DIAGEO
Annual Report 2020

DIAGEO

CELEBRATING LIFE,
EVERY DAY, EVERYWHERE

Contents

Strategic report

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

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

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

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

Bulleit Bourbon whiskey

Cover images, from left to right:

Top row: Ketel One vodka Grapefruit Spritz; consumer enjoying Guinness.
Second row: Diageo hand sanitiser; Diageo blenders from the 'Craftswomen' programme: Nicole Austin, Joanna Scandella, Emma Walker and Eboni Major; Baileys Coffee Granita.
Third row: Guinness 'Stay at Home' creative by Luke O'Reilly; Tanqueray and Smirnoff cocktails; Don Julio Blood Orange Paloma cocktail.
Fourth row: Johnnie & Ginger Highball cocktails; Diageo 'Raising the Bar' fund; Johnnie Walker Walking Tall cocktail from the Kitchen Sink Drinks programme.

2020 Financial performance

Volume (equivalent units)

2020 EU217.0m
2019 EU245.9m

Reported movement ↓11.8%
Organic movement ↓11.2%

Operating profit

2020 £2,137m
2019 £4,042m

Reported movement ↓47.1%
Organic movement ↓14.4%

Earnings per share (eps)

2020 60.1p
2019 130.7p

Reported movement ↓54.0%
Eps before exceptional items movement(i) ↓16.4%

Net sales(ii)

2020 £11,752m
2019 £12,867m

Reported movement ↓8.7%
Organic movement ↓8.4%

Net cash from operating activities

2020 £2,320m
2019 £3,248m

2020 decrease of £928 million
2020 free cash flow(i) £1,634 million

Total recommended dividend per share(iii)

2020 69.88p
2019 68.57p

↑2.0%

2020 Non-financial performance

Positive drinking(iv)

2020 229.2m
2019 66.02m

Number of people reached with moderation messages from our brands

Health and safety

2020 0.60Δ
2019 0.98

Lost-time accident frequency(v)

Water efficiency(vi)

2020 4.62l/lΔ
2019 4.72l/l

(i) See definitions and reconciliation of non-GAAP measures to GAAP measures on pages 62-67.
(ii) Net sales are sales less excise duties.
(iii) Includes recommended final dividend of 42.47p.
(iv) Our 2020 number reflects the cumulative progress against our target from the 2019 and 2020 fiscal years.
(v) Per 1,000 full-time employees.
(vi) Data for the year ended 30 June 2019 has been restated where relevant in accordance with Diageo's environmental reporting methodologies.
Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our Sustainability & Responsibility Performance Addendum 2020.

2020 Performance by region

	North America	Europe and Turkey	Africa	Latin America and Caribbean	Asia Pacific
Volume (equivalent units)	EU48.4m	EU40.2m	EU28.8m	EU19.0m	EU80.6m
Reported	↓2%	↓11%	↓14%	↓15%	↓15%
Organic	0%	↓11%	↓13%	↓15%	↓15%
Net sales(i)	£4,623m	£2,567m	£1,346m	£908m	£2,270m
Reported	↑4%	↓13%	↓16%	↓20%	↓16%
Organic	↑2%	↓12%	↓13%	↓15%	↓16%
Operating profit(ii)	£2,034m	£757m	£101m	£248m	£501m
Reported	↑4%	↓25%	↓63%	↓32%	↓29%
Organic	↑4%	↓24%	↓56%	↓29%	↓29%

(i) Excluding corporate net sales of £38 million (2019: £53 million).
(ii) Excluding exceptional operating charges of £1,357 million (2019: £74 million) and net corporate operating costs of £147 million (2019: £189 million).

Unless otherwise stated in this document, percentage movements refer to organic movements which are non-GAAP measures. For a definition of organic movement and reconciliation of non-GAAP measures to GAAP measures, see pages 62-67. Share refers to value share. Percentage figures presented are reflective of a year-on-year comparison, namely 2019-2020, only.

Our brands

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

We own two of the world's five largest spirits brands by retail sales value, Johnnie Walker and Smirnoff.[i] The combined retail sales value of our six global giants is over £16 billion.[ii]

Global giants

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

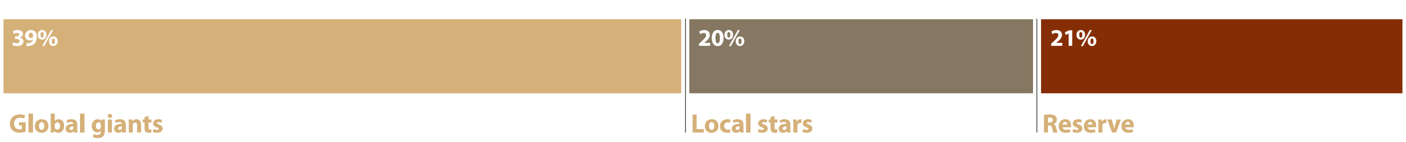
Local stars

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

Reserve

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

Net sales[iii]



(i) IWSR, 2019.
(ii) IWSR, 2019 and Global Data, 2019.
(iii) Percentages do not add to 100. Reserve group includes some brands and variants in both global giants and local stars. For detail on percentage of total net sales by category, see page 60.

Our global reach

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

We employ 27,775 talented people. Our products are sold in over 180 countries and each of our markets is accountable for its own performance and for driving growth.

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

North America
39.5%

Europe and Turkey
21.9%

Africa
11.5%

Latin America and Caribbean
7.8%

Asia Pacific
19.3%

(i) The above map is intended to illustrate general geographic regions where Diageo has a presence and/or in which its products are sold. It is not intended to imply that Diageo has a presence in and/or that its products are sold in every country within a geographic region.
(ii) Based on reported net sales for the year ended 30 June 2020. Does not include corporate net sales of £38 million (2019: £53 million).

Percentage share by region

	North America	Europe and Turkey	Africa	Latin America and Caribbean	Asia Pacific
Volume	22.3	18.5	13.3	8.8	37.1
Net sales(i)	39.5	21.9	11.5	7.8	19.3
Operating profit before exceptional items(ii)	55.9	20.8	2.8	6.8	13.7
Operating profit(iii)	91.4	30.4	(1.9)	10.6	(30.5)
Water withdrawal	13.7	40.2	34.7	2.0	9.4
Carbon emissions(iv)	26.8	27.4	33.8	4.5	7.5
Employees(v)	9.5	36.3	14.9	9.7	29.6

(i) Excluding corporate net sales of £38 million (2019: £53 million).
(ii) Excluding exceptional operating charges of £1,357 million (2019: £74 million) and net corporate operating costs of £147 million (2019: £189 million).
(iii) Excluding net corporate operating costs of £147 million (2019: £210 million).
(iv) Excludes corporate offices which account for 1.4% of combined impacts.
(v) Employees have been allocated to the region in which they reside.

Chairman's statement

'We are determined to build Diageo for the very long term and we seek to make a positive impact on the issues that matter most to our stakeholders and to wider society. During Covid-19 we have been closely tracking and adapting to consumer behaviour and have taken swift action ranging from strengthening our financial liquidity to re-prioritising our investment plans.'

Javier Ferrán
Chairman

Recommended final dividend per share

42.47p 0%

2019: 42.47p

Total dividend per share(i)

69.88p ↑ 2%

2019: 68.57p

Total shareholder return

(19)%

2019: 27%

(i) Includes recommended final dividend of 42.47p.

This year, the onset of the Covid-19 pandemic has been extremely challenging for many people, communities and businesses around the world. At a testing time, Diageo has been able to rely on the culture of agility and efficiency that has been nurtured under Ivan's leadership. I am particularly grateful to all our employees for their tenacity and commitment through this difficult period, and for their hard work to help tackle the public health emergency, their support for our communities and their work with our suppliers and customers.

Culture

Our ability to adapt to market challenges, combined with our unwavering focus on consumers and trade partners, are the foundation for the delivery of our Performance Ambition.

During the year, we continued to invest behind the opportunities we believe will deliver the best returns. From brands to innovation and technology, we continued to enhance capabilities and drive efficiencies across the business. Although the trajectory of the global recovery from Covid-19 is uncertain, I am confident that our culture will continue to underpin our resilience and our longer-term success.

Our stakeholders

Our purpose is to celebrate life, every day, everywhere. This requires us to be the best we can be at work, at home and in the community. It means engaging with our stakeholders, listening to their ideas and concerns and working constructively with them to find solutions to our shared challenges. You can read more about our stakeholder engagement on pages 12-13 and 76-77.

Our first priority this year has been the health, safety and wellbeing of our employees. While Covid-19 restrictions prevented our annual Your Voice Survey from taking place this year, we developed a new survey tool which helped us understand employee engagement, listen to our people's feedback and learn from their working experience during the pandemic. The Board was pleased with the survey results, with 91% of employees saying they were 'proud to work at Diageo'.

As the designated Non-Executive Director for workforce engagement, I have also very much appreciated the candid discussions I have had with employees. During the year, I held open and constructive sessions with employees across all five regions, both in person and, in the second half of the year, virtually. Our employees' perspectives and ideas provide very valuable input for the Board's consideration and our workforce engagement statement is available on page 77.

The global environment

As a business that sells its products in over 180 countries, we are never immune from volatility in the global trade environment. The global impact of Covid-19 is unprecedented. We are closely tracking and adapting to consumer behaviour and have taken swift action ranging from bolstering our financial liquidity to re-prioritising our investment plans.

With the United Kingdom approaching the end of the transition period for exiting the European Union, we remain confident that the direct financial impact to Diageo will not be material. Under World Trade Organization rules the majority of our products already move tariff-free within the European Union and we see some potential longer-term opportunities if the United Kingdom can strike beneficial new trade deals.

Diageo in society

We are determined to build our business for the very long term and seek to make a positive impact on the issues that matter most to our stakeholders and to wider society. The work we do in the societies and communities in which we live and work is fully integrated with our strategic priorities. We have a longstanding commitment to promote positive drinking through encouraging moderation and tackling misuse. We were encouraged to see the results of an international survey covering nine countries which shows 84% of drinkers are not drinking more than they did before the pandemic lockdowns.[i] We are not, however, complacent and continue our important work in this area, which you can read more about on pages 24-25.

Water is our most important ingredient and a precious shared resource which is coming under increasing pressure in many parts of the world. Managing our impact on water, and being good stewards of this resource, is our highest environmental priority. A big part of our action on water is our replenishment programme in water-stressed areas where we operate. We have made significant progress this year and have achieved our 2020 target, meaning that we have replenished the total water used in our final product in these areas. This year Diageo was one of only 72 companies, out of 8,400 globally, to achieve an 'A' for Water Stewardship from CDP, the leading global disclosure system for environmental reporting. This puts Diageo in the top 1% of companies globally. You can read more about our water stewardship performance on page 34.

Creating value

In fiscal 2020, our performance was significantly impacted by the Covid-19 pandemic. We took swift and decisive action across the business and this, combined with the changes that have been made over the last six years, provides solid foundations for future progress across the four areas of performance we measure: efficient growth, consistent value creation, credibility and trust, and engaged people.

Return on invested capital was down 267 basis points at 12.4%. Total shareholder return (TSR) was minus 19% this year, although the compound average growth rate of both the five- and ten-year TSR was up double-digits, placing Diageo sixth in both periods amongst our consumer products peer group.

We continue to target dividend cover (the ratio of basic earnings per share before exceptional items to dividend per share) of between 1.8 and 2.2 times. The recommended final dividend is 42.47 pence per share. This brings the recommended full-year dividend to 69.88 pence per share and dividend cover to 1.6 times. Subject to shareholder approval, the final dividend will be paid to UK shareholders on 8 October 2020. Payment will be made to US ADR holders on 14 October 2020. This year, we purchased 39 million shares, returning £1.25 billion to shareholders in the first phase of the current return of capital programme. On 9 April, we announced that we would not initiate the next phase of this programme in fiscal 2020. Given our elevated leverage ratio we are now pausing the share buyback programme until leverage is back within our target range of 2.5-3.0 times adjusted net debt to EBITDA.

Board changes

From the end of October 2019, Susan Kilsby, Non-Executive Director and Chair of the Board's Remuneration Committee, took over as the Senior Independent Director. She replaced Lord Davies of Abersoch, who had served as the Senior Independent Director since October 2011 and who retired from the Board at the end of June. Lord Davies had been a non-executive Director for over nine years, and I am very grateful to him for his wise guidance and significant contribution to the Board's deliberations.

In January, we announced the appointment of Valérie Chapoulaud-Floquet as a Non-Executive Director, effective 1 January 2021. Valérie will also join the Audit, Nomination and Remuneration Committees. At the end of March, Debra Crew stepped down from the Board as she has been appointed President, Diageo North America and joined the Diageo Executive Committee, effective 1 July. Debra is taking over from Deirdre Mahlan, who is retiring after a long and successful career at the company. On behalf of the Board, I would like to thank Debra for her contribution to the Board since April 2019 and wish her well in her new role. Sir John Manzoni has also been appointed Non-Executive Director from 1 October. John will also join the Audit, Nomination and Remuneration Committees on appointment. In June, we announced the appointment of Melissa Bethell as a Non-Executive Director from 30 June. Melissa has also joined the Audit, Nomination and Remuneration Committees. In addition, Ho KwonPing, who has served as Non-Executive Director since October 2012, has decided he will not stand for re-election at the Annual General Meeting and will leave the Board on 28 September 2020. I am appreciative of the valuable contribution he has made during his time on the Board.

(i) June 2020 survey of more than 11,000 people across nine countries in Africa, North America, Latin America, Asia and Europe conducted by YouGov for the International Alliance for Responsible Drinking (IARD).

Statement on Section 172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires the Directors to promote the success of the company for the benefit of the members as a whole, having regard to the interests of stakeholders in their decision-making. In making decisions, the Directors consider what is most likely to promote the success of the company for its shareholders in the long term, as well as the interests of the group's stakeholders. The Directors understand the importance of taking into account the views of stakeholders and the impact of the company's activities on local communities, the environment, including climate change, and the group's reputation.

Read more about:

- Our stakeholder groups on pages 12-13
- How the views and interests of stakeholders were taken into account in decision-making on pages 76-77

Looking ahead

Diageo's broad portfolio and geographic footprint, our leading market positions and our ability to execute at scale provide a solid foundation for recovery as we transition from the Covid-19 pandemic to a 'new normal'. Our business continues to act with discipline and invest prudently to deliver high-quality, sustainable growth so that we can emerge stronger as the recovery in consumer demand and global travel takes hold. We remain confident that the long-term trends for our industry are extremely attractive. Your Board and executive leadership team will ensure that Diageo continues to focus on long-term value creation for all our stakeholders and that we actively support our industry and our communities.

Javier Ferrán
Chairman

From purpose to performance

We are determined to build a company that will prosper over the very long term. As a global company we have an important role to play in ensuring the communities we are part of thrive. We want to deliver consistent performance and have a positive impact where we live, work, source and sell.

We are a company built and sustained through innovation, creating new products, categories and experiences for consumers. We are the stewards of iconic, purpose-led brands created by entrepreneurs like John Walker, Charles Tanqueray and Arthur Guinness. Today, we stand on the shoulders of these giants and act with the same entrepreneurial spirit and determination.

1 Our purpose and ambition are at the heart of everything we do.

Celebrating life, every day, everywhere.

Our purpose – celebrating life, every day, everywhere – is about being the best we can be at work, at home and in the community. We are passionate about the role our brands play in celebrating life the world over. At the core of our approach is a commitment to positive drinking through promoting moderation and addressing the harmful use of alcohol: doing so is good for consumers and good for business.

We take great care in building sustainable supply chains; in protecting the environment and the natural resources we all rely on; and in our commitment to skills, empowerment and inclusivity.

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

To be best performing, we need to deliver efficient growth and value creation for our shareholders. This means delivering quality, sustainable growth in net sales, steady margin expansion and reliable cash flows year after year. To be most trusted, we must do business the right way from grain to glass, and ensure our people are highly engaged and continuously learning.

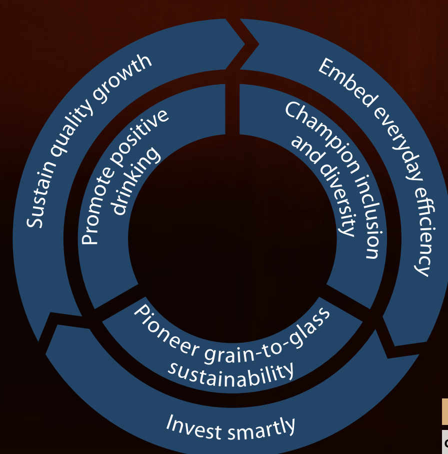
Our reputation is not just an outcome of our commercial performance. We only earn trust and respect through our actions and we work hard to ensure that we deliver on our promises.

2 Our values and culture shape the way we work.

To fulfil our Performance Ambition, we know that we must earn the trust and respect of all our stakeholders. This is why our culture is rooted in a deep sense of our purpose and values. Our values underpin our business and guide how we work:

- Passionate about consumers and customers
- Freedom to succeed
- Proud of what we do
- Valuing each other
- Be the best

3 Our strategic priorities provide the roadmap to achieving our ambition.



These priorities are inter-related and mutually reinforcing. Together, they drive our company forward.

Through them, we deliver the strategic outcomes against which we measure our performance.

- EG Efficient growth
- CVC Consistent value creation
- CT Credibility and trust
- EP Engaged people

Read more on page 17

Zacapa Rum ageing in oak barrels

4 Our priorities ensure our stakeholders' interests are integral to how we manage our business.

People	Suppliers
Consumers	Communities
Customers	Investors
Governments and regulators	

Read more on pages 12-13

5 We measure our performance through a set of financial and non-financial indicators.

- EG Organic net sales growth
- EG Organic operating profit growth
- EG Earnings per share before exceptional items
- EG Free cash flow
- CVC Return on average invested capital
- CVC Total shareholder return
- CT EP Reach and impact of positive drinking programmes
- CT EP Health and safety
- CT Water efficiency
- CT Carbon emissions
- CT EP Employee engagement

Read more on pages 30-31

Chief Executive's statement

'Covid-19 has vividly demonstrated that governments, businesses and communities must work together to build more resilient societies, better able to withstand major social and economic shocks. I am very proud of the way our people responded when they were truly tested this year. Together, we will enable Diageo and the communities in which we live and work to emerge stronger from this pandemic.'

Ivan Menezes
Chief Executive

Volume movement
11.8% ↓
2019: 2.3% ↑

Organic volume movement
11.2% ↓
2019: 2.3% ↑

Net sales movement
8.7% ↓
2019: 5.8% ↑

Organic net sales movement
8.4% ↓
2019: 6.1% ↑

Reported operating profit movement
47.1% ↓
2019: 9.5% ↑

Organic operating profit movement
14.4% ↓
2019: 9.0% ↑

The Covid-19 pandemic represents the most challenging environment for international businesses for a generation. I want to thank all my colleagues for their remarkable dedication in such difficult circumstances and, especially, for the support they have shown to each other, our partners and the communities in which we live and work.

As well as causing devastating loss of life around the world, the pandemic has seriously affected many countries and significantly impacted our performance in the second half. Nonetheless, our business has shown considerable resilience throughout the pandemic. This is testament to the hard work of our colleagues and efforts over recent years to make our business more agile, putting the consumer at the heart of everything we do.

Our priority remains the health and wellbeing of our colleagues, while taking the necessary actions to protect our business. At the start of the pandemic, we put in place stringent safety protocols and heightened sanitation measures at all our sites and enabled employees to work from home wherever possible. Across the business, we have implemented new policies and resources to support all our people, both on site and at home.

From the beginning of this pandemic, we addressed the medical and humanitarian emergency with charitable donations, drinking water, food parcels, masks and hygiene products around the world. At a time of acute personal protective equipment (PPE) shortages, we donated alcohol to make more than ten million bottles of hand sanitiser for frontline healthcare workers in 20 countries and manufactured hand sanitiser to meet community surges in demand.

Many countries implemented lockdowns that included bar closures. As a result, we have provided support packages for bartenders and bar owners and have worked closely with our suppliers and customers to reduce the disruption to their businesses and ours. In June, we announced a $100 million recovery fund and global programme, 'Raising the Bar', to support pubs and bars as they start to welcome their customers back. We will continue to help communities and our industry, and we are determined to do what we can to support the global recovery.

I am very proud of the way our people responded when they were truly tested this year. Together, we will enable Diageo and the communities in which we live and work to emerge stronger from this pandemic.

Performance

After several years of consistent delivery, the global outbreak of Covid-19 has presented significant challenges for our business, impacting fiscal 2020 performance.

In the first half, we delivered a good, consistent set of results, with broad based organic net sales growth across regions and categories; we continued to increase investment behind marketing and growth initiatives, while expanding organic operating margins; we returned £1.1 billion to shareholders via share buybacks and delivered solid free cash flow at almost £1 billion.

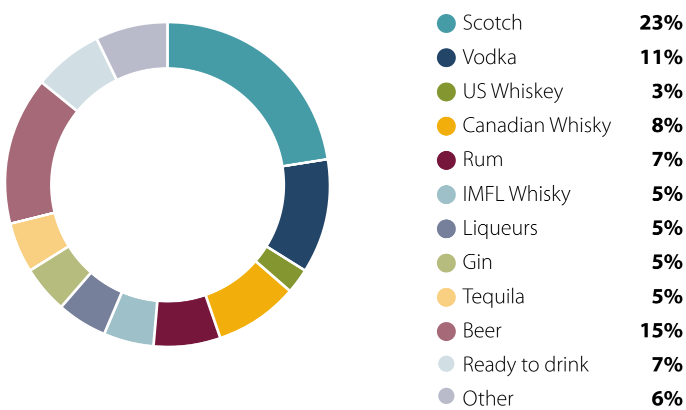
For the full year, reported net sales were down 8.7%, driven by a decline in organic net sales. Organic net sales were down 8.4%, with growth in North America offset by declines in all other regions. Reported operating profit was down 47.1%, mainly driven by exceptional operating items, including impairments, and by a 14.4% decline in organic operating profit. The decline in organic operating profit was driven by an 11.2% decline in volumes, cost inflation and unabsorbed fixed costs, which were partially offset by short term cost reductions and ongoing productivity benefits.

Reported and organic net sales were down across most brands and categories, with the exception of tequila, up 25%, Canadian whisky, up 8%, US whiskey, up 3% and ready to drink, up 8%. Organic net sales of our global giant brands were down 13%, driven by declines in Johnnie Walker and Guinness. Guinness was impacted by global on-trade closures and keg return schemes in the second half. Our local stars declined 7%, with continued growth of Crown Royal offset, primarily, by declines in Chinese white spirits in China. Our Reserve brands declined 4%, with double-digit growth in Don Julio and Casamigos offset by declines in Chinese white spirits, Johnnie Walker Reserve variants, Cîroc and Ketel One vodka. Earnings per share before exceptionals declined 16.4%, driven primarily by lower operating profit.

During the second half, we reduced discretionary expenditure and reallocated resources across the group. As part of these mitigation measures, we stopped any A&P spend that would not be effective, but have been clear that we must remain invested in the medium to long term health of our brands and business. We also tightly managed working capital and deferred discretionary capital expenditure projects.

We have a strong balance sheet and recognise the importance of liquidity through uncertain times. During the second half we issued an additional £2 billion of bonds and temporarily increased our committed facilities from £2.8 billion to £5.3 billion. We delivered solid cash flow performance, with free cash flow at £1.6 billion. As a result, we have the liquidity and the confidence to continue investing in our priorities. As demand recovers, we will continue investing behind the most effective initiatives to ensure we emerge stronger.

2020 net sales by category (%)



Communities

Covid-19 has vividly demonstrated that governments, businesses and communities must work together to build more resilient societies, better able to withstand major social and economic shocks. I am proud that, despite the pandemic, Diageo has maintained its community investment to ensure the business has a positive impact on society: promoting moderation and tackling alcohol misuse; reducing our carbon emissions and water usage; and supporting local communities through our global skills and empowerment programmes. You can read more on pages 24-29.

This year, our ambitious and stretching external targets for the environment and communities come to a close. While we are proud of our progress, we know there is much more to do. We have been developing our new targets to 2030, which will take our commitment to positive drinking, inclusion and diversity and grain-to-glass sustainability even further. You can read more on pages 32-37.

I am very proud of the inclusive and diverse culture we are creating at Diageo. Championing inclusion and diversity is fundamental to driving engagement and achieving the best possible outcomes for our business. This year, we were ranked the second Most Diverse and Inclusive Workplace globally by the Refinitiv Diversity and Inclusion Index.

Raising the Bar

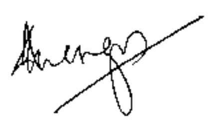
We are committed to taking every step necessary to champion equality everywhere. While we have made progress, there is so much more to do. I am proud that our $100 million global 'Raising the Bar' programme included a $20 million community fund to support social justice in the United States, helping Black communities and businesses recover from Covid-19.

As we look ahead, we are determined to continue building resilience in our business and to support our communities. The United Nations' International Labour Organization has forecast that 436 million enterprises worldwide face serious disruption and one in six young people will be unemployed due to Covid-19. Through our 'Raising the Bar' programme, we will provide support to help pay for the physical equipment needed for outlets to re-open in major hospitality centres around the world. These businesses play an essential role in bringing people together to socialise and celebrate – something that we have missed so much during this pandemic. They also sustain hundreds of millions of jobs, which provide a first foot on the employment ladder for many young people.

Outlook

Our immediate focus is on emerging from Covid-19 in a stronger position, having built deeper relationships with our customers, consumers and the communities in which we operate. Although the trajectory of the recovery is uncertain, with volatility expected to continue into fiscal 2021, we are well-positioned to invest effectively, as consumer demand returns. Recovery will depend on the success of public health measures, the impact of economic policies, the pace at which lockdown measures are eased and how quickly consumers choose to return to bars and restaurants and resume international travel.

Over the longer term, total beverage alcohol remains highly attractive, with robust fundamentals, and the actions we have taken over the last six years provide solid foundations to grow in a consistent, sustainable way. We have passionate, committed people, an enviable portfolio of brands and a strong balance sheet. I am confident in Diageo's strategy and our ability to move quickly in the current environment. We will continue to execute with discipline and invest appropriately to ensure we are strongly positioned for a recovery in consumer demand.



Ivan Menezes
Chief Executive

Creating a truly sustainable business for the very long term

We deliver our strategic priorities through a business model that leverages global and local expertise, has the consumer at its heart and puts our responsibilities to our stakeholders front and centre.

Our enablers

Our people
We are proud of our people, whose passion, commitment and specialist skills make the difference.

27,775

Our brands
We have a leading portfolio of iconic brands across spirits and beer.

200+

Our relationships
From grain to glass, strong, trusted relationships with all our stakeholders are essential to our business.

180+ countries

Our insight and know-how
Our in-country sales and marketing teams give us greater agility and enhanced insight, so we can anticipate the diverse needs of our consumers and customers.

Our infrastructure
We have a global network of sites devoted to research and development, distillation, maturation, brewing, warehousing and packaging of spirits and beer.

150+ sites

Our financial strength
Attractive industry margins, a strong balance sheet and solid free cash flows give us the financial strength to execute our strategy and deliver strong stakeholder returns over the long term.

What sets us apart

Our brand portfolio and geographic footprint
Our leading brand portfolio offers consumers a broad range of products across categories and price points. We have extensive operations in the United States and Europe, as well as leading positions in many of the markets that are expected to contribute most to medium-term industry growth.

Our track record in innovation and brand building
We innovate across centuries-old brands such as Johnnie Walker, Tanqueray and Guinness, and we develop and grow new brands like Bulleit and Roe & Co. We use our archives, two of the largest and most comprehensive in the drinks industry, to provide a rich source of inspiration for our brands.

Our relationships with the trade
Diageo Reserve World Class™ discovers the next generation of bartending talent, who set the latest mixology trends and bring these to the best bars worldwide. Since its launch in 2009, we have created a network of relationships with bartenders, customers and distributors that provides us with a unique route to our consumers.

Johnnie & Ginger Highball cocktail

Our business activities

Consumer insights
We have well-established proprietary data tools to understand consumers' attitudes and motivations. We convert this information into insights which enable us to respond with agility to our consumers' interests and preferences.

Sourcing
From smallholder farmers in Africa to multinational companies, we work with our suppliers to procure high-quality raw materials and services. Where it makes sense, we source locally.

Marketing
We invest in world-class marketing to responsibly build vibrant brands that resonate with our consumers. We have a rigorous Marketing Code and belong to the Global Alliance for Responsible Media, working with peers to push for further consumer and brand safeguards.

Innovation
Using our deep understanding of trends and consumer socialising occasions, we focus on driving sustainable innovation that provides new products and experiences for consumers, whether they choose to drink alcohol or not.

Distilling and brewing
We distil, brew, bottle and distribute our premium spirits and beer brands through a globally co-ordinated supply operation, working to the highest quality and manufacturing standards. Where it makes sense, we produce locally.

Selling
We grow by working in partnership with our customers. Our global and local sales teams use proprietary data tools and insights to extend our sales reach and improve our execution. When our customers grow, we grow too.

Our expertise in distillation and brewing
Our supply chain teams are the guardians of our brands' quality and craftsmanship. Their skills and experience range from the craft of barrel-making and coppersmithing, to blending scotch, brewing premium beer, designing packaging and ensuring our complex modern supply operations are working to the highest standards.

The value we create(i)

Our people
We want our people to be the best they can be. We offer a diverse and inclusive workplace with opportunities for development and progression.

91% **of employees are proud to work for Diageo**

Our consumers
We are passionate about the role our brands play in celebrations globally. We are committed to promoting moderation and reducing alcohol misuse.

229.2m **people reached with moderation messages from our brands(ii)**

Our customers
We work closely with customers to build sustainable partnerships that help grow their businesses through great insight and execution.

149,000 **bar professionals trained through the Diageo Bar Academy**

Our communities
We help build thriving communities by making lasting contributions where we live, work, source and sell.

> 293,000 **people benefitted from our community programmes**

Our suppliers
We partner with suppliers to ensure long-term, mutually beneficial relationships. Respect for human rights is embedded throughout our global supply chain.

14th **in the Gartner Supply Chain Top 25**

Our investors
We aim to maximise shareholder returns through consistent, efficient growth and a disciplined approach to capital allocation.

13% **compound annual growth rate in total shareholder return over 10 years**

Governments and regulators
We contribute to economic and development priorities and advocate laws that protect communities where these are not already in place.

£1.3m **average amount generated for every £1m we contribute to national GDP(iii)**

(i) Data points refer to fiscal 2020 other than where indicated.
(ii) Cumulative for fiscal 2019 and fiscal 2020.
(iii) Oxford Economics, 2020 for calendar year 2019.

Ensuring a continuous dialogue

We aim to maintain open and positive dialogue with all our stakeholders, considering their key interests and communicating with them on a regular basis. This helps us build trust and respect and make choices as a business that help shape the role we play in society.

Our purpose and values help guide our engagement around the world.

Why we engage

People

Our people are at the core of our business. We aim to build a trusting, respectful and inclusive culture so every individual feels highly engaged and can be their best. We want our people to feel their human rights are respected and they are treated with dignity. We are committed to creating opportunities for growth and to a continuous learning culture.

Consumers

Understanding our consumers is key to growing our business sustainably for the long term. Consumer motivations, attitudes and behaviour form the basis of our brand marketing and innovations. We make our brands with pride and want them to be enjoyed responsibly. On occasions when consumers choose alcohol, we want them to 'drink better, not more'.

Customers

Our customer partners are experts in the products they buy and sell, as well as in the experiences they create and deliver. We work with a wide range of customers: big and small, on-trade and off, digital and e-commerce. Our passion is to ensure we nurture mutually beneficial relationships that deliver joint value and the best outcome for all our consumers.

Our stakeholders' interests

People

- Prioritisation of health, safety and wellbeing
- Investment in learning opportunities for employee growth and development
- Ways of working, culture and benefits programme
- Contribute to the growth of our brands and our performance
- The promotion of inclusion and diversity

Consumers

- Choice of brands for different occasions, including no- and lower-alcohol
- Innovation in heritage brands and creation of new brands
- Responsible marketing
- Great experiences
- Product quality
- Sustainability credentials
- Price

Customers

- A portfolio of leading brands that meets evolving consumer preferences
- Identification of opportunities that offer profitable growth
- Insights into consumer behaviour and shopper trends
- Trusted product quality
- Innovation, promotional support and merchandising
- Availability and reliable supply and stocking
- Technical expertise

How we respond

People

- Company-wide employee engagement surveys
- Consistent talent and performance management approach
- Extensive online learning and development material
- Informative and up-to-date employee communication channels
- Meetings with non-executive workforce engagement director
- Employee interest groups

Consumers

- Broad portfolio of choices across categories and price points
- Insightful innovation that satisfies consumer preferences
- Responsible advertising and marketing that adheres to our strict Diageo Marketing Code
- Active engagement and education to promote moderation and reduce the harmful use of alcohol
- High-quality manufacturing and environmental standards

Customers

- Use of best practice sales analytics and technology to support our retailers and distributors
- Ongoing dialogue and account management support
- Physical and virtual sales calls
- Development of joint business plans
- Regular business updates
- Training and webinars through unique offerings, like the Diageo Bar Academy

Read more about how our Board engages with our stakeholders on pages 76-77

Suppliers

Our suppliers and agencies are experts in the wide range of goods and services we require to create and market our brands. By working with them, we not only deliver high-quality products marketed responsibly, but improve our collective impact, ensuring sustainable supply chains, reducing our environmental impact and making positive contributions to society.

- Developing strong, mutually beneficial partnerships
- Collaborating to realise innovation
- Fair contract and payment terms
- Consistent performance measurement
- Joint risk assessment and mitigation

- Partnering with Suppliers standard, our code for working with suppliers
- Direct resolution process
- Confidential, independent whistleblowing helpline and website
- Regional supplier awards
- Supplier financing
- Supplier performance measurement and performance reviews with two-way feedback
- Standards assessments through independent bodies

Communities

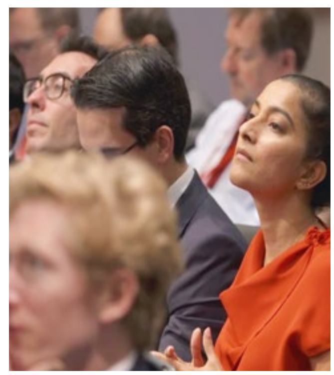
Investing in sustainable growth means supporting and empowering the communities where we live, work, source and sell. By ensuring we make a positive contribution, we can help build thriving communities and strengthen our business.

- Impact of our operations on the local economy
- Access to skills development
- Opportunities for employment and supplier opportunities
- Improved access to water, sanitation and hygiene
- Responsible use of natural resources
- Gender equality, inclusion and diversity
- Transparency and engagement

- Ongoing dialogue, annual reviews
- Partnerships, including local raw material supply partnerships in Africa
- Learning for Life, our global training programme for hospitality and retail sector workers
- Our community water, sanitation and hygiene (WASH) programmes in Africa and India
- Community programme design that includes gender equality and inclusion and diversity considerations
- Tree planting programmes
- Participation in sustainability indices

Investors

We want to enable equity and debt investors to have an in-depth understanding of our strategy and our operational and financial performance, so they can more accurately assess the value of our shares and the opportunities to finance our business.



- Strategic priorities
- Financial performance
- Corporate governance
- Leadership credentials, experience and succession
- Executive remuneration policy
- Shareholder returns
- Environmental and social commitments and progress

- Stock exchange announcements
- Results announcements
- Investor roadshows
- Meetings and calls
- Capital Markets Days
- Annual General Meeting
- Annual Report, Form 20-F and Sustainability and Responsibility Performance Addendum
- Shareholder information on www.diageo.com
- Participation in investor conferences

Governments and regulators

The regulatory environment is critical to the success of our business. We believe it is important that those who can influence policy, laws and regulation understand our views. We also want to share information and perspectives on areas that can impact our business and public health.

- Contribution to national economic and development priorities
- Tax, excise and illicit trade
- Positive drinking programmes and impacts
- Wider sustainability agenda, including human rights, environmental impacts, sustainable agriculture and support for communities
- Corporate behaviour

- Ongoing dialogue
- Collaboration on responsible drinking initiatives and promotion of moderation, tackling illicit trade and strengthening industry standards
- Participation in governments' business and industry advisory groups
- Sharing of research, economic modelling and international best practice, including as a member of industry trade organisations
- Diageo Code of Business Conduct

Total beverage alcohol is an attractive industry with a natural runway for sustainable growth

Drinking occasions and practices vary depending on local culture and traditions. We believe that drinking in a responsible way can be part of a balanced lifestyle in many societies around the world.

Our markets are shaped by long-term consumer, economic, cultural and social trends, and the regulatory environment. Notwithstanding Covid-19, the long-term trends for our industry remain extremely attractive.

Consumers are increasingly choosing spirits such as gin on occasions where, traditionally, they might have chosen beer or wine.

£854 billion	6 billion	600 million
retail sales value of global alcohol market[i]	equivalent units of alcohol sold each year[ii]	new legal purchase age consumers are expected to enter the market by 2030[iii]

(i), (ii) IWSR, 2019. (iii) World Bank, 2020.

Consumers want to 'drink better'

Consumers are seeking new experiences and higher quality products. When it comes to beverage alcohol, consumers are 'drinking better, not more' – increasingly choosing brands and categories that stand out for superior quality, authenticity and taste. This premiumisation trend is supported by product innovation and fuelled by higher levels of prosperity and disposable income, coupled with a greater desire to explore new experiences, ingredients and serves for social occasions.

Impact

Over the last 15 years, brands in higher price tiers have consistently grown volume faster than those in lower price tiers. Consumers are buying a broader range of premium products, including no- and lower-alcohol drinks, that reflect their diet and lifestyle choices and their interest in natural ingredients and craft production.

Our response

We have built an industry-leading portfolio of Reserve brands. We have done this through focused investment, brand-building, the creation of a dedicated management team and, in many countries, a dedicated route to market. Through the development of our Reserve portfolio, we are also able to influence the evolution of mass luxury spirits across different categories and occasions, including super premium scotch and tequila. We are also growing brands of the future. We do this through acquisition, through growing our own brands and through investing in entrepreneurs through our partnership with Distill Ventures.

Higher price spirits tiers grew

10 times faster

than the total spirits category

IWSR, 2019 volumes for the period 2015-2019.

Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking, Pioneer grain-to-glass sustainability

Consumers are increasingly choosing spirits

Consumers who drink alcohol are increasingly choosing spirits over beer and wine. This is a long-term trend. In markets where spirits is a less mature category, mainstream spirits brands can offer quality and affordability. In more mature markets, premium core and Reserve brands offer choice and new experiences.

Impact

Gin is an example of a category benefitting from switching, starting in Europe and now accelerating in markets like Australia, South Africa and Brazil. This has been fuelled, in part, by an increase in the number of occasions on which consumers are choosing gin, where traditionally they might have chosen beer or wine. In many emerging markets, spirits penetration is still low compared to developed markets, providing the potential for future growth.

Our response

Our innovation brings new brands and serves to our customers. Our broad, global portfolio across categories and price points provides consumers with product choice to suit different occasions and their disposable income.

+4%

the increase in spirits share of total beverage alcohol

IWSR, 2019 for the period 2005-2019.

Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking

An emerging middle class who can afford international-style spirits

Global population growth and economic development are continuing to drive the emergence of consumers with a higher disposable income. These consumers are seeking new, aspirational experiences and driving demand for quality drinks at a range of price points. They are also moving away from informal alcohol, which is estimated to account for around 25% of global alcohol sales despite the associated health risks and loss of tax revenue for governments.

Impact

Demand for international-style spirits is rising. Around 600 million new legal purchase age consumers are expected to enter the market globally by 2030. Over the same period we expect hundreds of millions of consumers to be able to afford international-style spirits.

Our response

We have built a portfolio of lower price point options. These give emerging market consumers access to our brands at affordable prices and enable us to help shape responsible drinking trends. Our mainstream spirits such as Baileys Delight and Smirnoff X1 in Africa, McDowell's No. 1 in India and Black & White in Latin America provide quality products at affordable price points and offer opportunities for consumers to trade up as their disposable income increases.

750 million

consumers expected to be able to afford international-style spirits by 2030

Euromonitor, 2020.

Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking

Consumers are changing how they socialise

Consumers in developed markets are moving away from high-energy, late-night occasions towards more informal and food-related occasions. They are increasingly interested in drinks that fit occasions before, during and after meals. This year, consumers have also been adapting to different ways of socialising at home as a result of the Covid-19 pandemic.

Impact

Spirits, which are versatile and adaptable, are benefitting from the trend away from high-tempo socialising, as consumers discover new serves which are suitable for a broader range of occasions in which to enjoy our brands.

Our response

Our consumer insight enables us to innovate existing brands, anticipate new consumer occasions and create new brands that meet emerging consumer demand. This insight is supported by our ability to develop and launch products and campaigns rapidly and effectively, reaching the right consumers fast. In Latin America this year, when bars and restaurants closed due to the Covid-19 pandemic, our teams rapidly developed online platforms to help consumers make cocktails at home; worked with well-known chefs to pair recipes with signature serves; and brought the bar experience into consumers' homes through live-streaming.

+8%

the increase in spirits share of beverages in mainstream eating outlets in Great Britain

Kantar, Alcovision 2020 for the period 2009-2019.

Sustain quality growth, Embed everyday efficiency, Invest smartly

Consumers are changing how they buy

Alongside shifts in the way people socialise and consume, digital and technology are changing the way consumers find and buy our brands. Online shopping for alcohol is still low compared to other retail categories, but it is a fast-growing channel. Consumers are increasingly using the internet to discover and learn about brands and products, where previously they might have done so in venues and while out socialising.

Impact

As regulations continue to evolve and e-commerce expands further, digital channels will play an ever-increasing role in bringing our products to consumers. This trend has been accelerated by the impact of Covid-19. For example, Drizly, the American alcohol e-commerce marketplace, saw an increase in sales of over 400% in May versus growth projections prior to Covid-19[i].

Our response

We have developed our route to consumer approach through multiple channels, with e-commerce being a key focus area this year. We work with a range of online retailers to ensure that our products are competitively and responsibly marketed – for example, through partnerships with online grocery retailers, e-marketplaces and on-demand delivery companies. We are also developing our own digital channels that help consumers grow their understanding and knowledge of our brands, including through personalised experiences that help them find the right drink for the right occasion, such as Malts.com in Great Britain, TheBar.com in Brazil and our 'What's Your Whisky' app which launched in November.

(i) Drizly, 2020.

+17%

the annual rate at which the e-commerce sales channel for alcohol is expected to grow over the next five years

IWSR Global Ecommerce Strategic Study, 2020.

Sustain quality growth, Invest smartly, Promote positive drinking

A complex regulatory environment

The beverage alcohol industry is highly regulated. Regulation varies widely between countries and jurisdictions, often evolving in response to changes in society. As a minimum we comply with all laws and regulations wherever we operate, but we have long understood that a responsible alcohol company must go beyond compliance.

We are proud of our brands and we want them to be enjoyed responsibly. Through our work, we support the United Nations' and the World Health Organization's goal of reducing harmful drinking by 10% by 2025. We also advocate laws and industry standards, including minimum legal purchase age laws and maximum blood-alcohol concentration driving limits, in countries where these are not already in place.

Impact

While most people who choose to enjoy alcohol do so moderately and responsibly, the misuse of alcohol can harm individuals and those around them, damage our industry's reputation and make it harder for us to create value.

Our response

We want to offer consumers the opportunity to 'drink better, not more' – an approach that is rooted in our social values and aligns with our business model as a producer of premium drinks. We are committed to promoting moderation while campaigning to reduce harmful drinking and improving laws and industry standards. Our Positive Drinking strategy, described on page 24, includes ambitious targets for areas where we can have the greatest impact in reducing harm: drink driving, underage drinking and heavy drinking.

Over 1 million

young people, parents and teachers educated on the dangers of underage drinking over the last three years

Sustain quality growth, Embed everyday efficiency, Promote positive drinking

Diageo, 2020.

Consumers expect businesses to act responsibly

Consumers, like all stakeholders, are increasingly challenging businesses to show how they make a positive impact on society and to demonstrate their commitment to protecting the environment. Stakeholders rightly expect to see that businesses are generating wealth, fostering inclusion and diversity, respecting human rights, supporting their communities and acting on important environmental issues, including climate change and water stress.

Impact

Earning trust and respect is fundamental to achieving our ambition. Any business that relies on agricultural raw materials and water has both a responsibility to the environment around it and an exposure to environmental risks. Our future success depends on us continuing to reduce our environmental impact and promoting inclusive economic growth, while making sure we do business with integrity and respect for human rights.

Our response

Our environmental programmes reduce carbon emissions and improve water efficiency throughout our value chain, and address waste and sustainable packaging, including the use of plastic. With the oversight of our Climate Risk Steering Group, we are integrating the management of climate-related issues into our business. Our Water Blueprint defines our approach to water stewardship and prioritises our actions in areas we have defined as water-stressed.

We have a strategic commitment to inclusion and diversity within and beyond our business, while our community programmes are designed to empower women, help people develop their skills and increase access to clean water, sanitation and hygiene (WASH). Respect for human rights throughout our value chain, including the right to a safe workplace, underpins everything we do.

73%

of consumers believe it is not enough for brands to be environmentally responsible – they should be socially responsible too

Sustain quality growth, Invest smartly, Promote positive drinking, Champion inclusion and diversity, Pioneer grain-to-glass sustainability

Kantar Global Monitor, 2019.

Baileys is well established across a range of treating occasions.

The right insights to deliver consumer-led growth

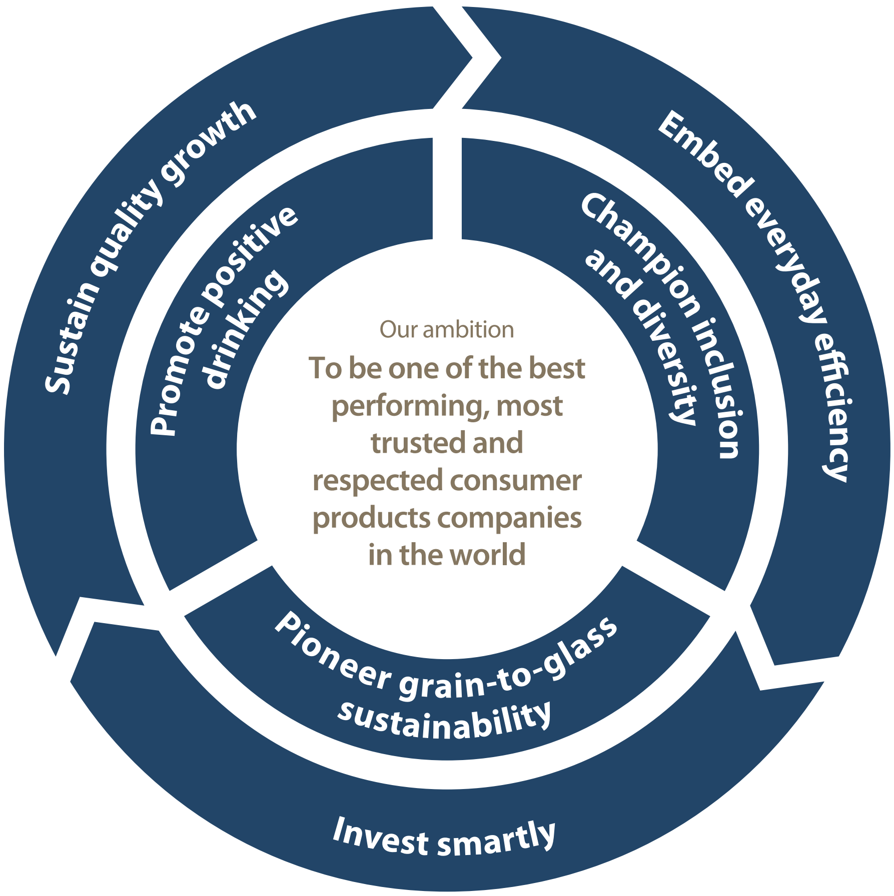
Everything we do is designed to delight consumers and customers. That means identifying the factors that drive consumer choice, so we can put the right product in front of the right consumer at the right time.

Drawing on behavioural science and the power of data, we have transformed the way we understand consumer motivations and behaviours. Our Diageo Foresight system analyses trends so we can make strategic choices and anticipate major shifts. Our Consumer Choice Framework is giving us detailed information on a huge range of social contexts – what we call 'occasions' – so we better understand who is drinking, what, where and when.

Together, these market-leading research tools are inspiring us to embrace bold, disruptive innovations, such as Ketel One Botanical and Smirnoff Infusions. At the same time, our insights enable us to unlock new opportunities for established brands. For example, we used improved global insights to re-launch Baileys as an 'adult treat' brand in 2016. The move has revitalised the brand, which is now well established across a range of treating occasions. This year, our insight told us consumers were looking to treats and baking as a creative outlet during lockdown and Baileys quickly repurposed its baking content across markets.

Delivering our Performance Ambition

Our strategic priorities support the achievement of our ambition to be one of the best performing, most trusted and respected consumer products companies in the world. Through them, we deliver the strategic outcomes against which we measure our performance.



EG

Strategic outcome:

Efficient growth
Consistently grow organic net sales, grow operating profit, deliver strong free cash flow

CVC

Strategic outcome:

Consistent value creation
Top-tier total shareholder returns, increase return on invested capital

CT

Strategic outcome:

Credibility and trust
Trusted by stakeholders for doing business the right way, from grain to glass

EP

Strategic outcome:

Engaged people
High-performing and engaged teams, continuous learning, inclusive culture

Read more about the link between our strategic outcomes and our principal risks on pages 39-40

The delivery of our strategic priorities is enabled by our culture and values

Our culture underpins the work we do to deliver our strategic priorities and is key to our success. It is shaped by our values and encourages our people to: lead bold execution that ensures consumers delight in our brands; act like entrepreneurs and encourage learning; take ownership for shaping and achieving our ambition; and create an inclusive environment where everyone can be their best.

We strive to share our values with our stakeholders, building mutually fulfilling relationships and partnerships.

Passionate about consumers and customers
Our curiosity and insights deliver experiences and products that delight and drive growth.

Freedom to succeed
We foster an entrepreneurial spirit by giving each other the freedom to succeed. It's how we move with pace and keep our big company small.

Proud of what we do
We are proud of how we operate and what we stand for. We act sensitively with the highest standards for integrity and social responsibility.

Valuing each other
We are creating a truly inclusive culture. We seek diversity in people and perspectives and believe in the benefits it delivers across our business.

Be the best
We are restless: always learning, always improving. We strive to be the best at work and in our communities.

Sustain quality growth

Creating sustainable and consistent quality growth is at the heart of our ambition to be 'one of the best performing'. It enables us to invest in our business, grow our margins and deliver top-tier total shareholder returns.

Market dynamics
– Consumers want to 'drink better'
– Consumers are increasingly choosing spirits
– An emerging middle class who can afford international-style spirits
– Consumers are changing how they socialise
– A complex regulatory environment

Strategic outcomes
Efficient growth, Consistent value creation, Credibility and trust

Progress in 2020
– Continued investment in brand building, targeting the most effective opportunities
– Further developed NRM processes and capabilities
– Significantly enhanced Diageo Bar Academy content and support for bartenders and bar owners
– Launched innovations to recruit new consumers and unlock new occasions, focusing on our global giants, no- and lower- alcohol and retail formats

Looking ahead to 2021
– Focus on emerging from the pandemic in a stronger position, having built deeper relationships with our customers and consumers
– Continue to build our NRM capabilities and route to consumer at pace
– Innovate creatively, focusing on the right opportunities for the current environment

Delivering sustained quality growth
The demographic and economic market drivers for the beverage alcohol sector point to clear potential for growth. Over the long term, however, growth on its own is not enough to achieve our Performance Ambition. We need to make sure that our growth is sustainable, consistent and of high quality.

Creating sustained, quality growth is not new to us. Brands such as Guinness and Johnnie Walker, which celebrates its 200th anniversary in 2020, show how the right approach to quality, brand equity, innovation and investing for the long term can build lasting value. We focus on six key elements that help us sustain quality growth:

Key elements of our approach
– Grow volume, price and mix
– Execute the most effective route to consumer
– Build brand equity
– Innovate sustainably
– Grow next generation brands
– Enable a positive policy environment

Grow volume, price and mix
Supported by improved capabilities in net revenue management (NRM), a balance of volume, price and mix is essential for driving consistent net sales growth. NRM is all about driving quality growth by making sure we are offering our consumers and customers the right assortment of brands and formats in the right place, at the right price, and for the right occasion.

This year, we continued to embed NRM across the business. We established multi-disciplinary teams across markets and made our approach more holistic. This has allowed us to create actionable insights within shorter timeframes, increase the speed of our decision-making and enhance our ability to create, execute and adjust more bespoke plans that generate value for our customers and our business.

For example, in Northern Ireland this year we were better able to meet specific consumer and customer preferences by changing the mix of brands and formats available, which also improved our promotional plans and further integrated customers' needs into our decision-making.

Our progress on NRM has enabled us to respond in an even more agile and targeted way to our consumers' and customers' rapidly evolving requirements during the Covid-19 pandemic. We adapted pack sizes and formats and reprioritised our investments in line with changing shopper behaviours and channel shifts.

Execute the most effective route to consumer
Our business is built on getting the right product to the right consumer for the right occasion – and at the right price. The shopper landscape is evolving, as are technologies and our consumers' preferences. Through best practice sales analytics and technology, we are transforming the way we partner with our retailers and distributors. We want to ensure we create distinction and competitive advantage at every point in the route to consumer, not just when people enjoy our products.

This year, in order to support our bar and restaurant customers affected by Covid-19-related closures, we developed 'Cocktails To Go' programmes. These enabled our customers to simplify their offering, continue delivering quality cocktail experiences and connect with consumers online. Our 'How to' guides contain a range of support, from information on how to partner with third-party delivery services to branded content for menus and digital promotion, cocktail recipes, 'to go' packaging instructions and tips for enhancing the consumer experience.

Hear more about Sustain Quality Growth from Ann Joy Muhoro, Head of Marketing, EABL, Kenya

visit diageo.com

Build brand equity

Our brands are key to our success and we work hard to ensure their long-term health by safeguarding and building their brand equity. This year, the second of our successful Six Nations Title Sponsorship, Guinness continued to build on its long-term affiliation with rugby. The brand has a history of powerful storytelling, releasing 'Liberty Fields', the latest advert in the 'Made of More' series during the Japan Rugby World Cup.

In the second half of the year, with Covid-19-related closures in the on-trade taking place just before St Patrick's Day, Guinness quickly amended its plans to stay relevant to consumers and unveiled measures to support pub and bar staff. In the United States, Guinness released advertising with an optimistic and hopeful message to its consumers: 'We'll March Again'. In Great Britain and Ireland when lockdowns were first put in place, Guinness announced over £2 million in funds to support on-trade staff, and in Nigeria, a new initiative saw Guinness support bar owners and staff impacted by closures by providing care packages.

Innovate sustainably

Driving sustainable growth is at the heart of our innovation. Led by our strength in developing consumer insights, each innovation either recruits new consumers, re-recruits them by giving them another reason to choose our products, or disrupts a category by changing consumer perceptions. Our focus is on recruiting new consumers to occasions and brands and this year 60% of our projects were in this category, compared to around 30% five years ago.

This year, Diageo brands won nearly 80 awards at the 2020 San Francisco World Spirits Competition, including 14 awards for innovation. Baileys Red Velvet Irish Liqueur, launched in the United States and Great Britain this year, was awarded a Double Gold, while Crown Royal Peach Flavoured Whisky was also recognised. George Dickel Bottled in Bond, a limited release 13-year-old whisky, was awarded Whisky of the Year by Whisky Advocate.

Grow next generation brands

While it is vital to grow the big brands of today, we also want to seed the successful brands of the future. We grow next generation brands by acquiring brands, like Casamigos, and developing our own, like Roe & Co Irish Whiskey.

This year, Zhong Shi Ji™, the new-to-world whisky we launched in China with our joint venture partner Yanghe Distillery Co. Ltd in 2019, was awarded a Silver Medal at the IWSC (International Wine and Spirit Competition). It is crafted by master blenders and distillers from Scotland and China through a unique process, including maturation in Chinese ceramic pots, which has created a full-flavoured, exceptionally smooth liquid.

We also grow next generation brands by investing in entrepreneurs with new ideas through our partnership with Distill Ventures. We have the option to acquire Distill Ventures' portfolio companies and this year we acquired Seedlip.

Enable a positive policy environment

We sell our products in over 180 countries and to grow sustainably we rely on a transparent, predictable and fair public policy environment. We seek to secure this by constructively engaging governments and stakeholders around the world on evidence-based policies and recommendations to ensure our brands compete on a more equal playing field in terms of alcohol taxation and regulatory policy, while also supporting government policies and objectives. This year, for example, we worked with the local Spirits Association to help the Government of Uruguay develop robust laws aimed at reducing illicit trade on its border with Brazil.

Crown Royal Regal Apple is in its sixth year of growth.

Crown Royal: sustained growth driven by insight and innovation

Connecting with consumers and their passions is at the heart of sustained quality growth. This year, Crown Royal grew 8% and was once again North America's most valuable whisky brand[(i)], as consumers continue to connect with its purpose of 'inspiring exceptional generosity'.

The insight that it is better to give than to receive really resonates, as Crown Royal's Purple Bag community gifting campaign continues to show. This strong brand equity is supported by sustainable innovation and consistent investment. The result is that Crown Royal is recruiting new consumers, accessing new occasions and reinforcing its premium status.

Crown Royal Regal Apple, for example, is now in its sixth year of growth. Other innovations, such as this year's Crown Royal Peach, are also contributing to the brand's growth and vibrancy. Our marketing places Crown Royal at the centre of cultural occasions that connect with consumers. And in 2020, Crown Royal's 'The Guy Who's Got It All' campaign won a prestigious Effie advertising award.

During the Covid-19 pandemic, the brand continued to connect with consumers' desire to give back, hosting an online #GenerosityHour that has supported bartenders affected by closures.

(i) Nielsen/NABCA for the 12 months to 31 May 2020.

2 Embed everyday efficiency

Everyday efficiency creates the fuel that allows us to invest smartly and sustain quality growth. At its heart, everyday efficiency is a mindset and a culture, which everyone in Diageo is encouraged to bring to life in their daily work.

Market dynamics
- Consumers want to 'drink better'
- Consumers are increasingly choosing spirits
- Consumers are changing how they socialise
- Consumers are changing how they buy
- Consumers expect businesses to act responsibly

Strategic outcomes
Efficient growth,
Consistent value creation,
Engaged people

Progress in 2020
- Rollout of EDGE in Africa
- Introduction of EDGE365 and rollout in nine countries
- Development of almost 100 new intelligent automation processes
- Agile adaptation of creative campaigns and initiatives to delight consumers and support customers during Covid-19 pandemic

Looking ahead to 2021
- Leverage and strengthen our efficiency culture
- Progress investments in data analytics and automation
- Strong focus on cost and cash

Delivering everyday efficiency

We are ensuring our resources are deployed where they are most effective. This means using technology and data analytics to make better, faster decisions and work in a more agile way. It also means simplifying our business so that we can liberate our teams to better meet the needs of our consumers and customers. At the same time as freeing resources to focus on great performance, everyday efficiency enables us to generate savings that we can invest smartly.

We focus on three key elements to help embed everyday efficiency:

Key elements of our approach

- Simplifying the business, injecting speed into what we do
- Focusing resources on delighting customers and consumers
- Unleashing technology, including data and analytics, on our processes to drive efficiency and insights

Simplifying the business, injecting speed into what we do

Across the business, we are developing systems that enable our people to spend less time collecting data and more time on execution. Automated processes and reports are also liberating our people to create value by reducing task time and improving self-sufficiency.

This year we automated a key part of our product development process. Each year, our technical teams manage many hundreds of new product development projects, ranging from global brand redesigns to cutting-edge innovations. Collating in a single file the thousands of individual data points needed to manage each project was a highly repetitive, manual activity. By leveraging intelligent automation, we have reduced the time it takes to create the data in the format we need – in some instances, what used to take weeks now takes hours. We have also been able to automate data entry at the start of each project. So rather than spending time on collating data, our people have more time for review and analysis, which has improved efficiency and accuracy.

Focusing resources on delighting customers and consumers

We are changing the way we work so we act with more agility and focus resources on our top business priorities. This year, with thousands of hospitality workers across the United States facing unprecedented challenges, we introduced the #TipsFromHome social media programme to help get bartenders back to work at home, and fundraise for hospitality relief funds. The programme features bartenders who use their creative talents to make drinks crafted from pantry staples to inspire consumers to make their own at home. Bartenders' cocktail-making has been featured weekly on a 'Cocktails de la Casa' segment on ABC's Jimmy Kimmel Live.

#TipsFromHome features a range of our brands including Bulleit, Don Julio, Johnnie Walker and Ketel One Botanical. We are donating $1 to the United States Bartenders' Guild (USBG) every time someone shares a cocktail image on social media using #TipsFromHome and #DiageoDonation, up to a total of $1 million. This pledge is on top of more than $2 million we have donated this year to North American organisations serving the hospitality industry, including the USBG Foundation Covid-19 Relief Campaign of the Bartender Emergency Assistance Program.

Hear more about Embed Everyday Efficiency from Kirsten Wilson, Business Development Manager, Global Supply and Procurement, Scotland

visit diageo.com

Unleashing technology, including data and analytics, on our processes to drive efficiency and insights

Data and analytics offer a clear opportunity to create scale benefits across our business. In fact, they are critical enablers which provide us with tools to understand not just what has happened, but why. They help us make better, faster decisions and give us deeper insights into customers and consumers.

This year, the benefits of our investments have proved even more valuable, providing us with up-to-date insights in rapidly shifting market conditions. For example, earlier this year we introduced a new debtor reporting system. Using enhanced automation, this centralised approach to reporting enabled us to act with pace and agility and to more effectively manage our working capital when Covid-19 measures led to widespread closures of bars and restaurants around the world.

Over the last two years we have been embedding a suite of technology tools, known as EDGE (Every Day Great Execution). These capture in-store data and, through predictive analytics, revolutionise our ability to offer the right brands, in the right outlets, in the right way. This means we can work with customers so that each outlet has specific standards and recommendations that help boost incremental sales.

We introduced EDGE in the United States in early 2019 and this year extended it to eight further markets in Asia Pacific, Europe and Africa.

In addition to accelerating the rollout of EDGE, we have also further developed the tools to reflect the rapid trend towards digitalisation.

In North America, where the use of EDGE is most advanced, we have been able to further simplify our data reporting and insight generation, eliminating over 200 reports and introducing a standardised and highly visual dashboard that enables teams to use data for decision-making even more efficiently.

EDGE365, which we introduced this year, is an industry-leading application for our sales force that integrates everything they need to manage their customer relationships into a single mobile application. In markets such as Australia and Spain, where EDGE365 has been launched either with our sales teams or with our distributors, we have seen significant improvements in efficiency and effectiveness, enabling more in-depth engagement across a larger number of customers.

In other parts of the business, we are piloting the use of advanced analytics to optimise distillation and fermentation processes at manufacturing sites, with early results showing yield improvements. We are also using data analytics to improve the accuracy of our demand forecasting in our supply operation. Through improved insights, planners can also identify any required adjustments more quickly. All of this is achieved while reducing the time spent on reporting.

Our 'Stop the Stops' initiative is empowering our production teams to use their experience and expertise to create value.

'Stop the Stops': an efficiency culture led by employees

We are seeing the benefits of having a culture of everyday efficiency embedded across the business. This includes our supply operations, where our 'Stop the Stops' initiative is empowering our production teams to use their experience and expertise to create value.

Part of our manufacturing excellence programme, 'Stop the Stops' is based on a simple insight: that no one understands production better than those working on it every day. Our operators know that unplanned stops to our lines mean the potential loss of value in the production of our brands, which can impact the quality and availability of our products. With their knowledge and expertise, our operators are the best people to identify and resolve unplanned stops. They are developing and delivering the equipment fixes we need to reach our goal of reducing unplanned stops to zero. At the same time, they are building their knowledge, enhancing product quality and improving their work environment.

As we further develop 'Stop the Stops', we are rolling it out worldwide. In Europe, where it is most mature, we are already seeing higher engagement levels with our people, fewer defects and a typical reduction of 30% in unplanned stops.

3 Invest smartly

We are investing in the future success of our business – but that investment needs to be 'smart' to support the delivery of consistent performance and enable sustainable, quality growth.

Market dynamics
- Consumers want to 'drink better'
- Consumers are increasingly choosing spirits
- An emerging middle class who can afford international-style spirits
- Consumers are changing how they socialise
- Consumers expect businesses to act responsibly

Strategic outcomes
Efficient growth, Consistent value creation, Engaged people

Progress in 2020
- Continued to develop our Catalyst tools
- Further developed our use of intelligent automation
- Accelerated our e-commerce capabilities and strategy
- Opened the Guinness Gatehouse in Shanghai
- Received planning permission for our Johnnie Walker experience in Edinburgh

Looking ahead to 2021
- Invest prudently, focusing on the most effective opportunities in the current environment
- Enhance capabilities and continue to develop marketing data and analytical tools
- Build e-commerce and intelligent automation further

Delivering smart investment
Investing smartly means focusing on areas in which we believe investment will bring the greatest benefits: our people; advertising and promotional (A&P) spend; technology, data and e-commerce; capital expenditure; and mergers and acquisitions (M&A).

Key elements of our approach
- Invest to grow and develop our people
- Acquire attractive new brands
- Spend more on A&P, more effectively and efficiently
- Build capabilities in technology, data and e-commerce
- Support growth with the right capital investment

Invest to grow and develop our people
Investing in our people is critical to our future success. Smart investment means ensuring our people have the right opportunities to develop their skills and capabilities; the right tools and resources to make faster, smarter decisions; and better data, analytics and information. Our work on building an engaged, inclusive and diverse team is described on pages 26-27.

Acquire attractive new brands
Many of our iconic brands have been built over decades, or even centuries. While never losing sight of the importance of acting as stewards of these great brands, we need to identify and nurture the new brands that consumers will enjoy in the future. Our strategy is to invest in new-to-world brands which help us access fast-growing categories, such as no- and lower-alcohol drinks.

This year, we acquired Seedlip, the world's first non-alcoholic distilled spirit. Seedlip was launched in 2015 to solve the dilemma of 'what to drink when you're not drinking®'. Its founder, Ben Branson, set out to change the way the world drinks while continuing his family's 320-year-old farming legacy. In the last four and a half years, Seedlip has grown from Ben's kitchen to a presence in more than 25 countries, over 250 top-rated restaurants, many of the world's best cocktail bars, luxury hotels and high-quality retailers.

Spend more on A&P, more effectively and efficiently
We have always invested in marketing our brands to support their long-term brand equity and growth. We combine our creative flair with smart investment in A&P, which ensures we get maximum impact from our marketing by increasing the efficiency and effectiveness of our spend. Our Marketing Catalyst data analytics tools, for example, help us to accurately predict the short- and long-term impacts of our investments. This means we confidently know when, where and how much to invest to grow our brands.

Marketing Catalyst, which is now used in 60 countries by over a thousand marketers and our media agencies, is supporting greater data transparency and enabling us to track performance more closely than ever before. Its use covers global giants such as Guinness and Johnnie Walker and local stars like Tusker in Kenya and Bundaberg in Australia. Because Marketing Catalyst delivers more detailed insight as we gather more data, it gives us the confidence to invest in A&P for long-term growth. It also means we can optimise the short-term performance of our investments and make informed decisions where a change in market conditions or consumer behaviour might mean our investment is best focused elsewhere.

For example, this year in North America we were able to achieve a 19% increase in our return on investment in a key channel over the busy holiday period. In Brazil, a shift in spend delivered a significant improvement in the return on Tanqueray investment and in Africa, where we have increased our use of Catalyst, the Senator brand in Kenya also achieved a 20% improvement in return on investment by increasing our A&P spend in better performing channels. We further developed Marketing Catalyst this year by embedding broader and deeper measurement. We also launched an enhanced version of Catalyst in Europe and North America which provides us with additional insight into how our decisions about A&P investment impact other key financial metrics such as net sales and operating profit.

Hear more about Invest Smartly from Jennifer English, Global Brand Director, Baileys

visit diageo.com

Build capabilities in technology, data and e-commerce

We are also investing in best-in-class technological capabilities that support productivity. We want to keep strengthening our analytical capabilities to build our competitive edge and take further strides in developing intelligent automation to make our core processes simpler and ensure our people are focused on higher value-added work.

This year, we have almost doubled the number of applications in which we use intelligent automation. We have used intelligent automation to inject speed and remove complexity for our marketers and creative agencies. Our Diageo Content Hub simplifies how our marketers and agencies are able to find relevant content and buy media. After less than two years in full operation, the millionth download was made in May this year. It took our previous tool over six years to achieve this – showing how the new hub has made it easier and faster for our people and agencies to access what they need.

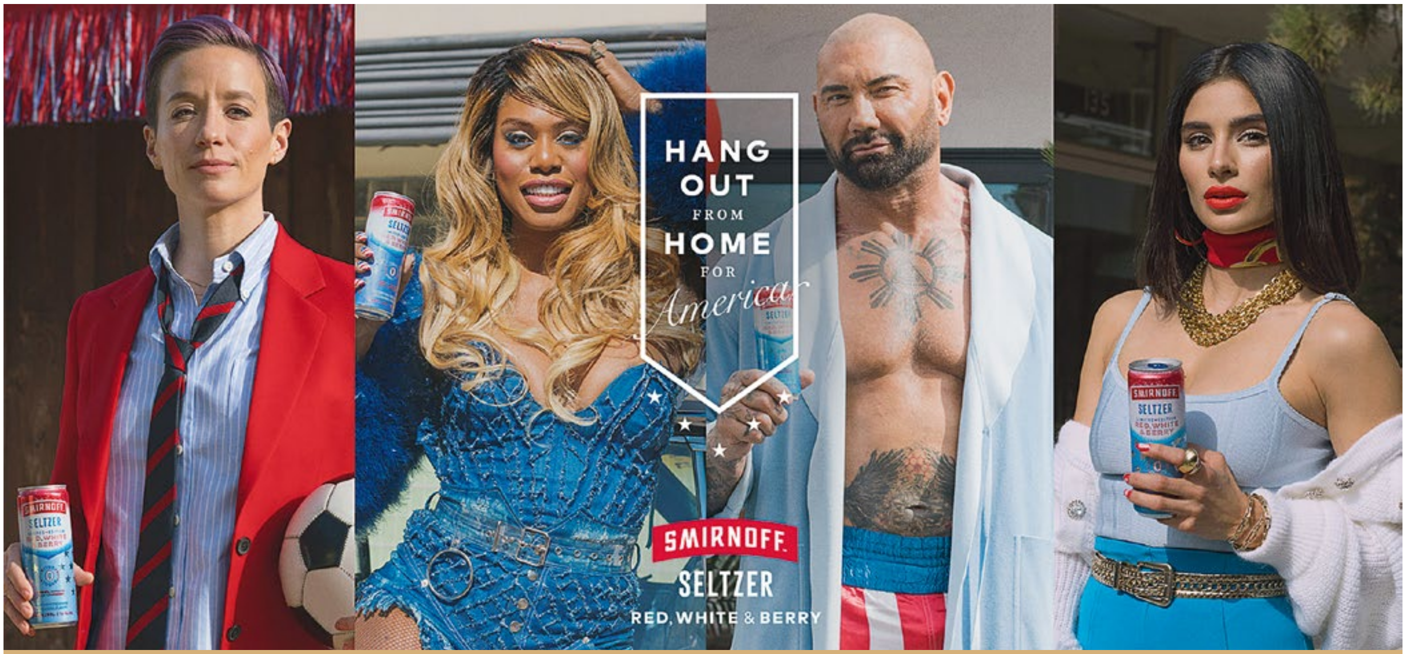
While online shopping for alcohol is still at low levels compared to other retail categories, it is a fast-growing channel. With so many bar and restaurant closures resulting from Covid-19 lockdown measures, there has been a significant increase in consumers purchasing online this year and this has accelerated the development of e-commerce across our business. In our Caribbean and Central America market, for example, we moved swiftly, focusing our resources on developing our capabilities in this very underdeveloped channel – and with good results. In partnership with customer e-commerce platforms, delivery apps and distributors, we grew the e-commerce channel by over 400% between February and May.[i]

Support growth with the right capital investment

Sound capital investments underpin our drive to achieve sustained, quality growth. That means investing in our supply footprint, so that we have the capacity to grow in the future. It also means strategically investing in maturing stocks to support our long-term success. We also invest in consumer experiences through distillery visitor centres and attractions where people can engage directly with our brands.

In October we opened a new state-of-the-art Innovation and Research Centre in Scotland as part of our investment in the sustainable growth of the distilling industry. The £6.4 million laboratory provides a new home for our largest global science and innovation hub, where our teams work on science, technology and innovation projects across a number of our global brands, including Johnnie Walker, Smirnoff, Tanqueray, Gordon's and Captain Morgan.

(i) Glovo & Appetito24, February to May 2020.



The original advertisement for the new Smirnoff Red White & Berry Seltzer innovation was quickly adapted in light of Covid-19.

Efficient and effective investment: acting with agility and creativity

Covid-19 led to the closure of bars and restaurants around the world – so we re-doubled our focus on investing behind opportunities that would be effective and relevant for consumers in a rapidly changing environment.

When the pandemic began, our brand team had a new advertisement depicting a busy summer party ready to drive sales of our new Smirnoff Red White & Berry Seltzer innovation in North America. The team worked quickly to adapt the original advertisement to the changed environment, making it fun and relevant to our consumers' experience in lockdown. Leading with the message 'Hang Out From Home For America', it ran predominantly on TV, achieving positive feedback from consumers.

Bulleit grew net sales by 4% this year. The brand responded to consumers being at home with a new Drinking Buddies campaign across digital and social media – and its first national TV campaign. #NewDrinkingBuddies delivered a tongue-in-cheek message that while we all miss our drinking buddies, at home, there are new ones everywhere. The campaign content was produced on an iPhone at home – delivering engaging content quickly and in a highly cost-effective way. Results were outstanding, with Bulleit adding 10bps of spirits share and gaining 34bps of US whiskey category share.[i]

(i) Nielsen, year-on-year growth, three months to 16 June 2020 and NABCA, year-on-year growth, three months to 31 May 2020.

4 Promote positive drinking

We want to change the way the world drinks for the better, by promoting moderation and addressing the harmful use of alcohol. Our goal is for people to 'drink better, not more' – because we are proud of our brands and we know that the best way for them to be enjoyed is responsibly.

Market dynamics

- Consumers want to 'drink better'
- A complex regulatory environment
- Consumers expect businesses to act responsibly
- Consumers are changing how they buy
- Consumers are increasingly choosing spirits
- An emerging middle class who can afford international-style spirits

Strategic outcomes

Credibility and trust,
Engaged people

Alignment to UN SDGs

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

For more details see page 33

Progress in 2020

- Met our 2025 target on reaching 200m people with moderation messages from our brands
- Responded to Covid-19 through online resources combating underage drinking, tackling drink driving and promoting moderation in lockdown

Looking ahead to 2021

- Continue to promote positive drinking by promoting moderation and reducing underage drinking, drink driving and heavy drinking
- Go beyond our 2025 targets as we develop our strategy for 2030

Our brands have been part of people's celebrations for generations. We take huge pride in them and we want people to continue enjoying them responsibly in the future.

We want everyone at Diageo to be an advocate for positive drinking and we have long campaigned to reduce alcohol-related harm. We know that for most people who drink alcohol, drinking responsibly is common sense – but we also know that harmful drinking causes significant issues for individuals and for society.

Promoting moderation is the right thing to do and it is an essential part of our Performance Ambition. Our commercial success depends on us creating a positive impact on society, wherever we live, work, source and sell.

We aim to lead our industry in reducing underage drinking, drink driving and heavy drinking. We are working to empower our people and brands to make moderation the norm and we advocate improved laws and industry standards around the world.

Promoting moderation

We aim to reinforce the message of moderation in everything we do.

We want our people to be ambassadors and we are using the reach and influence of our brands to carry moderation messages to consumers. For example, we continued to build on the success of our 'Guinness Clear' moderation campaign in the United Kingdom and Ireland through television and video on demand. Further campaigns bringing home the message of moderation to sports fans were run by Bundaberg, Captain Morgan and Crown Royal.

Our goals for positive drinking

- Change the way the world drinks for the better
- Lead the industry in reducing underage drinking, drink driving and heavy drinking
- Empower our people and brands to advocate moderation

We have set ourselves stretching targets to reach by 2025.

For more details see pages 30 and 33

These campaigns enabled us to meet our target of reaching 200 million people with moderation messages from our brands five years early. We are proud of this achievement and we look forward to building on this commitment.

Addressing underage drinking

We have a longstanding commitment to tackling underage drinking. It is never acceptable for people underage to drink alcohol and we welcome the fact that fewer young people are drinking under age in many countries. Our programmes aim to ensure this downward trend continues and they have reached more than 375,000 people this year, across 20 countries.

They include our flagship 'Smashed' education programme, which combines a live theatre production presented by professional actors with interactive workshops, evaluation and teaching resources for schools. In May 2020, we launched an online version of Smashed in the United Kingdom, making it available to more than a million school children.

Preventing drink driving

We have a longstanding commitment to addressing drink driving through a range of interventions. We invest in partnerships with police, local authorities and other agencies that support enforcement; we provide education for drivers and law enforcers; and we support safe rides and public transportation.

One of our key partnerships is with UNITAR, the United Nations Institute for Training and Research. The partnership supports road safety events aimed at reducing traffic deaths and injuries and improving road safety globally. It has a particular focus on high-visibility enforcement in Latin America, Asia and Africa. In April 2020, in response to Covid-19, we collaborated with UNITAR as it launched a series of online training resources in English and Spanish for government officials responsible for road safety and law enforcement.

Hear more about Promote Positive Drinking from Srna Herzog, Head of Positive Drinking Programmes and Policies

visit diageo.com

Tackling heavy episodic drinking

DRINKiQ is one of our most important tools in promoting moderation and addressing heavy drinking. Now available in 16 languages and 35 countries, DRINKiQ is a dedicated responsible drinking website that gives information on alcohol and its impact on the body, along with a range of resources to encourage moderate consumption. To empower more consumers to drink responsibly, we developed the DRINKiQ quiz (see case study, right).

Alongside DRINKiQ, our brand campaigns and our initiatives for the night-time economy with a coalition of partner agencies help reduce alcohol-related problems in entertainment districts.

Advocating improved laws and industry standards

As a minimum, we comply with all laws and regulations wherever we operate. We advocate sensible new regulation based on evidence, including blood-alcohol volume driving limits and legal purchase age laws, in countries where these do not exist. We continue to call on governments to increase the legal purchase age to 18 years old where a lower rate is set, for example for purchasing beer in certain European countries such as Germany, Belgium and Denmark.

We have also joined in collective action with our industry, including through the International Alliance for Responsible Drinking (IARD). We support IARD's commitments on digital marketing and commercial practices and a package of measures to combat underage drinking. For example, we have committed to including an age-restriction symbol or equivalent words on all of our alcohol brand products in all markets by 2024.

Responsible marketing

Our Diageo Marketing Code (DMC) and Digital Code set mandatory minimum standards for responsible marketing and we review them every two years.

At the heart of the DMC is our commitment to ensuring all our activities depict and encourage only responsible and moderate drinking, and never target those who are younger than the legal purchase age.

Across some of our markets, advertising monitoring and industry bodies publicly report breaches of self-regulatory alcohol marketing codes. This year we are pleased to report that no breaches were upheld by key industry bodies about Diageo's advertising.

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

Country	Body	Industry complaints upheld	Complaints about Diageo brands upheld
Australia	ABAC Scheme	53	0
Ireland	Advertising Standards Authority – for Ireland (ASAI)	2	0
United Kingdom	The Portman Group	11	0
	Advertising Standards Authority	11	0
United States	Distilled Spirits Council of the United States (DISCUS)	2	0

(i) From 1 July 2019 to 30 June 2020

Committed to promoting moderation and reducing harm

- We were the first alcohol company to put nutritional information and alcohol content onto our labels. Our Diageo Consumer Information Standards (DCIS) provide benchmarks for the mandatory minimum information to be included on labels and packaging on all our brands, wherever they are legally permitted.
- We have long supported the World Health Organization's goal of reducing harmful drinking by 10% across the world by 2025. We work with partners from within and beyond our industry on initiatives that advance that goal.
- DRINKiQ.com, our dedicated responsible drinking website, is now available in 16 languages and 35 countries.

Our DRINKiQ quiz is accessible across a range of devices.

Promoting positive drinking during Covid-19

We were determined to make sure our longstanding work on positive drinking continued through the challenges of Covid-19 – including by making the most of digital resources to promote moderation and tackle harmful drinking.

Our flagship DRINKiQ programme, which had launched an online quiz to educate consumers in responsible drinking over the festive period from November 2019 to January 2020, drew on the quiz again for a topical new campaign on responsible drinking at home during lockdown. Over both campaigns, more than 80,000 consumers completed the quiz, which was available in 28 countries and 18 languages.

Our Virtual Good Host Guide, launched in May 2020, helped hosts to plan great online celebrations, including reminding people to measure their pour when making drinks. Finally, local campaigns such as our 'double down' initiative in Mexico saw brands including Buchanan's, Johnnie Walker, Black & White, Don Julio, Smirnoff and Captain Morgan promote positive drinking through their digital reach.

Hear more about the work we have been doing to Champion Inclusion and Diversity
visit diageo.com

5 Champion inclusion and diversity

Our Performance Ambition is fuelled by our purpose and values. It drives us to create an inclusive culture where every individual can thrive and to champion inclusion and diversity in our business and in society more broadly.

Market dynamics

- All stakeholders, including consumers and employees have an increasing expectation that businesses will have an inclusive and diverse culture
- Our global footprint requires us to access and grow diverse talent
- Global multinationals have the ability to create policies that have a positive impact on society

Strategic outcomes

Consistent value creation, Credibility and trust, Engaged people

Progress in 2020

- 39% of leadership roles in our business are held by women
- Named by Equileap as the top company globally for gender equality
- Began inviting employees globally to confidentially disclose their ethnicity

Looking ahead to 2021

- Establish progressive goals and targets to make a step change on ethnic diversity and sustain focus on gender diversity
- Roll out inclusive leadership training more widely
- Extend focus on ethnic diversity through our brands, suppliers and agencies

Alignment to UN SDGs

5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

Our inclusive and diverse culture is central to our purpose of 'Celebrating life, every day, everywhere'. At the same time as being a moral imperative, having the best and most diverse talent drives innovation and commercial performance. We know that to be one of the best performing consumer products companies we need to leverage the broadest range of backgrounds, skills and capabilities, and create a fully inclusive, high-performing culture.

We want to shape broader societal change by promoting equality and an inclusive culture through our brands, in our industry, across our value chain, and in the communities where we live, work, source and sell.

Key elements of our approach

- Foster the creation of an inclusive culture
- Promote equality of experience for all employees
- Champion inclusion and diversity beyond our business

Celebrating our inclusive and diverse culture

We believe that an inclusive and diverse business is a better place to work – and a better performing business. Everyone should have the freedom to succeed, irrespective of their gender, race, religion, disability, age or sexual orientation.

Each of our markets has an inclusion and diversity plan and we have a global focus on developing a strong pipeline of female talent for all roles. This year, 39% of leadership roles in our business were held by women, taking us beyond the target we set for 2020, and towards our next milestone of 40% by 2025. 50% of our Board members and 38% of our Executive Committee members are women.

We also focus on ethnic diversity. This year, we began inviting employees in over 50 countries to confidentially disclose their ethnicity to help us understand the makeup of our workforce and develop plans and targets to ensure Diageo reflects local market demographics.

We are also learning through employee listening sessions in every market and through our external partnerships with organisations such as INVOLVE, Business in the Community (BITC), and as early signatories of BITC's Race at Work Charter.

Fostering inclusion through progressive policies and employee resource groups

We continue to build employee-led advocacy through active employee resource groups (ERGs), such as AHEAD (African Heritage Employees at Diageo) and Conectados (Diageo employees championing Latin culture) in the United States, REACH (Race, Ethnicity and Cultural Heritage) in the United Kingdom and the many chapters internationally of our Spirited Women and Rainbow Networks. These groups support their members and offer leaders the opportunity to understand the barriers and concerns of diverse communities both within and outside the organisation, so that we can develop progressive approaches to breaking down barriers. Many of these groups focus on building allies who can help champion change and inclusion. For the last two years we have supported a global INC. week, a week-long series of employee-led events, panels and workshops designed to help accelerate an inclusive culture through open and authentic conversations on issues and opportunities.

We also support inclusion through a range of progressive policies. Globally, for example, all new mothers are entitled to six months' fully-paid maternity leave, with all new fathers being entitled to a minimum of four weeks' paid paternity leave. In many markets – including the whole of North America and Europe, as well as Thailand, the Philippines, Singapore, Colombia, Venezuela, and Australia – parents have equal parental leave of up to 52 weeks.

We are proud that our progress is recognised by others. This year, we were named by Equileap as the top company globally for gender equality, ranked second in the Refinitiv Diversity and Inclusion Index and were listed in the Bloomberg Gender Equality Index.

Driving change beyond our business

To be true champions of inclusion and diversity, we need to use the scale and expertise of our business to make a difference in the communities around us and in society at large.

Inclusion and diversity are core elements of our community programmes, as described on page 28. Iconic brands including Guinness and Smirnoff have actively promoted inclusivity and equality in their advertising this year.

We continue to work with others to drive change. We are part of the United Nations Unstereotype Alliance, working with peers across industries to combat harmful stereotypes in advertising, and we are members of Open for Business, which advocates LGBTQ+ rights around the world. We sponsor the Creative Equals Returners programme, which supports women returning to the creative industries after a career break, and we are members of the World Federation of Advertisers' Diversity & Inclusion Taskforce.

We also directly support under-represented groups and communities, especially those in the hospitality industry who have been so badly affected by Covid-19. In June 2020, we created the $20 million Diageo Community Fund to help address the urgent needs of Black communities and businesses in the United States who have been disproportionately harmed by Covid-19.

Our people

We want all our employees to feel valued to make a meaningful contribution to our purpose and ambition. We shape market-leading policies and practices so that our people are engaged, empowered and proud of what they do.

Engaged, empowered and proud of what we do

We want our people to be the best they can be, have the freedom to succeed and feel valued for who they are. This year, given the unique challenges faced by all employees during the Covid-19 pandemic, we have found innovative ways to support and engage our people. As well as increasing opportunities for flexible working and enhancing our employee assistance programme, we have developed specific courses on topics related to health, safety and wellbeing.

Key elements of our approach

- Engage and empower our people
- Invest in our people's growth through learning and development
- Invest in leadership development to include a focus on fostering an entrepreneurial culture

A commitment to human rights, including employees' rights, underpins everything we do – see our policy framework on page 37

Staying engaged and responsive

Employee engagement is one of the overarching measures that define our progress.

Covid-19 restrictions challenged our ability to deliver our annual Your Voice engagement survey this year, so in its place we launched a pulse survey tool to help us measure engagement, listen to employees' feedback and learn from their experience of working during the pandemic. The response rate was 74%, with 91% of respondents reporting that they were 'proud to work at Diageo', and 86% confirming they would 'recommend Diageo as a great place to work'. We recognise that these results are not directly comparable year on year with our employee engagement index, which explores broader questions, but they are highly encouraging, both within the unique circumstances of this year and as part of our long-term drive to have fully engaged employees.

Investing in our people's future through training

Our new online learning management platform, My Learning Hub, is designed to help our employees, partners and distributors to be at their best, acquire new skills and develop a continuous learning culture that supports growth and progression (see case study, right).

Building leadership

We have always used a range of communications and leadership interventions to bring our strategy and purpose to life for employees. This year, our Chief Executive, senior leaders and employees from across the business have been closely involved in communicating our strategic priorities as part of our Performance Ambition, including through video stories and written guides on our Performance Ambition Hub.

We also moved our planned face-to-face leadership event to a virtual format and we are delivering engaging, global learning sessions on topics such as unleashing the power of teams and leading with pace and boldness. Like other measures we have taken since the pandemic began, we believe we have strengthened our business and culture by enhancing our ability to work flexibly and becoming more agile and responsive.

Our Sustainability & Responsibility Performance Addendum includes further information, including data on our employees by region, role and gender and new hires and leavers by gender

My Learning Hub was launched this year.

My Learning Hub: building critical skills for the future

We want our people to be equipped with the best capability and tools to seize growth opportunities and tackle new challenges. My Learning Hub, our training and skills platform which launched this year, gives employees everything they need for their own development, making it easy to find, use, share and comment on a huge range of learning options. These include world-class capabilities from across our global teams and from external resources.

Since we launched My Learning Hub, the number of employees engaged in self-learning has trebled, with 90% now enrolled in programmes. We are seeing thousands of our people use our Dignity at Work and Integrity at Diageo training, reinforcing our strong ethics culture. My Learning Hub has also been invaluable in the face of Covid-19 restrictions – we have launched dedicated channels including remote working and wellbeing resources.

Average number of employees by region by gender[(i)]

Region	Men	%	Women	%	Total
North America	1,583	60	1,055	40	2,638
Europe and Turkey	6,062	60	4,025	40	10,087
Africa	2,983	72	1,161	28	4,144
Latin America and Caribbean	1,700	63	1,002	37	2,702
Asia Pacific	6,101	74	2,103	26	8,204
Diageo (total)	18,429	66	9,346	34	27,775

Average number of employees by role by gender

Role	Men	%	Women	%	Total
Executive Committee	8	62	5	38	13
Senior manager[(ii)]	320	61	203	39	523
Line manager[(iii)]	2,381	69	1,071	31	3,452
Supervised employee[(iv)]	15,720	66	8,067	34	23,787
Diageo (total)	18,429	66	9,346	34	27,775

(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.

Pioneer grain-to-glass sustainability

For our business to be sustainable, it needs to create enduring value – for us and for those around us. We must positively impact the communities in which we live, work, source and sell and protect the natural resources on which we all depend.

Our continued long-term success depends on the people and planet around us. We recognise that poverty, inequality, climate change, water stress, biodiversity loss and other challenges threaten the environment and the prosperity of communities: a reality brought into sharp focus by Covid-19.

We aim to be pioneers, driving innovation and solutions that will benefit our business, our communities and the environment. That means working with our whole value chain – the people and resources that contribute to our success, from grain to glass.

Combating climate change and tackling the global water crisis are central to our strategy – read about our approach on pages 42-43

2030 ambitions: deeper connections and a stronger business

By showing leadership and by working with others, we aim to contribute to the delivery of the UN Sustainable Development Goals (SDGs) in the critical decade of action leading up to 2030, while giving our business a platform for sustained quality growth.

While the Covid-19 pandemic has delayed the launch of our full strategy for 2030 until later this financial year, it has also emphasised how important it is that we address issues that matter to our stakeholders and strengthen our business, deepening our connections with communities.

Building inclusive, thriving communities that work for everyone is key to this. It requires us to be global champions for water stewardship and vocal advocates for a low-carbon world. It also means going further in exploring circular economy approaches, so we can make more drinks with fewer materials.

At the same time, we aim to be more efficient, to reduce our costs, to build a more secure and resilient supply chain, and to attract and retain the best talent. Ultimately, this will help drive the trust, respect and commercial success that define our Performance Ambition.

We describe our work on embedding human rights throughout our value chain on page 36

We describe our engagement with stakeholders and our materiality process on page 32

Key elements of our approach

- Support thriving communities where we live, work, source and sell
- Build sustainable, resilient supply chains
- Champion water stewardship and a low-carbon world
- Minimise waste and develop circular economy solutions

Measuring our progress to 2020

Our pioneering ambition for grain-to-glass sustainability is supported by a comprehensive set of targets and objectives that help us drive, measure, and report transparently on our progress.

In 2015, we set a range of environmental and social targets for 2020 and we have since set other targets for renewable electricity and plastic packaging.

We report on our performance against our targets in full on pages 33-35

Supporting thriving communities where we live, work, source and sell

We aim to promote sustainable growth through inclusive programmes that provide equal access for all to resources, skills and employment opportunities.

Our largest programme is Learning for Life (L4L). L4L focuses on training in hospitality, retail and entrepreneurship. We have kept growing and broadening L4L, and this year developed content focused on the wellbeing of people working in the hospitality industry, on environmental sustainability and on the impacts of Covid-19 on the sector. When the pandemic began restricting face-to-face interactions, we offered our training online – enabling us to continue to build skills and support our communities despite lockdown measures. Through our range of skills programmes we have reached 6,600 people this year.

We also support communities by providing access to clean water, sanitation and hygiene (WASH) in water-stressed areas that supply our raw materials and support our business. These programmes contribute to SDG 6 (clean water and sanitation), while also helping to replenish the water we use in our products.

The Covid-19 pandemic has reinforced the importance of WASH for individual and community wellbeing (see case study on page 29).

Empowering programmes designed around inclusivity

Our community programmes aim to promote gender equality or empower people from under-represented groups.

Our impact has been enhanced by our strategic partnership with CARE International UK, which works to address the root causes of gender inequality in our value chain through research, programming and advocacy. We have also supported CARE International UK's emergency Covid-19 response to address the disproportionate effects of the crisis on women across the world.

We also run programmes specifically designed to empower women, and supported over 35,000 women this year. Initiatives include our programme for women in Maharashtra and Rajasthan in India who manufacture and sell sanitary pads for their communities, and women in self-help groups in Maharashtra who run 'water ATMs' providing clean, safe water.

Market dynamics

- Consumers want to 'drink better'
- Consumers expect businesses to act responsibly

Strategic outcomes

Consistent value creation,
Credibility and trust,
Engaged people

Alignment to UN SDGs

Progress in 2020

- A detailed description of our social and environmental performance is on page 32

Looking ahead to 2021

- Launch our social and environmental strategy and targets for the critical decade to 2030 (see page 32)
- Address where we have not met our 2020 targets, such as water quality and reducing packaging weight

Hear more about the work we have been doing to Pioneer Grain-to-Glass Sustainability

visit diageo.com

This year Diageo invested £18.9 million or 1.0% (2019 – 0.3%) of operating profit in community initiatives.

See our Sustainability & Responsibility Performance Addendum for further reporting on our community investments

Creating impact and opportunity in our supply chains

We rely on resilient, thriving supply chains for the raw materials we use to make our brands. At the same time, our supply chain connects us to communities all over the world where we have a clear opportunity to have a positive social and environmental impact, by creating economic opportunity, promoting human rights and improving agricultural and environmental practices through responsible sourcing.

Driving progress through standards

Our Partnering with Suppliers standard sets out the minimum social, ethical and environmental standards we require all suppliers to follow as part of their contract with us.

Our Sustainable Agriculture Guidelines (SAG) set out the standards we expect of suppliers of agricultural raw materials, and how they should work towards sustainable farming. We use the Sustainable Agriculture Initiative Platform's Farm Sustainability Assessment (FSA) tool to check compliance, with FSA's bronze rating being our minimum requirement. We also work through AIM-PROGRESS, a forum of leading consumer goods companies, and the not-for-profit SEDEX, which both allow suppliers to share assessments and audits of ethical and responsible practices.

Local sourcing and working directly with farmers

We work directly with farmers on a range of sustainable agriculture projects, and we aim to increase our positive impact by sourcing locally where possible. We assist smallholder farmers in a variety of ways, such as: training, access to seeds and fertilisers, micro-loans, and financial resilience support.

This year, we supported 78,600 farmers in Africa. We sourced 79% of agricultural raw materials locally within Africa for use by our African markets, compared with 82% last year. This percentage fell slightly as Covid-19 restrictions pushed us just below our target of 80%.

Reducing our environmental impact and protecting natural resources

We recognise that the threats to our environment are urgent and growing, which is why we are committed to a pioneering approach that combines action and advocacy on the issues that matter most to our stakeholders and to us.

Championing water stewardship and a low-carbon world

Combating climate change and its associated impacts on water stress and the environment are at the heart of our strategy. We are committed to de-carbonising our own operations and our value chain, and acting as advocates for a low-carbon world. Water stewardship is a longstanding strategic priority for us and we are focused on preserving this critical resource, particularly in water-stressed areas. Our approach to carbon emission reduction and water stewardship is described in Responding to climate-related risks, pages 42-43.

Taking action on waste

In the last three months of this year, we achieved zero waste to landfill at all our supply and office sites. We want to build on our use of circular economy approaches, push forward with our longstanding programmes to tackle packaging waste and make sure that more of what we do use is made from recycled material and can itself be recycled (see page 35).

See our Sustainability & Responsibility Performance Addendum for further reporting on our non-financial performance

Meeting our water replenishment target and supporting communities through Covid-19

Access to clean drinking water, sanitation and hygiene (WASH) can transform communities – especially when hand washing is such an important part of protecting people and communities from Covid-19.

WASH projects play an important role in our water replenishment programme, alongside key water-related projects such as tree planting and rehabilitating dams and ponds. This year we reached over 250,000 people in Africa and India through our WASH projects.

Our water replenishment programme targets areas where water scarcity is a critical issue. We are therefore particularly pleased that this year we achieved our 2020 target of replenishing the amount of water used in our final product in water-stressed areas. Water stewardship will remain a core part of our approach in the decade ahead.

$100 million fund to help our industry recover from Covid-19

In June, we launched a new global programme, 'Raising the Bar', to help pubs and bars recover from the effects of the Covid-19 pandemic. We are providing $100 million to support the recovery of major hospitality centres including New York, London, Edinburgh, Dublin, Belfast, Mexico City, São Paulo, Shanghai, Delhi, Mumbai, Bangalore, Nairobi, Dar es Salaam, Kampala and Sydney. The money will pay for the equipment neighbourhood pubs and bars need to enable them to re-open safely. Of this fund, $20 million will go to Black communities in the United States particularly affected by the pandemic.

We are also offering any bar, anywhere in the world, free access to digital training through the Diageo Bar Academy, which includes advice on how to implement social distancing, enhance hygiene measures and optimise their recovery.

We also supported customers, communities and healthcare systems where we live and work by: pledging over 10 million bottles of hand sanitiser to support frontline healthcare workers across more than 20 countries; donating to local charities and relief efforts; supporting bartenders' wages; and providing food vouchers and emergency assistance.

'Raising the Bar' will provide a $100 million global recovery package.

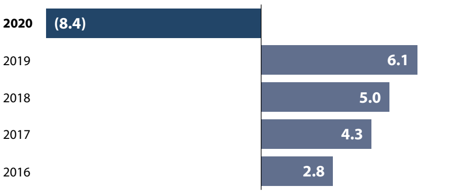
Monitoring performance and progress

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

Financial indicators

Organic net sales growth (%)

↓8.4%



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

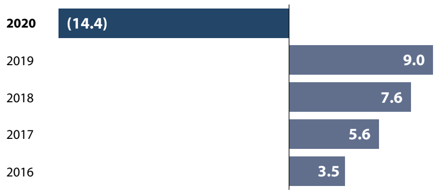
Why we measure
This measure reflects our performance as the result of the choices made in terms of category and market participation, and Diageo's ability to build brand equity, increase prices and grow market share.

Performance
Organic net sales declined 8.4%, driven mainly by an 11.2% reduction in volume partially offset by 2.8% positive price/mix. All regions reported declines in organic net sales except for North America.

More detail on page 45

Organic operating profit growth (%)

↓14.4%



Definition
Organic operating profit is calculated on a constant currency basis excluding the impact of exceptional items, certain fair value remeasurement, and acquisitions and disposals.

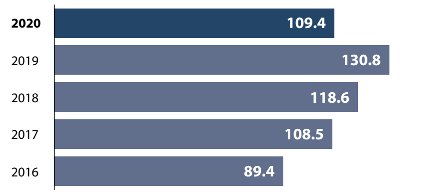
Why we measure
The movement in operating profit measures the efficiency and effectiveness of the business. Consistent operating profit growth is a business imperative, driven by investment choices, our focus on driving out costs across the business and improving mix.

Performance
Organic operating profit declined ahead of net sales at 14.4% with first half growth of 4.6% more than offset by impact of Covid-19 in the second half.

More detail on page 45

Earnings per share before exceptional items (pence)(i)

109.4p



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

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

Performance
Eps before exceptional items decreased 21.4 pence driven by decline in organic operating profit, lower income from associates and joint ventures, increased finance charges and the impact of acquisitions and disposals. These were partially offset by tax, lower non-controlling interests and the impact of the share buyback programme.

More detail on page 45

Non-financial indicators

Positive drinking

Educate 5 million young people, parents and teachers about the dangers of underage drinking	**1 million** 2019: 632,000
Collect 50 million pledges never to drink and drive through #JoinThePact(ii)	**25.3 million** 2019: 16.88 million
Reach 200 million people with moderation messages from our brands	**229.2 million** 2019: 66.02 million

See pages 24-25 for more information about our approach to pioneering positive drinking

Definition
We report against three indicators for positive drinking.

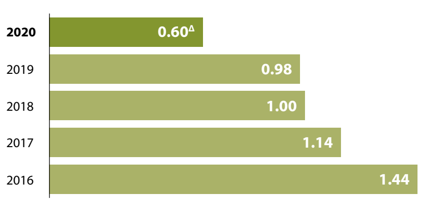
Why we measure
We want to change the way the world drinks for the better by promoting moderation and addressing the harmful use of alcohol. Our goal is for people to 'drink better, not more' – because we are proud of our brands and we know that the best way for them to be enjoyed is responsibly.

Performance
We launched a new Positive Drinking strategy in 2018 and this is the second year we have reported against these targets for 2025.

More detail on page 33

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

0.60Δ



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

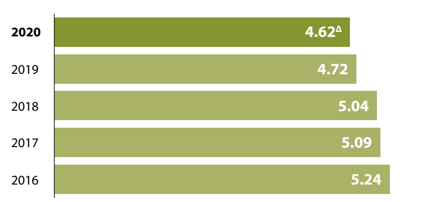
Why we measure
Health and safety is a basic human right: everyone has the right to work in a safe and healthy environment, and our Zero Harm philosophy is that everyone should go home safe and healthy, every day, everywhere.

Performance
We achieved a milestone safety performance level of 0.60 lost-time accidents (LTAs) per 1,000 employees, our lowest rate ever. This represents a 41% reduction in LTAs compared with 2019. We continued to focus on markets in particular need of support, delivering improvements by increasing compliance with our core standards and programmes. Our performance was helped by the sale of United National Breweries in South Africa, which had a higher LTA rate than Diageo's average.

More detail on page 36-37

Water efficiency(iii) (l/l)

4.62l/lΔ



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

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

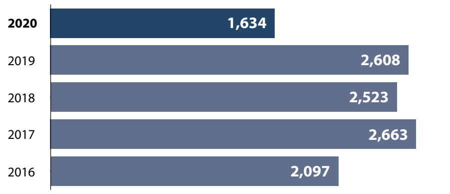
Performance
Water efficiency improved by 2.1%Δ compared to 2019 and by 46.0% versus our 2007 baseline. The impact of Covid-19 led to a reduction in packaged volume (which is a denominator in our water efficiency calculation) and a delay to key water recovery and reuse projects in East Africa and Nigeria. The benefits from these investments will be realised in future years.

More detail on page 34

Free cash flow (£ million)

EG R

1,634m



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

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

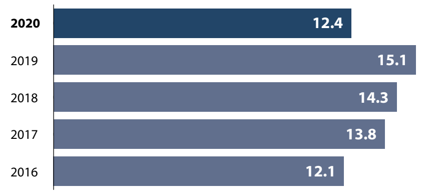
Performance
Free cash flow was £1,6 billion, primarily driven by the decline in operating profit, lower dividends from joint ventures and associates, increased use of working capital, higher tax payments and higher interest charges.

More detail on page 46

Return on average invested capital (ROIC) (%)

CVC

12.4%



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

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

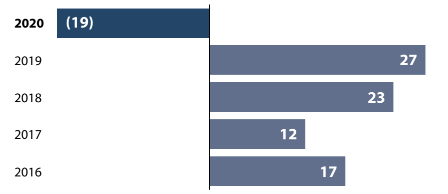
Performance
ROIC decreased 267bps against the prior comparable period driven mainly by organic operating profit decline.

More detail on page 46

Total shareholder return (%)

CVC R

(19)%



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

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

Performance
TSR was down 19% over the past 12 months driven by the lower year on year share price.

Carbon emissions(iv) (1,000 tonnes CO_2e)

CT

507$^{\Delta}$

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

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

Performance
Carbon emissions reduced by 8.7%$^{\Delta}$ in 2020, and cumulatively by 50.1% against our 2007 baseline, despite increased production volume.

More detail on page 34

Employee engagement (%)

CT EP

N/A

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

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

Performance
This year we were unable to conduct an annual Your Voice survey due to Covid-19. In its place we used a pulse survey tool to help us measure engagement, listen to employee feedback and learn from their experience of working during the pandemic. The survey had a response rate of 74%, with 91% reporting that they were 'proud to work at Diageo' and 86% confirming they would 'recommend Diageo as a great place to work'.

More detail on page 33

Relevance to our strategic outcomes:

- EG Efficient growth
- CVC Consistent value creation
- CT Credibility and trust
- EP Engaged people

Remuneration

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

See our Directors' remuneration report from page 84 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) Building on what we have learnt from our drink driving interventions and feedback from our stakeholders, we are evolving our approach to focus on education programmes that promote changes in attitudes as a way to tackle drink driving. As a result, fiscal 2020 will be our final year for #JoinThePact, and we will no longer include it in our reporting.

(iii) In accordance with Diageo's environmental reporting methodologies, data for each of the four years in the period ended 30 June 2019 has been restated where relevant.

(iv) In accordance with Diageo's environmental reporting methodologies and WRI/WBCSD GHG Protocol, data for each of the four years in the period ended 30 June 2019 has been restated where relevant.

Δ Within PwC's limited assurance scope. See page 184 for further details.

Our social and environmental performance

We have a comprehensive set of targets that help us drive, measure and report transparently on our progress. In 2015, we set a range of environmental and social targets for 2020. We have since set additional targets for positive drinking, renewable electricity and plastic packaging.

Proud of our progress, ambitious for the future

We believe our 2020 targets were among the most ambitious and stretching in our industry.

Building on the success of earlier targets, we were among the first companies to set our greenhouse gas (GHG) reduction targets in line with the principles of the Science Based Targets initiative and were an early adopter of absolute, rather than relative, GHG reduction targets.

As we close our 2020 targets this year, we are proud of the significant progress we have made – and are aware that we have more to do.

We have reduced our GHG emissions from direct operations by 509,000 metric tonnes since 2007, delivering our commitment to a 50% absolute reduction. We have also reduced emissions by 33.7% across our total value chain.

We have ensured that over 99.5% of our packaging is recyclable and achieved 45% recycled content in our packaging. In the last three months of this year, we achieved zero waste to landfill at all supply sites and offices.

We also sourced 79% of raw materials for our Africa business locally, narrowly missing our goal of 80%, having exceeded it in 2019. Our targets for supporting communities have helped to drive positive impacts for millions of people within and beyond our business, including, in 2020, supporting 250,000 people through our projects focused on clean water, sanitation and hygiene (WASH).

We delivered on our target for water replenishment in water-stressed areas and achieved a 46.0% improvement in water use efficiency. This represents significant progress, but Covid-19 affected us reaching our efficiency target of 50% due to delayed implementation of water recycling projects in Africa and lower packaged volumes in some markets.

Despite this significant progress, however, we have not achieved all our goals. As we reported last year, we have yet to achieve the full improvements we wanted in the quality of wastewater we discharge, for example, and we have found reducing the overall weight of our packaging by 15% more challenging than we expected. We provide full details of our performance on pages 34-35.

Taking forward what we have learnt

We have adapted our programmes over the years to improve their design as community needs, our business and the global context have changed.

In our communities work, a key improvement has been recognising that inclusion and gender equality should be built into every community programme, rather than treated as a separate objective.

We have also seen the importance of a holistic approach which draws on the strengths of the whole business and furthers the company's wider objectives. Our community WASH programmes, for example, have changed their impact by focusing on communities directly connected to our core business while supporting our successful drive to replenish water in water-stressed areas.

We have seen how important it is to have total alignment within the business and strong sponsorship from leaders, as well as effective execution. We have also learnt that early investment in infrastructure and a process of continuous improvement are key to success.

Finally, we have seen how we can increase our impact through long-term, strategic NGO partnerships with organisations like CARE International UK and WaterAid.

Committed to a decade of action

We are developing our strategy to address our most material issues and support the delivery of the UN Sustainable Development Goals (SDGs) over the critical decade to 2030. While the launch of our strategy and targets has been delayed by Covid-19 until later this fiscal year, we are clear on our direction of travel and our overall goals. We know we must be leaders in promoting positive drinking, and be global advocates for water stewardship and a low-carbon world. We must champion inclusion and diversity within and beyond our business, and make sure we contribute to building inclusive, thriving communities wherever we live, work, source and sell. We will go further in pioneering sustainability, including through encouraging regenerative agriculture and driving circular economy approaches.

Our strategy will continue to be based on the knowledge that our future success is intertwined with the success of those around us. In line with that thinking, in June 2020 we announced our 'Raising the Bar' programme – a $100 million recovery fund to support pubs and bars as they welcome customers back following the Covid-19 pandemic.

See pages 28-29 for more information.

Developing our 2030 sustainability and responsibility strategy

A rigorous materiality assessment

Examination of external trends shaping our operating environment; alignment to UN SDGs in the critical decade ahead

Extensive engagement with internal and external stakeholders

Findings explored through:
- Regional multi-function internal stakeholder workshops in Bangalore, London, Nairobi, New York and Singapore
- A detailed workshop with full Diageo Executive Committee
- Engagement with Diageo Board

Our areas of focus for the next decade

4 Promote positive drinking
- Promoting moderation
- Ensuring responsible marketing and retailing of alcohol
- Preventing harmful use of alcohol

5 Champion inclusion and diversity
- Including and empowering women, minorities and other under-represented groups
- Fostering an inclusive and diverse culture

6 Pioneer grain-to-glass sustainability
- Mitigating or adapting to climate change
- Ensuring access to clean water, sanitation and hygiene
- Reducing or eliminating waste
- Protecting the natural ecosystems our business relies on and strengthening security of raw material supply chains
- Supporting good livelihoods and working conditions

Built on the foundations of doing business the right way from grain to glass through a strong commitment to human rights and good governance.

Performing against our social targets

Positive drinking (2025 targets, cumulative progress)

Educate 5 million young people, parents and teachers about the dangers of underage drinking *UN SDG alignment 3.5; 12.8; 17.16*	1 million
Collect 50 million pledges never to drink and drive through #JoinThePact[i] *UN SDG alignment 3.6; 12.8; 17.16*	25.3 million
Reach 200 million people with moderation messages from our brands *UN SDG alignment 3.5; 12.8; 17.16*	229.2 million

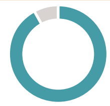
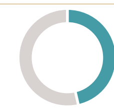
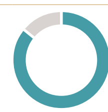
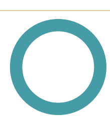
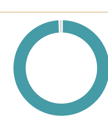
See pages 24-25 for more information about our approach to pioneering positive drinking

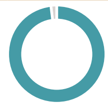
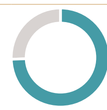
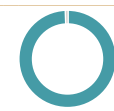
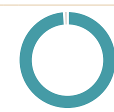
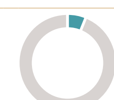
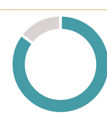
Our 2020 target	KPI	Progress	Commentary
Inclusion and diversity			
Build diversity, with 35%[ii] of leadership positions held by women by 2020 (40% by 2025) and measures implemented to help female employees attain and develop in leadership roles. *UN SDG alignment 5.5; 8.1; 10.2; 10.4*	**% of leadership positions held by women.**	39%	This year, 39% of leadership roles in our business were held by women, taking us beyond the target we set for 2020, and towards our next milestone of 40% by 2025. Each of our markets has an inclusion and diversity plan which includes a focus on developing a strong pipeline of female talent for all roles.
Our people			
Increase employee engagement to 80%, becoming a top quartile performer on measures such as employee satisfaction, pride and loyalty.	**Employee satisfaction, loyalty, advocacy and pride, measured through the Your Voice survey.**		We did not conduct our Your Voice survey because of Covid-19. In its place we used a pulse survey tool to help us measure engagement, listen to employees' feedback and learn from their experience of working during the pandemic. The survey had a response rate of 74%, and 91% reported that they were 'proud to work at Diageo', with 86% confirming they would 'recommend Diageo as a great place to work'. While these results are not directly comparable year on year with our employee engagement index we are encouraged by this strong response.
Inclusive communities			
Our community programmes enable those who live and work in our communities, particularly women, to have the skills and resources to build a better future for themselves. We will evaluate and report on the tangible impacts of our programmes.	**Number of people reached through skills and empowerment programmes.**	6,600	Our skills programmes have reached more than 146,000 people since 2008, with typically more than 70% gaining permanent jobs. We helped more than 6,600 people around the world this year. While the Covid-19 pandemic has meant we reached fewer people this year than planned, we have adapted our flagship Learning for Life programme to an online format, as described on page 28.
	Number of people reached through community water, sanitation and hygiene (WASH) programmes.	250,000	We have supported WASH programmes in 11 countries this year, benefitting more than 250,000 people.
UN SDG alignment 1.2; 4.4; 5.5; 5.A; 6.1; 6.B; 8.1; 8.6; 10.2; 17.16	**Number of women empowered by our programmes.**	35,000	We have empowered over 35,000 women through our programmes, including those related to entrepreneurship and menstrual health, taking the total empowered since our programmes began to 435,000.
Sustainable supply chains			
Deliver our responsible sourcing commitments with suppliers to improve labour standards and human rights in our supply chains. *UN SDG alignment 8.7; 8.8*	**% of potential high-risk supplier sites audited.**	82%	This year, 1,261 of our supplier sites assessed as a potential risk completed a SEDEX self-assessment. Of these, 412 were assessed as a potential high risk, with 82% independently audited over the past three years. Of these audits, we commissioned 263, while 73 audits came through SEDEX or AIM-PROGRESS mutual recognition audits. 152 of these audits were conducted in the past year.
Source 80% of our agricultural raw materials locally in Africa by 2020. *UN SDG alignment 8.3; 12.3*	**% of agricultural raw materials sourced locally in Africa.**	79%	We sourced 79% of agricultural raw materials locally within Africa for use by our African markets, compared with 82% last year. This percentage fell slightly as Covid-19 restrictions pushed us just below our target of 80%.
Establish partnerships with farmers to develop sustainable agricultural supplies of key raw materials. *UN SDG alignment 2.3; 2.4; 8.3; 12.2; 12.3*	**Number of smallholder farmers supported.**	78,600	We support more than 78,600 farmers in Africa in a variety of ways, including training, access to seeds and fertilisers, micro-loans and financial resilience support.

(i) Building on what we have learnt from our drink driving interventions and feedback from our stakeholders, we are evolving our approach to focus on education programmes that promote changes in attitudes as a way to tackle drink driving. As a result, fiscal 2020 will be our final year for #JoinThePact, and we will no longer include it in our reporting.
(ii) We increased the 2020 target from 30% to 35% in 2017.

For our human rights and health and safety targets, see pages 36-37.

Performing against our environmental targets(i)

Our 2020 target	KPI	Performance	Progress	Commentary
Water stewardship				
Reduce water use through a 50% improvement in water use efficiency *UN SDG alignment 6.4*	**% improvement in litres of water used per litre of packaged product**	2.1%Δ 2020 **46.0%** **Cumulative**		We are proud of the progress we have made on water stewardship and achieving a 46.0% improvement in water use efficiency, although we have fallen short of our 2020 target. This cumulative progress has been made through continuous improvement and innovation projects in our operations worldwide. This year, the impact of Covid-19 included a reduction in packaged volume (which is a denominator in our water efficiency calculation) and a delay to the commissioning of key water recycling and reuse facilities in East Africa and Nigeria. The benefits from these investments will be realised in future years. This year, 16,692m^3 of water were used for agricultural purposes on land under our operational control. We report this separately from water used in our direct operations. The volume of water we recycled or reused in our own production was 541,300m^3, representing 3.3% of total water withdrawals.
Return 100% of wastewater from our operations to the environment safely *UN SDG alignment 6.3; 6.6*	**% reduction in wastewater polluting power measured in BOD ('000 tonnes)**	6.8%Δ 2020 **46.4%** **Cumulative**		As indicated in last year's report, we did not meet this target by the 2020 deadline but are encouraged by the progress we have made in the last 12 months. We continue to meet all regulatory requirements on wastewater at our sites and 90% of sites have achieved our 2020 target. We recognise the importance of returning water to the environment at an equal or better quality than the water we abstract and will continue to explore circular approaches to water use.
Replenish the amount of water used in our final product in water-stressed areas *UN SDG alignment 6.1; 6.2; 6.6; 6.B; 3.2; 15.1*	**% of water replenished in water-stressed areas (m^3)**	39.5% 2020 **116%** **Cumulative**		Significant progress this financial year has resulted in us replenishing 1,400,000m^3 of water, meaning that we have exceeded our cumulative target: we have replenished 116% of the total water used in our final product in water-stressed sites, representing 21.5% of total water used in water-stressed sites. This remains vital work and an area of focus for 2030.
Equip our suppliers with tools to protect water resources in our most water-stressed locations *UN SDG alignment 6.1; 6.A; 6.B; 15.1; 17.16*	**% of key suppliers engaged in water management practices**	86% 2020		We engaged 144 suppliers to disclose their water management practices through CDP's Supply Chain Water Programme, with an 86% response rate.
Carbon				
Reduce absolute greenhouse gas emissions from direct operations by 50% *UN SDG alignment 7.2; 7.3; 12.6; 13.3*	**% reduction in absolute GHG (kt CO_2e)**	8.7%Δ 2020 **50.1%** **Cumulative**		We are proud to have achieved this stretching and important target, with an 8.7%Δ decrease in GHG emissions this year. In addition to continuous improvement at our operations and switching to lower carbon fuel, we have purchased renewable energy attribute certificates to support our carbon strategy. Achieving this target is a significant milestone, and we will build on it as we continue to decarbonise our business. As a signatory to the RE100 global initiative committed to 100% renewable electricity, we aim to source 100% of our electricity from renewable sources by 2030. This year, 65.5% of electricity consumed was from renewable sources such as wind, hydro and solar (2019 – 45.4%), therefore exceeding our 2025 interim target of 50%. In the United Kingdom, 100% of our electricity came from renewable sources. We use the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol as a basis for reporting our emissions, and we include all facilities where we have operational control for the full financial year. Diageo's total direct and indirect carbon emissions (location/gross) this year were 710,986Δ tonnes (2019 – 746,769 tonnes), comprising direct emissions (Scope 1) of 567,081 tonnes (2019 – 599,043 tonnes), and indirect (Scope 2) emissions of 143,905 tonnes (2019 – 147,726 tonnes). The intensity ratio for this year was 199Δ grams per litre packaged (2019 – 185 grams per litre packaged).(ii)
Achieve a 30% reduction in absolute greenhouse gas emissions along the total supply chain *UN SDG alignment 7.2; 7.3; 7.A; 12.6; 13.3; 17.16*	**% reduction in absolute GHG (kt CO_2e)**	5.5% 2020 **33.7%** **Cumulative**		Our global effort across the total value chain to reduce GHG emissions has meant that we have achieved our 2020 target, with a 33.7% reduction in emissions in our total supply chain since the programme began. Our total supply chain carbon footprint this year was 2,922,538 tonnes, a 5.5% improvement on 2019. This year we received responses from 88% of the 229 suppliers we engaged through the CDP and 51% of these suppliers reported that they had emissions reduction targets. Reducing our supply chain footprint is a key element of our decarbonisation strategy and will continue to be a focus in the years ahead.
Ensure all our new refrigeration equipment in trade is HFC-free, with a reduction in associated greenhouse gas emissions from 2015 *UN SDG alignment 12.6*	**% of new equipment sourced HFC-free from 1 July 2015**	100% 2020 **99.5%** **Cumulative**		Eliminating HFCs plays a role in reducing our overall carbon footprint. 99.5% of the 53,000 fridges we have bought since July 2015 were HFC-free. Since 2017 100% of the fridges we have bought were HFC-free and this remains an ongoing policy.

Our 2020 target	KPI	Performance	Progress	Commentary
Waste				
Achieve zero waste to landfill *UN SDG alignment 12.5; 12.6*	**% reduction in total waste to landfill (tonnes)**	39.0%Δ 2020 **98.2%** **Cumulative**		In the last three months of this year, we achieved zero waste to landfill at all our supply and office sites, an important milestone in our ambition to be a zero-waste business(ii). Our progress has been driven by continuous improvement at our sites and by close collaboration with partners.
Packaging				
Reduce total packaging by 15%, while increasing recycled content to 45% and making 100% of packaging recyclable	**% of total packaging (by weight)**	0.4% 2020 **11.2%** **Cumulative**		We have made good progress in some areas, but as we reported last year we have found this target challenging and it will remain in place beyond 2020.
	% of recycled content (by weight)	5.3% 2020 **45.8%** **Cumulative**		We have met our commitment to increase recycled content in our packaging, attaining 45.8% recycled content against a 45% target. Including returnable glass volumes drives the total recycled content of our packaging to 51.4%. We remain committed to reducing the impact of our packaging and will continue to work with suppliers and other partners to provide customers and consumers with formats that advance recycling and a circular economy approach.
	% of packaging recyclable (by weight)	0.8% 2020 **99.5%** **Cumulative**		Following another year of progress we have moved to within 0.5% of our target. It is not currently possible to replace the remaining non-recyclable components, but we will continue to explore alternatives for these residual materials in addition to ensuring all our packaging is widely recyclable.
Sustainably source all of our paper and board packaging to ensure zero net deforestation *UN SDG alignment 12.2; 12.6*	**% of sustainably sourced paper and board packaging**	99% 2020		We define 'sustainably sourced' as Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) certified, or recycled fibre. This year, we engaged all of our 251 suppliers, with 98% responding. Collectively these suppliers have self-reported that 99% of the paper and board packaging they supply meets our sustainable sourcing criteria. Reduced demand due to Covid-19 limited our ability to meet the full 100%, which we were on track to reach.
Our 2025 packaging (plastic) targets(iii)				
Achieve 40% average recycled content in all plastic bottles (and 100% by 2030) *UN SDG alignment 12.5; 12.6*	**Tonnes (metric) of recycled content/ total tonnes of plastics used**	2.5% 2020 **2.5%** **Cumulative**		In our second year of reporting against this target, we have delivered several opportunities to increase the use of recycled content in plastic (PET) bottles. In North America, for example, Seagram's 7 Crown American whiskey moved all its PET formats to 100% recycled plastic bottles from January 2020. The full impact of the Seagram's 7 project and other projects in the pipeline will advance us towards 40% recycled content by 2025 and 100% by 2030. While just 2% of our packaging is made from plastic (PET), we nonetheless consider this an important target.
Ensure 100% of our plastics will be designed to be recyclable, reusable or compostable in countries where we operate *UN SDG alignment 12.5; 12.6*	**Tonnes (metric) plastics widely recyclable (or reusable/ compostable)/ total tonnes of plastic used**	4.3% 2020 **85.3%** **Cumulative**		We continue to work on pack designs with our suppliers and other partners to remove non-recyclable plastics from our products and to promote better recycling infrastructure in selected markets. This year we eliminated approximately 500 tonnes of non-recyclable plastics.

(i) Baseline year is 2007 except for packaging which is 2009 and water replenishment which is 2015.
(ii) Please refer to our reporting methodologies for more information on how data has been compiled, including standards and assumptions used.
(iii) These targets were introduced in 2018.
Δ Within PwC's limited assurance; see page 184 for further details.

Doing business the right way from grain to glass

Doing the right thing, in the right way, is the foundation of our business. That means embedding respect for human rights into the way we work, every day, everywhere. We consider health and safety as a fundamental human right – and the health, safety and wellbeing of our employees is our highest priority.

Making respect for human rights everyone's business

Respect for human rights should be a part of everyone's working day, as enshrined in our Code of Business Conduct. We are continuing to embed human rights into every function of our business, in every country, as part of our commitment to the UN Guiding Principles on Business and Human Rights (UNGP), which we signed in 2014.

We have a well-developed policy framework that addresses human rights and our commitment to integrity. We will not work with anyone who does not align with these standards. We use our comprehensive human rights impact assessment (HRIA) process, which considers our entire value chain, and our Responsible Sourcing programme as part of our risk monitoring process.

In line with the UNGP, we have identified three external risks as particularly salient to our business: labour rights, including the risk of child labour, especially in agricultural supply networks; labour standards for contract workers; and sexual harassment in the hospitality sector. In response, we have developed a child protection toolkit for all markets where we source from smallholder farmers, to train employees who visit farms about risks to children's safety. We have also delivered training on human rights with a specific focus on modern slavery to our procurement teams and a selection of key roles within the business. Our modern slavery statement is set out on our website. We introduced a Global Brand Promoter Standard in all our markets to protect brand promotion teams from harassment. Our governance process checks that this standard is included in agency contracts and that promoters receive relevant training.

Strengthening our approach

Embedding human rights is a continuous and evolving process. This year, for example, we began integrating the findings of our HRIAs into the overall Diageo risk management process, and we will continue to build on this in the next financial year. Helping our people understand the nature of our business risks and human rights generally is also critical to our success, and we have developed human rights training for all Diageo employees, which we launched on our new online My Learning Hub (for more details on My Learning Hub see the case study on page 27).

We also understand the importance of reviewing our HRIA process to ensure it remains relevant. Applying a gender lens to HRIAs, for example, is critical. We have updated our approach to ensure the voices of women in our supply chain are fully heard throughout the assessment process, building more criteria into our country context reviews and exploring more assessment techniques such as women-only interviews with stakeholders.

Milestones this year

- HRIAs conducted in North America (United States/Canada), Middle East (first phase), China and Australia; and action plans developed to address salient risks
- Human rights training focused on modern slavery rolled out to our procurement teams and other key roles

Progress against 2020 human rights target

Our 2020 target	KPI	Overall progress
Human rights		
Act in accordance with the UN Guiding Principles on Business and Human Rights, by carrying out HRIAs in all markets	**Number of markets in which we have carried out human rights impact assessments (HRIAs).**	17 of 21 markets On track until Covid-19; target extended to December 2021.

Health and safety

Our global Health and Safety strategy aims to address the wellbeing and the safety of our people. At its heart is our global Zero Harm programme, which is designed to ensure that everyone goes home safe and healthy, every day, everywhere.

Our relentless focus on our Severe and Fatal Incident Prevention (SFIP) programme, specifically designed to identify and effectively control severe and fatal risks in our operations, has driven industry-leading progress within Diageo. But we are deeply saddened to report that an employee died in a traffic accident in Tanzania. We have, however achieved our lost-time accident (LTA) target of less than one per 1,000 employees for the third year in a row, at 0.60$^{\Delta}$. Our independent contractors recorded 16 LTAs this year, a significant improvement on 24 in 2019.[i] Our performance was helped by the sale of United National Breweries (UNB) in South Africa, which had a higher LTA rate than Diageo's average. To keep our people informed and help them manage their physical and mental health during the pandemic, we launched a number of new health and wellbeing resources and engagement campaigns, including a virtual mental health awareness week.

This year, we introduced a new, broader total recordable accident (TRA) target of achieving 3.5 or fewer per 1,000 employees and site-based third-party contractors, and we achieved a strong rate of 2.12. This indicator has enabled markets to apply the same rigour to finding the root causes of all levels of accidents and near misses, which helps predict and prevent more serious accidents and illnesses. There is no acceptable level of accidents, and we want to continue to accelerate our health and safety culture and performance. Our aim is to

(i) We do not report an LTA rate for independent contractors due to the difficulty and administrative burden in accurately recording headcount.

develop targets and performance measures for 2025 which combine leading and lagging health and safety indicators. At the same time, we are continuing to focus on improving our best practice culture and developing people's capabilities.

We are also working more closely with our contractors to ensure they are aligned with our expectations around Zero Harm and will be including more specific health and safety requirements in future service level agreements.

Progress against 2020 health and safety target

Our 2020 target	KPI	Overall progress
Health and safety		
Keep our people safe by achieving less than one lost-time accident (LTA) per 1,000 employees and no fatalities	**Number of LTAs**	0.60[Δ] LTAs per 1,000 employees
	Number of fatalities	1 work-related fatality
	Number of TRAs (new KPI this year)	2.12 TRAs per 1,000 employees and site-based third-party contractors
UN SDG alignment 3.9; 8.8		

2020 safety data by region	Employee LTA rate	Employee TRA rate	Independent contractor LTAs[i]	Fatalities[ii]
North America	0.31	2.21	0	0
Europe and Turkey	1.03	2.15	6	0
Africa	0.35	2.42	6	1
Latin America and Caribbean	1.56	2.51	1	0
Asia Pacific	0.30	1.65	3	0
Diageo (total)	**0.60[iii]Δ**	**2.12**	**16**	**1**

(i) We do not report an LTA rate for independent contractors due to the difficulty and administrative burden in accurately recording headcount.
(ii) Fatalities include any employee work-related fatality arising in their day-to-day work environment, or any work-related fatalities occurring to third parties and contractors (non full-time employees) while on Diageo's premises.
(iii) Our performance was helped by sale of United National Breweries (UNB) in South Africa, which had a higher LTA rate than Diageo's average. Previous year baseline data is not restated for health and safety.
Δ Within PwC's independent limited assurance scope.

Non-financial information statement

Focus area	Relevant policies and standards	Read more in this report	Page
Positive drinking	– Marketing and Digital Marketing Policy – Employee Alcohol Global Policy – Position papers	– Promote positive drinking – Performing against our social targets	24-25 33
Our employees	– Code of Business Conduct – 2019 Great Britain Gender Pay Report – Human Rights Global Policy	– Champion inclusion and diversity – Our people – Performing against our social targets	26 27 33
Grain-to-glass sustainability	– Environmental Global Policy – Sustainable Agriculture Guidelines – Sustainable Packaging Commitments – Water Blueprint – Partnering with Suppliers Standard	– Pioneer grain-to-glass sustainability – Performing against our environmental targets – Responding to climate-related risks	28-29 34-35 42-43
Human rights	– Human Rights Global Policy – Modern Slavery Statement – Global Brand Promoter Standard	– Doing business the right way from grain to glass	36
Health and safety	– Health, Safety and Wellbeing Global Policy	– Doing business the right way from grain to glass	36-37
Anti-bribery and corruption	– Code of Business Conduct	– Effective risk management	41
Our contribution to the SDGs		– Performing against our social targets – Performing against our environmental targets	33 34-35

Effective risk management

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

Our approach

We believe that great risk management starts with the right conversations to drive better business decisions. Our focus is to identify and embed mitigation actions for material risks that could impact our current or future performance, and/or our reputation. Our approach is holistic and integrated, bringing together risk management, internal controls and business integrity, ensuring that our activities across this agenda focus on the risks that could have the greatest impact.

Accountability for managing risk is embedded into our management structures. Each market and function undertakes an annual risk assessment, establishes mitigation plans and monitors risk on a continual basis. Similarly, our Executive Audit & Risk Committee regularly assesses risk and the Board independently reviews the assessment. This Committee meets quarterly and received regular reports on the risks faced across the business and the effectiveness of the actions taken to mitigate these risks. We use internal and external data to monitor our risks and to make proactive interventions. We also establish cross-functional working groups and draw on the advice of experts where necessary to ensure significant risks are effectively managed, and where appropriate escalated to the Executive and Board for consideration.

Further details about our risk management approach are described in the Corporate governance report on page 72 and in the Audit Committee report on page 81.

Focus in the year

The Executive and Board considered the group's principal risks and reviewed our risk appetite, setting the level of risk tolerance we have for risks that could impact delivery of our strategic objectives. Examples of risks for which we have zero appetite include risks that could: harm our people; impact product quality; cause us to market irresponsibly or otherwise act without integrity; and be non-compliant with laws and regulations, including those relating to financial reporting.

Our principal risks remain unchanged and continue to reflect a challenging external environment.

Emerging risks

There continues to be a focus on identifying and assessing potential emerging risks. These can be newly identified risks or known risks that have evolved over time. The Executive and Board formally review emerging risks. Our corporate strategy team undertakes horizon-scanning to monitor any potential disruptions that could dramatically change our industry and/or our business, from both a risk and opportunity perspective, for the Executive and the Board to understand the changing landscape and take appropriate actions. We perform scenario planning and draw on external thinking and research to consider the changes around us to understand how our risk profile could change over a longer time period.

Risks relating to sustainability and climate change continue to evolve and a deeper review of this risk and the actions we are taking is provided in pages 42-43.

The Covid-19 pandemic is considered in this report as an emerging risk. Where appropriate, actions to mitigate risks associated with Covid-19 that are related to existing principal risks have been built into the mitigation strategies for those principal risks.

Responding to the Covid-19 pandemic

The Covid-19 pandemic has created multiple different risks for our business. The spread has been rapid and the impact to the global economic outlook remains uncertain. Protecting our people and our business and supporting our suppliers, customers and communities have been at the forefront of our response to the pandemic. Risk mitigations have been agile and effective with support and oversight by the Board.

An Executive Working Group, supported by local crisis management teams in our markets, has developed risk mitigation actions to protect our people that included best practice protocols aligned with government strategies and our people's safety. Robust employee safety protocols were implemented including having all employees who were able to do so working remotely, and heightened sanitation measures and restrictions on movement to and from our production and warehousing sites. Pay principles were implemented to support employees globally.

Protocols for a safe return to work have been developed and are being implemented on a location-by-location basis in line with government guidelines and ensuring an environment that supports our employees' well-being and safety as the primary concern.

Our business performance has been impacted by the containment actions adopted by governments around the globe as they seek to mitigate the impact of the pandemic, and the resulting disruption and economic effect on our consumers, customers and suppliers. The potential impacts and mitigation plans of Covid-19 have been built into several of our principal risks on the following pages. Further actions we are taking to protect our business and support our partners and communities are also described within the Strategic report.

EG Efficient growth · CVC Consistent value creation · CT Credibility and trust · EP Engaged people · V Risk included in viability assessment

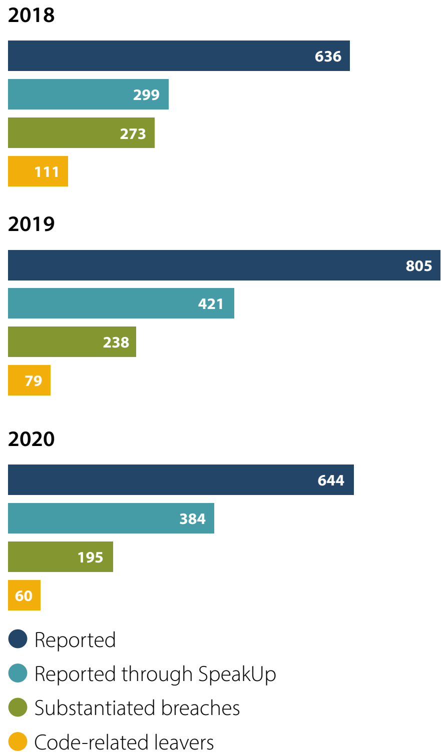
For more information on our strategic priorities and outcomes, please see pages 17-29.

Risk	Impact	How we mitigate	Developments in 2020
1 Regulatory restrictions and indirect tax Fiscal pressures and/or failure to address perceived growth in anti-alcohol sentiment. EG CVC CT V	– Regulators in major markets impose indirect tax increases, trade barriers and/or restrictions on marketing and availability. – Damage to our corporate reputation.	– Multi-year public policy plans, regulatory policy risk tracking and economic modelling. – Positive drinking programmes supported by a global industry platform to promote responsible drinking. – Evidence-based engagement to build trust and reputation with governments and other stakeholders. – Capability building on government affairs, alcohol policy and campaigning.	– Trade wars and protectionism have added pressure on tariffs and international trade relations. Volatility and uncertainty in the external policy environment, particularly in light of Covid-19 and ongoing anti-alcohol sentiment, continue to put pressure on indirect taxation and regulation. – We are well placed to manage risks. We have improved our analysis and evidence based, public policy campaigning and enhanced our network of stakeholders. – We have strengthened our capability in navigating marketing and availability regulations, including e-commerce. – We are at the forefront of industry initiatives in promoting positive drinking, and have rapidly adapted to encourage responsible drinking at home and other responsible initiatives during the Covid-19 pandemic.
2 Economic change Significant local volatility or upheaval, uncertainty or failure to react quickly enough to increasing volatility, including pandemics and the United Kingdom's exit from the EU. EG CVC V	– Social unrest, liquidity issues, generalised downturn, currency instability, inflationary pressures, possible changes to customs duties and tariffs and/or eroded consumer confidence, impacting business forecasting and/or performance.	– Local and global monitoring of key business drivers and performance to prepare for rapid changes. – Group-level strategic analysis and scenario planning to strengthen market strategies and risk management. – Strategic business reviews by Chief Executive and senior executives of local strategies. – Multi-country investment strategy, and local sourcing strategies. – Hedging strategy and currency monitoring. – Economic data is regularly monitored, analysed and updated and fed into our models.	– The Covid-19 pandemic has created extreme volatility in the short term as a result of the social restrictions implemented across the world. The impact of the virus on economic conditions over the medium-term (one to three years) is highly uncertain, in sharp contrast to the stable and growing GDP performance across most markets experienced in recent years. As a result, volatility is likely to increase significantly as many markets, both developed and emerging, will face challenging economic conditions and higher levels of unemployment leading to reduced consumer spending. To mitigate these challenges we will be regularly gathering data and obtaining insights which will enable us to assess conditions in the markets where we operate and amend our forecasts and investment decisions appropriately, both in individual markets and at a global level. In the short term we have reduced the planning horizon to three to six months from twelve months consistent with the current levels of uncertainty. We continue to assess multiple scenarios over the longer term to ensure ongoing viability/liquidity in all eventualities and to ensure our preparedness to invest as conditions improve.
3 Critical industry developments Failure to shape or participate in critical consumer, customer, channel and/or industry trends could threaten our leadership position and/or revenue streams. EG CVC CT V	– Consumers move away from our brands to alternative products. – Failure to identify and exploit rapidly growing channels means our products are not on the shelf. – Less efficient business model compared to key competitors.	– Highly diversified portfolio of brands to ensure coverage of consumer occasions, trends and price points. – Rigorous processes of strategy and innovation development at corporate and market level. – Systematic review of emerging consumer and route to consumer trends at market and brand level, including growth of disruptive digital technologies. – We focus our innovation on our strategic priorities and the biggest consumer opportunities through global brand extensions and new-to-world products.	– The social distancing measures deployed in response to the Covid-19 pandemic have had a significant impact on where and how people purchase and consume alcohol. In particular, the on-trade has faced significant disruption globally leading to higher consumption in the home which has been coupled with a shift to on-line purchasing. These trends are likely to continue to some degree after social restrictions are eased. We will continuously assess consumer trends and shifting behaviours and are well positioned to remain agile and continue to flex commercial strategies. – We are working closely with our e-commerce partners and customers for financially beneficial and globally consistent e-commerce solutions.
4 Non-compliance with laws and regulations Non-compliance with local laws or regulations, or breach of our internal global policies and standards and/or significant internal control breakdown. EG CVC CT EP	– Severe damage to our corporate reputation and/or significant financial penalty.	– Code of Business Conduct and supporting policies and standards set out compliance requirements. – Risk assessment framework to identify, assess and monitor business and compliance risks. – Regular training, communications, annual certification and engagement activities to embed employee understanding. – Well-embedded Sarbanes-Oxley and Committee of Sponsoring Organizations control assurance programme. – Global third party due diligence process supported by technology and central oversight.	– Creation of a new Chief Business Integrity Officer role and supporting team to elevate the critical role that ethical decision-making plays in our overall governance framework. – We refreshed our Code of Business Conduct and introduced a new Dignity At Work policy. – We delivered interactive Code of Business Conduct e-learning training sessions. – New interactive leadership engagement tool to further embed compliance understanding and capability.
5 Sustainability and responsibility Failure to manage climate change risk, particularly water stress, or to meet key sustainability goals. EG CVC CT EP V	– Reduced revenues and profits via increased taxation, regulation and supply chain volatility. – Damage to trust and reputation amongst consumers and other stakeholders.	– Sustainability and responsibility strategy credible with stakeholders and operationalised, delivering against majority of 2020 targets. – Resource scarcity issues identified and mitigations in place, including water, agricultural raw materials and energy. – Human rights interventions delivering against UN Guiding Principles and United Kingdom's Modern Slavery Act requirements. – Key external partnerships in place to strengthen delivery and strategy.	– Achievement of the majority of sustainability and responsibility targets. – 2030 strategy being developed. – Cross-functional Climate Risk Steering Group continuing to develop approach to climate change risk reporting, guided by Task Force on Climate-related Financial Disclosures (TCFD) recommendations. – Water Blueprint continuing to be embedded with suppliers. – Human rights impact assessments in North America (United States/Canada), Middle East (first phase), China and Australia (see page 36). – Second full year of progress against 2025 positive drinking targets, focused on moderation and reducing harm (see page 33).

EG Efficient growth · CVC Consistent value creation · CT Credibility and trust · EP Engaged people · V Risk included in viability assessment

Risk	Impact	How we mitigate	Developments in 2020
6 Cyber threat Theft, loss and misappropriation of our most important digital assets. EG CVC CT EP	– Financial loss, operational disruption and reputational damage.	– Enterprise-wide cyber risk management processes and policies. – Information Security committee governs, tracks and reports risk and compliance activities. – Comprehensive IT controls framework extends to manufacturing facilities. – Rigorous approach to third party risk management. – Mandatory global e-learning and regular phishing exercises for all employees. – Next generation security technologies deployed to tackle advanced attacks.	– Use of machine learning and threat intelligence to detect and block sophisticated threats. – Conduct continuous breach simulation testing to supplement war gaming, red team and cyber stress-testing activities. – Expanded workflow tools and automation tools to increase speed, efficiency and consistency of security operations. – Continuously reviewing and adapting our cyber strategy to tackle risks related to Covid-19 and remote working.
7 Data privacy Breach of data protection laws or regulations EG CT EP	– Harm to our reputation with consumers, customers and/or our people. – Non-compliance with data protection regulation. – Significant financial penalty of up to 4% of global turnover.	– Global data privacy programme with robust policy, training and communications. – Privacy impact assessments in key risk areas of the business. – Minimum standard for compliance set globally with a focus on key risk areas.	– Detailed review of data privacy requirements carried out in respect of information systems and processes, through a structured programme including analysis of access controls, data minimisation and masking, data retention and storage, record of processing activities, and third party data management.
8 Political instability and terrorism Impacts from political instability and security threats including terrorism. EG CVC CT EP	– Diageo employees, sites or supply chain threatened and/ or harmed. – Our ability to operate in key markets is disrupted.	– Security function, led by subject matter experts, draws on a global management framework to ensure risks are systematically identified and controlled. – In-country security managers oversee people and physical security. – Global risk monitoring and horizon-scanning to identify and respond to emerging risks promptly. – Mandatory global travel risk management program for all business travellers. – Global business continuity and crisis management framework with scenario testing. – Global and market liaison with governments, academia, and industry on evolving threat landscape and best practices.	– Significant increase in global volatility often manifesting in civil unrest and violence, across many regions. – The Covid-19 pandemic has caused global disruption to communities, business, and economic well being. Its economic and social impact could exacerbate the underlying conditions driving volatility and increase the likelihood of further unrest. – Unstable geo-politics: resurgent populist nationalism has driven erosion of multilateralism, raising the risk of regional conflict, trade wars and state-sponsored cyber-attacks. Increasing polarisation and political extremism have also driven increasing rates of far-right activity and terrorism. – We have fully activated our global crisis management and business continuity plans to address Covid-19.
9 International tax Significant changes to the international tax environment such as responding to concerns around the 'digital economy' and EU anti-tax abuse measures could alter our operating position. EG CVC CT V	– Increase in the cost of doing business arising from an increase in our effective and cash tax rates. – Changing tax laws and audit activity lead to additional tax exposures and uncertainty.	– Ongoing review of our tax policy in light of changing rules and stakeholder expectations. – Monitoring and, where appropriate, expressing views on the formulation of tax laws either directly or through trade associations or similar bodies. – End-to-end review of our processes to continually improve our tax control/ governance environment. – Submission of our country-by-country reports to the relevant tax authorities on an annual basis to ensure they have full visibility of our tax footprint.	– Increased risk of unilateral tax increases as governments seek to fund their spending during the Covid-19 pandemic. – Investment by governments in the digitalisation of tax administration will facilitate enhanced access to and analysis of our data, which is likely to increase audit activity. – The OECD's work on digitalisation may result in changes to how multinationals are taxed and could result in unilateral and punitive tax measures if a consensus-based approach cannot be found. – In common with other multinationals, we face scrutiny from certain authorities, as outlined in our contingent liability note.
10 Product quality Contamination of raw materials or finished product, or unsafe counterfeit product supplied to the market. CVC CT	– Harm to consumers – Corporate and brand reputation is damaged. – Financial losses due to supply disruption, product recalls, penalties and a loss of consumer trust.	– Food Safety System 22000 Certification in place for owned brewing and packaging sites, and third-party site audit programme in place. – Physical security standards and vetting procedures. – Anti-counterfeiting measures embedded in our packaging deter against reuse and make our products more difficult to copy. – Active programme to identify high-risk areas, engaging with customs and law enforcement authorities and participating in industry initiatives to monitor and prevent counterfeit activity. – Application of unique lot-codes on all products for product recall requirements. – Food fraud and food threat risk assessments regularly undertaken.	– Global Food Safety Initiative assurance strategy being rolled out across wholly owned breweries and packaging sites, and key third party production sites. – Food fraud and food threat training developed for employees. – Brand protection and anti-counterfeit activities focused on high -risk markets and on new technology to assist with product verification. – We are actively working with e-commerce sites to identify counterfeit activities and seek to stop those activities promptly. – Launch of project to develop the next generation security closures for our brands most at risk.

Reported and substantiated breaches



Business integrity

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

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

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

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

We encourage our employees, and anyone we do business with, to raise concerns about potential breaches of our Code or policies. Our confidential whistle-blowing help line, SpeakUp, is available via phone or web portal, enabling anyone to report a concern. Additionally, we encourage employees to come forward to their line manager, legal, HR or risk and compliance and business integrity partners.

This year 644 allegations of breaches were reported. There has been a decline in allegations versus last year, which is in line with external trends and probably due to increased working from home as a result of Covid-19 measures. The substantiation rate of allegations remains similar to last year with 35% of cases confirmed as breaches.

All allegations are taken seriously, investigated and where required consequence management is performed. We monitor all breaches to identify trends or common areas where further action may be required. This year 60 people exited the business as a result of breaches of our Code or policies, versus 79 people in prior year. The reduced number of breach leavers is due to a reduction in severity and type of breaches this year.

Viability statement

In accordance with the United Kingdom's Corporate Governance Code, the Directors have assessed the viability of the group for the three years to 30 June 2023, considering our current position and prospects, our strategy, the Board's risk appetite, our business model to create a truly sustainable business for the very long term that includes our people, brands, relationships, insight and know-how, infrastructure and financial strength and our principal risks as set out in the Strategic report. The Directors believe a three-year horizon is appropriate for this assessment, as this aligns with our normal three-year strategic business planning processes.

The three-year business plan is based on our current strategy and has been stress-tested by modelling severe but plausible downside scenarios, linked to our principal risks. In addition, and while still uncertain, the potential financial impact of the Covid-19 pandemic has been modelled in our scenarios. This has required using key assumptions that have a high degree of uncertainty, including but not limited to: the length of lockdown; the potential for a second wave; the recovery of our on-trade business; and increases in direct and indirect taxes.

Key severe but plausible scenarios considered include:

– Material negative changes in the macro-economic environment including the impact of Covid-19
– Severe marketing and/or route to market restrictions or fiscal changes introduced by local governments
– Unfavourable exchange movements in foreign currencies – primarily euro & US dollar to Sterling
– A failure to adapt to or participate fully in critical industry developments
– Impact of severe climate change
– Increased potential tax rate due to changes in the international tax environment.

The principal risks considered in the most likely combination of downside scenarios are identified with the symbol 'V'. None of these scenarios individually threaten the viability of Diageo, therefore the combined impact of these scenarios has been evaluated as the most severe stressed scenario. Stress-testing considers the effectiveness of mitigation actions and internal control systems, and makes certain assumptions about temporary reductions in discretionary spending including capital expenditure, dividend payments and advertising and promotion. It also considers whether additional financing facilities would be required.

Based on the results of this analysis the Directors confirm they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period to 30 June 2023.

Responding to climate-related risks

We are committed to combating climate change and water challenges by decarbonising our value chain, implementing adaptation measures and acting as champions for water stewardship around the world. As well as being the right thing to do, this helps us protect our business as part of our wider approach to mitigating and adapting to climate-related risks.

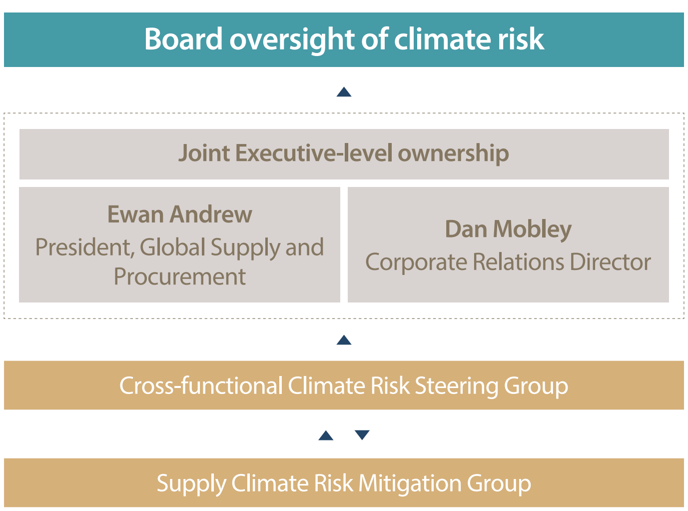
Reducing our emissions and championing water stewardship

Addressing climate change and its associated impacts, particularly for water, is central to our strategy. This year, we met our stretching targets to reduce absolute greenhouse gas emissions from direct operations by 50%, and by 30% in our supply chain. To reduce our climate impacts further, we are committed to procuring 100% of our electricity from renewable sources by 2030. We have also pledged our commitment to setting a science-based target in line with a 1.5°C future.

Water continues to be our most important strategic priority related to climate risk. Our Water Blueprint helps us drive better water availability, accessibility and quality in our supply chain and communities, while giving us the framework to reduce our overall impact and mitigate our risk. We focus particularly on water-stressed areas in Africa, India and Brazil, which account for approximately a third of our total production by volume (see map opposite). We have made particular progress on water efficiency in Africa (55.8%) and India (54.2%). We are committed to building on these achievements and to setting further ambitious targets for the critical decade ahead.

Our approach to reducing our environmental impacts is described further on page 29.

We report our performance against all our environmental targets on pages 34-35.

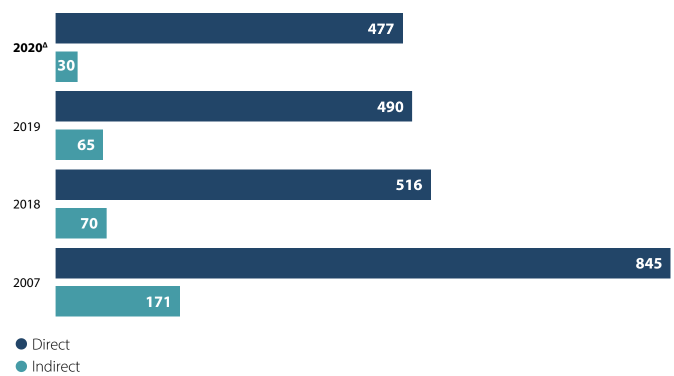


Our Climate Risk Steering Group

Our Climate Risk Steering Group meets quarterly and includes representatives from our Supply, Corporate Relations, Strategy, Treasury, Risk, Corporate Security, Financial Reporting and Brand functions. It aims to ensure we have an integrated, group-wide approach to assessing and mitigating climate-related risks, and that we adopt a strategic approach to adaptation planning for climate change. The Group provides updates to the Executive Committee and the Board.

Direct and indirect carbon emissions by weight (1,000 tonnes CO_2e)[(i),(ii)]

(market-/net-based)



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

Region	2007	2018	2019	2020
North America	211	44	54	**128**
Europe and Turkey	399	279	232	**149**
Africa	228	225	195	**164**
Latin America and Caribbean	8	18	19	**22**
Asia Pacific	150	49	47	**37**
Corporate	20	8	8	**7**
Diageo (total)	**1,016**	**623**	**555**	**507Δ**
UK	276	212	169	**85[(iii)]**

Water efficiency by region by year[(ii)(iv)]

Region	2007	2018	2019	2020
North America	6.88	5.55	5.26	**5.03**
Europe and Turkey	7.94	6.02	5.29	**5.06**
Africa	9.48	4.45	4.37	**4.19**
Latin America and Caribbean	34.84	4.66	4.58	**4.93**
Asia Pacific	7.06	3.64	3.36	**3.72**
Diageo (total)	**8.56**	**5.04**	**4.72**	**4.62Δ**

(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 2019, have been restated in accordance with the WRI/WBCSD GHG Protocol and Diageo's environmental reporting methodologies.

(iii) Diageo UK total direct and indirect carbon emissions were 85,079, comprising direct emissions (Scope 1) of 85,079 and indirect emissions (Scope 2) of 0. The intensity ratio was 93grams/litre packaged. The UK total energy consumption was 1,049,178mWh, comprising 916,111mWh of direct energy and 133,067mWh of indirect energy.

(iv) In accordance with our environmental reporting methodologies, total water used excludes irrigation water for agricultural purposes on land under our operational control.

Δ Within PwC's independent limited assurance scope.

Please refer to the reporting methodologies in our Sustainability & Responsibility Performance Addendum for more information on how data has been compiled, including standards and assumptions used.

Assessing and mitigating climate risk

As of this year, we have highlighted climate-related risk within our principal risk, sustainability and responsibility (see page 39).

Building on existing analysis and planning, we are taking steps to better understand the direct and indirect impacts of climate change and water stress on our business, so that we can further develop adaptation plans to ensure our supply chains are resilient. We recognise the importance of considering climate-related risks and opportunities in business decisions and strategic planning, and we acknowledge that adopting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) is an important step in addressing climate change risks and supporting a transition to a low-carbon economy.

To increase our understanding of the financial aspects, we carried out sustainability value assessments (SVAs) in three key markets in 2018. These examined the potential impact of water risk for Diageo over five and 10 years, strengthening the business case for water security measures in these markets.

Building on this work, in 2021 we will complete a comprehensive assessment of physical and transition climate risks in countries representing a significant share of our production, and use data modelling climate scenarios to help us develop detailed risk mitigation and climate adaptation plans. This work will be overseen by our Climate Risk Steering Group. We will also update our water risk assessment of our own operations as part of our regular review of the impact of water stress on our supply chain and will extend our understanding of third-party operators' water risk. This work, including SVAs and water risk assessments, will feed into our overall approaches to both climate risk mitigation and climate change adaptation.

Working with others to champion decarbonisation and water stewardship

In March we were proud to partner with the United Nations Global Compact (UNGC) and a number of other leading global companies to launch an industry-driven, CEO-led initiative, the Water Resilience Coalition.

We have also pledged our commitment to setting a science-based target in line with a 1.5°C future, and are advocates for action on carbon and the water crisis, including through these groups:

– UNGC's Business Ambition for 1.5°C
– UNGC CEO Water Mandate
– Alliance for Water Stewardship
– We Mean Business coalition
– Science Based Targets initiative
– WaterAid

We also share knowledge through the Beverage Industry Environment Roundtable (BIER), a coalition of global beverage companies working together to advance environmental sustainability.

Diageo sites located in water-stressed areas

Sites

1. Kenya Brewing, Nairobi, Kenya
2. East Africa Maltings, Nairobi, Kenya
3. Seybrew, Seychelles
4. Isipingo, South Africa
5. Moshi, Tanzania
6. Dar es Salaam, Tanzania
7. Mwanza, Tanzania
8. UBL, Kampala, Uganda
9. IDU, Kampala, Uganda
10. Accra, Achimota, Ghana
11. Kumasi, Kaasi, Ghana
12. Ogba, Lagos, Nigeria
13. Paraipaba, Ceará, Brazil
14. Agricultural lands, Ceará, Brazil
15. Messejana, Brazil
16. Maracanaú, Brazil
17. Meta Abo, Ethiopia
18. Marracuene, Mozambique

India

19. Alwar, Rajasthan
20. Aurangabad, Maharashtra
21. Baddi, Himachal Pradesh
22. Baramati, Maharashtra
23. Hospet, Karnataka
24. Kumbalgodu, Karnataka
25. Malkajgiri, Telangana
26. Meerut, Uttar Pradesh
27. Nacharam, Telangana
28. Pathankot, Punjab
29. Pioneer, Maharashtra
30. Rosa, Uttar Pradesh
31. Serampore, West Bengal
32. Sovereign, Karnataka
33. Tern, Andhra Pradesh
34. Udaipur, Rajasthan

Well positioned to emerge stronger

"This year our business has been significantly impacted by the Covid-19 pandemic. Restrictions imposed during the second half of the fiscal disrupted our operating environment, challenging the consistent performance that Diageo has delivered for eight consecutive half years. As a result, organic net sales were down 8.4% for the full year driven by volume declines on the back of the recent and sudden contraction of the total beverage alcohol industry, driven by the reduction of out of home consumption occasions. We quickly reset our discretionary spend, including A&P that we believed would not be effective in the rapidly changing environment. However, the pandemic still drove full year operating margin dilution of 212bps after delivering 13bps of accretion in the first half. Through disciplined actions to conserve cash we delivered £1.6 billion free cash flow and further strengthened Diageo's liquidity position to ensure we are positioned to continue to invest smartly for the long term. Despite the challenges, our strategy remains unchanged and our agile and high-performance culture give me confidence that we are well positioned to emerge stronger and continue to create value for all of our stakeholders."

Kathryn Mikells
Chief Financial Officer

Reported net sales were down
8.7%
driven by organic declines

Reported operating profit declined
47.1%
driven mainly by exceptional operating items and decline in organic operating profit

Organic volumes were down
11.2%

Organic net sales were down
8.4%

Organic operating profit was down
14.4%

Net cash from operating activities was
£2.3bn

Free cash flow was
£1.6bn

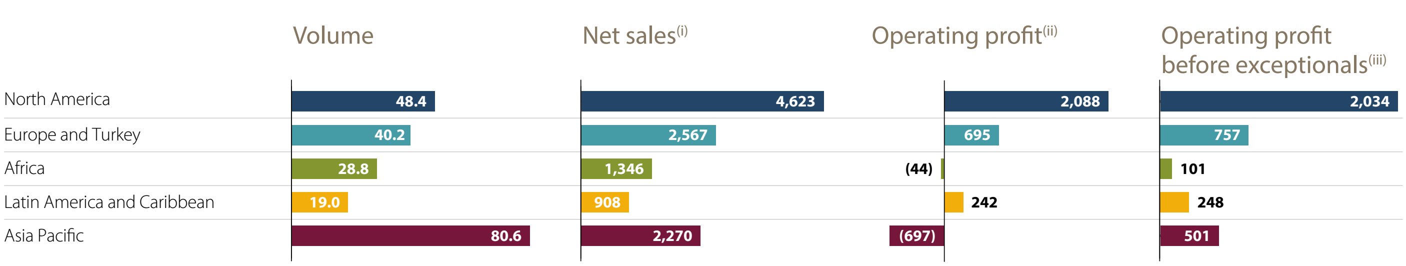
Basic eps of
60.1p
was down 54.0%

Eps before exceptional items decreased
16.4%
to 109.4 pence

Summary financial information

		2020	2019
Volume	EUm	**217.0**	245.9
Net sales	£ million	**11,752**	12,867
Marketing	£ million	**1,841**	2,042
Operating profit before exceptional items	£ million	**3,494**	4,116
Exceptional operating items(i)	£ million	**(1,357)**	(74)
Operating profit	£ million	**2,137**	4,042
Share of associate and joint venture profit after tax	£ million	**282**	312
Non-operating exceptional gain(i)	£ million	**(23)**	144
Net finance charges	£ million	**(353)**	(263)
Exceptional taxation credit/(charge)(i)	£ million	**154**	(39)
Tax rate including exceptional items	%	**28.8**	21.2
Tax rate before exceptional items	%	**21.7**	20.6
Profit attributable to parent company's shareholders	£ million	**1,409**	3,160
Basic earnings per share	pence	**60.1**	130.7
Earnings per share before exceptional items	pence	**109.4**	130.8
Recommended full year dividend	pence	**69.9**	68.6

(i) For further details of exceptional items see pages 130-131.



(i) Excluding corporate net sales of £38 million (2019 - £53 million).
(ii) Excluding net corporate cost of £147 million (2019 - £210 million).
(iii) Excluding exceptional operating charges of £1,357 million (2019 - £74 million) and net corporate operating costs of £147 million (2019 - £189 million).

	Volume %	Net sales %	Marketing %	Operating profit[i] %
North America	(2)	4	(5)	4
Europe and Turkey	(11)	(13)	(13)	(25)
Africa	(14)	(16)	(8)	(63)
Latin America and Caribbean	(15)	(20)	(23)	(32)
Asia Pacific	(15)	(16)	(11)	(29)
Diageo – reported growth by region[ii]	**(12)**	**(9)**	**(10)**	**(15)**

	Volume %	Net sales %	Marketing %	Operating profit[i] %
North America	–	2	(6)	4
Europe and Turkey	(11)	(12)	(12)	(24)
Africa	(13)	(13)	(8)	(56)
Latin America and Caribbean	(15)	(15)	(15)	(29)
Asia Pacific	(15)	(16)	(11)	(29)
Diageo – organic growth by region[ii]	**(11)**	**(8)**	**(10)**	**(14)**

(i) Before exceptional operating items.
(ii) Includes Corporate. In the year ended 30 June 2020 corporate net sales were £38 million (2019 - £53 million). Net corporate operating costs were £147 million (2019 - £189 million).

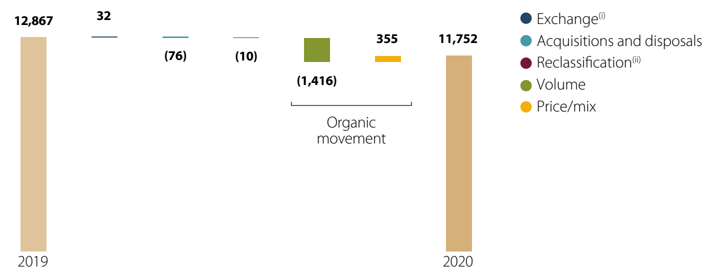
Net sales (£ million)

Reported net sales declined 8.7%

Organic net sales declined 8.4%

Reported net sales declined 8.7%, driven mainly by decline in organic net sales and, to a lesser extent, the negative impact of acquisitions and disposals, partially offset by favourable foreign exchange.

Organic net sales declined 8.4% driven by an 11.2% reduction in volume partially offset by 2.8% positive price/mix. All regions reported declines in organic net sales except for North America and this shift in market mix was the main driver behind the positive price/mix.



(i) Exchange rate movements reflect the adjustment to recalculate the reported results as if they had been generated at the prior period weighted average exchange rates.
(ii) For the year ended 30 June 2019 trade investment of £10 million has been reclassified from marketing to net sales.

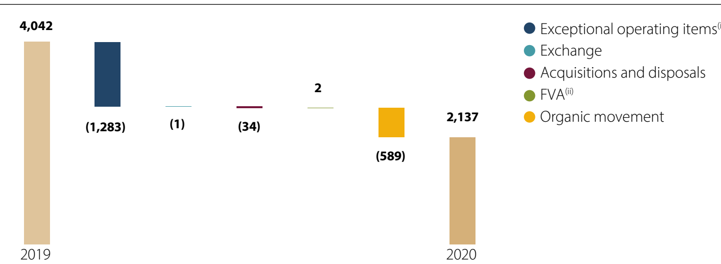
Operating profit (£ million)

Reported operating profit declined 47.1%

Organic operating profit declined 14.4%

Reported operating profit was down 47.1% mainly driven by exceptional operating items and by decline in organic operating profit. Exceptional operating items were mainly driven by non-cash impairments in India, Korea, Nigeria and Ethiopia due to Covid-19 and challenging trading conditions.

Organic operating profit declined ahead of net sales at 14.4% with first half growth of 4.6% more than offset by impact of Covid-19 in the second half.



(i) For further details on exceptional items see pages 130-131.
(ii) Fair value adjustments. For further details on fair value remeasurement see page 48.

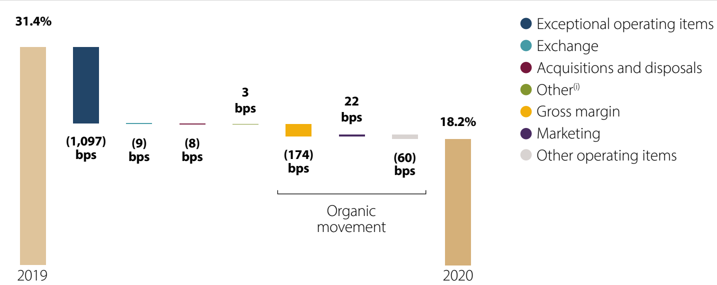
Operating margin (%)

Reported operating margin declined 1,323bps

Organic operating margin declined 212bps

Reported operating margin declined 1,323bps mainly driven by exceptional operating items and decline in organic operating margin.

Organic operating margin declined 212bps driven by lower volumes impacting fixed cost absorption, cost inflation and other expense offsetting savings in marketing investment and productivity benefits from cost efficiencies.



(i) Fair value adjustments and reclassification.

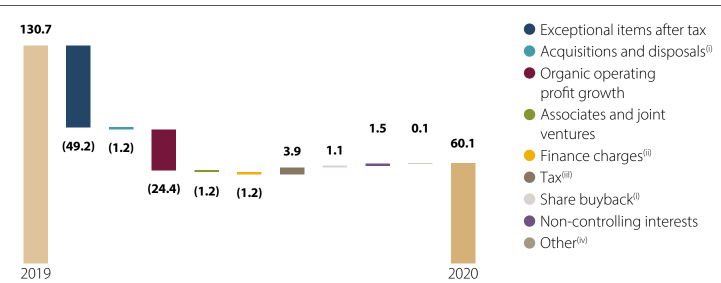
Basic earnings per share (pence)

Basic eps decreased 54.0% from 130.7 pence to 60.1 pence

Eps before exceptional items decreased 16.4% from 130.8 pence to 109.4 pence

Basic eps decreased 70.6 pence principally due to impairments in exceptional items and the decline in organic operating profit. For further detail see pages 130-131.

Eps before exceptional items decreased 21.4 pence driven by decline in organic operating profit, lower income from associates and joint ventures, increased finance charges and the impact of acquisitions and disposal. These were partially offset by tax, lower non-controlling interests and the impact of the share buyback programme.

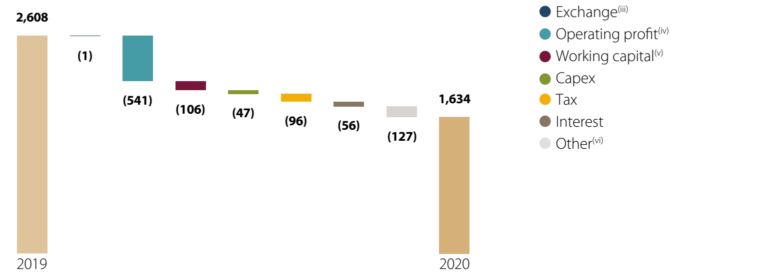


(i) Includes finance charges net of tax.
(ii) Excludes finance charges related to acquisitions, disposals and share buyback.
(iii) Excludes tax related to acquisitions, disposals and share buyback.
(iv) Fair value adjustments and exchange on operating profit.

Free cash flow (£ million)

Generated £2,320 million from operating activities[(i)(ii)]
£1,634 million free cash flow[(ii)]

Net cash from operating activities was £2,320 million, a decrease of £928 million compared to the prior period. Free cash flow was £1,634 million, £974 million lower compared to prior period primarily driven by the decline in operating profit, lower dividends from joint ventures and associates (see note 18(g) page 166), increased use of working capital, higher tax payments and higher interest charges. The tax increase was mainly due to one-off tax settlements and change in payment timing in the first half, which was partially offset by lower tax on reduced earnings in the second half as well as some delay in second half payments associated with Covid-19.

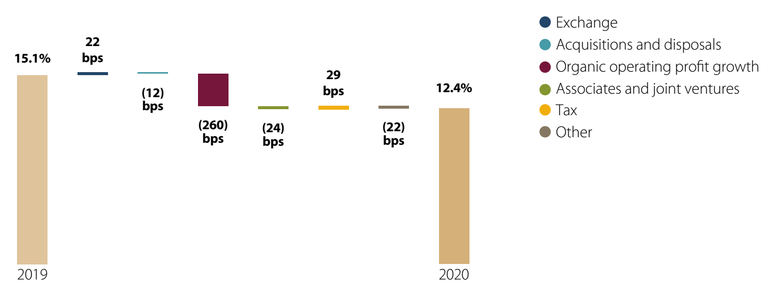


(i) Net cash from operating activities excludes net capex and movements in loans and other investments (2020 - £(686) million; 2019 - £(640) million).
(ii) Net cash from operating activities and free cash flow for the year ended 30 June 2020 benefited by £74 million as a result of the adoption of IFRS 16 on 1 July 2019.
(iii) Exchange on operating profit before exceptional items.
(iv) Operating profit excludes exchange, depreciation and amortisation, post employment charges and other non-cash items.
(v) Working capital movement includes maturing inventory.
(vi) Other items include post employment payments, dividends received from associates and joint ventures, and movements in loans and other investments.

Return on average invested capital (%)[(i)]

ROIC decreased 267bps

ROIC decreased 267bps against the prior comparable period driven mainly by organic operating profit decline.



(i) ROIC calculation excludes exceptional operating items from operating profit and includes an adverse impact of 18bps as a result of the adoption of IFRS 16 on 1 July 2019.

Income statement

	2019 £ million	Exchange (a) £ million	Acquisitions and disposals (b) £ million	Organic movement[(i)] £ million	Fair value remeasurement (d) £ million	Reclassification[(ii)] £ million	2020 £ million
Sales	19,294	**(1)**	**(108)**	**(1,478)**	**–**	**(10)**	**17,697**
Excise duties	(6,427)	**33**	**32**	**417**	**–**	**–**	**(5,945)**
Net sales	12,867	**32**	**(76)**	**(1,061)**	**–**	**(10)**	**11,752**
Cost of sales	(4,866)	**(31)**	**41**	**193**	**9**	**–**	**(4,654)**
Gross profit	8,001	**1**	**(35)**	**(868)**	**9**	**(10)**	**7,098**
Marketing	(2,042)	**3**	**(7)**	**195**	**–**	**10**	**(1,841)**
Other operating items	(1,843)	**(5)**	**8**	**84**	**(7)**	**–**	**(1,763)**
Operating profit before exceptional items	4,116	**(1)**	**(34)**	**(589)**	**2**	**–**	**3,494**
Exceptional operating items (c)	(74)						**(1,357)**
Operating profit	4,042						**2,137**
Non-operating items (c)	144						**(23)**
Net finance charges	(263)						**(353)**
Share of after tax results of associates and joint ventures	312						**282**
Profit before taxation	4,235						**2,043**
Taxation (e)	(898)						**(589)**
Profit for the year	3,337						**1,454**

(i) For the definition of organic movement see page 62.
(ii) For the year ended 30 June 2019 trade investment of £10 million has been reclassified from marketing to net sales.

(a) Exchange

The impact of movements in exchange rates on reported figures for net sales is principally in respect of the translation exchange impact of the weakening of sterling against the US dollar, partially offset by strengthening of sterling against the Brazilian real, the Australian dollar and the euro. The impact of movements in exchange rates on reported figures for operating profit is principally in respect of the transactional exchange impact of the weakening of the Brazilian real, the Colombian peso and the Nigerian naira, broadly offset by translational exchange impact of the strengthening of the US dollar against sterling.

The effect of movements in exchange rates and other movements on profit before exceptional items and taxation for the year ended 30 June 2020 is set out in the table below.

	Gains/ (losses) £ million
Translation impact	56
Transaction impact	(57)
Operating profit before exceptional items	**(1)**
Net finance charges	(2)
Associates – translation impact	(3)
Profit before exceptional items and taxation	**(6)**

	Year ended 30 June 2020	Year ended 30 June 2019
Exchange rates		
Translation £1 =	$1.26	$1.29
Transaction £1 =	$1.35	$1.33
Translation £1 =	€1.14	€1.13
Transaction £1 =	€1.12	€1.13

(b) Acquisitions and disposals

The acquisitions and disposals movement was mainly attributable to the acquisition of Seedlip and Anna Seed 83, the disposal of United National Breweries and the prior year disposal of a portfolio of 19 brands to Sazerac.

See note 8 for further details.

(c) Exceptional items

Exceptional operating items in the year ended 30 June 2020 were £1,357 million before tax (2019 – £74 million).

Value in use calculation and fair value less costs of disposal methodologies were both considered to assess the recoverable amount of the India cash-generating unit. Having considered the volatility in local share prices, the premiums that businesses controlled by large multinationals trade at and other factors, we assessed a range of fair value less costs of disposal with particular focus on the value a third party may pay for a controlling stake in the current environment. The value in use calculation was above our view of fair value less costs of disposal and was therefore used to determine the recoverable amount of this cash-generating unit. Based on this, in the year ended 30 June 2020, an impairment charge of £655 million in respect of the India cash-generating unit containing the India goodwill was recognised in exceptional operating items. Impairment charges of £78 million in respect of the Old Tavern brand, £38 million in respect of the Bagpiper brand and £1 million in respect of fixed assets in India were also recognised in exceptional operating items. Forecast cash flow assumptions were reduced principally due to the general economic downturn further aggravated by the Covid-19 pandemic, including pandemic related recent regulatory changes, negatively impacting both demand and margins.

An impairment charge of £434 million in respect of the Windsor Premier brand was recognised in exceptional operating items. The forecast cash flow assumptions were reduced principally due to the recent regulatory changes limiting trade spend for wholesalers and venues and the Covid-19 pandemic negatively impacting the challenging whisky category in Korea.

Having considered both value in use and fair value less cost of disposal, an impairment of £84 million in respect of the group's Nigerian tangible fixed assets was recognised in exceptional operating items. The profit generating ability of the assets were reduced principally due to the deteriorated economic outlook as a result of the combination of the oil price crisis in Nigeria and the Covid-19 pandemic.

An impairment of £55 million in respect of the group's Ethiopian tangible fixed assets was recognised in exceptional operating items. The forecast cash flow assumptions were reduced principally due to the impact of the recent excise duty increase and the Covid-19 pandemic. In line with the group's accounting policy, given the unusual nature and magnitude of the below items, these are reported as exceptional operating items:

(i) Diageo has launched the 'Raising the Bar' programme to support pubs and bars to welcome customers back and recover following the Covid-19 pandemic. The programme includes a commitment of $100 million (£81 million) over a period of up to two years from 1 July 2020, to support qualifying outlets across a limited number of iconic global cities and some regional cities in certain key markets. Diageo has also provided other forms of support to help the communities and the industry during the Covid-19 pandemic. Supporting packages for bartenders and bar owners and donations of grain neutral spirit to produce hand sanitisers amounted to £8 million in the year ended 30 June 2020.

(ii) In the year ended 30 June 2020, an exceptional charge of £30 million was recognised in respect of obsolete inventories that have been or will be destroyed as a direct consequence of the Covid-19 pandemic. The amount comprises of a £23 million inventory provision and £7 million directly attributable to handling and destruction costs.

(iii) In the year ended 30 June 2020, an estimated benefit of $105 million (£83 million) for substitution drawback claims (net of legal and broker fees of $2 million (£2 million)) previously filed and to be filed with the US Government in relation to prior years was recognised in exceptional operating items. Following a recent court decision and a related legal assessment, the collection of the excise duty benefit has become virtually certain.

In the year ended 30 June 2019, the group recognised a provision of £35 million for indirect tax in respect of certain channel accounts and regulatory change in Korea in respect of prior years.

An assessment was issued by the Korea Tax Authority in the year ended 30 June 2020 that has resulted in the reversal of the prior year's provision in the amount of £24 million.

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

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

Non-operating items in the year ended 30 June 2020 were £23 million loss before tax (2019 – £144 million income).

In the year ended 30 June 2020, Diageo completed the acquisition of Seedlip and Anna Seed 83 and acquired controlling interests in certain Distill Ventures entities. As a result of these entities becoming subsidiaries of the group a gain of £8 million arose, being the difference between the book value of the associates prior to the transaction and their fair value.

The disposal of United National Breweries was completed in the year ended 30 June 2020, which has resulted in an aggregate exceptional loss of £32 million, including a £4 million cumulative exchange loss in respect of prior years, recycled from other comprehensive income, and an impairment charge recognised in the period.

The disposal of an associate, Equal Parts, LLC resulted in an exceptional loss of £1 million.

In the year ended 30 June 2020, the group has reversed $3 million (£2 million) from provisions in relation to the sale of a portfolio of 19 brands to Sazerac on 20 December 2018.

In the year ended 30 June 2019 the aggregate consideration for the disposal of a portfolio of 19 brands to Sazerac was $550 million (£435 million) resulting in a profit before taxation of $198 million (£155 million).

The group recognised an exceptional loss of £9 million in respect of the disposal of United National Breweries.

The disposal of the Indian wine business has resulted in an exceptional loss of £2 million.

See page 62 for the definition of exceptional items.

(d) Fair value remeasurement

The adjustment to cost of sales reflects the elimination of fair value changes for biological assets in respect of growing agave plants of £9 million gain. The adjustment to other operating expenses is the elimination of fair value changes to contingent consideration liabilities in respect of prior year acquisitions of £7 million loss (£10 million loss in respect of the Casamigos contingent consideration liability, £4 million loss in respect of the Copper Dog contingent consideration liability and £7 million gain in respect of the Pierde Almas contingent consideration liability).

(e) Taxation

The reported tax rate for the year ended 30 June 2020 was 28.8% compared with 21.2% for the year ended 30 June 2019.

Included in the tax charge of £589 million for the year ended 30 June 2020 is an exceptional tax credit of £154 million mainly comprising exceptional tax credits on the impairment of the Windsor and USL brands of £105 million and £25 million, respectively, exceptional tax credits in respect of fixed assets impairments in Nigeria and Ethiopia of £25 million and £10 million, respectively, and a further £7 million exceptional tax credit in respect of obsolete inventories offset by a £20 million exceptional tax charge in respect of substitution drawback claims.

In the year ended 30 June 2019, Diageo reached a resolution with the French tax authorities on the treatment of interest costs for all open periods which resulted in a total exceptional charge of €100 million (£88 million), comprising a tax charge of €69 million (£61 million), penalties of €21 million (£18 million) and interest of €10 million (£9 million). This brought to a close all open issues with the French tax authorities for periods up to and including 30 June 2017. In addition, the tax charge for the year ended 30 June 2019 included an exceptional tax credit of £51 million principally arising from remeasuring the deferred tax liabilities in respect of the Ketel One vodka distribution rights from 25% to 20.5%, an exceptional tax charge of £33 million in respect of the disposal of a portfolio of 19 brands to Sazerac and an exceptional tax credit of £4 million in respect of the equalisation of liabilities for males and females in the Diageo Pension Scheme.

The tax rate before exceptional items for the year ended 30 June 2020 was 21.7%, consistent with our guidance of 21%-22% and compared with 20.6% in the prior comparable period.

We continue to expect a tax rate before exceptional items for the year ending 30 June 2021 to be in the range of 21%-22%.

(f) Dividend

The group aims to increase the dividend each year and the decision in respect of the dividend is made with reference to dividend cover as well as current performance trends including sales and profit after tax together with cash generation. Diageo targets dividend cover (the ratio of basic earnings per share before exceptional items to dividend per share) within the range of 1.8-2.2 times. For the year ended 30 June 2020 dividend cover was 1.6 times. The recommended final dividend for the year ended 30 June 2020, to be put to the shareholders for approval at the Annual General Meeting is 42.47 pence, the same as the final dividend for the year ended 30 June 2019. This brings the full year dividend to 69.88 pence per share, an increase of 2% on the prior year. We will keep future returns of capital, including dividends, under review through year ending 2021 to ensure we allocate Diageo's capital in the best way to maximize value for the business and our stakeholders.

Subject to approval by shareholders, the final dividend will be paid to holders of ordinary shares and US ADRs on the register as of 14 August 2020. The ex-dividend date both for the holders of the ordinary shares and for US ADR holders is 13 August 2020. The final dividend, once approved by shareholders, will be paid to shareholders on 8 October 2020 and payment to US ADR holders will be made on 14 October 2020. 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 2020.

(g) Share buyback

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

During the year ended 30 June 2020 the group purchased approximately 39 million ordinary shares at a cost of £1,282 million (including £7 million of transaction costs) and funded the purchases through a combination of operating cash inflows and incremental borrowings. This amount includes the aggregate consideration of £26 million (including £17 million settlement payments for the purchases made in the year ended 30 June 2019 and 30 June 2020) in relation to the prior year programme, which was completed on 10 July 2019 resulting in the repurchase of 0.3 million shares in the year ended 30 June 2020. The shares purchased under the share buyback programmes were cancelled.

At 30 June 2020 the leverage ratio, calculated as adjusted net debt to adjusted EBITDA, was 3.3x and the group anticipates leverage to be above the target range of 2.5-3.0x through the year ending 30 June 2021. The company has paused the return of capital programme until leverage is back within the target range.

Movement in net borrowings and equity

Movement in net borrowings

	2020 £ million	2019 £ million
Net borrowings at the beginning of the year	**(11,277)**	(9,091)
Free cash flow (a)	**1,634**	2,608
Acquisitions (b)	**(130)**	(56)
Sale of businesses and brands (c)	**11**	426
Share buyback programme	**(1,282)**	(2,775)
Proceeds from issue of share capital	**1**	1
Net sale of own shares for share schemes (d)	**54**	50
Dividends paid to non-controlling interests	**(111)**	(112)
Net movements in bonds (e)	**4,368**	1,598
Purchase of shares of non-controlling interests (f)	**(62)**	(784)
Net movements in other borrowings (g)	**(285)**	721
Equity dividends paid	**(1,646)**	(1,623)
Net increase in cash and cash equivalents	**2,552**	54
Net increase in bonds and other borrowings	**(4,089)**	(2,331)
Exchange differences (h)	**(95)**	(22)
Other non-cash items (i)	**(86)**	113
Adoption of IFRS 16	**(251)**	–
Net borrowings at the end of the year	**(13,246)**	(11,277)

(a) See page 46 for the analysis of free cash flow.

(b) In the year ended 30 June 2020, Diageo completed the acquisition of Seedlip and Anna Seed 83 as well as a number of smaller transactions and additional investments in the Distill Ventures programme. Additionally, acquisitions include deferred and contingent consideration paid in respect of prior year acquisitions.
In the year ended 30 June 2019, Diageo acquired the remaining 70% of Copper Dog Whisky Limited that it did not already own, made additional investments in a number of Distill Venture associates and made contingent consideration payments in respect of prior year acquisitions.

(c) In the year ended 30 June 2020, sale of businesses and brands included the sale of United National Breweries, Diageo's wholly owned sorghum beer business. In the year ended 30 June 2019, sale of businesses and brands represented the cash received on the disposal of a portfolio of 19 brands sold to Sazerac net of transaction costs.

(d) Net sale of own shares comprised purchase of treasury shares for the future settlement of obligations under the employee share option schemes of £2 million (2019 – £16 million) less receipts from employees on the exercise of share options of £56 million (2019 – £66 million).

(e) In the year ended 30 June 2020, the group issued bonds of \$4,100 million (£3,296 million), €1,750 million (£1,594 million) and £298 million (including £2 million discount and fee) and repaid bonds of \$1,000 million (£820 million). In the year ended 30 June 2019, the group issued bonds of €2,600 million (£2,270 million) and £496 million (including £4 million discount and fee) and repaid bonds of €1,350 million (£1,168 million).

(f) In the year ended 30 June 2020, Diageo acquired additional shares in United Spirits Limited for INR 5,495 million (£60 million) which took Diageo's percentage of shares owned in United Spirits Limited from 54.78% to 55.94% (excluding 2.38% owned by the USL Benefit Trust). During the year ended 30 June 2020, Diageo completed the purchase of 4% of the share capital of Serengeti Breweries Limited for \$3 million (£2 million) which took Diageo's effective economic interest in Serengeti Breweries Limited from 39.2% to 40.2%.
In the year ended 30 June 2019, purchase of shares of non-controlling interests comprised RMB 6,774 million (£775 million) and transaction costs of £9 million in respect of the acquisition of 23.43% of the share capital of Sichuan Shuijingfang Company Limited (SJF) in two separate transactions. This took Diageo's shareholding in SJF from 39.71% to 63.14%.

(g) In the year ended 30 June 2020, the net movement in other borrowings principally arose from foreign exchange swaps and forwards, partially offset by the cash movement on lease liabilities. In the comparable period movements were driven by the issue of commercial paper.

(h) The exchange arising on net borrowings of £95 million is primarily driven by unfavourable exchange movements on US dollar and euro denominated borrowings and cash and cash equivalents, partially offset by a favourable movement on foreign exchange swaps and forwards.

(i) In the year ended 30 June 2020, other non-cash items are principally in respect of leases of £206 million entered into in the year, partially offset by the fair value changes of cross currency interest rate swaps. In the year ended 30 June 2019, other non-cash items are principally in respect of changes in the fair value of borrowings.

Movement in equity

	2020 £ million	2019 £ million
Equity at the beginning of the year	**10,156**	11,713
Profit for the year	**1,454**	3,337
Exchange adjustments (a)	**(282)**	255
Remeasurement of post employment plans net of taxation	**3**	36
Purchase of shares of non-controlling interests (b)	**(62)**	(784)
Dividends to non-controlling interests	**(117)**	(114)
Equity dividends paid	**(1,646)**	(1,623)
Share buyback programme	**(1,256)**	(2,801)
Other reserve movements	**190**	137
Equity at the end of the year	**8,440**	10,156

(a) Exchange movement in the year ended 30 June 2020 primarily arose from exchange losses driven by the Indian rupee, euro and the Turkish lira, partially offset by exchange gains in respect of the US dollar.

(b) In the year ended 30 June 2020, Diageo acquired additional shares in United Spirits Limited for INR 5,495 million (£60 million) and additional shares in Serengeti Breweries Limited for \$3 million (£2 million).
In the year ended 30 June 2019, Diageo acquired additional shares in Sichuan Shuijingfang Company Limited (SJF) which was already controlled and therefore consolidated prior to the transaction.

Post employment plans

The net surplus of the group's post employment benefit plans increased by £148 million from £214 million at 30 June 2019 to £362 million at 30 June 2020. The increase in net surplus is primarily attributable to an increase in the market value of the assets held by the post employment schemes, and the cash contribution paid into the plans in excess of income statement charge. These were partially offset by the change in assumptions in the United Kingdom (including an adverse impact due to the decrease in returns from 'AA' rated corporate bonds used to calculate the discount rates on the liabilities of the post employment plans (from 2.3% to 1.5%) partially offset by a favourable impact of the decrease in inflation rate assumption (from 3.2% to 2.8%)).

The operating profit charge before exceptional items decreased by £3 million from £50 million for the year ended 30 June 2019 to £47 million for the year ended 30 June 2020. The operating profit for the year ended 30 June 2020 includes past service gains of £47 million in respect of the Guinness Ireland Group Pension Scheme (GIGPS), following separate communications to the deferred members in respect of changing their expectations of a full pension prior to reaching the age of 65 and to pensioners in respect of future pension increases (2019 – £54 million credit due to changes made to future pension increases for members of the Diageo Pension Scheme in the United Kingdom and changes to the GIGPS), and curtailment gains of £12 million (2019 – £4 million) mainly in respect of the Diageo Pension Scheme and the GIGPS.

Total cash contributions by the group to all post employment plans in the year ending 30 June 2021 are estimated to be approximately £140 million.

North America

North America is the second largest beverage alcohol market worldwide[1].

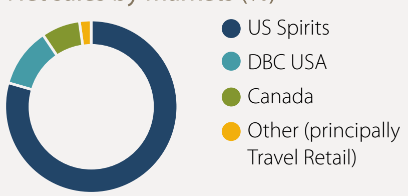
The consumer lies at the heart of our business, which has been more important than ever in the face of shifting consumer behaviours and changes in the external environment. Our focus is on recruiting and re-recruiting consumers into the portfolio through meaningful consumer engagement, sustainable innovation and investments in our brands. Our strategy is enabled by our data driven insights, executional excellence and a consistent focus on developing an advantaged route to market.

1. IWSR, Calendar Year 2019.

Key financials

	2019 £ million	FX £ million	Acquisitions and disposals £ million	Organic movement £ million	Other[(v)] £ million	**2020 £ million**	**Reported movement %**
Net sales	4,460	101	(43)	105	–	**4,623**	**4**
Marketing	762	11	3	(49)	–	**727**	**(5)**
Operating profit before exceptional items	1,948	44	(28)	80	(10)	**2,034**	**4**
Exceptional operating items[(vi)]	–					**54**	
Operating profit	1,948					**2,088**	**7**

Net sales by markets (%)



Net sales by categories (%)

Markets:	**Organic volume movement %**	**Reported volume movement %**	**Organic net sales movement %**	**Reported net sales movement %**
North America	–	(2)	2	4
US Spirits[(ii)]	(1)	(3)	2	3
DBC USA	7	7	8	10
Canada	7	4	7	7
Spirits	–	(3)	2	3
Beer	(7)	(7)	(6)	(4)
Ready to drink	17	17	19	22

Global giants, local stars and reserve[(i)]:	**Organic volume movement[(iii)] %**	**Organic net sales movement %**	**Reported net sales movement %**
Crown Royal	8	8	10
Smirnoff	(1)	(2)	–
Johnnie Walker	(9)	(13)	(11)
Captain Morgan	(3)	(4)	(2)
Don Julio	21	26	29
Ketel One[(iv)]	(2)	(4)	(2)
Guinness	(6)	(5)	(3)
Baileys	–	1	3
Bulleit	5	4	7
Cîroc vodka	(15)	(14)	(13)
Casamigos	61	68	72
Tanqueray	–	–	3

Our markets

Diageo North America is headquartered in New York, having relocated from Norwalk, Connecticut, in January 2020. The business is comprised of US Spirits, Diageo Beer Company USA (DBC USA), and Diageo Canada, headquartered in Toronto.

Supply operations

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

Our new Lebanon, Kentucky whiskey distillery will be carbon neutral, a first for Diageo. With electrified operations, powered by 100% renewable electricity, the distillery will avoid using fossil fuels for production.

Route to consumer

The route to consumer in the United States is through the three-tier system across our spirits and beer portfolio. We have consolidated our U.S. Spirits business into single distributors or brokers in 42 states and the District of Columbia, representing more than 80% of our spirits volume. US Spirits is responsible for the sale of our portfolio of spirits products and manages sales through two divisions focused on Open (distribution through private distributors) and Control (distribution through governmental entities) States. DBC USA sells and markets brands including Guinness and Smirnoff Ice in over 400 beer distributors across the US. Diageo Canada distributes our portfolio of spirits, RTD and beer brands across all Canadian provinces, which operate within a highly regulated federal and provincial system. Diageo Canada manages all sales operations with the provincial liquor control boards and national chain account customers directly, utilising brokers to support execution at the point of sale.

Our strategy in North America is to be consumer-first, occasion-oriented, and focused on developing competitive differentiation in both our brand propositions and our route to consumer.

(i) Spirits brands excluding ready to drink.
(ii) Reported US Spirits volume, and net sales, growth include impacts from the disposal of portfolio of 19 brands to Sazerac.
(iii) Organic equals reported volume movement.
(iv) Ketel One includes Ketel One vodka and Ketel One Botanical.
(v) The adjustment to other operating expenses is the elimination of fair value changes to contingent consideration liabilities in respect of prior year acquisitions.
(vi) For further details on exceptional operating items see pages 130-131.

This includes building key capabilities around commercial execution, Net Revenue Management, E-Commerce and robust performance management all of which is underpinned by data and analytics.

Sustainability and responsibility

We collected nearly 900,000 pledges never to drink and drive through various #JoinThePact initiatives, while Crown Royal and Captain Morgan leveraged their sports partnerships to promote integrated moderation campaigns through advertising and in-stadium activations.

We announced plans for our new Kentucky whiskey distillery to be carbon neutral – a first for Diageo. It will be powered by 100% renewable electricity and will avoid using fossil fuels for the production of whiskey. We also introduced our first 100% recycled PET bottle, with Seagram's 7 Crown.

We improved water use efficiency by 4.4%, saving over 101 million litres this year. We have made meaningful progress in our zero waste to landfill target, identifying and implementing options to eliminate waste to landfill in two remaining sites during the last quarter.

In September, 1,000 employees volunteered a day to local community causes through our Diageo CAREs programme. We trained more than 60 people in specialist hospitality skills through our Learning Skills for Life programme, which we have expanded into New Orleans. In June 2020, we created the Diageo Community Fund, with $20 million to support social justice in America, helping Black communities and businesses recover from Covid-19.

Regional performance

North America delivered net sales growth of 2%, with growth in all three markets, US Spirits, Diageo Beer Company USA and Canada. Strong net sales growth in the first half of the year was only partially offset by lower on-trade sales in the second half. This reflects strong demand in the off-trade channel during Covid-19. US Spirits net sales increased 2%. Tequila net sales grew 36% reflecting strong double-digit growth in Don Julio and Casamigos throughout the year. Crown Royal net sales increased 8% driven by the sustained performance of innovations. Scotch net sales declined 9%. Good growth in Malts was offset by lower sales of Johnnie Walker, as a result of the on-trade channel closure in the second half and lapping the prior year success of "White Walker by Johnnie Walker". Vodka net sales declined 7% due to lower sales of Smirnoff, Ketel One and Cîroc. Bulleit net sales increased 4%. Captain Morgan net sales decreased 5%. Diageo Beer Company USA grew net sales 8% as a result of the continued strong performance of ready to drink products. Beer net sales declined 5% due to the closure of the on-trade channel as a result of Covid-19. Net sales in Canada increased 7% with good broad-based growth across all categories, with the exception of beer, which was more impacted by the on-trade channel closure. North America operating margin increased 75bps. The adverse margin impact from lower fixed cost absorption and a change in category and channel mix resulting from Covid-19 was more than offset by reduced discretionary expenditure.

Market highlights

Net sales in **US Spirits** were up 2%, with depletions ahead of shipments resulting in a reduction in distributor inventories. Don Julio and Casamigos delivered strong double-digit growth and gained share in the rapidly growing tequila category. While the brands were disproportionately impacted by the on-trade closures, an agile response drove strong demand in at-home occasions. Crown Royal grew net sales 8%, gaining further category share, driven by the continued growth of Crown Royal Regal Apple and Crown Royal Vanilla, and the success of the limited time offer, Crown Royal Peach. Johnnie Walker net sales declined 11% and the brand lost share in the scotch category. A decline in net sales in the first half, due to lapping the highly successful limited edition of "White Walker by Johnnie Walker", was exacerbated in the second half by the on-trade channel closure. Malts continued to perform well with growth from Oban and Lagavulin, as well as Talisker and Mortlach. Vodka net sales were down 7%. Lower sales of Ketel One reflect its strong presence in the on-trade channel and a decline in Ketel One Botanical, lapping last year's successful launch. Smirnoff net sales declined, although Smirnoff Zero Sugar Infusions and seasonal innovations, including the Smirnoff Red, White and Berry limited time offer performed well. Cîroc continued to decline. Bulleit net sales were up 4%. An effective marketing approach drove off-trade sales in the second half and continued share gain in US whiskey. Captain Morgan net sales declined 5% and the brand lost share in the rum category. Baileys net sales grew 1% driven by the launch of Baileys Red Velvet limited edition and growth in Baileys Salted Caramel.

Diageo Beer Company USA net sales increased 8%, despite a reduction in distributors' inventories. This reflected ready to drink growth of 19%, with continued strong growth across the Smirnoff range. Strong sales in the second half were supported by a large-scale media campaign to promote Smirnoff's Red, White and Berry limited time offer variants, including Smirnoff Ice and a new Smirnoff Seltzer. Beer net sales declined 5% as a result of the closure of the on-trade and the Guinness Open Gate Brewery. However, beer gained share in the off-trade due to Guinness' success in raising brand awareness and connecting with consumers during the Covid-19 lockdown.

Net sales in **Canada** grew 7%, with good growth across all categories except beer, which was more impacted by the on-trade channel closure. Shipments were slightly ahead of depletions, as customers held more stock to manage volatility in the second half. Vodka grew 6% with Smirnoff No.21 continuing to grow, supported by a new global campaign in the first half and the launch of the redesigned Smirnoff bottle in the second half. Cîroc and Ketel One both grew strongly. Crown Royal grew double-digit, gaining market share and strengthening its leadership position in the growing Canadian whisky category. Performance was supported by the launch of a new "generosity" campaign connecting the brand to its roots, and successful limited time offer innovations. Scotch grew 7%, with Johnnie Walker Black Label remaining the number-one selling scotch in Canada. Ready to drink net sales continued to deliver double-digit growth, with Smirnoff Ice retaining its position as the number-one selling ready to drink in Canada.

Marketing expenses declined 6%. This was due to reduced investment in the second half that we believed would have been ineffective during Covid-19, as well as productivity savings during the year. We believe that our marketing effectiveness tools will enable us to efficiently accelerate investment as consumer demand recovers.

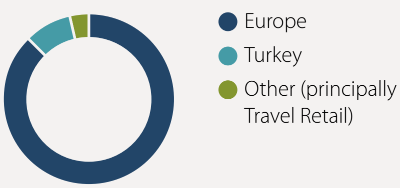
Europe and Turkey

Within the geography of Europe there have been two markets: Europe and Turkey. Across our Europe business we continue to drive execution at scale of our consumer marketing programme and continuously optimising our route to market. We remain focused on executing our strategy through growth of international premium spirits, beer and through premiumisation. Moving forward, we will be structured as six individual markets: Great Britain, Ireland, Turkey, Northern, Southern and Eastern Europe.

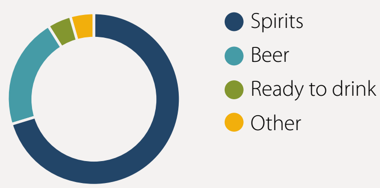
Key financials

	2019 £ million	FX £ million	Acquisitions and disposals £ million	Organic movement £ million	Other[iii] £ million	**2020 £ million**	**Reported movement %**
Net sales	2,939	(23)	9	(358)	–	**2,567**	**(13)**
Marketing	490	(10)	4	(56)	–	**428**	**(13)**
Operating profit before exceptional items	1,014	(7)	(3)	(243)	(4)	**757**	**(25)**
Exceptional operating items[iv]	(18)					**(62)**	
Operating profit	996					**695**	**(30)**

Net sales by markets (%)



Net sales by categories (%)



Markets:	**Organic volume movement %**	**Reported volume movement %**	**Organic net sales movement %**	**Reported net sales movement %**
Europe and Turkey	**(11)**	**(11)**	**(12)**	**(13)**
Europe	**(10)**	**(10)**	**(12)**	**(12)**
Turkey	**(12)**	**(12)**	**(6)**	**(7)**
Spirits	**(11)**	**(11)**	**(11)**	**(11)**
Beer	**(16)**	**(16)**	**(20)**	**(21)**
Ready to drink	**(3)**	**(3)**	**(1)**	**–**

Global giants and local stars[i]:	**Organic volume movement[ii] %**	**Organic net sales movement %**	**Reported net sales movement %**
Guinness	**(19)**	**(20)**	**(21)**
Johnnie Walker	**(17)**	**(20)**	**(21)**
Baileys	**(4)**	**(6)**	**(8)**
Smirnoff	**(14)**	**(11)**	**(12)**
Captain Morgan	**2**	**6**	**6**
Yenì Raki	**(22)**	**(15)**	**(15)**
Tanqueray	**(12)**	**(15)**	**(16)**
J&B	**(18)**	**(17)**	**(17)**

(i) Spirits brands excluding ready to drink.
(ii) Organic equals reported volume movement.
(iii) The adjustment to other operating expenses is the elimination of fair value changes to contingent consideration liabilities in respect of prior year acquisitions.
(iv) For further details on exceptional operating items see pages 130-131.

Our markets

Europe has comprised Great Britain, Ireland, France, Continental Europe (including Northern Europe, Central Europe, Iberia, the Mediterranean and the Europe Partner Markets distribution businesses) and Russia, whilst Turkey is a standalone market. Europe has been managed as a single market with country teams focusing on sales and customer marketing execution but has moved to a six market model, each with end to end accountability.

Supply operations

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

Following the announcement of a £150 million investment in whisky tourism in Scotland in 2018, we have begun the transformation of our Scotch whisky visitor experiences through investment in 12 malt whisky distillery visitor centres with a focus on the 'Four Corners distilleries', Glenkinchie, Caol Ila, Clynelish and Cardhu, celebrating the important role these single malts play in the flavours of Johnnie Walker. Also, as part of the investment programme, construction to create a global flagship visitor experience for Johnnie Walker in Edinburgh city centre is underway.

Route to consumer

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

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

Sustainability and responsibility

In our own operations, we achieved our 2020 targets for greenhouse gas emissions reduction and waste. In the United Kingdom, we have reduced GHG emissions by 69% versus the baseline, attributable to ongoing energy efficiency improvements, fuel switching and renewable energy certificates for indirect and direct energy consumption.

We continued to invest in our Learning for Life hospitality skills programme, adding an initiative in Greece to those in the United Kingdom, Italy, Spain, Ireland, Portugal, the Netherlands, Belgium and Germany. In doing so, we reached over 1,400 people in total across the region. We also provided further support to the Open Doors initiative in Ireland, with funding to establish it as a standalone entity. Open Doors gives opportunities to refugees, asylum seekers and non-native English speakers; young people under 25 with educational barriers; and people with disabilities.

As in all our regions, promoting positive drinking, with a focus on moderation, remains a key priority. Our 'Weekend Not Wasted' campaign to encourage 18-24-year-olds to drink responsibly was viewed by over 4 million people in the United Kingdom, Spain, Denmark and Germany. Our 'Smashed' theatre-based programme to tackle underage drinking, which began in this region, continued to go from strength to strength. Through the programme, we reached 119,000 young people in the United Kingdom, Ireland, Spain, Portugal and Italy.

Regional performance

Europe and Turkey net sales declined 12%. Growth in the first half was more than offset by the impact of Covid-19 in the second half. High on-trade exposure significantly impacted markets across the region through the closures of the channel in many countries. In Europe, beer was particularly impacted, declining 20%. Growth of scotch in the first half was offset by declines in Continental Europe and France in the second half due to on-trade closures. Rum grew 3%, driven by Captain Morgan. Vodka declined 12%, driven mainly by Smirnoff in Continental Europe. Gin declined 9%, driven by declines of Gordon's and Tanqueray mainly in Continental Europe. Travel Retail was also severely impacted. In Turkey, net sales declined 6%, driven by declines in raki and vodka. Total operating margin declined 470bps. Impacts of the closure of the on-trade on volumes and adverse mix, bad debt provisions, along with one-offs and inflationary cost pressures in Turkey more than offset actions driving overhead and marketing spend savings through the second half.

Market highlights

In **Europe**, net sales were down 12%.

In **Great Britain**, net sales declined 4%. Solid first half results were offset by the impact of on-trade closures from March despite an increase in off-trade sales. The impact was further amplified by the cancellation of significant sporting and cultural events. Continued growth in rum and liqueurs were offset by declines in beer, scotch, wine and vodka. Guinness was impacted by on-trade closures and the decision to support customers, and maintain product quality, through a keg return scheme. Focus on e-commerce was upweighted as partnerships were strengthened on activities to drive consumer engagement and sales.

Ireland net sales declined 20%. A soft first half performance was further exacerbated by on-trade closures. Beer declined 22%. Rockshore continued to grow double-digit through Rockshore Cider and high single-digit in Rockshore Lager despite Covid-19 lockdown restrictions. This was offset by declines in Guinness, driven by closure of the on-trade and further impacted by a keg return scheme to support customers and maintain product quality. Total spirits declined 10%, as off-trade sales increases were not sufficient to offset Covid-19 related closures of the on-trade.

In **Continental Europe**, net sales declined 15%.

Iberia net sales were down 22%. Growth in the first half was offset by the impact of lockdowns affecting the on-trade channel and tourism in the second half, which accounts for a high proportion of sales in the market. On-trade investment was placed on hold as resources were deployed to the off-trade to support customers and activations in the off-trade.

In **Central Europe**, net sales declined 9%. Strong double-digit performance in the first half was impacted by on-trade lockdowns across the market in the second half. Captain Morgan performance was flat while Baileys, Smirnoff and Johnnie Walker declined.

In **Northern Europe** net sales declined 1%. Good first half performance was offset by the cancellation of key events and on-trade closures in the second half. Resilient performance due to rum growth, driven by Captain Morgan Original Spiced Rum, and gin driven by Gordon's Premium Pink Distilled Gin and Tanqueray Flor de Sevilla innovations in the second half, was offset by declines in scotch.

In the **Mediterranean Hub**, net sales declined 26%. Growth in the first half was offset by on-trade closures and significantly reduced tourism which severely impacted volume.

In **Europe Partner Markets**, net sales declined 19%. Rum and tequila growth were offset by declines in scotch and beer. Declines were mainly due to lockdowns affecting the on-trade, and while absolute inventory levels were reduced, they remain elevated relative to demand. Guinness also responded with a keg return scheme to support the channel and protect product quality.

Russia net sales were down 8%. Growth in gin was offset by declines in scotch and rum.

France net sales declined 5%. Good growth in rum was offset by a decline in scotch, driven by competitive challenges and category declines in standard scotch, and on-trade closures.

In **Turkey**, net sales declined 6%. Double-digit growth in the first half was offset by on-trade closures from March. Scotch declined 3%, as Bell's growth was offset by Johnnie Walker and VAT 69. Raki declined 9%, with volume declines driven by ongoing impacts from excise increases in the first half and on-trade restrictions. Commercial and marketing teams were repurposed to focus on growth categories and less affected channels.

Marketing investment declined 12%, in line with net sales. On-trade marketing spend was reduced, with some redeployed to digital, while focus was placed on e-commerce partnerships to deliver key celebrations as well as online platforms.

Africa

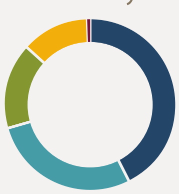
In Africa our strategy is to grow through selective participation in beer and spirits, leveraging a broad range of the Diageo Portfolio. Guinness, Malta and several local brands lead our brewing portfolio while Johnnie Walker and Smirnoff are at the heart of our international premium spirits offerings. Locally we produce a range of mainstream spirits. We operate a fit for purpose operating model building resilience into our business and we drive smart investments to manufacturing, innovations and partnerships to unlock growth.

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

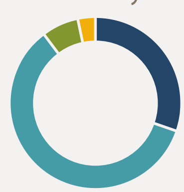
Key financials

	2019 £ million	FX £ million	Acquisitions and disposals £ million	Organic movement £ million	**2020 £ million**	**Reported movement %**
Net sales	1,597	(10)	(41)	(200)	**1,346**	**(16)**
Marketing	174	–	–	(14)	**160**	**(8)**
Operating profit before exceptional items	275	(21)	(3)	(150)	**101**	**(63)**
Exceptional operating items[iv]	–				**(145)**	
Operating profit	275				**(44)**	**(116)**

Net sales by markets (%)



Net sales by categories (%)



Markets:	**Organic volume movement[iii] %**	**Reported volume movement %**	**Organic net sales movement %**	**Reported net sales movement %**
Africa	**(13)**	**(14)**	**(13)**	**(16)**
East Africa	**(11)**	**(11)**	**(10)**	**(9)**
Africa Regional Markets	**(12)**	**(17)**	**(8)**	**(13)**
Nigeria	**(10)**	**(10)**	**(20)**	**(19)**
South Africa	**(23)**	**(25)**	**(25)**	**(33)**
Spirits	**(10)**	**(10)**	**(14)**	**(15)**
Beer	**(16)**	**(16)**	**(13)**	**(13)**
Ready to drink	**(6)**	**(17)**	**(7)**	**(27)**

Global giants and local stars[i]:	**Organic volume movement[ii] %**	**Organic net sales movement %**	**Reported net sales movement %**
Guinness	**(17)**	**(16)**	**(16)**
Johnnie Walker	**(8)**	**(18)**	**(19)**
Smirnoff	**(25)**	**(23)**	**(25)**
Malta	**(16)**	**(10)**	**(13)**
Senator	**(16)**	**(13)**	**(12)**
Tusker	**(22)**	**(20)**	**(20)**
Serengeti	**15**	**19**	**22**

(i) Spirits brands excluding ready to drink.
(ii) Organic equals reported volume movement.
(iii) Africa, Africa Regional Markets, South Africa and Ready to drink reported volume movement impacted by acquisitions and disposals.
(iv) For further details on exceptional operating items see pages 130-131.

Our markets

The region comprises East Africa (Kenya, Tanzania and Uganda), Africa Regional Markets (Ghana, Cameroon, Ethiopia, Indian Ocean and Angola), Nigeria and South Africa.

Supply operations

We have 13 breweries in Africa and ten facilities which provide blending and malting services. In the year ended 30 June 2020 we completed the disposal of our sorghum beer business and our cider plant in South Africa.

In addition, our beer and spirits brands are produced under licence by third parties in 14 African countries and distribute beer and spirits through several 3rd party relationships across the region. In the year ended 30 June 2020 we agreed a contract for AB InBev to manufacture, sell and market Smirnoff ready to drink products and Guinness in South Africa.

Route to consumer

Diageo has wholly owned entities in South Africa, Cameroon, Ethiopia, and Reunion. It has controlling stakes in East Africa Breweries Limited (EABL), Guinness Nigeria, Guinness Ghana and Seychelles Breweries Limited and a majority stake in a JV in Angola. In addition, Diageo has contract brewing arrangements in several countries across the region, most notably with the Castel Group as well as spirits distribution contracts in almost 30 countries.

Sustainability and responsibility

Across Africa, more than 78,600 smallholder farmers and suppliers provide us with our raw materials, and we work with farmers to improve crop yield, livelihoods, and environmental and labour standards. We sourced 79% of agricultural raw materials locally within Africa for use by our African markets, compared with 82% last year. This percentage fell slightly as Covid-19 restrictions pushed us just below our target of 80%.

In 2019, we announced a £180 million investment in 11 breweries across Africa that include solar and biomass energy, and water treatment plants. We also co-founded the Africa Plastics Recycling Alliance, through which this year we secured regulatory approval in Nigeria for the use of rPET (recycled polyethylene terephthalate), which will encourage rPET investment. In Nigeria, through our partnership with the Food Beverage Recycling Alliance and Lagos State WaterWays Authority, we launched a clean-up programme to remove plastic waste from water sources in Lagos. In Ghana, we began monthly community clean-ups and a plastics buy-back programme, and continued to develop the pioneering GRIPE partnership to build plastic collection, recycling and reprocessing infrastructure.

Through our ongoing partnership with the NGO WaterAid, we brought clean water and a sanitation programme to 21,000 people in Nigeria. And, with partners such as Amref Health Kenya, the Kenya Red Cross and WaterHealth International, we reached over 173,000 people across Ghana, Kenya, South Africa, Uganda, Ethiopia, Tanzania, Chad and Cameroon. In Kenya, we worked with Nature Kenya, Kenya Forest Services, and community forest associations to plant 180,000 trees in Kisumu county, where our new brewery is located.

To promote positive drinking, this year we signed up 1.1 million pledges never to drink and drive in Nigeria through #JoinThePact. Through our 'Smashed' theatre-based programme, we educated 80,000 young people across the region about the dangers of underage drinking.

Regional performance

Africa net sales declined 13%. Growth in the first half was offset by the impact of Covid-19 in the second half. East Africa declined 10% where continued beer growth in Tanzania was offset by lockdown closures affecting the on-trade in Kenya and Uganda. Net sales in Nigeria declined 20%, driven by double-digit declines in beer and scotch. In South Africa, net sales declined 25%, driven by scotch and vodka, as a result of both on-trade and off-trade closures and a troubled economic climate. Africa Regional Markets declined 8%, as strong beer growth in Ghana was offset by on-trade closures and the impact of significant excise increases in Ethiopia. Beer declined 13% as growth of Serengeti was offset by other key beer brands, including Guinness, Tusker and Senator, mainly due to on-trade closures. Spirits declined 14%, mainly impacting Johnnie Walker, Kenya Cane and Smirnoff. Operating margin declined 877bps, driven mainly by volume losses that caused lower fixed cost absorption and excise duty increases. These were partially offset by marketing spend savings and improved overhead management.

Market highlights

In **East Africa**, net sales declined 10%. Strong first half growth, and a continuation of resilient sales growth in Tanzania in the second half, was offset by volume declines in other markets. Tanzania grew 14% as it was minimally impacted by limited Covid-19 related lockdowns, and benefitted from the ongoing successes of Serengeti Lager and Serengeti Lite. Kenya declined 14%, driven by the high exposure to on-trade closures impacting Senator Keg and other beer sales, which was partially offset by vodka, driven by double-digit growth in Chrome and Triple Ace. Increased focus in the off-trade and e-commerce channels partially recovered lost on-trade sales.

In **Africa Regional Markets**, net sales declined 8%. Resilient growth in Ghana during the year was offset by double-digit declines in Cameroon and Ethiopia. Due to the impact of Covid-19 in the second half, beer and spirits inventory levels were reduced. Ghana grew 5%, driven by continued success of the ABC Lager innovation and Malta Guinness growth, which addressed consumer shifts for portability and non-returnable formats throughout lockdown. Cameroon declined 15% due to one-off production challenges in the first half, with the second half impacted by Covid-19 driving declines in Guinness in the on-trade. Ethiopia declined 24%, as beer and international premium spirits growth was impacted by excise increases, supply issues and the impact of on-trade closures. Impacts of shutdowns were partially offset as markets reprioritised brand packs to capture off-trade consumer shifts.

In **Nigeria**, net sales declined 20%. First half growth was offset by volume impacts from Covid-19 restrictions as it exacerbated an already challenging economic climate; while VAT and spirits excise increases also impacted consumer demand in a competitive environment. Robust performance of Orijin Bitters, successful spirits innovations, and increased at-home consumption, were offset by declines in beer. Malta Guinness and Guinness were impacted by on-trade closures. Increased focus on the off-trade and e-commerce channels, through the introduction of trade telesales and consumer platforms together with an online store, reduced some impacts of lockdown.

South Africa net sales declined 25%. Economic and social challenges in the first half were further exacerbated by the banning of alcohol sales across all channels from 27 March to 31 May. While absolute inventory levels were reduced, they remain elevated relative to demand. Scotch and vodka were most affected with double-digit declines, as a result of the softening economic climate and consumer shifts into the mainstream gin category.

Marketing investment declined 8%. We rapidly reacted to consumer shifts in the second half, through telesales, pack reprioritisation and the redeployment of investment to e-commerce and the off-trade.

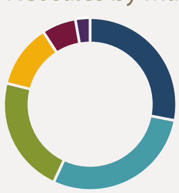
Latin America and Caribbean

In Latin America and Caribbean our strategic priority is to continue to lead with scotch, while broadening our category range through tequila, gins, vodka, rum, liqueurs and local spirits. As the industry leaders in spirits, we continue to strategically expand our reach and the breadth and depth of our portfolio of leading brands. Simultaneously, we are enhancing our supply structure enabling the business to widen our price points, providing both the emerging middle class, and an increasing number of affluent consumers with the premium brands they aspire to buy. Our presence is strengthened by our stance on responsible drinking and community development programmes.

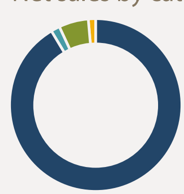
Key financials

	2019 £ million	FX £ million	Reclassification[i] £ million	Acquisitions and disposals £ million	Organic movement £ million	Other[ii] £ million	**2020 £ million**	**Reported movement %**
Net sales	1,130	(42)	(10)	(1)	(169)	–	**908**	**(20)**
Marketing	201	(7)	(10)	–	(29)	–	**155**	**(23)**
Operating profit before exceptional items	365	(26)	–	–	(107)	16	**248**	**(32)**
Exceptional operating items[v]	–						**(6)**	
Operating profit	365						**242**	**(34)**

Net sales by markets (%)



Net sales by categories (%)



Markets:	**Organic volume movement %**	**Reported volume movement %**	**Organic net sales movement %**	**Reported net sales movement %**
Latin America and Caribbean	**(15)**	**(15)**	**(15)**	**(20)**
PUB	**(14)**	**(14)**	**(7)**	**(17)**
Mexico	**(14)**	**(14)**	**(19)**	**(21)**
CCA	**(17)**	**(18)**	**(16)**	**(16)**
Andean	**2**	**3**	**8**	**(2)**
PEBAC	**(29)**	**(29)**	**(44)**	**(47)**
Spirits	**(16)**	**(16)**	**(16)**	**(21)**
Beer	**(10)**	**(10)**	**(9)**	**(11)**
Ready to drink	**–**	**–**	**8**	**2**

Global giants and local stars[iii]:	**Organic volume movement[iv] %**	**Organic net sales movement %**	**Reported net sales movement %**
Johnnie Walker	**(27)**	**(29)**	**(33)**
Buchanan's	**(15)**	**(14)**	**(17)**
Old Parr	**(17)**	**(16)**	**(20)**
Smirnoff	**(7)**	**4**	**(2)**
Black & White	**(9)**	**(10)**	**(18)**
Tanqueray	**6**	**17**	**7**
Baileys	**(15)**	**(13)**	**(21)**

(i) For the year ended 30 June 2019 trade investment of £10 million have been reclassified from marketing to net sales.
(ii) The adjustment to cost of sales reflects the elimination of fair value changes for biological assets in respect of growing agave plants. The adjustment to other operating expenses is the elimination of fair value changes to contingent consideration liabilities in respect of prior year acquisitions.
(iii) Spirits brands excluding ready to drink.
(iv) Organic equals reported volume movement.
(v) For further details on exceptional operating items see pages 130-131.

Our markets

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

Supply operations

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

Route to consumer

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

Sustainability and responsibility

We continued to focus on environmental improvements, particularly around water. In Brazil, we are constructing a new facility in Ceará state, which will bring together production from two existing sites. It will use solar energy, and water and effluent treatment facilities to reduce water consumption in beverage production by up to 40%. In Mexico, we plan to reuse over 25% of the water involved in production. This year we completed the expansion of our production site in Jalisco, Mexico, which includes our largest water treatment plant in the region, and a boiler powered by wood chips and bagasse, a by-product of agave.

We have worked hard to promote positive drinking, especially around reducing drink driving through our partnership with the United Nations Institute for Training and Research (UNITAR). In Brazil, we work with UNITAR and other stakeholders to support UNITAR's programmes to promote road safety. In the Dominican Republic we work with UNITAR, the International Alliance for Responsible Drinking, and other industry partners to help the government with its breathalyser programme, including through training and by donating equipment for checkpoints.

We also focused on reducing underage drinking through local adaptations of our 'Smashed' theatre-based programme. This year, in Brazil we reached 80,000 young people through live and online versions of 'Fala Sério'; in Peru, we reached 4,700 students in the second year of 'La Bomba'; in Colombia we reached more than 13,000 students with 'Sacúdete'; and in Mexico, we reached 5,200 teachers, parents and 7-9-year-olds with 'Teiquirisi Club'.

Our Learning for Life programmes continue to promote skills in the hospitality industry. This year, we began a new, 100% online programme of training in entrepreneurial skills for women in Atotonilco, Mexico, where we produce Don Julio. We also supported 'Weaving the Future' in Ceará, Brazil, for women in prison, reaching over 40 women so far. Through the programme they receive personal skills training, as well as technical and professional training in carnauba straw craftsmanship, to help them prepare for a better life when they are released.

Regional performance

Latin America and Caribbean net sales declined 15%. Performance in the second half continued to be impacted by economic and socio-political pressures in key markets compounded by the impact of the Covid-19 pandemic. All markets declined except Andean which grew 8% due to a strong first half and continued momentum in scotch in Colombia. Scotch overall declined 21% as growth in Buchanan's in Colombia and Brazil, and White Horse in Brazil, were offset by declines in Johnnie Walker across the region. Gin grew double-digit primarily driven by Tanqueray in Brazil. Tequila was down 11% as strong Don Julio performance in Caribbean and Central America was more than offset by a decline in Mexico. Operating margin for the region was down 544bps due to the adverse impact of product mix and lower fixed cost absorption despite actions taken to reduce discretionary spend.

Market highlights

In **PUB** (Paraguay, Uruguay and Brazil), net sales declined 7%, mainly driven by scotch declining 11% across the market. Brazil declined 5% as a solid first half was fully offset by Covid-19 on-trade closures and domestic and foreign travel restrictions. Momentum in gin continued as Tanqueray and Gordon's grew double digit supported by major marketing campaigns. In Brazil, scotch net sales declined 6% as double-digit growth of White Horse and Buchanan's was offset by declines in Johnnie Walker and Black & White. Johnnie Walker decline was driven by a strong reliance on the on-trade and border stores as well as the weakening economy and devaluation impacting consumption. Super-premium scotch remained resilient through actions taken to address the at-home occasion via digital activations and supporting availability of cocktail offerings.

In **Mexico**, net sales were down 19% as the economic slowdown continued into the second half and was amplified by Covid-19, including the reduction of on-trade wholesaler inventory and stock returns to support customers. Despite this, the successful Smirnoff X1 Spicy Tamarind innovation delivered strong growth building on local cues and strong activations. This was fully offset by the softening of the scotch category, challenging trading conditions in the first half, and declines in Don Julio due to competitive pricing pressure. Tequila production was secured amidst non-essential business closures along with an enhanced focus on e-commerce and off-trade partnerships.

In **CCA** (Caribbean and Central America), net sales decreased 16% as broad-based growth in the first half was subsequently disrupted by restrictions to curtail the spread of Covid-19. The tequila category grew during the year driven by double-digit growth of Don Julio led by strong activations, however all other categories declined due to reduced tourism, on-trade closures and Covid-19 related bans of alcohol sales. At-home occasion promotions and the launch of e-commerce platforms with our partners partially offset net sales declines.

Andean (Colombia and Venezuela) net sales increased 8% driven by Colombia. Scotch net sales grew mid-single digit driven by Buchanan's, as double digit first half sales growth was followed by a resilient second half. Johnnie Walker was flat as on-trade closures muted strong first half performance of Johnnie Walker Red Label and Johnnie Walker Black Label. Brands such as Buchanan's, Baileys and Smirnoff X1 Lulo benefitted from an agile shift of activations to at-home consumption, streamlined route to consumer solutions and the refocusing of resources to e-commerce throughout the Covid-19 lockdown.

PEBAC (Peru, Ecuador, Bolivia, Argentina and Chile) net sales declined 44% driven by continued social unrest across key markets compounded by the impact of Covid-19. Scotch declined significantly, however category share leadership was maintained across PEBAC benefiting from new and existing distribution partnerships. Strong double-digit growth of Smirnoff No.21 as it lapped a softer comparable period and the successful Smirnoff Bitter Citric innovation continued to drive vodka in Argentina.

Marketing investment was down 15%, in line with the decline in net sales. Despite cost mitigations in the second half, support was continued behind key brands and home occasions with #homehour #digitaldrink #onlinedrinkswithfriends and 'Digital Golden Hour' campaigns.

Asia Pacific

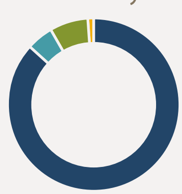
In Asia Pacific our focus is to grow in both developed and emerging markets across our entire portfolio ranging from international and local spirits to ready to drink formats and beer. We have a clear long-term strategy that enables us to allocate resources behind brands that win in key consumer occasions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

Key financials

	2019 £ million	FX £ million	Acquisitions and disposals £ million	Organic movement £ million	**2020 £ million**	**Reported movement %**
Net sales	2,688	5	–	(423)	**2,270**	**(16)**
Marketing	412	–	–	(47)	**365**	**(11)**
Operating profit before exceptional items	703	5	–	(207)	**501**	**(29)**
Exceptional operating items[i]	(35)				**(1,198)**	
Operating profit	668				**(697)**	**(204)**

Net sales by markets (%)

Net sales by categories (%)



Markets:	**Organic volume movement[i] %**	**Reported volume movement %**	**Organic net sales movement %**	**Reported net sales movement %**
Asia Pacific	**(15)**	**(15)**	**(16)**	**(16)**
India	**(15)**	**(15)**	**(17)**	**(16)**
Greater China	**(4)**	**(4)**	**(7)**	**(7)**
Australia	**5**	**5**	**6**	**2**
South East Asia	**(19)**	**(20)**	**(23)**	**(21)**
North Asia	**(18)**	**(17)**	**(15)**	**(14)**
Travel Retail Asia and Middle East	**(47)**	**(47)**	**(46)**	**(47)**
Spirits	**(15)**	**(15)**	**(16)**	**(15)**
Beer	**(11)**	**(11)**	**(12)**	**(10)**
Ready to drink	**(4)**	**(4)**	**(1)**	**(5)**

Global giants and local stars[ii]:	**Organic volume movement[iii] %**	**Organic net sales movement %**	**Reported net sales movement %**
Johnnie Walker	**(23)**	**(25)**	**(24)**
McDowell's	**(17)**	**(15)**	**(15)**
Shui Jing Fang[iv]	**(9)**	**(16)**	**(16)**
Guinness	**(10)**	**(12)**	**(10)**
The Singleton	**(5)**	**(1)**	**2**
Royal Challenge	**(15)**	**(15)**	**(14)**
Windsor	**(44)**	**(26)**	**(28)**

(i) For further details on exceptional operating items see pages 130-131.
(ii) Spirits brands excluding ready to drink
(iii) Organic equals reported volume movement.
(iv) Growth figures represent total Chinese white spirits of which Shui Jing Fang is the principal brand.

Our markets

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

Supply operations

We have distilleries in Chengdu, China that produce Baijiu and in Bundaberg, Australia that produce Bundaberg Rum. Our manufacturing plant in Bali produces the highest quality spirits for the Indonesian market. United Spirits Limited (USL) in India operates 16 manufacturing sites across the country. In addition, USL and Diageo brands are also produced under licence by third party manufacturers. We have bottling plants in Thailand and Australia with ready to drink manufacturing capabilities.

Route to consumer

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

In Greater China our market presence is established through our 63.14% equity investment in Sichuan Shuijingfang Company Limited which manufactures and sells baijiu, and our wholly owned entity Diageo China Limited, which sells Diageo brands, and a joint venture arrangement with Moët Hennessy where administrative and distribution costs are shared. Diageo operates a wholly owned subsidiary in Taiwan.

In India, we manufacture, market and sell Indian whisky, rum, brandy and other spirits through our 55.94% shareholding in USL. Diageo also sells its own brands through USL.

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

Sustainability and responsibility

Tackling drink driving and underage drinking remain priorities for us across the region. In Thailand and the Philippines, we have been building on our partnership with the United Nations Institute for Training and Research (UNITAR) to address road safety, including by gathering 48,500 pledges in Thailand never to drink and drive through #JoinThePact. In India, we trained 2,942 enforcement officials on road safety and gathered 3 million pledges never to drink and drive through our 'Road to Safety' programme. To combat underage drinking, we brought our 'Smashed' theatre-based programme to the region and are now running it with local partners in Thailand, Taiwan, Indonesia, Australia and New Zealand. So far, we have reached more than 28,000 young people, parents and teachers, and in Australia we ran a live performance for the Federal Parliament. Human rights, the environment and empowering communities are issues that go hand-in-hand. In Tabanan, Bali, for example, we are supporting the local community through a multi-year eco-tourism project; while in India, our 'water ATM' programme is empowering women as entrepreneurs to run businesses that give people access to clean, low-cost drinking water. This year, 200 women joined the intervention, providing water for over 44,000 people. We were also proud that, in India, as reported last year, we delivered our 2020 carbon emissions and water efficiency targets 12 months ahead of schedule.

Regional performance

Asia Pacific net sales declined 16%. Despite growth in the first half for the region, all markets other than Australia declined due to the impact of Covid-19. Greater China declined 7% as scotch, liqueurs and beer growth was offset by declines in Chinese white spirits. Australia net sales grew 6%, driven by ready to drink, liqueurs, gin and scotch. India net sales declined 17%, driven by the continued economic slowdown exacerbated by lockdowns impacting both Prestige and Above and Popular segments. South East Asia declined 23%, driven by scotch in Key Accounts and beer in Indonesia. North Asia declined 15%, driven by double-digit decline in scotch, partially offset by beer growth. In Travel Retail Asia and Middle East, net sales declined 46%, as first half declines were further exacerbated by significant declines of travellers due to Covid-19. Scotch declined 20%, driven by Johnnie Walker in Travel Retail Asia and Middle East, South East Asia, and Korea. Operating margin declined 420bps driven mainly by volume loss due to closures which caused lower fixed cost absorption. These impacts were partially offset by a reduction of marketing spend and overhead savings.

Market highlights

In **India**, net sales declined 17%. First half growth was impacted principally by an economic slowdown which was further exacerbated in the second half by the 42 day nationwide total lockdown of on-trade and off-trade alcohol sales, regulatory changes and continuation of on-trade closures thereafter. Prestige & Above declined 14%, driven by IMFL whisky and scotch. Popular brands declined 23%, driven by Old Tavern Whisky and McDowell's No. 1 Rum. These declines were partially offset by Innovation growth in McDowell's No.1 Luxury and Captain Morgan. Trade investment was optimised and refocused in the off-trade.

In **Greater China**, net sales declined 7%. Strong performance in scotch, liqueur and beer was offset by a decline in Chinese white spirits. Chinese white spirits declined 16%, as strong first half growth was offset by the impact of Covid-19 on the key Chinese New Year consumption period with consequential reduced sales and inventory reductions through the second half. Resilient scotch growth of 3%, was driven by malts and Johnnie Walker super deluxe growth in Mainland China along with continued growth in malts and Johnnie Walker super deluxe innovation in Taiwan. Beer grew 12% as it lapped a weaker prior year and supported by the launch of the first Guinness Gatehouse in Shanghai. Increased focus behind e-commerce drove improved digital consumer engagement and food delivery partnerships to address at-home consumption, softened the impact of lockdown driven volume losses.

Australia net sales grew 6%. Strong first half growth was partially offset by a weaker but still solid second half performance despite Covid-19 lockdowns. This was mainly due to low exposure to the on-trade and a focus on accelerating e-commerce activities. Scotch grew 4%, driven by the new Johnnie Walker "Game of Thrones Limited Editions A Song of Fire and A Song of Ice" innovations. Rum grew 4%, driven by Captain Morgan and continued growth in Bundaberg. Gin grew double-digit and ready to drink grew 6%, as growth in the core brands was complimented by innovation in both categories such as Gordon's Premium Pink Distilled Gin and Tanqueray Flor de Sevilla.

In **South East Asia**, net sales declined 23%. Solid growth in Vietnam, driven by Johnnie Walker super deluxe and malts, was offset by Covid-19 related lockdowns across the region. Thailand declined 24%, driven by on-trade closures. Key Accounts declined double-digit due to Covid-19 and a stock-return customer support programme in the second half. Indonesia declined double-digit mainly due to lockdowns impacting Guinness. Activities were upweighted to focus on at-home and small group consumer occasion trends.

In **North Asia**, net sales declined 15%, with double-digit declines in Japan and Korea. In Japan, declines in the first half were further exacerbated by on-trade lockdowns. In Korea, scotch declined 23%, driven by continued category contraction, regulatory changes limiting trade spend for wholesalers and venues affecting the category, on-trade closures and a reduction of inventory levels. This was partially offset through strong beer growth, driven by Hop House 13 Lager as it lapped launch in the prior period. Increased investment behind the off-trade in South Korea, especially through digital campaigns, contributed to increased at-home consumption.

In **Travel Retail Asia and Middle East**, net sales declined 46%. First half performance was impacted by challenging trading conditions in the Middle East including some reduction of inventory levels. In the second half the global travel channel was severely impacted by Covid-19 travel restrictions, with significant declines of passengers. While absolute inventory levels were reduced, it remains at a high level relative to ongoing reduced passenger travel.

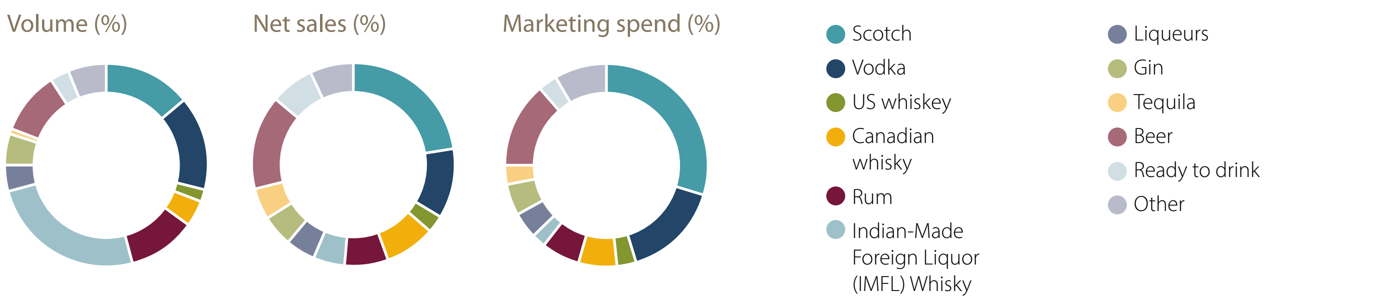
Marketing investment declined 11%, as variable trade investment was repurposed and redeployed into the off-trade and e-commerce channel, which focused on home delivery and at-home consumption.

Category review

Key categories

	Organic volume movement[iii] %	Organic net sales movement %	Reported net sales movement %
Spirits[i]	**(11)**	**(8)**	**(8)**
Scotch	**(16)**	**(17)**	**(17)**
Vodka[ii][iv]	**(8)**	**(8)**	**(8)**
Canadian whisky	**7**	**8**	**8**
Rum[ii]	**(11)**	**(7)**	**(7)**
Liqueurs	**(4)**	**(4)**	**(5)**
Indian-Made Foreign Liquor (IMFL) whisky	**(14)**	**(14)**	**(13)**
Tequila	**12**	**25**	**27**
Gin[ii]	**(9)**	**(4)**	**(5)**
US whiskey	**(1)**	**3**	**4**
Beer	**(15)**	**(15)**	**(15)**
Ready to drink	**5**	**8**	**3**

(i) Spirits brands excluding ready to drink.
(ii) Vodka, rum, gin including IMFL brands.
(iii) Organic equals reported volume movement except for vodka (10)%, Canadian whisky 6%, rum (12)%, liqueurs (5)% and ready to drink 1%, which were impacted by acquisitions and disposals.
(iv) Vodka includes Ketel One Botanical.



Scotch

Scotch represents 23% of Diageo's net sales and declined by 17%. Soft performance in the first half was impacted by ongoing commercial challenges along with political and economic disruption which continued through the year. This was further exacerbated by Covid-19 in the second half. Johnnie Walker declined 22% where growth in Ethiopia, Canada and Australia was offset by most other markets. The brand also lapped strong innovation in the prior year. Buchanan's declined 12% with double-digit growth in Colombia, primarily offset by continued declines in Mexico due to category softness. J&B declined 18% as global lockdowns exacerbated ongoing challenges for the brand in Continental Europe. Old Parr declined 15%, driven by downtrading to primary scotch and the impact of lockdown restrictions in Latin America and Caribbean. The malts portfolio, whilst in growth in the first half, declined over the full year. Scotch innovations such as the collaborations with HBO's Game of Thrones and Johnnie Walker Black Label 12 Year Old Origin Series were not enough to offset prior year.

Vodka

Vodka represents 11% of Diageo's net sales and declined by 8%. Challenging performance in the first half was further exacerbated by some category declines and on-trade closures. Smirnoff declined 6% globally, where growth in Mexico and Canada were offset by declines in Continental Europe, Africa, Brazil and US Spirits. Ketel One declined 6% driven mainly by US Spirits where on-trade sales mix was relatively stronger and also lapping the first full year of the Ketel One Botanical innovation. Cîroc declined 17%, driven by continued performance challenges, mainly in US Spirits. Innovations across the vodka portfolio, such as Smirnoff X1 Spicy Tamarind in Mexico, and limited time offers such as Cîroc White Grape, partially offset the declines in other brands and variants.

Canadian whisky

Canadian whisky represents 8% of Diageo's net sales and grew 8%. Crown Royal in US Spirits grew 8% as it gained further category share despite a single digit decline in Crown Royal Deluxe. Positive results were driven by the sustained media investment enabling further momentum across the portfolio including continued double-digit growth of Crown Royal Regal Apple and Crown Royal Vanilla, and the success of the limited time offer variant Crown Royal Peach. In Canada, Crown Royal grew double-digit, gaining market share and strengthening its leadership position in the growing category.

Rum
Rum represents 7% of Diageo's net sales and declined by 7%. Growth in the first half was offset by declines due to some category challenges and Covid-19 impacts in US Spirits, India and East Africa. In Europe, Captain Morgan growth was partially offset by declines of Zacapa.

Liqueurs
Liqueurs represent 5% of Diageo's net sales and declined by 4%. Strong Baileys growth in the first half was offset by the impact of Covid-19, as increased off-trade growth, due to successful at-home activities, was not sufficient to fully mitigate the impact of on-trade closures.

IMFL
IMFL whisky represents 5% of Diageo's net sales and declined 14%. Growth in first half was offset by the on-going economic slowdown impacting the category, and nationwide Covid-19 lockdowns closing both on and off-trade outlets and major sporting events.

Tequila
Tequila represents 5% of Diageo's net sales and grew 25%. Casamigos was up strong double-digit despite on-trade closures driven by strong category momentum in key markets and actions taken to strengthen its position in at-home occasions. Don Julio was up 15%, as continued growth in US Spirits was partially offset by Mexico declines due to competitor pricing pressures and lockdowns in the second half.

Gin
Gin represents 5% of Diageo's net sales and declined by 4%. Resilient full year performance in Brazil and Australia was offset by the impact of lockdowns, mainly in Europe.

US whiskey
US whiskey represents 3% of Diageo's net sales and grew by 3%. Bulleit grew 4% in US Spirits, where it has been gaining category share, and in Canada grew 14%, despite lockdowns. Bulleit strengthened its positioning in the at-home occasion during Covid-19 with effective marketing campaigns across TV and social media.

Beer
Beer represents 15% of Diageo's net sales and declined by 15%. Good first half performance was offset by declines in all regions in the second half driven by on-trade closures and excise increases in Africa. Guinness declined 16%, as growth of Guinness Draught in Can was offset by on-trade volume declines in most markets. The on-trade decline was exacerbated by the Guinness keg return programme to support the on-trade and maintain product quality across Europe and North America. Serengeti continued to grow double-digit in East Africa but was offset by the decline in Senator Keg and Tusker which are highly exposed to the on-trade. Nigeria declined due to the challenging economic environment, and declines in Kenya and Ethiopia were due to excise increases, with all three markets further impacted by lockdowns. Rockshore continued to grow double-digit driven by Rockshore Cider and Rockshore Lager despite on-trade closures.

Global giants, local stars and reserve[i]:

	Organic volume movement[ii] %	Organic net sales movement %	Reported net sales movement %
Global giants			
Johnnie Walker	(20)	(22)	(22)
Smirnoff	(9)	(6)	(6)
Baileys	(3)	(3)	(3)
Captain Morgan	(2)	(2)	–
Tanqueray	(5)	(4)	(4)
Guinness	(15)	(16)	(16)
Local stars			
Crown Royal	7	8	10
Yenì Raki	(22)	(15)	(15)
Buchanan's	(14)	(12)	(13)
J&B	(18)	(18)	(18)
Windsor	(44)	(26)	(28)
Old Parr	(17)	(15)	(19)
Bundaberg	3	–	(4)
Black & White	(7)	(5)	(10)
Ypióca	(17)	(14)	(24)
McDowell's	(17)	(15)	(15)
Shui Jing Fang[iii]	(9)	(16)	(16)
Reserve			
Scotch malts	(5)	(3)	(1)
Cîroc vodka	(17)	(17)	(16)
Ketel One[iv]	(4)	(6)	(4)
Don Julio	(1)	15	16
Bulleit	4	3	6

(i) Spirits brands excluding ready to drink.
(ii) Organic equals reported volume movement.
(iii) Growth figures represent total Chinese white spirits of which Shui Jing Fang is the principal brand.
(iv) Ketel One includes Ketel One vodka and Ketel One Botanical.

Ready to drink
Ready to drink represents 7% of Diageo's net sales and grew 8% driven by Diageo Beer Company USA, Canada, and Australia. Smirnoff Ice Flavour innovations in Diageo Beer Company USA, Smirnoff Ice Smash and Smirnoff Spiked Seltzers all contributed to growth.

Global giants
Global giants represent 39% of Diageo's net sales and declined by 13%. This was driven by declines in Johnnie Walker and Guinness across all regions, while Smirnoff declined in all regions except for Latin America and Caribbean. Good first half performance for all brands except Johnnie Walker was offset by global lockdowns in the second half. Johnnie Walker performance was also impacted by a continuation of political, and economic challenges in some emerging markets, as well as lapping "White Walker by Johnnie Walker" innovation last year.

Local stars
Local stars represent 20% of Diageo's net sales and declined by 7%. Continued growth of Crown Royal in US Spirits was offset by declines, mainly in Chinese white spirits in China, McDowell's in India, Buchanan's in Latin America and Caribbean and US Spirits and J&B in Iberia and South Africa due to imposed lockdowns. Windsor continued to decline in Korea exacerbated by on-trade closures.

Reserve
Reserve brands represent 21% of Diageo's net sales and declined 4%. Continued growth in Don Julio and Casamigos in US Spirits were offset by declines in Chinese white spirits, Johnnie Walker Reserve variants, Cîroc and Ketel One.

Definitions and reconciliation of non-GAAP measures to GAAP measures

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

It is not possible to reconcile the forecast tax rate before exceptional items and forecast organic operating profit increases to the most comparable GAAP measures as it is not possible to predict, without unreasonable effort, with reasonable certainty, the future impact of changes in exchange rates, acquisitions and disposals and potential exceptional items.

Volume

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

Organic movements

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

Calculation of organic movements

The organic movement percentage is the amount in the row titled 'Organic movement' in the tables below, expressed as a percentage of the absolute amount in the associated relevant row titled '2019 adjusted'. Organic operating margin is calculated by dividing operating profit before exceptional items by net sales after excluding the impact of exchange rate movements, certain fair value remeasurement and acquisitions and disposals.

(a) Exchange rates

'Exchange' in the organic movement calculation reflects the adjustment to recalculate the reported results as if they had been generated at the prior period weighted average exchange rates.

The group changed its method of calculating the exchange impact used to calculate organic growth in its results during the year ending 30 June 2020. 'Exchange' in the organic movement calculation now reflects the adjustment to recalculate the reported results as if they had been generated at the prior period weighted average exchange rates. Previously, Diageo had calculated the exchange adjustment included in the organic calculation by translating the prior period results at the current period exchange rates. The change simplified processes by aligning management and organic reporting and is more consistent with how Diageo's peer group report.

Exchange impacts in respect of the external hedging of intergroup sales by the markets in a currency other than their functional currency and the intergroup recharging of services are also translated at prior period weighted average exchange rates and are allocated to the geographical segment to which they relate. Residual exchange impacts are reported as part of the Corporate segment.

(b) Acquisitions and disposals

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

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

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

(c) Exceptional items

Exceptional items are those that in management's judgement need to be disclosed separately. Such items are included within the income statement caption to which they relate, and are excluded from the organic movement calculations. It is believed that separate disclosure of exceptional items and the classification between operating and non-operating further helps investors to understand the performance of the group.

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

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

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

(d) Fair value remeasurement

Fair value remeasurement in the organic movement calculation reflects an adjustment to eliminate the impact of fair value changes in biological assets and fair value changes relating to contingent consideration liabilities and equity options that arose on acquisitions recognised in the income statement.

Organic movement calculations for the year ended 30 June 2020 were as follows:

	North America million	Europe and Turkey million	Africa million	Latin America and Caribbean million	Asia Pacific million	Corporate million	Total million
Volume (equivalent units)							
2019 reported	49.4	45.4	33.6	22.4	95.1	–	245.9
Disposals(v)	(2.1)	(0.1)	(2.7)	–	–	–	(4.9)
2019 adjusted	47.3	45.3	30.9	22.4	95.1	–	241.0
Organic movement	**0.1**	**(5.2)**	**(4.0)**	**(3.4)**	**(14.5)**	**–**	**(27.0)**
Acquisitions and disposals(v)	**1.0**	**0.1**	**1.9**	**–**	**–**	**–**	**3.0**
2020 reported	**48.4**	**40.2**	**28.8**	**19.0**	**80.6**	**–**	**217.0**
Organic movement %	**–**	**(11)**	**(13)**	**(15)**	**(15)**	**–**	**(11)**

	North America £ million	Europe and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	Corporate £ million	Total £ million
Sales							
2019 reported	5,074	5,132	2,235	1,444	5,356	53	19,294
Exchange	(39)	(28)	(4)	3	(8)	2	(74)
Reclassification(iii)	–	–	–	(10)	–	–	(10)
Disposals(v)	(106)	(3)	(114)	(1)	(2)	–	(226)
2019 adjusted	4,929	5,101	2,117	1,436	5,346	55	18,984
Organic movement	**98**	**(388)**	**(261)**	**(193)**	**(718)**	**(16)**	**(1,478)**
Acquisitions and disposals(v)	**42**	**10**	**64**	**–**	**2**	**–**	**118**
Exchange	**153**	**(26)**	**(9)**	**(59)**	**15**	**(1)**	**73**
2020 reported	**5,222**	**4,697**	**1,911**	**1,184**	**4,645**	**38**	**17,697**
Organic movement %	**2**	**(8)**	**(12)**	**(13)**	**(13)**	**(29)**	**(8)**
Net sales							
2019 reported	4,460	2,939	1,597	1,130	2,688	53	12,867
Exchange(i)	(34)	(19)	(2)	4	1	2	(48)
Reclassification(iii)	–	–	–	(10)	–	–	(10)
Disposals(v)	(75)	(1)	(91)	(1)	(1)	–	(169)
2019 adjusted	4,351	2,919	1,504	1,123	2,688	55	12,640
Organic movement	**105**	**(358)**	**(200)**	**(169)**	**(423)**	**(16)**	**(1,061)**
Acquisitions and disposals(v)	**32**	**10**	**50**	**–**	**1**	**–**	**93**
Exchange(i)	**135**	**(4)**	**(8)**	**(46)**	**4**	**(1)**	**80**
2020 reported	**4,623**	**2,567**	**1,346**	**908**	**2,270**	**38**	**11,752**
Organic movement %	**2**	**(12)**	**(13)**	**(15)**	**(16)**	**(29)**	**(8)**
Marketing							
2019 reported	762	490	174	201	412	3	2,042
Exchange	(1)	(11)	–	1	(1)	–	(12)
Reclassification(iii)	–	–	–	(10)	–	–	(10)
Disposals(v)	–	–	(1)	–	–	–	(1)
2019 adjusted	761	479	173	192	411	3	2,019
Organic movement	**(49)**	**(56)**	**(14)**	**(29)**	**(47)**	**–**	**(195)**
Acquisitions and disposals(v)	**3**	**4**	**1**	**–**	**–**	**–**	**8**
Exchange	**12**	**1**	**–**	**(8)**	**1**	**3**	**9**
2020 reported	**727**	**428**	**160**	**155**	**365**	**6**	**1,841**
Organic movement %	**(6)**	**(12)**	**(8)**	**(15)**	**(11)**	**–**	**(10)**

Definitions and reconciliation of non-GAAP measures to GAAP measures *continued*

	North America £ million	Europe and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	Corporate £ million	Total £ million
Operating profit before exceptional items							
2019 reported	1,948	1,014	275	365	703	(189)	4,116
Exchange[ii]	12	(16)	(4)	1	8	(1)	–
Acquisitions and disposals[v]	(27)	1	(3)	–	–	–	(29)
2019 adjusted	1,933	999	268	366	711	(190)	4,087
Organic movement	**80**	**(243)**	**(150)**	**(107)**	**(207)**	**38**	**(589)**
Acquisitions and disposals[v]	**(1)**	**(4)**	**–**	**–**	**–**	**–**	**(5)**
Fair value remeasurement of contingent considerations and equity option[iv]	**(10)**	**(4)**	**–**	**7**	**–**	**–**	**(7)**
Fair value remeasurement of biological assets	**–**	**–**	**–**	**9**	**–**	**–**	**9**
Exchange[ii]	**32**	**9**	**(17)**	**(27)**	**(3)**	**5**	**(1)**
2020 reported	**2,034**	**757**	**101**	**248**	**501**	**(147)**	**3,494**
Organic movement %	**4**	**(24)**	**(56)**	**(29)**	**(29)**	**20**	**(14)**
Organic operating margin %							
2020	**45.2%**	**29.5%**	**9.0%**	**27.1%**	**22.3%**	**n/a**	**30.2%**
2019	44.4%	34.2%	17.8%	32.6%	26.5%	n/a	32.3%
Margin movement (bps)	**75**	**(470)**	**(877)**	**(544)**	**(420)**	**n/a**	**(212)**

1. For the reconciliation of sales to net sales see page 46.
2. Percentages and margin movement are calculated on rounded figures.

Notes: Information in respect of the organic movement calculations

(i) The impact of movements in exchange rates on reported figures for net sales is principally in respect of the translation exchange impact of the weakening of sterling against the US dollar, partially offset by strengthening of sterling against the Brazilian real, the Australian dollar and the euro.

(ii) The impact of movements in exchange rates on reported figures for operating profit is principally in respect of the transactional exchange impact of the weakening of the Brazilian real, the Colombian peso and the Nigerian naira, broadly offset by translational exchange impact of the strengthening of the US dollar against sterling.

(iii) For the year ended 30 June 2019 trade investment of £10 million has been reclassified from marketing to net sales.

(iv) Change in contingent consideration re Casamigos was reported as part of acquisitions in year ended 30 June 2019.

(v) In the year ended 30 June 2020 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 2019					
Acquisitions					
Change in contingent consideration re Casamigos	–	–	–	–	15
	–	–	–	–	15
Disposals					
Portfolio of 19 brands	(2.2)	(114)	(79)	–	(42)
South African ready to drink	(0.5)	(65)	(43)	–	–
South African cider	–	(4)	(4)	–	(1)
UNB	(2.2)	(43)	(43)	(1)	(1)
	(4.9)	**(226)**	**(169)**	**(1)**	**(44)**
Acquisitions and disposals	**(4.9)**	**(226)**	**(169)**	**(1)**	**(29)**
Year ended 30 June 2020					
Acquisitions					
Seedlip and Aecorn	**0.1**	**12**	**12**	**7**	**(8)**
	0.1	**12**	**12**	**7**	**(8)**
Disposals					
Supply contracts in respect of the 19 brands sold to Sazerac	**1.1**	**42**	**31**	**–**	**3**
South African ready to drink	**0.3**	**33**	**19**	**–**	**–**
UNB	**1.5**	**31**	**31**	**1**	**–**
	2.9	**106**	**81**	**1**	**3**
Acquisitions and disposals	**3.0**	**118**	**93**	**8**	**(5)**

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 2020 and 30 June 2019 are set out in the table below.

	2020 £ million	2019 £ million
Profit attributable to equity shareholders of the parent company	**1,409**	3,160
Exceptional operating and non-operating items	**1,380**	(61)
Exceptional taxation charges/(benefits)	**–**	10
Tax in respect of exceptional operating and non-operating items	**(154)**	29
Exceptional items attributable to non-controlling interests	**(69)**	26
	2,566	3,164

Weighted average number of shares	million	million
Shares in issue excluding own shares	**2,346**	2,418
Dilutive potential ordinary shares	**8**	10
	2,354	2,428

	pence	pence
Basic earnings per share before exceptional items	**109.4**	130.8
Diluted earnings per share before exceptional items	**109.0**	130.3

1. The impact of the adoption of IFRS 16 on 1 July 2019 on earnings per share before exceptional items for year ended 30 June 2020 is immaterial.

Free cash flow

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

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

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

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

Free cash flow reconciliations for the year ended 30 June 2020 and 30 June 2019 are set out in the table below:

	2020 £ million	2019 £ million
Net cash inflow from operating activities	**2,320**	3,248
Disposal of property, plant and equipment and computer software	**14**	32
Purchase of property, plant and equipment and computer software	**(700)**	(671)
Movements in loans and other investments	**–**	(1)
Free cash flow	**1,634**	2,608

1. Free cash flow for the year ended 30 June 2020 has benefited by £74 million as a result of the adoption of IFRS 16 on 1 July 2019.

Return on average total invested capital

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

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

Calculations for the return on average total invested capital for the year ended 30 June 2020 and 30 June 2019 are set out in the table below.

	2020 £ million	2019 £ million
Operating profit	2,137	4,042
Exceptional operating items	1,357	74
Profit before exceptional operating items attributable to non-controlling interests	(114)	(151)
Share of after tax results of associates and joint ventures	282	312
Tax at the tax rate before exceptional items of 21.7% (2019 – 20.6%)	(795)	(881)
	2,867	3,396
Average net assets (excluding net post employment assets/liabilities)	9,063	10,847
Average non-controlling interests	(1,723)	(1,776)
Average net borrowings	12,551	10,240
Average integration and restructuring costs (net of tax)	1,639	1,639
Goodwill at 1 July 2004	1,562	1,562
Average total invested capital	23,092	22,512
Return on average total invested capital	**12.4 %**	15.1%

1. Calculation of average net borrowings includes £251million in respect of IFRS 16 adoption for 1 July 2019.
2. The return on average total invested capital for the year ended 30 June 2020 was adversely impacted by 18bps as a result of the adoption of IFRS 16 on 1 July 2019.

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

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

Calculations for the ratio of adjusted net borrowings to adjusted EBITDA at 30 June 2020 and 30 June 2019 are set out in the table below.

	2020 £ million	2019 £ million
Borrowings due within one year	1,995	1,959
Borrowings due after one year	14,790	10,596
Fair value of foreign currency derivatives and interest rate hedging instruments	(686)	(474)
Lease liabilities	470	128
Less: Cash and cash equivalents	(3,323)	(932)
Net borrowings	**13,246**	11,277
Post employment benefit liabilities before tax	749	846
Adjusted net borrowings	**13,995**	12,123
Operating profit	2,137	4,042
Depreciation, amortisation and impairment (excluding exceptional items)	494	374
Share of after tax results of associates and joint ventures	282	312
Exceptional impairment	1,345	–
Non-operating items	(23)	144
EBITDA	**4,235**	4,872
Exceptional operating items (excluding impairment)	12	74
Non-operating items	23	(144)
Adjusted EBITDA	**4,270**	4,802
Adjusted net borrowings to adjusted EBITDA	**3.3**	2.5

1. The ratio of adjusted net borrowings to adjusted EBITDA at 30 June 2020 increased by 0.1 times as a result of the adoption of IFRS 16 on 1 July 2019.

Tax rate before exceptional items

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

The tax rates from operations before exceptional and after exceptional items for the year ended 30 June 2020 and year ended 30 June 2019 are set out in the table below:

	2020 £ million	2019 £ million
Tax before exceptional items (a)	**743**	859
Tax in respect of exceptional items	**(154)**	29
Exceptional tax charge/(credit)	**–**	10
Taxation on profit (b)	**589**	898
Profit before taxation and exceptional items (c)	**3,423**	4,174
Non-operating items	**(23)**	144
Exceptional finance charges	**–**	(9)
Exceptional operating items	**(1,357)**	(74)
Profit before taxation (d)	**2,043**	4,235
Tax rate before exceptional items (a/c)	**21.7 %**	20.6 %
Tax rate after exceptional items (b/d)	**28.8 %**	21.2 %

1. The tax rate before exceptional items is not materially affected by the adoption of IFRS 16 on 1 July 2019.

Other definitions

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

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

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

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

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

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

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

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

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

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

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

This Strategic Report, which has been approved by a duly appointed and authorised committee of the Board of Directors, was signed on its behalf by Siobhán Moriarty, the Company Secretary, on 4 August 2020.