, due to be commissioned in 2016, which has been designed specifically to minimise impacts on local watersheds.

We have also scored an industry first for US consumers. After 12 years of advocating with a coalition of consumer and public health advocates, the US government recently allowed alcohol companies to include alcohol content and nutritional information per typical serve on packaging. In March we followed this by announcing our commitment to provide consumers around the world with this information – a first for any alcohol company. This is another example of how Diageo is helping consumers make more informed choices. See further details on page 39.



ROUTE TO CONSUMER ENHANCEMENTS IN GHANA DRIVE PERFORMANCE

AFRICA – AFRICA REGIONAL MARKETS (GHANA)

A depreciating local currency and demand for energy exceeding supply are examples of the operational issues that require our business in Ghana to think ever more creatively to drive performance. The discipline and structure of our six performance drivers have been essential in helping the team to make the bold decisions needed to take advantage of the potential the market offers and gain share.

Our route to consumer performance driver has the ability to significantly accelerate our performance in our markets. It multiplies the performance impact from strong execution on premium core, reserve and innovation, drives efficiencies in the supply chain and improves cash conversion. It also encourages productive use of trade and marketing investment and grows our sales people to be best-in-class.

Focusing on the route to consumer programme in Ghana is generating results. This year we have seen a strong sales uplift in Guinness Malta and Star lager driven by expanded coverage, a change to a more active sales culture and tactical execution. Moreover, we have made an important contribution to the underlying costs of the business by increasing local raw material sourcing from around 11% in 2012 to 45% in 2015. As well as protecting our business from exchange rate risk, local sourcing brings benefits to the local economy and communities.

Our environmental targets are helping us focus here too. Our aim of equipping local suppliers to protect water resources in water-stressed areas has caused us to invest in our Water of Life programmes where we source our raw materials, including, in 2015, 11 projects aiding close to 60,000 people, while also benefiting Diageo through guaranteeing the sustainability of our supply chain.

This work is not going unnoticed by the government and regulators, who are increasingly engaging with us on issues that matter, such as effective regulation of our industry. They are also seeking our input into how other local crops, such as sugar cane, may be used for beverage alcohol production. All these speak to our effectiveness and are mirrored in Ghana's net sales growth of 32% this year.

GLOBAL SERVICES REDUCE COSTS FOR OUR LOCAL MARKETS

Global Diageo Business Services (GDBS) provides a broad range of services from information systems management to general accounting, purchase and sales order processing, financial planning and reporting. These services are provided to Diageo businesses across the world from a network of four regional service centres. Their global scale and reach deliver significant cost savings and a strong control environment, while freeing our local teams to market and sell our great brands to customers and consumers. GDBS has delivered £49 million in savings since 2013, achieving an average year-on-year productivity of around 12% which is above world-class benchmarks for multi-functional shared services.

GDBS will create a further £50 million in savings by 2018, through operational efficiencies and extension into new services. Significantly, GDBS is developing an analytics service to provide business insights to drive performance, while equipping local sales teams with best-in-class technical solutions.

In support of our marketing agenda, a market-leading cloud-based digital infrastructure has been established, providing a cost effective, scalable and secure platform for our digital assets. Using external benchmarking, a comprehensive plan has been developed with our marketing function to accelerate digital capability building on this core platform.

GDBS

INTEGRATING UNITED SPIRITS LIMITED (USL)

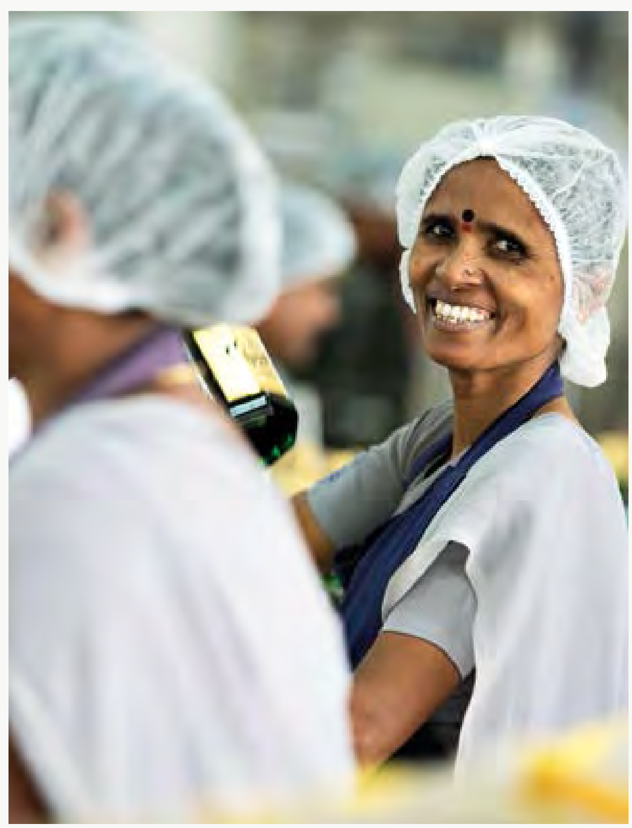
ASIA PACIFIC – INDIA

Our business in India is being transformed through the acquisition of USL. Integrating businesses is always a challenge, not least when you are introducing a new culture and different working practices. But, what really makes the difference is the determination of our teams in Diageo India and USL to make the transformation a success.

One of the biggest changes for USL has been the introduction of Diageo's operational and governance standards. One example of the steps that have been taken within USL is the establishment of a new compliance and ethics team to lead the effort, bringing USL's Code of Business Conduct in line with Diageo's, and an intense training effort to get USL's nearly 7,000 employees up to speed on the policies relevant to them.

Meanwhile, employees have also been getting accustomed to Diageo's safety culture and practices, which have made a huge difference to the lost-time accident rate – USL achieved its first ever accident-free month in March 2015.

We have always believed that our iconic brands, our global reach and our reputation as a trusted and respected business are central to our appeal – and that's borne out in what USL employees say about their pride in becoming part of Diageo, and their eagerness for the opportunities it offers to work alongside our iconic brands in many parts of the world.



HOW WE PROTECT OUR BUSINESS: RISK MANAGEMENT AND PRINCIPAL RISKS

Our Performance Ambition calls on us to be bold and to act like owners. Well managed risk taking lies at the heart of this. Great risk management drives better commercial decisions, creating a growing, resilient and sustainable business.

Our approach

Our risk management framework is straightforward. We believe that great risk management starts with the right conversations, that drive better business decisions. We assign clear accountability for managing our risks in the right way. It is the responsibility of each market and function to manage its risks directly, and then to report on the risks and their management to the relevant Executive member. The Diageo Executive reviews the effectiveness of risk management through the Audit & Risk Committee, and the Board exercises independent review through the Audit Committee, supported by Global Audit & Risk. The Diageo Executive updates the group's risk assessment annually, which is reviewed by the Board. Similarly, all markets and functions perform annual risk assessments and, at all levels in the business, risks are reviewed throughout the year, with updates to risks and/or mitigation plans made as necessary.

Further details about the group's risk management approach are described in the Report of the Audit Committee on page 60.

Focus in the year

The Diageo Executive and Board considered the risks described here as the group's key risks for this financial year. These range from risks that are wholly internal in interest (focus on sales and marketing talent) to risks that involve Diageo's place in society and evolving global threats (for example, cyber threat, and the risk of politically motivated violence). A revised Risk Management global standard, launched in August 2014, places renewed emphasis on leadership behaviours and on ensuring risk management is a basic part of doing business every day.

Beyond the set of key group risks, the Audit Committee also receives periodic updates on emerging or otherwise topical risks. For example, during the year, the Audit Committee received an update on brand assurance, which examined the nature of the risk (e.g. protection of brand intellectual property) as well as the specific risks faced by Diageo and how we are managing them.

ECONOMIC AND POLITICAL CHANGE

Risk 1 2

Significant local volatility or upheaval, or failure to react quickly enough to increasing volatility.

Impact
- Social unrest, liquidity issues, inflationary pressures, changes to tax systems and/or eroded consumer confidence, impacting our people's safety, our assets' security, business forecasting and/or performance.

How we mitigate
- On the ground market and country intelligence to build local preparedness for rapid change in external environment.
- Market visits by Chief Executive and other senior executives to review local strategy.
- Market-sensitive multi-country investment and capacity expansion strategy, and local sourcing strategy (e.g. to minimise currency risk).
- Monitoring and, where appropriate, expressing views on the formulation of tax laws either directly or through trade associations or similar bodies.

Developments in 2015
- Enhanced review by Audit & Risk Committee of market plans to deal with volatility.
- Use and development of scenario planning tools to build responses to future uncertain conditions.

NON-COMPLIANCE WITH LAWS AND REGULATIONS

Risk 1 2 3 4

Non-compliance with local laws or regulations, or breach of our internal global policies and standards and/or significant internal control breakdown.

Impact
- Severe damage to our corporate reputation and/or significant financial penalty.

How we mitigate
- Code of Business Conduct (Code) and periodic refresh training for employees on our global policies.
- Internal control assurance programme, with local management accountability.
- Strong tone from the top, anchored by our Performance Ambition of 'most trusted and respected'.

Developments in 2015
- Embedding the control and compliance frameworks in recent acquisitions.
- Enhancing internal processes for managing allegations of breaches of our Code.
- We have implemented an automated tool to improve the efficiency of aspects of our anti-bribery and corruption third party due diligence programme.
- Greater emphasis on developing the capabilities of our control and compliance global community.

RESPONSIBLE ALCOHOL PROMOTION AND CONSUMPTION

Risk 2 3 4

Failure to address the concerns of multiple stakeholders about the promotion and consumption of alcohol.

Impact
- One or more governments impose restrictions on access and/or increase tax and/or duty.
- Damage to our corporate reputation.

How we mitigate
- New Alcohol in Society targets including implementation of Global Producers' Commitments to Reduce Harmful Drinking and increased focus on programmes in markets with measurable outcomes.
- Strengthen industry response at global and local level.
- Increase knowledge about alcohol among stakeholders and consumers through the provision of information on packaging, online and via training courses.

Developments in 2015
- There have been no significant new regulations against alcohol during 2015, although restrictions on retail sales of beer in Indonesia impacted our business in South-East Asia.
- The Global Producers' Commitments to Reduce Harmful Drinking have been incorporated into the business performance review cycle.

Relevance to strategy

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

CRITICAL INDUSTRY DEVELOPMENTS

Risk 1 2 3
Failure to shape or participate in critical industry developments.

Impact
- Consumers move away from our brands.
- Less efficient business model compared to key competitors.

How we mitigate
- Broad portfolio of brands to ensure coverage of consumer trends.
- Continuous assessment and optimisation of business efficiencies.
- Rigorous processes of strategy development and governance at corporate and market level.
- Focus on building strategic capability at market level.

Developments in 2015
- Our mitigation approaches remain unchanged, and we have continued to deploy them in response to industry changes.
- For example, as the industry has seen accelerated growth in global primary Scotch, we have drawn on the breadth of our brand portfolio to meet this consumer demand e.g. in Mexico, with Black & White.

SUSTAINABILITY & RESPONSIBILITY

Risk 2 3 4
Failure to meet the expectations of stakeholders to make a positive contribution to the sustainability agenda.

Impact
- Long term damage to our corporate reputation.
- Less influence shaping the citizenship and sustainability agenda as it relates to beverage alcohol.

How we mitigate
- Sustainability & Responsibility Strategy based on material issues and stakeholder expectations at global and market level.
- Programmed delivery against a clear set of targets aligned to external stakeholders.
- Development of partnerships with external stakeholders to support delivery and scale up of strategy.

Developments in 2015
- We have announced new 2020 Sustainability & Responsibility targets.
- The emerging UN Sustainable Development Goals identify critical areas for activity. There is also a trend towards greater transparency on performance and the impact of our activities.
- In India, we are integrating and developing our environmental standards and community programmes with USL.

TALENT

Risk 1 2 3 4
Inability to recruit, retain and develop sufficient sales and marketing talent particularly in developing markets.

Impact
- Failure to achieve our growth plans.

How we mitigate
- Significant focus and intervention on moving talent into key local roles in developing markets.
- Strengthened learning and development strategy across the business.

Developments in 2015
- Global Talent Team established to ensure we have the talent pipeline to fill critical leadership roles, supported by a bigger focus on succession planning and external recruitment.
- We completed an in-depth analysis of commercial capability across our markets and have agreed a common set of commercial operating standards and supporting capability programmes and investment.

BUSINESS ACQUISITIONS

Risk 1 2 3
Failure to deliver value from acquisitions and/or integrate them into Diageo effectively, including failure to embed Diageo's standards of compliance with laws, internal policies and controls.

Impact
- Business case for an acquisition is not delivered resulting in impairment charges on goodwill or other intangible assets and failure to meet financial targets.
- Market confidence in Diageo's ability to deliver on its strategy is weakened.
- Damage to our corporate reputation.
- Prospects for securing regulatory approval for other potential business combinations are harmed.

How we mitigate
- Board and Executive Committee regularly track actual performance against the business case.
- Global minimum standards for control and compliance for post-acquisition entities, subject to internal audit review.

Developments in 2015
- We have continued to monitor the M&A environment and transact where appropriate (e.g. acquisition of 50% of Don Julio).
- Our focus has been on embedding recent acquisitions (e.g. USL) and, for acquisitions this year (Don Julio), making sure we have the right governance and integration platforms in place.

CYBER THREAT

Risk 1 2 3 4
Theft, loss and misappropriation of Diageo's most important digital assets.

Impact
- Financial loss, operational disruption and reputational damage.
- Non-compliance with statutory data protection legislation.

How we mitigate
- Employees trained on information management and security.
- Monitoring, identification and addressing of cyber threats and suspicious internal computer activity.
- Crisis response exercises to test and build resilience to cyber attacks.

Developments in 2015
- Continuous evolution of our response against the increase in the number and sophistication of cyber incidents.
- Increase in, and strengthening of, data protection laws in jurisdictions worldwide demanding ever greater focus on safeguarding data privacy.

POLITICALLY MOTIVATED VIOLENCE

Risk 1 3 4
Impacts from politically motivated violence , including terrorism.

Impact
- Diageo employees, sites or supply chain threatened and/or harmed.
- Our ability to operate in key markets is disrupted.

How we mitigate
- Monitoring of local security situation.
- In-country security managers oversee people security, physical security and business continuity programmes.
- Above-market travel security programme for all Diageo travellers.
- Above- and in-market liaison with government, academia, and industry on evolving threats and responding to incidents.

Developments in 2015
- Formulating standardised security threat levels to provide clarity for site response to threats.
- Expanding mandatory travel security training to markets with increasing risk.
- Political violence included in cross-functional risk scanning.

GROUP FINANCIAL REVIEW

Our performance this year reflected both the volatile global consumer and economic environment and the actions we took to strengthen the business. Reported net sales were up with the integration of USL and organic net sales flat driven by currency related challenges in specific emerging markets and embedding our sell out discipline. Our focus on cost delivered savings and drove margin expansion, prioritising cash resulted in a marked cash flow improvement and we continued to invest for the future.

Deirdre Mahlan, Chief Financial Officer

Reported net sales up
5%
with full consolidation of United Spirits

Free cash flow of
£2bn
up £0.7 bn

9%
final dividend increase to give recommended full year dividend of 56.4 pence

Organic net sales
flat

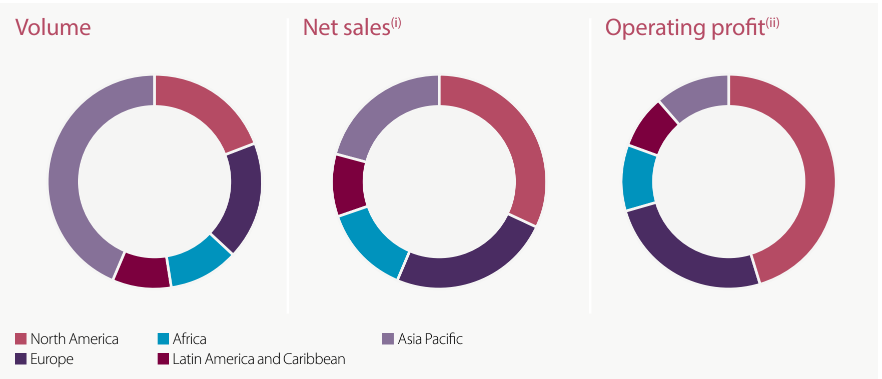
Organic operating margin up
24bps

Shipment volume down
1%

Depletion volume is estimated to be up
1%

Basic eps
95.0 pence
up 6%

Eps before exceptional items
88.8 pence
due to adverse exchange and associates, offset by underlying improvements



(i) Excluding corporate net sales. (ii) Before exceptional items and corporate costs.

Key performance indicators		2015	2014
Organic net sales growth	%	–	–
Organic operating margin improvement	basis points	24	77
Earnings per share before exceptional items	pence	88.8	95.5
Free cash flow	£ million	1,963	1,235
Return on average invested capital (ROIC)(i)	%	12.3	14.1

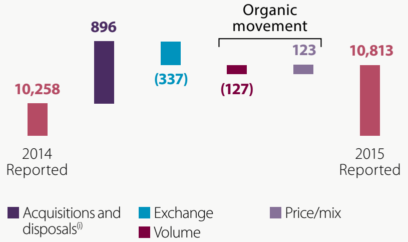
Other financial information		2015	2014
Volume	EUm	246.2	156.1
Net sales	£ million	10,813	10,258
Marketing spend	£ million	1,629	1,620
Operating profit before exceptional items	£ million	3,066	3,134
Operating profit	£ million	2,797	2,707
Share of associates and joint ventures profit after tax	£ million	175	252
Non-operating items	£ million	373	140
Net finance charges	£ million	412	388
Reported tax rate	%	15.9	16.5
Reported tax rate before exceptional items	%	18.3	18.2
Profit attributable to parent company's shareholders	£ million	2,381	2,248
Basic earnings per share	pence	95.0	89.7
Recommended full year dividend	pence	56.4	51.7

Organic growth by region	Volume %	Net sales %	Marketing spend %	Operating profit(ii) %
North America	(3)	(1)	(4)	(2)
Europe	–	–	2	3
Africa	7	6	4	10
Latin America and Caribbean	(7)	(1)	6	(3)
Asia Pacific	(3)	(2)	(8)	7
Diageo(iii)	(1)	–	(1)	1

(i) The group has revised the calculation of ROIC by excluding the net assets and net profit attributable to non-controlling interests. Before this adjustment, in the year ended 30 June 2014 the ROIC reported was 13.7%.
(ii) Before exceptional items.
(iii) Includes Corporate. In the year ended 30 June 2015 Corporate reported net sales and net operating charges before exceptional items were £90 million (2014 – £79 million) and £123 million (2014 – £130 million), respectively. The reduction in net operating charges before exceptional items is largely due to cost savings and exchange.

Net sales growth (£ million)

The full consolidation of USL, partly offset by adverse exchange delivered reported net sales growth of 5%. Organic net sales flat

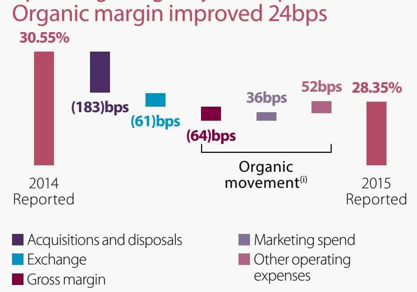


(i) Impact of acquisitions and disposals on 2014 and 2015. See page 24 for further details.

Reported net sales were up 5%, largely driven by the full consolidation of USL, which contributed £921 million of net sales. Currency weakness, other than the US dollar, had an adverse impact on net sales. Organic volume decline was largely driven by lower shipments in the United States, reduction in inventory levels in South East Asia and West LAC, and the impact of pricing in Venezuela and Brazil. While these price increases contributed to positive price, the main driver of organic price/mix was positive mix, led by growth of reserve and Crown Royal.

Change in operating margin (%)

Full consolidation of USL rebased operating margin by c200bps. Organic margin improved 24bps

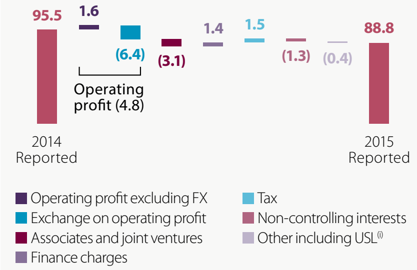


(i) Exchange impacts in respect of profit on intergroup sales of products and the intergroup recharges have been re-allocated to the respective profit and loss lines for the purposes of calculating margin impacts only.

The full consolidation of USL lowered reported operating margin for the group. The organic improvement in margin was largely as a result of cost savings and efficiencies, which more than offset the impact of cost inflation and negative market mix.

Earnings per share before exceptional items (pence)

Eps before exceptionals impacted by adverse exchange and decrease in associate profit



(i) The impact of fully consolidating USL results is included in other. The movements for operating profit, finance charges, tax and non-controlling interests, all exclude USL.

Eps before exceptional items fell 6.7 pence largely as a result of adverse exchange movements and lower income from associates and joint ventures. Organic growth in operating profit had a positive impact on eps. Net finance charges excluding acquired debt in USL reduced due to lower interest rates which benefited eps. Basic eps was 95.0 pence (year ended 30 June 2014 – 89.7 pence), with exceptional items increasing eps by 6.2 pence (year ended 30 June 2014 – 5.8 pence unfavourable).

Movement in net finance charges	£ million
2014 Reported	388
Net interest charge decrease	(48)
Consolidation of net borrowings acquired in USL	60
Movement in other finance charges	12
2015 Reported	412

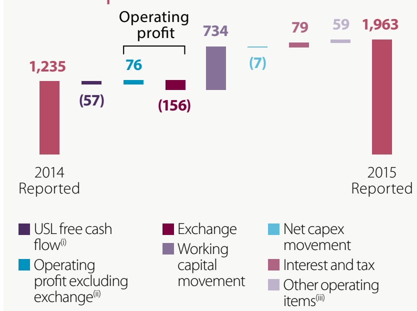
	2015	2014
Average monthly net borrowings (£ million)	10,459	9,174
Effective interest rate(i)	3.5%	3.8%

(i) For the calculation of the effective interest rate, the net interest charge excludes fair value adjustments to derivative financial instruments and borrowings. Average monthly net borrowings include the impact of interest rate swaps that are no longer in a hedge relationship but excludes the market value adjustment for cross currency interest rate swaps.

The increase in average net borrowings was principally the result of the acquisition of the controlling interest in USL, completed on 2 July 2014, and the consolidation of USL's net borrowings. The effective interest rate decreased in the year ended 30 June 2015 as the negative impact of consolidating USL's net borrowings was more than offset by lower interest rates on new debt issued and an increase in the proportion of floating rate debt through the use of swaps.

Free cash flow (£ million)

Positive working capital movement drove improvement in free cash flow

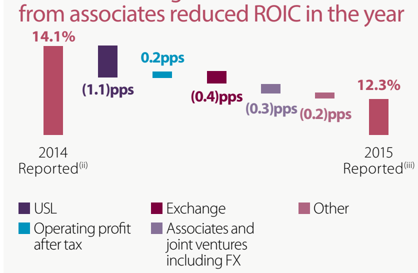


(i) USL free cash flow is shown separately and is excluded from the other line items shown above.
(ii) Operating profit adjusted for non-cash items including depreciation and amortisation.
(iii) Other operating items includes pension related payments, dividends received from associates and joint ventures, movements in loans receivable and other investments, and payments in respect of the settlement of Thalidomide.

The increase in free cash flow was primarily driven by the positive working capital movement. This was largely due to lower debtors as a result of phasing of shipments, with days sales outstanding 6 days lower than last year. This compares with an increase in debtors in the prior year.

Return on average invested capital (%)(i)

The investment in USL has rebased ROIC. Adverse exchange and lower income from associates reduced ROIC in the year



(i) ROIC calculation excludes exceptional items.
(ii) The group has revised the calculation of ROIC by excluding the net assets and net profit attributable to non-controlling interests. Before this adjustment, in the year ended 30 June 2014 the ROIC was reported as 13.7%.
(iii) For the years ended 30 June 2014 and 30 June 2015 average net assets were adjusted for the inclusion of USL as though it was owned throughout the year as it became an associate on 4 July 2013 and a subsidiary on 2 July 2014.

The additional investment in USL and full consolidation of its results reduced ROIC by 1.1pps. Exchange movements reduced operating profit, but the impact on ROIC was partially offset by exchange reducing invested capital. Lower income from associates reduced ROIC in the year.

INCOME STATEMENT

	2014 £ million	Exchange (a) £ million	Acquisitions and disposals (b) £ million	Organic movement £ million	2015 £ million
Sales	13,980	(509)	2,321	174	15,966
Excise duties	(3,722)	172	(1,425)	(178)	(5,153)
Net sales	10,258	(337)	896	(4)	10,813
Cost of sales(i)	(4,006)	61	(666)	26	(4,585)
Gross profit	6,252	(276)	230	22	6,228
Marketing	(1,620)	47	(74)	18	(1,629)
Other operating expenses(i)	(1,498)	68	(85)	(18)	(1,533)
Operating profit before exceptional items	3,134	(161)	71	22	3,066
Exceptional operating items (c)	(427)				(269)
Operating profit	2,707				2,797
Non-operating items (c)	140				373
Net finance charges	(388)				(412)
Share of after tax results of associates and joint ventures	252				175
Profit before taxation	2,711				2,933
Taxation	(447)				(466)
Profit from continuing operations	2,264				2,467
Discontinued operations (c)	(83)				–
Profit for the year	2,181				2,467

(i) Before exceptional operating items.

(a) Exchange

The impact of movements in exchange rates on reported figures is principally in respect of the Venezuelan bolivar, the euro, the Russian rouble and the US dollar.

In February 2015, the Central Bank of Venezuela opened a new mechanism (known as SIMADI) that allows private and public companies to trade foreign currency with fewer restrictions than other mechanisms in Venezuela. As a result, the group has used the SIMADI exchange rate to consolidate its Venezuelan operations for the year ended 30 June 2015. For the year ended 30 June 2014, the group applied the Sicad II exchange rate to consolidate its operations in Venezuela.

Applying the SIMADI consolidation rate of \$1 = VEF197.30 (£1 = VEF309.76) compared to the Sicad II rate of \$1 = VEF49.98 (£1 = VEF85.47) would have reduced net assets and cash and cash equivalents as at 1 July 2014 by £60 million and £52 million, respectively, and would have reduced the previously reported net sales and operating profit for the year ended 30 June 2014 by £57 million and £36 million, respectively.

The effect of movements in exchange rate and other movements on profit before exceptional items and taxation for the year ended 30 June 2015 is set out in the table below.

	Year ended 30 June 2015	Year ended 30 June 2014
Exchange rates		
Translation £1 =	**\$1.57**	\$1.63
Transaction £1 =	**\$1.58**	\$1.59
Translation £1 =	**€1.31**	€1.20
Transaction £1 =	**€1.23**	€1.26

	Gains/ (losses) £ million
Translation impact	(72)
Transaction impact	(89)
Operating profit before exceptional items	**(161)**
Net finance charges – translation impact	(7)
Mark to market impact of IAS 39 on interest expense	8
Impact of IAS 21 and IAS 39 on net other finance charges	1
Interest and other finance charges	2
Associates – translation impact	(20)
Profit before exceptional items and taxation	**(179)**

(b) Acquisitions and disposals

The impact of acquisitions and disposals on the reported figures was primarily attributable to the full consolidation of United Spirits Limited (USL) from 2 July 2014 and the acquisition of the Mexican distribution rights of Don Julio, partially offset by the disposal of The Old Bushmills Distillery Company Limited on 27 February 2015 and Gleneagles Hotels Limited on 30 June 2015. See page 50 for further details.

(c) Exceptional items

Exceptional operating charges of £269 million (2014 – £427 million) in the year ended 30 June 2015 comprise:

- £47 million (2014 – £98 million) in respect of the Global efficiency programme announced in January 2014;
- £35 million (2014 – £35 million) in respect of the Supply excellence restructuring programme;
- £41 million in respect of the impairment of the group's 45.56% equity investment in Hanoi Liquor Joint Stock Company; and
- £146 million in respect of settlement of several related disputes with the Korean customs authorities regarding the transfer pricing methodology applicable to imported products. Total payments to settle these disputes in the year were £74 million as £87 million was paid to the customs authorities prior to 30 June 2014, and was previously accounted for as a receivable from Korean customs.

In the year ended 30 June 2014 an exceptional impairment loss of £260 million in respect of the Shui Jing Fang brand and £4 million in respect of tangible fixed assets was charged to other operating expenses.

Non-operating items in the year ended 30 June 2015 include a gain of £103 million (2014 – £140 million) following the acquisition of additional equity shares in USL which increased the group's investment in USL from 25.02% to 54.78%, excluding the 2.38% interest owned by the USL Benefit Trust (2014 – 10.04% to 25.02%). On 2 July 2014 when USL became a subsidiary of the group a gain was recognised on the difference between the book value of the 25.02% investment and the fair value. The gain is net of a £79 million cumulative exchange loss recycled from other comprehensive income and £10 million transaction costs.

On 27 February 2015, the group completed the purchase of the 50% equity interest in Don Julio B.V. that it did not already own (giving Diageo 100% ownership of the brand and production facility) and the

Mexican distribution business of Don Julio. As a result of Don Julio becoming a subsidiary of the group a gain of £63 million arose, being the difference between the book value of the joint venture on the date of the transaction and the fair value. In addition, the group reacquired the production and distribution for Smirnoff and Popov in Mexico. As part of the transaction, Diageo also agreed to sell 100% of the equity share capital in The Old Bushmills Distillery Company Limited resulting in an exceptional gain of £174 million.

On 30 June 2015, Diageo completed the disposal of Gleneagles Hotels Limited to the Ennismore group resulting in an exceptional gain of £73 million.

In the year ended 30 June 2015 a provision of £30 million was charged to non-operating items in respect of a guarantee provided to a third party financial institution.

Discontinued operations in the year ended 30 June 2014 comprised a charge after taxation of £83 million (£91 million less tax of £8 million) in respect of the settlement of thalidomide litigation in Australia and New Zealand and anticipated future payments to thalidomide organisations.

Cash payments in the year ended 30 June 2015 for exceptional restructuring items, the legal settlement in Korea, the guarantee and thalidomide were £117 million (2014 – £104 million), £74 million (2014 – £nil), £30 million (2014 – £nil) and £19 million (2014 – £59 million), respectively.

(d) Dividend

The directors recommend a final dividend of 34.9 pence per share, an increase of 9% from the year ended 30 June 2014. The full dividend will therefore be 56.4 pence per share, an increase of 9% from the year ended 30 June 2014. Subject to approval by shareholders, the final dividend will be paid on 8 October 2015 to shareholders on the register on 14 August 2015. The ex-dividend date is 13 August 2015. Payment to US ADR holders will be made on 14 October 2015. A dividend reinvestment plan is available to holders of ordinary shares in respect of the final dividend and the plan notice date is 17 September 2015.

The recommended final dividend increase is 9%, in line with the increase in the interim dividend. This rate of increase recognises that while eps has declined, the decline was mainly driven by the impact of exchange movements in a year when free cash flow has improved strongly. Eps to dividend cover at 1.6 times is however now outside management's coverage ratio, and the group will look to rebuild cover over time, maintaining dividend increases at a mid-single digit rate until it is back in range.

MOVEMENTS IN NET BORROWINGS AND EQUITY

Movement in net borrowings	2015 £ million	2014 £ million
Net borrowings at the beginning of the year	(8,850)	(8,403)
Free cash flow (a)	1,963	1,235
Acquisition and sale of businesses (b)	(306)	(534)
Net purchase of own shares for share schemes (c)	(8)	(113)
Dividends paid to non-controlling interests	(72)	(88)
Purchase of shares of non-controlling interests (d)	–	(37)
Net movements in bonds and other borrowings	(315)	(157)
Equity dividends paid	(1,341)	(1,228)
Other movements	2	1
Net decrease in cash and cash equivalents	(77)	(921)
Net decrease in bonds and other borrowings	315	157
Exchange differences (e)	(7)	349
Borrowings on acquisition of businesses	(869)	–
Other non-cash items	(39)	(32)
Net borrowings at the end of the year	(9,527)	(8,850)

(a) See page 23 for the analysis of free cash flow.

(b) On 2 July 2014 the group acquired an additional 26% investment in USL for INR 114.5 billion (£1,118 million). On 31 October 2014 the sale of the Whyte and Mackay Group by USL resulted in a net cash receipt of £391 million. On 27 February 2015, Diageo paid $293 million (£192 million) for the 50% equity interest in Don Julio B.V. that it did not already own and for the Mexican distribution rights for Don Julio. As part of the transaction, Diageo also agreed to sell the equity share capital in The Old Bushmills Distillery Company Limited. The net cash consideration received for Bushmills amounted to $709 million (£456 million).

In the year ended 30 June 2014 cash payments primarily comprised £474 million in respect of the acquisition of a 18.74% investment in USL.

(c) Net purchase of own shares comprised purchase of treasury shares for the future settlement of obligations under the employee share option schemes of £75 million (2014 – £208 million) less receipts from employees on the exercise of share options of £67 million (2014 – £95 million).

(d) In the year ended 30 June 2014 Diageo purchased the remaining 7% equity stake in Sichuan Chengdu Shuijingfang Group Co., Ltd.

(e) Exchange differences primarily arose on US dollar and euro denominated borrowings partially offset by the favourable change on foreign exchange swaps and forwards.

Movement in equity	2015 £ million	2014 £ million
Equity at the beginning of the year	7,590	8,088
Profit for the year	2,467	2,181
Exchange adjustments (a)	(225)	(1,133)
Net remeasurement of post employment plans	113	(167)
Exchange recycled to the income statement (b)	88	–
Fair value movements on available-for-sale investments (b)	20	(85)
Non-controlling interests acquired	641	8
Purchase of shares of non-controlling interests	–	(37)
Dividends to non-controlling interests	(72)	(88)
Dividends paid	(1,341)	(1,228)
Other reserve movements	(25)	51
Equity at the end of the year	9,256	7,590

(a) Movement in the year ended 30 June 2015 primarily arose from the exchange loss on Turkish lira, Brazilian real and euro denominated net investments.

(b) Following the acquisition of majority equity stakes in USL, 50% equity interest in Don Julio and one of the group's joint ventures in South Africa that it did not already own exchange losses of £88 million were recycled to the income statement.

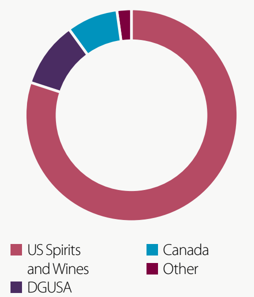
On the acquisition of USL on 2 July 2014 a 43.91% (£641 million) non-controlling interest was recognised. In the year ended 30 June 2014 a gain of £85 million, in respect of USL, was recycled to the income statement reflecting the step up from available-for-sale investment to associate.

Post employment plans

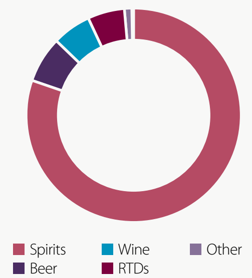
The deficit in respect of post employment plans before taxation decreased by £216 million from £475 million at 30 June 2014 to £259 million at 30 June 2015. The reduction was primarily due to strong asset return and a reduction in long term inflation rates partially offset by a decrease in returns from AA-rated corporate bonds used to calculate the discount rates on the liabilities of the post employment plans (United Kingdom reduced from 4.2% to 3.8% and Ireland from 3.0% to 2.6%). Total cash contributions by the group to all post employment plans in the year ending 30 June 2016 are estimated to be approximately £180 million.

NORTH AMERICA

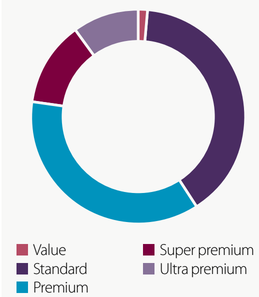
Net sales by markets
(%)



Net sales by categories
(%)



Net sales by price points
(%)



North America accounts for about a third of our net sales and around 45% of operating profit and is the largest market for premium drinks in the world. Continuing economic uncertainty has adversely impacted consumer spending in the region, but due to our leadership in innovation, strong route to consumer and solid marketing investment in key brands, we continue to be well positioned. We are promoting responsible drinking, and this year the US government approved our request to include serving fact information on beverage alcohol products.

Key financials

	2014 Reported £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2015 Reported £ million	Reported movement %
Net sales	3,444	97	(37)	(49)	3,455	–
Marketing spend	540	16	7	(21)	542	–
Operating profit before exceptional items	1,460	27	(2)	(37)	1,448	(1)
Exceptional items	(35)				(28)	
Operating profit	1,425				1,420	–

Our markets

Our North America business comprises US Spirits and Wines, Diageo Guinness USA (DGUSA) and Diageo Canada, headquartered in Norwalk, Connecticut.

Route to market

Route to market in the United States is through the three-tier system and we distribute our products through more than 100 spirits and wines distributors and brokers, and more than 400 beer distributors. We have a unique route to market for our spirits and wine business in the United States, with more than 3,000 dedicated distributor sales people focused only on Diageo and Moët Hennessy spirits and wine brands. Diageo consolidates its US Spirits and Wines business into a single state-wide distributor in 41 states and the District of Columbia, representing more than 80% of the company's US Spirits and Wines volume.

US Spirits and Wines business operates through five divisions in Open States where we sell to distributors who then sell to retailers, and through two divisions in Control States where mostly we sell to the state, which in turn sells to state or agency stores and on premise retailers. US Spirits and Wines sells the vast majority of the Californian and imported wines we own and represent, with the remaining small portion of sales coming from winery visitor centres and online sales.

DGUSA sells and markets brands including Guinness, Smirnoff Ice and Red Stripe. Beer distribution generally follows the three-tier open state regulations across the United States.

Diageo Canada distributes our collection of spirits, beer and wine brands across all Canadian provinces, which generally operate through a provincial control system. Diageo Canada operates through a single broker with a dedicated sales force handling our brands in the country.

National brand strategy, strategic accounts marketing and corporate functions are managed at the North America level. In North America, we market a total beverage alcohol portfolio.

Supply operations

We have 11 bottling, distilling, blending and maturation sites including operations in Plainfield, Illinois; Amherstburg, Ontario; Valleyfield, Quebec; Relay, Maryland; Gimli, Manitoba; Tullahoma, Tennessee; Louisville, Kentucky; and seven wineries and wine bottling operations in California. Focusing on continuously improving efficiency across our supply chain we made significant investments during the year and announced plans to cease bottling operations in Relay, Maryland.

Sustainability and responsibility

As our largest market, with many millions of consumers, our focus on responsible drinking in North America is particularly important, and we have built a reputation as a leading voice in the industry. After 12 years of advocating with a coalition of consumer and public health advocates, the US government recently allowed alcohol companies to include alcohol content and nutritional information per typical serve on packaging. In March we followed this by announcing our commitment to provide consumers around the world with this information – a first for any alcohol company. Another key issue for us is operational sustainability – our Californian vineyards and wineries are in a water-stressed area, and we have responded by creating 'Blue Teams' to scale up our focus on reducing water use in our operations and identifying opportunities in our wine growers' supply chain.

In North America, US Spirits has delivered improved depletion performance through the year with the value of distributor depletions, up 3% in the first half and up 4% for the full year. Shipments were broadly in line with depletions and therefore net sales were down 2% year on year as last year shipments were higher than depletions mainly driven by innovation launches. Beer net sales were in line with last year, ready to drink and wine were down slightly and in Canada net sales grew 2%. Volume growth of the reserve portfolio was the main driver of the 1.5pps of increased price/mix as price premiums against the competition, for brands such as Smirnoff and Captain Morgan, were narrowed. This led to lower achieved price year on year but did drive improved share positions. Our innovation agenda continued to lead the industry in North America and this year was a key driver of our net sales. Advertising spend was down as we drove procurement savings on media and agency fees in marketing while maintaining our share of voice. Adjusting for these savings, marketing as a percentage of net sales was roughly flat. Overheads were flat but operating margin declined 47 basis points driven by soft volume and lower net sales of spirits in the United States.

KEY HIGHLIGHTS

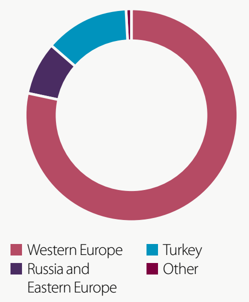
- Net sales in **US Spirits and Wines** declined 2% while the value of distributor depletions was up 4%. Diageo's North American whisk(e)y performance was very strong with the portfolio outpacing category growth and net sales up 13%. Crown Royal was the primary driver as Crown Royal Regal Apple, the top selling innovation according to Nielsen, gained share as it recruited new consumers to the brand, driving double digit top line growth for the trademark. Bulleit, the fastest growing unflavoured North American whisk(e)y, drove one third of that category's growth with net sales up 35%. Both Bulleit Bourbon and Bulleit Rye led their respective segments through increased distribution, consumer experience marketing, and the engagement of key trade influencers. In scotch, Buchanan's was the fastest growing brand in the United States, with net sales up over 20%. Buchanan's resonates particularly well with the growing Hispanic population, and this year added sponsorship of the Latin Grammy Awards to its full suite of marketing activities. Johnnie Walker did not perform well, partly as a result of lapping the strong launch of Platinum and Gold Label Reserve last year but also due to a reduction in promotional activities for Red, Black, and Blue Label. Cîroc net sales growth of 4% was driven by the notable success of Cîroc Pineapple, the latest addition to the flavour range. Despite an improved performance trajectory, net sales of Smirnoff declined 4% as the flavour portfolio, confections in particular, continued to be a drag on performance. The launch of Captain Morgan White Flavours partially offset the effect of lapping the prior year's launch of Captain Morgan White which, together with weakness on Original Spiced, drove double digit net sales decline for the brand. Net sales of tequila were up double digit, driven by 10% growth of Don Julio, which was supported by marketing campaigns focused on the heritage and craftsmanship of the brand, and the launch of new DeLeón variants, which broadened the price range and contributed to increased distribution of the brand.
- Guinness net sales were up 3% on the strong performance of Blonde American Lager. Guinness Draught was weak given competition in the craft beer segment, particularly in the on trade. Net sales of ready to drink declined slightly, bringing net sales of **DGUSA** down 1%. Stronger execution and competitive pricing on Smirnoff Ice stabilised the core and flavoured variants but the brand's growth still lags the category.
- In **Canada** the new distribution system helped drive net sales growth of 2%. Spirits growth of 3% was driven by Johnnie Walker and vodka. Ready to drink net sales growth was principally due to Smirnoff variants, with beer down and wine down double digit. Tactical price reductions resulted in share improvement, with a marginally negative impact on price/mix.
- **Marketing** investment in North America reduced 4% driven by US Spirits and Wines, which delivered significant savings on media and agency fees and procurement efficiencies. Advertising remained focused on Cîroc, Crown Royal, Smirnoff, Captain Morgan, and Johnnie Walker, and increased on Don Julio and Bulleit to support new programmes. Marketing investment in DGUSA supported the launch of Guinness Blonde American Lager and in Canada, a 1% increase went behind innovation launches.

Markets:	Organic volume movement(i) %	Organic net sales movement %	Reported net sales movement %
North America	(3)	(1)	–
US Spirits and Wines	(3)	(2)	1
DGUSA	(3)	(1)	3
Canada	3	2	(4)
Spirits(ii)	(3)	(1)	1
Beer	–	(1)	1
Wine	(2)	(2)	2
Ready to drink	(3)	(1)	(14)
Global giants and local stars(ii):			
Smirnoff	(2)	(3)	(1)
Captain Morgan	(10)	(12)	(10)
Johnnie Walker	(8)	(15)	(12)
Guinness	2	2	4
Baileys	(5)	(5)	(3)
Tanqueray	(2)	(2)	1
Crown Royal	13	12	15
Cîroc	4	4	8
Ketel One vodka	(2)	(2)	1
Bulleit	32	36	41
Don Julio	5	9	13
Buchanan's	17	18	23

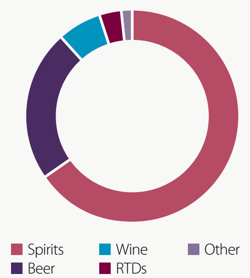
(i) Organic equals reported movement for volume except for North America (4)%, US Spirits and Wines (5)%, spirits (3)% and ready to drink (25)% reflecting the termination of the transitional arrangements following the disposal of Jose Cuervo and Bushmills and the acquisition of the outstanding stake in Don Julio.
(ii) Spirits brands excluding ready to drink.

EUROPE

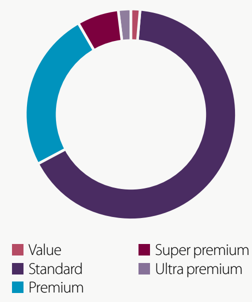
Net sales by markets
(%)



Net sales by categories
(%)



Net sales by price points
(%)



Diageo is the largest premium drinks business in Western Europe. Consumer marketing programmes are developed at a market level to drive consistency, efficiency and scale across all countries. In Russia and Eastern Europe we are driving our premium core, standard and value brands and reserve portfolio, whilst in Turkey, we use our local businesses' strong route to consumer to drive accelerated growth in international premium spirits. In Europe, where competition for talent is particularly strong, our reputation as a trusted and respected company and for ground-breaking innovation, is key to our ability to attract and retain the people we need to deliver our Performance Ambition.

Key financials

	2014 Reported (restated)(i) £ million	Exchange £ million	Acquisitions and disposals £ million	**Organic movement £ million**	**2015 Reported £ million**	**Reported movement %**
Net sales	2,814	(186)	(13)	**2**	**2,617**	**(7)**
Marketing spend	413	(30)	(1)	**6**	**388**	**(6)**
Operating profit before exceptional items	853	(67)	(2)	**20**	**804**	**(6)**
Exceptional items	(20)				**(20)**	
Operating profit	833				**784**	**(6)**

(i) Restated following the change in the internal reporting structure to reflect changes made to management responsibilities. See page 50 for further details.

Our markets

Europe comprises Western Europe, Russia and Eastern Europe and Turkey. Western Europe is managed as a single market with country teams focusing on sales and customer marketing execution. It includes Great Britain, Ireland, Iberia, France, Germany and Diageo Guinness Continental Europe beer business. Eastern Europe includes Poland, Bulgaria, Romania and Israel.

On 1 July 2015, Russia became a standalone market while Eastern Europe was merged with Western Europe creating Diageo Europe. Turkey remained unchanged.

Route to market

In Great Britain we sell and market our products through Diageo GB (spirits, beer and ready to drink), Percy Fox & Co (wines) and Justerini & Brooks Retail (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 via a telesales operation.

Across the remainder of Western Europe, we distribute our spirits brands primarily through our own distribution companies, except for France where products are sold through a joint venture arrangement with Moët Hennessy.

Diageo Guinness Continental Europe distributes our beer brands in mainland Europe, focusing in Germany, Russia and France, our largest mainland European beer markets.

In Russia and Poland we operate through wholly owned subsidiaries, while in other Eastern Europe countries we use third party 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.

Supply operations

The International Supply Centre (ISC) comprises the supply operations in the United Kingdom, Ireland and Italy. The group owns 29 whisky distilleries in Scotland, a Dublin based beer brewery and maturing and packaging facilities in Scotland, England, Ireland and Italy. The ISC ships whisk(e)y, vodka, gin, rum, beer, wine, cream liqueurs, and other spirit-based drinks to over 180 countries. Through our £1 billion investment in Scotch whisky production and inventory, announced in 2012, distilling capacity has increased by over 25%.

Raki, vodka and wine are produced in Turkey at a number of sites and Smirnov vodka is produced in Russia.

Sustainability and responsibility

People today increasingly want to work for companies that they believe make a positive social and environmental, as well as economic, contribution. Our leadership in responsible drinking, through programmes and partnerships, and our contribution to the communities in which we operate, support our reputation and ability to attract and retain employees. Our responsible drinking programme, NOFAS, aims to tackle foetal alcohol syndrome by training midwives and health professionals – to date we have reached around 300,000 pregnant women in the UK. In the last few years, we have launched our Learning for Life community programme in a number of European countries, including a major investment in Scotland, as part of a five-year effort targeted towards young people.

Europe's performance reflected an improved momentum in Western Europe, growth in Turkey and a challenging environment in Russia. In Western Europe net sales were up 1%, as performance improved in more than half of our markets. Reserve brands delivered another strong performance with net sales up 20% and growing double digit even in the more challenging economies in Southern Europe. Innovation remained a key performance driver with net sales up 30% driven by successes such as 'The Brewers Project' which helped put Guinness back in growth in both Great Britain and Ireland. We continued to invest in our route to consumer, increasing the number of sales people by 30% and the number of outlets we cover by 60%. In Russia, which continued to be impacted by economic volatility, consumers traded down and customers reduced inventory levels while Diageo gained share in scotch and rum. Turkey net sales were up 3% driving premiumisation in the raki category and gained share in scotch and vodka. Total operating margin for the region improved 75bps largely driven by gross margin improvement in Turkey, and overhead cost reduction in Western Europe, which was partially reinvested in marketing spend and route to consumer.

KEY HIGHLIGHTS

- In **Western Europe** net sales were up 1%:
  - In **Great Britain** net sales were up 3%, with spirits, beer, and ready to drink all in growth. Reserve net sales were up 43% driven by Cîroc and the successful launch of Haig Club. Captain Morgan net sales were up 15%, with investment focused on increased activation in outlets and Smirnoff was back in growth with net sales up 1%, supported by the new 'We're Open' campaign. Beer net sales were up 2% driven by innovation on Guinness. Ready to drink net sales were up 7% supported by strong growth in pre-mix. The only weakness was in Baileys where net sales were down 2%, however Baileys Original was in growth.
  - In **Ireland** net sales were down 1%, or flat after accounting for the transfer of wine sales to Diageo Wines Europe. Guinness sustained its positive momentum with net sales up 2%, supported by successful innovations launched through 'The Brewers Project at St James's Gate'. Net sales in spirits were down 2% as the category continued to be affected by last year's duty increase.
  - In **Southern Europe** net sales were down 1%. Net sales in Iberia were flat, after accounting for a transfer of sales of one customer to Africa Regional Markets, but showing positive momentum with growth from Tanqueray and Gordon's in a vibrant gin category and declines in J&B and Cacique. Double digit growth of reserve was the main driver behind the 1% net sales growth in Italy, where Zacapa was up 10% and Cîroc more than trebled net sales. In Greece, performance was impacted by the deterioration of economic environment in the last quarter, which resulted in a 4% net sales decline.
  - Net sales in **Germany** and **Austria** declined 2%. In Germany net sales were up 5%. Underlying performance was strong with net sales of Baileys, Captain Morgan and Johnnie Walker Red Label all up double digit. In Austria, net sales were down 53% against the buy in ahead of the excise duty increase in January 2014.
  - Performance in **Benelux** continued to be impacted by the decision to realign prices in the first half on premium core brands which resulted in a net sales decline of 10%.
  - In a challenging trading environment in **France** net sales increased 2% largely driven by growth in scotch, with Scotch malts up 6%, and the strong performance of Captain Morgan which, in its third year, more than doubled net sales.
  - Net sales in **Diageo Wines Europe** were up 3% largely driven by the transfer of wine net sales from Diageo Ireland and the strong performance of [yellow tail].
- Performance in **Russia and Eastern Europe** continued to be impacted by the events in the region. In Russia, net sales declined 14%, driven by both destocking amongst distributors and consumers trading down. This impacted Johnnie Walker, however Diageo extended its leadership in whisky and rum, and gained share with brands such as White Horse, Black & White and Captain Morgan. In Poland, net sales of Johnnie Walker Red Label declined 15% and the brand lost share, as some competitors did not follow Diageo price increases to cover last year's excise duty increase.
- In **Turkey** net sales grew 3% despite an excise duty increase in January and the earlier start to Ramadan. Net sales in raki were up 5% with Yenì Raki and the super premium variant Tekirdağ Raki premiumising the category. Good underlying performance of international spirits resulted in share gains for Johnnie Walker, Smirnoff and Baileys.
- **Marketing** investment in Europe increased 2% largely driven by Western Europe where spend was up 3%. The increased investment was focused on the biggest growth opportunities such as reserve and innovation to support the launches of Haig Club and the Guinness Brewers project.

Markets:	Organic volume movement[(i)] %	Organic net sales movement %	Reported net sales movement %
Europe	–	–	(7)
Western Europe	1	1	(5)
Russia and Eastern Europe	(8)	(9)	(26)
Turkey	–	3	(5)
Spirits[(ii)]	(1)	1	(8)
Beer	1	1	(4)
Wine	–	(1)	(4)
Ready to drink	(6)	(2)	(5)
Global giants and local stars[(ii)]:			
Guinness	1	2	(2)
Smirnoff	(2)	(4)	(7)
Johnnie Walker	(5)	(7)	(15)
Baileys	(3)	(4)	(10)
Captain Morgan	9	10	1
Yenì Raki	(4)	4	(6)
J&B	(1)	(3)	(10)

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

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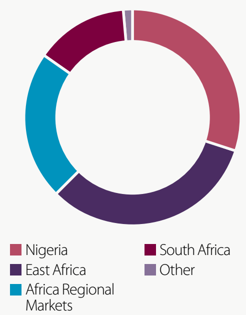
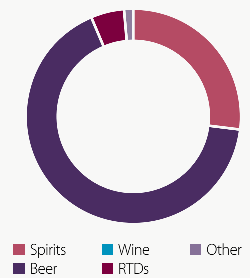
AFRICA

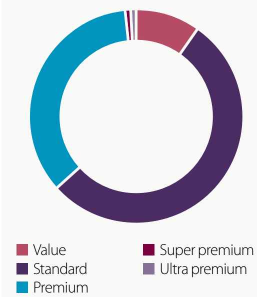
Net sales by markets
(%)



Net sales by categories
(%)



Net sales by price points
(%)



In Africa our strategy is to grow Diageo's leadership across beer and spirits by providing brand choice across a broad range of consumer motivations, profiles, and occasions. We are focused on growing beer faster than the market and accelerating the growth of spirits through continued investment in infrastructure and brands. Local sourcing is a key element of our strategy in Africa: it directly supports our commercial operations, while indirectly supporting our position by bringing wider benefits to society as a whole.

Our markets

The region comprises Nigeria, East Africa (Kenya, Tanzania, Uganda, Burundi, Rwanda and South Sudan), Africa Regional Markets (including Ghana, Cameroon, Ethiopia, Angola, Mozambique and a sorghum beer business in South Africa) and South Africa (all other products).

Route to market

In Africa our largest businesses are in Nigeria, where we own 54.3% of a listed company whose principal brands are Guinness, Harp and Malta, and in East Africa, where we own 50.03% of East African Breweries Limited

Key financials

	2014 Reported (restated)(i) £ million	Exchange £ million	Acquisitions and disposals £ million	**Organic movement £ million**	**2015 Reported £ million**	**Reported movement %**
Net sales	1,430	(100)	–	**85**	**1,415**	(1)
Marketing spend	152	(10)	–	**5**	**147**	(3)
Operating profit before exceptional items	340	(52)	1	**29**	**318**	(6)
Exceptional items	(23)				**(7)**	
Operating profit	317				**311**	(2)

(i) Restated following the change in the internal reporting structure to reflect changes made to management responsibilities. See page 50 for further details.

(EABL). EABL produces and distributes beer and spirits brands to a range of consumers in Kenya and Uganda, and has a 51% equity interest in Serengeti Breweries Limited, Tanzania. Within Africa Regional Markets, we have wholly owned subsidiaries in Cameroon, Ethiopia, Mozambique and Réunion and majority owned subsidiaries in Ghana and the Seychelles. Angola is supplied via a third party distributor. In South Africa we sell spirits and sorghum beer through wholly owned subsidiaries and currently sell our beer, cider and ready to drink products through our 42.25% stake in DHN Drinks Ltd, a joint venture with Heineken and Namibia Breweries Ltd. On 28 July 2015, Diageo announced the agreement to dispose of its equity interest in DHN Drinks Ltd. Diageo has brewing arrangements with the Castel Group who license, brew and distribute Guinness in the Democratic Republic of Congo, Gambia, Gabon, Ivory Coast, Togo, Benin, Burkina Faso, Chad, Mali and Guinea. Diageo sells spirits through distributors in the majority of other sub-Saharan countries.

Supply operations

We have 14 breweries in Africa, including the brewery owned by Sedibeng in South Africa in which we own a 25% equity stake.

In addition, our beer and spirits brands are produced by third parties under licence in 20 other African countries. We also own five manufacturing facilities including blending, malting and cider plants.

Sustainability and responsibility

In Africa we create wealth both directly through our operations and indirectly through our broader network, particularly of agricultural suppliers. We source 70% of agricultural and packaging materials locally and we work with more than 50,000 local farmers for our agricultural inputs. Thirteen of our production sites in Africa are in water-stressed areas, so much of our focus is on managing water use in our operations effectively and enhancing access to clean water to surrounding communities through our pan-African Water of Life programme. Since we began the programme in 2006, we have brought safe drinking water to more than ten million people. The launch of our Water Blueprint strategy this year will help us focus further on water use in the supply chain, with one of our key targets being to equip our suppliers with the tools to protect water sources in water-stressed areas. We also support many responsible drinking programmes throughout the continent. We tackle issues like drink driving through programmes such as Dry Drive in South Africa, and underage consumption through the Red Card initiative in Uganda, and through advocating stronger legal purchase age laws in Ghana. Our training programmes have also created close to 40,000 responsible drinking ambassadors across Africa this year.

Good performances in both beer and spirits led to net sales up 6% in Africa. Investments in route to consumer together with innovation drove an 8% increase in beer and led to double digit growth in spirits. The mainstream beer market in Nigeria remained challenged as consumers moved towards more value products, impacting the performance of Guinness and Harp. However the national rollout of Orijin and renovation of Satzenbrau drove an increase in beer net sales of 9%. Investment in Guinness marketing has stabilised volume share in the brand. Good progress in route to consumer led to strong net sales growth in Ghana, and in Cameroon, strong marketing campaigns delivered net sales and share gains in Guinness. In South Africa, spirits growth was underpinned by the continued strong performances of Smirnoff 1818, which is now a two million case brand, and Johnnie Walker, while overall growth was impacted by a decline in ready to drink. Reserve brands grew 26% with double digit increases in South Africa, East Africa and Nigeria. Increased sales of mainstream brands, which have lower costs per case, together with procurement and supply efficiencies were partially offset by an increase in marketing spend and route to consumer investments leading to organic operating margin improvement of 75 basis points.

KEY HIGHLIGHTS

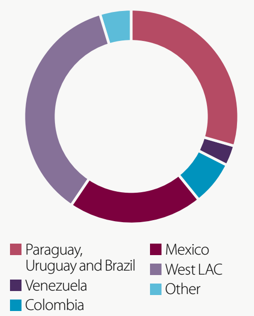
- **Nigeria** delivered double digit volume growth driven primarily by the national rollout of Orijin, while net sales grew 6%. The weak consumer environment led to a move to value lager which resulted in a strong performance of Satzenbrau and a weak performance of Harp. Similarly net sales of Guinness declined although the brand's performance improved in the second half and volume share stabilised. Spirits net sales were up 19% as inventory reductions on Johnnie Walker and Baileys were offset by the strong performance of local mainstream spirits.
- In **East Africa**, where net sales grew 9%, Guinness volume and net sales grew strong double digits supported by the 'Made of More' campaign. Innovation in value beer, in particular, Balozi lager in Kenya, a no added sugar offering, and in Tanzania Kibo Gold, positioned to capture consumers trading down, offset a decline in Senator due to excise duty changes in Kenya in the first half last year. In spirits, growth was led by mainstream spirits brands and good performances from Johnnie Walker and Smirnoff. Success in mainstream spirits was driven by Kane Extra and Liberty in Kenya, which benefited from improvements in route to consumer, including the introduction of motorcycles to increase sales coverage of mainstream outlets. Johnnie Walker net sales grew 60% driven by recruitment activities, while the launch of Smirnoff Ice Double Black and Guarana also contributed to East Africa's growth.
- In **Africa Regional Markets**, net sales grew strongly, up 15%. In Ghana, net sales grew 32%. Investment in route to consumer, together with price increases, led to 28% net sales growth of beer, and spirits grew strongly driven by the growth of Johnnie Walker and the introduction of Orijin Bitters. In Cameroon, net sales grew 10% driven by growth of Guinness, which benefited from increased awareness through the 'Made of Black' campaign, together with outperformance of Harp and growth of Johnnie Walker and Baileys. In Angola, spirits net sales doubled following route to consumer investments and the appointment of a new distributor. This led to strong performances from Johnnie Walker, White Horse, and Gordon's gin. While the performance of Meta beer in Ethiopia was impacted by increased competitive pricing, this was mostly offset by strong net sales of Malta and the introduction of Zemen, a lower-price beer innovation, along with a good performance of spirits.
- Net sales in **South Africa** were down 7% driven by a decline in Smirnoff Ice Double Black and Guarana, which lapped strong replenishment sales and high inventories in the last financial year. Spirits net sales increased 8% driven by Smirnoff 1818, with net sales up 27% based on competitive pricing and following a packaging upgrade. Net sales of Johnnie Walker increased 10% with marketing focused on the brand's quality credentials. Its contribution to total scotch performance was partially offset by a weaker performance of J&B and Bell's. Reserve brands continued to benefit from investments in route to consumer.
- **Marketing** investment in Africa increased 4%. In Nigeria spend on beer was refocused from Harp to support the growth of Orijin and value beers, while in East Africa, the decline in Senator volume also led to a reduction in spend. Spend increased behind vodka, notably Smirnoff 1818 in South Africa in support of pack innovations and promotional activity and investment behind Johnnie Walker grew in South Africa and East Africa. Ready to drink investment increased as Smirnoff Ice Double Black & Guarana launched in East Africa and Nigeria.

Markets:	Organic volume movement(i) %	Organic net sales movement %	Reported net sales movement %
Africa	7	6	(1)
Nigeria	13	6	(3)
East Africa	7	9	6
Africa Regional Markets	14	15	1
South Africa	(2)	(7)	(12)
Spirits(ii)	17	13	7
Beer	4	8	(1)
Ready to drink	(34)	(28)	(33)
Global giants and local stars(ii):			
Guinness	(5)	(7)	(15)
Johnnie Walker	3	7	2
Smirnoff	22	22	16
Tusker	(6)	3	1
Malta	(8)	(5)	(17)
Senator	(11)	(16)	(20)
Harp	(40)	(46)	(50)

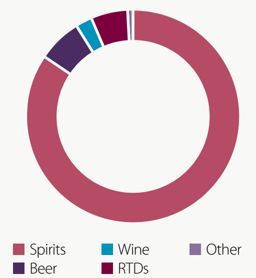
(i) Organic equals reported movement for volume.
(ii) Spirits brands excluding ready to drink.

LATIN AMERICA AND CARIBBEAN

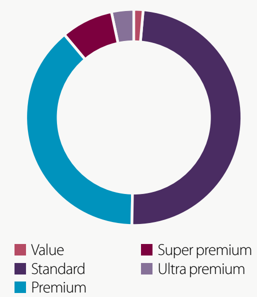
Net sales by markets
(%)



Net sales by categories
(%)



Net sales by price points
(%)



In Latin America and Caribbean the strategic priority is continued leadership in scotch, while broadening the category range to include vodka, rum, liqueurs and local spirits. We are continuing to invest in routes to market and in the range and depth of our portfolio of leading brands. We are also enhancing our supply structure to enable the business to provide the emerging middle class and an increasing number of wealthy consumers with the premium brands they aspire to. In this region's changing regulatory landscape, our presence is supported by our reputation as a trusted and respected business, based on our stance on responsible drinking, and community development programmes like Learning for Life.

Key financials

	2014 Reported £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2015 Reported £ million	Reported movement %
Net sales	1,144	(123)	23	(11)	1,033	(10)
Marketing spend	203	(22)	3	10	194	(4)
Operating profit before exceptional items	328	(60)	2	(7)	263	(20)
Exceptional items	(14)				(5)	
Operating profit	314				258	(18)

Our markets

Our Latin America and Caribbean (LAC) business comprises Paraguay, Uruguay and Brazil (PUB), Venezuela, Colombia, Mexico and West LAC (Central America and Caribbean, Argentina, Chile, Peru, Ecuador and Bolivia).

Route to market

We sell our products through a combination of our own subsidiary companies and third party distributors. In Brazil, sales are primarily made directly to international retailers and distributors. In addition to Diageo Brazil, Diageo owns 100% of Ypióca, a leading cachaça producer and distributor. In Uruguay, Diageo manages distribution both directly and through distributors.

All products in Venezuela are sold through dedicated third party distributors. In Colombia we sell directly to major grocers, serving all other accounts and channels through distributors.

In Mexico our brands are sold directly by Diageo, either through direct sales to international accounts or through wholesalers and distributors.

In selected markets in West LAC, we sell directly to consumers, while in key markets, such as Costa Rica and the Dominican Republic, we use exclusive distributors. In Jamaica, we own a 58% controlling interest in Desnoes & Geddes Limited, the Jamaican brewer of Red Stripe lager.

In Argentina, we sell directly to major grocers, and other businesses are managed through a combination of wholesalers and distributors outside of major grocers, to whom we sell directly.

Supply operations

The majority of brands sold in the region are manufactured in our International Supply Centre in Europe. However in recent years we have acquired a number of local manufacturers. This year we acquired the remaining 50% equity interest in Don Julio, giving full ownership of the brand and production facilities. In 2012 we acquired 100% of Ypióca in Brazil which produces cachaça and in 2011 we acquired a controlling interest in a company in Guatemala (Añejos de Altura) producing Zacapa. In addition, we have controlling interest in a brewery in Jamaica (Red Stripe), and the Navarro Correas winery in Mendoza, Argentina. We also partner with more than 12 brewers and over 20 co-pack partners to manufacture brands and package products under strict quality assurance protocols.

Sustainability and responsibility

In this region, we have built a name for ourselves as a company that is committed to the long term development of an industry that can bring economic and social value to society. Our responsible drinking programmes, such as Actuando Mejor in Mexico, and Drink Right in Jamaica, are making a tangible difference in reducing alcohol-related harm, and this year contributed to creating more than 240,000 responsible drinking ambassadors. Our flagship community re-investment programme, Learning for Life, is providing skills and training to over 100,000 people across the region. Some of our sites in Brazil are located in water-stressed areas, and we are developing environmental programmes, for example through our Ypióca business, which are helping ease the pressure on this shared resource.

Good performances in the domestic markets in LAC were offset by a significant net sales decline in export channels due to currency volatility. The levels of stock held by these customers has reduced, which together with lower depletions, impacted growth in the region by five percentage points. Net sales in domestic markets increased 5% as we expanded our leading positions in scotch and broadened our business into other categories. In Brazil, performance has been affected by a weaker economy and a tougher competitive environment, but we have invested in route to consumer and recruited new consumers into our portfolio through innovation. In Venezuela, there was good growth in local spirits and scotch. Performance in Colombia benefited from investments in route to consumer and innovation, while our strength in scotch drove good net sales growth in Mexico. In Peru and Jamaica, we delivered good growth from our investments in route to consumer and, while net sales were down in Argentina, we moved quickly to offset import levies with local production driving share gains. While significant cost efficiencies were achieved, especially in Brazil, negative market mix and increased marketing investment led to a decrease of 41 basis points in organic operating margin.

KEY HIGHLIGHTS

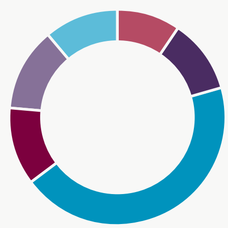
- Net sales in **Paraguay, Uruguay and Brazil (PUB)** declined 2% as currency weakness and a slower Brazilian economy impacted consumer spending. In Brazil, volume declined mainly as a result of changes in the route to consumer and the harmonisation of interstate pricing, which led to a reduction in inventories held by distributors. In PUB, price increases and a reduction in commercial discounts led to 6pps of positive price/mix. Scotch net sales declined 2% driven by Johnnie Walker, which was down 9% as intense competitor promotional activity amplified the price premium of Johnnie Walker Red Label. In premium scotch, Old Parr and Johnnie Walker Double Black had strong net sales growth and share gains, and in standard scotch, White Horse grew net sales supported by a new media campaign. Smirnoff strengthened its leadership position in vodka, growing net sales 6% driven by price increases and the launch of Smirnoff Peach. Net sales of Ypióca were affected by the transfer from net sales to overheads of tax credits from local production incentives. On a like for like basis, net sales of Ypióca increased high single digit driven by price increases and continued strong performance in the North East.
- In **Venezuela**, while volume declined, net sales increased 41% to £32 million. Access to currency allowed for the importation of some scotch leading to strong comparative performances of Johnnie Walker, Buchanan's, and Ye Monks. Increased focus on developing local spirits led to strong performances of Cacique, which doubled net sales, despite glass supply constraints, and Gordon's vodka net sales increased 185%.
- In **Colombia**, investments in the route to consumer increased share across key categories and drove 10% net sales growth. The launch of Old Parr Tribute and the introduction of Buchanan's Special Reserve, together with double digit growth of Johnnie Walker, led to an 11% increase in the net sales of scotch. Innovations contributed to a 22% increase in Baileys net sales.
- In **Mexico**, the breadth of Diageo's scotch portfolio was the main driver of a 13% increase in net sales. Selective price increases along with strong trade executions delivered growth across all price segments of scotch other than value. Johnnie Walker net sales increased 15% with growth across all variants and a particularly strong contribution from Johnnie Walker Red Label. Diageo gained share in the fast-growing but competitive standard scotch segment with the introduction of Black & White, which increased net sales over 80%. There was a good contribution to net sales growth from Smirnoff, since Diageo took direct control over marketing and distribution of the brand in December 2014.
- In **West LAC**, net sales were down 9%, driven by inventory reductions in the export channels where net sales declined 51%. This impacted the performance of Johnnie Walker, Old Parr, and Buchanan's. In domestic markets, strong performances in Peru and Jamaica led to a 3% increase in net sales. In Peru, net sales increased 26% with scotch driving growth together with Baileys, while growth in Red Stripe, pack renovations on Guinness and the strong consumer appeal of Dragon Stout helped deliver 15% growth in net sales in Jamaica. Price realignments in Chile and Caribbean & Central America led to some negative price/mix but delivered share gains in key categories. In Argentina, restrictions on imports affected overall performance but a shift to locally bottled spirits including VAT 69, White Horse, and Smirnoff drove share gains.
- An increase in **marketing** investment of 6% supported broader participation within spirits. Spend on scotch was focused on increasing brand equity across price points in Mexico and on supporting the launch of Old Parr Tribute in Colombia. In Jamaica, investment also increased to support the growth of beer and there was growth in spend on Smirnoff to maintain its leadership position in Brazil and in Mexico as Diageo regained distribution of the brand.

Markets:	Organic volume movement[i] %	Organic net sales movement %	Reported net sales movement %
Latin America and Caribbean	(7)	(1)	(10)
PUB	(8)	(2)	(12)
Venezuela	(38)	41	(60)
Colombia	10	10	(2)
Mexico	14	13	19
West LAC	(5)	(9)	(12)
Spirits[ii]	(8)	(3)	(12)
Beer	5	17	11
Wine	1	17	(1)
Ready to drink	(7)	9	(6)
Global giants and local stars[ii]:			
Johnnie Walker	(6)	(5)	(11)
Smirnoff	(12)	5	(7)
Baileys	(4)	8	–
Buchanan's	(17)	(12)	(24)
Old Parr	(9)	(10)	(22)
Ypióca	(5)	(3)	(14)
Black & White	17	27	6

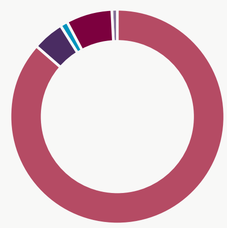
(i) Organic equals reported movement for volume.
(ii) Spirits brands excluding ready to drink.

ASIA PACIFIC

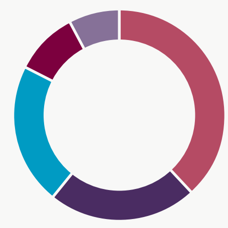
Net sales by markets
(%)



Net sales by categories
(%)



Net sales by price points
(%)



Our strategy in Asia Pacific, which encompasses both developed and emerging markets, is to operate across categories in international spirits, local spirits and beer. We focus on the highest growth categories and consumer opportunities, driving continued development of super and ultra premium scotch, and leveraging the emerging middle class opportunity through a combination of organic growth and selective acquisitions. In the financial year we acquired a controlling stake in United Spirits Limited (USL), positioning us as leaders in spirits in an attractive market, and giving us a significantly expanded operational footprint in India.

Key financials

	2014 Reported £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2015 Reported £ million	Reported movement %
Net sales	1,347	(22)	920	(32)	2,213	64
Marketing spend	305	(1)	65	(25)	344	13
Operating profit before exceptional items	283	(13)	66	20	356	26
Exceptional items	(276)				(193)	
Operating profit	7				163	2,229

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

Route to market
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 has wholly owned subsidiaries in the Philippines and Vietnam. In Vietnam we also have a 45.56% equity stake in Hanoi Liquor Joint Stock Company. In Malaysia, Diageo's own and third party beers are brewed and distributed by a listed company, Guinness Anchor Berhad, in which we have an effective 25.5% equity interest. In Indonesia, Guinness is brewed by, and distributed through, third party arrangements.

In Greater China, part of our spirits business is conducted through a joint venture arrangement with Moët Hennessy. The remainder of our spirits are sold through a wholly owned subsidiary. In addition, we are the sole distributor of Shui Jing Fang, a super premium Chinese white spirit, through our controlling 39.71% equity stake in a listed company.

In India, we further extended our route to market through the integration of USL, the leading spirits company in India. Diageo consolidated USL from 2 July 2014 following the acquisition of an additional 26% investment in USL, becoming the largest shareholder with a 54.78% controlling stake.

In Australia, we produce and distribute the group's products and in New Zealand we operate through third party distributors.

In North Asia, we have our own distribution company in South Korea, whilst in Japan, the majority of sales are through joint venture agreements with Moët Hennessy and Kirin.

Airport shops and airline customers are serviced through a dedicated Diageo sales and marketing organisation. In the Middle East, we sell our products through third party distributors.

Supply operations
We have distilleries at Chengdu in China that produce Chinese white spirit and in Bundaberg, Australia that produce rum.

USL owns 33 manufacturing facilities in India and Nepal, leases 10 further manufacturing facilities in India and 46 facilities are licensed to produce USL products. In addition, we have bottling plants in Korea and Australia with ready to drink manufacturing capabilities.

Sustainability and responsibility
Promoting responsible drinking has always been a particular focus for us, as it is in many parts of the world. We run programmes to address drink driving, to train bartenders and promotional staff on how to serve alcohol responsibly, and to raise awareness of alcohol and its effects. We also focus on empowering women through our Plan W programme. With the acquisition of USL, our supply footprint has increased significantly, almost doubling the number of sites we operate in water-stressed areas. We believe that our approach, set out in the Water Blueprint strategy, will bring benefits to local water sources, while our compliance and ethics and Zero Harm safety programmes are helping colleagues at USL improve in these areas.

Asia Pacific performance reflects inventory reductions in South East Asia, and disruptions in Indonesia due to new restrictions on the sale of beer and ready to drink in some channels. All other markets delivered growth, including China led by Chinese white spirits. Reserve sales were up 30%, led by Scotch malts, with particularly strong performance from The Singleton. Innovation responding to changing trends played an important role, with the launch of Haig Club, W ICE by Windsor in Korea, Guinness Zero in Indonesia, and new ready to drink offerings. We reduced marketing investment, largely in China and South East Asia, where the consumer environment was challenged. Performance, primarily the reduction in stock levels, in South East Asia resulted in a significant operating loss for that market. Our Chinese white spirits business regained profitability after a loss last year. This return to profitability, along with cost savings, resulted in an overall margin improvement for Asia Pacific of two percentage points. The full consolidation of USL added £921m of net sales and £53m of operating profit to reported performance for the region.

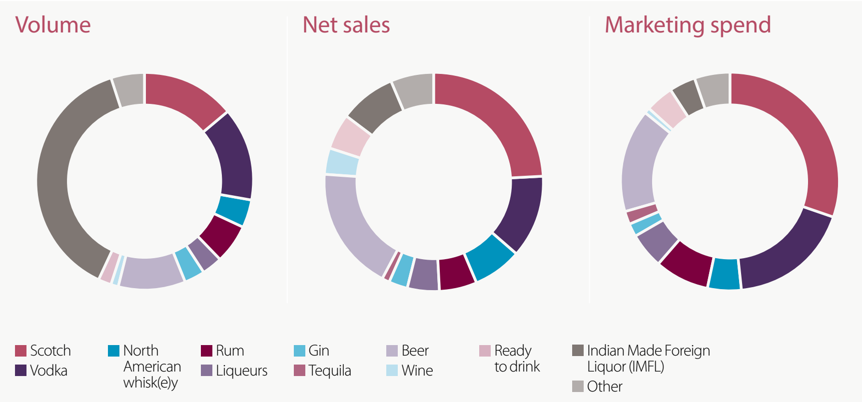
KEY HIGHLIGHTS

- In **South East Asia**, net sales declined 28% given an inventory level reduction in specific wholesale channels, with Johnnie Walker Red and Black Label most impacted. Performance in these channels was also impacted by transferring sales from some Indian travel retail customers to Global Travel Asia. New regulations in Indonesia caused major disruptions, and Guinness net sales declined 30%. In Thailand, price repositioning on Johnnie Walker Red Label and Smirnoff led to negative price/mix, however, Johnnie Walker Red Label volume was up double digit in the second half, while Smirnoff gained share.
- In **Greater China**, net sales were up 15%. Taiwan net sales increased 6%, driven by continued success of The Singleton, which was up significantly and has become the largest malt brand in Taiwan. Mainland China was up 26% including an 11pps benefit from an additional quarter of Shuijingfang to align financial year end timing. Shuijingfang grew significantly through innovation, strengthened route to consumer, and a soft prior year comparable. Shuijingfang also generated profit and drove margin improvement for Greater China, due to a significant reduction in the underlying business loss and benefiting from provision releases. While scotch in mainland China was down 17%, due to increased competition for on trade contracts and a reduction in wholesaler inventory levels, The Singleton and Haig Club drove growth and share gains.
- Despite shipment disruptions due to new food safety labelling requirements, **Diageo India** volume was up 5% and net sales up 3%, and all key priority brands grew depletions. Investment in Johnnie Walker and VAT 69 campaigns, and a Black & White packaging relaunch drove continued premiumisation. The Smirnoff Black launch helped increase Smirnoff share by 5pps over the past three months to 56% of vodka. The integration of Diageo and USL completed, and from June, USL started selling Diageo brands.
- **Global Travel, Asia and Middle East** net sales were up 4% including 6pps of benefit from transferring sales from some Indian travel retail customers from South East Asia. Middle East performance slowed in the second half due to geopolitical tensions and increased pricing pressure on scotch, with second half sales down 16%. Across GTME, Diageo brands gained share particularly in whisky, led by Johnnie Walker in Global Travel Asia, where premium and above variants drove the brand's net sales growth.
- Net sales in **Australia** improved 2%, reversing a first half decline. Spirits were up 2%, driven by super premium scotch, spiced rum, and North American whisk(e)y. Captain Morgan net sales grew nearly 50% and it is now the second largest rum brand behind Bundaberg. While pricing pressure impacted Bundaberg and Smirnoff, depletions improved in the last quarter. Ready to drink growth continued in the second half driven by Captain Morgan variants and pack format innovations from several brands.
- **North Asia** net sales were up 1% with Japan up 10% and Korea down 2%, as second half performance slowed following an increase in import duties after a Customs settlement in January. In Korea, whisky contraction decelerated, and the launch of lower ABV offering W ICE by Windsor stabilised Windsor share in the fourth quarter. While Windsor was down, whisky sales in Korea benefited from strong growth of Johnnie Walker Blue and Black Label. Guinness was up 41%, driven by a campaign and price promotion. In Japan, performance improved due to scotch growth, with depletions up high single digit, and increased distribution and new flavours of Smirnoff Ice.
- **Marketing** investment decreased 8%, due to Johnnie Walker reductions, particularly in Black Label, in China and South East Asia. In China, investment declined in the competitive on trade and was reinvested in testing new at home and with meal off trade campaigns. In Thailand and the Philippines, Johnnie Walker investment focused on recruiting consumers and maintaining Gold and Blue Label sponsorships. Many markets also supported Haig Club's launch.

Markets:	Organic volume movement(i) %	Organic net sales movement %	Reported net sales movement %
Asia Pacific	(3)	(2)	64
South East Asia	(24)	(28)	(28)
Greater China	3	15	17
India	5	3	1,732
Global Travel, Asia and Middle East	5	4	3
Australia	1	2	(5)
North Asia	1	1	(1)
Spirits(ii)	(3)	(3)	83
Beer	(13)	(12)	(16)
Ready to drink	(2)	1	(5)
Global giants and local stars(ii):			
Johnnie Walker	(10)	(14)	(14)
Smirnoff	(3)	(7)	(9)
Guinness	(13)	(12)	(16)
Captain Morgan	–	11	8
Baileys	(4)	(13)	(16)
Windsor	(10)	(10)	(8)
Bundaberg	(5)	(7)	(13)
Shui Jing Fang	275	239	245

(i) Organic equals reported movement for volume except for Asia Pacific 622%, India 6347%, and spirits 710%, reflecting the full consolidation of USL.
(ii) Spirits brands excluding ready to drink.

CATEGORY REVIEW



- **Global giants** represent 39% of Diageo net sales
  - **Johnnie Walker**, with nearly 70% of its net sales in the emerging markets, was impacted by currency weakness and inventory reductions in South East Asia and export channels in Latin America. In the United States, the brand lapped the shipment of two big innovations, Gold Label Reserve and Platinum Label in the prior year; Red and Black Label were negatively impacted by reduced promotional activities. In China, the government's anti extravagance measures drove continued closure of traditional on trade outlets, leading to increased competition in the modern on trade negatively impacting the whole scotch category. Many other markets delivered strong performance, including Cameroon, Angola, Ghana, and East Africa with net sales up more than 50% and Mexico, Venezuela, and Colombia which all delivered double digit sales growth. In the developed markets in Asia Pacific, Johnnie Walker performed strongly and net sales grew high single digit.
  - **Smirnoff** net sales declined 2%, largely driven by the United States, and the weakness in flavoured vodka there. The relaunch of the brand with the 'Exclusively for Everybody' marketing campaign, new packaging and targeted price promotions drove improved depletions momentum and share gains on Smirnoff Red. In Western Europe, a number of countries, notably Great Britain, delivered growth. Net sales were up in Latin America, with Brazil growing 8% following the national 'Cheers to Real Life' campaign launch. Smirnoff had a very strong year in South Africa with Smirnoff 1818 sales growing 27%.

	Organic volume movement[i] %	Organic net sales movement %	Reported net sales movement %
Spirits[ii]	(2)	(1)	10
Scotch	(4)	(5)	(9)
Vodka	–	1	1
North American whisk(e)y	10	12	15
Rum	(3)	(3)	(6)
Liqueurs	(1)	(4)	(8)
Gin	4	5	3
Tequila	10	14	38
Beer	3	4	(2)
Ready to drink	(11)	(4)	(13)
Wine	(1)	(1)	(1)
Total	(1)	–	5

(i) Organic equals reported movement for volume except for total 58%, spirits 72%, ready to drink (18)%, liqueurs (1)%, and tequila 25%, largely reflecting the full consolidation of USL, the acquisition of Don Julio and the termination of agency brand distribution agreements, including Jose Cuervo.
(ii) Spirits brands excluding ready to drink.

	Organic volume movement[i] %	Organic net sales movement %	Reported net sales movement %
Global giants			
Johnnie Walker	(6)	(9)	(12)
Smirnoff	(1)	(2)	(3)
Captain Morgan	(4)	(6)	(7)
Baileys	(4)	(4)	(8)
Tanqueray	6	5	5
Guinness	(2)	–	(5)
Local stars			
Crown Royal	13	12	15
Yenì Raki	(4)	4	(6)
J&B	(2)	(4)	(9)
Buchanan's	(9)	(3)	(12)
Windsor	(10)	(10)	(8)
Old Parr	(13)	(14)	(24)
Bundaberg	(5)	(7)	(13)
Bell's	(3)	(5)	(14)
White Horse	(5)	(7)	(26)
Ypióca	(5)	(3)	(14)
Cacique	(37)	3	(32)
Shui Jing Fang	268	235	241
Reserve			
Scotch malts	11	16	12
Cîroc	6	6	9
Ketel One vodka	(3)	(2)	1
Don Julio	8	12	43
Bulleit	34	38	42

(i) Organic equals reported movement for volume, except for Don Julio where reported volume growth is 98%.
(1) Spirits brands excluding ready to drink.

- **Captain Morgan** net sales were down 6% due to the performance of the brand in the United States, where Captain Morgan held share in a flat rum category that is facing heightened competition from other categories. The decline in shipments was driven by weakness on Original Spiced Rum, and Captain Morgan White Rum which lapped its launch last year. The launch of Captain Morgan White Flavours partially offset the shipments decline on the core variants. Elsewhere, the brand's performance continued to be strong with double digit growth in Great Britain, Germany, Southern Europe, Australia, India, and East Africa.
- **Baileys** net sales declined 4% having started the year with high inventory levels. It experienced softer depletions this year in the United States and Nigeria. In China, after weakness in the first half, specific interventions to drive consumer conversion resulted in stronger second half depletions, up mid single digit. In Western Europe performance was impacted by lapping the launch of Chocolat Luxe in the prior year, but the Baileys brand achieved share gains in the key markets of Great Britain and Germany. The brand continued to expand its footprint in emerging markets, with double digit growth in Colombia, West LAC, and Africa Regional Markets.
- **Tanqueray** gin benefited from a strong focus on increased visibility and distribution in the on trade, supported by the highly effective 'Tonight We Tanqueray' campaign. This drove strong double digit growth in Western Europe, particularly in Spain and Great Britain, with accelerating growth in Germany and Benelux. Net sales for the gin brand grew 6%, with Tanqueray No. TEN up double digit in every region.
- **Guinness** net sales were flat, reflecting a strong performance in both the United States and Western Europe, where the brand grew 3% and 2% respectively. This was achieved through a combination of acclaimed innovations such as Blonde American Lager and Dublin Porter that built on the Guinness brewing heritage, a drive to increase presence and distribution in bars, and a series of award winning marketing campaigns built under the 'Made of More' platform. In Nigeria, sales declined but performance improved over the course of the year and volume share stabilised. Sales declined in Indonesia due to adverse regulatory changes.

- **Local stars** represent 16% of Diageo net sales. Overall performance was good with net sales growth of 4%. In developed markets, there was double digit growth on certain premium brands that have resonance with particular consumer groups, such as Buchanan's in the United States with the Hispanic community, and Crown Royal Regal Apple with millennial consumers in high energy occasions. In China, Shui Jing Fang showed significant growth due to innovation, a strengthened route to consumer, and a soft prior year comparable. In emerging markets more broadly, there was good performance from local and secondary imported brands as certain consumer segments traded down, particularly where local production protected pricing from currency volatility. The net result is that whilst premium imported brands such as Windsor and Old Parr have seen sales decline, there was strong growth on brands such as Yenì Raki in Turkey, Cacique in Venezuela and White Horse in Brazil.
- **Reserve brands** represent 13% of Diageo net sales, and continued to perform well with net sales growth of 8%. During the economic volatility of recent years, the wealthy consumer base that underpins reserve has been resilient. The slight deceleration in overall reserve growth was driven by lapping strong innovation shipments on Johnnie Walker Gold Label Reserve and Platinum Label in the United States. Ketel One vodka faced increased competitive pressure from both within and outside the category. Across the wider portfolio, performance was strong. Scotch malts grew double digit, led by The Singleton which was the fastest growing of the top 5 global malt whisky brands last year. The very strong performance of Bulleit continued with sales up 38%, benefiting from high advocacy amongst the bartender community. Zacapa rum and tequila Don Julio also delivered double digit growth globally, reflecting the quality and heritage of these products, and the strength of the reserve business model. Cîroc continues to expand its footprint outside of North America with strong growth in Western Europe, particularly Great Britain, where it rapidly gained share from the market leader and is now the number two ultra premium vodka.

Other Key Highlights

- Within whisk(e)y, **scotch** represents 24% of Diageo net sales and declined by 5%. Approximately 80% of this decline was due to inventory reductions in South East Asia and export channels in Latin America on Johnnie Walker, Buchanan's, and Old Parr. Other brands including Haig Club, The Singleton, and scotch malts globally, and Buchanan's in the United States performed well, with many growing double digit.
- Also within whisk(e)y, **North American whisk(e)y**, which represents 7% of Diageo net sales, grew 12% this year with over 2pps of positive price/mix. This strong performance was driven by the successful launch of Crown Royal Regal Apple, the continued strong growth of Bulleit, and the acclaimed range of rare bourbons in the Orphan Barrel series.
- **Vodka** represents 12% of Diageo net sales and grew 1%. The growth of Cîroc in Europe and North America, as well as Smirnoff in Africa and Latin America was partially offset by the decline of Smirnoff in developed markets.
- **Beer** represents 18% of Diageo net sales, grew 4% and delivered 1.1pps of positive price/mix. Beer in Africa grew 8%, led by double digit growth in Africa Regional Markets. In Nigeria, the success of Orijin and Satzenbrau more than offset declines in Guinness and Harp. East Africa delivered double digit growth on Guinness and a good performance with Tusker. Performance of Guinness in developed markets was good, driven by the successful launch of Brewer's Project innovations and Blonde American Lager.
- **Ready to drink** represents 5% of Diageo net sales and declined 4% this year. The main driver of this decline was in South Africa with Smirnoff Ice Double Black and Guarana where the brand lapped a strong performance in the previous year and an increase in inventories ahead of its transition to DHN Drinks. Elsewhere there was growth in ready to drink, including East Africa, West LAC, and Australia. In Great Britain, ready to drink cans underpinned sales growth of 7% in the category.
- **Wine** represents 4% of Diageo sales and declined 1%. In the United States, a decline of 1% was driven by depletion softness as the business lapped one off programming in the prior year on core brands. In Europe, commercial challenges on Blossom Hill were offset by the strong performance of [yellow tail].

SUSTAINABILITY & RESPONSIBILITY REVIEW

2015 has been a year of significant progress in our approach to sustainability and responsibility. With our 2015 targets expiring this year, and in light of external factors such as the UN's new Sustainable Development Goals, we evaluated the strengths and weaknesses of our strategy against our track record of performance and the work we have done over the last few years in understanding the expectations and concerns of our stakeholders.

As a result, in December 2014, we launched new, ambitious targets for 2020 for our most material issues, which build on our achievements to date, and are aligned with the emerging UN Sustainable Development Goals. Our targets, which focus on leadership in alcohol in society, building thriving communities and reducing our environmental impact, are an essential part of how we will deliver our Performance Ambition (see page 16 for more information). Given their increasing importance to the business as a whole, this year we have added safety and carbon emissions to our 2014 non-financial key performance indicators, responsible drinking programmes, water efficiency and employee engagement.

Looking ahead – focusing on impact
During the year, we appointed a new Sustainable Development Director to lead the team, embed our strategy, and develop sound metrics for our targets and a co-ordinated framework for meeting them everywhere we do business. This will involve a more sophisticated approach focused on impact rather than input. We need to improve how we measure what our programmes are delivering both within and outside our business.

We also need to understand better how everything we do is connected – our impact as a local employer providing jobs and paying taxes, with our impact as a company selling alcoholic drinks in regulated markets; our impact as a manufacturer using shared natural resources and purchasing from local and global suppliers, with our impact as a marketer of iconic, much loved brands, for instance. To create one of the best performing, most trusted and respected consumer goods companies in the world, we need to understand the impact we have as a company, with the aim of ensuring that overall, our contribution is a positive one.

We have already begun this work with our new integrated water strategy, our Water Blueprint, launched in April 2015, which has given us a deeper understanding of the total impact of our water use and in which we have prioritised what we need to do to improve our stewardship of water.

Performance against 2015 targets
We will be reporting next year on how we are developing our approach beyond water and how we are performing against our new targets for 2020. In the meantime, in this report we are focusing on the progress we have made towards our 2015 targets and the challenges and opportunities that face us as we look towards 2020 and beyond. In recognition of our new targets, we are structuring this review around the three areas:

- **Leadership in alcohol in society** – which covers our existing target for responsible drinking programmes
- **Reducing our environmental impact** – which covers our existing targets for water, carbon emissions, waste and packaging
- **Thriving communities** – which covers our existing targets for our communities, and our indicators for our people and our supply chain.

We also continue to report on governance and ethics (see page 47), which underpin how we do business – in a responsible and ethical way – and which are essential for earning the trust and respect of everyone who comes into contact with Diageo.

Further details in the S&R Performance Addendum 2015.
Further details at www.diageo.com.

APPROACH TO UNITED SPIRITS LIMITED (USL) DATA

Following the acquisition of USL, we are progressively integrating operating systems and practice. As a result, we have only included USL data in the following:

- Employee numbers and Values Survey data
- Environmental data for water, carbon and waste.

All other data excludes USL.

LEADERSHIP IN ALCOHOL IN SOCIETY

PERFORMANCE AGAINST TARGETS

Responsible drinking programmes

298[(i)] (vs 373 in 2014)

(i) In shifting our focus towards the Global Producers' Commitments, we supported fewer programmes this year, and in line with our 2020 target, we are prioritising impact, which involves supporting fewer but more effective programmes.

Our brands are made with pride, and made to be enjoyed – responsibly. Consumed moderately and responsibly by adults who choose to drink, alcohol can be part of a balanced lifestyle, and play a positive role in social occasions and celebrations.

The misuse of alcohol, however, can cause serious problems for individuals, communities and society. We care passionately about reducing alcohol-related harm through our own programmes and through partnership and collaboration with others – and we seek to provide consumers with the information and tools they need to make informed choices about drinking or not drinking.

Reducing alcohol-related harm

Diageo shares the goal set by the World Health Organization (WHO) of reducing alcohol-related harm by 10% across the world by 2025. We are also one of the 13 leading alcohol beverage companies acting on the Global Beer, Wine and Spirits Producers' Commitments to Reduce Harmful Drinking. These Commitments are the largest ever industry initiative to implement effective ways to address harmful drinking.

These Commitments identified five areas for action over five years from January 2013:

(1) reducing underage drinking
(2) strengthening and expanding marketing codes of practice
(3) providing consumer information and responsible product innovation
(4) reducing drink driving
(5) enlisting the support of retailers.

We believe that efforts to reduce the misuse of alcohol are most effective when government, civil society, individuals and families, as well as the industry, work together. Our approach is built around providing consumers with information; promoting rigorous company and industry standards for responsible marketing; supporting effective programmes and partnerships to tackle alcohol misuse; and advocating effective, evidence-based policy.

Providing consumer information

In March 2015, we announced our commitment to provide consumers with alcohol content and nutrition information per typical serve – a first for any alcohol company. We intend to provide this information through Diageo's responsible drinking website DRINKiQ.com, and/or on-pack in a majority of Diageo's markets, subject to local regulatory approval.

Furthermore, the Diageo Alcohol Beverage Information Policy (DABIP) provides mandatory minimum standards for the information that must be included on labels and packaging, including at least one and up to three responsible drinking symbols, a link to DRINKiQ.com, alcohol content, a list of allergens, and recycling symbols. The DABIP mandatory elements will be in place on all Diageo-owned brands in all markets (where legally permitted) by the end of December 2017. Meanwhile, our DRINKiQ.com site, available in multiple languages, already includes a wealth of information about nutrition and responsible drinking.

Developing our approach for 2020

We are proud of the approach we have taken, over decades, to help tackle harmful drinking. In setting ourselves new targets for 2020 we aim to continue to go beyond industry-wide commitments. From this year, we will work in partnership to support programmes to address harmful drinking in our top 20 countries that can be evaluated for efficacy and impact, and will report on the results. We also aim to reach one million adults with training materials that enable them to champion responsible drinking.

Performance against 2015 targets

Industry performance against each of the five Global Beer, Wine and Spirits Producers' Commitments to Reduce Harmful Drinking is tracked through key performance indicators. In year two (2014) of the five-year programme, the industry has shown progress in key areas including underage drinking, reducing drink driving, and strengthening and expanding marketing codes of practice to promote responsible drinking. Digital Guiding Principles which, building on many existing codes, set high standards for digital advertising, were launched in September 2014.

While this unified approach has undoubtedly increased our reach, there is still more work to be done. Our aim is to reduce the harmful use of alcohol through these programmes and by working closely with governments and civil society. A detailed progress report on year two of the Global Producers' Commitments will be published in autumn 2015 and can be found on www.producerscommitments.org.

REDUCING ALCOHOL-RELATED HARM: 'DRINK RIGHT', JAMAICA

Increasingly, we're using studies to support, evaluate and report on the impact of our programmes, so we can keep learning – and keep improving.

This year we studied the efficacy of our 'Drink Right' programme in Jamaica. Alongside a range of partnership and public policy initiatives, Drink Right reaches consumers with responsible drinking messages through social media and television, radio and print. The campaign also provides training to retailers, promotes the 'We ID' programme to deter underage drinking, and promotes a culture of drinking the right way.

Our study showed areas of progress – and areas for improvement. In our sample, 72% said they were aware of the campaign, and of those, 47% said they believed their drinking behaviour had improved as a result. Results like these help us strengthen and focus our efforts towards our ultimate goal – reducing harmful drinking.

Complaints about advertising upheld by industry bodies that report publicly (2015)

		Industry complaints upheld	Complaints upheld about Diageo brands
Australia	Alcohol Beverage Code	5	0
Ireland	Advertising Standards Authority for Ireland (ASAI)	1	0
United Kingdom	The Portman Group	4	1
	Advertising Standards Authority (ASA)	35	1
United States	Distilled Spirits Council of the United States (DISCUS)	2	0

Responsible drinking programmes

Diageo supported 298 responsible drinking programmes in more than 50 countries, focused on reducing alcohol misuse by working with others to seek to raise awareness and change people's attitudes and behaviour.

This is a reduction from the number of programmes we supported last year; it is driven by our stronger focus on implementing programmes in support of the Global Producers' Commitments. Additionally, as stated in last year's report and in line with our 2020 target to measure the impact of our programmes in our top 20 countries, we are prioritising programmes that show impact. This may mean we support fewer, but more effective programmes. Evaluation of our initiatives will help us improve.

Our approach in each country is based on the needs of local stakeholders, so the programmes are varied, but last year they included advertising campaigns that raised awareness of the risks of excessive drinking, funding the training of midwives about foetal alcohol syndrome, supporting the medical profession in identifying and helping problem drinkers, and initiatives with public and private partners to reduce drink driving, including free rides and enforcement campaigns. In line with our 2020 targets and our aim to focus on the impact of our programmes, we have started to publish evaluations of our initiatives on our website, www.diageo.com.

Responsible marketing

The Diageo Marketing Code and Digital Code are our mandatory minimum standards for responsible marketing, and we review them every 12-18 months to ensure they represent best practice.

Five industry bodies publicly report breaches of their self-regulatory codes. This year, Diageo was found to be in breach by the Advertising Standards Authority in the United Kingdom for a television commercial for Parrot Bay frozen pouches on the grounds of underage appeal, and by the Portman Group in the United Kingdom for a pre-filled 20cl counter-top unit because the phrase 'mix it up tonight' could be seen as an encouragement of immoderate consumption. The marketing material was immediately withdrawn.

REDUCING OUR ENVIRONMENTAL IMPACT

PERFORMANCE AGAINST 2015 TARGETS[(i)]

Improve water efficiency by 30%	10.4% (vs 2014)	30.2% (vs 2007)
Reduce water wasted in water-stressed sites by 50%	33.4% (vs 2014)	45.3% (vs 2007)
Reduce polluting power of wastewater by 60%	16.3% (vs 2014)	3.1% (vs 2007)
Reduce carbon emissions equivalent by 50%	8.7% (vs 2014)	33.3% (vs 2007)
Eliminate waste to landfill	48.5% (vs 2014)	85.4% (vs 2007)
Reduce average packaging weight by 10%[(ii)]	1% (vs 2014)	7% (vs 2009)
Increase average recycled content across all packaging to 42%[(ii)]	1.5% (vs 2014)	39% (vs 2009)
Make all packaging 100% recyclable/reusable[(ii)]	0.01% (vs 2014)	98.6% (vs 2009)

(i) Figures include USL, except for packaging-related data.
(ii) Packaging targets are measured against a 2009 baseline, rather than the 2007 baseline for other environmental metrics.

The success of our business is dependent on many natural resources, some of which are becoming increasingly constrained as rising demand and climate change place them under pressure. We are committed to minimising our environmental impact across our operations, and we are extending our environmental programmes into the broader supply chain. This will help ensure the sustainability and security of our supply chain, supporting the resilience and growth of our business.

Our environmental strategy embodies our aspiration to be a business which does not materially deplete natural resources, reduces our impact on climate change, causes no lasting damage to species, habitats, or biodiversity – and, where possible, improves the environment we operate in.

Setting our ambitions for 2020

In 2008, we set ourselves a series of challenging targets to achieve by 2015 in the areas of water, carbon emissions, and waste. These were primarily absolute targets which acknowledged that our existing impacts should be reduced in real terms compared to a 2007 baseline, regardless of the future size of the business. In 2009, we added commitments covering packaging.

These targets have catalysed significant improvements and have been the basis for sustained programmes of investment that will have long-lasting benefits for our business and the environment. We have made considerable progress and significantly reduced our environmental impact during a period when our total production and operational footprint have increased. The progress against the individual targets is detailed to the left. We have not met all of our stretching targets, but we have made significant improvements, particularly in water efficiency, one of our most important resources, with much of the improvement delivered in water-stressed locations.

Our new and expanded targets for 2020 reflect our commitment to continuing and accelerating progress to reduce our environmental impacts, within our direct operations and in the wider supply chain, with a set of goals that genuinely stretch and challenge our business. These new targets expand our existing strategy and increase our focus on environmental impacts in our broader supply chain. They continue to prioritise water stewardship, including an additional target to replenish the amount of water used in our final product in water-stressed areas, and address carbon, waste, and packaging. We have also added targets on zero net deforestation, paper and board sourcing, and eliminating ozone-depleting refrigerants.

The importance of water

We and our stakeholders recognise that water stewardship is one of the most material aspects of our environmental strategy. The Diageo Water Blueprint, launched in April 2015, defines our strategic approach to water stewardship. Incorporating our 2020 targets, it is an integrated approach based on four core areas where we will increase our efforts: in the sourcing of raw materials; in our own operations; in the communities in which we operate; and through local and global advocacy for best practice in water stewardship.

We have expanded our strategy to encompass the company's broader global supply chain, which will enable us to better understand and manage Diageo's total impact on water, while focusing on water-stressed areas (see map on page 15). We will also continue to invest in infrastructure and sanitation that provides access to safe water to communities through our Water of Life programme (see pages 43–44).

Environmental performance

This year saw a period of particular growth through acquiring control of United Spirits Limited (USL) in India, which significantly expanded our operational footprint in India and increased our volume of production globally. The environmental data reported in this section includes USL, with the exception of packaging. The water efficiency and carbon emissions performance reported on pages 12 and 13 exclude USL.

Water stewardship

We recognise that we will only become one of the best performing, most trusted and respected companies in the world if we responsibly manage all our material environmental impacts, particularly water. The acquisition of USL reinforces this, given the increased number of water-stressed sites we now manage in India (see map on page 15).

This year we improved water use efficiency by 10.4% and reduced absolute water withdrawals by 2,876,000 cubic metres. In water-stressed locations, we have reduced water wasted by 33.4%. For example in Brazil, investing in optimising water use at our Paraipaba distillery significantly reduced total water withdrawals in this acutely water-stressed location. At our breweries in Kaasi, Ghana, and at our two sites in Nigeria, water use per litre brewed has improved by 29% and 4% respectively, through improving water management and new ways of working.

Water used for agricultural purposes on land under Diageo's operational control extends to 622,150 cubic metres and is reported separately from water used in our direct operations. The majority of this irrigation water is in respect of sugar cane.

We also aim to reduce the polluting power of wastewater, measured in biochemical oxygen demand (BOD) grams. Overall we reduced BOD by 16.3% this year. Compared to our 2007 baseline, BOD load has reduced by 3.1% and, while not meeting our 2015 target, the multiple investments we have made in wastewater treatment facilities, including in Africa where we have reduced BOD by around 90%, are reducing the polluting power of wastewater discharges. The application of cutting edge technology at our bioenergy plant at Cameronbridge Distillery in Scotland, which accounts for approximately 60% of our total BOD, has proven challenging, although compared to the previous year it did reduce BOD load by 16.6%. We will continue to invest to develop and refine the technology and we remain confident that it will deliver the multiple environmental benefits anticipated.

SAVING WATER WHERE IT IS NEEDED MOST – CEARÁ, BRAZIL

In the Brazilian state of Ceará, water is precious. The region has been subject to a serious drought, and businesses need to do what they can to help save water.

Our Paraipaba distillery in Ceará has invested in making its use of water more efficient – and has reduced the total amount of water it withdraws by 1.7 million cubic metres in 2015. Where it previously took 85 litres of water to produce a litre of our products, it now takes just 13. The savings are equivalent to the water needs of 10,000 people, making a significant difference in an area of severe water scarcity.

As well as making changes to the way in which we grow the sugar cane used at our distillery, and the way that it is washed and processed, we have invested in new measures such as an indirect heating system which returns distillation condensate to our boilers, and closed cooling water circuits.

Water stewardship is our highest environmental priority, and we have set ourselves the target of reducing water use in our operations by improving water use efficiency by 50% worldwide.

Water efficiency by region, by year (l/l)[(i), (ii), (iii)]	2007	2013	2014	2015
North America	6.7	6.5	5.3	**5.1**
Europe	7.9	6.7	7.0	**6.7**
Africa	9.6	6.4	5.9	**5.5**
Latin America and Caribbean	21.9	21.0	20.6	**6.9**
Asia Pacific	7.0	6.7	5.7	**5.7**
Diageo (total)	8.6	7.1	6.7	**6.0**[(iv)Δ]

Wastewater polluting power by region, by year (BOD/t)[(i)]	2007	2013	2014	2015
North America	248	12	15	**13**
Europe	22,927	33,842	35,851	**31,543**
Africa	9,985	6,068	2,722	**639**
Latin America and Caribbean	565	11	10	**33**
Asia Pacific	46	482	482	**489**
Corporate	1	1	1	**1**
Diageo (total)	33,772	40,416	39,081	**32,718**
Total under direct control	32,947	40,161	38,848	**32,493**[Δ]

(i) 2007 baseline data and data for each of the intervening years in the period ended 30 June 2014 have been restated in accordance with Diageo's environmental reporting methodologies.
(ii) In accordance with Diageo's environmental reporting methodologies, total water used excludes irrigation water for agricultural purposes on land under the operational control of the company.
(iii) Figures include USL.
(iv) As disclosed on page 12, Diageo total water efficiency by region excluding USL is also 6.0l/l.
Δ Within KPMG's independent limited assurance scope. Please see page 143 for further details.

Carbon emissions

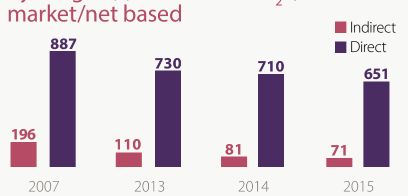
We use the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol as a basis for reporting our carbon emissions, and we include all facilities over which we have operational control for the full fiscal year.

This year Diageo's carbon emissions (CO_2e) were reduced by 8.7% in absolute terms, or 68,400 tonnes (market/net), compared to the prior year. Since 2007 we have reduced absolute tonnes of CO_2e by 33%. This falls short of our 50% target, largely as a result of the expansion of the business through acquisition and volume growth, particularly in distilling which is an energy-intensive process with consequent increases in carbon emissions. The reductions we have made represent the sum of several large investments, many small improvements, increases in green energy sourcing, and the application of new technology. We remain committed to the goal of a 50% reduction in carbon emissions, while also extending our ambitions to reduce our total supply chain emissions by 30%, both of which are included in our 2020 targets.

Diageo's total direct and indirect carbon emissions (location/gross) for this year were 909,000 tonnes[Δ] (direct emissions 704,000 tonnes and indirect emissions 205,000 tonnes). In 2014, total direct and indirect carbon emissions (location/gross) were 982,000 tonnes (direct emissions 761,000 tonnes and indirect emissions 221,000 tonnes). The intensity ratio for this year was 236 grams per litre packaged[Δ] (2014 – 254 grams per litre packaged).

This year, approximately 58.5% of electricity at our production sites came from low-carbon sources such as wind, hydro and nuclear (2014 – 56.1%). This includes, at some sites, generating our own electricity from renewable sources, including solar, biomass and biogas.

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



(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 2014, have been restated in accordance with the WRI/WBCSD GHG Protocol and Diageo's environmental reporting methodologies.
(iii) Figures include USL.

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

	2007	2013	2014	2015
North America	217	50	56	**54**
Europe	405	359	355	**331**
Africa	251	244	215	**224**
Latin America and Caribbean	34	20	22	**20**
Asia Pacific	151	149	129	**79**
Corporate	25	18	14	**14**
Diageo (total)	1,083	840	791	**722**[(iv), Δ]

(i) CO_2e figures (market/net) 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 2014, have been restated in accordance with the WRI/WBCSD GHG Protocol and Diageo's environmental reporting methodologies.
(iii) Figures include USL.
(iv) As disclosed on page 13, Diageo total carbon emissions excluding USL are 652,000 tonnes CO_2e.
Δ Within KPMG's independent limited assurance scope. Please see page 143 for further details.

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

	2007	2013	2014	2015
North America	40,828	538	246	**197**
Europe	22,464	8,322	6,525	**7,207**
Africa	33,492	12,172	9,685	**4,474**
Latin America and Caribbean	4,930	919	870	**724**
Asia Pacific	8,268	15,625	13,765	**2,978**
Corporate	1,140	847	453	**692**
Diageo (total)	111,122	38,423	31,544	**16,272**[Δ]

(i) 2007 baseline data and data for each of the intervening years in the period ended 30 June 2014 have been restated in accordance with Diageo's environmental reporting methodologies.
(ii) Figures include USL.
Δ Within KPMG's independent limited assurance scope. Please see page 143 for further details.

In the United Kingdom, 99.5% of our electricity came from low-carbon sources.

For our work on carbon with suppliers, see page 46.

Waste to landfill

This year, we reduced waste to landfill by 48.5% compared to 2014, and by 85% since 2007, against our challenging goal of eliminating it altogether. We have made progress through continuously improving how we segregate waste to enable recovery and reuse. We have also reduced the overall amount of material we use, found alternative uses for waste including in agriculture, recycling, and recovering waste for energy. Eliminating waste to landfill therefore remains one of our targets for 2020, although we recognise that it will become more technologically and economically challenging the closer we get to eliminating residual volumes in certain applications.

Sustainable packaging

The packaging that helps protect and market our brands has environmental impacts throughout a chain that stretches from our suppliers, through the retailer, to the consumer and beyond. Our Sustainable Packaging Guidelines are used by brands and support our ongoing programme to produce packaging with low environmental impact.

We are satisfied with our performance against our sustainable packaging targets, with a 1% reduction in average pack weight contributing to a cumulative 7% reduction since 2009; recycled content increasing by 1.5% to an overall average of 39%; and 98.6% of our packaging being reusable or recyclable. While we continue to challenge packaging across the portfolio, some highlights have included the removal of the glass handle from Smirnoff 1.75 litre glass bottles, and the 'light-weighting' of Bell's whisky bottles. Higher cullet contents have been achieved with our glass suppliers in Europe, Brazil and North America.

Looking to 2020, we will continue and accelerate initiatives to maximise the recycled content in our packaging, optimise and reduce the weight of packs, and remove materials that cannot be recycled, or are difficult to recycle, including PVC, foil, mixed plastics, ceramics and some laminates. Where viable alternatives exist, we will remove materials such as inks and heavy metals that may pose a risk to the environment. We have added a new target for 2020 of zero net deforestation from paper and board sourcing.

Assurance

Independent limited assurance was provided for Diageo's operational environmental metrics for greenhouse gas emissions, water usage, water efficiency, wastewater discharge (BOD) under direct control, and waste to landfill. See page 143 for details.

BUILDING THRIVING COMMUNITIES

Diageo can only operate successfully if we work within a broad community of people, businesses and agencies to create shared value. We have a responsibility for, and a clear commercial interest in, ensuring that our people, our suppliers, the communities around our operations, and society at large all thrive as a result of Diageo's business.

As a successful business, we create significant value directly within this broad community through our daily operations, providing jobs, sourcing ingredients, services and materials from suppliers, and paying local duties. But creating shared value in a lasting way extends beyond this – to addressing development challenges such as skills gaps or access to clean water, advocating high standards of governance, rewarding our people, and supporting farmers and other suppliers as they help us build a sustainable value chain.

A history of engagement

Contributing to the communities and societies we are part of is nothing new to Diageo – our history is rich with examples of community action dating back to Arthur Guinness's work with Dublin's poor in the 19th century, and we have always valued and rewarded our people and the agricultural supply chains that we rely on and support.

In recent years, however, we have increasingly looked at the potential for shared value across our entire value chain. We set targets for ourselves in the fields of community empowerment, employee engagement and diversity, and local sourcing, while looking to develop these further into an integrated whole.

Developing our approach for 2020

To get a better measure of our progress in building thriving communities, we will evaluate and report on the tangible outcomes of our actions. This will include our community programmes, which enable those who live and work in our communities, particularly women, to have the skills and resources to build a better future for themselves, as well as our initiatives to increase diversity and employee engagement among our people while ensuring they are safe at work.

We will also continue to strengthen our supply chains, through more partnerships with farmers, further targets for the local sourcing of agricultural raw materials in Africa, and continued commitment to improving labour standards and human rights in our supply chains, including our ongoing commitment to the UN Guiding Principles on Business and Human Rights.

Community empowerment

PERFORMANCE AGAINST TARGETS

Improve access to safe drinking water for one million people in Africa every year until 2015

600,000 (vs 1 million in 2014; total 10 million since 2008)

Train 100,000 people through our Learning for Life programme by 2016

7,417 (vs 14,000 in 2014)

Empower two million women through our Plan W programme by 2016

115,091 (vs 40,545 in 2014)

An essential part of our contribution to the wider communities that enable our business to flourish and grow is our investment in long-term, actively managed programmes that help serve critical local needs, such as access to clean water and developing skills and empowerment.

This year Diageo invested £15.5 million or 0.6% of operating profit to charitable projects that help serve critical local need (2014 – 0.6% of operating profit). From this year we will work towards our 2020 ambition of further evaluating the outcomes of the community programmes we engage in, and strengthening the connections between our individual initiatives and our overall strategy of creating shared value.

Access to clean water

We have a long and proud tradition of investing in local communities through our Water of Life programme, which often involves participation by our employees and is increasingly focused on our supply chain. When we set our target in 2006, our overall

MAKING A DIFFERENCE: MEASURING THE IMPACT OF OUR PROGRAMMES

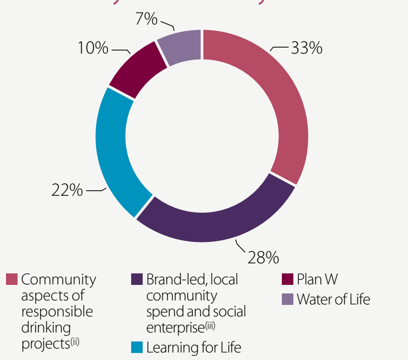
In 2014, we embarked on our largest ever series of studies to measure and report on the impact our community projects are having.

These evaluation studies looked at 49 Water of Life projects in Ghana, exploring their impact on income, employment, female empowerment, health, and economic value. We also evaluated our Learning for Life training programmes in the Dominican Republic, Jamaica, Mexico, Brazil and Colombia.

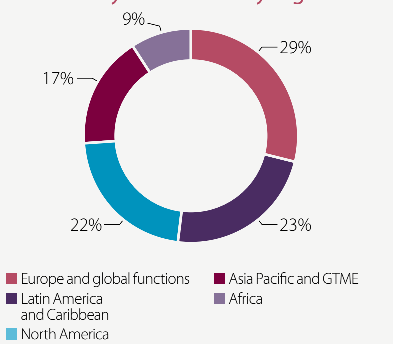
We have learnt that Water of Life projects are the main source of water supply for 79% of beneficiary households – and have helped empower women by reducing the time spent sourcing water each day by 33%. They have also helped reduce the incidence of waterborne disease, and supported an estimated 34,000 livelihoods.

The studies also show that Learning for Life has had positive impacts on many beneficiaries' lives and, like all our evaluation studies, have given us essential insights into how we can improve our programmes so they keep making a difference.

Community investment by focus area(i)



Community investment by region(i)



(i) This excludes our legacy commitment to the Thalidomide Trust and the Thalidomide Foundation Ltd of £9.8 million which in prior years we included as part of our community investment data.
(ii) This is a sub-section of the total responsible drinking budget.
(iii) Category includes cause-related brand campaigns, local market giving and disaster relief.

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goal was to reach eight million people, which suggested we needed to reach one million people per year. Although this year we reached only 600,000, overall we have reached more than 10 million people through more than 230 projects in 18 countries, surpassing our initial aspiration by almost 25%. Our initiatives support boreholes, wells, rainwater harvesting, and domestic filtration devices.

Learning for Life
Learning for Life supports vocational and life-skills training which improve the prospects of individuals, families, communities and societies while strengthening our value chain through its emphasis on hospitality, retail, and entrepreneurship.

This year Diageo ran over 85 Learning for Life programmes in 32 countries, training 7,417 people, and bringing the total number of people trained to 109,894, exceeding our 2016 target by 9,894. Our impact studies in five countries in Latin America show that the programmes enabled 75% of participants to get jobs, including 44% with formal contracts, and to increase earnings four-fold. Overall, the studies show that the programmes have benefited over half a million people, when taking into account the effects on participants' families. The young people involved also talk about the increased self-esteem and dignity they gained alongside valuable and recognised employment skills.

Plan W
Plan W is a sustainable development programme aiming to empower women and enable them to play a greater role in the economy by developing their hospitality and business enterprise skills. Since December 2012, Plan W has empowered 115,091 women, reaching 575,455 people indirectly across 15 countries, largely in Asia. While we continue to develop more projects, our aspiration to empower two million women across the world will only be achieved through broader partnerships and more global engagement than we have hitherto achieved. Alongside our internal diversity programme, we will explore how we can work with others to increase our reach.

The Diageo Foundation
The Foundation is a registered charity funded entirely by Diageo. It makes grants in support of projects or local charitable causes and disaster relief, particularly in regions where support from our employees and operations can be leveraged. This year, it funded 20 programmes in 11 markets including India and Ghana, and donated disaster relief to Sierra Leone and Nepal. This year we undertook a review of the Foundation to ensure it continues to support Diageo's community development programmes effectively.

Our people

PERFORMANCE AGAINST TARGETS

Engagement score
75% (vs 73% in 2014)

Gender diversity in senior management
26% (vs 28% in 2014)

Reduction of actual lost-time accidents (LTAs)
10% (since 2014)

Our people are at the heart of our success and we want them to be able to deliver their best in a safe, welcoming environment.

Health and safety
Everyone has the right to work in a safe, healthy environment, and our global Zero Harm programme is designed to ensure that all our people go home safe, every day. Sadly, in December 2014, a colleague in South Africa was killed in a road traffic accident whilst driving back from a sales event.

Diageo has a Severe and Fatal Incident Prevention (SFIP) programme specifically designed to identify and eliminate or control severe and fatal risks in our operations. SFIP has significantly reduced the number of severe accidents, but it is always under review, and the circumstances of the tragic accident above have been investigated so that we can take measures to reduce the risk to our people further.

Our Zero Harm philosophy is aimed at eliminating workplace accidents, and we had set a stretching global target to deliver less than one lost-time accident (LTA) per 1,000 people by 2015. Since 2007 we have seen significant progress towards this target, although this year we did not meet our annual 40% rate reduction target thereby also missing the original aspiration for 2015. Our overall LTA rate has remained static at 1.66^{Δ} year on year, driven primarily by accidents in our offices and sales functions. It is worth noting that the actual number of accidents has reduced by 10%, however a reduction in headcount means this improvement is not reflected in the rate.

Our overall LTA rate compares favourably with peer organisations, however our commitment to our safety purpose – that everyone goes home safe, every day, everywhere – means we will always seek to improve. In March 2015, Diageo recorded its first ever LTA-free month, something we will look to build on through the ongoing application of our Zero Harm strategy. In addition to continuing to identify and control risks, we will increase our focus on the behavioural aspects of safety and grow a safety culture rooted in prevention. LTAs now occur more frequently at offices than at other sites, and we are introducing new procedures to ensure safety in offices is addressed through Risk Management Committees. We are strengthening our Slips, Trips and Falls Prevention programme and we continue to strongly promote our responsible driving programmes.

Employee engagement
We communicate with employees on matters of importance to them and the company in a variety of ways, including through our digital channels. Our principal

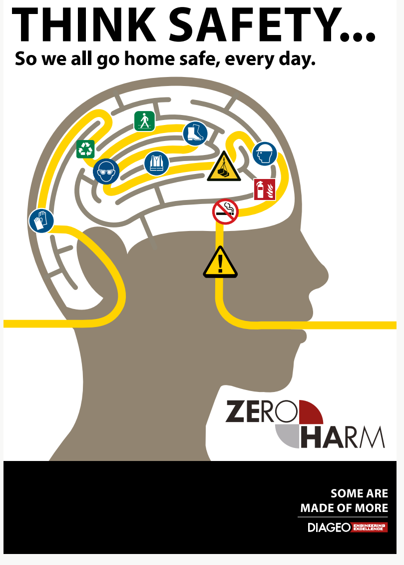
ENGINEERING SAFETY INTO EVERYTHING WE DO

We believe safety is fundamental, and we have introduced two new ways to embed it into the core of our business – through what we build, and through the people we work with.

From 2014, as part of our Engineering Safety initiative, every capital engineering project we start on is designed to a global engineering safety standard.

And while safety is being designed into everything we engineer, we are also building it into the way we work with contractors, suppliers and site visitors as well as our own people.

We are seeing good results from our work – as just one example, in 2015 our Meta Abo brewery in Ethiopia recorded 1,500,000 hours without a lost-time accident. But we will keep going – until everyone goes home safe, every day, everywhere.



means of gathering employees' views is our annual values-based survey, which helps us assess how well we are bringing our values to life, engaging our people and enabling them to perform. We want our people to be 'engaged': passionate about our strategy, connected to our values, and motivated to be and perform at their best. We support our employees through clear policies, competitive reward programmes, coaching and development opportunities, and health and wellbeing initiatives.

This year, 94% (25,022 out of the 26,710 able to participate) of our people participated in our online Annual Values Survey, with 75% identified as 'engaged'. Our people confirmed that one of our core strengths continues to be our employees' pride and strong sense of ownership in our business and our brands.

In our strategy for 2020, we have reinforced our commitment to employee engagement through new targets, including our ambition to be a top quartile performer on measures including employee satisfaction, pride, and loyalty.

Diversity

Our diversity and inclusion practices are a key competitive advantage to our business. We aim to inspire, support and empower women to take on greater leadership roles across the world. Currently, five of our 11 Board members are women, representing 45% of the directors.

We are committed to a diverse leadership and the promotion of local leaders. Currently, six of the 15 members of the Executive Committee are women, representing 40% of the committee; 26% of our senior management positions are held by women; and our 21 managing directors represent 16 different nationalities.

Human rights

In our workplaces and the communities in which we operate, we believe a serious commitment to respecting human rights is fundamental. We recognise that we are responsible for the impact of our operations on our employees, on workers in our supply chain, on consumers of our products, and on the communities in which we operate. Our policies and guidelines, including our Human Rights Policy, outline our approach to human rights, and we will continue to demonstrate our commitment through our actions.

We are a signatory to the UN Global Compact and the UN Women's Empowerment Principles and, as part of our 2020 targets, we have committed to acting in accordance with the UN Guiding Principles on Business and Human Rights.

Lost-time accident frequency rate per 1,000 full-time employees[(i)]	2011	2012	2013	2014	2015
North America	5.06	4.15	1.64	0.84	**1.83**
Europe	5.29	2.41	2.12	2.08	**2.51**
Africa	1.48	1.82	2.55	0.56	**1.20**
Latin America and Caribbean	3.42	1.44	10.88	4.7	**0.66**
Asia Pacific	1.41	0.0	1.26	1.62	**1.21**
Diageo (total)	3.73	2.14	2.97	1.66[(ii)]	**1.66**Δ

(i) Number of accidents per 1,000 employees and directly supervised contractors resulting in time lost from work of one calendar day or more.
(ii) Updated to include Gleneagles Hotel and one additional LTA in North America which occurred at the end of the 2014 financial year but was not previously reported.
Δ Within KPMG's independent limited assurance scope. Please see page 143 for further details.

Number of days lost to accidents per 1,000 full-time employees	2011	2012	2013	2014	2015
Diageo (total)	158.8	106.6	66.0	49.7	**89.4**

Fatalities	2011	2012	2013	2014	2015
Diageo (total)	4	1	4	1	**1**

Average number of employees by region by gender[(i)]	Men	Women	Total
North America	1,958	1,303	3,261
Europe	6,713	4,285	10,998
Africa	4,366	1,132	5,498
Latin America and Caribbean	1,834	1,115	2,949
Asia Pacific	8,808	1,848	10,656
Diageo (total)	23,679	9,683	33,362

Average number of employees by role by gender	Men	Women	Total
Senior manager[(ii)]	543	191	734
Line manager[(iii)]	3,938	1,719	5,657
Supervised employee[(iv)]	19,198	7,773	26,971
Total	23,679	9,683	33,362

New hires by region by gender[(i)]	Men	Women	Total	% of regional headcount
North America	229	161	390	12.0
Europe	846	683	1,529	13.9
Africa	631	226	857	15.6
Latin America and Caribbean	375	265	640	21.7
Asia Pacific	597	283	880	8.3
Diageo (total)	2,678	1,618	4,296	12.9
Percentage of total new hires	62.3	37.7		

Leavers by region by gender[(i)]	Men	Women	Total	% of regional headcount
North America	239	190	429	13.2
Europe	848	604	1,452	13.2
Africa	409	109	518	9.4
Latin America and Caribbean	411	198	609	20.7
Asia Pacific	801	277	1,078	10.1
Diageo (total)	2,708	1,378	4,086	12.2
Percentage of total leavers	66.3	33.7		

(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.

We do not tolerate discrimination, harassment, bullying or abuse; we comply with wage and hour laws; we respect our employees' decision to join or not join a trade union; and we do not tolerate forced or compulsory labour. We will not work with anyone, including any supplier, who does not adopt these values.

We aim to provide opportunities for a wide range of people including those with disabilities, fostering a culture that allows for a variety of lifestyles. Our training and education programme includes retraining, if needed, for people who have become disabled. Where possible, we encourage a flexible approach to working and emphasise the importance of treating individuals justly and in a non-discriminatory manner throughout the employment relationship, including recruitment, compensation, training, promotion, and transfers.

Our robust controls, compliance and ethics programme is described in the Governance and Ethics section on page 47.

Sustainable supply chains

PERFORMANCE AGAINST TARGETS

Percentage of potential high-risk supplier sites registered with SEDEX that were audited in 2015

19% (vs 17% in 2014)

Percentage of agricultural materials sourced locally across Africa in 2015

70% (vs 66% in 2014)

Our supply chains create value directly to local economies, and provide one of the most important ways in which we support and build capability among the communities in which we work. They are also an important part of our contribution to driving higher standards in sustainability and business ethics, bringing shared value to individuals, businesses and society.

A secure, stable supply chain is also critical to the long term performance of our business. We have a clear interest in mitigating risk, and in supporting suppliers in strengthening their sustainability in ways that benefit them as well as us.

We source goods and services from a wide variety of businesses around the world, and our procurement systems depend on relationships with suppliers that are local, regional, and global. We expect all our suppliers to follow our Partnering with Suppliers Standard, which sets out our minimum social, ethical and environmental compliance standards, and we invite them to be our partners more widely in providing responsibly-sourced materials and services which have a positive impact on communities and the environment.

Responsible sourcing

Around 28,000 direct suppliers from more than 100 countries provide us with the raw materials, expertise, and other resources which help us make great brands. We aim to help them improve their sustainability performance by optimising due diligence.

We do this principally through SEDEX, a not-for-profit organisation that enables suppliers to share assessments and audits of ethical and responsible practices with multiple customers, and AIM-PROGRESS, a forum of over 40 leading consumer goods companies which promotes responsible sourcing practices and sustainable supply chains. We also have an internal Know Your Business Partner (KYBP) programme, which assesses third parties against the risk of bribery and corruption.

To date, 1,298 of Diageo's potential high-risk supplier sites have registered with SEDEX, up from 1,193 last year. Of these, 1,170 have completed a SEDEX self-assessment questionnaire. More than 200 of these supplier sites were independently audited during the last three years; either commissioned by Diageo (34), or accessed through SEDEX and AIM-PROGRESS (219).

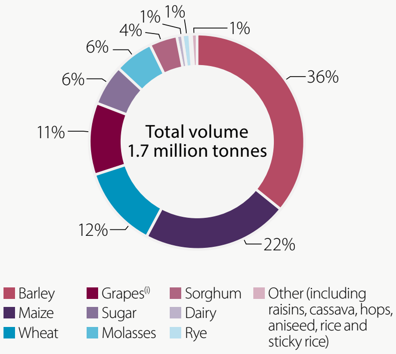
We have continued to make progress on our work with our supply chain on carbon emissions, in particular through the CDP (formerly the Carbon Disclosure Project) Supply Chain programme, a platform for engaging key suppliers on carbon emissions. Of the 154 suppliers we engaged last year, 92% responded to the CDP questionnaire, giving us further insights as we tackle our new 2020 target of reducing carbon emissions in our supply chain by 30%.

Our confidential whistleblowing service, SpeakUp, is open to our suppliers. This year Diageo received reports from two suppliers and vendors through SpeakUp.

Partnerships with farmers

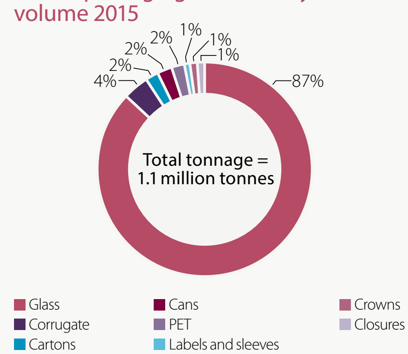
Our brands have always had long-standing and value-sharing relationships with farmers, on whose raw materials we rely. We continue to work with local agricultural communities to support them and the long term supply of our ingredients, and where appropriate we help equip them with the knowledge, tools and specialist support to develop sustainable agriculture. This year we joined the Sustainable Agriculture Initiative (SAI) Platform, the food and beverage industry initiative that supports the development of sustainable agriculture around the world. In Africa, where we see significant potential for developing more sustainable farming

Global raw materials by volume 2015



(i) This year we have excluded grapes from bulk wine purchases to ensure our figures represent only raw materials we buy directly; grapes therefore represent 11% of raw materials by volume this year, compared with 14% in 2014.

Global packaging materials by volume 2015



DIAGEO CDP SUPPLY CHAIN PROGRAMME – WORKING TOGETHER TO CUT CO_2

We have set ourselves the target of reducing absolute greenhouse gas emissions along our total supply chain by 30% – and we will only achieve it by working with suppliers, to help them help us by reducing their own emissions.

At our May 2015 supplier conference in Gleneagles, Scotland, we took the opportunity to engage 59 of our key global suppliers, raising awareness of our commitments on carbon.

Central to our work is the CDP, the world's largest and most comprehensive global system for carbon disclosure. In 2014, we invited 154 suppliers, who between them represent 80% of our spend in key categories, to disclose their carbon performance – and 92% responded.

Such a high response rate tells us that suppliers are willing to engage, and their responses help us gauge overall performance of the supply chain. They also help us identify hotspots and opportunities to reduce our collective emissions.

practices, we have met our goal of sourcing 70% of agricultural materials locally by 2015 – locally being defined as materials sourced within Africa and used by our African markets. We have increased this target to 80% for 2020.

GOVERNANCE AND ETHICS

PERFORMANCE AGAINST TARGETS

Manager level and above employees completing Annual Certification of Compliance

100% (100% in 2014)

Employees leaving Diageo due to a breach of the Code of Business Conduct or other policies

109 (vs 146 in 2014)

People want to trust the company behind the brands that they love. Our reputation can only be sustained if every one of us is doing the right thing, every day, everywhere.

We are committed to conducting our business responsibly and in accordance with all laws and regulations to which our business activities are subject. To help our employees make the right decisions at work, we have a sound corporate governance structure and a robust risk, controls and compliance programme, with our Code of Business Conduct (our Code) at the heart of our business.

Standards and procedures

This year we refreshed our Code (published in July 2015), which sets the standard for what is expected of everyone working at Diageo, and from which our other policies and standards flow. Each employee at manager level and above completes an Annual Certification of Compliance (ACC) to confirm their understanding of, and adherence to, our Code and any applicable policies, and to identify any areas of possible non-compliance. In 2015, the ACC was completed by all eligible managers – 9,271 of our employees, or approximately 40% of our people.

This year we also launched our breach management global standard, and refreshed our risk management global standard, as part of the continuing evolution of our risk management programme.

Global risk and compliance

The global risk and compliance team provides rigorous oversight of our risk management, internal control, and compliance and ethics programme across Diageo. Our overriding aim is to encourage integrity in every part of the business: we want employees to act with exemplary conduct in all their business interactions and truly embody our value of being proud of what we do.

Due care in delegating authority

As our business expands, it is important to ensure that we embed our standards and procedures in all new business units. We plan ahead and move quickly to ensure our new acquisitions are operating to the same standards as our existing businesses, and we are consistent in our stance on non-compliance issues. We are also committed to establishing good working relationships with our other business partners, including our suppliers, and ensuring that they adhere appropriately to our principles.

USL, which was integrated this year, updated their Code of Business Conduct & Ethics during the year. It sets out USL's commitment to conducting business in accordance with our purpose and values, and 100% of USL executives were trained on how to apply it in their work. The Code has clearly defined policies on important areas such as responsible marketing, quality and food safety, anti-corruption, gifts and entertainment, and many more that are aligned with our values and our sustainability goals.

Risk management

Our risk management global standard requires all markets and functions to perform risk assessments at least annually to consider risks concerning human rights, bribery and corruption, anti-money laundering, and all other relevant laws and regulations, as well as our own Code, policies and standards, and to ensure that mitigation plans for their most significant risks have been established.

Training and communications

Each market has its own training plan for our Code and key policies, which they deliver through locally organised, risk-based training. To further embed ownership of this agenda with employees, some of our businesses go beyond basic training with annual engagement events such as the Pathway of Pride programme in Africa, Ethics Day in Asia Pacific, and Compliance Day in Great Britain.

When an employee joins Diageo, he or she must complete training about our Code within 30 days. The 4,296 employees who joined us this year were taken through a one-hour induction on compliance and ethics.

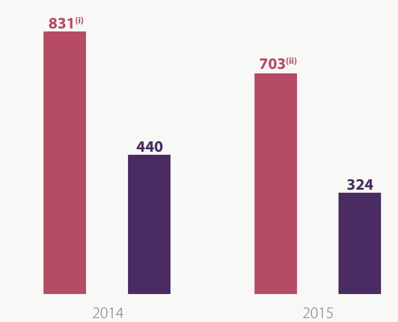
Monitoring, auditing, and reporting

We strive to have a culture in which employees feel comfortable raising concerns about potential breaches of our Code or policies. We expect anyone who comes across a breach to report it immediately, either through our confidential whistleblowing helpline SpeakUp, to their manager, or to a member of the global risk and compliance, human resources or legal teams. SpeakUp is also available to suppliers.

There were 703 suspected breaches reported this year, of which 324 were subsequently substantiated. Of the suspected breaches, 289 were reported through SpeakUp, compared with 299 in 2014. All identified breaches are taken very seriously and those that require action are investigated.

Our response to proven breaches varies depending on the severity of the matter, and we monitor breaches to identify trends or common areas where further action may be required. This year, 109 people exited the business as a result of breaches of our Code or policies.

Reported and substantiated breaches



(i) Reported through SpeakUp – 299.
(ii) Reported through SpeakUp – 289.

Enforcement and incentives

We aim to improve our culture through training, coaching and incentives. Annual performance appraisals give full consideration to both performance and behaviour, with an individual's commitment to Diageo's controls, compliance, and ethics agenda being considered under behaviour. Employees' overall performance affects their pay increases, and, where relevant, their bonuses.

Controls

We have a strong internal control environment, and we have an annual programme to assess, test, and report on the effectiveness of internal controls across our company. Our controls cover all aspects of risk, ranging from financial to operational to reputational risk, and all markets and functions are required to certify annually whether their internal controls are operating effectively, and quickly remediate any weaknesses identified.

DEFINITIONS AND RECONCILIATIONS 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.

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 ten; and certain pre-mixed products that are classified as ready to drink in nine-litre cases, divide by five.

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.
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Calculation of organic movements

The organic movement percentage is the amount in the row headed 'Organic movement' in the tables below, expressed as a percentage of the amount in the row headed '2014 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's 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.

Exchange impacts in respect of profit on intergroup sales of products and the intergroup recharges are reported in 'other operating expenses'.

(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 complete.

Where a business, brand, brand distribution right or agency agreement was disposed of, or terminated, in the current or prior year, 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.

(c) Exceptional items

Exceptional items are those which, in management's judgement, need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information. Such items are included within the income statement caption to which they relate but are excluded from the organic movement calculations.

Organic movement calculations for the year ended 30 June 2015 were as follows:

	North America million	Europe million	Africa million	Latin America and Caribbean million	Asia Pacific million	Corporate million	Total million
Volume (equivalant units)							
2014 reported (restated)	49.3	44.6	24.4	23.0	14.8	–	156.1
Disposals(ii)	(0.9)	(0.7)	–	–	–	–	(1.6)
2014 adjusted	48.4	43.9	24.4	23.0	14.8	–	154.5
Acquisitions and disposals(ii)	**0.3**	**0.4**	**–**	**0.3**	**92.7**	**–**	**93.7**
Organic movement	**(1.4)**	**(0.2)**	**1.8**	**(1.7)**	**(0.5)**	**–**	**(2.0)**
2015 reported	**47.3**	**44.1**	**26.2**	**21.6**	**107.0**	**–**	**246.2**
Organic movement %	**(3)**	**–**	**7**	**(7)**	**(3)**	**n/a**	**(1)**

	North America £ million	Europe £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	Corporate £ million	Total £ million
Sales							
2014 reported (restated)	3,915	4,935	1,846	1,404	1,801	79	13,980
Exchange(i)	115	(307)	(123)	(152)	(39)	(3)	(509)
Disposals(ii)	(75)	(63)	(1)	(1)	(2)	(45)	(187)
2014 adjusted	3,955	4,565	1,722	1,251	1,760	31	13,284
Acquisitions and disposals(ii)	28	45	–	29	2,358	48	2,508
Organic movement	(74)	73	146	17	11	1	174
2015 reported	3,909	4,683	1,868	1,297	4,129	80	15,966
Organic movement %	(2)	2	8	1	1	3	1
Net sales							
2014 reported (restated)	3,444	2,814	1,430	1,144	1,347	79	10,258
Exchange(i)	97	(186)	(100)	(123)	(22)	(3)	(337)
Disposals(ii)	(62)	(44)	(1)	(1)	(2)	(45)	(155)
2014 adjusted	3,479	2,584	1,329	1,020	1,323	31	9,766
Acquisitions and disposals(ii)	25	31	1	24	922	48	1,051
Organic movement	(49)	2	85	(11)	(32)	1	(4)
2015 reported	3,455	2,617	1,415	1,033	2,213	80	10,813
Organic movement %	(1)	–	6	(1)	(2)	3	–
Marketing							
2014 reported (restated)	540	413	152	203	305	7	1,620
Exchange(i)	16	(30)	(10)	(22)	(1)	–	(47)
Disposals(ii)	(4)	(5)	–	–	–	(3)	(12)
2014 adjusted	552	378	142	181	304	4	1,561
Acquisitions and disposals(ii)	11	4	–	3	65	3	86
Organic movement	(21)	6	5	10	(25)	7	(18)
2015 reported	542	388	147	194	344	14	1,629
Organic movement %	(4)	2	4	6	(8)	175	(1)
Operating profit before exceptional items							
2014 reported (restated)	1,460	853	340	328	283	(130)	3,134
Exchange(i)	27	(67)	(52)	(60)	(13)	4	(161)
Acquisitions and disposals(ii)	(2)	(15)	–	(1)	18	2	2
2014 adjusted	1,485	771	288	267	288	(124)	2,975
Acquisitions and disposals(ii)	–	13	1	3	48	4	69
Organic movement	(37)	20	29	(7)	20	(3)	22
2015 reported	1,448	804	318	263	356	(123)	3,066
Organic movement %	(2)	3	10	(3)	7	(2)	1
Organic operating margin %							
2015	42.2%	30.6%	22.4%	25.8%	23.9%	n/a	30.7%
2014	42.7%	29.8%	21.7%	26.2%	21.8%	n/a	30.5%
Margin improvement (bps)	(47)	75	75	(41)	209	n/a	24

(1) For the reconciliation of sales to net sales and operating profit before exceptional items to operating profit see pages 24 and 96.
(2) Percentages and margin improvement are calculated on rounded figures.
(3) For the further details of the restatement please see page 50.

Notes: Information in respect of the organic movement calculations
(i) The exchange adjustments for sales, net sales, marketing and operating profit are principally in respect of the Venezuelan bolivar, the euro, the Russian rouble and the US dollar.
(ii) In the year ended 30 June 2015 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 2014					
Acquisitions					
Transaction costs	–	–	–	–	12
Integration costs	–	–	–	–	12
	–	–	–	–	24
Disposals					
Jose Cuervo	(0.7)	(54)	(44)	–	9
Bushmills	(0.8)	(79)	(60)	(10)	(28)
Gleneagles	–	(45)	(45)	(2)	(2)
Other disposals	(0.1)	(9)	(6)	–	(1)
	(1.6)	(187)	(155)	(12)	(22)
Acquisitions and disposals	(1.6)	(187)	(155)	(12)	2
Year ended 30 June 2015					
Acquisitions					
United Spirits Limited	92.7	2,356	921	65	53
DeLeón	–	5	5	8	(8)
Don Julio	0.3	28	23	3	6
Transaction costs	–	–	–	–	(1)
Integration costs	–	–	–	–	(7)
	93.0	2,389	949	76	43
Disposals					
Bushmills	0.7	66	50	8	22
Gleneagles	–	48	48	2	4
Other disposals	–	5	4	–	–
	0.7	119	102	10	26
Acquisitions and disposals	93.7	2,508	1,051	86	69

Revised segmental information for the year ended 30 June 2014

In the year ended 30 June 2015 Diageo changed its internal reporting structure to reflect changes made to management responsibilities. As a result of this change, Diageo reports the following geographical segments both for management reporting purposes and in the external financial statements: North America; Europe; Africa; Latin America and Caribbean; Asia Pacific and Corporate. The reconciliation to previously reported figures for volume, sales, net sales, marketing and operating profit before exceptional items for the year ended 30 June 2014 is as follows:

	As reported million	Reclass million	Restated million
Volume (equivalent units)			
North America	49.3	–	49.3
Europe	–	44.6	44.6
Western Europe	33.0	(33.0)	–
Africa	–	24.4	24.4
Africa, Eastern Europe and Turkey	36.0	(36.0)	–
Latin America and Caribbean	23.0	–	23.0
Asia Pacific	14.8	–	14.8
	156.1	–	156.1

	As reported £ million	Reclass £ million	Restated £ million
Sales			
North America	3,915	–	3,915
Europe	–	4,935	4,935
Western Europe	3,644	(3,644)	–
Africa	–	1,846	1,846
Africa, Eastern Europe and Turkey	3,137	(3,137)	–
Latin America and Caribbean	1,404	–	1,404
Asia Pacific	1,801	–	1,801
Corporate	79	–	79
	13,980	–	13,980

	As reported £ million	Reclass £ million	Restated £ million
Net sales			
North America	3,444	–	3,444
Europe	–	2,814	2,814
Western Europe	2,169	(2,169)	–
Africa	–	1,430	1,430
Africa, Eastern Europe and Turkey	2,075	(2,075)	–
Latin America and Caribbean	1,144	–	1,144
Asia Pacific	1,347	–	1,347
Corporate	79	–	79
	10,258	–	10,258

	As reported £ million	Reclass £ million	Restated £ million
Marketing			
North America	540	–	540
Europe	–	413	413
Western Europe	323	(323)	–
Africa	–	152	152
Africa, Eastern Europe and Turkey	242	(242)	–
Latin America and Caribbean	203	–	203
Asia Pacific	305	–	305
Corporate	7	–	7
	1,620	–	1,620

	As reported £ million	Reclass £ million	Restated £ million
Operating profit before exceptional items			
North America	1,460	–	1,460
Europe	–	853	853
Western Europe	639	(639)	–
Africa	–	340	340
Africa, Eastern Europe and Turkey	554	(554)	–
Latin America and Caribbean	328	–	328
Asia Pacific	283	–	283
Corporate	(130)	–	(130)
	3,134	–	3,134

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 2015 and 30 June 2014 are set out in the table below.

Free cash flow

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 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.

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 2015 and 30 June 2014 are set out in the below table.

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 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 years ended 30 June 2015 and 30 June 2014 are set out in the table below.

Earnings per share before exceptional items	2015 £ million	2014 £ million
Profit attributable to equity shareholders of the parent company	2,381	2,248
Exceptional operating items attributable to equity shareholders of the parent company	268	261
Non-operating items	(373)	(140)
Tax in respect of exceptional operating and non-operating items	(51)	(58)
Discontinued operations	–	83
	2,225	2,394
Weighted average number of shares in issue (million)	2,505	2,506
Earnings per share before exceptional items (pence)	88.8	95.5

Free cash flow	2015 £ million	2014 £ million
Net cash from operating activities	2,551	1,790
Disposal of property, plant and equipment and computer software	52	80
Purchase of property, plant and equipment and computer software	(638)	(642)
Movements in loans and other investments	(2)	7
Free cash flow	1,963	1,235

Return on average total invested capital	2015 £ million	2014 (restated)(i) £ million
Operating profit	2,797	2,707
Exceptional operating items	269	427
Profit for the year attributable to non-controlling interests	(87)	(58)
Share of after tax results of associates and joint ventures	175	252
Tax at the tax rate before exceptional items of 18.3% (2014 – 18.2%)	(577)	(606)
	2,577	2,722
Average net assets (excluding net post employment liabilities)	8,910	8,300
Average non-controlling interests	(1,240)	(924)
Average net borrowings	9,682	8,783
Average integration and restructuring costs (net of tax)	1,604	1,498
Goodwill at 1 July 2004	1,562	1,562
Adjustment in respect of acquisition of USL(ii)	493	114
Average total invested capital	21,011	19,333
Return on average total invested capital	12.3%	14.1%

(i) The group has revised the calculation of ROIC by excluding the net assets and net profit attributable to non-controlling interests. Before this adjustment, in the year ended 30 June 2014 the ROIC was reported as 13.7%.
(ii) For the years ended 30 June 2014 and 30 June 2015 average net assets were adjusted for the inclusion of USL as though it was owned throughout the year as it became an associate on 4 July 2013 and a subsidiary on 2 July 2014.

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, classified as or 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 continuing operations before exceptional and after exceptional items for the years ended 30 June 2015 and 30 June 2014 are set out in the table below.

Tax rate before exceptional items

	2015 £ million	2014 £ million
Tax before exceptional items (a)	517	546
Tax in respect of exceptional items	(51)	(99)
Taxation on profit from continuing operations (b)	**466**	**447**
Profit from continuing operations before taxation and exceptional items (c)	2,829	2,998
Non-operating items	373	140
Exceptional operating items	(269)	(427)
Profit before taxation (d)	**2,933**	**2,711**
Tax rate before exceptional items (a/c)	**18.3%**	**18.2%**
Tax rate from continuing operations after exceptional items (b/d)	15.9%	16.5%

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 expressed as a percentage of the retail sales 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 exceeds 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.

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 Johnnie Walker Blue Label, Johnnie Walker Green Label, Johnnie Walker Gold Label 18 year old, Johnnie Walker Gold Label Reserve, Johnnie Walker Platinum Label 18 year old, John Walker & Sons Collection, Johnnie Walker The Gold Route, Johnnie Walker The Royal Route, and other Johnnie Walker super premium brands; 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; Cîroc, Ketel One vodka; Don Julio, Zacapa, Bundaberg SDlx, Shui Jing Fang, Haig Club whisky and DeLeón Tequila.

References to ***global giants*** include the following brand families: Johnnie Walker, Smirnoff, Captain Morgan, Baileys, Tanqueray and Guinness. Local stars spirits excluding ready to drink include, but are not limited to, Bell's, Buchanan's, Bundaberg, Bulleit, Cacique, Crown Royal, Don Julio, JεB, Old Parr, Yenì Raki, Ketel One vodka, scotch malts, White Horse, Windsor and Ypióca.

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 non-alcoholic products such as Guinness Malta and Orijin, a flavoured mixed drink.

This Strategic Report was approved by a duly appointed and authorised committee of the Board of Directors on 29 July 2015 and signed on its behalf by Paul D Tunnacliffe, Company Secretary.