DIAGEO

Annual Report 2020

DIAGEO

CELEBRATING LIFE,
EVERY DAY, EVERYWHERE

Contents

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)

Global giants	Local stars	Reserve
39%	20%	21%

(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%

- US Spirits
- Diageo Beer Company (DBC) USA
- Canada
- Other (principally Travel Retail)

Europe and Turkey
21.9%

- Europe
- Turkey
- Other (principally Travel Retail)

Africa
11.5%

- East Africa
- Africa Regional Markets (ARM)
- Nigeria
- South Africa
- Other (principally Travel Retail)

Latin America and Caribbean
7.8%

- Mexico
- Paraguay, Uruguay and Brazil (PUB)
- Central America and Caribbean (CCA)
- Andean (Colombia and Venezuela)
- Peru, Ecuador, Bolivia, Argentina, Chile (PEBAC)
- Other (principally Travel Retail)

Asia Pacific
19.3%

- India
- Greater China
- Australia
- South East Asia
- North Asia
- Travel Retail Asia and Middle East

(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.

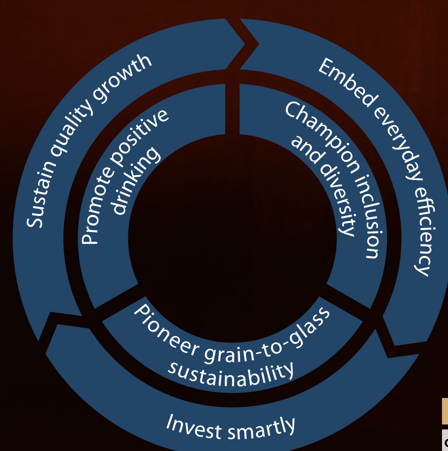
Our reputation is not just an outcome of our commercial performance. We only earn trust and respect through our actions and we work hard to ensure that we deliver on our promises.

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.

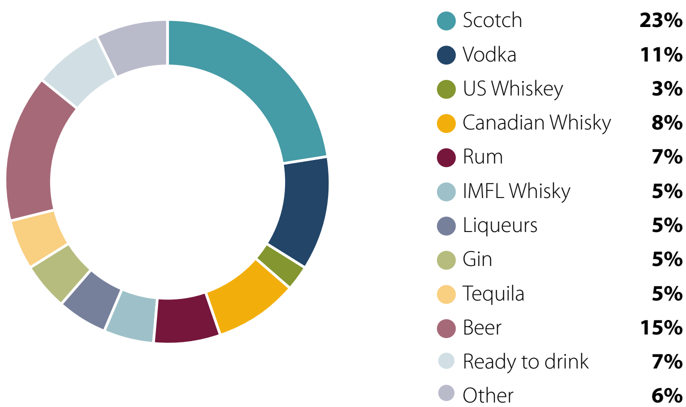
For the full year, reported net sales were down 8.7%, driven by a decline in organic net sales. Organic net sales were down 8.4%, with growth in North America offset by declines in all other regions. Reported operating profit was down 47.1%, mainly driven by exceptional operating items, including impairments, 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

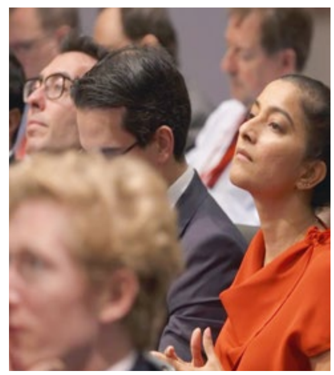
Investing in sustainable growth means supporting and empowering the communities where we live, work, source and sell. By ensuring we make a positive contribution, we can help build thriving communities and strengthen our business.

- 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

Diageo, 2020.

Sustain quality growth, Embed everyday efficiency, Promote positive drinking

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

Kantar Global Monitor, 2019.

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

Baileys is well established across a range of treating occasions.

The right insights to deliver consumer-led growth

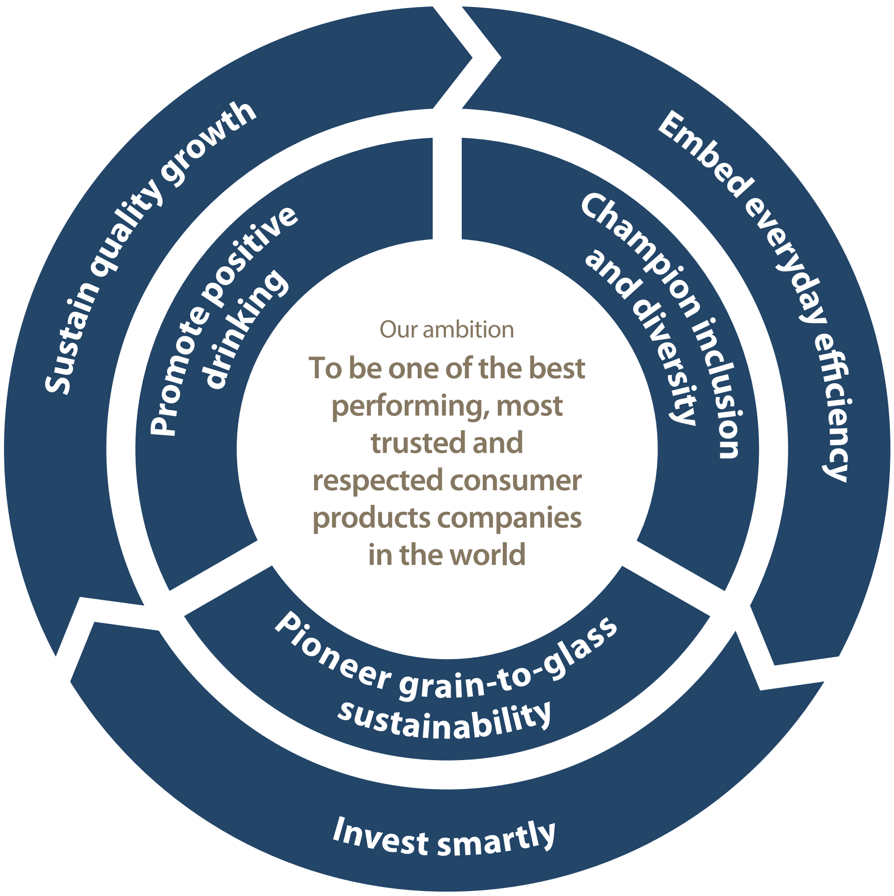
Everything we do is designed to delight consumers and customers. That means identifying the factors that drive consumer choice, so we can put the right product in front of the right consumer at the right time.

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

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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.

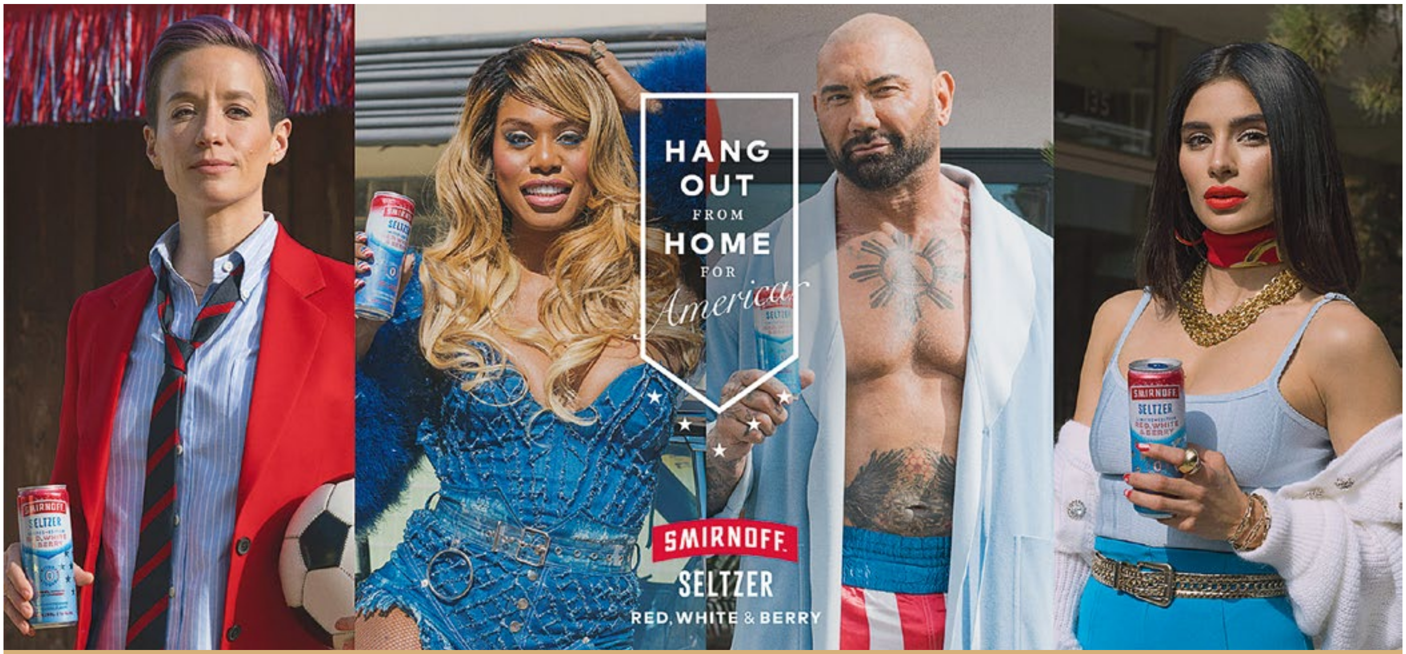
While online shopping for alcohol is still at low levels compared to other retail categories, it is a fast-growing channel. With so many bar and restaurant closures resulting from Covid-19 lockdown measures, there has been a significant increase in consumers purchasing online this year and this has accelerated 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

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.

6 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.

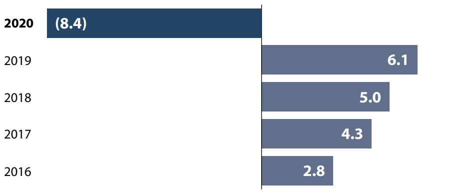
Monitoring performance and progress

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.

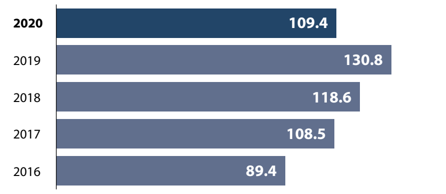
Why we measure
The movement in operating profit measures the efficiency and effectiveness of the business. Consistent operating profit growth is a business imperative, driven by investment choices, our focus on driving out costs across the business and improving mix.

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.

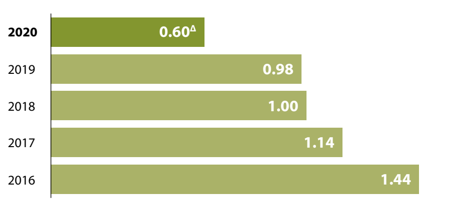
Why we measure
We want to change the way the world drinks for the better by promoting moderation and addressing the harmful use of alcohol. Our goal is for people to 'drink better, not more' – because we are proud of our brands and we know that the best way for them to be enjoyed is responsibly.

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.

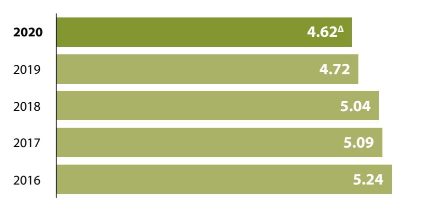
Why we measure
Health and safety is a basic human right: everyone has the right to work in a safe and healthy environment, and our Zero Harm philosophy is that everyone should go home safe and healthy, every day, everywhere.

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.

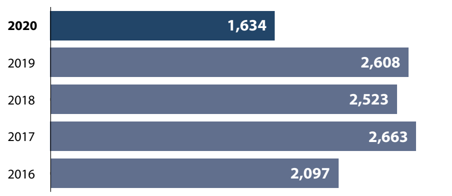
Why we measure
Water is the main ingredient in all of our brands. We aim to improve efficiency, and minimise our water use, particularly in water-stressed areas. This will ensure we can sustain production growth, address climate change risk and respond to the growing global demand for water, as scarcity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

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.

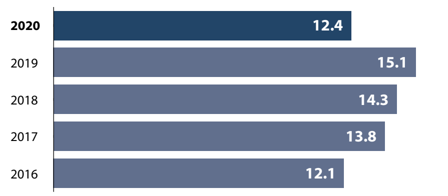
Why we measure
Free cash flow is a key indicator of the financial management of the business and reflects the cash generated by the business to fund payments to our shareholders and acquisitions.

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) (%)

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.

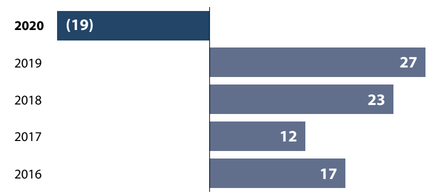
Why we measure
ROIC is used by management to assess the return obtained from the group's asset base. Improving ROIC builds financial strength to enable Diageo to attain its financial objectives.

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

More detail on page 46

Total shareholder return (%)

(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)

507Δ

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%Δ in 2020, and cumulatively by 50.1% against our 2007 baseline, despite increased production volume.

More detail on page 34

Employee engagement (%)

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)

Target	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

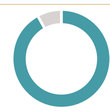
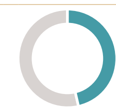
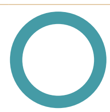
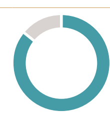
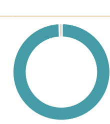
See pages 24-25 for more information about our approach to pioneering positive drinking

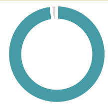
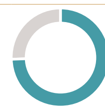
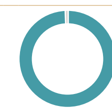
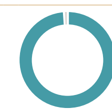
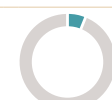
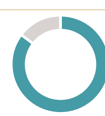
Our 2020 target	KPI	Progress	Commentary
Inclusion and diversity			
Build diversity, with 35%[ii] of leadership positions held by women by 2020 (40% by 2025) and measures implemented to help female employees attain and develop in leadership roles. *UN SDG alignment 5.5; 8.1; 10.2; 10.4*	**% of leadership 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%$^{\Delta}$ 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%$^{\Delta}$ 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%$^{\Delta}$ 2020 **50.1%** **Cumulative**		We are proud to have achieved this stretching and important target, with an 8.7%$^{\Delta}$ 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 710,986$^{\Delta}$ 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 199$^{\Delta}$ 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	**% 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.
UN SDG alignment 12.5; 12.6				
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	**% 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.
UN SDG alignment 12.2; 12.6				
Our 2025 packaging (plastic) targets(iii)				
Achieve 40% average recycled content in all plastic bottles (and 100% by 2030)	**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.
UN SDG alignment 12.5; 12.6				
Ensure 100% of our plastics will be designed to be recyclable, reusable or compostable in countries where we operate	**Tonnes (metric) plastics widely recyclable (or reusable/ compostable)/ total tonnes of plastic used**	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.
UN SDG alignment 12.5; 12.6				

(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

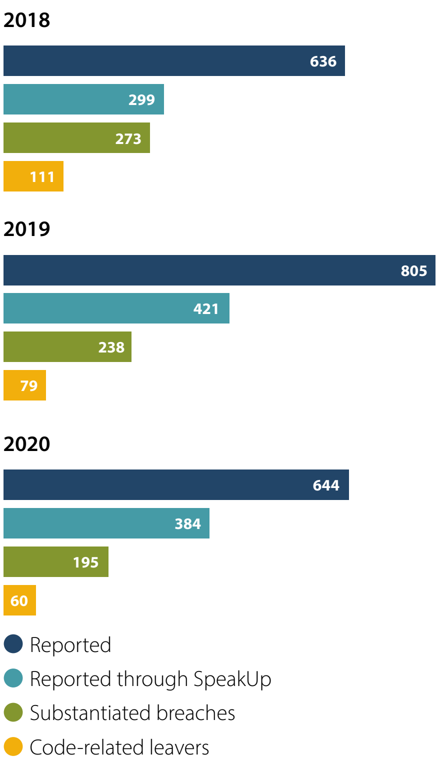
For more information on our strategic priorities and outcomes, please see pages 17-29.

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.

Board oversight of climate risk

Joint Executive-level ownership

Ewan Andrew
President, Global Supply and Procurement

Dan Mobley
Corporate Relations Director

Cross-functional Climate Risk Steering Group

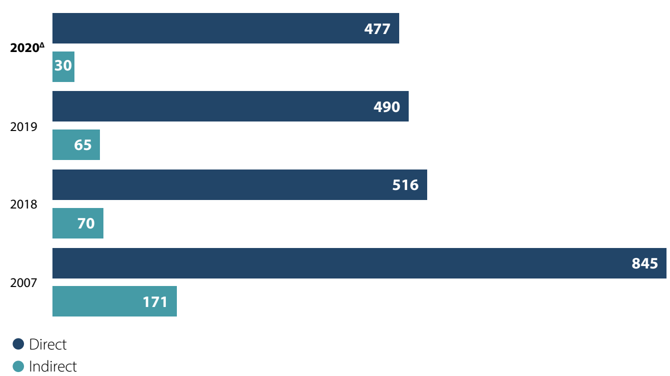
Supply Climate Risk Mitigation Group

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

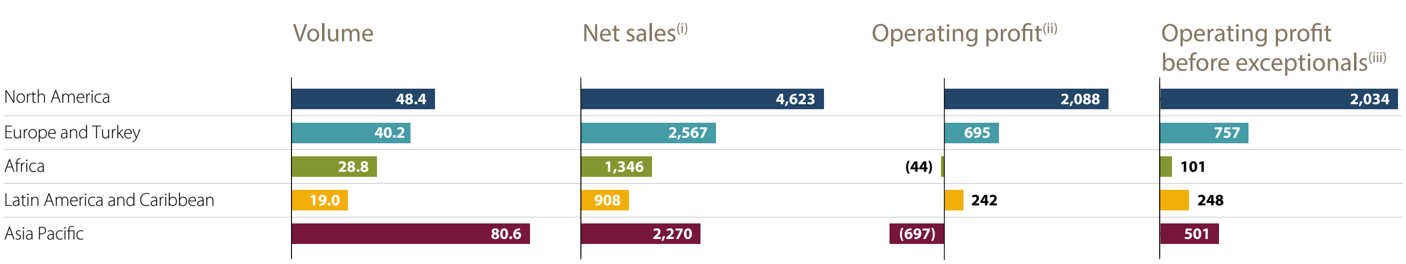
Basic eps of
60.1p
was down 54.0%

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).

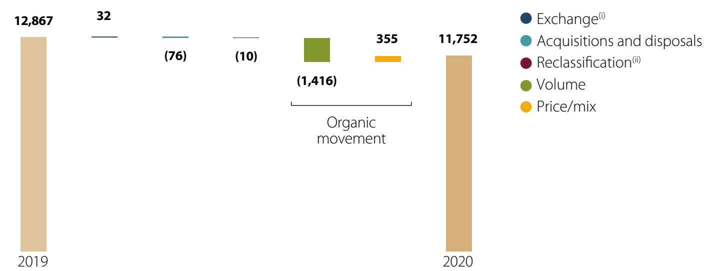
Net sales (£ million)

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.

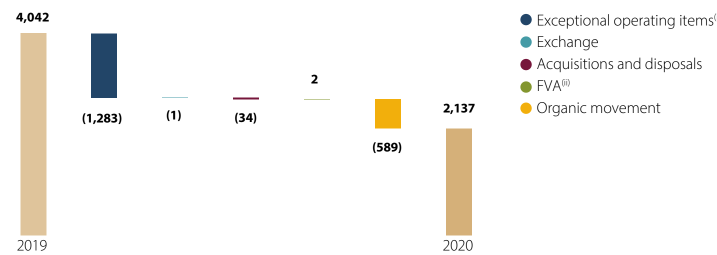
Operating profit (£ million)

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.

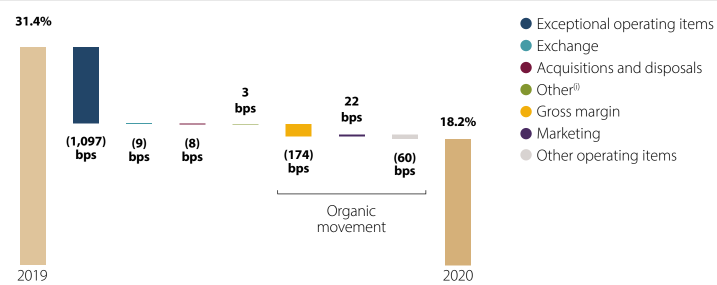
Operating margin (%)

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.

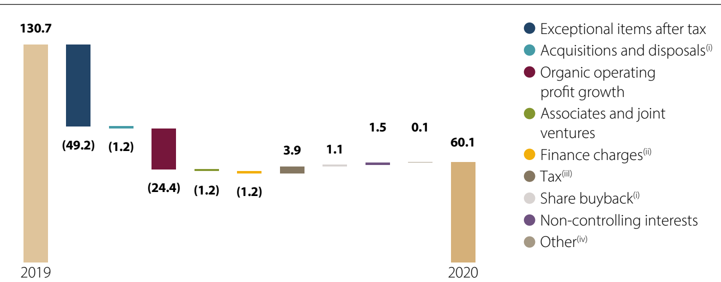
Basic earnings per share (pence)

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.

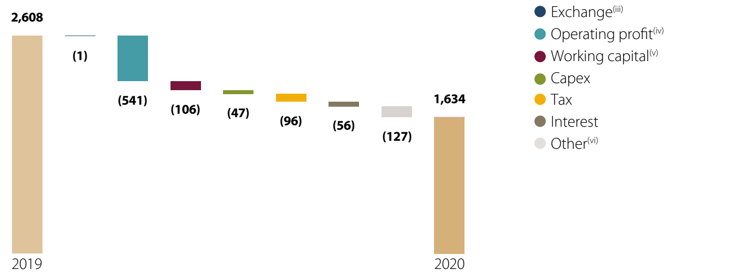


(i) Includes finance charges net of tax.
(ii) Excludes finance charges related to acquisitions, disposals and share buyback.
(iii) Excludes tax related to acquisitions, disposals and share buyback.
(iv) Fair value adjustments and exchange on operating profit.

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.

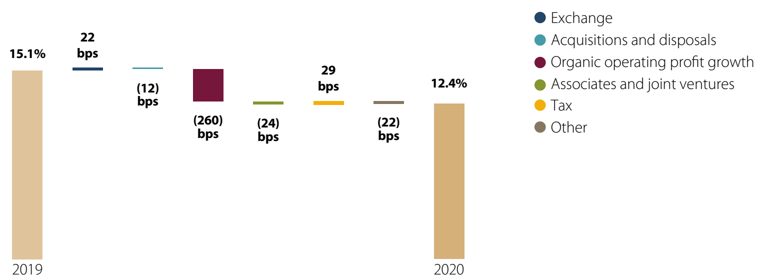


(i) Net cash from operating activities excludes net capex and movements in loans and other investments (2020 - £(686) million; 2019 - £(640) million).
(ii) Net cash from operating activities and free cash flow for the year ended 30 June 2020 benefited by £74 million as a result of the adoption of IFRS 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].

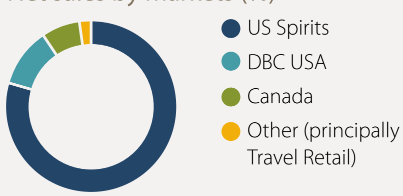
The consumer lies at the heart of our business, which has been more important than ever in the face of shifting consumer behaviours and changes in the external environment. Our focus is on recruiting and re-recruiting consumers into the portfolio through meaningful consumer engagement, sustainable innovation 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**

(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.

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.

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

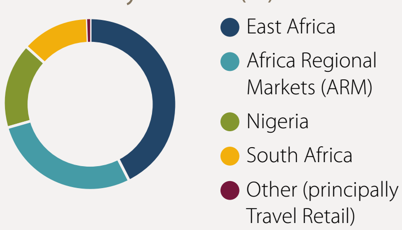
In Africa our strategy is to grow through selective participation in beer and spirits, leveraging a broad range of the Diageo Portfolio. Guinness, Malta and several local brands lead our brewing portfolio while Johnnie Walker and Smirnoff are at the heart of our international premium spirits offerings. 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.

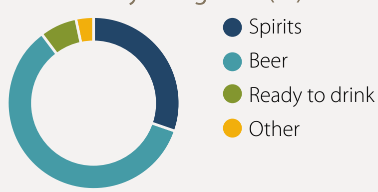
Key financials

	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.

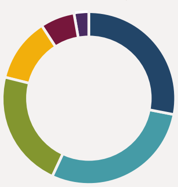
Latin America and Caribbean

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

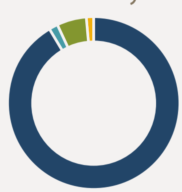
	2019 £ million	FX £ million	Reclassification[i] £ million	Acquisitions and disposals £ million	Organic movement £ million	Other[ii] £ million	**2020 £ million**	**Reported movement %**
Net sales	1,130	(42)	(10)	(1)	(169)	–	**908**	**(20)**
Marketing	201	(7)	(10)	–	(29)	–	**155**	**(23)**
Operating profit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

Net sales by markets (%)



- PUB
- Mexico
- CCA
- Andean
- PEBAC
- Other (principally Travel Retail)

Net sales by categories (%)



- Spirits
- Beer
- Ready to drink
- Other

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

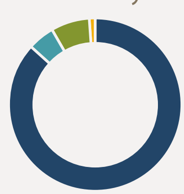
In Asia Pacific our focus is to grow in both developed and emerging markets across our entire portfolio ranging from international and local spirits to ready to drink formats and beer. We have a clear long-term strategy that enables us to allocate resources behind brands that win in key consumer occasions 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.

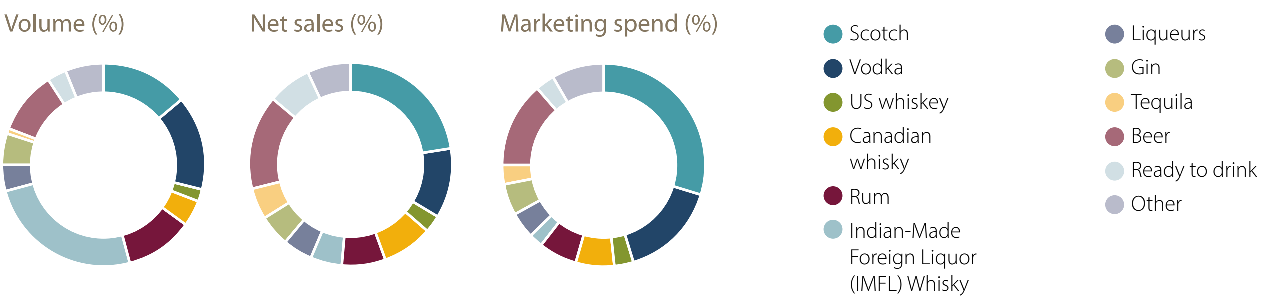
Marketing investment declined 11%, as variable trade investment was repurposed and redeployed into the off-trade and e-commerce channel, which focused on home delivery and at-home consumption.

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)
JεB	(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 JεB 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)**

	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.

Diversity, balance and experience

Javier Ferrán
Chairman
Nationality: Spanish

Appointed Chairman and Chairman of the Nomination Committee: January 2017 (Appointed Chairman Designate and Non-Executive Director: July 2016)

Key strengths: Brings extensive board-level experience from the drinks and consumer products industry, including at chief executive level, and has a wealth of experience in consumer goods through his venture capital activities to draw from in his role as Chairman and leader of the Board

Current external appointments: Non-Executive Director, International Consolidated Airlines Group, S.A., Coca-Cola European Partners plc; Advisor, BlackRock Long Term Private Capital

Previous relevant experience: Non-Executive Director and Senior Independent Director, Associated British Foods plc; Member, Advisory Board of ESADE Business School; President and CEO, Bacardi Limited; Non-Executive Director, SABMiller plc

Ivan Menezes
Chief Executive
Nationality: American/British

Appointed Chief Executive: July 2013 (Appointed Executive Director: July 2012)

Key strengths: Has extensive experience of over 20 years with the Diageo group at operational and leadership levels and within the consumer products industry, which brings valuable insight to lead the group and implement the strategy

Current external appointments: Vice Chairman of the Council, Scotch Whisky Association; Non-Executive Director, Tapestry Inc.; Member of the Global Advisory Board, Kellogg School of Management, Northwestern University; Trustee, Movement to Work; Member, International Alliance for Responsible Drinking, CEO Group

Previous Diageo roles: Chief Operating Officer; President, North America; Chairman, Diageo Asia Pacific; Chairman, Diageo Latin America and Caribbean; senior management positions, Guinness and then Diageo

Previous relevant experience: marketing and strategy roles, Nestlé, Booz Allen Hamilton Inc. and Whirlpool

Kathryn Mikells
Chief Financial Officer
Nationality: American

Appointed Chief Financial Officer and Executive Director: November 2015

Key strengths: Brings skills and experience from finance-based roles to effectively manage the group's affairs relating to accounting, tax, treasury and investor relations, as well as commercial experience to the Board's discussions

Current external appointments: Non-Executive Director and Audit Committee Chair, The Hartford Financial Services Group, Inc.; Member of the Main Committee, 100 Group of Finance Directors

Previous relevant experience: Corporate Executive Vice President and Chief Financial Officer, Xerox Corporation; Senior Vice President and Chief Financial Officer, ADT Corporation; Executive Vice President and Chief Financial Officer, Nalco Holding Company; Executive Vice President and CFO, UAL Corporation

Susan Kilsby
Senior Independent Director
Nationality: American/British

Appointed Senior Independent Director: October 2019 (Appointed Non-Executive Director: April 2018 and Chairman of the Remuneration Committee: January 2019)

Key strengths: Brings wide-ranging corporate governance and board-level experience across a number of industries, including a consumer goods sector focus, with particular expertise in mergers and acquisitions, corporate finance and transaction advisory work

Current external appointments: Non-Executive Director, Unilever PLC, Unilever N.V., Fortune Brands Home & Security, Inc., BHP Group Plc, BHP Group Limited; Member, the Takeover Panel

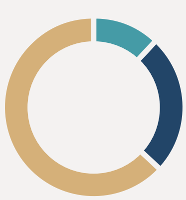
Previous relevant experience: Senior Independent Director, BBA Aviation plc; Chairman, Shire plc, Mergers and Acquisitions EMEA, Credit Suisse; Senior Advisor, Credit Suisse; Non-Executive Director, Goldman Sachs International, Keurig Green Mountain, L'Occitane International, Coca-Cola HBC

Board Committees

- A Audit Committee
- E Executive Committee
- N Nomination Committee
- R Remuneration Committee
- Chairman of the committee

Board diversity

Board composition

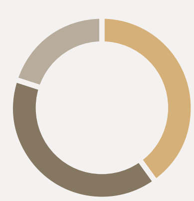


Chairman	12%
Executive Directors	25%
Non-Executive Directors	63%

Gender diversity

Male	50%
Female	50%

Non-Executive Director tenure



0-3 years	40%
3-6 years	40%
6-9 years	20%

Melissa Bethell
Non-Executive Director
Nationality: American/British

Appointed Non-Executive Director: June 2020

Key strengths: Has extensive international corporate and financial experience, including in relation to private equity, financial sectors, strategic consultancy and advisory services, as well as having strong non-executive experience at board and committee levels across a range of industries, including retail, consumer goods and financial services

Current external appointments: Managing Partner, Atairos Europe; Non-Executive Director, Tesco plc, Exor N.V.

Previous relevant experience: Managing Director and Senior Advisor, Private Equity, Bain Capital; Non-Executive Director, Atento S.A., Worldpay plc, Samsonite S.A.

Ho KwonPing
Non-Executive Director
Nationality: Singaporean

Appointed Non-Executive Director: October 2012

Key strengths: Brings extensive commercial and entrepreneurial experience of operating in emerging markets, in particular in Asia Pacific, as well as in various consumer-facing industries such as retail banking, airlines and hospitality

Current external appointments: Executive Chairman and Founder, Banyan Tree Holdings Limited; Chairman, Laguna Resorts & Hotels Public Company Limited (a subsidiary of Banyan Tree Holdings Limited) and Thai Wah Public Company Limited (each such company being owned or ultimately controlled by Ho KwonPing's family); Chairman of Board of Trustees, Singapore Management University

Previous relevant experience: Member, Global Advisory Board of Moelis & Company; Chairman, MediaCorp Pte. Ltd; Non-Executive Director, Singapore Airlines Limited, Singapore Power Limited, Standard Chartered PLC

Lady Mendelsohn
Non-Executive Director
Nationality: British

Appointed Non-Executive Director: September 2014

Key strengths: Has specialist knowledge and understanding of consumer-facing emerging technologies, cyber security and data issues, as well as wide experience of board and committee level appointments across diverse commercial, governmental and charitable institutions, as well as advisory roles in advertising and production of consumer goods

Current external appointments: Vice President, Facebook EMEA; Co-President, Norwood; Member, Mayor's Business Advisory Board; Member, HMG Industrial Strategy Council

Previous relevant experience: Executive Chairman, Karmarama; Deputy Chairman, Grey London; Board Director, BBH and Fragrance Foundation; President, Institute of Practitioners in Advertising; Director, Women's Prize for Fiction; Co-Chair, Creative Industries Council; Board Member, CEW; Trustee, White Ribbon Alliance; Chair, Corporate Board, Women's Aid

Alan Stewart
Non-Executive Director
Nationality: British

Appointed Non-Executive Director: September 2014 (Appointed Chairman of the Audit Committee: January 2017)

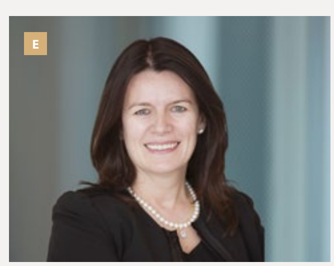
Key strengths: Has a strong background in financial, investment banking and commercial matters, with particular expertise in consumer retail industries, as well as board and committee level experience at industry institutions

Current external appointments: Chief Financial Officer, Tesco PLC; Non-Executive Director, Tesco Bank; Member of the Advisory Board, Chartered Institute of Management Accountants; Member of the Main Committee & Chairman of Pension Committee, 100 Group of Finance Directors; Co-Chair, A4S CFO Network

Previous relevant experience: Chief Financial Officer, Marks & Spencer, AWAS; Non-Executive Director, Games Workshop plc; Group Finance Director, WH Smith plc; Chief Executive, Thomas Cook UK

Changes since 1 July 2019
- Debra Crew ceased to be Non-Executive Director on 24 March 2020 and became President, Diageo North America from 1 July 2020.
- Melissa Bethell was appointed as Non-Executive Director with effect from 30 June 2020.
- Lord Davies of Abersoch retired from the Board on 30 June 2020.

Future appointments
- Sir John Manzoni has been appointed as a Non-Executive Director with effect from 1 October 2020.
- Valérie Chapoulaud-Floquet has been appointed as a Non-Executive Director with effect from 1 January 2021.



Siobhán Moriarty
General Counsel & Company Secretary
Nationality: Irish

Appointed General Counsel: July 2013

Appointed Company Secretary: August 2018

Previous Diageo roles: General Counsel Designate; Corporate M&A Counsel; Regional Counsel Ireland; General Counsel Europe

Previous relevant experience: various positions in law firm private practice, Dublin and London

Current external appointments: Non-Executive Director, Friends Board of the Royal Academy of Arts; Board Member, European General Counsel Association

Broad skills and expertise

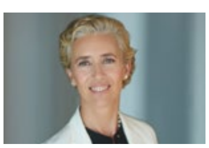
Ewan Andrew

President, Global Supply and Procurement
Nationality: British
Appointed: September 2019
Previous Diageo roles: Supply Director, International Supply Centre; Senior Vice President, Supply Chain & Procurement, Latin America & Caribbean; Senior Vice President Manufacturing & Distilling, North America; various supply chain, operational management and procurement roles
Current external appointments: Member of the Council, Scotch Whisky Association

Debra Crew

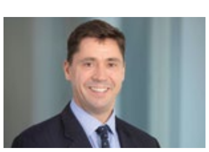
President, Diageo North America
Nationality: American
Appointed: July 2020
Previous Diageo roles: Non-Executive Director, Diageo plc
Previous relevant experience: Non-Executive Director, Newell Brands; President and CEO, Reynolds American, Inc; President, PepsiCo North America Nutrition, PepsiCo Americas Beverages, Western Europe Region; various positions with Kraft Foods, Nestlé. S.A., and Mars
Current external appointments: Non-Executive Director, Stanley Black & Decker, Inc., Mondelēz International

Cristina Diezhandino



Chief Marketing Officer
Nationality: Spanish
Appointed: July 2020
Previous Diageo roles: Global Category Director Scotch & Managing Director Reserve Brands; Managing Director, Caribbean and Central America; Marketing & Innovation Director, Diageo Africa; Category Director, Scotch Portfolio & Gins; Global Brand Director, Johnnie Walker
Previous relevant experience: Corporate Marketing Director, Allied Domecq Spain; marketing roles, Unilever HPC US, UK and Spain

Sam Fischer



President, Diageo Greater China and Asia Pacific
Nationality: Australian
Appointed: September 2014
Previous Diageo roles: Managing Director, Diageo Greater China; Managing Director of South East Asia, Diageo Asia Pacific; General Manager, Diageo IndoChina and Vietnam
Previous relevant experience: Senior management roles across Central Europe and Indochina, Colgate Palmolive
Current external appointments: Non-Executive Director, Burberry PLC

Alberto Gavazzi

President, Diageo Latin America & Caribbean, Global Travel & Sales Opex
Nationality: Brazilian/Italian
Appointed: July 2013
Previous Diageo roles: Managing Director, West Latin America and Caribbean; Global Category Director Whiskey, Gins and Reserve Brands; General Manager Brazil, Paraguay and Uruguay; Vice President Consumer Marketing, Chicago; Marketing Director, Brazil
Previous relevant experience: Colgate-Palmolive; Unilever PLC

John Kennedy

President, Diageo Europe, Turkey and India
Nationality: American
Appointed: July 2016
Previous Diageo roles: President, Europe and Western Europe; Chief Operating Officer, Western Europe; Marketing Director, Australia; General Manager for Innovation, North America; President and Chief Executive Officer, Diageo Canada; Managing Director, Diageo Ireland
Previous relevant experience: brand management roles, GlaxoSmithKline and Quaker Oats

Anand Kripalu

CEO, United Spirits Limited
Nationality: Indian
Appointed: September 2014
Previous Diageo roles: CEO-Designate, United Spirits Limited
Previous relevant experience: Various management roles at Mondelēz International, Cadbury and Unilever
Current external appointments: Member of the Board of Governors, Indian Institute of Management, Jammu

Daniel Mobley

Corporate Relations Director
Nationality: British
Appointed: June 2017
Previous Diageo roles: Corporate Relations Director, Europe
Previous relevant experience: Regional Head of Corporate Affairs India & South Asia, Regional Head of Corporate Affairs Africa, Group Head of Government Relations, Standard Chartered; extensive government experience including in HM Treasury and Foreign & Commonwealth Office

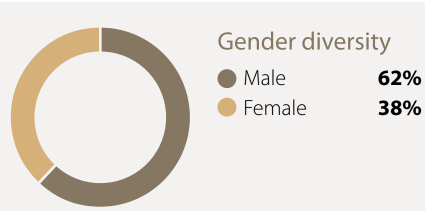
Mairéad Nayager

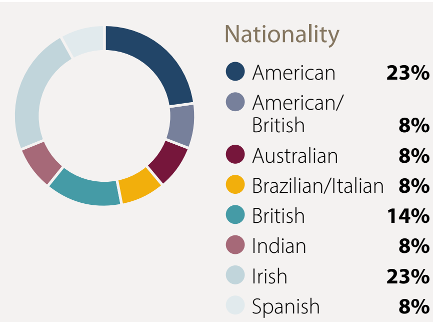
Chief HR Officer
Nationality: Irish
Appointed: October 2015
Previous Diageo roles: HR Director, Diageo Europe; HR Director, Brandhouse, South Africa; HR Director, Diageo Africa Regional Markets; Talent & Organisational Effectiveness Director, Diageo Africa; Employee Relations Manager, Diageo Ireland
Previous relevant experience: Irish Business and Employers' Confederation

John O'Keeffe

President, Diageo Africa
Nationality: Irish
Appointed: July 2015
Previous Diageo roles: CEO and Managing Director, Guinness Nigeria; Global Head, Innovation; Global Head, Beer and Baileys; Managing Director Russia and Eastern Europe; various general management and marketing positions

Ivan Menezes, Kathryn Mikells and Siobhán Moriarty are also members of the Executive Committee. Their biographies are found on pages 68 and 69.





Solid governance principles

Dear Shareholder

I am pleased, on behalf of the Board, to present the corporate governance report for the year ended 30 June 2020. It is the Board's role to provide effective leadership to promote the long-term sustainable success of Diageo and to deliver long-term, sustainable value for shareholders. It is the responsibility of the Board to ensure that Diageo conducts its business with high standards of ethical behaviour and in a manner which contributes positively to wider society, having regard to the interests of its different stakeholders. In challenging and fast-moving environments, particular emphasis is placed on the Board's ability to exercise good judgement as to the management of risk, the allocation of capital and other resources, while always adhering to uncompromising ethical standards. Underpinned by a strong purpose, values and culture, and led by a high-functioning Board and experienced Executive Committee, I am proud of the resilience and commitment shown by Diageo and its people during the year, and in particular during this recent difficult period.

Good corporate governance is a key factor in achieving effective leadership and sustainable corporate behaviour, irrespective of the external environment. It means ensuring that there is an effective framework of internal controls, practices, policies and systems which together define clear levels of accountability and authority for decision-making, enabling management to take appropriate levels of risk within a culture of openness, ethics and values. The Board sets the tone for Diageo, guided by our deeply engrained corporate purpose and values, in achieving our Performance Ambition. Details of our governance structure and processes are set out on pages 72 and 73.

Throughout this year, there has been much focus on considering the impact of decisions on different stakeholder groups and on ensuring that decisions are made in light of the impact they may have on those stakeholders. In my role as designated non-executive director for workforce engagement, I have benefitted greatly from my interactions with the Diageo workforce across different locations and have sought to understand their views, present them to the Board and ensure that they are considered in our decision-making. Further details of how the Board engages with different stakeholder groups are set out on pages 76 and 77.

A good board is formed of a diverse group of individuals, each contributing different experiences, skills and backgrounds, and which enables independent and effective leadership coalescing around a common purpose and performance ambition. Inclusion and diversity remains a vital priority for us as a Board and for the wider company, and with that in mind, we are delighted to have announced the appointments of Melissa Bethell who joined the Board on 30 June 2020, as well as Sir John Manzoni and Valérie Chapoulaud-Floquet who will be joining the Board in October 2020 and January 2021 respectively. I am also excited that Debra Crew, formerly a non-executive director, has made the transition into executive management, being appointed President, Diageo North America. Finally, I am deeply grateful to Lord Davies, who has recently retired after more than nine years' service on the Board, and to Ho KwonPing, who will shortly retire from the Board after eight years' service. Further details of our Diversity Policy and recent changes to the Board are set out on pages 72 and 69.

We are clear that Diageo's ability to deliver our strategy and to create sustainable long-term value for shareholders and other stakeholders is predicated on robust and efficient governance structures and processes, whatever the external environment. We remain firmly of the view that good corporate governance contributes to a sustainable business over the long term for the benefit of society as a whole.

Javier Ferrán
Chairman

Compliance with the UK Corporate Governance Code

During the financial year ended 30 June 2020, Diageo has applied the Principles and complied with the Provisions of the UK Corporate Governance Code 2018 (the Code). Below are highlights of Diageo's compliance with certain areas of the Code, together with cross-references to other sections of this Annual Report where further information can be found.

- **Independence:** Over half of our Directors are independent non-executive directors and the composition of all Board Committees complies with the Code. The Chairman was considered independent on his appointment. Susan Kilsby is our Senior Independent Director. Further information about the Board is set out on pages 68 and 69.
- **Governance framework:** Diageo's governance framework includes a clear separation of duties between the Chairman, the Chief Executive and the Senior Independent Director, as well as reserving certain matters to the Board for consideration and approval. The governance framework also sets out the role and scope of the various Board Committees and management committees. Further details are set out on page 73.
- **Diversity:** The Board believes diversity is an important factor in enabling good decision-making and considers diversity an essential part of its nomination and succession planning processes. It therefore formalised the diversity principles applicable to the Board into a formal written Diversity Policy. Information about the diversity of the Board and the Board's Diversity Policy is set out on page 72.
- **Workforce engagement:** The Chairman has been designated non-executive director for workforce engagement and has interacted with Diageo's workforce directly and indirectly through multiple channels. Diageo's workforce engagement statement for the year is set out on page 77.
- **Performance-related pay:** Diageo places a strong focus on performance-related pay, with clear alignment between pay structures for executives and the wider workforce. Further details on executive reward are set out on pages 84 to 106.

Enabling our ambition

Compliance statement

The principal corporate governance rules applying to Diageo (as a UK company listed on the London Stock Exchange) for the year ended 30 June 2020 are contained in the Code and the UK Financial Conduct Authority (FCA) Listing Rules, which require us to describe, in our Annual Report, our corporate governance from two points of view: the first dealing generally with our application of the Code's main principles and the second dealing specifically with non-compliance with any of the Code's provisions. The two descriptions together are designed to give shareholders a picture of governance arrangements in relation to the Code as a criterion of good practice.

A copy of the Code is publicly available on the website of the Financial Reporting Council (FRC), www.frc.org.uk.

Diageo can confirm that it has complied with all relevant provisions set out in the Code throughout the year. Details of changes to pension contributions for Executive Directors as required under the Code can be found in the Directors' remuneration report on page 85.

Diageo must also comply with corporate governance rules contained in the FCA Disclosure Guidance and Transparency Rules and certain related provisions in the Companies Act 2006 (the Act).

As well as being subject to UK legislation and practice, as a company listed on the New York Stock Exchange (NYSE), Diageo is subject to the listing requirements of the NYSE and the rules of the U.S. Securities and Exchange Commission (SEC), as they apply to foreign private issuers. Compliance with the provisions of the US Sarbanes-Oxley Act of 2002 (SOX), as it applies to foreign private issuers, is continually monitored.

As Diageo follows UK corporate governance practice, differences from the NYSE corporate governance standards are summarised in Diageo's 20-F filing and on our website at https://www.diageo.com/en/our-business/corporate-governance.

Board of Directors

Composition of the Board

The Board comprises the Non-Executive Chairman, two Executive Directors, the Senior Independent Director, and four independent Non-Executive Directors. The biographies of all Directors are set out in this Annual Report on pages 68 and 69.

Inclusion and diversity

Valuing inclusion and diversity is one of the core principles of Diageo's global Human Rights Policy which applies to all employees, subsidiaries and third-party contractors and which has been implemented as part of our Code of Business Conduct programme. Our objective is to maintain and sustain an inclusive and diverse business in order to create a better working environment and a better-performing business.

The Board has adopted a written Diversity Policy which is applicable to the Board only and sits alongside Diageo's Code of Business Conduct and associated global policies, which set out Diageo's broader commitment to inclusion and diversity. Diageo strongly supports diversity within its Board of Directors, including gender, age and professional diversity, as well as diversity of thought. The Board is comprised of individuals from a diverse range of skills, industries, backgrounds and nationalities, which enables a broad evaluation of all matters considered by the Board and contributes to a culture of collaborative and constructive discussion. The Board's objective, as set out in its Diversity Policy, is that it shall include no less than 40% female representation (with the ultimate goal being parity between males and females on the Board) and at least one director from an ethnic minority background. Currently, women make up 50% of the Board and there are three directors from ethnic minority backgrounds.

Further information can be found in the 'Champion inclusion and diversity' and 'Our people' sections of 'Our strategic priorities' on pages 26 and 27.

Duties of the Board

The Board manages overall control of the company's affairs with reference to the formal schedule of matters reserved for the Board for decision. The schedule was last reviewed in April 2020 and is available at https://www.diageo.com/en/our-business/corporate-governance.

The Board has agreed an approach and adopted guidelines for dealing with conflicts of interest, and responsibility for authorising conflicts of interest is included in the schedule of matters reserved for the Board. The Board confirmed that, it was not aware of any situations that may or did give rise to conflicts with the interests of the company, other than those that may arise from Directors' other appointments as disclosed in their biographies.

In order to fulfil their duties, procedures are in place for Directors to seek both independent advice and the advice and services of the Company Secretary, who is responsible for advising the Board, through the Chairman, on all governance matters. The Non-Executive Directors meet without management present, and also meet with the Chairman without management present, on a regular basis.

The terms of reference of Board Committees are reviewed regularly, most recently in April and June 2020, and are available at https://www.diageo.com/en/our-business/corporate-governance.

Corporate governance structure and division of responsibilities

The Board has established a corporate governance framework as shown on page 73. This includes the three Board Committees (Audit Committee, Nomination Committee and Remuneration Committee), as well as management committees which report to the Chief Executive or Chief Financial Officer (Executive Committee, Finance Committee, Audit & Risk Committee and Filings Assurance Committee).

There is a clear separation of the roles of the Chairman, the Senior Independent Director and the Chief Executive which has been clearly established, set out in writing and agreed by the Board. No individual or group dominates the Board's decision-making processes.

Further details on the Board Committees can be found in the separate reports from each Committee on pages 81 to 106, and details of the Executive Committee can be found on page 79.

Considering stakeholders in decision-making

During the year, the Board reviewed how it was structured as regards governance of the group's environmental, social and governance (ESG) programmes. This review was considered in the light of increased expectations as to listed companies' commitment to such matters by a number of stakeholder groups, including consumers, government and employees. As part of its review, the Board considered the governance structures of peer group companies, the experience of individual Directors and feedback received directly from certain institutional investor bodies and indirectly through the company's brokers.

It was concluded that ESG was of such critical importance that all Directors should retain primary responsibility and involvement, rather than constituting a new standing committee of the Board dedicated to ESG matters.

Corporate governance structure and division of responsibilities

Non-Executive Directors

Melissa Bethell, Ho KwonPing, Lady Mendelsohn and Alan Stewart

The Non-Executive Directors, all of whom the Board has determined are independent, experienced and influential individuals from a diverse range of industries, backgrounds and countries. The independence of Ho KwonPing, who has served on the Board for over six years, was reviewed in 2019.

- Constructively challenge the Executive Directors
- Develop proposals on strategy
- Scrutinise the performance of management
- Satisfy themselves on the integrity of the financial information, controls and systems of risk management
- Set the levels of remuneration for Executive Directors and senior management
- Make recommendations to the Board concerning appointments to the Board
- Devote such time as is necessary to the proper performance of their duties

A summary of the terms and conditions of appointment of the Non-Executive Directors is available at https://www.diageo.com/en/our-business/corporate-governance.

Senior Independent Director

Susan Kilsby

- Acts as a sounding board for the Chairman and serves as an intermediary for the other Directors where necessary
- Together with the other Non-Executive Directors, leads the review of the performance of the Chairman, taking into account the views of the Executive Directors
- Available to shareholders if they have concerns where contact through the normal channels has failed

Company Secretary

Siobhán Moriarty

- The Board is supported by the Company Secretary who ensures information is made available to Board members in a timely fashion
- Supports the Chairman in setting Board agendas, designing and delivering Board inductions and Board evaluations, and co-ordinates post-evaluation action plans, including risk review and training requirements for the Board
- Advises on corporate governance matters

Chief Executive

Ivan Menezes

- Develops the group's strategic direction for consideration and approval by the Board
- Implements the strategy agreed by the Board
- Manages the company and the group
- Along with the CFO, leads discussions with investors
- Is supported in his role by the Executive Committee
- Is supported by the Filings Assurance Committee in the management of financial reporting of the company

Chairman

Javier Ferrán

- Responsible for the operation, leadership and governance of the Board
- Ensures all Directors are fully informed of matters and receives precise, timely and clear information sufficient to make informed judgements
- Sets Board agendas and ensures sufficient time is allocated to ensure effective debate to support sound decision making
- Ensures the effectiveness of the Board
- Engages in discussions with shareholders
- Meets with the Non-Executive Directors independently of the Executive Directors
- Designated non-executive director for workforce engagement

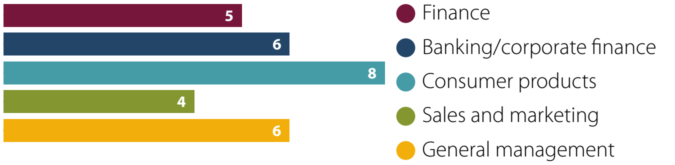
Chief Financial Officer

Kathryn Mikells

- Manages all aspects of the group's financial affairs
- Responsible for the management of the capital structure of the company
- Contributes to the management of the group's operations
- Along with the Chief Executive, leads discussions with investors
- Is supported by the Finance Committee and Filings Assurance Committee in the management of the financial affairs and reporting of the company

Board skills and experience

The Board is of the view that it is essential to have an appropriate mix of attributes amongst its Directors, in particular in relation to experience, expertise, diversity and independence. Such a mixture of attributes enables the Board as a whole to provide informed opinions and advice on strategy and relevant topics, thereby discharging its duty of oversight. Key strengths and relevant experience of each Director are set out on pages 68 and 69, and a matrix of the Board's current skills and experience is set out in the chart opposite.



Board attendance

Directors' attendance record at the AGM, scheduled Board meetings and Board Committee meetings, for the year ended 30 June 2020 is set out in the table below. For Board and Board Committee meetings, attendance is expressed as the number of meetings attended out of the number that each Director was eligible to attend. Where Directors were unable to attend a meeting, they gave their views to the Chairman of each respective meeting ahead of that meeting being held.

	Annual General Meeting 2019	Board (maximum 9)	Audit Committee (maximum 5)	Nomination Committee (maximum 5)	Remuneration Committee (maximum 5)
Javier Ferrán	✓	9/9	5/5(i)	5/5	5/5(i)
Ivan Menezes	✓	9/9	2/5(i)	5/5(i)	5/5(i)
Kathryn Mikells	✓	9/9	5/5(i)	0/0	4/5(i)
Susan Kilsby	✓	9/9	5/5	5/5	5/5
Melissa Bethell(ii)	N/A	0/0	0/0	0/0	0/0
Ho KwonPing(iii)	✓	9/9	3/5	3/5	3/5
Nicola Mendelsohn(iii)	✓	8/9	4/5	4/5	4/5
Alan Stewart	✓	9/9	5/5	5/5	5/5
Former Directors					
Debra Crew(iv)	✓	5/5	4/4	3/3	3/3
Lord Davies(iii)(v)	✓	7/9	4/5	4/5	2/5

(i) Attended by invitation.
(ii) Appointed to the Board on 30 June 2020.
(iii) Where Non-Executive Directors were unable to attend a meeting, they gave their views to the Chairman of each respective meeting ahead of the meeting being held.
(iv) Retired from the Board on 24 March 2020.
(v) Retired from the Board on 30 June 2020.

Resilient and robust decision-making during the pandemic

In order better to assess the impact of the Covid-19 pandemic, to make well-informed and timely decisions and to provide strategic guidance on how the pandemic might impact Diageo's business and operations, the Board increased the frequency of its meetings during April, May and June 2020, changed the agenda for its two-day Annual Strategy Conference held in April to focus solely on the impact of the pandemic, and constituted a committee of the Board with authority to approve urgent matters with agility and speed. The Board met virtually, using audio-video conferencing, to enable Directors located in different locations and time zones to participate in meetings, with senior executives providing updates and presentations. The agendas for these additional meetings were dedicated to providing the Board with the latest information on government containment measures taken or likely to be taken in various countries, including lockdowns, trade restrictions and closures, changes in macro-economic activity, including consumer behaviour and trends over the short and long terms, and scenario planning for the potential impact on Diageo's business and that of our direct and indirect customers in different markets. The Board was also provided with information on the company's liquidity position, latest trading and financial data, and details of management's proposed actions in relation to Diageo's workforce, plants and facilities, a number of which were closed as a result of government containment measures in some countries such as India and South Africa. Decisions were taken to manage the company's liquidity, including reducing discretionary expenditure, monitoring working capital, launching debt issuances, and to reallocate resources and A&P expenditure to address changing consumer behaviour, including significantly decreased sales in the on-trade but increased sales in off-trade and e-commerce channels. A key priority is to ensure that Diageo emerges strongly from the pandemic, with its reputation enhanced by the decisions and actions taken by the Board and management over the period. It was therefore critical for the Board to ensure that Diageo's workforce was protected through appropriate safety protocols across all production and office sites, including increased sanitation measures, safety equipment and restrictions on access, including office closures and working from home where possible. Another important consideration for the Board has been to provide appropriate support to its other stakeholders through initiatives such as the $100 million 'Raising the Bar' fund to assist the on-trade recovery, creation of materials for consumers including the 'Virtual Good Host Guide', the donation of alcohol to be made into bottles of sanitiser for frontline healthcare workers in a number of markets, working closely with suppliers and customers to minimise business disruption and to provide support packages for bartenders and others impacted by trade restrictions and closures.

Board activities

Details of the main areas of focus of the Board and its Committees during the year are summarised below.

Area of focus		Strategic priority	Strategic outcome
Strategic matters	– Held the Annual Strategy Conference through an online meeting at which the group's strategy was considered in depth, including the potential impact of the Covid-19 pandemic on consumer behaviour and the group's strategy and operations – Regularly reviewed the group's performance against the strategy – Received reports on the financial performance of the group – Reviewed the group's tax strategic planning – Reviewed the group's e-commerce strategy, North America commercial strategy and ambition, and the Africa strategy and performance – Reviewed the group's strategy as to media procurement, raw materials procurement and global supply footprint		EG CVC
Operational matters	– Reviewed and approved the annual funding plan, insurance, banking and capital expenditure requirements – Reviewed the impact of global trade developments and disputes – Reviewed the impact of Brexit and mitigation planning for Brexit and other related risks – Regularly reviewed and approved the group's business development activities, reorganisations and various other projects – Approved various significant procurement and other contracts and reviewed product quality risk management processes – Reviewed the company's innovation pipeline – Reviewed significant office and supply site property developments and proposals – Visited Diageo's new offices in New York, which included receiving reports from management and meeting employees		EG CVC CT EP
Stakeholders	– Reviewed the group's strategy in relation to environmental, social and governance policy and proposed targets – Considered the company's culture – Reviewed and made decisions in relation to the company's capital allocation and liquidity position, and its return of capital policy, including its dividend and share buyback programmes – Received reports on workforce engagement over the year – Reviewed the company's succession planning and talent strategy and board diversity policy – Reviewed the company's sustainability and environmental strategy and proposed approach as to future ambition – Reviewed the company's key pensions governance and funding positions – Received regular investor reports and reviewed a detailed investor perceptions study – Twice yearly, received an update on ESG matters		EG CVC CT EP
Governance, assurance and risk management	– Received reports on the work of the various Board Committees – Received regular reports in relation to material legal matters – Received updates on regulatory and governance developments and areas of risk – Agreed actions from the 2019 internal evaluation of the Board's performance – Approved the approach in relation to the 2020 external Board evaluation process – Approved the appointment of new Non-Executive Directors and new Senior Independent Director – Reviewed and approved new terms of reference for the Audit Committee, Remuneration Committee and Nomination Committee – Reviewed and approved updated description of separation of duties between the Chairman, Chief Executive and Senior Independent Director – Reviewed and approved the schedule of matters reserved for the Board – Reviewed and approved the company's financial reporting and risk footprint – Approved the constitution of a new committee of the Board authorised to approve actions to be taken in response to the Covid-19 pandemic – Approved increasing the number of Board meetings during year to ensure adequate governance in light of the Covid-19 pandemic		EG CT

Stakeholder engagement

Diageo's culture and the nature of its business encourages the development of strong and positive relationships with external stakeholders, including business partners such as suppliers and customers, but also with government, consumers and the communities in which we operate. The Chief Executive and the Presidents are in regular contact with our principal customers, with performance updates being provided at all scheduled Board meetings. At least once a year, the Board meets in a location outside the United Kingdom, during which it receives feedback in person from key customers. For example, in October 2019 the Board met with representatives of some of its key customers in the United States, Canada and Latin America, and, in previous financial years, the Board met key customers in India and China. See page 77 for our statement on wider stakeholder engagement.

Diageo's purpose and values require that we make a positive contribution to society and the communities in which we operate. During the year, the Board has focused in particular on the next phase of the company's long-term strategy to make a positive contribution to wider society, building on the progress made in working towards its 2020 environmental targets, including in water reuse and renewable energy in our African breweries, use of by-products from our distilleries in Scotland and the United States in energy generation, and improvements in packaging especially in relation to use of plastics. At its meeting in January 2020, the Board reviewed ambitious environmental and social targets beyond 2020. Further details of the company's initiatives to reduce its environmental impact and to contribute to wider society can be found on pages 32 to 37, 42 and 43.

How the Board is kept informed about stakeholder engagement

People

The Board recognises the importance of effective engagement with Diageo's employees and wider workforce, including contractors and temporary staff. On an annual basis, the Board holds an extended meeting at one of Diageo's overseas locations. In recent years, the Board has visited the group's operations in Chengdu, China and Bangalore, India, and during this year the Board visited the company's office in New York, USA. During these visits, the Board engages directly with local management and other employees during site and trade visits, with Board presentations and Board dinners and lunches enabling the Board to meet a broad spectrum of employees from differing departments and markets. Indirect engagement with employees also takes place through works councils, employee and workforce forums, community groups, pulse surveys and town hall meetings. This year the Board has enhanced its engagement with people through the Chairman in his role as designated non-executive director for workforce engagement, which has enabled the Board to take decisions during the Covid-19 pandemic to prioritise the health, safety and well-being of the group's workforce.

Diageo's Workforce engagement statement is set out on page 77

Consumers

Our business can only be sustained by a deep understanding of our consumers, their behaviours and motivations. At its Annual Strategy Conference, the Board receives presentations from the Executive Committee and other senior leaders on emerging consumer trends which provide opportunities to the business. At this year's Annual Strategy Conference which was held in April, the Board focused on the impact of the Covid-19 pandemic on consumer behaviour, including short-term immediate activity, acceleration of existing trends and potential long-term structural changes in the industry. At other meetings during the year, the Board has reviewed and provided guidance in relation to the group's e-commerce strategy and its innovation pipeline, ensuring that the group's portfolio remains broad and relevant to consumers with brands and products at different price points, in different categories, markets and channels. The Board takes into account that consumers are increasingly considering business reputation and ethics in their purchasing choices, underlining the importance of sustainable and responsible business practices to individual consumers as well as other stakeholders.

Customers

The Board engages with customers, primarily through the Chief Executive, who provides information about key customers in his regular report, in other business Board reports and at the annual overseas extended Board meeting, during which the Board will meet and interact directly with key customers from a particular market or region. Understanding the importance to customers of maintaining a broad portfolio with consumer offerings at a variety of price points and categories, the Board regularly reviews both innovation and inorganic opportunities to enhance its portfolio. During the year, the Board approved a number of additional investments in start-up brands as part of its Distill Ventures programme. The Board has also reviewed the group's product quality control procedures during the year, which enable the group to provide high-quality products to customers, and has reviewed and approved material distribution agreements with certain customers.

Suppliers

The Chief Executive and Chief Financial Officer provide the Board with information about key suppliers as and when relevant to Board discussions, including when approval is required for material contracts with suppliers. During the year, the Board reviewed and approved several critical procurement agreements, including in relation to raw materials such as neutral spirit, agave, glass and carried out a detailed review of the group's global media and digital agency arrangements. The Board also reviewed management's strategy in relation to sourcing certain key raw materials. The Board considers that it is important that the group remains a trusted partner for suppliers, with the relationship enhanced through fair contract and payment terms and through compliance with Diageo's 'Partnering with Suppliers Standard'.

Communities

Maintaining close relationships with the communities in which Diageo operates has always been of critical importance to the Board, shaping its discussions and guiding the company's approach to its responsibilities to wider society. The Board has had a number of discussions during the year to shape the company's ambition for its impact on communities over the long term, including shaping targets and goals in relation to environmental and social initiatives. Recognising the severity of the impact of the Covid-19 pandemic on many of the communities in which the group operates, the Board focused on actions to support those communities, including those working in the on-trade such as bar tenders and hospitality employees. A number of initiatives were approved and launched by the Board during this period, as set out in detail on page 29.

Investors

The Board is kept updated on investor sentiment through a number of different channels, including a monthly report issued by Diageo's investor relations team which frequently interacts with key investors and investor groups. In addition, the Chairman, Chief Executive and Chief Financial Officer meet on a regular basis with investors during each year. Shareholders can also contact the Chairman directly and put questions to the Board at the company's annual general meeting. This year, the Board commissioned a report to provide an independent view on the company's effectiveness in engaging with investors, the results of which were presented to the Board by the agency which compiled the report. In making decisions in relation to returns of capital, such as dividends and share buy backs, the Board has considered the views and priorities of investors recognising the importance of such return of capital to a wide range of investors, including institutional investors, pension funds and retail shareholders. Taking those views into account, as well as considering other factors including the company's liquidity position, the potential impact of the Covid-19 pandemic, and the funding position of the company's post employment benefits schemes, the Board decided not to initiate the next phase of its three-year return of capital programme but decided that it was appropriate to pay an interim dividend in April.

Government and regulators

The Board engages indirectly with government, regulators and policy-makers through regular reports from the Chief Executive as well as periodic updates from management. In particular, the Board has received regular briefings during the year on Brexit, developments in relation to tariffs and international trade disputes. A number of Directors have experience of working in or with governments in the United Kingdom and elsewhere, and provide insights as to policy-makers' views and priorities which are then considered by the Board in making its decisions. The Board ensures that the company works closely with governmental and non-governmental bodies in relation to policy as to positive drinking, responsible advertising of alcoholic products, and education to enable consumers to make better choices about alcohol.

Wider stakeholder engagement statement

During the last few months, given the spread of Covid-19 and the impact that this has had on our business and that of our customers, we have focused on maintaining an active dialogue and engaging with our different stakeholder groups in different ways. We have prioritised the safety of our employees by managing the situation through local crisis management teams, by ensuring that those who can work from home do so, using technology and systems which the group has invested in over recent years, and by providing regular and ongoing communications and guidance to all employees and the wider workforce. We also reviewed our processes and practices to ensure a safe working environment for those of our workforce who cannot work from home, including in production facilities. We have maintained an ongoing dialogue with customers and suppliers to understand their concerns and have worked closely with them to mitigate disruption, including providing an appropriate level of support to our key suppliers and customers. In relation to our investors and shareholders, we have engaged directly through our investor relations team, our regular communications and our engagement programme. In addition, we have provided updates on developments in trading in the form of market announcements to ensure that all shareholders are informed about the impact of the pandemic on our business. As part of this, we withdrew guidance on group organic net sales growth and organic operating profit growth for the year, given the uncertain nature of the pandemic and its global impact.

We are aware that our Annual General Meeting (AGM) is a critical and valued opportunity for our shareholders to communicate directly with the Board, both in terms of asking questions during the meeting itself and also engaging less formally with management afterwards. As the safety of our shareholders and employees remain our priority, this year we will of course need to adapt how we conduct our AGM to ensure that government guidelines and restrictions are complied with while aiming to maintain the ability of shareholders to communicate directly with the Board. Further details of our AGM are set out in the accompanying Notice of Meeting.

Further information on our stakeholder considerations and activities throughout the year can be found on pages 12 and 13 and our section 172 statement is set out on page 5.

Workforce engagement statement

Our people are our most important asset and our inclusive and diverse culture is core to our purpose of 'Celebrating life, every day, everywhere', and essential to our future growth. We invest to grow and develop our people and aim to create an environment that enables everyone to thrive. We want to nurture great, diverse talent, with a range of backgrounds, skills and capabilities, while making a positive contribution to society. Diversity of thought fuels growth and innovation in our organisation and brings us closer to our consumer base. Understanding our employees' views on the way they experience life at Diageo, from what works well, to where we can improve, makes good business sense. These insights help to shape our culture and make Diageo an attractive place to work, enabling us to recruit and retain the best talent.

On 1 July 2019, the Chairman was appointed the designated non-executive director for workforce engagement on behalf of the Board, as he is best positioned to engage with our workforce through regular visits to the markets in which Diageo has a presence around the world.

During the past year, the Chairman met with over 1,200 Diageo employees, representing every level and region in the organisation. These open and constructive sessions were held both in person and virtually, due to the Covid-19 outbreak. The Chairman enjoyed and appreciated the high levels of positive engagement, curiosity and candour in each discussion and was struck by the passion and pride employees had for Diageo.

The key themes that emerged from the past year's workforce engagement discussions were:

- The strength of Diageo's culture; our brand heritage; the importance of inclusion and diversity; our leadership and transparency; our focus on wellbeing; and the investment in learning and development.
- Perspectives and ideas were also shared on the need to further simplify processes to enable even faster decision-making, greater knowledge sharing and collaboration with a recognition of the progress already made. Employees were keen to take advantage of best practice sharing of ideas across markets.

The importance of connectivity and cross-functional collaboration provided valuable affirmation to the Board on the merits of the investment in new office space in New York and planned investment in central London, which will bring people together from disparate out-of-town locations and bring us closer to our consumers. The Chairman's engagement with employees across the world in the second half of our fiscal year also served as a helpful checkpoint on the company's handling of the Covid-19 pandemic. This enabled the Board to review management's decisions to prioritise the health, safety and wellbeing of employees through these uncertain and challenging times. In our recent Your Voice survey, employees reported high levels of pride in the care and support that Diageo has provided to our people, customers, partners and communities.

The focus of this first year of workforce engagement has been to understand the broad themes surfaced by employees of their experiences working at Diageo. In the coming year, the Chairman intends to continue a varied programme including, meeting with key talent; hosting employee town halls and virtual engagement forums; and meeting with employee representative groups. Focus will be placed on the progress being made on areas of opportunity for improvement and on gathering employees' views on other challenges the Board should consider.

Read more about our engagement on page 74

Performance evaluation

In November 2019, an evaluation of the Board's effectiveness, including the effectiveness of the Chairman and the Board's Committees, was undertaken with the assistance of the Company Secretary. The purpose of the evaluation was to review and evaluate how the Board and its Committees operate as measured against current best practice corporate governance principles, framed by reference to Principle L and Provisions 21, 22 and 23 of the Code. In addition to more conventional areas such as Board composition, administrative matters, performance and effectiveness, the 2019 evaluation focused on Directors' views as to corporate culture, values and stakeholder engagement. These topics had been chosen in light of the prominence given to them in the Code and in subsequent commentary by government, corporate governance institutions and the investor community.

The evaluation was also conducted with reference to the detailed guidance on the optimal Board evaluation process set out in section 3 of the FRC's 'Guidance on Board Effectiveness' issued in July 2018. The evaluation was also designed to build on the outcome of the previous year's evaluation carried out in November 2018, whose findings were summarised in last year's Corporate governance report.

The 2019 evaluation process was an internal process, comprising a questionnaire sub-divided into the five sections highlighted in the table below. Responses to all questions were sent to the Chairman and responses on the effectiveness of the Committees were also submitted to the respective Committee chairmen. In addition, the Senior Independent Director held a meeting with Directors without the Chairman present to provide feedback in relation to the Chairman. The results of the evaluation process were reviewed by the Board at its meeting in December 2019 at which various actions were agreed to be taken. It is the Board's intention to continue to review annually its performance and that of its Committees and individual Directors, with such evaluation being carried out by an external facilitator every three years. The evaluation to be undertaken in 2020 will be undertaken with the assistance of an external facilitator.

The Chairman has confirmed that the Non-Executive Directors standing for re-election at this year's AGM continue to perform effectively, both individually and collectively as a Board, and that each demonstrate commitment to their roles.

The main conclusions and key areas for focus highlighted by the 2019 evaluation are as follows:

Board composition, membership and appointment processes

Main conclusions

- While there was broadly an appropriate balance between the number of Executive and Non-Executive Directors, the current Board size appeared comparatively small
- Need to ensure prospective new members of the Board have adequate industry experience and come from a variety of geographical backgrounds
- Clear desire to maintain and enhance Board's positive gender diversity and to ensure that the Board diversifies in other areas, particularly in relation to ethnic origin
- Nomination Committee performance and ability to access pipeline of potential non-executive talent had improved
- Executive and senior management succession planning has had good focus

Key areas for focus

- Recruitment of additional Non-Executive Directors of appropriate quality, experience and background, with a view to ensuring appropriate gender and ethnic diversity on the Board
- Continued review of pipeline of Non-Executive Directors on an ongoing basis
- Review executive management succession planning and pipeline at least once a year in greater depth

Board administration, meetings, agendas and provision of information

Main conclusions

- Strong satisfaction with the number of meetings, topics for discussion, quality and timeliness of Board papers
- Board had benefitted from deep dives on specific topics ensuring immersion into particular areas of interest
- Improvements noted in understanding of long-term consumer trends although more time could be allocated to idea generation, opportunity identification and potential impact of challenges
- Detailed views provided in relation to topics for emerging areas to be the subject of future discussion by the Board

Key areas for focus

- Reviewing the format, timing and agenda to enable better idea generation, opportunity identification and assessment of the potential impact of challenges at future annual strategy meetings
- Continued shaping of agenda to ensure focus on highest value and identification of opportunities for deep-dive sessions and external speakers, especially in relation to areas such as environmental sustainability measures, and digital and technological developments
- Continued vigilance in identifying and adapting to long-term trends and challenges, including societal trends

Board, Committee and Directors' effectiveness and performance

Main conclusions

- Strong satisfaction with the performance of the Board as a whole, improving across a broad range of subjects and continuing to be top performing
- Various examples of discussions during the year were cited as being demonstrative of the Board's positive performance and ability to provide high-quality and robust debate
- Performance, transparency and openness of Executive Directors and Chairman noted in particular
- Broad satisfaction with the amount of time allocated to enable full discussion at Board and Committee meetings
- Flexibility provided by Board through access to specialist or technical advice, with external advisors attending meetings, establishing committees of the Board to address specific matters, and deep-dive and risk review sessions
- Strong support for the effectiveness of the Board in balancing short-term and performance matters with long-term strategic thinking

Key areas for focus

- Continue to reinforce and nurture the culture of transparency and openness in Board and Committee meetings
- Increase time allocation for Audit Committee meetings by adding a further meeting to the Board's annual cycle
- Ensure adequate time is allocated to Nomination Committee meetings

Stakeholder engagement

Main conclusions

- Seven categories of key stakeholder groups were identified: people, consumers, customers, suppliers, communities, investors and government and regulators
- Board has sufficient visibility and clarity as to wider stakeholder interests in its decision-making processes, although improvements could be made in certain areas
- Good understanding of investor perceptions and views

Key areas for focus

- Ensuring wider stakeholder interests continue to be considered as part of decision-making processes
- Increased focus on ESG matters through regular sessions at Board meetings
- Continued regular review of investor interests and developments
- Increased visibility for the Board on the company's relationships with certain stakeholder groups

Culture, values and purpose

Main conclusions	Key areas for focus
– Strong sense of connection and support amongst Directors for Diageo's purpose of 'Celebrating life, every day, everywhere' – Board demonstrates ethical leadership and displays the behaviours expected in a manner consistent with Diageo's purpose and ambition – Strategy of the company is consistent with its purpose, values and ambition – Appropriate tone at the top permeates the organisation to ensure adequate focus on corporate reputation and the management of reputational risk – Satisfaction with how values and expected behaviours have been communicated within the company and externally to stakeholders	– Continued focus on ensuring that behaviours of management throughout the organisation are consistent with the company's purpose and values, and are consistent with communications in relation to ethical business practices – Continued emphasis on driving cultural change, ensuring agility and speed are consistently maintained throughout the organisation – Continued emphasis on effectiveness of Diageo's contributions to society and effectiveness of the company's processes and requirements in respect of suppliers and customers

Relations with shareholders

The Board's primary contact with institutional shareholders is through the Chief Executive and Chief Financial Officer. The Chief Executive and Chief Financial Officer are supported by the investor relations department, which is in regular contact with institutional shareholders and sell-side analysts. A monthly investor relations report, including coverage of the company by sell-side analysts, is circulated to the Board.

The Board also ensures that all Directors develop an understanding of the views of major institutional shareholders through a periodic independent survey of shareholder opinion. In addition, major shareholders are invited to raise any company matters of interest to them at meetings with the Chairman of the Board and the Chairman of the Remuneration Committee. Reports on any meetings are made to the Board.

Shareholders are invited to write to the Chairman or any other Director and express their views on any issues of concern at any time, and the AGM provides an opportunity for shareholders to put their questions in person.

Executive direction and control

Executive Committee

The Executive Committee, appointed and chaired by the Chief Executive, supports him in discharging his responsibility for implementing the strategy agreed by the Board and for managing the company and the group.

It consists of the individuals responsible for the key operational and functional components of the business: North America, Europe and Turkey, Africa, Latin America and Caribbean, Asia Pacific, International Supply Centre and Corporate.

The Executive Committee focuses its time and agenda to align with the Performance Ambition and how to achieve Diageo's financial and non-financial performance objectives. Performance metrics have been developed to measure progress. There is also focus on the company's reputation. In support, monthly performance delivery calls, involving the managing directors of each market, focus on current performance.

Committees appointed by the Chief Executive and intended to have an ongoing remit, including the Audit & Risk Committee, Finance Committee and Filings Assurance Committee, are shown (with their remits) at https://www.diageo.com/en/our-business/corporate-governance.

Additional information

Internal control and risk management

An ongoing process has been established for identifying, evaluating and managing risks faced by the group. This process, which complies with the requirements of the Code, has been in place for the full financial year and up to the date the financial statements were approved and accords with the guidance issued by the FRC in September 2014, entitled 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'. The Board confirms that, through the activities of the Audit Committee described below, a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity, has been carried out. These risks and their mitigations are set out above in the section of this Annual Report dealing with principal risks.

The Board acknowledges that it is responsible for the company's systems of internal control and risk management and for reviewing their effectiveness. The Board confirms that, through the activities of the Audit Committee described below, it has reviewed the effectiveness of the company's systems of internal control and risk management.

During the year, in line with the Code, the Board considered the nature and extent of the risks it was willing to take to achieve its strategic goals and reviewed the existing internal statement of risk appetite (which was considered and recommended to the Board by both the Audit & Risk Committee and the Audit Committee).

In accordance with the Code, the Board has also considered the company's longer-term viability, based on a robust assessment of its principal risks. This was done through the work of the Audit Committee which recommended the Viability statement (as set out on page 41) to the Board.

The company has in place internal control and risk management systems in relation to the company's financial reporting process and the group's process for the preparation of consolidated accounts. Further, a review of the consolidated financial statements is completed by management through the Filings Assurance Committee to ensure that the financial position and results of the group are appropriately reflected. Further details of this are set out in the Audit Committee report on pages 81 and 82.

Compliance and ethics programme

Diageo is committed to conducting its business responsibly and in accordance with all laws and regulations to which its business activities are subject. We hold ourselves to the principles in our Code of Business Conduct, which is embedded through a comprehensive training and education programme for all employees.

Our Code of Business Conduct and other Diageo global policies are available at https://www.diageo.com/en/our-business/corporate-governance.

In accordance with the requirements of the Sarbanes-Oxley Act (and related SEC rules), Diageo has adopted a code of ethics covering its Chief Executive, Chief Financial Officer, Presidents and other identifiable persons in the group, including those performing senior accounting and controller functions. No amendments to, or waivers in respect of, the code of ethics were made during the year.

The full text of the code of ethics is available at https://www.diageo.com/en/our-business/corporate-governance.

Both the Audit & Risk Committee and the Audit Committee regularly review the strategy and operation of the compliance and ethics programme through the year.

Further information is given in the 'Our principal risks and risk management' section of this Annual Report on page 41

Political donations

The group has not given any money for political purposes in the United Kingdom and made no donations to EU political organisations and incurred no EU political expenditure during the year.

The group made contributions to non-EU political parties totalling £0.38 million during the year (2019 – £0.38 million). These contributions were made almost exclusively to federal and state candidate committees, state political parties and federal leadership committees in North America (consistent with applicable laws), where it is common practice to make political contributions. No particular political persuasion was supported and contributions were made with the aim of promoting a better understanding of the group and its views on commercial matters, as well as a generally improved business environment.

Going concern

The potential financial impact of the Covid-19 pandemic has been modelled in our cash flow projections and stress tested by including several severe but plausible downside scenarios which are linked to our principal risks. In our downside Covid-19 scenario, we have considered the key impacts of the pandemic for each region including the potential restrictions on the sale of our products in both on trade and off trade channels. We have then considered the expected duration of those restrictions, as well as a forecast for the length of time to recovery (a return to 2019 volumes), based on industry projections. As a result of these factors, in our severe but plausible scenarios, we do not anticipate that the on-trade business recovers to volumes experienced in the year ending 30 June 2019 within the next 18 month period. Even with these negative sensitivities for each region taken into account, the group's cash position is still considered to remain strong, as we have protected our liquidity by increasing the level of committed facilities and accelerating certain bond issuance programmes. Mitigating actions, should they be required, are all within management's control and could include reduced advertising and promotion spend, dividend cash payments, non-essential overheads and non-committed capital expenditure in the next 12 months. Having considered the outcome of these assessments, it is deemed appropriate to prepare the consolidated financial statements on a going concern basis.

Although not assessed over the same period as the going concern, the viability of the group has been assessed above.

Management's report on internal control over financial reporting

Management, under the supervision of the Chief Executive and Chief Financial Officer, is responsible for establishing and maintaining adequate control over the group's financial reporting. The Filings Assurance Committee supports the Chief Executive and Chief Financial Officer in ensuring the accuracy of the company's financial reporting, filings and disclosures.

Management has assessed the effectiveness of Diageo's internal control over financial reporting (as defined in Rules 13(a)-13(f) and 15(d)-15(f) under the United States Securities Exchange Act of 1934) based on the framework in the document 'Internal Control – Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management concluded that, as at 30 June 2020, internal control over financial reporting was effective.

During the period covered by this report, there were no changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of internal control over financial reporting.

PricewaterhouseCoopers LLP (PwC), an independent registered public accounting firm, who also audit the group's consolidated financial statements, has audited the effectiveness of the group's internal control over financial reporting, and has issued an unqualified report thereon, which is included in PwC's integrated audit report below and which will be included in the company's Form 20-F to be filed with the SEC.

Directors' responsibilities in respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report, the information filed with the SEC on Form 20-F and the group and parent company financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). In preparing the group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements for the year ended 30 June 2020 are included in the Annual Report, which is published in printed form and made available on the company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the company's website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Responsibility statement

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 68 and 69, confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as issued by the IASB and as adopted for use in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

The responsibility statement was approved by the Board of Directors on 3 August 2020.

Dear Shareholder

On behalf of the Audit Committee, I am pleased to present its report for the year ended 30 June 2020.

The purpose of this report is to describe how the Committee has carried out its responsibilities during the year. In overview, the role of the Audit Committee is to monitor and review: the integrity of the company's financial statements and reporting; internal control and risk management; audit and risk programmes; business conduct and integrity; 'whistleblowing'; and the appointment of the external auditor.

During the year, the Committee gave attention to all elements of its remit with continued focus on particular topics within the company's risk management programme and emerging trends, including product quality risk management, cyber security and data access risks, internal and third-party data management and migration risks, pensions funding status and governance, and controls testing. During the year, the Committee also reviewed external analyses relating to the effectiveness of the company's internal audit and controls, compliance and ethics functions, as well as internal reports on the steps being taken to address internal audit findings, controls issues and investigations.

As part of the annual Board evaluation, all members of the Audit Committee completed an evaluation of the Committee. This concluded that members were very satisfied with the performance of the Committee. In order to ensure that adequate time is given to enable the Committee to continue to carry out its duties to a high standard, it was decided to increase the number of meetings which it ordinarily holds each year. Further details of the evaluation can be found on pages 78 and 79.

In discharging its duties, the Audit Committee seeks to balance independent oversight of the matters within its remit with providing support and guidance to management. I am confident that the Committee, supported by members of senior management and the external auditor, has carried out its duties in the year under review effectively and to a high standard.

Alan Stewart
Chairman of the Audit Committee

Role of the Audit Committee

The formal role of the Audit Committee is set out in its terms of reference, which are available at https://www.diageo.com/en/our-business/corporate-governance. Key elements of the role of the Committee and work carried out during the year are set out as follows.

Composition of the Audit Committee

The members of the Audit Committee are independent non-executive directors and it comprises Alan Stewart (Committee Chairman), Melissa Bethell, Susan Kilsby, Ho KwonPing and Lady Mendelsohn. The Board has satisfied itself that the membership of the Audit Committee includes at least one Director with recent and relevant financial experience and has competence in accounting and/or auditing and in the sector which the company operates, and that all members are financially literate and have experience of corporate financial matters.

Financial statements

During the year, the Audit Committee met five times (and a subcommittee met twice) and reviewed both the interim results announcement, which included the interim financial statements, and the annual reports and associated preliminary results announcement, focusing on key areas of judgement and complexity, critical accounting policies, provisioning and any changes required in these areas or policies.

The company has in place internal control and risk management systems in relation to the company's financial reporting process and the group's process for the preparation of consolidated accounts. A review of the consolidated financial statements is completed by the Filings Assurance Committee (FAC) to ensure that the financial position and results of the group are appropriately reflected therein. In addition to reviewing draft financial statements for publication at the half and full year, the FAC is responsible for examining the company's financial information and processes, the effectiveness of internal controls relating to financial reporting and disclosures, legal and compliance issues and, determining whether the company's disclosures are accurate and adequate. The FAC comprises the Chief Executive, the Chief Financial Officer, the General Counsel & Company Secretary, the General Counsel Corporate, the Group Controller, the Chief Accountant, the Head of Investor Relations, the Head of Global Audit & Risk, the Controls Assurance Director, the Chief Business Integrity Officer and the company's external auditor. The Audit Committee reviewed the work of the FAC and a report on the conclusions of the FAC process was provided to the Audit Committee by the Chief Financial Officer.

Significant issues and judgements that were considered in respect of the 2020 financial statements were as follows. These include the matters relating to risks disclosed in the UK external auditor's report.

- Disclosure on the quality of the earnings (material items of income or expense) and one-off items included in cash flow. The Audit Committee agreed that sufficient disclosure was made in the financial statements.
- The Audit Committee determined that exceptional items are appropriately classified considering their size and nature, and sufficient disclosure is provided in the financial statements (see note 4).
- Review of carrying value of assets, in particular intangible assets. The Audit Committee assessed the impairment charge recognised and agreed that, at 30 June 2020, the recoverable amount of the company's assets was in excess of their carrying value (see notes 6, 9 and 10).
- Exchange rate used to translate operations in Venezuela. The Audit Committee agreed that the rate is reasonable for the year ended 30 June 2020 for consolidation purposes, that represents the best estimation of the rate at which capital and dividend repatriations are expected to be realised (see note 1).
- Disclosure on taxation. The Audit Committee agreed that the separate presentation of the tax risk appropriately addresses the significant change in the international tax environment and sufficient and transparent disclosures are provided for the ongoing tax discussions (see page 40 and note 7).
- Review of legal cases. The Audit Committee agreed that adequate provision and/or disclosure has been made for all material litigation and disputes, based on the current most likely outcomes, including the litigation summarised in note 18.

- Assumptions used in respect of post employment plans. Having considered advice from external actuaries and assumptions used by companies with comparator plans, the Audit Committee agreed that the assumptions used to calculate the income statement and balance sheet assets and liabilities for post employment plans were appropriate (see note 13).
- Viability statement. The Audit Committee noted that severe but plausible risk scenarios had been identified; a robust risk assessment had been carried out; and the group's viability and going concern consideration proved with stress testing. Taking into account the company's balance sheet position, the Audit Committee expected the group to be able to meet its liabilities as they fell due over the three-year period ending 30 June 2023. The risk that the group would become insolvent during this timeframe was considered remote. The Audit Committee recommended to the Board that the Viability statement on page 41 be approved.

As part of its review of the Annual Report, the Audit Committee considered whether the report is 'fair, balanced and understandable' (noting the Code's reference to 'position' as well as 'performance, business model and strategy'). On the basis of this work, the Audit Committee recommended to the Board that it could make the required statement that the Annual Report is 'fair, balanced and understandable'.

Internal control and risk management; audit and risk programme; business conduct and ethics (including 'whistleblowing')

At its meetings, the Audit Committee reviewed reports from the Head of the Global Audit & Risk (GAR) team, the Controls Assurance Director and the Chief Business Integrity Officer (including coverage of the areas mentioned in the title of this section) and had sight of the minutes of meetings of management's Audit & Risk Committee. The work and reporting to the Committee of these functions during the year included focus on cyber security and data access risks, internal and third-party data management and migration risks, controls testing and steps being taken to address internal audit findings, controls issues and investigations. The Committee also reviewed reports prepared by external advisors relating to the effectiveness of the GAR team as well as the company's compliance and ethics framework and function, and implemented various changes as a result of recommendations in those reports. The Committee also received regular updates from the General Counsel on significant litigation and from the Head of Tax on the group's tax profile and key issues.

The Committee also considered key risks and related mitigations, including those set out in the section of this Annual Report dealing with principal risks. Based on this activity during the year, the Audit Committee made a recommendation to the Board covering the nature and extent of the risks it was willing to take to achieve its strategic goals and its internal statement of risk appetite (which was considered also by management's Audit & Risk Committee). The Board agreed this recommendation.

Through the activities of the Audit Committee described in this report and its related recommendations to the Board, the Board confirms that it has reviewed the effectiveness of the company's systems of internal control and risk management and that there were no material failings identified and no significant failings identified which require disclosure in this Annual Report.

External auditor

During the year, the Audit Committee reviewed the external audit strategy and the findings of the external auditor from its review of the interim results and its audit of the consolidated financial statements.

The Audit Committee reviews annually the appointment of the auditor (taking into account the auditor's effectiveness and independence and all appropriate guidelines) and makes a recommendation to the Board accordingly. Any decision to open the external audit to tender is taken on the recommendation of the Audit Committee. There are no contractual obligations that restrict the company's current choice of external auditor. Following the last tender process, PwC was appointed as auditor of the company in 2015. The audit partner for the year ended 30 June 2020 was Ian Chambers and Richard Oldfield is the audit partner from the year ending 30 June 2021 onwards. The company is required to have a mandatory audit tender after 10 years and, as the Audit Committee considers the relationship with the auditors to be working well and remains satisfied with their effectiveness, the Audit Committee does not currently anticipate that it will conduct an audit tender before it is required to do so. The Audit Committee considers this to be in the best interests of the company's shareholders for the reasons outlined above and will continue to monitor this annually to ensure the timing for the audit tender remains appropriate, taking into account the effectiveness and independence of the auditor.

The company has complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (CMA Order) for the year ended 30 June 2020.

The Audit Committee assesses the ongoing effectiveness and quality of the external auditor and audit process on the basis of meetings and a questionnaire-based internal review with the finance team and other senior executives. The group has a policy on auditor independence and on the use of the external auditor for non-audit services, which is reviewed annually, most recently in July 2020. The review takes into consideration effectiveness and upcoming expected changes to UK FRC regulation on non-audit services. Effective from 1 July 2020, any member of the PwC global network shall provide to the company, its subsidiaries or any related entity only permissible services, subject to the approval of the Audit Committee after it has properly assessed through its governance process the threats to independence and the safeguards applied in accordance with the FRC Ethical Standard. Any FRC permissible service to be provided by the auditor, regardless of the size of the engagement, must be specifically approved by the Audit Committee or its nominated delegate. The policy explicitly specifies the auditor independence review and approval mechanism process for permissible engagements costing more than £250,000. Fees paid to the auditor for audit, audit-related and other services are analysed in note 3(b) to the consolidated financial statements. The nature and level of all services provided by the external auditor are factors taken into account by the Audit Committee when it reviews annually the independence of the external auditor.

'Financial expert', composition and other attendees

For the purposes of the Code and the relevant rule under SOX, section 407, the Board has determined that Alan Stewart is independent and may be regarded as an Audit Committee financial expert, having recent and relevant financial experience, and that all members of the Audit Committee are independent Non-Executive Directors with relevant financial and sectoral competence. The Chairman, the Chief Financial Officer, the General Counsel & Company Secretary, the Group Controller, the Head of GAR, the Chief Business Integrity Officer, the General Counsel Corporate, the Controls Assurance Director, the Chief Accountant and the external auditor regularly attend meetings of the Committee. The Audit Committee met privately with the external auditor, the Chief Business Integrity Officer, the Controls Assurance Director and the Head of GAR regularly during the year.

FRC correspondence

The Committee reviewed correspondence between the company and the FRC following their review of the company's annual report and accounts for the year ended 30 June 2019, including in respect of certain distributions and transactions related to the company's employee share schemes undertaken between 10 May 2019 and 9 August 2019 which were contrary to applicable provisions of the Companies Act 2006 as further detailed on page 107. The Committee has overseen the incorporation of reporting and controls improvements following the FRC's review and have incorporated those improvements into the company's annual report and accounts for the year ended 30 June 2020. In June 2020, the FRC confirmed that the matters raised by their review are closed. The Committee notes that the FRC's review does not provide assurance that the annual report and accounts are correct in all material respects as the FRC's role is to consider compliance with reporting requirements.

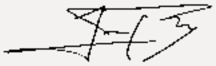
Dear Shareholder

On behalf of the Nomination Committee, I would like to present its report for the year ended 30 June 2020.

The Committee has ensured that there is a pipeline of strong candidates for potential nomination as Non-Executive Directors and reviewed succession planning and talent strategy for the Executive Committee. In order to further embed its long-standing commitment to diversity, the Committee also formalised the diversity principles applicable to the Board into a written Board Diversity Policy to promote a diverse and inclusive membership on the Board. This was approved and adopted by the Board in April 2020.

During the year, the Committee recommended that the Board appoint Melissa Bethell as Non-Executive Director, which recommendation was approved and took effect from 30 June 2020, and also recommended that the Board appoint Valérie Chapoulaud-Floquet and Sir John Manzoni as Non-Executive Directors, which recommendations were subsequently approved and will take effect from 1 January 2021 and 1 October 2020 respectively. These appointments had been preceded by a detailed market review and selection process carried out by the Committee with the assistance of Egon Zehnder, an independent consulting and recruitment agency which has no other connection with the company.

Melissa Bethell is the Managing Partner of Atairos Europe, an investment firm backed by Comcast NBC Universal, and spent over 18 years at Bain Capital, the global private equity firm, having previously worked at Goldman Sachs. Melissa is currently non-executive director on the boards of Tesco PLC and Exor, and has had considerable experience of other non-executive roles on other boards. Melissa brings her extensive expertise in international business strategy and investments to the company's Board. Valérie Chapoulaud-Floquet is the former CEO of Rémy Cointreau S.A., which she led from September 2014 to December 2019, prior to which she had worked for Louis Vuitton, LVMH Group since 2008 in a number of different roles. Valérie's extensive experience in consumer goods and premium drinks industries should serve Diageo well. Sir John Manzoni was Chief Executive of the Civil Service and Permanent Secretary to the UK Cabinet Office from 2014 to April 2020. He was previously President and Chief Executive Officer of Talisman Energy in Canada from 2007 to 2012 and had worked for BP from 1983 to 2007 in various roles. Sir John was also Non-Executive Director of SABMiller plc from 2004 to 2014. Sir John's commercial acumen and business knowledge, together with his more recent public service experience, will complement the Board. I look forward to welcoming both Valérie and Sir John to the Board in due course.



Javier Ferrán
Chairman of the Nomination Committee

Role of the Nomination Committee

The Nomination Committee is responsible for keeping under review the composition of the Board and succession to it, reviewing succession planning for key Executive Committee role succession, and succession planning and overall talent strategy for senior leadership positions, including in relation to ensuring and encouraging diversity in leadership positions. It makes recommendations to the Board concerning appointments to the Board. The recruitment process for Non-Executive Directors typically includes the development of a candidate profile and the engagement of a professional search agency (which has no other connection with the company) specialising in the recruitment of high-calibre non-executive directors. Reports on potential appointees are provided to the Committee, which, after careful consideration, makes a recommendation to the Board.

Any new Directors are appointed by the Board and, in accordance with the company's articles of association, they must be elected at the next AGM to continue in office. All existing Directors retire by rotation every year.

The formal role of the Nomination Committee is set out in its terms of reference which are available at https://www.diageo.com/en/our-business/corporate-governance.

Composition of the Nomination Committee

The Nomination Committee comprises Javier Ferrán (Committee Chairman), Melissa Bethell, Susan Kilsby, Ho KwonPing, Nicola Mendelsohn and Alan Stewart.

Induction, training and business engagement

There is a formal induction programme for new Directors, which includes meeting with Executive Committee members and other senior executives individually and visiting a number of operations and sites around the group.

Following the initial induction for Non-Executive Directors, a continuing understanding of the business is developed through appropriate business engagements. Visits to customers, engagements with employees, and brand events were arranged during the year, although these have been impacted in the second half of the year due to Covid-19 travel restrictions.

In addition, Executive Committee members and other senior executives are invited, as appropriate, to Board and strategy meetings to make presentations on their areas of responsibility. The company's policy is for all Directors to attend the AGM.

All Directors are also provided with the opportunity, and encouraged, to attend regular training to ensure they are kept up to date on relevant legal and governance developments or changes, best practice developments and changing commercial and other risks.

Activities of the Nomination Committee

The principal activities of the Nomination Committee during the year were:

- the consideration of the talent pipeline for potential new appointments to the Board including potential new Non-Executive Directors
- the review of Board, committee and individual Director performance as part of the annual evaluation process
- a review of the Executive Committee membership and succession planning for it and for senior leadership positions
- preparation and adoption of a Board Diversity Policy
- appointment of a new Senior Independent Director.

Diversity

Details of Board diversity and its diversity policy can be found on pages 68 and 72. Details of diversity for the Executive Committee can be found on page 70. As at 30 June 2020, the percentage of women on the Executive Committee and their direct reports is 38%.

Evaluation

As part of the annual Board evaluation, all members of the Nomination Committee participated in an evaluation of the Committee. This concluded that the performance of the Committee continued to improve, with a strong pipeline of candidates resulting in excellent recent appointments to the Board and a continued focus on diversity and enhancements to the induction programme for new Directors. Further details of the evaluation can be found on pages 78 and 79.

Annual statement by the Chairman of the Remuneration Committee

"The company is committed to emerging stronger from the pandemic. It is important that we have flexibility in our remuneration framework so that we can remain nimble in a rapidly changing world."

In this year's report

Dear Shareholder

I am pleased to present to you the Directors' remuneration report for the year ended 30 June 2020, which contains:

– The proposed Directors' remuneration policy, to be approved at the 2020 AGM; and
– The annual remuneration report, describing how the policy has been put into practice during 2020, and how the new policy will be implemented in 2021.

I had the opportunity to consult with a number of shareholders during the year as we considered our proposals for the latest Directors' remuneration policy and I want to thank you for your time and your input, which has been very helpful and constructive in shaping the final policy we are presenting here.

When I began meeting with shareholders about Diageo's remuneration policy review early in 2020, the coronavirus outbreak was in its very early stages and the severity and scale of its impact was not yet apparent. We now find ourselves in new and challenging circumstances. As for many companies, Diageo's ability to do business has been immediately and significantly impacted by the pandemic, and we recognise that it has also caused considerable uncertainty and hardship for our employees, customers, suppliers and the communities in which we not only work, but also source and sell our products.

In line with its values, Diageo's response to the Covid-19 pandemic has been focused on looking after our people, and protecting the safety, health and wellbeing of all of our employees. Diageo has also acted fast to support those in need in the communities in which we operate, donating sanitisers and wipes to local health organisations across the world, as well as pledging financial support to bartenders who are unable to work during lockdown.

Looking ahead, the company is committed to emerging stronger from the pandemic by focusing on consumers, customers, cost and cash. It is important that we have flexibility in our remuneration framework so that we can remain nimble in a rapidly changing world.

Remuneration principles

Long-term value creation for shareholders and pay for performance continue to be at the heart of our remuneration policy and practices. Attracting and nurturing a vibrant mix of talent with a range of backgrounds, skills and capabilities – in good times and even more so in challenging times – enables Diageo to grow and thrive, and ultimately to deliver our Performance Ambition. Remuneration remains a key part of attracting and retaining the best people to lead our business, balanced against the need to ensure our packages are appropriate and fair in the business and wider employee context, delivering market-competitive pay in return for high performance against the company's strategic objectives.

We need to have the right tools in place to source talent globally and the increasingly restrictive corporate governance environment in the United Kingdom presents some challenges when considered against the significantly higher pay norms in the United States and other parts of the world, particularly given the increasing international mobility of the senior talent pool. The approach to setting executive remuneration continues to be guided by the following remuneration principles:

– Delivery of business strategy;
– Creating sustainable, long-term performance;
– Winning best talent; and
– Consideration of stakeholder interests.

The Committee considers these principles carefully when making decisions on executive remuneration in order to strike the right balance between risk and reward, cost and sustainability, and competitiveness and fairness. This reflects the principles of the Corporate Governance Code in ensuring clarity, simplicity, appropriate management of risk, predictability, proportionality and alignment to culture (see page 105 for more detail on the role of the Remuneration Committee and how it delivers against these principles).

2020 Directors' remuneration policy review

The remuneration policy was last approved by shareholders at the 2017 AGM and is now due for review and approval by shareholders for the next three-year cycle.

On behalf of the Remuneration Committee, I have engaged with Diageo's largest shareholders to understand their views on the policy proposals, as well as continuing an open dialogue on the ongoing appropriateness of executive short- and long-term incentive plan design, performance measures and target-setting, ensuring that remuneration arrangements continue to attract and retain the highest quality global talent.

Having taken account of the viewpoints of the investor community and best practice corporate governance guidelines, the Committee decided to make a number of changes to the remuneration policy, effective 1 July 2020, subject to being approved by shareholders at the AGM on 28 September 2020.

The key changes to the remuneration policy are:

- **Maximum pension contribution for new-hire Executive Directors set at 14% of salary**, in line with the maximum offered to new-hire employees in the United Kingdom;
- **Commitment to align incumbent Executive Director pension contributions** with the maximum offered to new-hire employees in the United Kingdom by 1 January 2023;
- **Introduction of new bonus deferral share plan**, requiring Executive Directors to defer one-third of their earned annual bonus into shares for three years; and
- **Introduction of a post employment shareholding policy**, requiring Executive Directors to hold some of their Diageo shares for two years after leaving the company.

Other changes include the review of Non-Executive Director fees every year instead of every two years, an increase in the aggregate Non-Executive Director fee limit from £1.2 million to £1.75 million, the removal of the requirement for straight-line vesting between threshold and maximum under the long-term incentive plan, and, in response to feedback from shareholders, the consideration of a returns measure as one of the factors used by the Committee to assess the appropriateness of long-term incentive outcomes.

Pension

New Executive Director appointments

In accordance with the latest guidance from institutional investors in the United Kingdom, the maximum company pension contribution for new Executive Director appointments has been reduced from 20% of salary to 14% of salary, a change which has been in effect since 1 July 2019. The maximum pension contribution for Executive Directors under the remuneration policy is aligned to the offering for new-hire employees in the United Kingdom, who are eligible to receive a potential company contribution of 14% of salary under the defined contribution pension scheme, regardless of seniority or tenure.

Incumbent Executive Directors

The Chief Executive agreed to a reduction in the company's contribution to his pension scheme from 30% of salary to 20% of salary, effective 1 July 2019. This followed the earlier reduction to his pension from 40% of salary to 30% of salary, implemented on 1 July 2016. The pension contributions for the incumbent Chief Executive and Chief Financial Officer are now both set at 20% of salary and this is aligned to the current average company contribution to active members of all of the current and legacy pension schemes in the United Kingdom (weighted average of 20% of salary). The company pension contribution for many longer-serving employees participating in the legacy defined benefit or final salary schemes in the United Kingdom is higher than 20% of salary. As further context, the company contribution to active retirement schemes in the United States ranges between 10% and 16.5% of salary plus target bonus.

The Committee has committed to align the company pension contributions for incumbent Executive Directors to the level applicable to new-hire employees in the United Kingdom (14% of salary) by 1 January 2023.

Diageo's remuneration principles

Delivery of business strategy

Short- and long-term incentive plans reward the delivery of our business strategy and Performance Ambition. Performance measures are reviewed regularly and stretching targets are set relative to the company's growth plans and peer group performance. The Committee seeks to embed simplicity and transparency in the design and delivery of executive reward.

Creating sustainable, long-term performance

A significant proportion of remuneration is delivered in variable pay linked to business and individual performance, focused on consistent and responsible drivers of long-term growth. Performance against targets is assessed in the context of underlying business performance and the 'quality of earnings'.

Winning best talent

Market-competitive total remuneration with an appropriate balance of reward and upside opportunity allows us to attract and retain the best talent from all over the world, which is critical to our continued business success.

Consideration of stakeholder interests

Executives are focused on creating sustainable share price growth. The requirement to build significant personal shareholdings in Diageo and hold long-term incentive awards for two years post-vesting encourages executives to think and act like owners. Decisions on executive remuneration are made with consideration of the interests of the wider workforce and other stakeholders, as well as taking account of the external climate.

Annual incentive

The annual incentive plan for the financial year ended 30 June 2020 provided a bonus opportunity payable entirely in cash. In recognition of the external best practice guidelines in the United Kingdom and prevalent practice in other FTSE 100 companies, a new bonus deferral plan will be introduced for the year ended 30 June 2021, which will require Executive Directors to defer one-third of their actual earned bonus payment into Diageo shares, to be held for a minimum of three years. This further reinforces the focus on delivering long-term shareholder value, in addition to the high shareholding requirement, the level of stretch in performance targets under the incentive plans and the post-vesting holding period for long-term incentives. These measures ensure that executives are invested in managing risk appropriately for the business.

The structure of the annual incentive plan for Executive Directors in the year ending 30 June 2021 remains broadly the same, with 80% based on financial measures and 20% on individual business objectives. The average working capital measure (as a percentage of net sales value) will be replaced with a new operating cash conversion measure, in recognition of the criticality of strong cash performance and cost containment in the current challenging market conditions.

Given the global nature of the pandemic, the uncertainty around the severity and duration of impact across multiple markets in which Diageo operates, and the significant difficulties in setting meaningful targets for the year ahead, the target-setting process for the annual incentive plan for 2021 will be managed in two half-year periods, with financial targets for the first half of the year (1 July 2020-31 December 2020) approved immediately after the announcement of Diageo's final results in July 2020, and financial targets for the second half of the year (1 January 2021-30 June 2021) approved immediately following the announcement of Diageo's interim results in January 2021.

There will be no payout under the annual incentive plan until after the end of the financial year, in line with the normal timeline. The Remuneration Committee will consider Diageo's holistic performance across the full financial year in order to determine the appropriate level of payment at the end of the financial year, based on a rigorous year-end assessment to ensure that the decisions that have been taken and the financial results that have been achieved align to the interests of Diageo's shareholders and wider stakeholders over the long term. This review will consider factors such as market share, the relationship between revenue and profit performance, Diageo's performance relative to its peer group, and any other relevant context impacting the business. The Committee retains full discretion to adjust annual incentive payouts to ensure they appropriately reflect underlying business performance and the experience of shareholders. Any discretionary adjustments will be detailed in the following year's annual report on remuneration.

Long-term incentives

The Committee remains confident that the mix of performance shares and share options is an appropriate long-term incentive for the leaders of the business, and the share options element provides an additional stretch in that the share price has to grow materially in addition to the performance condition being achieved in order for the award to deliver value to executives. This further strengthens the alignment between the interests of executives and shareholders. Share option plans remain majority practice within Diageo's international peer group, against which the company needs to remain competitive in order to attract and retain the highest calibre of talent.

As a result of very rich and productive discussions with shareholders, I am pleased to confirm that long-term incentive awards in 2020 will include a measure based on ESG (Environmental, Social and Governance) priorities, in line with Diageo's vision to make a positive impact on the environment and society. The ESG measure will cover water efficiency, carbon reduction, positive drinking and inclusion and diversity. In considering the appropriateness of ESG priorities under the long-term incentive plan, the Committee and I have been focused on selecting measures that are strategically critical to the business over the long term, as well as being measurable and able to be independently validated. The other measures under the long-term incentive award for 2020 are detailed on page 104. To those of you with whom I consulted, thank you for your extensive input and experience in assessing the design and effectiveness of the long-term incentive plan.

Due to the Covid-19 pandemic, the Committee has decided to set targets for 2020 long-term incentive awards after the interim results have been reported for the period 1 July 2020 to 31 December 2020, at which time it is envisaged that there will be better visibility of the market conditions for the company's three-year plan. We intend to consult again with shareholders before these targets are set and disclosed. Long-term incentive awards will be made as normal in September 2020. Awards are calculated on the basis of a six-month average share price for the period ending 30 June 2020. At £28.43, this award price is in line with previous years, and as a result no adjustment to award size is deemed necessary. The Committee will keep under review the targets for outstanding long-term incentive awards made in 2018 and 2019 to ensure they remain appropriate.

Shareholding requirement

The in-employment shareholding requirement is high relative to other UK listed companies at 500% of salary for the Chief Executive and 400% of salary for the Chief Financial Officer, and both incumbents have exceeded that requirement at 2,635% and 791% respectively.

In accordance with best practice guidelines under the Corporate Governance Code, a new post employment shareholding requirement policy will be implemented from 1 July 2020, under which Executive Directors leaving the company will be required to hold 100% of their in-employment shareholding requirement (or their actual shareholding, if lower) for one year after exit, reducing to 50% of their in-employment shareholding requirement in the second year after exit. This ensures that departing Executive Directors remain invested in Diageo's long-term share price performance and the appropriate management of risk.

Other decisions made during 2020

In addition to reviewing salaries, incentive awards and payments for the Executive Committee, setting targets for the annual and long-term incentive plans, and reviewing annual and long-term incentive outcomes for the Executive Committee, the Committee made other decisions during the year ended 30 June 2020, as outlined below.

Chairman's fee increase for 2020 waived until 2021

In light of the current challenges affecting the company in relation to the Covid-19 pandemic, the Chairman asked to defer his planned fee increase for 2020 until 2021. The Chairman's fee has not increased since his appointment in January 2017, and the Committee had approved an increase from £600,000 to £650,000, effective 1 January 2020. This fee increase will instead take effect on 1 January 2021.

No salary increases or bonus payments for Executive Directors in 2020

The significant and unpredictable impact of the pandemic on Diageo's performance has required the company to review its approach to reward and incentives for all employees to reflect the challenges of the current environment, including the need to increase focus on cash and cost. Many of our employees will not receive a bonus for the year ended 30 June 2020 and there will be no annual salary review implemented during 2020. In keeping with the approach taken for the majority of employees across the company in 2020, there will be no annual salary increase for Executive Directors or members of the Executive Committee during 2020. Downward discretion has been exercised so that there is no payout, irrespective of performance, against the individual business objectives under the annual incentive plan, meaning that there will be no annual incentive payout for Executive Directors or members of the Executive Committee for the year ended 30 June 2020.

Diageo has made the health and wellbeing of its employees its top priority in response to the Covid-19 pandemic. The company has safeguarded jobs, pay and benefits for its employees during the year ended 30 June 2020, has rolled out a global Employee Assistance Programme to provide personal, legal and financial advice to employees and their families, has extended emergency, bereavement leave and life insurance to all employees across the world and has provided access to learning resources on remote working, wellness and resilience through change. No doubt there will continue to be uncertain and challenging times ahead, but in focusing on emerging stronger, Diageo seeks to deliver the best possible outcomes for employees, shareholders and society.

The Directors' remuneration policy will be put forward for your consideration and approval by binding vote, and the annual remuneration report by advisory vote, at the AGM on 28 September 2020. Thank you to those shareholders that engaged with us as part of the 2020 remuneration policy review; I believe the new policy supports the business strategy, drives pay for performance and meets the needs of all our stakeholders.

In closing, I want to recognise the level of energy, agility and resilience demonstrated by our people throughout these difficult times. There is a high level of passion, pride and accountability for our heritage-rich brands at Diageo and a shared commitment to be our best, and to do the right thing at work, in life and in the wider community. Our people have been working tirelessly to drive the best results for the business, and many people have continued to do their jobs outside of their homes to keep production and supply going. To all Diageo employees – thank you for your hard work, your solidarity and your commitment to emerging stronger.

Susan Kilsby
Non-Executive Director and Chairman of the Remuneration Committee

Remuneration at a glance

	Salary	Allowances and benefits	Annual incentive	Long-term incentives	Shareholding requirement
Purpose and link to strategy	– Supports the attraction and retention of the best global talent with the capability to deliver Diageo's strategy	– Provision of market-competitive and cost-effective benefits supports attraction and retention of talent	– Incentivises delivery of Diageo's financial and strategic targets – Provides focus on key financial metrics and the individual's contribution to the company's performance	– Rewards consistent long-term performance in line with Diageo's business strategy – Provides focus on delivering superior long-term returns to shareholders	– Ensures alignment between the interests of Executive Directors and shareholders

Key features	– Normally reviewed annually on 1 October
	– Salaries take account of external market and internal employee context
		– Provision of competitive benefits linked to local market practice
		– Maximum company pension contribution is 14% of salary for new Executive Director appointments, which is aligned to the offering for new-hire employees in the United Kingdom
			– Target opportunity is 100% of salary and maximum is 200% of salary
			– Performance measures, weightings and stretching targets are set by the Remuneration Committee
			– Subject to malus and clawback provisions
			– New requirement for Executive Directors to defer one-third of earned bonus payment into Diageo shares held for three years, first taking effect on the bonus for the year ended 30 June 2021
			– Remainder paid out in cash after the end of the financial year
				– Annual grant of performance shares and share options
				  – CEO award 500% of salary
				  – CFO award 480% of salary (% of salary for both CEO and CFO described in performance share equivalents)
				– Performance measures, weightings and stretching targets are set annually
				– Three-year performance period plus two-year retention period
				– Subject to malus and clawback provisions
				– Grant price based on six-month average to 30 June preceding grant date
					– Minimum shareholding requirement within five years of appointment:
					  – CEO 500% of salary
					  – CFO 400% of salary

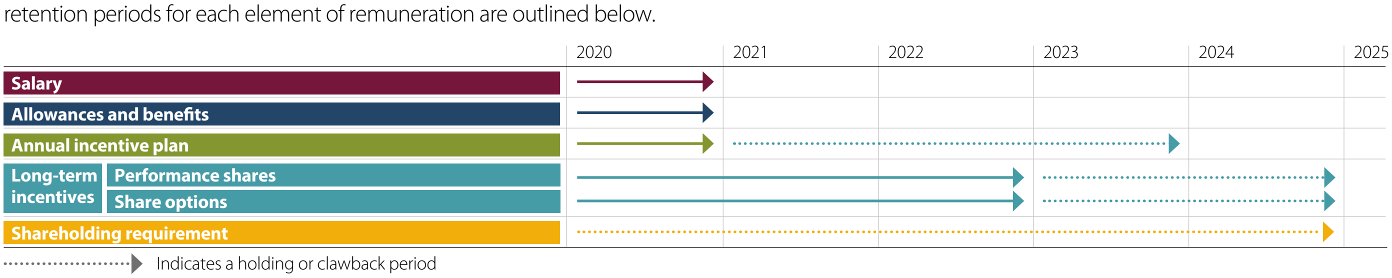
Planned for year ending 30 June 2021	– No salary increase for Executive Directors or Executive Committee members
	– Exceptional salary increases only (e.g. on promotion) for the wider workforce during 2020
		– Allowances and benefits unchanged from prior year
		– Company pension contribution:
		  – CEO 20% of salary
		  – CFO 20% of salary
			– Targets will be set over two half-year periods
			– For the year ending 30 June 2021, measures on net sales growth, operating profit growth and operating cash conversion, weighted equally, with remaining 20% on individual objectives
				– Retention of measures on NSV growth, relative TSR and cumulative free cash flow; introduction of new measures on ESG and EPS growth
				– Size of long-term incentive award opportunity is unchanged from prior year
					– New post employment shareholding requirement for Executive Directors of 100% of in-employment requirement in the first year after leaving the company and 50% in the second year after leaving the company

Implementation in year ended 30 June 2020	– Effective 1 October 2019:
	  – CEO 3% increase to $1,661,427
	  – CFO 3% increase to $1,093,044
	– In line with the pay budget for the wider workforce (3% for the UK and the US in 2019)
		– Company pension contribution:
		  – CEO 20% of salary (reduced from 30% of salary effective 1 July 2019)
		  – CFO 20% of salary
			– No annual incentive payout for Executive Directors in 2020	– Vesting of 2017 performance shares at 6.9% of maximum
				– Vesting of 2017 share options at 27.5% of maximum
					– CEO shareholding 2,635% of salary
					– CFO shareholding 791% of salary

Implementation in year ended 30 June 2019	– Effective 1 October 2018:
	– CEO 2% increase to $1,613,036
	– CFO 2% increase to $1,061,208
	– Below the pay budget for the wider workforce
		– Company pension contribution:
		  – CEO 30% of salary
		  – CFO 20% of salary
			– Payout above target:
			  – CEO 61.0% of maximum
			  – CFO 57.6% of maximum
				– Vesting of 2016 performance shares at 89.3% of maximum
				– Vesting of 2016 share options at 73.1% of maximum
					– CEO shareholding 2,620% of salary
					– CFO shareholding 563% of salary

Proportionality and management of risk

The structure of Diageo's executive remuneration package ensures that executives have a vested interest in delivering performance over the short and long term. There is a three-year deferral of part of the annual incentive payout into shares, a two-year retention period on any vested awards under the long-term incentive plan and a post employment shareholding requirement that applies for two years after leaving the company. The performance and retention periods for each element of remuneration are outlined below.



Pay for performance at a glance

Performance against the incentive targets had been tracking well until the beginning of the Covid-19 pandemic in early 2020. The outcomes are appropriate in light of year-end performance and the shareholder experience. Targets under both incentive plans are set with reference to Diageo's strategic plan and the historical and forecasted performance of Diageo and its peers.

Long-term incentives (for the period 1 July 2017 to 30 June 2020)

Organic growth in net sales

CAGR	Threshold	Midpoint	Maximum
	3.5%	4.75%	6.0%

Actual 0.8%

Cumulative free cash flow

Threshold	Midpoint	Maximum
£7,200m	£7,900m	£8,600m

Actual £7,211

Organic growth in profit before exceptional items and tax

CAGR	Threshold	Midpoint	Maximum
	4.5%	7.5%	10.5%

Actual 0.3%

Relative TSR ranking vs peer group

Threshold	Midpoint	Maximum
9th (median)	–	3rd (upper quintile)

Actual 7th

Annual incentive (for the period 1 July 2019 to 30 June 2020)

Net sales growth

Threshold	Target	Maximum
4.0%	5.5%	7.0%

Actual (8.4%)

Operating profit growth

Threshold	Target	Maximum
3.9%	6.2%	8.5%

Actual (14.4%)

Average working capital (% net sales)

Threshold	Target	Maximum
(1)bps	39bps	79bps

Actual (22) bps

Diageo's share price growth over the period 30 June 2017 to 30 June 2020

18.2%

2020	2681.5p
2017	2268.5p

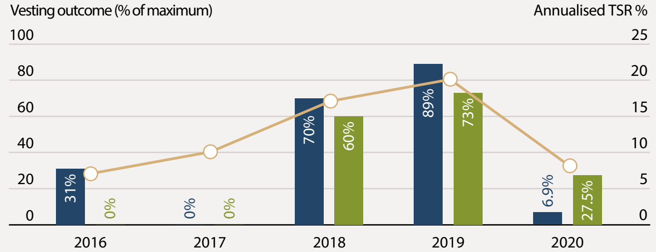
Dividend distribution to shareholders in year ended 30 June 2020

1.9%

2020	69.88p
2019	68.57p

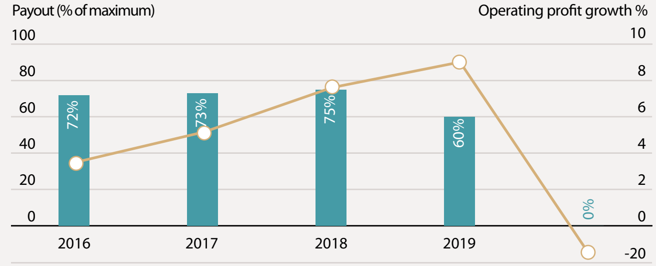
Historical reward outcomes under the annual and long-term incentive plans over the past five years are shown below. Vesting outcomes under the long-term incentive plan are shown against annualised total shareholder return for the three-year period ended in the year of vesting (i.e. annualised TSR for the three years ended 30 June 2020 is shown against the vesting outcome for the 2017 long-term incentive awards vesting in 2020). Outcomes against annual incentive measures are shown against organic operating profit growth for each respective financial year, as disclosed in prior-year annual reports.

5-year vesting outcomes of long-term incentives



Performance shares
Share options
Annualised total shareholder return over three-year long-term incentive performance period

5-year history of annual incentive payouts



Annual incentive payout
Organic operating profit growth (% on prior year)

Directors' remuneration policy

This section of the report summarises the policy for the remuneration of the company's Directors. The policy will be put to a binding vote at the AGM on 28 September 2020, in accordance with section 439A of the Companies Act 2006.

The policy approved in September 2017 can be found on the company's website at www.diageo.com/en/investors/financial-results-and-presentations/directors-remuneration-report-2017/.

The Committee discussed the details of the policy over a series of meetings, taking into account the strategic priorities of the business and evolving market practice. Input was sought from the management team whilst ensuring any conflict of interest was suitably mitigated. An external perspective was provided by major shareholder and independent advisers. These changes include: reduction of pension provision, introduction of a deferred bonus share plan, introduction of a post employment shareholding requirement, annual review of Non-Executive Director fees, increase to the Non-Executive Director fee limit, removal of the requirement for straight-line vesting between threshold and maximum under the long-term incentive plan and the consideration of a returns measure in the discretionary assessment of long-term incentive outcomes. The rationale for the changes are described on pages 84-86. The Committee reserves the right to make minor changes to the policy, where required for regulatory, tax or administrative reasons.

Base salary

Purpose and link to strategy
Supports the attraction and retention of the best global talent with the capability to deliver Diageo's strategy and performance goals.

Operation
- Normally reviewed annually or following a change in responsibilities with any increases usually taking effect from 1 October.
- The Remuneration Committee considers the following parameters when reviewing base salary levels:
  - Pay increases for other employees across the group.
  - Economic conditions and governance trends.
  - The individual's performance, skills and responsibilities.
  - Base salaries (and total remuneration) at companies of similar size and international scope to Diageo, with roles typically benchmarked against the FTSE 30 excluding financial services companies, or against similar comparator groups in other locations dependent on the Executive Director's home market.

Opportunity
Salary increases will be made in the context of the broader employee pay environment, and will normally be in line with those made to other employees in relevant markets in which Diageo operates, typically the United Kingdom and the United States, unless there is a change in role or responsibility or other exceptional circumstances.

Benefits

Purpose and link to strategy
Provides market-competitive and cost-effective benefits.

Operation
- The provision of benefits depends on the country of residence of the Executive Director and may include but is not limited to a company car or travel allowance, the provision of a contracted car service or equivalent, product allowance, life insurance, accidental death and disability insurance, medical cover, financial counselling and tax advice.
- The Remuneration Committee has discretion to offer additional allowances, or benefits, to Executive Directors, if considered appropriate and reasonable. These may include relocation expenses, housing allowance and school fees where a Director is asked to relocate from his/her home location as part of their appointment.

Opportunity
- The benefits package is set at a level which the Remuneration Committee considers:
  - provides an appropriate level of benefits depending on the role and individual circumstances;
  - is appropriate in the context of the benefits offered to the wider workforce in the relevant market; and
  - is in line with comparable roles in companies of a similar size and complexity in the relevant market.

Post-retirement provision

Purpose and link to strategy
Provides cost-effective, competitive post-retirement benefits.

Operation
- Provision of market-competitive pension arrangements or a cash alternative based on a percentage of base salary.

Opportunity
- The maximum company pension contribution under the 2020 remuneration policy is 14% of salary for any new Executive Director appointments.
- Current legacy company contributions for Ivan Menezes and Kathryn Mikells in the year ended 30 June 2020 were each 20% of base salary. The company contribution for Ivan Menezes was reduced from 40% to 30% effective 1 July 2016, and from 30% to 20% effective 1 July 2019.
- It is the company's intention to reduce the pension contribution for Ivan Menezes and Kathyrn Mikells to 14% of salary, in line with the maximum company contribution to new-hire employees in the United Kingdom, by 1 January 2023.

Annual Incentive Plan (AIP)

Purpose and link to strategy

Incentivises year-on-year delivery of Diageo's financial and strategic targets over the year. Provides focus on key financial metrics and the individual's contribution to the company's performance.

Operation

- Performance measures, weightings and targets are set by the Remuneration Committee. Appropriately stretching targets are set by reference to the operating plan and historical and projected performance for the company and its peer group.
- The level of award is determined with reference to Diageo's overall financial and strategic performance and individual performance.
- A minimum of one-third of the actual earned bonus payment will normally be deferred into shares under the Deferred Bonus Share Plan, to be held for a minimum period of three years, other than in exceptional circumstances. The remainder of the bonus payment will be paid out in cash after the end of the financial year.
- The Committee has discretion to adjust the level of payment if it is not deemed to reflect appropriately the individual's contribution or the overall business performance. Any discretionary adjustments will be detailed in the following year's annual report on remuneration.
- The Committee has discretion to apply malus or clawback to bonus, i.e. the company may seek to recover bonus paid or deferral into shares, in exceptional circumstances such as gross misconduct or gross negligence during the performance period.
- Notional dividends accrue on deferred bonus share awards, delivered as shares or cash at the discretion of the Remuneration Committee at the end of the vesting period.

Opportunity

- For threshold performance, up to 50% of salary may be earned, with up to 100% of salary earned for on-target performance and a maximum of 200% of salary payable for outstanding performance.

Performance conditions

Annual incentive plan awards are normally based 70%-100% on financial measures which may include, but are not limited to, measures of sales, profit and cash; and 0%-30% on broader objectives based on strategic goals and/or individual contribution.

Diageo Long-Term Incentive Plan (DLTIP)

Purpose and link to strategy

Provides focus on delivering superior long-term returns to shareholders.

Operation

- An annual grant of performance shares and/or market-price share options which vest subject to a performance test and continued employment, normally over a period of three years.
- Measures and stretching targets are reviewed annually by the Remuneration Committee for each new award.
- The Remuneration Committee has the authority to exercise discretion to adjust the vesting outcome based on its assessment of underlying business performance over the performance period. This may include the consideration of factors such as holistic performance relative to peers, stakeholder outcomes and significant investment projects, for example.
- Following vesting there is normally a further retention period of two years. Executive Directors are able to exercise an option or sell sufficient shares to cover any tax liability when an award vests, provided they retain the net shares arising for the two-year retention period.
- Notional dividends accrue on performance share awards to the extent that the performance conditions have been met, delivered as shares or cash at the discretion of the Remuneration Committee at the end of the vesting period.
- The Committee has discretion to reduce the number of shares which vest (subject to HMRC rules regarding approved share options), for example in the event of a material performance failure, or a material restatement of the financial statements. There is an extensive malus clause for awards made from September 2014. The Committee has discretion to decide that:
  - the number of shares subject to the award will be reduced;
  - the award will lapse;
  - retention shares (i.e. vested shares subject to the additional two-year retention period) will be forfeited;
  - vesting of the award or the end of any retention period will be delayed (e.g. until an investigation is completed);
  - additional conditions will be imposed on the vesting of the award or the end of the retention period; and/or
  - any award, bonus or other benefit which might have been granted or paid to the participant in any later year will be reduced or not awarded.
- Malus and clawback provisions will apply up to delivery of shares at the end of the retention period (as opposed to the vesting date). The company also has the standard discretion to take account of unforeseen events such as a variation to share capital.

Opportunity

- The maximum annual grants for the Chief Executive and Chief Financial Officer are 500% and 480% of salary in performance share equivalents respectively (where a market-price option is valued at one-third of a performance share). Included within that maximum no more than 375% of salary will be awarded in face-value terms in options to any Executive Director in any year.
- Awards vest at 20% of maximum for threshold performance and 100% of maximum if the performance conditions are met in full. The vesting schedule related to the levels of performance between threshold and maximum, including whether or not this will include an interim stretch performance level, will be determined by the Committee on an annual basis and disclosed in the relevant remuneration report for that year. There is a ranking profile for the vesting of the part of the award based on relative total shareholder return, starting at 20% of maximum for achieving the threshold.

Diageo Long-Term Incentive Plan (DLTIP) continued

Performance conditions
- The vesting of awards is linked to a range of measures which may include, but are not limited to:
  - a growth measure (e.g. net sales growth, operating profit growth);
  - a measure of efficiency (e.g. operating margin, cumulative free cash flow, return on invested capital);
  - a measure of Diageo's performance in relation to its peers (e.g. relative total shareholder return); and
  - a measure relating to ESG (environmental, social or governance) priorities.
- Measures that apply to performance shares and market-price options may differ, as is the case for current awards. Weightings of these measures may also vary year on year.
- The Remuneration Committee has discretion to amend the performance conditions in exceptional circumstances if it considers it appropriate to do so, e.g. in cases of accounting policy changes, merger and acquisition activities or disposals. Any such amendments would be fully disclosed and explained in the following year's annual report on remuneration.

All-employee share plans

Purpose and link to strategy
- To encourage broader employee share ownership through locally approved plans.

Opportunity
- Limits for all-employee share plans are set by the tax authorities. The company may choose to set its own lower limits.

Operation
- The company operates tax-efficient all-employee share acquisition plans in various jurisdictions.
- Executive Directors' eligibility may depend on their country of residence, tax status and employment company.

Performance conditions
- Under the UK Share Incentive Plan, the annual award of Freeshares is based on Diageo plc financial measures which may include, but are not limited to, measures of sales, profit and cash.

Shareholding requirement

Purpose and link to strategy
- Ensures alignment between the interests of Executive Directors and shareholders.

Operation
- The minimum in-employment shareholding requirement is 500% of base salary for the Chief Executive and 400% of base salary for any other Executive Directors.
- Executive Directors are expected to build up their in-employment shareholding within five years of their appointment to the Board.
- Executive Directors will be restricted from selling more than 50% of shares which vest under the long-term incentive plan or deferred bonus share plan (excluding the sale of shares to cover tax on vesting and other exceptional circumstances to be specifically approved by the Chief Executive and/or Chairman), until the shareholding requirement is met.
- In order to provide further long-term alignment with shareholders, Executive Directors will normally be expected to maintain a holding of shares in Diageo for a two-year period after leaving the company. Executive Directors will normally be required to continue to hold 100% of the in-employment shareholding requirement (or, if lower, their actual shareholding on cessation) for the first year after leaving the company, reducing to 50% for the second year after leaving the company.

Chairman of the Board and Non-Executive Directors

Purpose and link to strategy
- Supports the attraction, motivation and retention of world-class talent and reflects the value of the individual, their skills and experience, and performance.

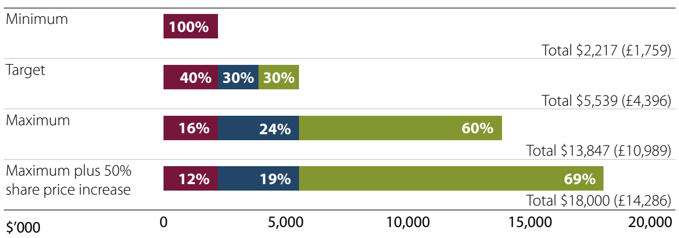
Operation
- Fees for the Chairman and Non-Executive Directors are normally reviewed every year.
- A proportion of the Chairman's annual fee is used for the monthly purchase of Diageo ordinary shares, which have to be retained until the Chairman retires from the company or ceases to be a Director.
- Fees are reviewed in the light of market practice in the FTSE 30, excluding financial services companies, and anticipated workload, tasks and potential liabilities.
- The Chairman and Non-Executive Directors do not participate in any of the company's incentive plans nor do they receive pension contributions or benefits. Their travel and accommodation expenses in connection with attendance at Board meetings (and any tax thereon) are paid by the company.
- The Chairman and the Non-Executive Directors are eligible to receive a product allowance or cash equivalent at the same level as the Executive Directors.
- All Non-Executive Directors have letters of appointment. A summary of their terms and conditions of appointment is available at www.diageo.com. The Chairman of the Board, Javier Ferrán, was appointed on 1 January 2017, under a letter of appointment for an initial three-year term, terminable on six months' notice by either party or, if terminated by the company, by payment of six months' fees in lieu of notice.

Opportunity
- Fees for Non-Executive Directors are within the limits set by the shareholders from time to time, with an aggregate limit of £1,750,000, excluding the Chairman's fees.

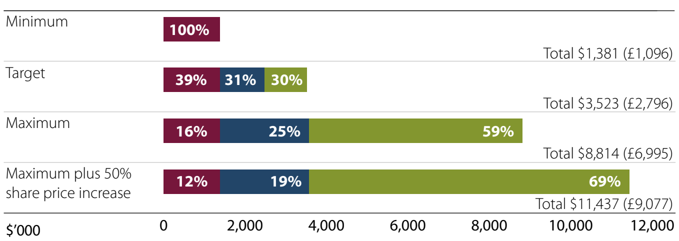
Projected total remuneration scenarios

The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at four different levels of performance: minimum, target, maximum, and maximum including assumed share price appreciation of 50% (in accordance with the Corporate Governance Code). The impact of potential share price movements is excluded from the other three scenarios. These charts reflect projected remuneration for the financial year ending 30 June 2021.

Ivan Menezes



Kathryn Mikells



- Salary, benefits and pension
- Annual incentive
- Long-term incentives

Basis of calculation and assumptions:

The 'Minimum' scenario shows fixed remuneration only, i.e. base salary for the year ending 30 June 2021, total value of contractually agreed benefits for 2021, and the pension benefits to be accrued over the year ending 30 June 2021. These are the only elements of the Executive Directors' remuneration packages that are not subject to performance conditions.

The 'Target' scenario shows fixed remuneration as above, plus a target payout of 50% of the maximum annual bonus and threshold performance vesting for long-term incentive awards at 20% of the maximum award.

The 'Maximum' scenario reflects fixed remuneration, plus full payout of annual and long-term incentives.

The 'Maximum plus share price growth' scenario reflects fixed remuneration, plus full payout of annual and long-term incentives, including for the latter an assumed 50% share price appreciation over the performance period.

For long-term incentives, the awards are treated as though they were granted all in performance shares.

The amounts shown in sterling are converted using the cumulative weighted average exchange rate for the year ended 30 June 2020 of £1 = $1.26.

Performance measures

Further details of the performance measures under the annual incentive plan for the year ending 30 June 2021 and under the long-term incentive plan for awards made in September 2020, and how they are aligned with company strategy and the creation of shareholder value, are set out in the annual report on remuneration, on page 104. Targets will be disclosed in next year's annual report on remuneration.

Performance targets are set to be stretching yet achievable, and take into account the company's strategic priorities and business environment. The Committee sets targets based on a range of reference points including the corporate strategy and broker forecasts for both Diageo and its peers.

Approach to recruitment remuneration

Diageo is a global organisation selling its products in more than 180 countries around the world. The ability to recruit and retain the best talent from all over the world is critical to the future success of the business. People diversity in all its forms is a core element of Diageo's global talent strategy and, managed effectively, is a key driver in delivering Diageo's Performance Ambition.

The Remuneration Committee's overarching principle for recruitment remuneration is to pay no more than is necessary to attract an Executive Director of the calibre required to shape and deliver Diageo's business strategy, recognising that Diageo competes for talent in a global marketplace. The Committee will seek to align any remuneration package with Diageo's remuneration policy as laid out above, but retains the discretion to offer a remuneration package which is necessary to meet the individual circumstances of the recruited Executive Director and to enable the hiring of an individual with the necessary skills and expertise. However, the maximum short and long-term incentive opportunity will follow the policy, although awards may be granted with different performance measures and targets in the first year. On appointment of an external Executive Director, the Committee may decide to compensate for variable remuneration elements the Director forfeits when leaving their current employer. In doing so, the Committee will ensure that any such compensation would have a fair value no higher than that of the awards forfeited, and would generally be determined on a comparable basis taking into account factors including the form in which the awards were granted, performance conditions attached, the probability of the awards vesting (e.g. past, current and likely future performance) as well as the vesting schedules. Depending on individual circumstances at the time, the Committee has the discretion to determine the type of award (i.e. cash, shares or options, holding period and whether or not performance conditions would apply).

Any such award would be fully disclosed and explained in the following year's annual report on remuneration. When exercising its discretion in establishing the reward package for a new Executive Director, the Committee will carefully consider the balance between the need to secure an individual in the best interests of the company against the concerns of investors about the quantum of remuneration and, if considered appropriate at the time, will consult with the company's biggest shareholders. The Remuneration Committee will provide timely disclosure of the reward package of any new Executive Director.

Service contracts and policy on payment for loss of office (including takeover provisions)

Executive Directors have rolling service contracts, details of which are set out below. These are available for inspection at the company's registered office.

Executive Director	Date of service contract
Ivan Menezes	7 May 2013
Kathryn Mikells	1 October 2015

Notice period	The contracts provide for a period of six months' notice by the Executive Director or 12 months' notice by the company, the same as would apply for any newly-appointed Executive Director. A payment may be made in lieu of notice equivalent to 12 months' base salary and the cost to the company of providing contractual benefits (including pension contributions but excluding incentive plans). The service contracts also provide for the payment of outstanding pay and bonus, if an Executive Directors leaves following a takeover, or other change of control of Diageo plc. If, on the termination date, the Executive Director has exceeded his/her accrued holiday entitlement, the value of such excess may be deducted by the company from any sums due to him/her, except to the extent that such deduction would subject the Executive Director to additional tax under section 409A of the Code (in the case of Ivan Menezes). If the Executive Director on the termination date has accrued but untaken holiday entitlement, the company will, at its discretion, either require the Executive Director to take such unused holiday during any notice period or make a payment to him/her in lieu of it, provided always that if the employment is terminated for cause then the Executive Director will not be entitled to any such payment.
Mitigation	The Remuneration Committee may exercise its discretion to require a proportion of the termination payment to be paid in instalments and, upon the Executive Director commencing new employment, to be subject to mitigation except where termination is within 12 months of a takeover, or within such 12 months the Executive Director leaves due to a material diminution in status.
Annual incentive plan (AIP)	Where the Executive Director leaves for reasons including retirement, death in service, disability, ill-health, injury, redundancy, transfer out of the group and other circumstances at the Remuneration Committee's discretion during the financial year, the Executive Director is usually entitled to an incentive payment pro-rated for the period of service during the performance period, which is typically payable at the usual payment date. Where the Executive Director leaves for any other reason, no payment or bonus deferral will be made. The amount is subject to performance conditions being met and is at the discretion of the Committee. The Committee has discretion to determine an earlier payment date, for example on death in service. The bonus may, if the Committee decides, be paid wholly in cash.
2020 Deferred Bonus Share Plan (DBSP)	Where the Executive Director leaves for any reason other than dismissal, they are entitled to retain any deferred bonus shares, which will vest on departure, subject to any holding requirements under the post employment shareholding policy. It is not considered necessary for the bonus deferral to continue to apply after leaving, since the bonus is already earned based on performance, and there is a post employment shareholding requirement that ensures the Executive Director continues to be invested in the company's longer-term interests. On a takeover or other corporate event, awards vest in full.
Diageo 2014 Long-Term Incentive Plan (DLTIP)	Where the Executive Director leaves for reasons including retirement, death in service, disability, ill-health, injury, redundancy, transfer out of the group and other circumstances at the Remuneration Committee's discretion during the financial year, awards vest on the original vesting date unless the Remuneration Committee decides otherwise (for example in the case of death in service). When an Executive Director leaves for any other reason, all unvested awards generally lapse immediately. The retention period for vested awards continues for all leavers other than in cases of disability, ill health or death in service, unless the Remuneration Committee decides otherwise. The proportion of the award released depends on the extent to which the performance condition is met. The number of shares is reduced on a pro-rata basis reflecting the length of time the Executive Director was employed by the company during the performance period, unless the Committee decides otherwise (for example in the case of death in service). On a takeover or other corporate event, awards vest subject to the extent to which the performance conditions are met and, unless the Committee decides otherwise, the awards are time pro-rated. Otherwise the Committee, in agreement with the new company, may decide that awards should be swapped for awards over shares in the new company; where awards are granted in the form of options, then on vesting they are generally exercisable for 12 months (or six months for approved options).
Repatriation/other	In cases where an Executive Director was recruited from outside the United Kingdom and has been relocated to the United Kingdom as part of their appointment, the company will pay reasonable repatriation costs for leavers at the Committee's discretion. The company may also pay for reasonable costs in relation to the termination, for example tax, legal and outplacement support, where appropriate.

Non-Executive Directors' unexpired terms of appointment

All Non-Executive Directors are on three-year terms which are expected to be extended up to a total of nine years. The date of initial appointment to the Board and the point at which the current letter of appointment expires for Non-Executive Directors are shown in the table below. Debra Crew stepped down from the Board on 24 March 2020 and Lord Davies of Abersoch retired on 30 June 2020, having extended his term in 2019 in order to ensure continuity during the recruitment of additional Directors to the Board.

Non-Executive Directors	Date of appointment to the Board	Current letter of appointment expires
Javier Ferrán	22 July 2016	AGM 2022
Susan Kilsby	4 April 2018	AGM 2021
Lord Davies of Abersoch	1 September 2010	30 June 2020
Melissa Bethell	30 June 2020	AGM 2023
Debra Crew	18 April 2019	24 March 2020
Ho KwonPing	1 October 2012	AGM 2021
Nicola Mendelsohn	1 September 2014	AGM 2020
Alan Stewart	1 September 2014	AGM 2020

Payments under previous policies

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out above, where the terms of the payment were agreed (i) under a previous policy, in which case the provision of that policy shall continue to apply until such payments have been made; (ii) before the policy or the relevant legislation came into effect; or (iii) at a time when the relevant individual was not a Director of the company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the company.

Remuneration for the wider workforce

The structure of the reward package for the wider employee population is based on the principle that it should be sufficient to attract and retain the best talent and be competitive within our broader industry, remunerating employees for their contribution linked to our holistic performance. It is driven by local market practice as well as level of seniority and accountability, reflecting the global nature of Diageo's business.

There is clear alignment in the pay structures for executives and the wider workforce, in the way that remuneration principles are followed as well as the mechanics of the salary review process and incentive plan design, which are broadly consistent throughout the organisation. The performance measures under the annual incentive plan and long-term incentive plan are the same for executives and other eligible employees. There is a strong focus on performance-related pay, with appropriate levels of differentiation to ensure that reward is invested in the talent that will make the biggest contribution to the execution of Diageo's strategy. Where possible, the company also encourages employee share ownership through a number of share plans that allow employees to benefit from the company's success.

The remuneration approach for Executive Directors is consistent with the reward package for members of the Executive Committee and the senior management population. Generally speaking, a much higher proportion of total remuneration for the Executive Directors is linked to business performance, compared to the rest of the employee population, so that remuneration will increase or decrease in line with business performance and to align the interests of Executive Directors and shareholders.

Each year the Remuneration Committee is briefed on the structure and quantum of the all-employee remuneration framework as well as throughout the year being informed about the context, challenges and opportunities relating to the remuneration of the wider workforce across the world to enable the Committee to consider the broader employee context when making executive remuneration decisions.

In 2020, the Remuneration Committee has considered:

- Challenges and opportunities relating to the attraction and retention of key talent and the market competitiveness of specialist and critical roles (for example, in digital and e-commerce);
- Pay philosophy and pay positioning globally;
- Review of the gender pay gap report for the UK;
- Differentiation of global reward outcomes and incentive payouts (where there is an individual element to recognise performance and potential) by gender; and
- The review of global benefits programmes to better leverage economies of scale, to provide more consistent standards across the core offering and to provide more flexibility and choice, where possible, in line with the reward philosophy and in support of the company's culture of inclusion and diversity.

The Committee also considers the annual salary increase budgets for employees in key markets as well as pay for the global senior management population. As part of the review of the Directors' remuneration policy for 2020, the Committee has considered each element of remuneration for executives and its alignment with the reward opportunity for other employees across the organisation, as an important factor in determining the appropriate balance of risk and reward to incentivise the delivery of Diageo's business strategy and Performance Ambition.

Shareholder engagement

The Committee greatly values the continued dialogue with Diageo's shareholders and regularly engages with shareholders and representative bodies to take their views into account when setting and implementing the company's remuneration policies.

This year, the company has engaged extensively with shareholders and their proxy advisors on the 2020 remuneration policy review, incentive plan design, performance measures and the approach to target setting as well as viewpoints on the Corporate Governance Code and its implications for Diageo's remuneration policy and practices. More detail on the engagement with shareholders in 2020 can be found in the Remuneration Committee Chair's letter on pages 84-86.

Workforce engagement

Diageo runs annual employee engagement surveys, as well as more recently regular 'pulse' surveys on the company's handling of the impact of the pandemic on the workforce, which give employees the opportunity to give feedback and express their views on a variety of topics including remuneration. Any comments relating to Executive Directors' remuneration are fed back to the Remuneration Committee. The Chairman was appointed to lead workforce engagement on behalf of the Board on 1 July 2019 and throughout the year has met with a range of employees across all levels and regions to hear their views on the company, culture and working environment. A workforce engagement statement has been shared with employees to feed back the key insights from all of the engagement activities during 2020.

Annual report on remuneration

The following section provides details of how the company's 2017 remuneration policy was implemented during the year ended 30 June 2020, and how the Remuneration Committee intends to implement the proposed remuneration policy in the year ending 30 June 2021.

Single total figure of remuneration for Executive Directors (audited)

The table below details the Executive Directors' remuneration for the year ended 30 June 2020.

	Ivan Menezes[i]				Kathryn Mikells[i]			
Fixed pay	**2020 '000**	**2020 '000**	2019 '000	2019 '000	**2020 '000**	**2020 '000**	2019 '000	2019 '000
Salary	**£1,309**	**$1,649**	£1,244	$1,605	**£861**	**$1,085**	£819	$1,056
Benefits[ii]	**£99**	**$124**	£95	$123	**£42**	**$53**	£27	$34
Pension[iii]	**£281**	**$354**	£407	$525	**£176**	**$221**	£168	$217
Total fixed pay	**£1,689**	**$2,127**	£1,746	$2,253	**£1,079**	**$1,359**	£1,014	$1,307
Performance related pay								
Annual incentive[iv]	**£0**	**$0**	£1,521	$1,961	**£0**	**$0**	£946	$1,220
Long-term incentives[v]								
Value delivered through performance	**£408**	**$514**	£4,724	$6,094	**£258**	**$324**	£2,654	$3,423
Value delivered through share price growth	**£42**	**$53**	£3,785	$4,882	**£27**	**$33**	£2,891	$3,730
Other incentives[vi]	**£0**	**$0**	£0	$0	**£4**	**$5**	£4	$5
Total variable pay	**£450**	**$567**	£10,030	$12,937	**£289**	**$362**	£6,495	$8,378
Total single figure of remuneration	**£2,139**	**$2,694**	£11,776	$15,190	**£1,368**	**$1,721**	£7,509	$9,685

Notes

(i)	Exchange rate	The amounts shown in sterling are converted using the cumulative weighted average exchange rate for the respective financial year. For the year ended 30 June 2020 the exchange rate was £1 = $1.26 and for the year ended 30 June 2019 the exchange rate was £1 = $1.29. Ivan Menezes and Kathryn Mikells are both paid in US dollars.	
(ii)	Benefits	Benefits is the gross value of all taxable benefits. For Ivan Menezes, these include medical insurance (£15k), company car allowance (£17k), contracted car service (£11k), financial counselling (£52k), product allowance, life and long-term disability cover. Kathryn Mikells' benefits include flexible benefits allowance (£18k), financial counselling (£16k), contracted car service (£3k), life cover (£4k) and product allowance.	
(iii)	Pension	Pension benefits earned during the year represent the increase in the pension fund balances over the year in the Diageo North America Inc. pension plans over and above the increase due to inflation. As Ivan Menezes has been a deferred member of the Diageo Pension Scheme (DPS) in the United Kingdom since 31 January 2012, and receives standard statutory increases in deferment the United Kingdom pension amount that accrued over the two years in excess of inflation is nil. Kathryn Mikells became a Director and started accruing benefits in the Supplemental Executive Retirement Plan (SERP) with effect from 9 November 2015.	Page 98
(iv)	Annual incentive	Threshold performance was not achieved against the financial measures under the annual incentive plan. In view of the impact of Covid-19 on business performance and the absence of any bonus payout for many employees further down in the organisation, the Remuneration Committee exercised its discretion to waive any payout for the individual element of the annual incentive plan. As a result, there is no annual incentive payout for the Executive Directors and Executive Committee in 2020.	
(v)	Long-term incentives	Long-term incentives represent the estimated gain delivered through share options and performance shares where performance conditions have been met in the respective financial year. It also includes the value of additional shares granted in lieu of dividends on these vested performance shares. Value delivered through performance' is calculated as the number of vested performance shares and dividend shares multiplied by the share price on the date of grant. 'Value delivered through share price growth' is calculated as the difference between the average share price in the last three months of the financial year and the share price on the date of grant multiplied by the number of vested performance shares and share options. For 2020, long-term incentives comprise performance shares and share options awarded in 2017 and due to vest in September 2020 at 6.9% and 27.5% of maximum respectively. No discretion was exercised by the Remuneration Committee in determining these long-term incentive outcomes. For 2019, long-term incentives comprise performance shares and share options awarded in 2016 that vested in September 2019 at 89.3% and 73.1% of maximum respectively, and dividend shares arising on performance shares that vested in September 2019. Long-term incentives have been re-stated to reflect the share price on the vesting date. No discretion was exercised by the Remuneration Committee in determining these long-term incentive outcomes.	Page 97
(vi)	Other incentives	Other incentives include the face value of awards made under the all-employee share plans (number of shares multiplied by the share price on the date of grant). Awards do not have performance conditions attached. No discretion was exercised by the Remuneration Committee in determining these long-term incentive outcomes.	

External appointments held by the Executive Directors

Executive Directors may accept external appointments as Non-Executive Directors of other companies and retain any related fees paid to them, subject to the specific approval of the Board in each case.

Ivan Menezes – During the year ended 30 June 2020, Ivan Menezes served as a Non-Executive Director of Tapestry Inc and earned fees of $90,000. In line with the Tapestry Inc policy for outside directors, Ivan Menezes is eligible to be granted share options and restricted share units (RSUs). During the year ended 30 June 2020, he was granted 13,069 options at an option price of $27.07, 70 RSUs at a fair market value of $13.50 per share, 35 RSUs at a fair market value of $26.77, 23 RSUs in lieu of dividends at a fair market value of $25.97 and 19 RSUs in lieu of dividends at a fair market value of $31.81.

Kathryn Mikells – During the year ended 30 June 2020, Kathryn Mikells served as a Non-Executive Director of the Hartford Financial Services Group Inc. and earned fees of $105,406, which were deferred into equity.

Payments to former Directors (audited)

There were no payments to former Directors in the year ended 30 June 2020.

Payments for loss of office (audited)

There were no payments for loss of office to Executive Directors in the year ended 30 June 2020.

Looking back on 2020

Annual incentive plan (AIP) (audited)

AIP payout for the year ended 30 June 2020

AIP payouts for the Executive Directors are based 80% on performance against the group financial measures and 20% on performance against Individual Business Objectives (IBOs), as assessed by the Remuneration Committee and summarised in the table below.

As a direct result of the Covid-19 pandemic and the impact on business performance in the second half of the financial year, none of the performance measures were met and no AIP payouts will be made for the year ended 30 June 2020 to Executive Directors or any members of the Executive Committee. Whilst progress had been made against individual business objectives, the Committee decided that in light of the impact of the Covid-19 pandemic on business performance, no payout would be made to Executive Directors or members of the Executive Committee against this element of the annual incentive plan for the year ended 30 June 2020.

Group financial measures(i)

Measure	Weighting	**Threshold**	**Target**	**Maximum**	Actual	**Payout (% of total AIP opportunity)**
Net sales (% growth)(ii)	26.7%	**4.0%**	**5.5%**	**7.0%**	(8.4%)	**0%**
Operating profit (% growth)(ii)	26.7%	**3.9%**	**6.2%**	**8.5%**	(14.4%)	**0%**
Average working capital (% net sales)(iii)	26.7%	**(1)bps**	**39bps**	**79bps**	(22bps)	**0%**
Group financial payout	80%					**0%**

Individual business objectives

Measure (IBOs equally weighted)	Weighting	Target	Payout (% of total AIP opportunity)
Ivan Menezes Chief Executive	20%		–
Global Scotch performance		Growth in Scotch net sales Growth in Scotch CAAP (Contribution after A&P)	–
Global Reserve performance		Growth in Reserve net sales Growth in Reserve CAAP	–
Positive drinking		Lead the industry to proactively ensure the promotion of moderation and the reduction of harmful drinking.	–
Kathryn Mikells Chief Financial Officer	20%		–
Group cash performance		Deliver year-end operating cash flow outcome	–
Earnings per share performance		Deliver earnings per share target	–
Key business driver		Deliver 2020 initiatives across carbon and water and develop plan for delivery in F21 and F22	–

Payout

	Group (weighted 80%)	IBO (weighted 20%)	**Total (% max)**	Total (% salary)	Total ('000)(iv)	**Total ('000)**
Ivan Menezes	0%	–	**0%**	0%	£0	**$0**
Kathryn Mikells	0%	–	**0%**	0%	£0	**$0**

(i) Performance against the AIP measures is calculated using 2020 budgeted exchange rates in line with management reporting and excludes the impact of exchange and any exceptional items.
(ii) For AIP purposes, the net sales and operating profit measures are calculated after adjustments for acquisitions and disposals at budgeted foreign exchange rates.
(iii) For AIP purposes, average working capital as a percentage of net sales is calculated as the average of the last 12 months of operating working capital (excluding maturing inventories and restructuring provisions) divided by annual net sales.
(iv) AIP payments are calculated using base salary as at 30 June 2020, in line with the global policy that applies to other employees across the company.

Long-term incentive plans (LTIP) (audited)

As approved by shareholders at the AGM in September 2014, long-term incentive awards are made under the Diageo Long-Term Incentive Plan (DLTIP). Awards are designed to incentivise Executive Directors and senior managers to deliver long-term sustainable performance and are subject to performance conditions normally measured over a three-year period. Awards are delivered on an annual basis in both performance shares and share options. With the exception of the TSR measure, awards vest at 20% of maximum for threshold performance, and 100% of the award will vest if the performance conditions are met in full, with a straight-line payout between threshold and maximum.

Share options – granted in September 2017, vesting in September 2020 (audited)

On 4 September 2017, Ivan Menezes and Kathryn Mikells received share option awards of 51,268 ADRs and 32,380 ADRs respectively under the DLTIP, with an exercise price of $134.06. The award was subject to a performance condition assessed over a three-year period based on the achievement of the following equally weighted performance measures:

– Diageo's three-year total shareholder return (TSR) ranked against the TSR of a peer group of international drinks and consumer goods companies;
– growth in compound annual adjusted profit before exceptional items and tax.

The vesting profile for relative TSR is shown below:

TSR ranking (out of 17)	Vesting (% max)
1st, 2nd or 3rd	100
4th	95
5th	75
6th	65
7th	55
8th	45
9th	20
10th or below	0

TSR peer group (16 companies)	
AB InBev	Mondelēz International
Brown-Forman	Nestlé
Carlsberg	PepsiCo
Coca-Cola	Pernod Ricard
Colgate-Palmolive	Procter & Gamble
Groupe Danone	Reckitt Benckiser
Heineken	L'Oreal
Kimberly-Clark	Unilever

Performance shares – awarded in September 2017, vesting in September 2020 (audited)

On 4 September 2017, Ivan Menezes and Kathryn Mikells received performance share awards of 51,268 ADRs and 32,380 ADRs respectively under the DLTIP. Awards vest after a three-year period subject to the achievement of specified performance conditions. Notional dividends accrue on awards and are paid out either in cash or shares in accordance with the vesting schedule.

The vesting of 2017 performance share awards was subject to the achievement of three equally weighted performance measures:

– growth in compound annual adjusted profit before exceptional items and tax;
– growth in organic net sales on a compound annual basis; and
– cumulative adjusted free cash flow.

The targets and vesting outcome for performance share and share option awards granted in September 2017 are shown in the following tables:

Vesting of 2017 DLTIP	Threshold	Midpoint	Maximum	Actual	Vesting (% maximum)
Organic net sales (CAGR)(i)	3.5%	4.75%	6.0%	0.8%	0%
Adjusted profit before exceptional items and tax (CAGR)(ii)	4.5%	7.5%	10.5%	0.3%	0%
Cumulative free cash flow(iii)	£7,200m	£7,900m	£8,600m	£7,211m	20.6%
Vesting of performance shares (% maximum)					**6.9%**
Adjusted profit before exceptional items and tax (CAGR)(ii)	4.5%	7.5%	10.5%	0.3%	0%
Relative total shareholder return(iv)	9th	–	3rd	7th	55%
Vesting of share options (% maximum)					**27.5%**

(i) The compound annual growth rate (CAGR) for organic net sales is based on the application of annual organic net sales growth rates in each of the individual years ended June 2018, June 2019 and June 2020 (using the year ended 30 June 2017 as a base).

(ii) The compound annual growth rate (CAGR) for profit before exceptional items and tax is based on the application of annual adjusted PBET growth rates in each of the individual years ended June 2018, June 2019 and June 2020 (using the year ended June 2017 as a base) excluding the impact of exchange, exceptional items, share buyback programmes and the post employment net income/charges included in other financial charges.

(iii) Cumulative free cash flow is the aggregate of free cash flow for the three-year period excluding the impact of exchange, cash flows from exceptional items and the interest cost on share buyback programmes. As stated on page 166 of this Annual Report, Diageo believes that during the year ended 30 June 2020 an aggregate minimum dividend payment of €181 million (£166 million) should have been received in respect of its 34% investment in Moët Hennessy SAS and Moët Hennessy International SAS for their financial year ended 31 December 2019. Diageo believes that non-payment of this dividend constitutes a breach of the Partners' Agreement that governs this investment and has commenced arbitration proceedings in respect of this dispute. Had this dividend been received before 30 June 2020, it would have resulted in cumulative free cash flow of £7,377m for the three-year period ended 30 June 2020, and a vesting outcome of 10% of maximum under the 2017 performance share award, instead of 6.9% of maximum as outlined in the table above. To the extent that any amounts are received by Diageo that are referable to this missed dividend payment, the Remuneration Committee will be asked to exercise its discretion to approve the vesting and release of up to the remaining 3.1% of the 2017 performance share award, on the basis that such amounts are most appropriately attributable to free cash flow for the year ended 30 June 2020. In this event, corresponding disclosure would be made in the remuneration report for the financial year in which the remaining award vests and is released to the Executive Directors, if applicable. In line with the above, for the purpose of assessing long-term incentive outcomes, any amounts received by Diageo that are referable to the missed dividend payment would be included in free cash flow for the year ended 30 June 2020 and not for any future period, to avoid any double counting.

(iv) Relative total shareholder return is measured as the percentage growth in Diageo's ordinary share price (assuming all dividends and capital distributions are re-invested) compared to the total shareholder return of the peer group of 16 international drinks and consumer goods companies, based on an average period of six months, and converted to a common currency (US dollars). 20% of the part of the award based on relative total shareholder return vests if the threshold is achieved at a ranking of 9th, with full vesting for a ranking of 1st, 2nd or 3rd. As outlined in the TSR table above, the vesting profile for this measure does not operate on a straight-line basis between threshold and maximum.

Accordingly, the 2017 performance share award vested at 6.9% and the 2017 share option award vested at 27.5% of the maximum.

Pension and benefits in the year ended 30 June 2020

Benefits provisions for the Executive Directors are in accordance with the information set out in the Directors' remuneration policy table.

Pension arrangements (audited)

Ivan Menezes and Kathryn Mikells are members of the Diageo North America Inc. Supplemental Executive Retirement Plan (SERP) with an accrual rate of 20% of base salary during the year ended 30 June 2020. The accrual rate for Ivan Menezes was reduced from 30% to 20% of salary with effect 1 July 2019.

The SERP is an unfunded, non-qualified supplemental retirement programme. Under the plan, accrued company contributions are subject to quarterly interest credits. Under the rules of the SERP, employees can withdraw the balance of the plan six months after leaving service (in the case of Ivan Menezes) or six months after leaving service or age 55, if later (in the case of Kathryn Mikells). The balance may be withdrawn in either a lump sum or five equal annual instalments, depending on the size of the balance.

Ivan Menezes participated in the US Cash Balance Plan and the Benefit Supplemental Plan (BSP) until August 2012 and has accrued benefits under both plans. The Cash Balance Plan is a qualified funded pension arrangement. Employer contributions are 10% of pay capped at the Internal Revenue Service (IRS) limit. The BSP is a non-qualified unfunded arrangement; notional employer contributions are 10% of pay above the IRS limit. Interest (notional for the BSP) is credited quarterly on both plans.

Ivan Menezes was also a member of the Diageo Pension Scheme (DPS) in the United Kingdom between 1 February 1997 and 30 November 1999. The accrual of pensionable service ceased in 1999 but the linkage to salary remained until January 2012. Under the Rules of the Scheme, this benefit is payable unreduced from age 60. Ivan Menezes is able to take his UK pension benefits from age 58 without consent, and his benefit would not be subject to any actuarial reduction in respect of early payment. This is a discretionary policy Diageo offers that is not set out in the DPS Scheme Rules.

Upon death in service, a life insurance benefit of $3 million is payable for Ivan Menezes and a lump sum of four times base salary is payable for Kathryn Mikells.

The table below shows the pension benefits accrued by each Director to date. The accrued UK benefits for Ivan Menezes are annual pension amounts, whereas the accrued US benefits for Ivan Menezes and Kathryn Mikells are one-off cash balance amounts.

	30 June 2020		30 June 2019	
Executive Director	**UK pension £'000 p.a.**	**US benefit £'000**	UK pension £'000 p.a.	US benefit £'000
Ivan Menezes(i)	**74**	**8,225**	73	7,543
Kathryn Mikells(ii)	**Nil**	**797**	Nil	587

(i) Ivan Menezes' US benefits are higher at 30 June 2020 than at 30 June 2019 by £682k:
   a. £368k of which is due to pension benefits earned over the year (£281k of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 95);
   b. £58k of which is due to interest earned on his deferred US benefits over the year; and
   c. £256k of which is due to exchange rate movements over the year.

(ii) Kathryn Mikells' US benefits are higher at 30 June 2020 than at 30 June 2019 by £210k:
   a. £186k of which is due to pension benefits earned over the year (£176k of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 95); and
   b. £24k of which is due to exchange rate movements over the year.

The normal retirement age applicable to each Director's benefits depends on the pension scheme, as outlined below.

Executive Director	UK benefits (DPS)	US benefits (Cash Balance Plan)	US benefits (BSP)	US benefits (SERP)
Ivan Menezes	60	65	6 months after leaving service	6 months after leaving service
Kathryn Mikells	n/a	n/a	n/a	6 months after leaving service, or age 55 if later

Long-term incentive awards made during the year ended 30 June 2020 (audited)

On 2 September 2019, Ivan Menezes and Kathryn Mikells received awards of performance shares and market-price share options under the DLTIP; details are provided in the table below. The three-year period over which performance will be measured is 1 July 2019 to 30 June 2022.

The performance conditions for performance share awards are organic net sales growth (3.75%-6%), cumulative free cash flow (£8,600m-£9,600m) and organic profit before exceptional items and tax growth (4.5%-10.5%), equally weighted. The performance measures for share option awards are organic profit before exceptional items and tax growth (4.5%-10.5%) and relative total shareholder return (median-upper quintile), equally weighted. The targets were disclosed in full in the 2019 remuneration report.

20% of DLTIP awards will vest at threshold, with vesting up to 100% if the maximum level of performance is achieved.

Executive Director	Date of grant	Plan	Share type	Awards made during the year	Exercise price	Face value '000	Face value (% of salary)
Ivan Menezes	02/09/2019	DLTIP – share options	ADR	38,827	$170.28	$6,230	375%
Ivan Menezes	02/09/2019	DLTIP – performance shares	ADR	38,827	–	$6,230	375%
Kathryn Mikells	02/09/2019	DLTIP – share options	ADR	24,522	$170.28	$3,935	360%
Kathryn Mikells	02/09/2019	DLTIP – performance shares	ADR	24,522	–	$3,935	360%

The proportion of the awards outlined above that will vest is dependent upon the achievement of performance conditions and continued employment, and the actual value may be nil. The vesting outcomes will be disclosed in the 2022 Annual Report.

The face value of each award has been calculated using the award price. In accordance with the Plan Rules, the number of performance shares and share options granted under the DLTIP was calculated by using the average closing share price for the last six months of the preceding financial year ($160.46). In accordance with the plan rules, the exercise price was calculated using the average closing share price of the three days preceding the grant date ($170.28). The ADR price on the date of grant was $174.72.

Outstanding share plan interests (audited)

Plan name	Date of award	Performance period	Date of vesting	Share type	Share price on date of grant	Exercise price	Number of shares/ options at 30 June 2019(i)	Granted	Vested/ exercised	Dividends awarded and released	Lapsed	Number of shares/options at 30 June 2020
Ivan Menezes												
DLTIP – share options	Sep 2015	2015-2018	2018	ADR		$104.93	29,895					29,895
DLTIP – share options(iii)	Sep 2016	2016-2019	2019	ADR		$113.66	54,356				14,622	39,734
Total vested but unexercised share options in Ords(ii)												**278,516**
DLTIP – share options(iv)	Sep 2017	2017-2020	2020	ADR		$134.06	51,268					51,268
DLTIP – share options(v)	Sep 2018	2018-2021	2021	ADR		$140.89	42,848					42,848
DLTIP – share options	Sep 2019	2019-2022	2022	ADR		$170.28	0	38,827				38,827
Total unvested share options subject to performance in Ords(ii)												**531,772**
DLTIP – performance shares(vii)	Sep 2016	2016-2019	2019	ADR	$115.77		54,356		48,539	2,792	5,817	0
DLTIP – performance shares(iv)	Sep 2017	2017-2020	2020	ADR	$134.83		51,268					51,268
DLTIP – performance shares(v)	Sep 2018	2018-2021	2021	ADR	$139.41		42,848					42,848
DLTIP – performance shares	Sep 2019	2019-2022	2022	ADR	$174.72		0	38,827				38,827
Total unvested shares subject to performance in Ords(ii)												**531,772**
Kathryn Mikells(ix)												
DLTIP – share options(iii)(vi)	Sep 2016	2016-2019	2019	Ord		2113p	128,253				34,501	93,752
Total vested but unexercised share options in Ords												**93,752**
DLTIP – share options(iv)	Sep 2017	2017-2020	2020	ADR		$134.06	32,380					32,380
DLTIP – share options(v)	Sep 2018	2018-2021	2021	ADR		$140.89	27,062					27,062
DLTIP – share options	Sep 2019	2019-2022	2022	ADR		$170.28	0	24,522				24,522
Total unvested share options subject to performance in Ords(ii)												**335,856**
DLTIP – performance shares(viii)	Sep 2016	2016-2019	2019	Ord	2127p		128,253		114,529	6,220	13,724	0
DLTIP – performance shares(iv)	Sep 2017	2017-2020	2020	ADR	$134.83		32,380					32,380
DLTIP – performance shares(v)	Sep 2018	2018-2021	2021	ADR	$139.41		27,062					27,062
DLTIP – performance shares	Sep 2019	2019-2022	2022	ADR	$174.72		0	24,522				24,522
Total unvested shares subject to performance in Ords(ii)												**335,856**

(i) For unvested awards this is the number of shares/options initially awarded. For exercisable share options, this is the number of outstanding options. All share options have an expiry date of 10 years after the date of grant.

(ii) ADRs have been converted to Ords (one ADR is equivalent to four ordinary shares) for the purpose of calculating the total number of vested and unvested shares and options.

(iii) The total number of share options granted under the DLTIP in September 2016 and showing as outstanding as at 30 June 2020 are vested but unexercised share options.

(iv) Awards made of performance shares and share options under the DLTIP in September 2017 and due to vest in September 2020 are included here as unvested share awards subject to performance conditions, although the awards have also been included in the single figure of remuneration table on page 95, since the performance period ended during the year ended 30 June 2020.

(v) Details of the performance conditions attached to DLTIP awards of performance shares and share options granted in 2018 are organic net sales growth (3.75%-6%), organic growth in profit before exceptional items and tax (4.5%-10.5%), cumulative free cash flow (£7,400m-£8,700m) and relative total shareholder return (median-upper quintile). Full details of the performance conditions were disclosed in Diageo's 2018 annual report on remuneration.

(vi) 1,419 Ords of this award were delivered as tax-qualified share options.

(vii) Ivan Menezes must retain 26,583 ADRs of the 48,539 shares that vested on 5 September 2019 until 5 September 2021 under the post-vesting retention period.

(viii) Kathryn Mikells must retain 63,854 Ords of the 114,529 shares that vested on 4 September 2019 until 5 September 2021 under the post-vesting retention period.

(ix) Kathryn Mikells also holds 1,031 outstanding options over ordinary shares under an all-employee share plan, which are not subject to performance and not included in this table.

Directors' shareholding requirements and share and other interests (audited)

The beneficial interests of the Directors in office at 30 June 2020 (and their connected persons) in the ordinary shares (or ordinary share equivalents) of the company are shown in the table below.

	Ordinary shares or equivalent[(i) (ix)]					
	31 July 2020[(ii)]	**30 June 2020 (or date of departure, if earlier)**	30 June 2019 (or date of appointment, if later)	Shareholding requirement (% salary)[(iii)]	Shareholding at 31 July 2020 (% salary)[(iii)]	Shareholding requirement met
Chairman	–					
Javier Ferrán[(vi)]	**250,802**	**250,496**	217,000	–	–	–
Executive Directors						
Ivan Menezes[(iv) (vi)]	**1,134,374**	**1,134,374**	1,122,042	500%	2,635%	Yes
Kathryn Mikells[(v) (vi)]	**223,964**	**223,964**	158,506	400%	791%	Yes
Non-Executive Directors						
Lord Davies of Abersoch	–	**5,052**	5,052	–	–	–
Ho KwonPing	**4,649**	**4,649**	4,543	–	–	–
Alan Stewart	**6,905**	**6,905**	6,751	–	–	–
Nicola Mendelsohn	**5,000**	**5,000**	5,000	–	–	–
Susan Kilsby[(vi)]	**2,600**	**2,600**	2,600	–	–	–
Debra Crew[(vi) (vii)]	–	**260**	260	–	–	–
Melissa Bethell[(viii)]	–	–	–	–	–	–

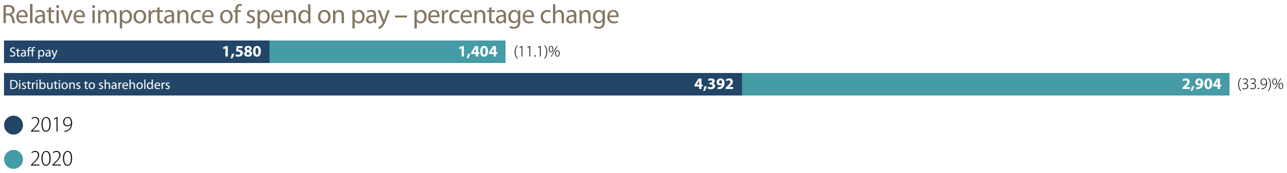
Notes

(i) Each person listed beneficially owns less than 1% of Diageo's ordinary shares. Ordinary shares held by Directors have the same voting rights as all other ordinary shares.
(ii) Any change in shareholding between the end of the financial year on 30 June 2020 and the last practicable date before publication of this report, being 31 July 2020, is outlined in the table above. The last practicable date is within one month of the AGM notice.
(iii) Both the shareholding requirement and shareholding at 31 July 2020 are expressed as a percentage of base salary on 30 June 2020 and calculated using an average share price for the year ended 30 June 2020 of 3062.84 pence.
(iv) In addition to the number of shares reported in the table above, Ivan Menezes holds 69,629 number of vested but unexercised share options (over ADRs; equal to 278,516 ordinary shares).
(v) In addition to the number of shares reported in the table above, Kathryn Mikells holds 93,752 vested but unexercised share options (over ordinary shares).
(vi) Javier Ferrán, Ivan Menezes, Kathryn Mikells, Susan Kilsby and Debra Crew have share interests in ADRs (one ADR is equivalent to four ordinary shares); the share interests in the table are stated as ordinary share equivalents.
(vii) Debra Crew stepped down from the Board on 24 March 2020.
(viii) Melissa Bethell was appointed to the Board on 30 June 2020.
(ix) No share options were exercised by the Directors during the year ended 30 June 2020.

Relative importance of spend on pay

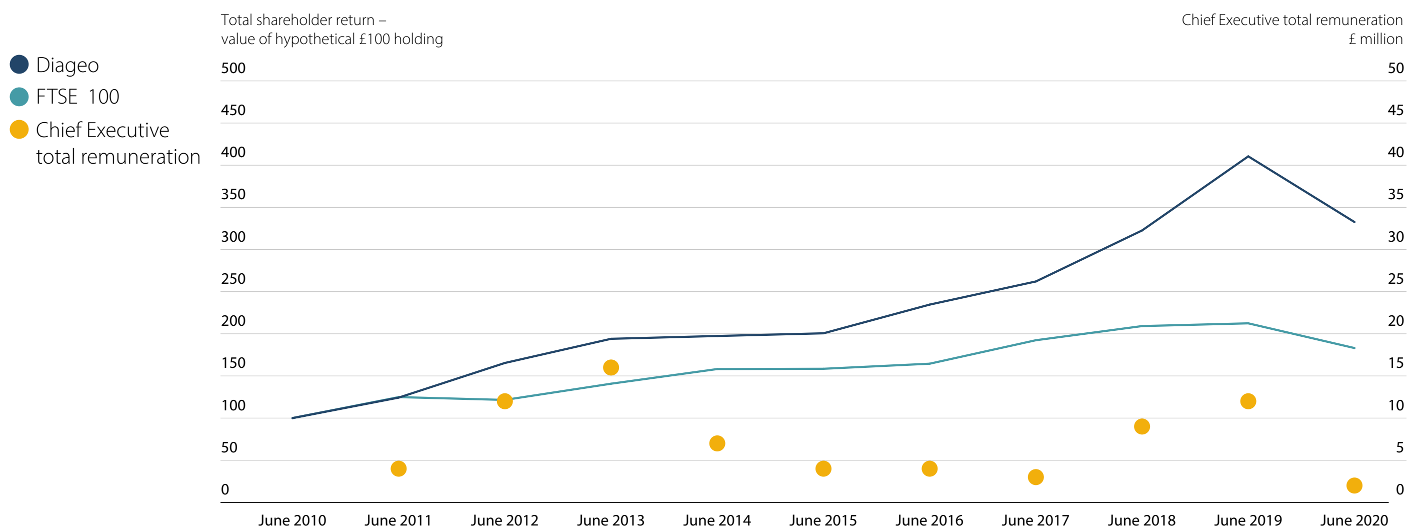
The graph below illustrates the relative importance of spend on pay (total remuneration of all group employees) compared with distributions to shareholders (total dividends plus the share buyback programme but excluding transaction costs), and the percentage change from the year ended 30 June 2019 to the year ended 30 June 2020. The Committee considers that there are no other significant distributions or payments of profit or cash flow.

Relative importance of spend on pay – percentage change



Chief Executive total remuneration and TSR performance

The graph below shows the total shareholder return for Diageo and the FTSE 100 Index since 30 June 2010 and demonstrates the relationship between pay and performance for the Chief Executive, using current and previously published single total remuneration figures. The FTSE 100 Index has been chosen because it is a widely recognised performance benchmark for large companies in the United Kingdom.



	Paul S Walsh £'000	Paul S Walsh £'000	Paul S Walsh £'000	Ivan Menezes(i) £'000	Ivan Menezes(i) £'000	Ivan Menezes(i) £'000	Ivan Menezes(i) £'000	Ivan Menezes(i) £'000	Ivan Menezes(i) £'000	**Ivan Menezes(ii) £'000**
Chief Executive total remuneration (includes legacy LTIP awards)	4,449	11,746	15,557	7,312	3,888	4,156	3,399	8,995	11,776	**2,139**
Annual incentive(ii)	77%	74%	51%	9%	44%	65%	68%	70%	61.0%	**0%**
Share option(ii)	100%	100%	100%	71%	0%	0%	0%	60%	73.1%	**27.5%**
Performance share(ii)	0%	65%	95%	55%	33%	31%	0%	70%	89.3%	**6.9%**

(i) To enable comparison Ivan Menezes' single total figure of remuneration has been converted into sterling using the average weighted exchange rate for the relevant financial year.
(ii) % maximum opportunity.

CEO pay ratio

In accordance with the Companies (Miscellaneous Reporting) Regulations 2018, the table below sets out Diageo's CEO pay ratios for the year ended 30 June 2020. This compares the Chief Executive's total remuneration – converted into sterling – with the equivalent remuneration for the employees paid at the 25th (P25), 50th (P50) and 75th (P75) percentile of Diageo's workforce in the United Kingdom. The total remuneration for each quartile employee, and the salary component within this, is also outlined in the table below.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019(i)	Option A(ii)	265:1	208:1	166:1
2020	Option A(ii) (iii)	51:1	39:1	31:1
2020	Total pay and benefits	£41,881	£54,234	£68,112
2020	Salary	£30,866	£37,632	£52,659

(i) 2019 CEO pay ratios have been updated to reflect the value of the updated 2019 single figure of remuneration, which incorporates long-term incentives based on actual share price at vesting, rather than the average share price in the last three months of the financial year, which had been used as a proxy for the 2019 disclosure.
(ii) Only people employed in the United Kingdom and with the same number of contractual working hours throughout the full 12-month period have been included in the calculation. Inclusion of employees outside this group would require a complex simulation of full-time annual remuneration and would not have a meaningful impact on the ratio.
(iii) The total remuneration for employees is based on actual earnings for the 11 months to 31 May 2020, and a projection for June 2020 that replicates the relevant items of the previous month's earnings. This pragmatic approach provides an accurate calculation of the ratios, while mitigating the challenge of the limited timeframe between the end of the financial year and the publishing of the Annual Report. Pay changes from May to June would seldom be material. This assumption was tested by replicating the 2019 calculation using actual earnings for June 2019, which resulted in no change to the median employee total pay and benefits figure for 2019 and indicated that the maximum variance in the median pay ratio in any given year would be 1 point only.

Methodology

Consistent with the approach for Diageo's voluntary disclosure in 2019, the calculation methodology used to identify the employees at each quartile for 2020 is Option A, as defined in the regulations. We believe this is the most robust and accurate approach, and in line with shareholder expectations. Total full-time equivalent remuneration for employees reflects all pay and benefits received by an individual in respect of the relevant year and has, other than where noted below, been calculated in line with the methodology for the 'single figure of remuneration' for the Chief Executive (shown on page 95 of this report). Actual remuneration was converted into the full-time equivalent for the role and location by pro-rating earnings to reflect full-time contractual working hours and these figures were then ranked to identify the employees sitting at the percentiles. In light of financial performance outcomes being signed off close to the publishing date of the Annual Report, the Diageo Group Business Multiple – which applies to the majority of UK employees – has been used to calculate all payments under the annual incentive schemes, although specific regional or market business multiples may apply in practice. Pension values are not calculated on the same basis as the Chief Executive figure, but rather as the total of contributions made by the company during the financial year. This approach allows meaningful data for a large group of individuals to be obtained in a more efficient way.

Points to note for the year ended 30 June 2020

As indicated in last year's disclosure, Diageo's Chief Executive has a larger proportion of his total remuneration linked to business performance than other employees in the UK workforce. Last year's performance was strong, but in 2020 there will be no annual incentive payout and long-term incentives related to the three-year period ended 30 June 2020 will have limited vesting. As a result, total remuneration for the Chief Executive has changed significantly from 2019 to 2020. Total remuneration across the wider UK workforce has also reduced due to the absence of a bonus pay out and freeshares award as a result of the Covid-19 pandemic, as evidenced by the reduction in the total pay and benefits figures versus last year. However, the main driver for the reduction of the pay ratios is variable pay for the Chief Executive. The median pay ratio for 2020 is consistent with the pay and progression policies for Diageo's UK employees as a whole. As in 2019, the individual receiving median pay belongs to the group of manufacturing workers involved in the distillation, warehousing, maturation, bottling and packaging of Scotch whisky and other spirits and beer that makes up almost half of the workforce in the United Kingdom.

Looking after our people and investing in talent

Throughout the Covid-19 pandemic, our focus has been firmly on the wellbeing of our employees and providing the policies, support and guidance they need. Diageo has sought to provide stability and reassurance to its workforce by safeguarding jobs, pay and benefits, and has increased its overall benefit offering by rolling-out a global employee assistance programme and extending access to bereavement leave and life insurance to all employees across the world.

To help us emerge stronger, we continue to invest in attracting world-class talent by offering total reward packages that people value and that support them to be their best. Although most employees' salaries will remain unchanged in 2020, we still aim to offer fair and competitive rates of pay across the business and therefore we continue to carry out regular market benchmarking which allows us to intervene where required.

We are proud of being a UK Living Wage employer since 2017 and of the progress we have made towards closing the gender pay gap (more details available at www.diageo.com) . Benefits such as competitive pension schemes, the opportunity to participate in employee share-ownership schemes, a product allowance to help employees enjoy Diageo products, generous leave policies, healthcare and life insurance are key parts of our total reward offering.

Annual change in pay for Directors and all employees

In line with the requirements in The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, which implement Articles 9a and 9b of European Directive 2017/828/EC1 (commonly known as the Revised Shareholder Rights Directive or SRD), the table below shows the percentage change in Directors' remuneration and average remuneration of employees from the year ended 30 June 2019 to the year ended 30 June 2020. Given the small number of people employed by the Diageo plc entity, data for all employees of the Diageo Group has been included.

Relatively few employees will receive a bonus in 2020 and there will be no annual incentive payout for Executive Directors, the impact of which is visible in the bonus percentage change. The year-on-year movement in salary for Executive Directors and employees reflects the annual review implemented in October 2019 and changes throughout the financial year ending 30 June 2020. The impact of the announced absence of a global salary review in 2020 will be reflected in next year's disclosure. The increase in Kathryn Mikell's benefits relates to the provision of financial counselling for compliance with UK and US tax affairs, as referenced in the single figure table on page 95. On 29 January 2019 Susan Kilsby was appointed Chair of the Remuneration Committee and subsequently became Senior Independent Director on 31 October 2019. These positions were previously held by Lord Davies of Abersoch and, as a result, there is a significant change in both of their fees from 2019 to 2020.

	Year-on-year change in pay for Directors compared to the global average employee									
		Executive Directors [ii]		Non-Executive Directors [iii]						
2020	Average employee [i]	Ivan Menezes	Kathryn Mikells	Javier Ferran	Debra Crew [iv]	Lord Davies	Susan Kilsby	Ho KwonPing	Nicola Mendelsohn	Alan Stewart
Salary	3.7%	2.7%	2.8%	0%	3.3%	(22.9%)	37.3%	3.3%	3.3%	2.5%
Bonus	(67.8%)	(100%)	(100%)	–	–	–	–	–	–	–
Benefits	6.9%	0.8%	55.9%	0%	527.7%	27.4%	68.9%	93.3%	0%	0%

(i) Calculated by dividing staff cost related to salaries, bonus and benefits by the average number of employees on a full-time equivalent basis, as disclosed in the financial statements under Staff cost and average number of employees (note 3c) on page 129-130, but reduced to account for the inclusion of Executive Directors in reported figures. The salary, bonus and benefits data are subsets of the Wages and Salaries figure disclosed in note 3c. In line with the approach for the Directors, bonus reflects the payout in relation to performance during the relevant financial year.

(ii) Calculated using the data from the single figure table in the annual report on remuneration (page 95) in US dollars, as both Ivan Menezes and Kathryn Mikells are paid in this currency.

(iii) Calculated using the fees and taxable benefits disclosed under Non-Executive Directors' remuneration in the table below. Taxable benefits for Non-Executive Directors comprise a product allowance as well as expense reimbursements relating to attendance at Board meetings, which may be variable year-on-year and have not exceeded £10k in total.

(iv) Debra Crew was appointed to the Board on 18 April 2019 and stood down on 24 March 2020. To enable comparison and to provide a meaningful reflection of annual percentage increase, for the purposes of this calculation, her 2019 and 2020 fees were adjusted to reflect full-year appointment to the Board.

Non-Executive Directors

Fee policy

Javier Ferrán's fee as non-executive Chairman as at 1 January 2020 is £600,000 per annum, rising to £650,000 on 1 January 2021 (the planned increase for 1 January 2020 was deferred, at the Chairman's request, due to the Covid-19 pandemic). The Chairman's fee is appropriately positioned against our comparator group of FTSE 30 companies excluding financial services.

The basic fee for Non-Executive Directors increased from £92,000 to £98,000 and the additional fee for the Senior Non-Executive Director increased from £25,000 to £30,000, both effective 1 January 2020. There was no change to the additional fees for the Chair of the Audit Committee and Chair of the Remuneration Committee in the year ended 30 June 2020. The next review is scheduled for January 2021.

	January 2020	January 2019
Per annum fees	**£'000**	£'000
Chairman of the Board	**600**	600
Non-Executive Directors		
Base fee	**98**	92
Senior Non-Executive Director	**30**	25
Chairman of the Audit Committee	**30**	30
Chairman of the Remuneration Committee	**30**	30

Non-Executive Directors' remuneration for the year ended 30 June 2020 (audited)

	Fees £'000		Taxable benefits[i] £'000		Total £'000	
	2020	2019	**2020**	2019	**2020**	2019
Chairman						
Javier Ferrán[ii]	**600**	600	**1**	1	**601**	601
Non-Executive Directors						
Lord Davies of Abersoch	**103**	134	**2**	1	**105**	135
Susan Kilsby	**144**	105	**10**	6	**154**	111
Melissa Bethell[iii]	**0**	–	**0**	–	**0**	–
Debra Crew[iv]	**71**	19	**8**	–	**79**	19
Ho KwonPing	**95**	92	**4**	2	**99**	94
Nicola S Mendelsohn	**95**	92	**1**	1	**96**	93
Alan JH Stewart	**125**	122	**1**	1	**126**	123

(i) Taxable benefits include a product allowance and expense reimbursements relating to travel, accommodation and subsistence in connection with attendance at Board meetings during the year, which are deemed by HMRC to be taxable in the United Kingdom. The amounts in the single figure of total remuneration table above include the grossed-up cost of UK tax paid by the company on behalf of the Directors. Non-taxable expense reimbursements have not been included in the single figure of remuneration table above.

(ii) £100,000 of Javier Ferrán's net remuneration in the year ended 30 June 2020 was used for the monthly purchase of Diageo ordinary shares, which must be retained until he retires from the company or ceases to be a Director for any other reason.

(iii) Melissa Bethell was appointed to the Board on 30 June 2020 and received £377 in fees for the year ended 30 June 2020.

(iv) Debra Crew stepped down from the Board on 24 March 2020.

Looking ahead to 2021

Salary increases for the year ending 30 June 2021

As outlined in the 2019 annual report on remuneration, base salaries for the Chief Executive and Chief Financial Officer were increased by 3%, effective from 1 October 2019.

In April 2020, the Remuneration Committee reviewed base salaries for senior management and agreed that no increase to salaries will apply from 1 October 2020, in light of the impact of the Covid-19 pandemic on business performance in the year ended 30 June 2020.

	Ivan Menezes		Kathryn Mikells	
Salary at 1 October ('000)	**2020**	2019	**2020**	2019
Base salary	**$1,661**	$1,661	**$1,093**	$1,093
% increase (over previous year)	**0%**	3%	**0%**	3%

Annual incentive design for the year ending 30 June 2021

The measures and targets used in the AIP are reviewed annually by the Remuneration Committee and are chosen to drive financial and individual business performance goals related to the company's short-term strategic operational objectives. The AIP design for Executive Directors in the year ending 30 June 2021 will comprise the following performance measures and weightings, with targets set for each half-year period and the final payout determined at the year-end, subject to the Committee's assessment of holistic performance over the full financial year:

- operating profit (% growth) (26.67% weighting): stretching profit targets drive operational efficiency and influence the level of returns that can be delivered to shareholders through increases in share price and dividend income not including exceptional items or exchange;
- net sales (% growth) (26.67% weighting): a key performance measure of year-on-year top line growth;
- operating cash conversion (26.67% weighting): ensures focus on efficient cash delivery by the end of the year;
- individual business objectives (20% weighting): measurable deliverables that are specific to the individual and are focused on supporting the delivery of key strategic objectives.

The Committee has discretion to adjust the payout to reflect underlying business performance and any other relevant factors.

Details of the targets for the year ending 30 June 2021 will be disclosed retrospectively in next year's annual report on remuneration, by which time they will no longer be deemed commercially sensitive by the Board.

Long-term incentive awards to be made in the year ending 30 June 2021

The long-term incentive plan measures are reviewed annually by the Remuneration Committee and are selected to reward long-term consistent performance in line with Diageo's business strategy and to create alignment with the delivery of value for shareholders. The Committee has ensured that the incentive structure for senior management does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour.

As last year, DLTIP awards made in September 2020 will comprise awards of both performance shares and share options, based on stretching targets against the key performance measures outlined in the table below. The measure on profit before exceptional items and tax has been replaced by a measure on adjusted earnings per share growth to include the impact of tax. In addition, a new ESG measure has been introduced, as described below.

The performance share element of the DLTIP applies to the Executive Committee and the top cadre of senior leaders across the organisation worldwide, whilst the share option element is applicable to a much smaller population comprising only members of the Executive Committee. One market price option is valued at one-third of a performance share.

Given the uncertainty of the severity and duration of the impact of the Covid-19 pandemic on the long-term business plan, the targets for this award will be set after the announcement of the interim financial results in January 2021.

			Performance shares	Share options	
	Organic net sales growth	Cumulative free cash flow	ESG measure	Growth in adjusted earnings per share	Relative total shareholder return
Weighting (% total)	40%	40%	20%	50%	50%

The ESG measure comprises four goals reflecting Diageo's vision to make a positive impact on the environment and society, with each goal weighted equally:

- carbon reduction in direct operations;
- water efficiency in direct operations;
- number of people with positive attitudinal change on the dangers of underage drinking following participation in the Smashed education programme; and
- inclusion and diversity metric (one measure on % female leaders globally, and another measure on % ethnically diverse leaders in certain geographies).

Awards are calculated on the basis of a six-month average share price for the period ending 30 June 2020, which is in line with the award price for previous years and as a result no adjustment to award size is considered necessary.

It is intended that a DLTIP award of 500% of base salary will be made to Ivan Menezes in September 2020, comprising 375% of salary in performance shares and 125% of salary in market-price share options (in performance share equivalents; one market price option is valued at one-third of a performance share).

It is intended that a DLTIP award of 480% of salary will be made to Kathryn Mikells in September 2020, comprising 360% of salary in performance shares and 120% of salary in market price share options (in performance share equivalents).

The table below summarises the annual DLTIP awards to Ivan Menezes and Kathryn Mikells in September 2020.

	Chief Executive	Chief Financial Officer
Grant value (% salary)	Performance share equivalents (1 share: 3 options)	
Performance shares	375%	360%
Share options	125%	120%
Total	**500%**	**480%**

Additional information

Remuneration Committee

Over the year, the Remuneration Committee has consisted of the following independent Non-Executive Directors: Susan Kilsby, Lord Davies of Abersoch, Melissa Bethell, Ho KwonPing, Nicola S Mendelsohn, Alan JH Stewart and Debra Crew. Susan Kilsby is the Chair of the Remuneration Committee. The Chairman of the Board and the Chief Executive may, by invitation, attend Remuneration Committee meetings except when their own remuneration is discussed. Diageo's Chief Human Resources Officer and Global Performance and Reward Director are also invited from time to time by the Remuneration Committee to provide their views and advice. The Chief Executive and Chief Human Resources Officer are not present when their own remuneration is discussed. The Chief Financial Officer may also attend to provide performance context to the Committee during its discussions about target setting. Information on meetings held and Director attendance is disclosed in the corporate governance report.

The Remuneration Committee's principal responsibilities are:

- making recommendations to the Board on remuneration policy as applied to the Executive Directors and the Executive Committee;
- setting, reviewing and approving individual remuneration arrangements for the Chairman of the Board, Executive Directors and Executive Committee members including terms and conditions of employment;
- determining arrangements in relation to termination of employment of the Executive Directors and other designated senior executives;
- making recommendations to the Board concerning the introduction of any new share incentive plans which require approval by shareholders; and
- ensuring that remuneration outcomes are appropriate in the context of underlying business performance, that remuneration practices are implemented in accordance with the approved remuneration policy, and that remuneration does not raise environmental, social and governance issues by inadvertently motivating irresponsible behaviour.

Full terms of reference for the Committee are available at www.diageo.com and on request from the Company Secretary.

The Committee has considered the remuneration policy and practices in the context of the principles of the Corporate Governance Code, as follows:

Clarity – the Committee engages regularly with executives, shareholders and their representative bodies in order to explain the approach to executive pay;

Simplicity – the purpose, structure and strategic alignment of each element of pay has been clearly laid out in the remuneration policy;

Risk – there is an appropriate mix of fixed and variable pay, and financial and non-financial objectives, and there are robust measures in place to ensure alignment with long-term shareholder interests, including the post-vesting retention period, shareholding requirement and bonus deferral into shares;

Predictability – the pay opportunity under different performance scenarios are set out on page 92 of this report;

Proportionality – executives are incentivised to achieve stretching targets over an annual and three-year period, and the Committee assesses performance holistically at the end of each period, taking into account underlying business performance and the internal and external context. The Committee may exercise discretion to ensure that payouts are appropriate; and

Alignment with culture – non-financial objectives may be incentivised under the individual business objective element of the annual incentive plan and ESG priorities are incentivised under the long-term incentive plan, which reinforces the company's purpose and values.

External advisors

During the year ended 30 June 2020, the Remuneration Committee received advice on executive remuneration from Deloitte. Deloitte was appointed by the Committee in May 2019, following a comprehensive tendering process with several consulting firms. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting. The Committee requests Deloitte attend meetings periodically during the year and is satisfied that the advice it has received has been objective and independent.

Deloitte provides unrelated services to the company in the areas of immigration services and management consultancy. During the year, Deloitte supported the Committee in providing: remuneration benchmarking survey data to support the salary review for the Executive Committee, advice on the design of long-term incentives and the level of stretch in the long-term incentive targets and periodic updates on the TSR of Diageo and its peer companies for outstanding performance cycles. The fees paid to Deloitte in relation to advice provided to the Committee were £151,100 and were determined on a time and expenses basis.

Clifford Chance provided advice on the operation of share plans during the year. Fees paid in relation to this advice, again on a time and expenses basis, were £62,095.

The Committee is satisfied that the Deloitte and Clifford Chance engagement partners and teams that provide remuneration advice to the Committee do not have connections with Diageo that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Statement of voting

The following table summarises the details of votes cast in respect of the resolutions on the Directors' remuneration policy at the 2017 AGM and the annual report on remuneration at the 2019 AGM.

		For	Against	Total votes cast	Abstentions
Directors' remuneration policy	Total number of votes	1,905,251,510	75,507,013	1,980,758,523	2,048,247
	Percentage of votes cast	96.19%	3.81%	100%	n/a
Annual report on remuneration	Total number of votes	1,694,726,156	54,505,285	1,749,231,441	11,478,228
	Percentage of votes cast	96.88%	3.12%	100%	n/a

The Committee was pleased with the level of support shown for the remuneration policy and implementation report and appreciated the active participation of shareholders and their representative advisory bodies in consulting on executive remuneration matters.

Emoluments and share interests of senior management

The total emoluments for the year ended 30 June 2020 of the Executive Directors, the Executive Committee members and the Company Secretary (together, the senior management) of Diageo comprising base salary, annual incentive plan, share incentive plan, termination payments and other benefits were £12.1 million (2019 – £21.5 million).

The aggregate amount of gains made by the senior management from the exercise of share options and from the vesting of awards during the year was £37.3 million. In addition, they were granted 738,490 performance-based share options under the Diageo Long-Term Incentive Plan (DLTIP) during the year at a weighted average share price of 3483 pence, exercisable by 2029 and no options were granted under DLTIP that are not subject to performance. In addition they were granted 680 options over ordinary shares under the UK savings-related share options scheme (SAYE). They were also awarded 700,279 performance shares under the DLTIP in September 2019, which will vest in three years subject to the relevant performance conditions.

Senior management options over ordinary shares

At 31 July 2020, the senior management had an aggregate beneficial interest in 2,610,138 ordinary shares in the company and in the following options over ordinary shares in the company:

	Number of options	Weighted average exercise price	Option period
Ivan Menezes	810,288	2561p	2018-2029
Kathryn Mikells	429,608	2718p	2019-2029
Other[(i)]	2,483,620	2458p	2013-2029
	3,723,516		

(i) Other members of the Executive Committee, which includes the Company Secretary.

Key management personnel related party transactions (audited)

Key management personnel of the group comprises the Executive and Non-Executive Directors, the members of the Executive Committee and the Company Secretary.

Diageo plc has granted rolling indemnities to the Directors and the Company Secretary, uncapped in amount, in relation to certain losses and liabilities which they may incur in the course of acting as Directors or Company Secretary (as applicable) of Diageo plc or of one or more of its subsidiaries. These indemnities continue to be in place at 30 June 2020.

Other than disclosed in this report, no Director had any interest, beneficial or non-beneficial, in the share capital of the company. Save as disclosed above, no Director has or has had any interest in any transaction which is or was unusual in its nature, or which is or was significant to the business of the group and which was effected by any member of the group during the financial year, or which having been effected during an earlier financial year, remains in any respect outstanding or unperformed. There have been no material transactions during the last three years to which any Director or officer, or 3% or greater shareholder, or any spouse or dependent thereof, was a party. There is no significant outstanding indebtedness to the company from any Directors or officer or 3% or greater shareholder.

Statutory and audit requirements

This report was approved by a duly authorised Committee of the Board of Directors and was signed on its behalf on 4 August 2020 by Susan Kilsby who is Chairman of the Remuneration Committee.

The Board has followed the principles of good governance as set out in the UK Corporate Governance Code and complied with the regulations contained in the Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules of the Financial Conduct Authority and the relevant schedules of the Companies Act 2006.

The Companies Act 2006 and the Listing Rules require the company's auditor to report on the audited information in their report and to state that this section has been properly prepared in accordance with these regulations.

PwC has audited the report to the extent required by the Regulations, being the sections headed Single total figure of remuneration for Executive Directors (and notes), Annual incentive plan (AIP), Long-term incentive plans (LTIPs), Pension arrangements, Directors' shareholding requirements and share and other interests, Outstanding share plan interests, Non-Executive Directors' remuneration and Key management personnel related party transactions.

The annual report on remuneration and Directors' remuneration report are subject to shareholder approval at the AGM on 28 September 2020; Terms defined in this remuneration report are used solely herein.

Directors' report

The Directors present the Directors' report for the year ended 30 June 2020.

Annual General Meeting (AGM)

The AGM will be held at the company's registered office at Lakeside Drive, Park Royal, London NW10 7HQ on 28 September 2020 at 2.30 pm.

Directors

The Directors of the company who currently serve are shown in the section 'Board of Directors and Company Secretary' on pages 68 and 69 and the names of additional and former Directors who served during the year are listed on page 69.

In accordance with the UK Corporate Governance Code, all the Directors, with the exception of Ho KwonPing, will retire by rotation at the AGM and offer themselves for re-election.

Further details of Directors' contracts, remuneration and their interests in the shares of the company at 30 June 2020 are given in the Directors' remuneration report.

The Directors' powers are determined by UK legislation and Diageo's articles of association. The Directors may exercise all the company's powers provided that Diageo's articles of association or applicable legislation do not stipulate that any powers must be exercised by the members.

Auditor

The auditor, PricewaterhouseCoopers LLP, is willing to continue in office and a resolution for its re-appointment as auditor of the company will be submitted to the AGM.

Disclosure of information to the auditor

In accordance with section 418 of the Companies Act 2006, the Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each Director has taken all reasonable steps to ascertain any relevant audit information and to ensure that the company's auditor is aware of that information.

Corporate governance statement

The corporate governance statement, prepared in accordance with rule 7.2 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, comprises the following sections of the Annual Report: the 'Corporate governance report', the 'Audit Committee report' and the 'Additional information for shareholders'.

Significant agreements – change of control

The following significant agreements contain certain termination and other rights for Diageo's counterparties upon a change of control of the company.

Under the partners agreement governing the company's 34% investment in Moët Hennessy SAS (MH) and Moët Hennessy International SAS (MHI), if a Competitor (as defined therein) directly or indirectly takes control of the company (which, for these purposes, would occur if such competitor acquired more than 34% of the voting rights or equity interests in the company), LVMH Moët Hennessy – Louis Vuitton SA (LVMH) may require the company to sell its interests in MH and MHI to LVMH.

The master agreement governing the operation of the group's market-level distribution joint ventures with LVMH states that if any person acquires interests and rights in the company resulting in a Control Event (as defined) occurring in respect of the company, LVMH may within 12 months of the Control Event either appoint and remove the chairman of each joint venture entity governed by such master agreement, who shall be given a casting vote, or require each distribution joint venture entity to be wound up. Control Event for these purposes is defined as the acquisition by any person of more than 30% of the outstanding voting rights or equity interests in the company, provided that no other person or entity (or group of affiliated persons or entities) holds directly or indirectly more than 30% of the voting rights in the company.

Related party transactions

Transactions with other related parties are disclosed in note 20 to the consolidated financial statements.

Distributions

In April 2020, the Directors became aware that certain share buy-backs and certain transactions related to the company's employee share schemes with or for the benefit of the Company's employee benefit and share ownership trusts undertaken between 10 May 2019 and 9 August 2019, amounting to approximately £320 million, ('the affected transactions'), were undertaken contrary to the applicable provisions of the Companies Act 2006 as they were undertaken following utilisation in full of the company's distributable reserves as set out in its balance sheet as at 30 June 2018. At the Annual General Meeting to be held on 28 September 2020, a resolution will be proposed which will appropriate an equivalent amount of distributable profits of the company to the payments made in respect of the affected transactions and will implement arrangements to put all potentially affected parties, so far as possible, in the position in which they were intended to be had the affected transactions been undertaken in accordance with the applicable provisions of the Companies Act 2006. This resolution and the arrangements that it implements will, if approved by shareholders, constitute a related party transaction under IAS 24 and under the Listing Rules, as the Directors would benefit from the waiver of any claims that the company has or may have against them as a result of the affected transactions. These arrangements are not expected to have any effect on the company's financial position as the company has not recorded or disclosed its right potentially to make claims against any person in respect of the affected transactions as an asset or contingent asset of the company. The company has reviewed and implemented additional controls relating to distributable reserves to ensure that relevant requirements are complied with, and these controls will be subject to regular assessment as to ongoing effectiveness.

Major shareholders

At 30 June 2020, the following substantial interests (3% or more) in the company's ordinary share capital (voting securities) had been notified to the company.

Shareholder	Number of ordinary shares	Percentage of issued ordinary share (excluding treasury shares)	Date of notification of interest
BlackRock Investment Management (UK) Limited (indirect holding)	147,296,928	5.89%	3 December 2009
Capital Research and Management Company (indirect holding)	124,653,096	4.99%	28 April 2009

The company has not been notified of any other substantial interests in its securities since 30 June 2020. The company's substantial shareholders do not have different voting rights. Diageo, so far as is known by the company, is not directly or indirectly owned or controlled by another corporation or by any government. Diageo knows of no arrangements, the operation of which may at a subsequent date result in a change of control of the company.

Employment policies

A key strategic imperative of the company is to attract, retain and grow a pool of diverse, talented employees. Diageo recognises that a diversity of skills and experiences in its workplace and communities will provide a competitive advantage. To enable this the company has various global employment policies and standards, covering such issues as resourcing, data protection, human rights, health, safety and wellbeing. These policies and standards seek to ensure that the company treats current or prospective employees justly, solely according to their abilities to meet the requirements and standards of their role and in a fair and consistent way. This includes giving full and fair consideration to applications from prospective employees who are disabled, having regard to their aptitudes and abilities, and not discriminating against employees under any circumstances (including in relation to applications, training, career development and promotion) on the grounds of any disability.

Other information

Other information relevant to the Directors' report may be found in the following sections of the Annual Report:

Information (including that required by UK Listing Authority Listing Rule 9.8.4)	Location in Annual Report
Agreements with controlling shareholders	Not applicable
Amendment of articles of association	Additional information for shareholders – Articles of association
Contracts of significance	Not applicable
Details of long-term incentive schemes	Directors' remuneration report
Directors – appointment and powers	Additional information for shareholders – Articles of association – Directors
Directors' indemnities and compensation	Directors' remuneration report – Additional information; Financial statements – note 20 Related party transactions
Dividends	Group financial review; Financial Statements – Unaudited financial information
Engagement with employees	Corporate governance report – Workforce engagement statement
Engagement with suppliers, customers and others	Stakeholder engagement; Corporate governance report – Stakeholder engagement
Events since 30 June 2020	Not applicable
Financial risk management	Financial statements – note 15 Financial instruments and risk management
Future developments	Chairman's statement; Chief Executive's statement; Our market dynamics
Greenhouse gas emissions	Sustainability performance; Climate-related risks; Additional information for shareholders – External limited assurance of selected sustainability and responsibility performance data
Interest capitalised	Not applicable
Non-pre-emptive issues of equity for cash (including in respect of major unlisted subsidiaries)	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Political donations	Corporate governance report
Provision of services by a controlling shareholder	Not applicable
Publication of unaudited financial information	Unaudited financial information
Purchase of own shares	Additional information for shareholders – Articles of association – Repurchase of shares; Financial statements – note 17 Equity
Research and development	Financial statements – note 3 Operating costs
Restrictions on transfer of securities	Additional information for shareholders – Articles of association – Restrictions on transfer of shares
Review of the business and principal risks and uncertainties	Chief Executive's statement; Our principal risks and risk management; Business reviews
Share capital – structure, voting and other rights	Additional information for shareholders – Articles of association; Financial statements– note 17 Equity
Share capital – employee share plan voting rights	Financial statements – note 17 Equity
Shareholder waivers of dividends	Financial statements – note 17 Equity
Shareholder waivers of future dividends	Financial statements – note 17 Equity
Sustainability and responsibility	Sustainability performance; Climate-related risks
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable

The Directors' report of Diageo plc for the year ended 30 June 2020 comprises these pages and the sections of the Annual Report referred to under 'Directors', 'Corporate governance statement' and 'Other information' above, which are incorporated into the Directors' report by reference.

In addition, certain disclosures required to be contained in the Directors' report have been incorporated into the 'Strategic report' as set out in 'Other information' above.

The Directors' 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.

Financial statements

Introduction and contents

Introduction

The financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU) and as issued by the International Accounting Standards Board (IASB).

The financial statements of Diageo plc (the company) are prepared in accordance with the Companies Act 2006 and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The financial statements also include 'Unaudited Financial Information' which is not required by the relevant accounting standards or other regulations but management believes this section provides important additional information.

Contents

Independent auditors' report to the members of Diageo plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Diageo plc's group financial statements and company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the company's affairs as at 30 June 2020 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 30 June 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the group and company financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, the group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in the note 3(b) to the group financial statements, we have provided no non-audit services to the group or the company in the period from 1 July 2019 to 30 June 2020.

Our audit approach

Overview

Materiality

- Group financial statements: £191 million (2019 - £209 million), based on 5% of three-year weighted average profit before taxation and exceptional items (as defined in note 4 to the group financial statements).
- Company financial statements: £299 million (2019 - £93 million), based on 0.5% of net assets. For the purposes of the group audit, we applied a lower materiality of £26 million (2019 - £24 million) to company balances and transactions, other than those which were eliminated on consolidation in the group financial statements.

Audit scope

- We conducted full scope audit work in nine countries in which the group has significant operations. Our work also covered the five group shared service centres.
- In addition, we performed the audit of specific balances and transactions in six countries, and obtained reporting over the financial information of Moët Hennessy, the group's principal associate, from its auditor.
- Due to the current restrictions on travel and social distancing measures, enacted in response to the global Covid-19 pandemic, the group engagement team used video conferencing to oversee the component auditor work and had remote discussions with management of nine countries where full scope audits were performed, four shared service centres and two of the countries where audits of specific balances and transactions took place.

Areas of focus

- Carrying value of goodwill and indefinite-lived intangible assets (group)
- Uncertain tax positions in respect of direct and indirect taxes (group)
- Presentation of exceptional items (group)
- Provisions and contingent liabilities (group and company)
- Post employment benefit obligations (group)
- Impairment assessment of the company's investment in subsidiary undertakings (company)
- Impact of Covid-19 (group and company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to but not limited to, the Companies Act 2006, the Listing Rules, UK tax legislation and equivalent local laws and regulations applicable to significant component teams, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgements. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and component auditors included:

– Gaining an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considering the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and at the component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error. We also understood the results of whistleblowing procedures and related investigations. We focused on known and suspected instances of non-compliance with laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, UK tax legislation and equivalent local laws and regulations applicable to significant component teams.
– Testing which included, but was not limited to, agreement of the financial statement disclosures to underlying supporting documentation, review of correspondence with the Financial Reporting Council and legal advisors, enquiries of management, review of significant component auditors' work and review of internal audit reports in so far as they related to the financial statements.
– We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals, and evaluated whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Carrying value of goodwill and indefinite-lived intangible assets (group) Refer to the Report of the Audit Committee and note 9 – Intangible assets The group has goodwill of £1,912 million, indefinite-lived brand intangibles of £7,755 million and other indefinite-lived intangible assets of £1,509 million as at 30 June 2020. Goodwill and indefinite-lived intangible assets must be tested for impairment on at least an annual basis. The determination of recoverable amount, being the higher of value in use and fair value less costs of disposal, requires estimations on the part of management in both identifying and then valuing the relevant group's cash-generating units (CGUs). Recoverable amounts are based on management's assumptions of variables and market conditions such as future price and volume growth rates, the timing of future operating expenditure, and the most appropriate discount and long-term growth rates. An impairment charge was recognised in respect of the goodwill allocated to India in the amount of £655 million. Impairment charges were recognised on the Old Tavern Whisky and Bagpiper brands of £78 million and £38 million respectively, giving rise to a deferred tax benefit of £25 million.	We evaluated the appropriateness of management's identification of the group's cash-generating units (CGUs) and tested the operation of the group's controls over the impairment assessment process, which we found to be satisfactory for the purposes of our audit. Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used, focusing in particular on the CGU containing the India goodwill, certain India brands and the Windsor Premier brand through performing the following: – Benchmarking Diageo's key market-related assumptions in the models, including discount rates, long-term growth rates and exchange rates, against external data, using our valuation expertise; – Assessing the reliability of cash flow forecasts through a review of actual past performance and comparison to previous forecasts; – Testing the mathematical accuracy and performing sensitivity analyses of the models; – Understanding the commercial prospects of the assets, and where possible comparison of assumptions with external data sources;

Key audit matter	How our audit addressed the key audit matter
Carrying value of goodwill and indefinite-lived intangible assets (group) continued A further impairment charge was recognised on the Windsor Premier Brand in Korea in the amount of £434 million, giving rise to a deferred tax benefit of £105 million. Management has determined that in addition to those CGUs and brands which were impaired, the McDowell's No. 1, Antiquity and Bell's brands are sensitive to reasonably possible changes in the assumptions used, which could result in the calculated recoverable amount being lower than the carrying value of the CGU or the brand in future periods. Additional sensitivity disclosure has been included in the group financial statements in respect of these CGUs.	– For India we have challenged management's assessment of fair value less costs of disposal and value in use, in determining the appropriate basis for impairment and are satisfied with management's conclusion that value in use was the most appropriate basis; – For the India goodwill and brands, we assessed the reasonableness of the forecasts by challenging the assumptions in respect of growth and margin strategies in the Indian market, considering the Covid-19 pandemic and the longer term impact on price increases; – For the Windsor Premier brand, we specifically challenged the reasonableness of the forecast assumptions in the context of consumer demand changing due to the new National Tax Service regulations and the impact of Covid-19; and – Tested the tax effect recorded in relation to impairments. We note that significant assumptions have had to be made by management in respect of the period over which volumes will recover to be in line with 2019, and the period for which additional sales taxes may be in place as a result of Covid-19. We have assessed the appropriateness and completeness of the related disclosures in note 9 of the group financial statements, including the sensitivities provided in respect of India goodwill and the McDowell's No.1, Bagpiper, Antiquity, Bell's and Windsor Premier brands, and considered them to be reasonable.
Uncertain tax positions in respect of direct and indirect taxes (group) Refer to the Report of the Audit Committee, note 7 - Taxation, and note 18 – Contingent iabilities and legal proceedings The group operates across a large number of jurisdictions and is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business, including transfer pricing, direct and indirect taxes, and transaction related tax matters. As at 30 June 2020, the group has corporate tax receivable of £190 million, corporate tax payable of £246 million, deferred tax assets of £119 million and deferred tax liabilities of £1,972 million. The group also has provisions of £189m for tax uncertainties. Where the amount of tax payable is uncertain, the group establishes provisions based on management's judgement of the likelihood of settlement being required. Management makes judgments in assessing the likelihood of potentially material exposures and develops estimates to determine such provisions where required. This included the impact of the European Commission's State Aid investigation, direct and indirect tax assessments in developing markets and assessments relating to financing and transfer pricing structures. In certain instances, the impact of changes in local tax regulations and ongoing inspections by local tax authorities and international bodies could materially impact the amounts recorded in the group financial statements.	We evaluated the design and implementation of controls in respect of identifying uncertain tax positions, which we found to be satisfactory for the purposes of our audit. We also evaluated the related accounting policy for provisioning for tax exposures and found it to be appropriate. We used our tax specialists to gain an understanding of the current status of tax assessments and investigations and to monitor developments in ongoing disputes. We read recent rulings and correspondence with local tax authorities, as well as external advice provided by the group's tax experts and legal advisors where relevant, to satisfy ourselves that the tax provisions had been appropriately recorded or adjusted to reflect the latest developments. Where the basis for the conclusion reached was less clear, we challenged the advice from legal advisors and tax experts on how their view was reached. We challenged management's key assumptions, in particular on cases where there had been significant developments with tax authorities, noting no significant deviations from our expectations. We assessed the appropriateness of the related disclosures in notes 7 and 18 of the group financial statements and considered them to be reasonable.

Key audit matter	How our audit addressed the key audit matter
Presentation of exceptional items (group) Refer to the Report of the Audit Committee and note 4 – Exceptional items, and note 7(b) - Exceptional tax (credits)/charges Consistent with prior years the group has reported exceptional items separately within the consolidated income statement which are excluded from management's reporting of the underlying results of the group. The nature of these exceptional items is explained within the group accounting policy and includes gains or losses arising on acquisitions or disposals, changes in post-employment plans, impairment of intangible and fixed assets, staff costs, finance charges, other external charges and costs resulting from non-recurring legal or tax matters. This year the group has reported £1,357 million of net operating exceptional charges, £23 million of net exceptional non-operating charges and £154 million of net tax exceptional credits, which are primarily in respect of: – Goodwill and indefinite-lived intangible asset impairments; – Tangible fixed asset impairments; – A provision in respect of Diageo's 'Raising the Bar' programme in response to Covid-19 impacts to on-trade pubs and bars; – A provision in respect of obsolete inventories, including handling and destruction costs, due to Covid-19; – A provision in respect of a loss on the disposal of UNB; – A gain related to substitution drawback claims filed with the US Government; and – A tax credit in respect of a final assessment on an indirect tax matter in Korea, resulting in the reversal of a previously recognised provision. Our specific area of focus was to assess whether the items identified by management as exceptional met the definition of the group's accounting policy (i.e. are considered to be material and unusual or non-recurring in nature) and have been treated consistently, as the identification of such items requires judgement by management. Consistency in the identification and presentation of these items is important to ensure the comparability of year-on-year reporting.	We evaluated the design and implementation of controls in respect of exceptional items, which we found to be satisfactory for the purposes of our audit. We considered the judgements and estimates within management's accounting papers for the one-off transactions and obtained corroborative evidence for the items presented as exceptional items. We considered these to be supportable. Our procedures in respect of the impairment charges recognised on goodwill and indefinite-lived intangibles (£1,345 million) and the associated deferred tax benefit (£130 million) are covered in the related key audit matter above. In respect of the impairment charges recognised on tangible fixed assets in Nigeria and Ethiopia of £84 million and £55 million respectively, we evaluated management's valuation assessment against third-party industry data and validated the mathematical accuracy of the models used to determine the charge and associated £35 million deferred tax credit. In addition, we held discussions with third-party valuers to understand the valuation methodology applied. In respect of the £81 million provision for Diageo's 'Raising the Bar' programme, we tested management's calculation of the amount recorded and the assessment of whether the cost met the recognition criteria. In respect of the £30 million provision recorded for obsolete inventories and the associated £7 million tax credit, due to Covid-19, we assessed whether these items were specific to the pandemic and whether a constructive obligation had been communicated. For returns received in the period, we tested the receipt of the inventory and validated the associated handling and destruction costs back to supporting information. In respect of the £32 million provision for the loss on the disposal of UNB, we tested management's calculation of the loss on sale and write-down of deferred consideration receivable through testing the final executed contract and assessed management's judgement over the increased risk of recoverability of the receivable. In respect of the £83 million gain for expected benefits for substitution drawback claims previously filed and to be filed with the US Government and the associated £20 million tax charge, we tested management's calculation of the amount, reviewed the legal correspondence on the ruling in the period, and assessed whether the gain meets the 'virtually certain' criteria for recognition. In respect of the £24 million credit arising on the reversal of a prior year indirect tax provision related to Korea, we tested the receipt of the final assessment issued by the Korean Tax Authority and confirmed the final assessment was lower than the provision previously recorded. We challenged management's rationale for the designation of certain items as exceptional and assessed such items against the group's accounting policy, considering the nature and value of the items and ensuring a consistent approach had been taken year on year. We assessed the appropriateness and completeness of the disclosures in notes 4 and 7(b) and other related notes to the group financial statements and checked that these reflected the output of management's accounting papers, noting no significant deviations from our expectations. We also considered whether there were items that were recorded within underlying profit that we determined to be exceptional in nature and should have been reported within 'exceptional items'. No such material items were identified.

Key audit matter	How our audit addressed the key audit matter
Provisions and contingent liabilities (group and company) Refer to the Report of the Audit Committee, note 18 – Contingent liabilities and legal proceedings, and note 14(d) - Provisions The group faces a number of threatened and actual legal and regulatory cases. There is a high level of judgement required in assessing the likelihood of settlement and the disclosures required. There is also estimation risk in assessing the level of potential exposure that may exist.	We evaluated the design and implementation of controls in respect of litigation and regulatory matters, which we found to be satisfactory for the purposes of our audit. Our procedures included the following: – Where relevant, reading external legal advice obtained by management to assess the likelihood and quantum of the potential liability; – Discussing open matters and developments with the group and regional general counsel; – Meeting with regional and local management and reading relevant correspondence; – Assessing and challenging management's conclusions through understanding precedents set in similar cases to assess management's judgments and estimates of the liability where relevant; and – Circularising relevant third-party legal confirmations, together with follow up discussions, where appropriate, on certain cases. Based on the evidence obtained, whilst noting the inherent uncertainty with such legal and regulatory matters, we determined that the level of provisioning at 30 June 2020 is appropriate. We assessed the appropriateness of the related disclosures in notes 18 and 14(d) of the group financial statements, and consider them to be reasonable.
Post employment benefit obligations (group) Refer to the Report of the Audit Committee and note 13 – Post employment benefits The group has approximately 40 defined benefit post employment plans. The total present value of obligations is £10,057 million at 30 June 2020, which is significant in the context of the overall balance sheet of the group. The group's most significant plans are in the United Kingdom, Ireland and the United States. The valuation of pension plan liabilities requires estimation in determining appropriate assumptions such as salary increases, mortality rates, discount rates, inflation levels and the impact of any changes in individual pension plans. Movements in these assumptions can have a material impact on the determination of the liability. Management uses external actuaries to assist in determining these assumptions.	We evaluated the design and implementation of controls in respect of post employment benefit obligations, which we found to be satisfactory for the purposes of our audit. We used our actuarial experts to assess whether the assumptions used in calculating the liabilities for the United Kingdom, Ireland and the United States pension plans were reasonable, by performing the following: – Assessing whether salary increases and mortality rate assumptions were consistent with the specifics of each plan and, where applicable, with relevant national and industry benchmarks; – Verifying that the discount and inflation rates used were consistent with our internally developed benchmarks and in line with other companies' recent external reporting; and – Reviewing the calculations prepared by external actuaries to assess the consistency of the assumptions used. Based on our procedures, we noted no exceptions and considered management's key assumptions to be within reasonable ranges. We assessed the appropriateness of the related disclosures in note 13 of the group financial statements, and consider them to be reasonable.
Impairment assessment of the company's investment in subsidiary undertakings Refer to the Report of the Audit Committee, note 3 to company's financial statements – Investment in subsidiary undertakings Investments in subsidiaries undertakings are accounted for at historical cost less impairment provisions for any permanent decrease in value in the company's balance sheet. At 30 June 2020, the company held investments in subsidiaries undertakings with a historical cost of £61,342 million. The carrying amounts of the company's investments are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the asset's recoverable amount is estimated. Losses are recognised in the statement of comprehensive income and reflected in an allowance against the carrying value. During the financial year, the group carried out a restructuring project impacting a number of its subsidiary companies, which resulted in a fair value increase to the investments in subsidiary undertakings of £45,062 million. As a result of the restructuring certain investments became impaired. In addition, the impact of Covid-19 further increased the impairment charge which totalled £10,054 million, and has been netted-off against the unrealised profit in other comprehensive income, as detailed in Note 3 of the company financial statements.	We evaluated the models prepared for the internal restructuring project and involved our valuation experts to assess the appropriateness of the valuation models and key assumptions used for each of the subsidiaries. We obtained supporting documentation to test each step of the restructuring plan and, using our restructuring experts, we assessed each step of the plan against the legal requirements in respect of reserve distributions and capital reductions. We found the transactions to be in accordance with the relevant law and regulations. Using our valuation experts, we tested the reasonableness of key assumptions underpinning management's recoverable amount of the company's investments. We assessed management's assumptions by comparison to relevant third-party data and economic forecasts. We tested the mathematical accuracy of the impairment model including assessing whether the model appropriately reflected the values from the external valuation report or, where applicable, were consistent with the output from the group impairment assessments. Based on our procedures, we consider the assumptions used in the models to be reasonable. We also assessed the appropriateness and completeness of the related disclosures in note 3 of the company financial statements and consider them to be reasonable.

Key audit matter	How our audit addressed the key audit matter

Impact of Covid-19 (group and company)

Refer to the Report of the Audit Committee and note 1 - Accounting information and policies

The Covid-19 pandemic has had a significant impact on the recent trading performance of the group, particularly within the on-trade market. The extent of the negative impact of the pandemic on future trading performance is difficult to predict. Therefore, there is inherent uncertainty in determining the impact of the pandemic on certain aspects of the financial statements.

The key impacts of Covid-19 on the group and parent company financial statements are:

– The budgets and models supporting the goodwill, indefinite-lived intangible and tangible fixed asset impairment assessments have been updated to reflect management's best estimate of the impacts of Covid-19. The assumptions applied in this analysis have been determined internally, however they incorporate views of external commentators and other third-party data sources, where relevant. Consideration of the impact on the carrying value of goodwill, brand intangible and tangible fixed assets is described in the related key audit matters above.
– Similarly, management's reassessment of the carrying value of the company's investments in subsidiary undertakings resulted in a reduction to the valuations at the year end, in part arising due to the impact of Covid-19 on the underlying businesses, as described in the related key audit matter above.
– These models and related assumptions also underpin management's going concern and viability assessments. Management has modelled severe but plausible downside scenarios to its base case trading forecast. Having considered these models, together with a robust assessment of planned and possible mitigating actions, management has concluded that the group remains a going concern, and that there is no materiality uncertainty in respect of this conclusion. Refer to pages 41 and 124.
– Diageo launched its 'Raising the Bar' programme to provide $100 million (£81 million) of funding over a period of up to two years to support the recovery of pub and bar outlets following the Covid-19 pandemic, together with additional support packages and donations totalling £8 million. An exceptional charge of £89 million has been recognised, as described in the related key audit matter above.
– A provision in respect of obsolete inventories with limited shelf lives of £23 million has been recognised, together with associated destruction costs of £7 million, that has been directly attributable to Covid-19. An exceptional charge of £30 million has been recognised, as described in the related key audit matter above.

In addition, management's way of working, including the operation of controls, has been impacted by Covid-19 as a result of a large number of staff working remotely. For example, this has meant virtual review meetings replaced in-person meetings and certain planned inventory counts were performed before or after the year end. There is inevitably an increase in risk due the remote accessing of IT systems, and potentially heightened cyber risk.

We validated that the cash flow forecast models used across the goodwill impairment, going concern and viability assessments were consistent.

Our procedures in respect of the goodwill and indefinite-lived intangible asset impairment assessments are covered in the related key audit matter above.

Our procedures in respect of the tangible fixed asset impairment assessments are covered in the exceptionals key audit matter above.

Our procedures in respect of the company's investments in subsidiary undertakings are covered in the related key audit matter above.

With respect to management's going concern assessment, we:

– Evaluated management's base case and downside scenarios, challenging the key assumptions;
– Considered the group's available financing and maturity profile to assess liquidity through the assessment period;
– Tested the mathematical integrity of the forecasts and the models and reconciled these to Board approved budgets;
– Performed our own independent sensitivity analysis to assess further appropriate downside scenarios; and
– We assessed the reasonableness of management's planned or potential mitigating actions.

Our conclusions in respect of going concern are set out separately within this report.

Our procedures in respect of Diageo's 'Raising the Bar' programme and obsolete inventories are covered in the exceptionals key audit matter above.

We performed additional procedures to assess any control implications arising from the impact of Covid-19, including inquiries with respect to the operation of IT and business process controls, and whether there has been any impact on the group given the heightened cyber risk. We performed a detailed assessment of the policies and procedures that management has in place to mitigate cyber risk exposure. We also instructed our component teams to perform additional procedures to understand if there were any changes to management's planned operation of controls or monitoring activities.

Based on the inquiries performed and the results of our audit procedures, we did not identify any evidence of material deterioration in the control environment.

We increased the frequency and extent of our oversight over component audit teams, using video conferencing and remote working paper reviews, to satisfy ourselves as to the appropriateness of audit work performed at significant and material components.

With respect to inventory counts, where management did not perform counts at the year end date, we performed counts at different dates and performed additional procedures to roll the results back or forward to 30 June 2020. For inventory counts at certain locations we attended virtually using a live video feed and were able to obtain the level of evidence and support that we required.

We considered the appropriateness of management disclosures in the financial statements in respect of the impact of the current environment and the increased uncertainty on certain accounting estimates and consider these to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group operates as 18 geographically based markets across five regions, together with supply and corporate functions. These markets report through a significant number of individual reporting components, which are supported by the group's five principal shared service centres in Hungary, Kenya, Colombia, the Philippines and India. The outputs from these shared service centres are included in the financial information of the reporting components they service, and therefore are not separate reporting components. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at reporting components by us, as the group engagement team, or component auditors from either other PwC network firms or the non-PwC firm operating under our instruction. This included consideration of the procedures required to be performed by our audit teams at the group's shared service centres to support our component auditors.

We identified one reporting component which, in our view, required an audit of its complete financial information, due to its significance to the group. This reporting component was North America. A further 14 reporting components had an audit of their complete financial information, either due to their size or their risk characteristics, which included nine operating, two corporate and three treasury reporting components. We audited specific balances and transactions at a further nine reporting components, and obtained reporting over the financial information of Moët Hennessy, the group's principal associate, from its auditor, primarily to ensure appropriate audit coverage. The work performed at each of the five shared services centres, including testing of transaction processing and controls, supported the financial information of the reporting components they service.

Certain specific audit procedures over central corporate functions and areas of significant judgement, including goodwill and intangible assets, business combinations, taxation, and material provisions and contingent liabilities, were performed at the group's head office. We also performed work centrally on systems and IT general controls, consolidation journals and one-off transactions undertaken by the group during the year.

Together, the central and component locations at which work was performed by the group engagement team and component auditors accounted for 75% of group net sales, 90% of group total assets, and 74% of group profit before tax and exceptional items, with work performed by the group engagement team over all exceptional items, as listed in note 4 to the consolidated financial statements. At the group level, we also carried out analytical and other procedures on the reporting components not covered by the procedures described above.

Where the work was performed by component auditors, including by our shared service centre auditors, we determined the level of involvement we needed to have in the audit work at those locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. We issued formal, written instructions to component auditors setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle. These interactions included attending component clearance video conference calls and holding regular conference calls, as well as reviewing and assessing matters reported.

Due to the current restrictions on travel and social distancing measures, enacted as a response to global pandemic, the group engagement leader and senior members of the group engagement team used video conferencing to oversee the component auditor work and had video discussions with management of the 15 component locations (in nine countries) in scope for an audit of their complete financial information, as well as four of the shared centre locations and nine of the components (four countries) where audits of specific balances and transactions took place. Senior team members also attended via video conference the clearance meetings for certain components, including North America and India. During the clearance meetings, the findings reported by all component teams were discussed. The group engagement team also evaluated the sufficiency of the audit evidence obtained through discussions with, and remote review of the audit working papers of, component teams.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£191 million (2019: £209 million).	£299 million (2019: £93 million). For the purposes of the audit of the group financial statements, we applied a lower materiality of £26 million (2019 - £24 million) to all balances and transactions, other than those which were eliminated on consolidation in the group financial statements.
How we determined it	5% of three-year weighted average profit before taxation and exceptional items (as defined in note 4 to the group financial statements). In the prior year, materiality was calculated using 5% of profit before taxation and exceptional items for the year ended 30 June 2019.	Materiality of £299 million for the company financial statements was based on 0.5% of net assets. Our lower materiality of £26 million for the line items set out above was based on our calculation and allocation of component materiality for the group audit.

Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax and exceptionals is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark. As a result of the Covid-19 pandemic, the results of the business for the year ended 30 June 2020 were impacted, however the overall size of the business, both geographically and in terms of products, did not reduce. In these situations, auditing standards allow for the use of an average of the current and prior periods to appropriately reflect the size of the business.	Balances and transactions that eliminate upon consolidation were audited to a higher materiality. We consider a net asset measure to reflect the nature of the company, which primarily acts as a holding company for the group's investments and holds certain liabilities on the balance sheet. The results of procedures performed over balances and transactions contributing to the group's overall results were used to support our group opinion

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £9.5 million and £130 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to it misstatements identified during our audit above £9.5 million (group audit) (2019: £10 million) and £9.5 million (company audit) (2019: £10 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 30 June 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group
We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 79 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 41 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether 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 of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions
We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 80, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 81 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration
In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Responsibility Statement set out on page 80, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 15 October 2015 to audit the financial statements for the year ended 30 June 2016 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 30 June 2016 to 30 June 2020.

Ian Chambers (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 August 2020

Consolidated income statement

	Notes	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million	Year ended 30 June 2018 £ million
Sales	2	**17,697**	19,294	18,432
Excise duties	3	**(5,945)**	(6,427)	(6,269)
Net sales	2	**11,752**	12,867	12,163
Cost of sales	3	**(4,654)**	(4,866)	(4,634)
Gross profit		**7,098**	8,001	7,529
Marketing	3	**(1,841)**	(2,042)	(1,882)
Other operating items	3	**(3,120)**	(1,917)	(1,956)
Operating profit		**2,137**	4,042	3,691
Non-operating items	4	**(23)**	144	–
Finance income	5	**366**	442	243
Finance charges	5	**(719)**	(705)	(503)
Share of after tax results of associates and joint ventures	6	**282**	312	309
Profit before taxation		**2,043**	4,235	3,740
Taxation	7	**(589)**	(898)	(596)
Profit for the year		**1,454**	3,337	3,144
Attributable to:				
Equity shareholders of the parent company		**1,409**	3,160	3,022
Non-controlling interests		**45**	177	122
		1,454	3,337	3,144

Weighted average number of shares	**million**	million	million
Shares in issue excluding own shares	**2,346**	2,418	2,484
Dilutive potential ordinary shares	**8**	10	11
	2,354	2,428	2,495

	pence	pence	pence
Basic earnings per share	**60.1**	130.7	121.7
Diluted earnings per share	**59.9**	130.1	121.1

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million	Year ended 30 June 2018 £ million
Other comprehensive income			
Items that will not be recycled subsequently to the income statement			
Net remeasurement of post employment plans			
Group	**38**	33	456
Associates and joint ventures	**(14)**	2	2
Non-controlling interests	**–**	–	1
Tax on post employment plans	**(21)**	1	(91)
	3	36	368
Items that may be recycled subsequently to the income statement			
Exchange differences on translation of foreign operations			
Group	**(104)**	274	(631)
Associates and joint ventures	**82**	19	3
Non-controlling interests	**(37)**	55	(72)
Net investment hedges	**(227)**	(93)	91
Exchange loss recycled to the income statement			
On translation of foreign operations	**4**	–	–
Tax on exchange differences – group	**4**	(19)	7
Tax on exchange differences – non-controlling interests	**–**	–	2
Effective portion of changes in fair value of cash flow hedges			
Hedge of foreign currency debt of the group	**221**	180	(64)
Transaction exposure hedging of the group	**(43)**	(86)	22
Hedges by associates and joint ventures	**6**	(6)	(15)
Commodity price risk hedging of the group	**(11)**	(9)	–
Recycled to income statement – hedge of foreign currency debt of the group	**(75)**	(82)	6
Recycled to income statement – transaction exposure hedging of the group	**42**	45	(7)
Recycled to income statement – commodity price risk hedging of the group	**8**	–	–
Tax on effective portion of changes in fair value of cash flow hedges	**(23)**	(11)	14
Hyperinflation adjustment	**(18)**	(22)	11
Tax on hyperinflation adjustment	**4**	6	(11)
	(167)	251	(644)
Other comprehensive (loss)/profit, net of tax, for the year	**(164)**	287	(276)
Profit for the year	**1,454**	3,337	3,144
Total comprehensive income for the year	**1,290**	3,624	2,868
Attributable to:			
Equity shareholders of the parent company	**1,282**	3,392	2,815
Non-controlling interests	**8**	232	53
Total comprehensive income for the year	**1,290**	3,624	2,868

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

	Notes	30 June 2020 £ million	30 June 2020 £ million	30 June 2019 £ million	30 June 2019 £ million
Non-current assets					
Intangible assets	9	**11,300**		12,557	
Property, plant and equipment	10	**4,926**		4,455	
Biological assets		**51**		34	
Investments in associates and joint ventures	6	**3,557**		3,173	
Other investments	12	**41**		49	
Other receivables	14	**46**		53	
Other financial assets	15	**686**		404	
Deferred tax assets	7	**119**		138	
Post employment benefit assets	13	**1,111**		1,060	
			21,837		21,923
Current assets					
Inventories	14	**5,772**		5,472	
Trade and other receivables	14	**2,111**		2,694	
Corporate tax receivable	7	**190**		83	
Assets held for sale		**–**		65	
Other financial assets	15	**75**		127	
Cash and cash equivalents	16	**3,323**		932	
			11,471		9,373
Total assets			**33,308**		31,296
Current liabilities					
Borrowings and bank overdrafts	16	**(1,995)**		(1,959)	
Other financial liabilities	15	**(389)**		(307)	
Share buyback liability	17	**–**		(26)	
Trade and other payables	14	**(3,683)**		(4,202)	
Liabilities held for sale		**–**		(32)	
Corporate tax payable	7	**(246)**		(378)	
Provisions	14	**(183)**		(99)	
			(6,496)		(7,003)
Non-current liabilities					
Borrowings	16	**(14,790)**		(10,596)	
Other financial liabilities	15	**(393)**		(124)	
Other payables	14	**(175)**		(222)	
Provisions	14	**(293)**		(317)	
Deferred tax liabilities	7	**(1,972)**		(2,032)	
Post employment benefit liabilities	13	**(749)**		(846)	
			(18,372)		(14,137)
Total liabilities			**(24,868)**		(21,140)
Net assets			**8,440**		10,156
Equity					
Share capital	17	**742**		753	
Share premium		**1,351**		1,350	
Other reserves		**2,272**		2,372	
Retained earnings		**2,407**		3,886	
Equity attributable to equity shareholders of the parent company			**6,772**		8,361
Non-controlling interests	17		**1,668**		1,795
Total equity			**8,440**		10,156

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements have been approved by a duly appointed and authorised committee of the Board of Directors and were signed on 4 August 2020 on its behalf by Ivan Menezes and Kathryn Mikells, Directors.

Consolidated statement of changes in equity

			Other reserves		Retained earnings/(deficit)					
	Share capital £ million	Share premium £ million	Capital redemption reserve £ million	Hedging and exchange reserve £ million	Own shares £ million	Other retained earnings £ million	Total £ million	Equity attributable to parent company shareholders £ million	Non-controlling interests £ million	Total equity £ million
At 30 June 2017	797	1,348	3,146	(453)	(2,176)	7,651	5,475	10,313	1,715	12,028
Adoption of IFRS 15	–	–	–	–	–	(89)	(89)	(89)	(2)	(91)
Adoption of IFRS 9 by associate	–	–	–	(3)	–	3	3	–	–	–
Profit for the year	–	–	–	–	–	3,022	3,022	3,022	122	3,144
Other comprehensive (loss)/income	–	–	–	(574)	–	367	367	(207)	(69)	(276)
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**(574)**	**–**	**3,389**	**3,389**	**2,815**	**53**	**2,868**
Employee share schemes	–	–	–	–	32	(7)	25	25	–	25
Share-based incentive plans	–	–	–	–	–	39	39	39	–	39
Share-based incentive plans in respect of associates	–	–	–	–	–	4	4	4	–	4
Tax on share-based incentive plans	–	–	–	–	–	(2)	(2)	(2)	–	(2)
Shares issued	–	1	–	–	–	–	–	1	–	1
Purchase of non-controlling interests	–	–	–	–	–	(72)	(72)	(72)	70	(2)
Disposal of non-controlling interests	–	–	–	–	–	–	–	–	(1)	(1)
Purchase of right issue of non-controlling interests	–	–	–	–	–	(5)	(5)	(5)	31	26
Change in fair value of put option	–	–	–	–	–	7	7	7	–	7
Share buyback programme	(17)	–	17	–	–	(1,507)	(1,507)	(1,507)	–	(1,507)
Dividends paid	–	–	–	–	–	(1,581)	(1,581)	(1,581)	(101)	(1,682)
At 30 June 2018	780	1,349	3,163	(1,030)	(2,144)	7,830	5,686	9,948	1,765	11,713
Profit for the year	–	–	–	–	–	3,160	3,160	3,160	177	3,337
Other comprehensive income	–	–	–	212	–	20	20	232	55	287
Total comprehensive income for the year	**–**	**–**	**–**	**212**	**–**	**3,180**	**3,180**	**3,392**	**232**	**3,624**
Employee share schemes	–	–	–	–	118	(49)	69	69	–	69
Share-based incentive plans	–	–	–	–	–	49	49	49	–	49
Share-based incentive plans in respect of associates	–	–	–	–	–	3	3	3	–	3
Tax on share-based incentive plans	–	–	–	–	–	20	20	20	–	20
Shares issued	–	1	–	–	–	–	–	1	–	1
Purchase of non-controlling interests (note 8)	–	–	–	–	–	(694)	(694)	(694)	(90)	(784)
Non-controlling interest in respect of new subsidiary	–	–	–	–	–	–	–	–	2	2
Change in fair value of put option	–	–	–	–	–	(3)	(3)	(3)	–	(3)
Share buyback programme	(27)	–	27	–	–	(2,801)	(2,801)	(2,801)	–	(2,801)
Dividends paid	–	–	–	–	–	(1,623)	(1,623)	(1,623)	(114)	(1,737)
At 30 June 2019	**753**	**1,350**	**3,190**	**(818)**	**(2,026)**	**5,912**	**3,886**	**8,361**	**1,795**	**10,156**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**1,409**	**1,409**	**1,409**	**45**	**1,454**
Other comprehensive loss	**–**	**–**	**–**	**(116)**	**–**	**(11)**	**(11)**	**(127)**	**(37)**	**(164)**
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**(116)**	**–**	**1,398**	**1,398**	**1,282**	**8**	**1,290**
Employee share schemes	**–**	**–**	**–**	**–**	**90**	**(36)**	**54**	**54**	**–**	**54**
Share-based incentive plans	**–**	**–**	**–**	**–**	**–**	**2**	**2**	**2**	**–**	**2**
Share-based incentive plans in respect of associates	**–**	**–**	**–**	**–**	**–**	**4**	**4**	**4**	**–**	**4**
Tax on share-based incentive plans	**–**	**–**	**–**	**–**	**–**	**1**	**1**	**1**	**–**	**1**
Share based payments and purchase of treasury shares in respect of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**(1)**	**–**	**(1)**
Shares issued	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Transfers	**–**	**–**	**–**	**5**	**–**	**(5)**	**(5)**	**–**	**–**	**–**
Purchase of non-controlling interests (note 8)	**–**	**–**	**–**	**–**	**–**	**(39)**	**(39)**	**(39)**	**(23)**	**(62)**
Non-controlling interest in respect of new subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Change in fair value of put option	**–**	**–**	**–**	**–**	**–**	**9**	**9**	**9**	**–**	**9**
Share buyback programme	**(11)**	**–**	**11**	**–**	**–**	**(1,256)**	**(1,256)**	**(1,256)**	**–**	**(1,256)**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**(1,646)**	**(1,646)**	**(1,646)**	**(117)**	**(1,763)**
At 30 June 2020	**742**	**1,351**	**3,201**	**(929)**	**(1,936)**	**4,343**	**2,407**	**6,772**	**1,668**	**8,440**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Notes	Year ended 30 June 2020 £ million	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million	Year ended 30 June 2019 £ million	Year ended 30 June 2018 £ million	Year ended 30 June 2018 £ million
Cash flows from operating activities							
Profit for the year		**1,454**		3,337		3,144	
Taxation		**589**		898		596	
Share of after tax results of associates and joint ventures		**(282)**		(312)		(309)	
Net finance charges		**353**		263		260	
Non-operating items		**23**		(144)		–	
Operating profit			**2,137**		4,042		3,691
Increase in inventories		**(366)**		(434)		(271)	
Decrease/(increase) in trade and other receivables		**523**		11		(202)	
(Decrease)/increase in trade and other payables and provisions		**(485)**		201		314	
Net increase in working capital			**(328)**		(222)		(159)
Depreciation, amortisation and impairment		**1,839**		374		493	
Dividends received		**4**		168		159	
Post employment payments less amounts included in operating profit		**(109)**		(121)		(108)	
Other items		**(14)**		64		10	
			1,720		485		554
Cash generated from operations			**3,529**		4,305		4,086
Interest received		**185**		216		167	
Interest paid		**(493)**		(468)		(418)	
Taxation paid		**(901)**		(805)		(751)	
			(1,209)		(1,057)		(1,002)
Net cash inflow from operating activities			**2,320**		3,248		3,084
Cash flows from investing activities							
Disposal of property, plant and equipment and computer software		**14**		32		40	
Purchase of property, plant and equipment and computer software		**(700)**		(671)		(584)	
Movements in loans and other investments		**–**		(1)		(17)	
Sale of businesses and brands	8	**11**		426		4	
Acquisition of businesses	8	**(130)**		(56)		(594)	
Net cash outflow from investing activities			**(805)**		(270)		(1,151)
Cash flows from financing activities							
Share buyback programme	17	**(1,282)**		(2,775)		(1,507)	
Proceeds from issue of share capital		**1**		1		1	
Net sale of own shares for share schemes		**54**		50		8	
Dividends paid to non-controlling interests		**(111)**		(112)		(80)	
Purchase of shares of non-controlling interests	8	**(62)**		(784)		–	
Rights issue proceeds from non-controlling interests		**–**		–		26	
Proceeds from bonds	16	**5,188**		2,766		2,612	
Repayment of bonds	16	**(820)**		(1,168)		(1,571)	
Net movements in other borrowings		**(285)**		721		(26)	
Equity dividends paid	17	**(1,646)**		(1,623)		(1,581)	
Net cash inflow/(outflow) from financing activities			**1,037**		(2,924)		(2,118)
Net increase/(decrease) in net cash and cash equivalents	16		**2,552**		54		(185)
Exchange differences			**(120)**		(26)		(39)
Net cash and cash equivalents at beginning of the year			**721**		693		917
Net cash and cash equivalents at end of the year			**3,153**		721		693
Net cash and cash equivalents consist of:							
Cash and cash equivalents	16		**3,323**		932		874
Bank overdrafts	16		**(170)**		(211)		(181)
			3,153		721		693

The accompanying notes are an integral part of these consolidated financial statements.

Accounting information and policies

Introduction

This section describes the basis of preparation of the consolidated financial statements and the group's accounting policies that are applicable to the financial statements as a whole. Accounting policies, critical accounting estimates and judgements that are specific to a note are included in the note to which they relate. This section also explains new accounting standards, amendments and interpretations, that the group has adopted in the current financial year or will adopt in subsequent years.

1. Accounting information and policies

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRS) and related interpretations as adopted for use in the European Union (EU) and as issued by the International Accounting Standards Board (IASB). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. The differences have no impact on the group's consolidated financial statements for the years presented. The consolidated financial statements are prepared on a going concern basis under the historical cost convention, unless stated otherwise in the relevant accounting policy.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(b) Going concern

The potential financial impact of the Covid-19 pandemic has been modelled in our cash flow projections and stress tested by including several severe but plausible downside scenarios which are linked to our principal risks. In our downside Covid-19 scenario, we have considered the key impacts of the pandemic for each region including the potential restrictions on the sale of our products in both on-trade and off-trade channels. We have then considered the expected duration of those restrictions, as well as a forecast for the length of time to recovery (a return to 2019 volumes), based on industry projections. As a result of these factors, in our severe but plausible scenarios, we do not anticipate that the on-trade business recovers to volumes experienced in the year ending 30 June 2019 within the next 18 month period. Even with these negative sensitivities for each region taken into account, the group's cash position is still considered to remain strong, as we have protected our liquidity by increasing the level of committed facilities and accelerating certain bond issuance programmes. Mitigating actions, should they be required, are all within management's control and could include reduced advertising and promotion spend, dividend cash payments, non-essential overheads and non-committed capital expenditure in the next 12 months. Having considered the outcome of these assessments, it is deemed appropriate to prepare the consolidated financial statements on a going concern basis.

(c) Consolidation

The consolidated financial statements include the results of the company and its subsidiaries together with the group's attributable share of the results of associates and joint ventures. A subsidiary is an entity controlled by Diageo plc. The group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where the group has the ability to exercise joint control over an entity but has rights to specified assets and obligations for liabilities of that entity, the entity is included on the basis of the group's rights over those assets and liabilities.

(d) Foreign currencies

Items included in the financial statements of the group's subsidiaries, associates and joint ventures are measured using the currency of the primary economic environment in which each entity operates (its functional currency). The consolidated financial statements are presented in sterling, which is the functional currency of the parent company.

The income statements and cash flows of non-sterling entities are translated into sterling at weighted average rates of exchange, other than substantial transactions that are translated at the rate on the date of the transaction. Exchange differences arising on the retranslation to closing rates are taken to the exchange reserve.

Assets and liabilities are translated at closing rates. Exchange differences arising on the retranslation at closing rates of the opening balance sheets of overseas entities are taken to the exchange reserve, as are exchange differences arising on foreign currency borrowings and financial instruments designated as net investment hedges, to the extent that they are effective. Tax charges and credits arising on such items are also taken to the exchange reserve. Gains and losses accumulated in the exchange reserve are recycled to the income statement when the foreign operation is sold. Other exchange differences are taken to the income statement. Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction.

The principal foreign exchange rates used in the translation of financial statements for the three years ended 30 June 2020, expressed in US dollars and euros per £1, were as follows:

	2020	2019	2018
US dollar			
Income statement and cash flows(i)	**1.26**	1.29	1.35
Assets and liabilities(ii)	**1.23**	1.27	1.32
Euro			
Income statement and cash flows(i)	**1.14**	1.13	1.13
Assets and liabilities(ii)	**1.09**	1.12	1.13

(i) Weighted average rates
(ii) Year end rates

The group uses foreign exchange hedges to mitigate the effect of exchange rate movements. For further information see note 15.

(e) Critical accounting estimates and judgements

Details of critical estimates and judgements which the directors consider could have a significant impact upon the financial statements are set out in the related notes as follows:

- Exceptional items – management judgement whether exceptional or not – page 130
- Taxation – management judgement of whether a provision is required and management estimate of amount of corporate tax payable or receivable, the recoverability of deferred tax assets and expectation on manner of recovery of deferred taxes – pages 133 and 163
- Brands, goodwill and other intangibles – management judgement of the assets to be recognised and synergies resulting from an acquisition. Management judgement and estimate are required in determining future cash flows and appropriate applicable assumptions to support the intangible asset value – page 138
- Post employment benefits – management judgement in determining whether a surplus can be recovered and management estimate in determining the assumptions in calculating the liabilities of the funds – page 145
- Contingent liabilities and legal proceedings – management judgement in assessing the likelihood of whether a liability will arise and an estimate to quantify the possible range of any settlement and significant unprovided tax matters where maximum exposure is provided for each – page 163

Venezuela is a hyper-inflationary economy where the government maintains a regime of strict currency controls with multiple foreign currency rate systems. Access to US dollars on these exchange systems is very limited. The foreign currency denominated transactions and balances of the group's Venezuelan operations are translated into the local functional currency (Venezuelan bolivar) at the rate they are expected to be settled, applying the most appropriate official exchange rate (DICOM). For consolidation purposes, the group converts its Venezuelan operations using management's estimate of the exchange rate considering forecast inflation and the most appropriate official exchange rate. The exchange rate used to translate the results of the group's Venezuelan operations was VES/£ 10,024,865 for the year ended 30 June 2020 (2019 – VES/£ 403,700). Movement in the price index for the year ended 30 June 2020 was 2,464% (2019 – 1,087,262%). The inflation rate used by the group is provided by an independent valuer, because no reliable, official published rate is available that is representative of the situation in Venezuela.

The following table presents the contribution of the group's Venezuelan operations to the consolidated income statement, cash flow statement and net assets for the year ended 30 June 2020 and 30 June 2019 and with the amounts that would have resulted if the official DICOM exchange rate had been applied:

	Year ended 30 June 2020		Year ended 30 June 2019	
	At estimated exchange rate 10,024,865 VES/£ £ million	**At DICOM exchange rate 252,558 VES/£ £ million**	At estimated exchange rate 403,700 VES/£ £ million	At DICOM exchange rate 8,553 VES/£ £ million
Net sales	**–**	**3**	–	3
Operating profit	**–**	**10**	–	2
Other finance income – hyperinflation adjustment	**6**	**222**	10	455
Net cash inflow from operating activities	**–**	**6**	–	5
Net assets	**48**	**1,893**	56	2,643

(f) New accounting standards and interpretations

The following amendments to the accounting standards, issued by the IASB which have been endorsed by the EU, have been adopted by the group from 1 July 2019 with no impact on the group's consolidated results, financial position or disclosures:

- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation
- Improvements to IFRS 3 and IFRS 11 – Business combinations and Joint arrangements – Accounting for previously held interests
- Improvements to IAS 12 – Income taxes – Accounting for income tax consequences of payments on financial instruments that are classified as equity
- Improvements to IAS 23 – Borrowing costs on completed qualifying assets

The following amendments and standards issued by the IASB which have been endorsed by the EU, have been adopted by the group:

IFRS 15 – Revenue from contracts with customers. The group adopted IFRS 15 from 1 July 2017 by applying the modified retrospective transition method, recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the balance of retained earnings as at 1 July 2017. Retained earnings for the year ended 30 June 2017 was not restated.

IFRS 16 – Leases. The group adopted IFRS 16 from 1 July 2019 by applying the modified retrospective method, meaning that the figures, as at, and for the years ended 30 June 2018 and 2019 have not been restated. IFRS 16 replaced existing lease guidance including IAS 17 – Leases, IFRIC 4, SIC-15 and SIC-27. Information in respect of the adoption of IFRS 16 is included in note 11.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement. The amendment requires the remeasurement of service cost and interest charge for the rest of the period following plan amendments, settlements and curtailments using actuarial assumptions prevailing at the date of these events. The amendment is applicable to Diageo from 1 July 2019 on a prospective basis and has resulted in an additional service cost of £1 million following the remeasurement of the Irish Scheme.

The following amendment and standard, issued by the IASB has not been adopted by the group:

IFRS 17 – Insurance contracts (effective in the year ending 30 June 2022) is ultimately intended to replace IFRS 4.

Based on a preliminary assessment the group believes that the adoption of IFRS 17 will not have a significant impact on its consolidated results or financial position.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform (phase 1). The amendment provides temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by interbank offered rate (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate.

There are a number of other amendments and clarifications to IFRS, effective in future years, which are not expected to significantly impact the group's consolidated results or financial position.

Results for the year

Introduction

This section explains the results and performance of the group for the three years ended 30 June 2020. Disclosures are provided for segmental information, operating costs, exceptional items, finance income and charges, the group's share of results of associates and joint ventures, taxation. For associates, joint ventures and taxation, balance sheet disclosures are also provided in this section.

2. Segmental information

Accounting policies

Sales comprise revenue from contracts with customers from the sale of goods, royalties and rents receivable. Revenue from the sale of goods includes excise and other duties which the group pays as principal but excludes duties and taxes collected on behalf of third parties, such as value added tax. Sales are recognised as or when performance obligations are satisfied by transferring control of a good or service to the customer, which is determined considering, among other factors, the delivery terms agreed with customers. For the sale of goods the transfer of control occurs, when the significant risks and rewards of ownership are passed to the customer. Based on the shipping terms agreed with customers, the transfer of control of goods occurs at the time of dispatch for the majority of sales. Where the transfer of control is subsequent to the dispatch of goods, the time between dispatch and receipt by the customer is generally less than 5 days. The group includes in sales the net consideration to which it expects to be entitled. Sales are recognised to the extent that it is highly probable that a significant reversal will not occur. Therefore, sales are stated net of expected price discounts, allowances for customer loyalty and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing.

Net sales are sales less excise duties. Diageo incurs excise duties throughout the world. In the majority of countries excise duties are effectively a production tax which becomes payable when the product is removed from bonded premises and is not directly related to the value of sales. It is generally not included as a separate item on external invoices; increases in excise duty are not always passed on to the customer and where a customer fails to pay for products received the group cannot reclaim the excise duty. The group therefore recognises excise duty, unless it regards itself as an agent of the regulatory authorities, as a cost to the group.

Advertising costs, point of sale materials and sponsorship payments are charged to marketing in operating profit when the company has a right of access to the goods or services acquired.

Diageo is an international manufacturer and distributor of premium drinks. Diageo also owns a number of investments in associates and joint ventures as set out in note 6.

The segmental information presented is consistent with management reporting provided to the Executive Committee (the chief operating decision maker).

The Executive Committee considers the business principally from a geographical perspective based on the location of third party sales and the business analysis is presented by geographical segment. In addition to these geographical selling segments, a further segment reviewed by the Executive Committee is the International Supply Centre (ISC), which manufactures products for other group companies and includes the production sites in the United Kingdom, Ireland, Italy, Guatemala and Mexico.

Continuing operations also include the Corporate function. Corporate revenues and costs are in respect of central costs, including finance, marketing, corporate relations, human resources and legal, as well as certain information systems, facilities and employee costs that are not allocable to the geographical segments or to the ISC. They also include rents receivable and payable in respect of properties not used by the group in the manufacture, sale or distribution of premium drinks.

Diageo uses shared services operations to deliver transaction processing activities for markets and operational entities. These centres are located in Hungary, Kenya, Colombia, the Philippines and India. The captive business service centers in Budapest and Bangalore also perform certain central finance activities, including elements of financial planning and reporting and treasury. The costs of shared service operations are recharged to the regions.

As part of the annual planning process a budget exchange rate is set each year equal to the prior year's weighted average rate. This rate is used for management reporting purposes and, in order to ensure a consistent basis on which performance is measured through the year, the prior period results are restated to the budget rate as well. Segmental information for net sales and operating profit before exceptionals are reported on a consistent basis with our management reporting. The adjustments required to retranslate the segmental information to actual exchange rates and to reconcile it to the group's reported results are shown in the tables below. The comparative segmental information, prior to retranslation, has not been restated at the current year's budgeted exchange rates but is presented at the budgeted rates for the respective year.

In addition, for management reporting purposes Diageo presents separately the results of acquisitions and disposals completed in the current and prior year from the results of the geographical segments. The impact of acquisitions and disposals on net sales and operating profit is disclosed under the appropriate geographical segments in the following tables at budgeted exchange rates.

(a) Segmental information for the consolidated income statement

2020	North America £ million	Europe and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	ISC £ million	Eliminate inter-segment sales £ million	Total operating segments £ million	Corporate and other £ million	Total £ million
Sales	**5,222**	**4,697**	**1,911**	**1,184**	**4,645**	**1,343**	**(1,343)**	**17,659**	**38**	**17,697**
Net sales										
At budgeted exchange rates(i)	**4,445**	**2,501**	**1,300**	**944**	**2,253**	**1,439**	**(1,341)**	**11,541**	**38**	**11,579**
Acquisitions and disposals	**32**	**10**	**50**	**–**	**1**	**–**	**–**	**93**	**–**	**93**
ISC allocation	**11**	**60**	**4**	**10**	**12**	**(98)**	**–**	**(1)**	**1**	**–**
Retranslation to actual exchange rates	**135**	**(4)**	**(8)**	**(46)**	**4**	**2**	**(2)**	**81**	**(1)**	**80**
Net sales	**4,623**	**2,567**	**1,346**	**908**	**2,270**	**1,343**	**(1,343)**	**11,714**	**38**	**11,752**
Operating profit/(loss)										
At budgeted exchange rates(i)	**2,007**	**730**	**116**	**254**	**498**	**45**	**–**	**3,650**	**(152)**	**3,498**
Acquisitions and disposals	**(1)**	**(4)**	**–**	**–**	**–**	**–**	**–**	**(5)**	**–**	**(5)**
ISC allocation	**6**	**26**	**2**	**5**	**6**	**(45)**	**–**	**–**	**–**	**–**
Fair value remeasurement of contingent consideration	**(10)**	**(4)**	**–**	**7**	**–**	**–**	**–**	**(7)**	**–**	**(7)**
Fair value remeasurement of biological assets	**–**	**–**	**–**	**9**	**–**	**–**	**–**	**9**	**–**	**9**
Retranslation to actual exchange rates	**32**	**9**	**(17)**	**(27)**	**(3)**	**–**	**–**	**(6)**	**5**	**(1)**
Operating profit/(loss) before exceptional items	**2,034**	**757**	**101**	**248**	**501**	**–**	**–**	**3,641**	**(147)**	**3,494**
Exceptional items	**54**	**(62)**	**(145)**	**(6)**	**(1,198)**	**–**	**–**	**(1,357)**	**–**	**(1,357)**
Operating profit/(loss)	**2,088**	**695**	**(44)**	**242**	**(697)**	**–**	**–**	**2,284**	**(147)**	**2,137**
Non-operating items										**(23)**
Net finance charges										**(353)**
Share of after tax results of associates and joint ventures										
Moët Hennessy										**285**
Other										**(3)**
Profit before taxation										**2,043**

2019	North America £ million	Europe and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	ISC £ million	Eliminate inter-segment sales £ million	Total operating segments £ million	Corporate and other £ million	Total £ million
Sales	5,074	5,132	2,235	1,444	5,356	1,739	(1,739)	19,241	53	19,294
Net sales										
At budgeted exchange rates(i)	4,034	2,951	1,529	1,095	2,656	1,843	(1,738)	12,370	54	12,424
Acquisitions and disposals	88	1	1	1	1	–	–	92	–	92
ISC allocation	11	63	5	15	11	(105)	–	–	–	–
Retranslation to actual exchange rates	327	(76)	62	19	20	1	(1)	352	(1)	351
Net sales	4,460	2,939	1,597	1,130	2,688	1,739	(1,739)	12,814	53	12,867
Operating profit/(loss)										
At budgeted exchange rates(i)	1,755	972	257	312	671	139	–	4,106	(186)	3,920
Acquisitions and disposals	29	(1)	–	–	–	–	–	28	–	28
ISC allocation	13	72	6	32	16	(139)	–	–	–	–
Retranslation to actual exchange rates	151	(29)	12	21	16	–	–	171	(3)	168
Operating profit/(loss) before exceptional items	1,948	1,014	275	365	703	–	–	4,305	(189)	4,116
Exceptional items	–	(18)	–	–	(35)	–	–	(53)	(21)	(74)
Operating profit/(loss)	1,948	996	275	365	668	–	–	4,252	(210)	4,042
Non-operating items										144
Net finance charges										(263)
Share of after tax results of associates and joint ventures										
Moët Hennessy										310
Other										2
Profit before taxation										4,235

2018	North America £ million	Europe and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	ISC £ million	Eliminate inter-segment sales £ million	Total operating segments £ million	Corporate and other £ million	Total £ million
Sales	4,671	5,232	2,083	1,352	5,042	1,457	(1,457)	18,380	52	18,432
Net sales										
At budgeted exchange rates(i)	4,138	2,821	1,467	1,064	2,555	1,512	(1,425)	12,132	48	12,180
Acquisitions and disposals	50	–	–	–	–	–	–	50	–	50
ISC allocation	11	53	4	11	8	(87)	–	–	–	–
Retranslation to actual exchange rates	(83)	58	20	(6)	(60)	32	(32)	(71)	4	(67)
Net sales	4,116	2,932	1,491	1,069	2,503	1,457	(1,457)	12,111	52	12,163
Operating profit/(loss)										
At budgeted exchange rates(i)	1,925	941	180	298	588	112	–	4,044	(160)	3,884
Acquisitions and disposals	4	–	–	–	–	–	–	4	–	4
ISC allocation	14	67	5	14	12	(112)	–	–	–	–
Retranslation to actual exchange rates	(61)	20	6	(4)	(32)	–	–	(71)	2	(69)
Operating profit/(loss) before exceptional items	1,882	1,028	191	308	568	–	–	3,977	(158)	3,819
Exceptional items	–	–	(128)	–	–	–	–	(128)	–	(128)
Operating profit/(loss)	1,882	1,028	63	308	568	–	–	3,849	(158)	3,691
Non-operating items										–
Net finance charges										(260)
Share of after tax results of associates and joint ventures										
Moët Hennessy										305
Other										4
Profit before taxation										3,740

(i) These items represent the IFRS 8 performance measures for the geographical and ISC segments.

(1) The net sales figures for ISC reported to the Executive Committee primarily comprise inter-segment sales and these are eliminated in a separate column in the above segmental analysis. Apart from sales by the ISC segment to the other operating segments, inter-segmental sales are not material.

(2) The group's net finance charges are managed centrally and are not attributable to individual operating segments.

(3) Approximately 45% of annual net sales occurred in the last four months of the calendar year 2019.

(b) Other segmental information

	North America £ million	Europe and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	ISC £ million	Corporate and other £ million	Total £ million
2020								
Capital expenditure	**145**	**24**	**128**	**48**	**59**	**191**	**105**	**700**
Depreciation and intangible asset amortisation	**(68)**	**(37)**	**(103)**	**(21)**	**(59)**	**(119)**	**(73)**	**(480)**
Underlying impairment	**–**	**(7)**	**–**	**(7)**	**–**	**–**	**–**	**(14)**
Exceptional impairment of tangible assets	**–**	**–**	**(139)**	**–**	**(1)**	**–**	**–**	**(140)**
Exceptional impairment of intangible assets	**–**	**–**	**–**	**–**	**(1,205)**	**–**	**–**	**(1,205)**
2019								
Capital expenditure	150	32	160	48	40	197	44	671
Depreciation and intangible asset amortisation	(51)	(18)	(81)	(13)	(42)	(110)	(59)	(374)
2018								
Capital expenditure	132	22	163	44	44	131	48	584
Depreciation and intangible asset amortisation	(44)	(20)	(77)	(7)	(42)	(110)	(68)	(368)
Exceptional impairment of tangible assets	–	–	(35)	–	–	–	–	(35)
Exceptional impairment of intangible assets	–	–	(90)	–	–	–	–	(90)

(c) Category and geographical analysis

	Category analysis					Geographic analysis					
	Spirits £ million	Beer £ million	Ready to drink £ million	Other £ million	Total £ million	Great Britain £ million	United States £ million	Nether-lands £ million	India £ million	Rest of World £ million	Total £ million
2020											
Sales(i)	**14,158**	**2,342**	**966**	**231**	**17,697**	**1,684**	**4,839**	**62**	**2,783**	**8,329**	**17,697**
Non-current assets(ii), (iii)						**1,911**	**5,028**	**2,661**	**2,758**	**7,563**	**19,921**
2019											
Sales(i)	15,283	2,758	945	308	19,294	1,706	4,724	70	3,236	9,558	19,294
Non-current assets(ii), (iii)						1,637	4,662	2,525	3,829	7,668	20,321
2018											
Sales(i)	14,605	2,647	854	326	18,432	1,630	4,310	63	3,086	9,343	18,432
Non-current assets(ii), (iii)						1,717	4,221	2,367	3,688	7,792	19,785

(i) The geographical analysis of sales is based on the location of third party customers.

(ii) The geographical analysis of non-current assets is based on the geographical location of the assets and comprises intangible assets, property, plant and equipment, biological assets, investments in associates and joint ventures, other investments and non-current other receivables.

(iii) The management information provided to the chief operating decision maker does not include an analysis of assets and liabilities by category and therefore is not disclosed.

3. Operating costs

	2020 £ million	2019 £ million	2018 £ million
Excise duties	**5,945**	6,427	6,269
Cost of sales	**4,654**	4,866	4,634
Marketing	**1,841**	2,042	1,882
Other operating items	**3,120**	1,917	1,956
	15,560	15,252	14,741
Comprising:			
Excise duties			
Great Britain	**930**	898	853
United States	**585**	587	548
India	**1,927**	2,202	2,094
Other	**2,503**	2,740	2,774
Increase in inventories	**(275)**	(446)	(296)
Raw materials and consumables	**2,842**	3,007	3,052
Marketing	**1,841**	2,042	1,882
Other external charges	**2,044**	2,285	1,849
Staff costs	**1,404**	1,580	1,509
Depreciation, amortisation and impairment	**1,839**	374	493
Gains on disposal of properties	**(2)**	(5)	(9)
Net foreign exchange losses/(gains)	**15**	(7)	6
Other operating income	**(93)**	(5)	(14)
	15,560	15,252	14,741

(a) Other external charges

Other external charges include research and development expenditure in respect of new drinks products and package design of £34 million (2019 – £35 million; 2018 – £36 million) and maintenance and repairs of £105 million (2019 – £103 million; 2018 – £117 million).

(b) Auditor fees

Other external charges include the fees of the principal auditor of the group, PricewaterhouseCoopers LLP and its affiliates (PwC) and are analysed below.

	2020 £ million	2019 £ million	2018 £ million
Audit of these financial statements	**5.3**	3.8	3.3
Audit of financial statements of subsidiaries	**3.6**	3.4	3.3
Audit related assurance services(i)	**2.4**	1.6	1.6
Total audit fees (Audit fees)	**11.3**	8.8	8.2
Other services relevant to taxation (Tax fees)	**–**	–	0.1
Other assurance services (Audit related fees)(ii)	**0.8**	0.7	0.6
All other non-audit fees (All other fees)	**–**	0.2	1.0
	12.1	9.7	9.9

(i) Audit related assurance services are in respect of reporting under section 404 of the US Sarbanes-Oxley Act and the review of the interim financial information.

(ii) Other assurance services comprise the aggregate fees for assurance and related services that are in respect of the performance of the audit or review of the financial statements and are not reported under 'total audit fees'.

(1) Disclosure requirements for auditor fees in the United States are different from those required in the United Kingdom. The terminology by category required in the United States is disclosed in brackets in the above table. All figures are the same for the disclosures in the United Kingdom and the United States apart from £0.4 million (2019 – £0.4 million; 2018 – £0.4 million) of the cost in respect of the review of the interim financial information which would be included in audit related fees in the United States rather than audit fees.

Audit services provided by firms other than PwC for the year ended 30 June 2020 were £0.1 million (2019 – £0.1 million; 2018 – £0.1 million). PwC fees for audit services in respect of employee pension plans were £0.3 million for the year ended 30 June 2020 (2019 – £0.3 million; 2018 – £0.3 million).

(c) Staff costs and average number of employees

	2020 £ million	2019 £ million	2018 £ million
Aggregate remuneration			
Wages and salaries	**1,251**	1,344	1,272
Share-based incentive plans	**3**	50	40
Employer's social security	**79**	96	95
Employer's pension			
Defined benefit plans	**37**	61	73
Defined contribution plans	**24**	19	18
Other post employment plans	**10**	10	11
	1,404	1,580	1,509

The average number of employees on a full time equivalent basis (excluding employees of associates and joint ventures) was as follows:

	2020	2019	2018
North America	**2,466**	2,410	2,406
Europe and Turkey	**3,350**	3,609	3,747
Africa	**4,003**	4,338	4,625
Latin America and Caribbean	**1,549**	1,610	2,536
Asia Pacific	**6,559**	7,038	8,008
ISC	**4,908**	4,919	4,227
Corporate and other	**4,940**	4,496	4,368
	27,775	28,420	29,917

At 30 June 2020 the group had, on a full time equivalent basis, 27,788 (2019 – 28,150; 2018 – 29,362) employees. The average number of employees of the group, including part time employees, for the year was 28,490 (2019 – 29,402; 2018 – 30,761).

(d) Exceptional operating items

Included in other operating items are the following:

	2020 £ million	2019 £ million	2018 £ million
Staff costs			
Guaranteed minimum pension equalisation charge	**–**	21	–
Other external charges	**95**	53	–
Other operating income	**(83)**	–	–
Increase in inventories	**–**	–	3
Depreciation, amortisation and impairment			
Brand, goodwill, tangible and other assets impairment	**1,345**	–	125
Total exceptional operating items (note 4)	**1,357**	74	128

4. Exceptional items

Accounting policies

Critical accounting judgements

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. 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.

Operating items

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.

Non-operating items

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.

Taxation items

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.

	2020 £ million	2019 £ million	2018 £ million
Exceptional operating items			
Brand, goodwill, tangible and other assets impairment (a)	**(1,345)**	–	(128)
Donations (b (i))	**(89)**	–	–
Obsolete inventories (b (ii))	**(30)**	–	–
Substitution drawback (b (iii))	**83**	–	–
Indirect tax in Korea (c)	**24**	(35)	–
Guaranteed minimum pension equalisation (d)	**–**	(21)	–
French tax audit penalty (note 7 (b) (ii))	**–**	(18)	–
	(1,357)	(74)	(128)
Non-operating items			
Step acquisitions (e)	**8**	–	–
Sale of businesses and brands			
United National Breweries (f)	**(32)**	(9)	–
Loss on disposal of associate (g)	**(1)**	–	–
Portfolio of 19 brands (h)	**2**	155	–
USL wine business (i)	**–**	(2)	–
	(23)	144	–
French tax audit interest (note 7 (b) (ii))	**–**	(9)	–
Exceptional items before taxation	**(1,380)**	61	(128)
Items included in taxation (note 7 (b))	**154**	(39)	203
Total exceptional items	**(1,226)**	22	75
Attributable to:			
Equity shareholders of the parent company	**(1,157)**	(4)	75
Non-controlling interests	**(69)**	26	–
Total exceptional items	**(1,226)**	22	75

(a) 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 other 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 other 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 other 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.

For further information see note 9 (d).

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 other 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 other 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.

For further information see note 10.

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

(b) 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 other operating items. Following a recent court decision and a related legal assessment, the collection of the excise duty benefit has become virtually certain.

(c) In the year ended 30 June 2019, the group has 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.

(d) On 26 October 2018, the High Court of Justice of England and Wales issued a judgement 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 judgement 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.

(e) 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. For further information see note 8 (a).

(f) 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. In the year ended 30 June 2019 the group recognised an exceptional loss of £9 million in respect of the disposal of United National Breweries.

(g) In the year ended 30 June 2020, the disposal of an associate, Equal Parts, LLC resulted in an exceptional loss of £1 million.

(h) 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. The aggregate consideration for the disposal was $550 million (£435 million) resulting in a profit before taxation of $198 million (£155 million). in the year ended 30 June 2019.

See note 8 (b) for further information.

(i) In the year ended 30 June 2019, the disposal of the Indian wine business has resulted in an exceptional loss of £2 million.

Cash payments and receipts included in net cash inflow from operating activities in respect of exceptional items were as follows:

	2020 £ million	2019 £ million	2018 £ million
French tax audit	**(88)**	–	–
Thalidomide	**(17)**	(15)	(13)
Donation	**(7)**	–	–
Substitution drawback	**26**	–	–
UK transfer pricing settlement	**–**	–	(143)
Competition authority investigation in Turkey	**–**	–	(4)
Total cash payments	**(86)**	(15)	(160)

5. Finance income and charges

Accounting policies

Net interest includes interest income and charges in respect of financial instruments and the results of hedging transactions used to manage interest rate risk.

Finance charges directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are added to the cost of that asset. Borrowing costs which are not capitalised are recognised in the income statement based on the effective interest method. All other finance charges are recognised primarily in the income statement in the year in which they are incurred.

Net other finance charges include items in respect of post employment plans, the discount unwind of long-term obligations and hyperinflation charges. The results of operations in hyperinflationary economies are adjusted to reflect the changes in the purchasing power of the local currency of the entity before being translated to sterling.

The impact of derivatives, excluding cash flow hedges that are in respect of commodity risk management or those that are used to hedge the currency risk of highly probable future currency cash flows, is included in interest income or interest charge.

	2020 £ million	2019 £ million	2018 £ million
Interest income	**192**	232	155
Fair value gain on financial instruments	**123**	155	61
Total interest income[(i)]	**315**	387	216
Interest charge on bank loans, bonds and overdrafts[(ii)]	**(390)**	(349)	(322)
Interest charge on leases classified as finance leases under the previous standard	**(6)**	(7)	(9)
Interest charge on leases (IFRS 16 adoption impact)[(iii)]	**(9)**	–	–
Interest charge on all other borrowings[(ii)]	**(120)**	(122)	(64)
Fair value loss on financial instruments	**(123)**	(157)	(62)
Total interest charges[(i)]	**(648)**	(635)	(457)
Net interest charges	**(333)**	(248)	(241)
Net finance income in respect of post employment plans in surplus (note 13)	**26**	29	9
Hyperinflation adjustment in respect of Venezuela (note 1)	**6**	10	18
Interest income in respect of direct and indirect tax	**16**	16	–
Other finance income	**3**	–	–
Total other finance income	**51**	55	27
Net finance charge in respect of post employment plans in deficit (note 13)	**(17)**	(22)	(20)
Unwinding of discounts	**(24)**	(17)	(14)
Interest charge in respect of direct and indirect tax	**(22)**	(11)	(10)
Change in financial liability (Level 3)	**(6)**	(8)	–
Other finance charges (exceptional)[(iv)]	**–**	(9)	–
Guarantee fees	**(1)**	–	–
Other finance charges	**(1)**	(3)	(2)
Total other finance charges	**(71)**	(70)	(46)
Net other finance charges	**(20)**	(15)	(19)

(i) Includes £46 million interest income and £(471) million interest charge in respect of financial assets and liabilities that are not measured at fair value through the income statement (2019 – £86 million income and £(439) million charge; 2018 – £73 million income and £(394) million charge).

(ii) The presentation of the years ended 30 June 2019 and 30 June 2018 have been changed due to a reclassification to include £302 million (2018 - £269 million) of interest in respect of bonds formerly included previously in 'interest charge on all other borrowings'.

(iii) Interest expense of £9 million for the year ended 30 June 2020 in respect of leases that in prior years were classified as operating leases under the previous accounting standard (and were charged to other external charges) and following the adoption of IFRS 16 have now been capitalised.

(iv) In respect of the French tax audit settlement (see note 7(b)(ii)).

6. Investments in associates and joint ventures

Accounting policies

An associate is an undertaking in which the group has a long-term equity interest and over which it has the power to exercise significant influence. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The group's interest in the net assets of associates and joint ventures is reported in investments in the consolidated balance sheet and its interest in their results (net of tax) is included in the consolidated income statement below the group's operating profit. Associates and joint ventures are initially recorded at cost including transaction costs. Investments in associates and joint ventures are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The impairment review compares the net carrying value with the recoverable amount, where the recoverable amount is the higher of the value in use calculated as the present value of the group's share of the associate's future cash flows and its fair value less costs to sell.

Diageo's principal associate is Moët Hennessy, of which Diageo owns 34%. Moët Hennessy is the spirits and wine subsidiary of LVMH Moët Hennessy – Louis Vuitton SA (LVMH). LVMH is based in France and is listed on the Paris Stock Exchange. Moët Hennessy is also based in France and is a producer and exporter of champagne and cognac brands.

A number of joint distribution arrangements have been established with LVMH in Asia Pacific and France, principally covering distribution of Diageo's Scotch whisky and gin premium brands and Moët Hennessy's champagne and cognac premium brands. Diageo and LVMH have each undertaken not to engage in any champagne or cognac activities competing with those of Moët Hennessy. The arrangements also contain certain provisions for the protection of Diageo as a non-controlling shareholder in Moët Hennessy.

(a) An analysis of the movement in the group's investments in associates and joint ventures is as follows:

	Moët Hennessy £ million	Others £ million	Total £ million
Cost less provisions			
At 30 June 2018	2,875	134	3,009
Exchange differences	16	3	19
Additions	–	32	32
Share of profit after tax	310	2	312
Disposals	–	(3)	(3)
Dividends	(160)	(8)	(168)
Share of movements in other comprehensive income and equity	(1)	–	(1)
Step acquisitions	–	(7)	(7)
Other[(i)]	–	(20)	(20)
At 30 June 2019	**3,040**	**133**	**3,173**
Exchange differences	**78**	**4**	**82**
Additions	**–**	**47**	**47**
Share of profit after tax	**285**	**(3)**	**282**
Disposals	**–**	**(1)**	**(1)**
Dividends	**–**	**(4)**	**(4)**
Share of movements in other comprehensive income and equity	**(8)**	**–**	**(8)**
Step acquisitions	**–**	**(11)**	**(11)**
Transfer	**–**	**(2)**	**(2)**
Other	**–**	**(1)**	**(1)**
At 30 June 2020	**3,395**	**162**	**3,557**

(i) Other movements in the year ended 30 June 2019 comprise £20 million of advances promised to associates at 30 June 2019, on achieving certain performance targets which are now only recognised when those targets are achieved. There was a corresponding decrease of £20 million in other payables.

(1) Investment in associates balance includes loans given to and preference shares invested in associates of £82 million (2019 – £55 million).

(2) If certain performance targets are met by associates in the Distill Ventures programmes, an additional £22 million (2019 – £31 million) will be invested in those associates.

(b) Income statement information for the three years ended 30 June 2020 and balance sheet information as at 30 June 2020 and 30 June 2019 of Moët Hennessy is as follows:

	2020 £ million	2019 £ million	2018 £ million
Sales	**4,425**	4,713	4,445
Profit for the year	**838**	911	897
Total comprehensive income	**765**	865	799

Moët Hennessy prepares its financial statements under IFRS as endorsed by the EU in euros to 31 December each year. The results are adjusted for alignment to Diageo accounting policies and are a major part of the Wines & Spirits division of LVMH. The results are translated at £1 = €1.14 (2019 – £1 = €1.13; 2018 – £1 = €1.13).

	2020 £ million	2019 £ million
Non-current assets	**5,310**	4,413
Current assets	**8,352**	7,564
Total assets	**13,662**	11,977
Non-current liabilities	**(1,480)**	(1,008)
Current liabilities	**(2,197)**	(2,029)
Total liabilities	**(3,677)**	(3,037)
Net assets	**9,985**	8,940

(1) Including acquisition fair value adjustments principally in respect of Moët Hennessy's brands and translated at £1 = €1.09 (2019 – £1 = €1.12).

(c) Information on transactions between the group and its associates and joint ventures is disclosed in note 20.

(d) Investments in associates and joint ventures comprise the cost of shares less goodwill written off on acquisitions prior to 1 July 1998 of £1,312 million (2019 – £1,249 million), plus the group's share of post acquisition reserves of £2,245 million (2019 – £1,924 million).

(e) The associates and joint ventures have not reported any material contingent liabilities in their latest financial statements.

7. Taxation

Accounting policies

Current tax is based on taxable profit for the year. Taxable profit is different from accounting profit due to temporary differences between accounting and tax treatments, and due to items that are never taxable or tax deductible. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, tax benefits are reviewed each year to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. Tax provisions are included in current liabilities. Penalties and interest on tax liabilities are included in operating profit and finance charges, respectively.

Full provision for **deferred tax** is made for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their value for tax purposes. The amount of deferred tax reflects the expected recoverable amount and is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using the basis of taxation enacted or substantively enacted by the balance sheet date. Deferred tax assets are not recognised where it is more likely than not that the assets will not be realised in the future. No deferred tax liability is provided in respect of any future remittance of earnings of foreign subsidiaries where the group is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future, or where no liability would arise on the remittance.

Critical accounting estimates and judgements

The group is required to estimate the corporate tax in each of the many jurisdictions in which it operates. Management is required to estimate the amount that should be recognised as a tax liability or tax asset in many countries which are subject to tax audits which by their nature are often complex and can take several years to resolve; current tax balances are based on such estimations. Tax provisions are based on management's judgement and interpretation of country specific tax law and the likelihood of settlement. However, the actual tax liabilities could differ from the provision and in such event the group would be required to make an adjustment in a subsequent period which could have a material impact on the group's profit for the year.

The evaluation of deferred tax asset recoverability requires estimates to be made regarding the availability of future taxable income. For brands with an indefinite life, management's primary intention is to recover the book value through a potential sale in the future, and therefore the deferred tax on the brand value is generally recognised using the appropriate country capital gains tax rate. To the extent brands with an indefinite life have been impaired, management considers this to be an indication of recovery through use and in such a case deferred tax on the brand value is recognised using the appropriate country corporate income tax rate.

(a) Analysis of taxation charge for the year

	United Kingdom			Rest of world			Total		
	2020 £ million	2019 £ million	2018 £ million	2020 £ million	2019 £ million	2018 £ million	2020 £ million	2019 £ million	2018 £ million
Current tax									
Current year	**108**	150	131	**589**	713	503	**697**	863	634
Adjustments in respect of prior years	**6**	(3)	71	**(25)**	52	(2)	**(19)**	49	69
	114	147	202	**564**	765	501	**678**	912	703
Deferred tax									
Origination and reversal of temporary differences	**24**	29	40	**(143)**	(19)	127	**(119)**	10	167
Changes in tax rates	**6**	(2)	(11)	**39**	(52)	(360)	**45**	(54)	(371)
Adjustments in respect of prior years	**–**	5	95	**(15)**	25	2	**(15)**	30	97
	30	32	124	**(119)**	(46)	(231)	**(89)**	(14)	(107)
Taxation on profit	**144**	179	326	**445**	719	270	**589**	898	596

(b) Exceptional tax (credits)/charges

The taxation charge includes the following exceptional items:

	2020 £ million	2019 £ million	2018 £ million
Brand and tangible asset impairment(i)	**(165)**	–	(13)
Substitution drawback	**20**	–	–
Obsolete inventories	**(7)**	–	–
Other items	**(2)**	–	–
French tax audit settlement(ii)	**–**	61	–
Tax rate change in the Netherlands(iii)	**–**	(51)	–
Sale of businesses and brands	**–**	33	–
Guaranteed minimum pension equalisation	**–**	(4)	–
US tax reform(iv)	**–**	–	(354)
UK transfer pricing settlement(v)	**–**	–	143
UK industrial building allowance	**–**	–	21
	(154)	39	(203)

(i) Exceptional tax credit of £165 million consists of 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.

(ii) As disclosed in the 2019 Annual Report, in July 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.

(iii) During the year ended 30 June 2019 the Dutch Senate agreed to a phased reduction in the Dutch corporate tax rate which is effective from 1 January 2020. An exceptional tax credit of £51 million principally arose from remeasuring the deferred tax liabilities in respect of the Ketel One vodka distribution rights from a then anticipated tax rate of 25% to 20.5%. The Dutch Senate subsequently agreed in a tax rate of 21.7% on 19 December 2019. The remeasurement of deferred tax liabilities in the year ended 30 June 2020 was recognised as a current tax charge.

(iv) The exceptional tax credit of £354 million ($478 million) resulted from applying the Tax Cuts and Jobs Act (TCJA), enacted on 22 December 2017, in the United States. The credit principally arose on remeasuring the deferred tax liabilities in respect of intangibles and other assets for the change in the US Federal tax rate from 35% to 21%, resulting in an exceptional tax credit of £363 million ($490 million), which is partially offset by £9 million ($12 million) exceptional tax charge in respect of repatriation of untaxed foreign earnings. In addition, there was a one-off charge of £11 million ($15 million) to other comprehensive income and equity, in respect of the remeasurement of the deferred tax assets on post employment liabilities and share-based incentive plans as a result of applying the provisions of the TCJA.

(v) During 2017 Diageo was in discussions with HMRC to seek clarity on Diageo's transfer pricing and related issues, and in the first half of the year ending 30 June 2018 a preliminary assessment for diverted profits tax notice was issued. Final charging notices were issued in August 2017 and Diageo paid £107 million in respect of the two years ended 30 June 2016. Diageo agreed in June 2018 with HMRC that diverted profits tax does not apply and at the same time has reached resolution on the transfer pricing issues being discussed. The agreement in respect of transfer pricing covers the period from 1 July 2014 to 30 June 2017 and has resulted in an additional UK tax charge of £143 million. In the year ended 30 June 2018 an additional tax charge of £47 million was recognised in current tax which is based on the approach agreed with HMRC.

(1) Diageo has launched the 'Raising the Bar' programme to support pubs and bars to welcome customers back and recover following the Covid-19 pandemic including a commitment of $100 million (£81 million) over a period of up to two years from 1 July 2020. Due to current uncertainty on the precise nature of the spend, it cannot be determined whether the amounts will be deductible for tax purposes in future periods. As a result, no deferred tax asset has been recognized in respect of the provision at the year ended 30 June 2020.

(c) Taxation rate reconciliation and factors that may affect future tax charges

	2020 £ million	2019 £ million	2018 £ million
Profit before taxation	**2,043**	4,235	3,740
Notional charge at UK corporation tax rate of 19% (2019 – 19%; 2018 – 19%)	**388**	805	711
Elimination of notional tax on share of after tax results of associates and joint ventures	**(54)**	(59)	(58)
Differences in overseas tax rates	**53**	106	134
Effect of intra-group financing	**(13)**	(34)	(61)
Non taxable gain on disposals of businesses	**–**	(3)	–
Step-up gain	**(2)**	–	–
Other tax rate and tax base differences	**(84)**	(132)	(109)
Other items not chargeable	**(62)**	(54)	(79)
Impairment	**135**	–	16
Non deductible losses on disposal of businesses	**6**	–	–
Other non deductible exceptional items	**–**	12	9
Other items not deductible(i)	**211**	231	238
Changes in tax rates(ii)	**45**	(54)	(371)
Fair value adjustment in respect of assets held for sale	**–**	1	–
Adjustments in respect of prior years(iii)	**(34)**	79	166
Taxation on profit	**589**	898	596

(i) Other items not deductible include controlled foreign companies charge, irrecoverable withholding tax and additional state and local taxes.

(ii) Changes in tax rates for the year ended 30 June 2020 mainly due to the Netherlands, UK, India and Kenya. Changes in tax rates for the year ended 30 June 2019 principally arose from the tax rate change in the Netherlands. Changes in tax rates for the year ended 30 June 2018 was mainly due to the application of the TCJA.

(iii) Adjustment in respect of prior years for the year ended 30 June 2019 includes £61 million exceptional tax charge in respect of the French tax audit settlement. The £166 million prior year adjustment for the year ended 30 June 2018 is principally in respect of the exceptional tax charge in respect of the UK transfer pricing agreement.

The table above reconciles the notional taxation charge calculated at the UK tax rate, to the actual total tax charge. As a group operating in multiple countries, the actual tax rates applicable to profits in those countries are different from the UK tax rate. The impact is shown in the table above as differences in overseas tax rates. The group's worldwide business leads to the consideration of a number of important factors which may affect future tax charges, such as: the levels and mix of profitability in different jurisdictions, transfer pricing regulations, tax rates imposed and tax regime reforms, acquisitions, disposals, restructuring activities, and settlements or agreements with tax authorities.

Significant ongoing changes in the international tax environment and an increase in global tax audit activity means that tax uncertainties and associated risks have been gradually increasing. In the medium term, these risks could result in an increase in tax liabilities or adjustments to the carrying value of deferred tax assets and liabilities. See note 18 (h).

The group has a number of ongoing tax audits worldwide for which provisions are recognised based on best estimates and management's judgements concerning the ultimate outcome of the audit. As at 30 June 2020 the ongoing audits that are provided for individually are not expected to result in a material tax liability. The current tax asset of £190 million (2019 – £83 million) and tax liability of £246 million (2019 – £378 million) includes £189 million (2019 – £251 million) of provisions for tax uncertainties.

(d) Deferred tax assets and liabilities

The amounts of deferred tax accounted for in the consolidated balance sheet comprise the following net deferred tax assets/(liabilities):

	Property, plant and equipment £ million	Intangible assets £ million	Post employment plans £ million	Tax losses £ million	Other temporary differences[(i)] £ million	Total £ million
At 30 June 2018	(292)	(1,812)	(27)	32	234	(1,865)
Exchange differences	(7)	(47)	2	1	4	(47)
Recognised in income statement – continuing operations	(51)	14	(17)	(14)	28	(40)
Reclassification	(2)	(3)	12	3	(10)	–
Recognised in other comprehensive income and equity	–	–	(8)	5	(1)	(4)
Tax rate change – recognised in income statement	1	51	(1)	2	1	54
Tax rate change – recognised in other comprehensive income and equity	–	–	1	(5)	8	4
Acquisition of subsidiaries	–	(5)	–	–	–	(5)
Transfer to assets held for sale	2	7	–	–	–	9
At 30 June 2019	**(349)**	**(1,795)**	**(38)**	**24**	**264**	**(1,894)**
Exchange differences	**–**	**12**	**1**	**(1)**	**(7)**	**5**
Recognised in income statement – continuing operations	**(10)**	**115**	**(5)**	**7**	**27**	**134**
Reclassification	**8**	**6**	**–**	**(3)**	**(11)**	**–**
Recognised in other comprehensive income and equity	**–**	**(3)**	**(16)**	**34**	**(33)**	**(18)**
Tax rate change – recognised in income statement	**11**	**(52)**	**2**	**–**	**(6)**	**(45)**
Tax rate change – recognised in other comprehensive income and equity	**–**	**–**	**(16)**	**–**	**–**	**(16)**
Acquisition of subsidiaries	**–**	**(19)**	**–**	**–**	**–**	**(19)**
At 30 June 2020	**(340)**	**(1,736)**	**(72)**	**61**	**234**	**(1,853)**

(i) Deferred tax on other temporary differences includes fair value movement on cross-currency swaps, interest and finance costs, restructuring provisions, share-based payments and intra group sales of products.

After offsetting deferred tax assets and liabilities where appropriate within territories, the net deferred tax liability comprises:

	2020 £ million	2019 £ million
Deferred tax assets	**119**	138
Deferred tax liabilities	**(1,972)**	(2,032)
	(1,853)	(1,894)

The deferred tax assets of £119 million includes £66 million (2019 – £60 million) arising in jurisdictions with prior year taxable losses. The majority of the asset is in respect of Ireland, where the amounts arose from timing differences on pension funding payments. It is considered more likely than not that there will be sufficient future taxable profits to realise these deferred tax assets, the majority of which can be carried forward indefinitely.

(e) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following tax losses:

	2020 £ million	2019 £ million
Capital losses – indefinite	**76**	62
Trading losses – indefinite	**30**	70
Trading losses – expiry dates up to 2029	**70**	53
	176	185

(f) Unrecognised deferred tax liabilities

UK legislation largely exempts overseas dividends remitted from UK tax. A tax liability is more likely to arise in respect of withholding taxes levied by the overseas jurisdiction. Deferred tax is provided where there is an intention to distribute earnings, and a tax liability arises. It is impractical to estimate the amount of unrecognised deferred tax liabilities in respect of these unremitted earnings.

The aggregate amount of temporary differences in respect of investments in subsidiaries, branches, interests in associates and joint ventures for which deferred tax liabilities have not been recognised is approximately £14.7 billion (2019 – £13 billion). Comparatives were restated to include reclassifications between share premium, retained earnings and investments within the US group.

Operating assets and liabilities

Introduction

This section describes the assets used to generate the group's performance and the liabilities incurred. Liabilities relating to the group's financing activities are included in section 'Risk management and capital structure' and balance sheet information in respect of associates, joint ventures and taxation are covered in section 'Results for the year'. This section also provides detailed disclosures on the group's recent acquisitions and disposals, performance and financial position of its defined benefit post employment plans.

8. Acquisition and sale of businesses and purchase of non-controlling interests

Accounting policies

The consolidated financial statements include the results of the company and its subsidiaries together with the group's attributable share of the results of associates and joint ventures. The results of subsidiaries acquired or sold are included in the income statement from, or up to, the date that control passes.

Business combinations are accounted for using the acquisition method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. The consideration payable is measured at fair value and includes the fair value of any contingent consideration. Among other factors, the group considers the nature of, and compensation for the selling shareholders' continuing employment to determine if any contingent payments are for post-combination employee services, which are excluded from consideration.

On the acquisition of a business, or of an interest in an associate or joint venture, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets including identifiable intangible assets and contingent liabilities acquired. Directly attributable acquisition costs in respect of subsidiary companies acquired are recognised in other external charges as incurred.

The non-controlling interests on the date of acquisition can be measured either at the fair value or at the non-controlling shareholder's proportion of the net fair value of the identifiable assets assumed. This choice is made separately for each acquisition.

Where the group has issued a put option over shares held by a non-controlling interest, the group derecognises the non-controlling interests and instead recognises a contingent deferred consideration liability for the estimated amount likely to be paid to the non-controlling interest on the exercise of those options. Movements in the estimated liability in respect of put options are recognised in retained earnings.

Transactions with non-controlling interests are recorded directly in retained earnings.

For all entities in which the company, directly or indirectly, owns equity a judgement is made to determine whether the investor controls the investee and therefore should fully consolidate the investee. An assessment is carried out to determine whether the group has the exposure or rights to the variable returns of the investee and has the ability to affect those returns through its power over the investee. To establish control an analysis is carried out of the substantive and protective rights that the group and the other investors hold. This assessment is dependent on the activities and purpose of the investee and the rights of the other shareholders, such as which party controls the board, executive committee and material policies of the investee. Determining whether the rights that the group holds are substantive requires management judgement.

Where less than 50% of the equity of an investee is held, and the group holds significantly more voting rights than any other vote holder or organised group of vote holders this may be an indicator of de facto control. An assessment is needed to determine all the factors relevant to the relationship with the investee to ascertain whether control has been established and whether the investee should be consolidated as a subsidiary. Where voting power and returns from an investment are split equally between two entities then the arrangement is accounted for as a joint venture.

On an acquisition fair values are attributed to the assets and liabilities acquired. This may involve material judgement to determine these values.

(a) Acquisition of businesses

Fair value of net assets acquired and cash consideration paid in respect of the acquisition of businesses and the purchase of shares of non-controlling interests in the three years ended 30 June 2020 were as follows:

	Net assets acquired and consideration		
	2020 £ million	2019 £ million	2018 £ million
Brands and other intangibles	**102**	25	478
Inventories	**2**	–	4
Other working capital	**(3)**	(2)	2
Deferred tax	**(19)**	(5)	–
Cash	**2**	–	6
Fair value of assets and liabilities	**84**	18	490
Goodwill arising on acquisition	**8**	10	249
Step acquisitions	**(23)**	(7)	–
Consideration payable	**69**	21	739
Satisfied by:			
Cash consideration paid	**(27)**	(6)	(555)
Contingent consideration payable	**(42)**	(15)	(184)
	(69)	(21)	(739)
Cash consideration paid for subsidiaries	**(27)**	(6)	(6)
Cash consideration paid for Casamigos	**(49)**	(9)	(549)
Cash consideration paid in respect of other prior year acquisitions	**(9)**	(9)	(22)
Cash consideration paid for investments in associates	**(6)**	(15)	(12)
Capital injection in associates	**(41)**	(17)	(11)
Cash acquired	**2**	–	6
Net cash outflow on acquisition of businesses	**(130)**	(56)	(594)
Purchase of shares of non-controlling interests	**(62)**	(784)	–
Total net cash outflow	**(192)**	(840)	(594)

Acquisitions in the year

During the year ended 30 June 2020, Diageo completed a number of acquisitions, the largest of these were Seedlip Ltd and Anna Seed 83 Ltd, the brand owners of Seedlip and Aecorn distilled non-alcoholic spirits and aperitifs, both of which completed on 6 August 2019. The contingent consideration payable represents the present value of payments up to £60 million linked to certain performance targets and are expected to be paid over the next six years.

Prior year acquisitions
On 28 September 2018, Diageo acquired Copper Dog Whisky Limited. In addition, Diageo has made a number of smaller acquisitions of brands, distribution rights and equity interests in various drinks businesses and made contingent consideration payments in respect of prior year acquisitions.

On 15 August 2017, Diageo completed the purchase of 100% of the share capital of Casamigos Tequila, LLC (Casamigos), a super premium tequila based in the United States, for $1,000 million (£777 million) of which $300 million (£233 million) was contingent on Casamigos achieving certain performance targets.

On 14 March 2018, Diageo completed the acquisition of Belsazar GmbH, a premium aperitif from Germany's Black Forest.

On 2 May 2018, Diageo acquired 100% of the intellectual property of Pierde Almas, an ultra premium mezcal.

Purchase of shares of non-controlling interests
On 29 July 2019, East African Breweries Limited completed the purchase of 4% of the share capital of Serengeti Breweries Limited for $3 million (£2 million). This increased Diageo's effective economic interest from 39.2% to 40.2%.

In August 2019 and February 2020, in two separate purchases, Diageo acquired shares in United Spirits Limited (USL) for INR 5,495 million (£60 million) which increased Diageo's percentage of shares owned in USL from 54.78% to 55.94% (excluding 2.38% owned by the USL Benefit Trust).

On 17 August 2018 and 9 April 2019, Diageo completed the purchase of 20.29% and 3.14% of the share capital of Sichuan Shuijingfang Company Limited (SJF) for an aggregate consideration of RMB 6,774 million (£775 million) and transaction costs of £9 million. This took Diageo's shareholding in SJF from 39.71% to 63.14%. SJF was already controlled and therefore consolidated prior to these transactions.

(b) Sale of businesses

Cash consideration received and net assets disposed of in respect of sale of businesses in the two years ended 30 June 2020:

	UNB £ million	Other £ million	Total £ million	2019 £ million
Sale consideration				
Cash received in year	10	1	11	438
Transaction and other directly attributable costs paid	–	–	–	(12)
Net cash received	10	1	11	426
Transaction costs payable	(1)	–	(1)	(4)
	9	1	10	422
Net assets disposed of				
Brands	–	–	–	(230)
Goodwill	–	–	–	(12)
Property, plant and equipment	–	(1)	(1)	(6)
Investment in associates	–	(1)	(1)	(3)
Assets and liabilities held for sale	(30)	–	(30)	–
Inventories	–	–	–	(18)
	(30)	(2)	(32)	(269)
Impairment charge recognised up until the date of sale	(7)	–	(7)	–
Exchange recycled from other comprehensive income	(4)	–	(4)	–
(Loss)/gain on disposal before taxation	(32)	(1)	(33)	153
Taxation	–	–	–	(33)
(Loss)/gain on disposal after taxation	(32)	(1)	(33)	120

On 1 April 2020, Diageo completed the sale of United National Breweries (UNB), Diageo's wholly owned sorghum beer business in South Africa. In the year ended 30 June 2020, up until the date of sale, UNB contributed net sales of £31 million (2019 – £43 million; 2018 – £49 million), operating profit of £nil (2019 – £1 million; 2018 – £6 million) and profit after taxation of £nil (2019 – £1 million; 2018 – £4 million).

In the year ended 30 June 2019, Diageo completed the sale of a portfolio of 19 brands to Sazerac for an aggregate consideration of $550 million (£435 million). Diageo continued to provide manufacturing services for all disposed brands until December 2019 with some extended up to June 2020 and for five brands will continue up to December 2028.

In the year ended 30 June 2018, there were no significant disposals completed by the group.

9. Intangible assets

Accounting policies

Acquired intangible assets are held on the consolidated balance sheet at cost less accumulated amortisation and impairment losses. Acquired brands and other intangible assets are initially recognised at fair value when they are controlled through contractual or other legal rights, or are separable from the rest of the business, and the fair value can be reliably measured. Where these assets are regarded as having indefinite useful economic lives, they are not amortised.

Goodwill represents the excess of the aggregate of the consideration transferred, the value of any non-controlling interests and the fair value of any previously held equity interest in the subsidiary acquired over the fair value of the identifiable net assets acquired. Goodwill arising on acquisitions prior to 1 July 1998 was eliminated against reserves, and this goodwill has not been reinstated. Goodwill arising subsequent to 1 July 1998 has been capitalised.

Amortisation and impairment of intangible assets is based on their useful economic lives and are amortised on a straight-line basis over those lives and reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Goodwill and intangible assets that are regarded as having indefinite useful economic lives are not amortised and are reviewed for impairment at least annually or when there is an indication that the assets may be impaired. Impairment reviews compare the net carrying value with the recoverable amount (where recoverable amount is the higher of fair value less costs of disposal and value in use). Amortisation and any impairment write downs are charged to other operating expenses in the income statement.

Computer software is amortised on a straight-line basis to estimated residual value over its expected useful life. Residual values and useful lives are reviewed each year. Subject to these reviews, the estimated useful lives are up to eight years.

Critical accounting estimates and judgements

Assessment of the recoverable amount of an intangible asset and the useful economic life of an asset are based on management's estimates.

Impairment reviews are carried out to ensure that intangible assets, including brands, are not carried at above their recoverable amounts. Value in use and fair value less costs of disposal were both considered for these reviews and any impairment charge was based on these. The tests are dependent on management's estimates in respect of the forecasting of future cash flows, the discount rates applicable to the future cash flows and what expected growth rates are reasonable. Judgement is required in determining the cash-generating units. Such estimates and judgements are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts.

Additional estimates have been applied by management regarding the potential financial impact of the Covid-19 pandemic across markets. In this regard a combination of the following factors was considered in every impairment model:

- the future development of the virus, including the duration, scale and geographic extent of the closures;
- the expected scale and duration of the economic recovery;
- the size of the on-trade channel in the market;
- the life cycle phase of the brand and the maturity of the market.

	Brands £ million	Goodwill £ million	Other intangibles £ million	Computer software £ million	Total £ million
Cost					
At 30 June 2018	8,946	2,788	1,482	604	13,820
Exchange differences	182	28	56	8	274
Additions	25	10	2	46	83
Disposals[i]	(230)	(12)	–	(5)	(247)
Transfers to assets held for sale[ii]	(28)	(19)	–	–	(47)
At 30 June 2019	**8,895**	**2,795**	**1,540**	**653**	**13,883**
Exchange differences	**(74)**	**(139)**	**44**	**–**	**(169)**
Additions	**102**	**8**	**3**	**52**	**165**
Disposals	**–**	**–**	**–**	**(7)**	**(7)**
At 30 June 2020	**8,923**	**2,664**	**1,587**	**698**	**13,872**
Amortisation and impairment					
At 30 June 2018	616	110	75	447	1,248
Exchange differences	5	3	–	8	16
Amortisation for the year	–	–	3	60	63
Disposals	–	–	–	(1)	(1)
At 30 June 2019	**621**	**113**	**78**	**514**	**1,326**
Exchange differences	**(17)**	**(16)**	**(1)**	**2**	**(32)**
Amortisation for the year	**–**	**–**	**1**	**62**	**63**
Impairment	**564**	**655**	**–**	**–**	**1,219**
Disposals	**–**	**–**	**–**	**(4)**	**(4)**
At 30 June 2020	**1,168**	**752**	**78**	**574**	**2,572**
Carrying amount					
At 30 June 2020	**7,755**	**1,912**	**1,509**	**124**	**11,300**
At 30 June 2019	8,274	2,682	1,462	139	12,557
At 30 June 2018	8,330	2,678	1,407	157	12,572

(i) In the year ended 30 June 2019 Diageo completed the sale of a portfolio of 19 brands to Sazerac. See note 8(b) for further information.

(ii) Transfers to assets held for sale in the year ended 30 June 2019 was in respect of United National Breweries (UNB).

(a) Brands

At 30 June 2020, the principal acquired brands, all of which are regarded as having indefinite useful economic lives, are as follows:

	Principal markets	2020 £ million	2019 £ million
Crown Royal whisky	United States	**1,190**	1,153
McDowell's No.1 whisky, rum and brandy	India	**1,050**	1,112
Captain Morgan rum	Global	**977**	946
Smirnoff vodka	Global	**670**	648
Johnnie Walker whisky	Global	**625**	625
Casamigos tequila	United States	**491**	476
Shui Jing Fang Chinese white spirit	Greater China	**260**	259
Yenì Raki	Turkey	**202**	231
Signature whisky	India	**197**	209
Seagram's 7 Crown whiskey	United States	**181**	176
Don Julio tequila	United States	**179**	209
Bell's whisky	Europe	**179**	179
Black Dog whisky	India	**167**	177
Antiquity whisky	India	**163**	173
Zacapa rum	Global	**156**	151
Windsor Premier whisky	Korea	**154**	589
Gordon's gin	Europe	**119**	119
Old Parr whisky	Global	**110**	106
Other brands		**685**	736
		7,755	8,274

The brands are protected by trademarks, which are renewable indefinitely, in all of the major markets where they are sold. There are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of these brands. The nature of the premium drinks industry is that obsolescence is not a common issue, with indefinite brand lives being commonplace, and Diageo has a number of brands that were originally created more than 100 years ago. Accordingly, the Directors believe that it is appropriate that the brands are treated as having indefinite lives for accounting purposes and are therefore not amortised.

(b) Goodwill

For the purposes of impairment testing, goodwill has been attributed to the following cash-generating units:

	2020 £ million	2019 £ million
North America	**416**	403
Europe and Turkey		
Europe (excluding Turkey)	**181**	172
Turkey	**205**	234
Latin America and Caribbean – Mexico	**123**	143
Asia Pacific		
Greater China	**132**	131
India	**770**	1,511
Other cash-generating units	**85**	88
	1,912	2,682

Goodwill has arisen on the acquisition of businesses and includes synergies arising from cost savings, the opportunity to utilise Diageo's distribution network to leverage marketing of the acquired products and the extension of the group's portfolio of brands in new markets around the world.

(c) Other intangibles

Other intangibles principally comprise distribution rights. Diageo owns the global distribution rights for Ketel One vodka products in perpetuity, and the Directors believe that it is appropriate to treat these rights as having an indefinite life for accounting purposes. The carrying value at 30 June 2020 was £1,464 million (2019 – £1,418 million).

(d) Impairment testing

Impairment tests are performed annually, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable. Recoverable amounts are calculated based on the value in use approach also considering fair value less cost to sale. The value in use calculations are based on discounted forecast cash flows using the assumption that cash flows continue in perpetuity at the terminal growth rate of each country or region. The individual brands, other intangibles with indefinite useful lives and their associated tangible fixed assets are aggregated as separate cash-generating units. Separate tests are carried out for each cash-generating unit and for each of the markets. Goodwill is attributed to each of the markets.

The key assumptions used for the value in use calculations are as follows:

Cash flows

Cash flows are forecast for each cash-generating unit for the financial year, which is approved by management and reflect the following assumptions:

- Cash flows are projected based on the actual operating results and a three-year plan approved by the management. Cash flows are extrapolated up to five-years using expected growth rates in line with management's best estimates. Growth rates reflect expectations of sales growth, operating costs and margin, based on past experience and external sources of information. Where applicable, multiple cash flow scenarios were populated to predict the potential outcome, considering the increased risk of uncertainty around the duration and severity of the Covid-19 pandemic in the different markets. A simple average of these projections served as the estimation of the recoverable amount of the cash-generating units including the goodwill of USL, Indian brands, Nigeria and Windsor Premier brand. Management has no information which would indicate that any of the scenarios are more likely than the others;

– The five-year forecast period is extended by up to an additional ten years at acquisition date for some intangible assets and goodwill when management believes that this period is justified by the maturity of the market and expects to achieve growth in excess of the terminal growth rate driven by Diageo's sales, marketing and distribution expertise. Cash flows beyond the five-year period are projected using steady or progressively declining growth rates. These rates do not exceed the annual growth rate of the real gross domestic product (GDP) aggregated with the long-term annual inflation rate of the country or region;
– Cash flows for the subsequent years after the forecast period are extrapolated based on a terminal growth rate which does not exceed the long-term annual inflation rate of the country or region.

The calculation of value in use as at 30 June 2020 is based on a five-year detailed plan for every cash-generating unit, except for India where the period is extended by an additional four years.

Discount rates
The discount rates used are the weighted average cost of capital which reflects the returns on government bonds and an equity risk premium adjusted for the drinks industry specific to the cash-generating units. Further risk premiums are applied according to management's assessment of the risks in respect of the cash flows for a particular asset or cash-generating unit. The group applies post-tax discount rates to post-tax cash flows as the valuation calculated using this method closely approximates to applying pre-tax discount rates to pre-tax cash flows.

For goodwill, these assumptions are based on the cash-generating unit or group of units to which the goodwill is attributed. For brands, they are based on a weighted average taking into account the country or countries where sales are made.

The pre-tax discount rates, terminal and long-term growth rates used for impairment testing are as follows:

	2020			2019		
	Pre-tax discount rate %	**Terminal growth rate %**	**Long-term growth rate %**	Pre-tax discount rate %	Terminal growth rate %	Long-term growth rate %
North America – United States	**8**	**2**	**4**	9	2	4
Europe and Turkey						
Europe (excluding Turkey)	**7**	**2**	**4**	7	2	4
Turkey	**22**	**11**	**15**	25	13	16
Africa						
Ethiopia	**21**	**8**	**17**	25	8	17
South Africa	**18**	**–**	**7**	18	–	7
Latin America and Caribbean						
Brazil	**15**	**3**	**6**	16	4	6
Mexico	**16**	**3**	**5**	17	3	6
Asia Pacific						
Korea	**10**	**(4)**	**–**	8	2	–
Greater China	**9**	**3**	**8**	10	3	8
India	**12**	**4**	**12**	14	5	12

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 recognized in exceptional operating items. In the year ended 30 June 2020, impairment charges of £78 million in respect of the Old Tavern brand and £38 million in respect of the Bagpiper brand in India were also recognised in exceptional operating items, based on their value in use. 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 both negatively impacting demand and margins. The brand impairment reduced the deferred tax liability by £25 million. The recoverable amount is £3,444 million in respect of the India cash-generating unit, £20 million in respect of the Old Tavern brand and £94 million in respect of the Bagpiper brand cash-generating units.

In the year ended 30 June 2020, an impairment charge of £434 million in respect of the Windsor Premier brand has been recognised in exceptional operating items, based on its value in use. The impairment reduced the deferred tax liability attributable to the brand by £105 million resulting in a net exceptional loss of £329 million. 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. The recoverable amount is £164 million in respect of the Windsor Premier brand cash-generating unit.

(e) Sensitivity to change in key assumptions

Impairment testing for the year ended 30 June 2020 has identified the following cash-generating units as being sensitive to reasonably possible changes in assumptions.

The table below shows the headroom at 30 June 2020 and the impairment charge that would be required if the assumptions in the calculation of their value in use were changed:

	Carrying value of CGU £ million	Headroom £ million	1ppt increase in discount rate £ million	2ppt decrease in annual growth rate in forecast period 2021-2029 £ million	0.5-1ppt reduction in the rate of price increase £ million	Covid-19 scenario £ million
India(i)	3,444	–	(242)	(235)	(297)	(396)
Bagpiper brand(i)	94	–	(11)	(16)	(19)	(17)
Antiquity brand(i)	166	8	(15)	(18)	(13)	(25)
McDowell's No.1 brand(i)	1,179	29	(121)	(173)	(216)	(234)
Windsor Premier brand(ii)	164	–	–	–	–	(30)
Bell's brand(iii)	225	12	(11)	–	–	–

(i) Reasonably possible changes in key assumptions that would result in an additional impairment of the India cash-generating unit, Bagpiper, Antiquity and McDowell's No.1 brands would be a 1ppt increase in discount rate or a 2ppt decrease in the annual growth rate in forecast period of 2021-2029 or a 0.5-1ppt reduction in the rate of price increase. Furthermore, due to the Covid-19 pandemic, a permanent delay of the F20 lost base recovery period is also considered to be a reasonably possible scenario due to the severity of measures taken in India and the introduction of unprecedented increase of taxes on alcohol. In the Covid-19 scenario above it was assumed that F19 base will be reached by F25.

(ii) Due to the high-level uncertainty of the Covid-19 pandemic, additional possible changes in volume growth rates are forecasted assuming permanent damage of local whisky category with no recovery to F19 levels based on latest outlook of IWSR reports, and the fact that the majority of sales are on-trade.

(iii) The Bell's brand is disclosed as sensitive due to strong competition and challenging market conditions. The only change in the key assumptions considered reasonably possible that would result in an impairment of the brand would be a 1ppt increase in discount rate.

(f) USL combination of popular brands

Following the acquisition of United Spirits Limited (USL) in 2014, all material brands together with the associated property, plant and equipment (the brands) were fair valued and capitalised. Each year since the acquisition, the brands were tested separately for impairment.

The long-term strategic priorities have continued to evolve for the Indian market with a greater emphasis on premium brands, operating margin expansion and generating marketing spend efficiencies. This has resulted in the management and marketing teams managing, reporting both internally and externally, and allocating resources to the popular category rather than to individual brands.

In the year ended 30 June 2020, the impairment tests have been carried out for the brands within the popular category as a single cash-generating unit and also at the individual brand level to ensure that the change in the definition of cash-generating units does not result in the understatement of an impairment charge. The impairment charge of £116 million on Old Tavern Whisky and Bagpiper was based on the individual brand level impairment models. For the year ending 30 June 2021 a single impairment test will be carried out at the popular category in accordance with how this category is now managed.

The principal USL brands in the popular category are Director's Special, Bagpiper, Old Tavern Whisky and White Mischief.

10. Property, plant and equipment

Accounting policies

Land and buildings are stated at cost less accumulated depreciation. Freehold land is not depreciated. Leaseholds are generally depreciated over the unexpired period of the lease. Other property, plant and equipment are depreciated on a straight-line basis to estimated residual values over their expected useful lives, and these values and lives are reviewed each year. Subject to these reviews, the estimated useful lives fall within the following ranges: buildings – 10 to 50 years; within plant and equipment casks and containers – 15 to 50 years; other plant and equipment – 5 to 25 years; fixtures and fittings – 5 to 10 years; and returnable bottles and crates – 5 to 10 years.

Reviews are carried out if there is an indication that assets may be impaired, to ensure that property, plant and equipment are not carried at above their recoverable amounts.

Government grants

Government grants are not recognised until there is reasonable assurance that the group will comply with the conditions pursuant to which they have been granted and that the grants will be received. Government grants in respect of property, plant and equipment are deducted from the asset that they relate to, reducing the depreciation expense charged to the income statement.

	Land and buildings £ million	Plant and equipment £ million	Fixtures and fittings £ million	Returnable bottles and crates £ million	Under construction £ million	Total £ million
Cost						
At 30 June 2018	1,585	4,102	126	534	432	6,779
Exchange differences	16	54	1	4	10	85
Sale of businesses	(2)	(7)	(1)	–	–	(10)
Additions	42	180	9	31	383	645
Disposals	(16)	(32)	(13)	(21)	(2)	(84)
Transfers	87	218	3	18	(329)	(3)
At 30 June 2019	**1,712**	**4,515**	**125**	**566**	**494**	**7,412**
Recognition of right-of-use asset on adoption of IFRS 16	**173**	**63**	**–**	**–**	**–**	**236**
Adjusted balance at 1 July 2019	**1,885**	**4,578**	**125**	**566**	**494**	**7,648**
Exchange differences	**(10)**	**(22)**	**–**	**(1)**	**(9)**	**(42)**
Additions	**202**	**156**	**13**	**34**	**439**	**844**
Disposals	**(46)**	**(86)**	**(20)**	**(37)**	**(1)**	**(190)**
Transfers	**110**	**242**	**9**	**13**	**(374)**	**–**
At 30 June 2020	**2,141**	**4,868**	**127**	**575**	**549**	**8,260**
Depreciation						
At 30 June 2018	467	1,761	91	371	–	2,690
Exchange differences	4	23	–	3	–	30
Depreciation charge for the year	49	216	13	33	–	311
Sale of businesses	–	(4)	–	–	–	(4)
Disposals	(9)	(25)	(12)	(17)	–	(63)
Transfers	–	(6)	(1)	–	–	(7)
At 30 June 2019	**511**	**1,965**	**91**	**390**	**–**	**2,957**
Exchange differences	**–**	**(5)**	**(1)**	**(2)**	**–**	**(8)**
Depreciation charge for the year	**106**	**260**	**15**	**36**	**–**	**417**
Exceptional impairment	**20**	**114**	**–**	**6**	**–**	**140**
Disposals	**(40)**	**(78)**	**(19)**	**(35)**	**–**	**(172)**
At 30 June 2020	**597**	**2,256**	**86**	**395**	**–**	**3,334**
Carrying amount						
At 30 June 2020	**1,544**	**2,612**	**41**	**180**	**549**	**4,926**
At 30 June 2019	1,201	2,550	34	176	494	4,455
At 30 June 2018	1,118	2,341	35	163	432	4,089

(a) The net book value of land and buildings comprises freeholds of £1,218 million (2019 – £1,162 million), long leaseholds of £6 million (2019 – £21 million) and short leaseholds of £320 million (2019 – £18 million). Depreciation was not charged on £161 million (2019 – £164 million) of land.

(b) Property, plant and equipment is net of a government grant of £150 million (2019 – £143 million) received in prior years in respect of the construction of a rum distillery in the US Virgin Islands.

(c) In the year ended 30 June 2020, an impairment charge of £84 million in respect of the Nigeria tangible fixed asset has been recognised in exceptional operating items. The impairment reduced the deferred tax liability by £25 million resulting in a net exceptional loss of £59 million. 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. The recoverable amount is £140 million in respect of the Nigeria cash-generating unit based on the fair value of the assets applying the cost valuation technique and it is considered a Level 3 instrument within the fair value hierarchy as the assumptions used in the valuation are not observable in the market. The valuation is only sensitive to the cost of replacing the assets and if this was 10% less, the fair value of the assets would decrease by approximately £14 million.

(d) In the year ended 30 June 2020, an impairment charge of £55 million in respect of the Ethiopia tangible fixed asset has been recognised in exceptional operating items. The impairment reduced the deferred tax liability by £10 million resulting in a net exceptional loss of £45 million. The forecast cash flow assumptions were reduced principally due to the impact of recent excise duty increase and Covid-19 pandemic. The recoverable amount is £12 million in respect of the Ethiopia cash-generating unit based on the fair value of the assets.

11. Leases

Accounting policies

Where the group is the lessee, all leases are recognised on the balance sheet as right-of-use assets and depreciated on a straight-line basis with the charge recognised in cost of sales. The liability, recognised as part of net borrowings, is measured at a discounted value and any interest is charged to finance charges.

The group recognises services associated with a lease as other operating expenses. Payments associated with leases where the value of the asset when it is new is lower than $5,000 (leases of low value assets) and leases with a lease term of twelve months or less (short term leases) are recognised as other operating expenses. A judgement in calculating the lease liability at initial recognition includes determining the lease term where extension or termination options exist. In such instances any economic incentive to retain or end a lease are considered and extension periods are only included when it is considered reasonably certain that an option to extend a lease will be exercised.

For the years ended 30 June 2019 and 2018, where the group had substantially all the risks and rewards of ownership of an asset subject to a lease, the lease was treated as a finance lease. Assets held under finance leases were recognised as assets of the group at their fair value at the inception of the lease. The corresponding liability to the lessor was included in other financial liabilities on the consolidated balance sheet. Lease payments were apportioned between interest expense and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Other leases were treated as operating leases, with payments and receipts taken to the income statement on a straight-line basis over the life of the lease.

(a) Adoption of IFRS 16

Under the new standard, outstanding lease liabilities have been recognised at 1 July 2019, for leases previously classified as operating leases, at the present value of the future lease payments over their reasonably certain lease term. Right-of-use assets have been recognised equal to the net present value of the lease liabilities, adjusted for the amount of any prepaid or accrued lease payment, lease incentives and provisions for onerous leases. There was no impact on retained earnings as at 1 July 2019. The interest rate used to discount the future payments in the calculation of the lease liability is the incremental borrowing rate at 1 July 2019 taking into account the currency and duration of the lease. The weighted average incremental borrowing rate applied across all operating leases capitalised on 1 July 2019 was 3.2%.

For leases previously classified as finance leases the group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of adoption of IFRS 16, 1 July 2019. The re-measurement principles of IFRS 16 are only applied after that date.

The group has decided to reduce the complexity of implementation by taking advantage of a number of practical expedients on transition on 1 July 2019 namely:

(i) to not capitalise leases which expire within a year of 1 July 2019;

(ii) to apply a single discount rate to portfolios of leases with similar characteristics; and

(iii) to adjust the right-of-use asset by the amount of any provision for onerous leases recognised immediately before the date of initial application.

The group has not capitalised leases where the value of the asset when it is new is lower than $5,000 (low value assets).

The impact of the adoption of IFRS 16 on affected lines of the consolidated balance sheet at 1 July 2019 is as follows:

	30 June 2019 £ million	IFRS 16 impact £ million	1 July 2019 £ million
Non-current assets			
Property, plant and equipment	**4,455**	**236**	**4,691**
Other financial assets	**404**	**1**	**405**
Current assets			
Trade and other receivables	**2,694**	**(2)**	**2,692**
Current liabilities			
Other financial liabilities	**(307)**	**(64)**	**(371)**
Trade and other payables	**(4,202)**	**13**	**(4,189)**
Non-current liabilities			
Other financial liabilities	**(124)**	**(187)**	**(311)**
Provisions	**(317)**	**3**	**(314)**

As a result of the adoption of IFRS 16, on 1 July 2019 the total assets increased by £235 million from £31,296 million to £31,531 million and total liabilities increased by £235 million from £21,140 million to £21,375 million. The leases (previously classified as operating leases) which have been recognised at adoption are principally in respect of warehouses, office buildings, plant and machinery, cars and distribution vehicles. There is no impact on deferred tax balances.

The adoption of IFRS 16 resulted in an immaterial benefit to operating profit and an immaterial increase in finance charges. Profit before tax, taxation and earnings per share have not been significantly impacted. The adoption of IFRS 16 has had no impact on the group's net cash flows although a presentation change has been reflected whereby the principal element of the lease payments (for leases formerly classified as operating leases under IAS 17) of £74 million for the year ended 30 June 2020, are disclosed as part of cash flow from financing activities and the interest element is included in cash flow from operating activities. Under IAS 17 both the principal and interest cash flows from operating leases would have been disclosed as part of cash flows from operating activities.

A reconciliation of differences between the operating lease commitments disclosed under IAS 17 and disclosed in note 19(b) of Diageo's 2019 Annual Report and the lease liabilities under IFRS 16, at 1 July 2019, is as follows:

	£ million
Operating lease commitments at 30 June 2019	**(321)**
Leases expiring within a year of 1 July 2019	**19**
Low value assets	**11**
Impact of discounting	**40**
Total additional lease liabilities recognised on adoption of IFRS 16	**(251)**
Finance lease liabilities at 30 June 2019	**(128)**
Total lease liabilities at 1 July 2019	**(379)**
Total lease liabilities at 1 July 2019 – current	**(107)**
Total lease liabilities at 1 July 2019 – non-current	**(272)**

(b) Movement in right-of-use assets

	Land and buildings £ million	Plant and equipment £ million	Under construction £ million	Total £ million
At 30 June 2019[(i)]	**2**	**228**	**–**	**230**
Adoption of IFRS16	**173**	**63**	**–**	**236**
Adjusted balance at 1 July 2019	**175**	**291**	**–**	**466**
Exchange differences	**(3)**	**2**	**–**	**(1)**
Additions	**150**	**24**	**32**	**206**
Disposals	**(2)**	**–**	**–**	**(2)**
Depreciation[(ii)]	**(51)**	**(41)**	**–**	**(92)**
At 30 June 2020	**269**	**276**	**32**	**577**

(i) In the year ended 30 June 2019 and 30 June 2018, only leases that met the criteria of finance leases under IAS 17 – Leases were capitalised and included in property, plant and equipment.
(ii) In the year ended 30 June 2019 depreciation on assets held under finance leases was £12 million

(c) Lease liabilities

	2020 £ million	2019 £ million
Current lease liabilities	**(106)**	(43)
Non-current lease liabilities	**(364)**	(85)
	(470)	(128)

(i) In the year ended 30 June 2019, the group only recognised lease liabilities in relation to leases that were classified as finance leases under IAS 17 – Leases. The lease liabilities were presented as part of the group's net borrowings in the year ended 30 June 2019.

The future cash outflows, which are not included in lease liabilities on the balance sheet, in respect of extension and termination options which are not reasonably expected to be exercised are estimated at £284 million.

(d) Amounts recognised in the consolidated income statement

In the year ended 30 June 2020 other operating expenses (within other external charges) included £39 million in respect of leases of low value assets and short term leases and £11 million in respect of variable lease payments. In the year ended 30 June 2019 other external charges included operating lease expenses in respect of plant and machinery of £19 million (2018 – £21 million) and other assets (mainly properties) of £101 million (2018 – £87 million). Refer to note 5 for further information relating to the interest expenses on lease liabilities.

The total cash outflow for leases in the year ended 30 June 2020 was £180 million.

12. Other investments

Accounting policies

Other investments are such equity investments that are not classified as investments in associates or joint arrangements nor investments in subsidiaries. They are included in non-current assets. Subsequent to initial measurement, other investments are stated at fair value. Gains and losses arising from the changes in fair value are recognised in the income statement or in other comprehensive income on a case by case basis. Accumulated gains and losses included in other comprehensive income are not recycled to the income statement. Dividends from other investments are recognised in the consolidated income statement.

Loans receivable are non-derivative financial assets that are not classified as equity investments. They are subsequently measured either at amortised cost using the effective interest method less allowance for impairment or at fair value with gains and losses arising from changes in fair value recognised in the income statement or in other comprehensive income that are recycled to the income statement on the de-recognition of the asset. Allowances for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward-looking data. Such allowances are measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

	Loans £ million	Others £ million	Total £ million
Cost less allowances or fair value			
At 30 June 2018	35	11	46
Additions	2	–	2
Repayments and disposals	(1)	–	(1)
Fair value adjustment	–	2	2
Transfers	(19)	19	–
At 30 June 2019	**17**	**32**	**49**
Exchange differences	**1**	**1**	**2**
Additions	**3**	**–**	**3**
Repayments and disposals	**(1)**	**(2)**	**(3)**
Fair value adjustment	**–**	**2**	**2**
Provision charged during the year	**(14)**	**–**	**(14)**
Capitalised interest	**1**	**–**	**1**
Transfer	**–**	**1**	**1**
At 30 June 2020	**7**	**34**	**41**

At 30 June 2020, loans comprise £4 million (2019 – £17 million; 2018 – £35 million) of loans to customers and other third parties, after allowances of £127 million (2019 – £111 million; 2018 – £108 million), and £3 million (2019 – £nil; 2018 – £nil) of loans to associates.

13. Post employment benefits

Accounting policies

The group's principal pension funds are defined benefit plans. In addition, the group has defined contribution plans, unfunded post employment medical benefit liabilities and other unfunded defined benefit post employment liabilities. For post employment plans, other than defined contribution plans, the amount charged to operating profit is the cost of accruing pension benefits promised to employees over the year, plus any changes arising on benefits granted to members by the group during the year. Net finance charges comprise the net deficit/asset on the plans at the beginning of the year, adjusted for cash flows in the year, multiplied by the discount rate for plan liabilities. The differences between the fair value of the plans' assets and the present value of the plans' liabilities are disclosed as an asset or liability on the consolidated balance sheet. Any differences due to changes in assumptions or experience are recognised in other comprehensive income. The amount of any pension fund asset recognised on the balance sheet is limited to any future refunds from the plan or the present value of reductions in future contributions to the plan.

Contributions payable by the group in respect of defined contribution plans are charged to operating profit as incurred.

Critical accounting estimates and judgements

Application of IAS 19 requires the exercise of estimate and judgement in relation to various assumptions.

Diageo determines the assumptions on a country by country basis in conjunction with its actuaries. Estimates are required in respect of uncertain future events including the life expectancy of members of the funds, salary and pension increases, future inflation rates, discount rates and employee and pensioner demographics. The application of different assumptions could have a significant effect on the amounts reflected in the income statement, other comprehensive income and the balance sheet. There may be interdependencies between the assumptions.

Where there is an accounting surplus on a defined benefit plan management judgement is necessary to determine whether the group can obtain a refund of the surplus by reducing future contributions to the plan.

(a) Post employment benefit plans

The group operates a number of pension plans throughout the world, devised in accordance with local conditions and practices. Our most significant plans are defined benefit plans and are funded by payments to separately administered trusts or insurance companies. The group also operates a number of plans that are generally unfunded, primarily in the United States, which provide to employees post employment medical benefits.

The principal plans are in the United Kingdom, Ireland and the United States where benefits are based on employees' length of service and salary at retirement. All valuations were performed by independent actuaries using the projected unit credit method to determine pension costs. The most recent funding valuations of the significant defined benefit plans were carried out as follows:

Principal plans	Date of valuation
United Kingdom(i)	1 April 2018
Ireland(ii)	31 December 2018
United States	1 January 2020

(i) The Diageo Pension Scheme (DPS) closed to new members in November 2005. Employees who have joined Diageo in the United Kingdom since the defined benefit scheme closed had been eligible to become members of the Diageo Lifestyle Plan (a cash balance defined benefit pension plan) until 1 January 2018. Since then new employees have been eligible to become members of a Diageo administered defined contribution plan.

(ii) The Irish scheme closed to new members in May 2013. Employees who have joined Diageo in Ireland since the defined benefit scheme closed have been eligible to become members of Diageo administered defined contribution plans.

The assets of the UK and Irish pension plans are held in separate trusts administered by trustees who are required to act in the best interests of the plans' beneficiaries. For DPS, the trustee is Diageo Pension Trust Limited. As required by legislation, one-third of the directors of the Trust are nominated by the members of the DPS, member nominated directors are appointed from both the pensioner member community and the active member community. For the Irish Scheme Diageo Ireland makes four nominations and appoints three further candidates nominated by representative groupings.

The amounts charged to the consolidated income statement for the group's defined benefit post employment plans and the consolidated statement of comprehensive income for the three years ended 30 June 2020 are as follows:

	2020 £ million	2019 £ million	2018 £ million
Current service cost and administrative expenses	**(109)**	(110)	(123)
Past service gains – ordinary activities	**50**	56	33
Past service losses – exceptional	**–**	(21)	–
Gains on curtailments and settlements	**12**	4	6
Charge to operating profit	**(47)**	(71)	(84)
Net finance gain/(charge) in respect of post employment plans	**9**	7	(11)
Charge before taxation(i)	**(38)**	(64)	(95)
Actual returns less amounts included in finance income	**774**	438	312
Experience gains/(losses)	**34**	113	(30)
Changes in financial assumptions	**(754)**	(514)	108
Changes in demographic assumptions	**(14)**	(6)	69
Other comprehensive income	**40**	31	459
Changes in the surplus restriction	**(2)**	2	(2)
Total other comprehensive income	**38**	33	457

(1) The year ended 30 June 2020 includes past service gains of £47 million in respect of the Irish Scheme 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 in respect of changes made to future pension increases for members of the UK Scheme and changes to the principal Irish Scheme.) The exceptional past service loss, in the year ended 30 June 2019, of £21 million is in respect of the equalisation of Guaranteed Minimum Pension (GMP) benefits for men and women.

(i) The charge/income before taxation in respect of the following countries is:

	2020 £ million	2019 £ million	2018 £ million
United Kingdom	**(23)**	(3)	(49)
Ireland	**34**	(13)	1
United States	**(30)**	(30)	(29)
Other	**(19)**	(18)	(18)
	(38)	(64)	(95)

In addition to the charge in respect of defined benefit post employment plans, contributions to the group's defined contribution plans were £24 million (2019 – £19 million; 2018 – £18 million).

The movement in the net (deficit)/surplus for the two years ended 30 June 2020 is set out below:

	Plan assets £ million	Plan liabilities £ million	Net (deficit)/ surplus £ million
At 30 June 2018	9,310	(9,244)	66
Exchange differences	45	(55)	(10)
Charge before taxation	234	(298)	(64)
Other comprehensive income/(loss)(i)	438	(407)	31
Contributions by the group	192	–	192
Employee contributions	5	(5)	–
Benefits paid	(511)	511	–
At 30 June 2019	**9,713**	**(9,498)**	**215**
Exchange differences	**65**	**(73)**	**(8)**
Charge before taxation	**198**	**(236)**	**(38)**
Other comprehensive income/(loss)(i)	**774**	**(734)**	**40**
Contributions by the group	**156**	**–**	**156**
Employee contributions	**5**	**(5)**	**–**
Benefits paid	**(489)**	**489**	**–**
At 30 June 2020	**10,422**	**(10,057)**	**365**

(i) Excludes surplus restriction.

The plan assets and liabilities by type of post employment benefit and country is as follows:

	2020		2019	
	Plan assets £ million	Plan liabilities £ million	Plan assets £ million	Plan liabilities £ million
Pensions				
United Kingdom	**7,696**	**(6,831)**	7,115	(6,257)
Ireland	**1,810**	**(2,031)**	1,747	(2,098)
United States	**660**	**(578)**	593	(545)
Other	**183**	**(240)**	186	(234)
Post employment medical	**2**	**(288)**	1	(275)
Other post employment	**71**	**(89)**	71	(89)
	10,422	**(10,057)**	9,713	(9,498)

The balance sheet analysis of the post employment plans is as follows:

	2020		2019	
	Non-current assets(i) £ million	Non-current liabilities £ million	Non-current assets(i) £ million	Non-current liabilities £ million
Funded plans	**1,111**	**(434)**	1,060	(547)
Unfunded plans	**–**	**(315)**	–	(299)
	1,111	**(749)**	1,060	(846)

(i) Includes surplus restriction of £3 million (2019 – £1 million).

The disclosures have been prepared in accordance with IFRIC 14. In particular, where the calculation for a plan results in a surplus, the recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan, and any additional liabilities are recognised as required. The DPS at 30 June 2020 had a net surplus of £934 million (2019 – £906 million; 2018 – £819 million). This surplus has been recognised, with no provision made against it, as it is expected to be recoverable through a combination of a reduction in future cash contributions or ultimately via a cash refund when the last member's obligations have been met.

(b) Principal risks and assumptions

The material post employment plans are not exposed to any unusual, entity specific or scheme specific risks but there are general risks:

Inflation – The majority of the plans' obligations are linked to inflation. Higher inflation will lead to increased liabilities which is partially offset by the plans holding inflation linked gilts, swaps and caps against the level of inflationary increases.

Interest rate – The plan liabilities are determined using discount rates derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities though this will be partially offset by an increase in the value of the bonds held by the post employment plans.

Mortality – The majority of the obligations are to provide benefits for the life of the members and their partners, so any increase in life expectancy will result in an increase in the plans' liabilities.

Asset returns – Assets held by the pension plans are invested in a diversified portfolio of equities, bonds and other assets. Volatility in asset values will lead to movements in the net deficit/surplus reported in the consolidated balance sheet for post employment plans which in addition will also impact the post employment expense in the consolidated income statement.

The following weighted average assumptions were used to determine the group's deficit/surplus in the main post employment plans at 30 June in the relevant year. The assumptions used to calculate the charge/credit in the consolidated income statement for the year ending 30 June are based on the assumptions disclosed as at the previous 30 June.

	United Kingdom			Ireland			United States(i)		
	2020 %	2019 %	2018 %	2020 %	2019 %	2018 %	2020 %	2019 %	2018 %
Rate of general increase in salaries(ii)	**3.2**	3.6	4.3	**2.6**	2.3	3.2	**–**	–	–
Rate of increase to pensions in payment	**3.0**	3.2	3.3	**1.4**	1.5	2.0	**–**	–	–
Rate of increase to deferred pensions	**2.1**	2.2	2.1	**1.2**	1.3	1.8	**–**	–	–
Discount rate for plan liabilities	**1.5**	2.3	2.8	**1.2**	1.2	1.7	**2.6**	3.4	4.1
Inflation – CPI	**2.1**	2.2	2.1	**1.2**	1.3	1.8	**1.4**	1.7	2.1
Inflation – RPI	**2.8**	3.2	3.1	**–**	–	–	**–**	–	–

(i) The salary increase assumption in the United States is not a significant assumption as only a minimal amount of members' pension entitlement is dependent on a member's projected final salary.
(ii) The salary increase assumptions include an allowance for age related promotional salary increases.

For the principal UK and Irish pension funds, the table below illustrates the expected age at death of an average worker who retires currently at the age of 65, and one who is currently aged 45 and subsequently retires at the age of 65:

	United Kingdom(i)			Ireland(ii)			United States		
	2020 Age	2019 Age	2018 Age	**2020 Age**	2019 Age	2018 Age	**2020 Age**	2019 Age	2018 Age
Retiring currently at age 65									
Male	**86.4**	86.2	86.1	**86.6**	86.5	86.4	**85.6**	85.7	86.0
Female	**88.7**	88.5	88.4	**89.3**	89.2	89.2	**87.3**	87.7	88.0
Currently aged 45, retiring at age 65									
Male	**88.5**	88.3	88.2	**89.6**	89.5	89.4	**87.2**	87.3	87.6
Female	**90.8**	90.6	90.5	**92.3**	92.2	92.1	**88.9**	89.3	89.6

(i) Based on the CMI's S2 mortality tables with scaling factors based on the experience of the plan and where people live, with suitable future improvements.
(ii) Based on the '00' series of mortality tables with scaling factors based on the experience of the plan and with suitable future improvements.

For the significant assumptions, the following sensitivity analyses estimate the potential impacts on the consolidated income statement for the year ended 30 June 2021 and on the plan liabilities at 30 June 2020:

	United Kingdom			Ireland			United States and other		
Benefit/(cost)	Operating profit £ million	Profit after taxation £ million	**Plan liabilities(i) £ million**	Operating profit £ million	Profit after taxation £ million	**Plan liabilities(i) £ million**	Operating profit £ million	Profit after taxation £ million	**Plan liabilities(i) £ million**
Effect of 0.5% increase in discount rate	5	17	**568**	2	3	**174**	1	2	**38**
Effect of 0.5% decrease in discount rate	(6)	(14)	**(644)**	(2)	(2)	**(202)**	(2)	(2)	**(42)**
Effect of 0.5% increase in inflation	(5)	(9)	**(405)**	(1)	(3)	**(152)**	(1)	(1)	**(14)**
Effect of 0.5% decrease in inflation	5	10	**448**	1	3	**126**	1	1	**13**
Effect of one year increase in life expectancy	(1)	(4)	**(304)**	–	(1)	**(86)**	–	(1)	**(34)**

(i) The estimated effect on the liabilities excludes the impact of any interest rate and inflation swaps held by the pension plans.
(1) The sensitivity analyses above have been determined based on reasonably possible changes of the respective assumptions and may not be representative of the actual change. Each sensitivity is calculated on a change in the key assumption while holding all other assumptions constant. The sensitivity to inflation includes the impact on all inflation linked assumptions (e.g. pension increases and salary increases where appropriate).

(c) Investment and hedging strategy

The investment strategy for the group's funded post employment plans is determined locally by the trustees of the plan and/or Diageo, as appropriate, and takes account of the relevant statutory requirements. The objective of the investment strategy is to achieve a target rate of return in excess of the movement on the liabilities, whilst taking an acceptable level of investment risk relative to the liabilities. This objective is implemented by using the funds of the plans to invest in a variety of asset classes that are expected over the long-term to deliver a target rate of return. The majority of the investment strategies have significant amounts allocated to equities, with the intention that this will result in the ongoing cost to the group of the post employment plans being lower over the long-term, within acceptable boundaries of risk. Significant amounts are invested in bonds in order to provide a natural hedge against movements in the liabilities of the plans. At 30 June 2020, approximately 82% and 90% (2019 – 56% and 78%) of the UK Scheme's liabilities measured on the Trustee's funding basis were hedged against future movements in gilt based interest rates and RPI inflation, respectively, through the combined effect of bonds and swaps. At 30 June 2020, approximately 48% and 70% (2019 – 44% and 71%) of the Irish Scheme's liabilities measured on the Trustee's funding basis were hedged against future movements in euro government bond based interest rates and euro inflation, respectively, through the combined effect of bonds and swaps.

The discount rates used are based on the yields of high quality fixed income investments. For the UK plans, which represent approximately 68% of total plan liabilities, the discount rate is determined by reference to the yield curves of AA-rated corporate bonds for which the timing and amount of cash outflows are similar to those of the plans. A similar process is used to determine the discount rates used for the non-UK plans.

An analysis of the fair value of the plan assets is as follows:

	2020				2019			
	United Kingdom £ million	**Ireland £ million**	**United States and other £ million**	**Total £ million**	United Kingdom £ million	Ireland £ million	United States and other £ million	Total £ million
Equities								
Quoted	**1**	**315**	**255**	**571**	19	294	248	561
Unquoted and private equity	**501**	**1**	**21**	**523**	504	–	21	525
Bonds								
Fixed-interest government	**114**	**124**	**50**	**288**	123	129	46	298
Inflation-linked government	**–**	**247**	**–**	**247**	–	262	–	262
Investment grade corporate	**507**	**306**	**467**	**1,280**	404	337	421	1,162
Non-investment grade	**137**	**77**	**17**	**231**	163	74	15	252
Loan securities	**1,697**	**328**	**–**	**2,025**	1,362	331	–	1,693
Repurchase agreements	**4,809**	**–**	**–**	**4,809**	4,629	–	–	4,629
Liability driven investment (LDI)	**222**	**64**	**–**	**286**	185	40	–	225
Property – unquoted(i)	**620**	**85**	**1**	**706**	744	84	1	829
Hedge funds	**92**	**134**	**4**	**230**	75	135	–	210
Interest rate and inflation swaps	**(1,048)**	**66**	**–**	**(982)**	(1,048)	30	–	(1,018)
Cash and other	**44**	**63**	**101**	**208**	(45)	31	99	85
Total bid value of assets	**7,696**	**1,810**	**916**	**10,422**	7,115	1,747	851	9,713

(1) The asset classes include some cash holdings that are temporary. This cash is likely to be invested imminently and so has been included in the asset class where it is anticipated to be invested in the long-term.

(i) At 30 June 2020, the fair value of property assets of £331 million were subject to "material valuation uncertainty". The external valuers have confirmed, the inclusion of the "material valuation uncertainty" declaration does not mean that valuations cannot be relied upon but instead in the current extraordinary circumstances less certainty can be attached to valuations than would otherwise be the case. The group considers the value to be materially accurate on the basis that any short term impact of Covid-19 would not be reflective of the value of these long-term investments.

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.

(d) Deficit funding arrangements

UK plans

In the year ended 30 June 2011 the group established a Pension Funding Partnership (PFP) in respect of the UK Scheme. Whisky inventory was transferred into the partnership but the group retains control over the partnership which at 30 June 2020 held inventory with a book value of £586 million (2019 – £661 million). The partnership is fully consolidated in the group financial statements. The UK Scheme has a limited interest in the partnership and, as a partner, is entitled to a distribution from the profits of the partnership. Following the finalisation of the trustee valuation at 1 April 2018 the PFP was amended and the contribution to the DPS in the year ended 30 June 2020 was £11 million (2019 – £25 million). The last payment is expected to be in 2030.

In 2030 the group will be required, dependent upon the funding position of the UK Scheme at that time, to pay an amount not greater than the actuarial deficit at that time, up to a maximum of £430 million in cash, to purchase the UK Scheme's interest in the partnership. If the UK Scheme is in surplus at an actuarial triennial valuation excluding the value of the PFP, then the group can exit the PFP with the agreement of the trustees.

Irish plans

The group has agreed a deficit funding arrangement with the trustees of the Irish Scheme under which it contributes to the Irish Scheme €23 million (£21 million) per annum until the year ending 30 June 2028. The agreement also provides for additional cash contributions into escrow of up to €135 million (£124 million) if the deficit is not reduced at each triennial valuation to agreed limits up to 2027. As part of this funding plan, Diageo has also granted to the Irish Scheme a contingent asset comprising mortgages over certain land and buildings and fixed and floating charges over certain receivables of the group up to a value of €200 million (£183 million). As a result of the actuarial triennial valuation as of 31 December 2015, the group made additional cash contributions of €9 million (£8 million) (2019 – €9 million; 2018 – €9 million). The 31 December 2018 triennial actuarial valuation did not result in any additional funding requirement.

(e) Timing of benefit payments

The following table provides information on the timing of the benefit payments and the average duration of the defined benefit obligations and the distribution of the timing of benefit payments:

	United Kingdom		**Ireland**		**United States**	
	2020 £ million	2019 £ million	**2020 £ million**	2019 £ million	**2020 £ million**	2019 £ million
Maturity analysis of benefits expected to be paid						
Within one year	**346**	395	**76**	75	**56**	63
Between 1 to 5 years	**1,202**	1,197	**364**	367	**202**	202
Between 6 to 15 years	**2,556**	2,663	**691**	723	**357**	359
Between 16 to 25 years	**2,083**	2,078	**627**	657	**196**	207
Beyond 25 years	**2,648**	2,909	**918**	1,008	**173**	185
Total	**8,835**	9,242	**2,676**	2,830	**984**	1,016
	years	years	**years**	years	**years**	years
Average duration of the defined benefit obligation	**18**	17	**18**	18	**11**	10

The projected benefit payments are based on the assumptions underlying the assessment of the obligations, including inflation. They are disclosed undiscounted and therefore appear large relative to the discounted value of the plan liabilities recognised in the consolidated balance sheet. They are in respect of benefits that have accrued at the balance sheet date and make no allowance for any benefits accrued subsequently.

(f) Related party disclosures

Information on transactions between the group and its pension plans is given in note 20.

14. Working capital

Accounting policies

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, an appropriate proportion of production and other overheads, but not borrowing costs. Cost is calculated at the weighted average cost incurred in acquiring inventories. Maturing inventories and raw materials which are retained for more than one year are classified as current assets, as they are expected to be realised in the normal operating cycle.

Trade and other receivables are initially recognised at fair value less transaction costs and subsequently carried at amortised cost less any allowance for discounts and doubtful debts. Trade receivables arise from contracts with customers, and are recognised when performance obligations are satisfied, and the consideration due is unconditional as only the passage of time is required before the payment is received. Allowance losses are calculated by reviewing lifetime expected credit losses using historic and forward-looking data on credit risk.

Trade and other payables are initially recognised at fair value including transaction costs and subsequently carried at amortised costs. Contingent consideration recognised in business combinations are subsequently measured at fair value through income statement. The group evaluates supplier arrangements against a number of indicators to assess if the liability has the characteristics of a trade payable or should be classified as borrowings. These indicators include whether payment terms are similar to customary payment terms.

Provisions are liabilities of uncertain timing or amount. A provision is recognised if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis. The carrying amounts of provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(a) Inventories

	2020 £ million	2019 £ million
Raw materials and consumables	**363**	338
Work in progress	**48**	46
Maturing inventories	**4,562**	4,334
Finished goods and goods for resale	**799**	754
	5,772	5,472

Maturing inventories include whisk(e)y, rum, tequila and Chinese white spirits. The following amounts of inventories are expected to be utilised after more than one year:

	2020 £ million	2019 £ million
Raw materials and consumables	**18**	14
Maturing inventories	**3,740**	3,434
	3,758	3,448

Inventories are disclosed net of provisions for obsolescence, an analysis of which is as follows:

	2020 £ million	2019 £ million	2018 £ million
Balance at beginning of the year	**63**	71	88
Exchange differences	**–**	–	(2)
Income statement charge/(release)[i]	**47**	(3)	–
Utilised	**(12)**	(5)	(15)
	98	63	71

(i) Income statement charge in the year ended 30 June 2020 comprise £23 million exceptional charge due to Covid-19.

(b) Trade and other receivables

	2020		2019	
	Current assets £ million	Non-current assets £ million	Current assets £ million	Non-current assets £ million
Trade receivables	**1,498**	**–**	2,173	–
Interest receivable	**29**	**–**	25	–
VAT recoverable and other prepaid taxes	**192**	**13**	132	14
Other receivables	**210**	**31**	141	31
Prepayments	**157**	**2**	202	8
Accrued income	**25**	**–**	21	–
	2,111	**46**	2,694	53

At 30 June 2020, approximately 16%, 28% and 14% of the group's trade receivables of £1,498 million are due from counterparties based in the United Kingdom, the United States and India, respectively. Accrued income primarily represents amounts receivable from customers in respect of performance obligations satisfied but not yet invoiced.

The aged analysis of trade receivables, net of expected credit loss allowance, is as follows:

	2020 £ million	2019 £ million
Not overdue	**1,379**	2,083
Overdue 1 – 30 days	**5**	27
Overdue 31 – 60 days	**23**	21
Overdue 61 – 90 days	**39**	13
Overdue 91 – 180 days	**39**	15
Overdue more than 180 days	**13**	14
	1,498	2,173

Trade and other receivables are disclosed net of expected credit loss allowance for doubtful debts, an analysis of which is as follows:

	2020 £ million	2019 £ million	2018 £ million
Balance at beginning of the year	**113**	97	129
Exchange differences	**(3)**	3	(4)
Income statement charge	**55**	23	18
Written off	**(5)**	(10)	(46)
	160	113	97

Due to the global financial uncertainty arising from the Covid-19 pandemic, management has considered the elevated credit risk on trade and other receivables. In addition, certain balances (where there was an objective evidence of credit impairment) have been provided for on an individual basis. This has resulted in a charge of £55 million for impairment provisions recognised in the income statement, out of which £29 million expected credit loss allowance is directly in relation to the current difficult trading environment.

(c) Trade and other payables

	2020		2019	
	Current liabilities £ million	**Non-current liabilities £ million**	Current liabilities £ million	Non-current liabilities £ million
Trade payables	**1,333**	**–**	1,694	–
Interest payable	**152**	**–**	127	–
Tax and social security excluding income tax	**698**	**–**	640	–
Other payables	**420**	**175**	565	222
Accruals	**971**	**–**	1,097	–
Deferred income	**79**	**–**	56	–
Dividend payable to non-controlling interests	**30**	**–**	23	–
	3,683	**175**	4,202	222

Interest payable at 30 June 2020 includes interest on non-derivative financial instruments of £148 million (2019 – £124 million). Deferred income represents amounts paid by customers in respect of performance obligations not yet satisfied. Non-current liabilities include £110 million (2019 – £153 million) in respect of the net present value of contingent consideration in respect of the acquisition of Casamigos.

The amount of contract liabilities recognised as revenue in the current year is £56 million (2019 – £37 million).

Together with the group's partner banks supply chain financing (SCF) facilities are provided to our suppliers in certain countries. These arrangements enable suppliers to receive funding earlier than the invoice due date at their discretion and at their own cost. The group settles trade payables in accordance with agreed payment terms with the supplier. At 30 June 2020 the amount that has been subject to SCF and accounted for as trade payables was £309 million (2019 – £371 million).

(d) Provisions

	Thalidomide £ million	Other £ million	Total £ million
At 30 June 2019	**209**	**207**	**416**
Exchange differences	**–**	**(3)**	**(3)**
Provisions charged during the year	**–**	**120**	**120**
Provisions utilised during the year	**(17)**	**(20)**	**(37)**
Transfers to other payables	**–**	**(27)**	**(27)**
Unwinding of discounts	**7**	**–**	**7**
At 30 June 2020	**199**	**277**	**476**
Current liabilities	**17**	**166**	**183**
Non-current liabilities	**182**	**111**	**293**
	199	**277**	**476**

(a) Provisions have been established in respect of the discounted value of the group's commitment to the UK and Australian Thalidomide Trusts. These provisions will be utilised over the period of the commitments up to 2037.

(b) The largest item in other provisions at 30 June 2020 is £81 million in respect of 'Raising the Bar' programme. In June 2020 Diageo launched this two years global programme to support pubs and bars to welcome customers back and recover following the Covid-19 pandemic.

Risk management and capital structure

Introduction

This section sets out the policies and procedures applied to manage the group's capital structure and the financial risks the group is exposed to. Diageo considers the following components of its balance sheet to be capital: borrowings and equity. Diageo manages its capital structure to achieve capital efficiency, provide flexibility to invest through the economic cycle and give efficient access to debt markets at attractive cost levels.

15. Financial instruments and risk management

Accounting policies

Financial assets and liabilities are initially recorded at fair value including, where permitted by IFRS 9, any directly attributable transaction costs. For those financial assets that are not subsequently held at fair value, the group assesses whether there is evidence of impairment at each balance sheet date.

The group classifies its financial assets and liabilities into the following categories: financial assets and liabilities at amortised cost, financial assets and liabilities at fair value through profit and loss and financial assets at fair value through other comprehensive income.

The accounting policies for **other investments and loans** are described in note 12, for **trade and other receivables and payables** in note 14 and for **cash and cash equivalents** in note 16.

Financial assets and liabilities at fair value through profit or loss include derivative assets and liabilities. Where financial assets or liabilities are eligible to be carried at either amortised cost or fair value through other comprehensive income, the group does not apply the fair value option.

Derivative financial instruments are carried at fair value using a discounted cash flow model based on market data applied consistently for similar types of instruments. Gains and losses on derivatives that do not qualify for hedge accounting treatment are taken to the income statement as they arise.

Other financial liabilities are carried at amortised cost unless they are part of a fair value hedge relationship. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest rate method. The Zacapa related financial liabilities are recognised at fair value.

Hedge accounting

The group designates and documents certain derivatives as hedging instruments against changes in fair value of recognised assets and liabilities (fair value hedges), highly probable forecast transactions or the cash flow risk from a change in exchange or interest rates (cash flow hedges) and hedges of net investments in foreign operations (net investment hedges). The designated portion of the hedging instruments is included in other financial assets and liabilities on the consolidated balance sheet. The effectiveness of such hedges is assessed at inception and at least on a quarterly basis, using prospective testing. Methods used for testing effectiveness include dollar offset, critical terms, regression analysis and hypothetical models.

Fair value hedges are used to manage the currency and/or interest rate risks to which the fair value of certain assets and liabilities are exposed. Changes in the fair value of the derivatives are recognised in the income statement, along with any changes in the relevant fair value of the underlying hedged asset or liability.

If such a hedge relationship no longer meets hedge accounting criteria, fair value movements on the derivative continue to be taken to the income statement while any fair value adjustments made to the underlying hedged item to that date are amortised through the income statement over its remaining life using the effective interest rate method.

Cash flow hedges are used to hedge the foreign currency risk of highly probable future foreign currency cash flows, the commodity price risk of highly probable future transactions, as well as the cash flow risk from changes in exchange or interest rates. The effective portion of the gain or loss on the hedges is recognised in other comprehensive income, while any ineffective part is recognised in the income statement. Amounts recorded in other comprehensive income are recycled to the income statement in the same period in which the underlying foreign currency, commodity exposure or interest exposure affects the income statement.

Net investment hedges take the form of either foreign currency borrowings or derivatives. Foreign exchange differences arising on translation of net investments are recorded in other comprehensive income and included in the exchange reserve. Liabilities used as hedging instruments are revalued at closing exchange rates and the resulting gains or losses are also recognised in other comprehensive income to the extent that they are effective, with any ineffectiveness taken to the income statement. Foreign exchange contracts hedging net investments are carried at fair value. Effective fair value movements are recognised in other comprehensive income, with any ineffectiveness taken to the income statement.

The group's funding, liquidity and exposure to foreign currency and interest rate risks are managed by the group's treasury department. The treasury department uses a range of financial instruments to manage these underlying risks.

Treasury operations are conducted within a framework of Board-approved policies and guidelines, which are recommended and monitored by the finance committee, chaired by the Chief Financial Officer. The policies and guidelines include benchmark exposure and/or hedge cover levels for key areas of treasury risk which are periodically reviewed by the Board following, for example, significant business, strategic or accounting changes. The framework provides for limited defined levels of flexibility in execution to allow for the optimal application of the Board-approved strategies. Transactions arising from the application of this flexibility are carried at fair value, gains or losses are taken to the income statement as they arise and are separately monitored on a daily basis using Value at Risk analysis. In the years ended 30 June 2020 and 30 June 2019 gains and losses on these transactions were not material. The group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are initially undertaken to manage the risks arising from underlying business activities.

The group purchases insurance for commercial or, where required, for legal or contractual reasons. In addition, the group retains insurable risk where external insurance is not considered an economic means of mitigating these risks.

The finance committee receives a monthly report on the key activities of the treasury department, which would identify any exposures which differ from the defined benchmarks, should they arise.

(a) Currency risk

The group presents its consolidated financial statements in sterling and conducts business in many currencies. As a result, it is subject to foreign currency risk due to exchange rate movements, which will affect the group's transactions and the translation of the results and underlying net assets of its operations. To manage the currency risk the group uses certain financial instruments. Where hedge accounting is applied, hedges are documented and tested for effectiveness on an ongoing basis. The impact of the Covid-19 pandemic on the group's cash flow hedges has been considered to determine if the hedged forecast cash flows remain highly probable, in relation to forecasted sales transactions on the net US dollar exposure of the group and other hedged currency pairs. In making this assessment, the potential financial impact of the Covid-19 pandemic has been modelled in the group's cash flow projections and stress tested. For the year ended 30 June 2020, no material ineffectiveness was recognized based on the group's assessment, however if there was a reduction in foreign currency forecast transactions, any potential ineffectiveness would be recognized in the consolidated income statement.

Hedge of net investment in foreign operations

The group hedges a certain portion of its exposure to fluctuations in the sterling value of its foreign operations by designating borrowings held in foreign currencies and using foreign currency spots, forwards, swaps and other financial derivatives. For the year ended 30 June 2020 the group's guidance was to maintain total net investment Value at Risk to total Net Asset value below 20%, where Value at Risk is defined as the maximum amount of loss over a one-year period with a 95% probability confidence level.

At 30 June 2020 foreign currency borrowings designated in net investment hedge relationships amounted to £9,127 million (2019 – £4,001 million, including financial derivatives).

Hedge of foreign currency debt

The group uses cross currency interest rate swaps to hedge the foreign currency risk associated with certain foreign currency denominated borrowings.

Transaction exposure hedging

The group's policy is to hedge up to 24 months forecast transactional foreign currency risk on the net US dollar exposure of the group targeting 75% coverage for the current financial year and up to 18 months for other currency pairs. The group's exposure to foreign currency risk arising principally on forecasted sales transactions is managed using forward agreements and options.

(b) Interest rate risk

The group has an exposure to interest rate risk, arising principally on changes in US dollar, euro and sterling interest rates. To manage interest rate risk, the group manages its proportion of fixed to floating rate borrowings within limits approved by the Board, primarily through issuing fixed and floating rate borrowings and commercial paper, and by utilising interest rate swaps. These practices aim to minimise the group's net finance charges with acceptable year-on-year volatility. To facilitate operational efficiency and effective hedge accounting, for the year ended 30 June 2020 the group's policy was to maintain fixed rate borrowings within a band of 40% to 60% of forecasted net borrowings. In September 2019 the Board approved to temporarily amend the approved 40% – 60% fixed debt band to 40% – 70% for a period of 15 months until 31 December 2020. For these calculations, net borrowings exclude interest rate related fair value adjustments. The majority of the group's existing interest rate derivatives are designated as hedges and are expected to be effective. Fair value of these derivatives is recognised in the income statement, along with any changes in the relevant fair value of the underlying hedged asset or liability. The group's net borrowings interest rate profile as at 30 June 2020 and 2019 is as follows:

	2020		2019 (reclassification)	
	£ million	**%**	£ million	%
Fixed rate	**9,213**	**70**	6,181	55
Floating rate(i)	**3,746**	**28**	5,071	45
Impact of financial derivatives and fair value adjustments	**(183)**	**(1)**	(103)	(1)
Lease liabilities(ii)	**470**	**3**	128	1
Net borrowings	**13,246**	**100**	11,277	100

(i) The floating rate portion of net borrowings includes cash and cash equivalents, collaterals, floating rate loans and bonds and bank overdrafts.

(ii) At 30 June 2019 the group reported lease liabilities of £128 million in respect of leases that met the criteria of 'finance leases' under IAS 17 – Leases, in the floating rate categorisation. As at 30 June 2020 lease liabilities are disclosed separately.

The table below sets out the average monthly net borrowings and effective interest rate:

Average monthly net borrowings			Effective interest rate		
2020 £ million	2019 £ million	2018 £ million	**2020 %**	2019 %	2018 %
12,708	10,393	9,063	**2.6**	2.4	2.6

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

(c) Commodity price risk

Commodity price risk is managed in line with the principles approved by the Board either through long-term purchase contracts with suppliers or, where appropriate, derivative contracts. The group policy is to maintain the Value at Risk of commodity price risk arisen from commodity exposures below 75 bps of forecast gross margin in any given financial year. Where derivative contracts are used the commodity price risk exposure is hedged up to 24 months of forecast volume through exchange-traded and over-the-counter contracts (futures, forwards and swaps) and cash flow hedge accounting is applied.

(d) Market risk sensitivity analysis

The group uses a sensitivity analysis that estimates the impacts on the consolidated income statement and other comprehensive income of either an instantaneous increase or decrease of 0.5% in market interest rates or a 10% strengthening or weakening in sterling against all other currencies, from the rates applicable at 30 June 2020 and 30 June 2019, for each class of financial instruments with all other variables remaining constant. The sensitivity analysis excludes the impact of market risks on the net post employment benefit liabilities and assets, and corporate tax payable. This analysis is for illustrative purposes only, as in practice interest and foreign exchange rates rarely change in isolation.

The sensitivity analysis estimates the impact of changes in interest and foreign exchange rates. All hedges are expected to be highly effective for this analysis and it considers the impact of all financial instruments including financial derivatives, cash and cash equivalents, borrowings and other financial assets and liabilities. The results of the sensitivity analysis should not be considered as projections of likely future events, gains or losses as actual results in the future may differ materially due to developments in the global financial markets which may cause fluctuations in interest and exchange rates to vary from the hypothetical amounts disclosed in the table below.

	Impact on income statement gain/(loss)		**Impact on consolidated comprehensive income gain/(loss)[(i) (ii)]**	
	2020 £ million	2019 (restated[(iii)]) £ million	**2020 £ million**	2019 (restated[(iii)]) £ million
0.5% decrease in interest rates	**19**	27	**45**	40
0.5% increase in interest rates	**(19)**	(27)	**(43)**	(39)
10% weakening of sterling	**(26)**	(17)	**(1,384)**	(1,001)
10% strengthening of sterling	**22**	14	**1,132**	805

(i) The impact on foreign currency borrowings and derivatives in net investment hedges is largely offset by the foreign exchange difference arising on the translation of net investments.

(ii) The impact on the consolidated statement of comprehensive income includes the impact on the income statement.

(iii) The year ended 30 June 2019 has been restated to reflect the increase or decrease of 0.5% in market interest rates from the rates applicable at 30 June 2019.

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. Credit risk arises on cash balances (including bank deposits and cash and cash equivalents), derivative financial instruments and credit exposures to customers, including outstanding loans, trade and other receivables, financial guarantees and committed transactions.

The carrying amount of financial assets of £5,989 million (2019 – £3,950 million) represents the group's exposure to credit risk at the balance sheet date as disclosed in section (i), excluding the impact of any collateral held or other credit enhancements. A financial asset is in default when the counterparty fails to pay its contractual obligations. Financial assets are written off when there is no reasonable expectation of recovery.

Credit risk is managed separately for financial and business related credit exposures.

Financial credit risk

Diageo aims to minimise its financial credit risk through the application of risk management policies approved and monitored by the Board. Counterparties are predominantly limited to major banks and financial institutions, primarily with a long-term credit rating within the A band or better, and the policy restricts the exposure to any one counterparty by setting credit limits taking into account the credit quality of the counterparty. The group's policy is designed to ensure that individual counterparty limits are adhered to and that there are no significant concentrations of credit risk. The Board also defines the types of financial instruments which may be transacted. The credit risk arising through the use of financial instruments for currency and interest rate risk management is estimated with reference to the fair value of contracts with a positive value, rather than the notional amount of the instruments themselves. Diageo annually reviews the credit limits applied and regularly monitors the counterparties' credit quality reflecting market credit conditions.

When derivative transactions are undertaken with bank counterparties, the group may, where appropriate, enter into certain agreements with such bank counterparties whereby the parties agree to post cash collateral for the benefit of the other if the net valuations of the derivatives are above a predetermined threshold. At 30 June 2020, the collateral held under these agreements amounted to $221 million (£180 million) (2019 – $152 million (£120 million)).

Business related credit risk

Loan, trade and other receivables exposures are managed locally in the operating units where they arise and active risk management is applied, focusing on country risk, credit limits, ongoing credit evaluation and monitoring procedures. There is no significant concentration of credit risk with respect to loans, trade and other receivables as the group has a large number of customers which are internationally dispersed.

(f) Liquidity risk

Liquidity risk is the risk that Diageo may encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The group uses short-term commercial paper to finance its day-to-day operations. The group's policy with regard to the expected maturity profile of borrowings is to limit the amount of such borrowings maturing within 12 months to 50% of gross borrowings less money market demand deposits, and the level of commercial paper to 30% of gross borrowings less money market demand deposits. In addition, the group's policy is to maintain backstop facilities with relationship banks to support commercial paper obligations.

The following tables provide an analysis of the anticipated contractual cash flows including interest payable for the group's financial liabilities and derivative instruments on an undiscounted basis. Where interest payments are calculated at a floating rate, rates of each cash flow until maturity of the instruments are calculated based on the forward yield curve prevailing at the respective year ends. The gross cash flows of cross currency swaps are presented for the purposes of this table. All other derivative contracts are presented on a net basis. Financial assets and liabilities are presented gross in the consolidated balance sheet although, in practice, the group uses netting arrangements to reduce its liquidity requirements on these instruments.

Contractual cash flows

	Due within 1 year £ million	Due between 1 and 3 years £ million	Due between 3 and 5 years £ million	Due after 5 years £ million	Total £ million	Carrying amount at balance sheet date £ million
2020						
Borrowings[i]	**(1,994)**	**(2,980)**	**(3,080)**	**(8,615)**	**(16,669)**	**(16,785)**
Interest on borrowings[i][iii]	**(466)**	**(669)**	**(541)**	**(1,741)**	**(3,417)**	**(148)**
Lease capital repayments	**(106)**	**(135)**	**(71)**	**(158)**	**(470)**	**(470)**
Lease future interest payments	**(9)**	**(13)**	**(9)**	**(31)**	**(62)**	**–**
Trade and other financial liabilities[ii]	**(2,833)**	**(127)**	**(48)**	**(35)**	**(3,043)**	**(3,006)**
Non-derivative financial liabilities	**(5,408)**	**(3,924)**	**(3,749)**	**(10,580)**	**(23,661)**	**(20,409)**
Cross currency swaps (gross)						
Receivable	**65**	**902**	**89**	**1,506**	**2,562**	**–**
Payable	**(41)**	**(824)**	**(56)**	**(1,014)**	**(1,935)**	**–**
Other derivative instruments (net)	**21**	**89**	**45**	**19**	**174**	**–**
Derivative instruments[iii]	**45**	**167**	**78**	**511**	**801**	**610**
2019						
Borrowings[i]	(1,957)	(2,942)	(2,845)	(4,748)	(12,492)	(12,555)
Interest on borrowings[i][iii]	(363)	(489)	(368)	(1,362)	(2,582)	(124)
Finance lease capital repayments[iv]	(43)	(43)	(33)	(9)	(128)	(128)
Finance lease future interest payments[iv]	(5)	(7)	(3)	–	(15)	–
Trade and other financial liabilities[ii]	(3,305)	(233)	(3)	(11)	(3,552)	(3,524)
Non-derivative financial liabilities	(5,673)	(3,714)	(3,252)	(6,130)	(18,769)	(16,331)
Cross currency swaps (gross)						
Receivable	63	125	854	1,503	2,545	–
Payable	(41)	(82)	(811)	(1,042)	(1,976)	–
Other derivative instruments (net)	70	27	30	18	145	–
Derivative instruments[iii]	92	70	73	479	714	400

(i) For the purpose of these tables above, borrowings are defined as gross borrowings excluding lease liabilities and fair value of derivative instruments as disclosed in note 16.
(ii) Primarily consists of trade and other payables that meet the definition of financial liabilities under IAS 32.
(iii) Carrying amount of interest on borrowings, interest on derivatives and interest on other payable is included within interest payable in note 14.
(iv) For the year ended 30 June 2019 lease liabilities only include liabilities that met the criteria of 'finance leases' under IAS 17 – Leases.

The group had available undrawn committed bank facilities as follows:

	2020 £ million	2019 £ million
Expiring within one year[i]	**2,439**	–
Expiring between one and two years	**610**	–
Expiring after two years	**2,236**	2,756
	5,285	2,756

(i) Diageo has the rights to extend £813 million of the committed facilities expiring within one year to May 2022.

The facilities can be used for general corporate purposes and, together with cash and cash equivalents, support the group's commercial paper programmes.

There are no financial covenants on the group's material short- and long-term borrowings. Certain of these borrowings contain cross default provisions and negative pledges.

The committed bank facilities are subject to a single financial covenant, being minimum interest cover ratio of two times (defined as the ratio of operating profit before exceptional items, aggregated with share of after tax results of associates and joint ventures, to net interest). They are also subject to pari passu ranking and negative pledge covenants.

Any non-compliance with covenants underlying Diageo's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain borrowings and the inability to access committed facilities. Diageo was in full compliance with its financial, pari passu ranking and negative pledge covenants in respect of its material short and long-term borrowings throughout each of the years presented.

(g) Fair value measurements

Fair value measurements of financial instruments are presented through the use of a three-level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.

The group maintains policies and procedures to value instruments using the most relevant data available. If multiple inputs that fall into different levels of the hierarchy are used in the valuation of an instrument, the instrument is categorised on the basis of the most subjective input.

Foreign currency forwards and swaps, cross currency swaps and interest rate swaps are valued using discounted cash flow techniques. These techniques incorporate inputs at levels 1 and 2, such as foreign exchange rates and interest rates. These market inputs are used in the discounted cash flow calculation incorporating the instrument's term, notional amount and discount rate, and taking credit risk into account. As significant inputs to the valuation are observable in active markets, these instruments are categorised as level 2 in the hierarchy.

Other financial liabilities include a put option, which does not have an expiry date, held by Industrias Licoreras de Guatemala (ILG) to sell the remaining 50% equity stake in Rum Creations & Products Inc, the owner of the Zacapa rum brand, to Diageo. The liability is fair valued and as at 30 June 2020 an amount of £167 million (30 June 2019 – £174 million) is recognised as a liability with changes in fair value of the put option included in retained earnings. As the valuation of this option uses assumptions not observable in the market, it is categorised as level 3 in the hierarchy. As at 30 June 2020 because it is unknown when or if ILG will exercise the option the liability is measured as if the exercise date is on the last day of the next financial year considering forecast future performance.

Included in other financial liabilities, the contingent consideration on acquisition of businesses represents the present value of payments up to £283 million linked to certain performance targets which are expected to be paid over the next 10 years.

The group's financial assets and liabilities measured at fair value are categorised as follows:

	2020 £ million	2019 £ million
Derivative assets	**758**	531
Derivative liabilities	**(145)**	(129)
Valuation techniques based on observable market input (Level 2)	**613**	402
Financial assets – other	**116**	86
Financial liabilities – other	**(416)**	(401)
Valuation techniques based on unobservable market input (Level 3)	**(300)**	(315)

In the year ended 30 June 2020, the increase in financial assets – other of £30 million is principally due to additions. In the year ended 30 June 2019 the decrease in financial assets – other of £3 million was mainly due to additions offset by advances promised to associates recognised only when targets are achieved.

The movements in level 3 instruments, measured on a recurring basis, are as follows:

	Zacapa financial liability 2020 £ million	Contingent consideration recognised on acquisition of businesses[(i)] 2020 £ million	Zacapa financial liability 2019 £ million	Contingent consideration recognised on acquisition of businesses 2019 £ million
At the beginning of the year	**(174)**	**(227)**	(164)	(188)
Net losses included in the income statement	**(6)**	**(24)**	(8)	(25)
Net losses included in exchange in other comprehensive income	**(5)**	**(5)**	(8)	(8)
Net gains/(losses) included in retained earnings	**9**	**–**	(3)	–
Additions	**–**	**(42)**	–	(15)
Settlement of liabilities	**9**	**49**	9	9
At the end of the year	**(167)**	**(249)**	(174)	(227)

(i) Included in the balance at 30 June 2020 is £173 million in respect of the acquisition of Casamigos (2019 – £197 million).

There were no transfers between levels during the two years ended 30 June 2020 and 30 June 2019.

(h) Results of hedge relationships

The group targets a one-to-one hedge ratio. Strengths of the economic relationship between the hedged item and the hedging instrument is analysed on an ongoing basis. Ineffectiveness can arise from subsequent change in the forecast transactions as a result of timing, cash flows or value except when the critical terms of the hedging instrument and hedged item are closely aligned. The change in the credit risk of the hedging instruments or the hedged items is not expected to be the primary factor in the economic relationship.

The notional amounts, contractual maturities and rates of the hedging instruments designated in hedging relationships as of 30 June 2020 by the main risk categories are as follows:

	Notional amounts £ million	Maturity	Range of hedged rates[(i)]
2020			
Net investment hedges			
Derivatives in net investment hedges of foreign operations	**–**	**–**	**–**
Cash flow hedges			
Derivatives in cash flow hedge (foreign currency debt)	**1,667**	**April 2023-April 2043**	**US dollar 1.22-1.88**
Derivatives in cash flow hedge (foreign currency exchange risk)	**1,428**	**September 2020-March 2022**	**US dollar 1.19-1.36, euro 1.06-1.18**
Derivatives in cash flow hedge (commodity price risk)	**133**	**July 2020 – February 2023**	**Corn: 3.45 – 4.04 USD/Bu Fuel Oil: 1.11 – 1.87 USD/gal**
Fair value hedges			
Derivatives in fair value hedge (interest rate risk)	**6,092**	**July 2020-April 2030**	**(0.01)-4.83%**
2019			
Net investment hedges			
Derivatives in net investment hedges of foreign operations	68	July 2019	Turkish lira 7.55
Cash flow hedges			
Derivatives in cash flow hedge (foreign currency debt)	1,614	April 2023-April 2043	US dollar 1.22-1.88
Derivatives in cash flow hedge (foreign currency exchange risk)	1,599	September 2019-February 2021	US dollar 1.28-1.47, euro 1.08-1.15
Derivatives in cash flow hedge (commodity price risk)	97	July 2019-May 2021	Wheat 148.75-171 GBP/t, Aluminium 1971-2204 USD/MT
Fair value hedges			
Derivatives in fair value hedge (interest rate risk)	4,063	May 2020-May 2028	(0.01)-3.09%

(i) In case of derivatives in cash flow hedge (commodity price risk and foreign exchange risk) the range of the most significant contract's hedged rates are presented.

For hedges of the cash flow risk from a change in forward exchange rates using cross currency interest rate swaps, the retranslation of the related bond principal to closing exchange rates and recognition of interest on the related bonds will affect the income statement in each year until the related bonds mature in 2023, 2036 and 2043. Exchange retranslation and the interest on the hedged bonds in the income statement are expected to offset those on the cross currency swaps in each of the years.

In respect of cash flow hedging instruments, a gain of £173 million (2019 – £79 million gain; 2018 – £57 million loss) has been recognised in other comprehensive income due to changes in fair value. A loss of £42 million has been transferred out of other comprehensive income to other operating expenses and a gain of £75 million to other finance charges, respectively (2019 – a loss of £45 million and a gain of £82 million; 2018 – a gain of £7 million and a loss of £6 million) to offset the foreign exchange impact on the underlying transactions. A loss of £8 million (2019 - £nil, 2018 - £nil) has been transferred out of other comprehensive income to operating profit in relation to commodity hedges. The carrying amount of hedged items recognised in the statement of financial position in relation to hedges of cash flow risk arising from foreign currency debts equals the notional value of the hedging instruments at 30 June 2020 and are included within borrowings. The notional amount for cash flow hedges of foreign currency debt at 30 June 2020 was £1,667 million (2019 – £1,614 million).

For cash flow hedges of forecast transactions at 30 June 2020, based on year end interest and exchange rates, there is expected to be a loss to the income statement of £62 million in the year ending 30 June 2021 and a gain of £4 million in the year ending 30 June 2022.

For hedges, that are no longer applicable at 30 June 2020, a loss of £20 million (2019 – a loss of £20 million) in respect of hedges of foreign currency borrowings is reported in reserves. There was no significant ineffectiveness on net investment and cash flow hedges during the year ended 30 June 2020.

The carrying amount of hedged items recognised in the statement of financial position in relation to fair value hedges £6,092 million (2019 – £4,063 million) equals the notional value of the hedging instruments at 30 June 2020 and are included within borrowings.

For fair value hedges, that are no longer applicable, the accumulated fair value changes shown on the statement of financial position at 30 June 2020 was £13 million (2019 – £21 million).

The following table sets out information regarding the effectiveness of hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income:

	At the beginning of the year £ million	Income statement £ million	Other comprehensive income £ million	Other £ million	At the end of the year £ million
2020					
Net investment hedges					
Derivatives in net investment hedges of foreign operations	**(1)**	**–**	**(1)**	**2**	**–**
Cash flow hedges					
Derivatives in cash flow hedge (foreign currency debt)	**271**	**75**	**146**	**(23)**	**469**
Derivatives in cash flow hedge (foreign currency exchange risk)	**(57)**	**(47)**	**(1)**	**47**	**(58)**
Derivatives in cash flow hedge (commodity price risk)	**(9)**	**(8)**	**(3)**	**11**	**(9)**
Fair value hedges					
Derivatives in fair value hedge (interest rate risk)	**104**	**85**	**–**	**–**	**189**
Fair value hedge hedged item	**(103)**	**(86)**	**–**	**–**	**(189)**
Instruments in fair value hedge relationship	**1**	**(1)**	**–**	**–**	**–**
2019					
Net investment hedges					
Derivatives in net investment hedges of foreign operations	(3)	–	(25)	27	(1)
Cash flow hedges					
Derivatives in cash flow hedge (foreign currency debt)	112	82	98	(21)	271
Derivatives in cash flow hedge (foreign currency exchange risk)	(16)	(24)	(41)	24	(57)
Derivatives in cash flow hedge (commodity price risk)	–	–	(9)	–	(9)
Fair value hedges					
Derivatives in fair value hedge (interest rate risk)	(15)	119	–	–	104
Fair value hedge hedged item	17	(120)	–	–	(103)
Instruments in fair value hedge relationship	2	(1)	–	–	1

(i) Reconciliation of financial instruments

The table below sets out the group's accounting classification of each class of financial assets and liabilities:

	Fair value through income statement £ million	Fair value through other comprehensive income £ million	Assets and liabilities at amortised cost £ million	Not categorised as a financial instrument £ million	Total £ million	Current £ million	Non-current £ million
2020							
Other investments and loans(i)	**96**	**20**	**5**	**2**	**123**	**–**	**123**
Trade and other receivables	**–**	**–**	**1,784**	**373**	**2,157**	**2,111**	**46**
Cash and cash equivalents	**–**	**–**	**3,323**	**–**	**3,323**	**3,323**	**–**
Derivatives in fair value hedge (interest rate risk)	**189**	**–**	**–**	**–**	**189**	**–**	**189**
Derivatives in cash flow hedge (foreign currency debt)	**469**	**–**	**–**	**–**	**469**	**–**	**469**
Derivatives in cash flow hedge (foreign currency exchange risk)	**8**	**–**	**–**	**–**	**8**	**1**	**7**
Derivatives in cash flow hedge (commodity price risk)	**1**	**–**	**–**	**–**	**1**	**1**	**–**
Other instruments	**91**	**–**	**–**	**–**	**91**	**73**	**18**
Leases	**–**	**–**	**3**	**–**	**3**	**–**	**3**
Total other financial assets	**758**	**–**	**3**	**–**	**761**	**75**	**686**
Total financial assets	**854**	**20**	**5,115**	**375**	**6,364**	**5,509**	**855**
Borrowings(ii)	**–**	**–**	**(16,785)**	**–**	**(16,785)**	**(1,995)**	**(14,790)**
Trade and other payables	**(249)**	**–**	**(2,742)**	**(867)**	**(3,858)**	**(3,683)**	**(175)**
Derivatives in cash flow hedge (foreign currency exchange risk)	**(66)**	**–**	**–**	**–**	**(66)**	**(52)**	**(14)**
Derivatives in cash flow hedge (commodity price risk)	**(10)**	**–**	**–**	**–**	**(10)**	**(9)**	**(1)**
Other instruments	**(236)**	**–**	**–**	**–**	**(236)**	**(222)**	**(14)**
Leases	**–**	**–**	**(470)**	**–**	**(470)**	**(106)**	**(364)**
Total other financial liabilities	**(312)**	**–**	**(470)**	**–**	**(782)**	**(389)**	**(393)**
Total financial liabilities	**(561)**	**–**	**(19,997)**	**(867)**	**(21,425)**	**(6,067)**	**(15,358)**
Total net financial assets/(liabilities)	**293**	**20**	**(14,882)**	**(492)**	**(15,061)**	**(558)**	**(14,503)**
2019							
Other investments and loans(i)	67	19	16	2	104	–	104
Trade and other receivables	–	–	2,385	362	2,747	2,694	53
Cash and cash equivalents	–	–	932	–	932	932	–
Derivatives in fair value hedge (interest rate risk)	104	–	–	–	104	2	102
Derivatives in cash flow hedge (foreign currency debt)	283	–	–	–	283	–	283
Derivatives in cash flow hedge (foreign currency exchange risk)	1	–	–	–	1	1	–
Other instruments at fair value	143	–	–	–	143	124	19
Total other financial assets	531	–	–	–	531	127	404
Total financial assets	598	19	3,333	364	4,314	3,753	561
Borrowings(ii)	–	–	(12,555)	–	(12,555)	(1,959)	(10,596)
Trade and other payables	(227)	–	(3,251)	(946)	(4,424)	(4,202)	(222)
Derivatives in cash flow hedge (foreign currency debt)	(12)	–	–	–	(12)	–	(12)
Derivatives in cash flow hedge (foreign currency exchange risk)	(58)	–	–	–	(58)	(41)	(17)
Derivatives in cash flow hedge (commodity price risk)	(9)	–	–	–	(9)	(9)	–
Derivatives in net investment hedge	(1)	–	–	–	(1)	(1)	–
Other instruments	(223)	–	(26)	–	(249)	(239)	(10)
Finance leases(iii)	–	–	(128)	–	(128)	(43)	(85)
Total other financial liabilities	(303)	–	(154)	–	(457)	(333)	(124)
Total financial liabilities	(530)	–	(15,960)	(946)	(17,436)	(6,494)	(10,942)
Total net financial liabilities	68	19	(12,627)	(582)	(13,122)	(2,741)	(10,381)

(i) Other investments and loans are including those in respect of associates.
(ii) Borrowings are defined as gross borrowings excluding lease liabilities and the fair value of derivative instruments.
(iii) In the year ended 30 June 2019 lease liabilities only include liabilities that met the criteria of 'finance leases' under IAS 17 – Leases.

At 30 June 2020 and 30 June 2019, the carrying values of cash and cash equivalents, other financial assets and liabilities approximate to fair values. At 30 June 2020 the fair value of borrowings, based on unadjusted quoted market data, was £18,175 million (2019 – £13,240 million).

(j) Capital management

The group's management is committed to enhancing shareholder value in the long-term, both by investing in the business and brands so as to deliver continued improvement in the return from those investments and by managing the capital structure. Diageo manages its capital structure to achieve capital efficiency, provide flexibility to invest through the economic cycle and give efficient access to debt markets at attractive cost levels. This is achieved by targeting an adjusted net borrowings (net borrowings aggregated with post employment benefit liabilities) to adjusted EBITDA leverage of 2.5 – 3.0 times, this range for Diageo being currently broadly consistent with an A band credit rating. Diageo would consider operating outside of this range in order to effect strategic initiatives within its stated goals, which could have an impact on its rating. If Diageo's leverage was to be negatively impacted by the financing of an acquisition, it would seek over time to return to the range of 2.5 – 3.0 times. The group regularly assesses its debt and equity capital levels against its stated policy for capital structure. As at 30 June 2020 the adjusted net borrowings (£13,995 million) to adjusted EBITDA ratio was 3.3 times. For this calculation net borrowings are adjusted by post employment benefit liabilities before tax (£749 million) whilst adjusted EBITDA (£4,270 million) comprises operating profit excluding exceptional operating items and depreciation, amortisation and impairment and includes share of after tax results of associates and joint ventures.

16. Net borrowings

Accounting policies

Borrowings are initially recognised at fair value net of transaction costs and are subsequently reported at amortised cost. Certain bonds are designated in fair value hedge relationship. In these cases, the amortised cost is adjusted for the fair value of the risk being hedged, with changes in value recognised in the income statement. The fair value adjustment is calculated using a discounted cash flow technique based on unadjusted market data.

Bank overdrafts form an integral part of the group's cash management and are included as a component of net cash and cash equivalents in the consolidated statement of cash flows.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less, including money market deposits, commercial paper and investments.

Net borrowings are defined as gross borrowings (short-term borrowings and long-term borrowings plus lease liabilities plus interest rate hedging instruments, cross currency interest rate swaps and funding foreign currency forwards and swaps used to manage borrowings) less cash and cash equivalents.

As a result of the adoption of IFRS 16 on 1 July 2019, net borrowings include leases previously classified as operating leases under IAS 17. Comparative information has not been restated.

	2020 £ million	2019 £ million
Bank overdrafts	**170**	211
Commercial paper	**–**	649
Bank and other loans	**367**	190
Credit support obligations	**180**	120
US$ 500 million floating bonds due 2020	**–**	394
US$ 500 million 3% bonds due 2020	**–**	393
€ 775 million 0% bonds due 2020	**711**	–
US$ 696 million 4.828% bonds due 2020	**566**	–
Fair value adjustment to borrowings	**1**	2
Borrowings due within one year	**1,995**	1,959
€ 775 million 0% bonds due 2020	**–**	691
US$ 696 million 4.828% bonds due 2020	**–**	538
€ 900 million 0.25% bonds due 2021	**825**	802
US$ 1,000 million 2.875% bonds due 2022[i]	**812**	785
US$ 300 million 8% bonds due 2022[i]	**243**	235
US$ 1,350 million 2.625% bonds due 2023	**1,096**	1,060
€ 600 million 0.125% bonds due 2023	**548**	533
US$ 500 million 3.5% bonds due 2023	**405**	393
US$ 600 million 2.125% bonds due 2024	**487**	–
€ 500 million 1.75% bonds due 2024	**456**	444
€ 500 million 0.5% bonds due 2024	**456**	443
US$ 750 million 1.375% bonds due 2025	**606**	–
€ 600 million 1% bonds due 2025	**546**	531
€ 850 million 2.375% bonds due 2026	**776**	755
£ 500 million 1.75% bonds due 2026	**496**	496
€ 750 million 1.875% bonds due 2027	**683**	–
€ 500 million 1.5% bonds due 2027	**457**	445
US$ 500 million 3.875% bonds due 2028	**404**	391
US$ 1,000 million 2.375% bonds due 2029	**804**	–
£ 300 million 2.875% bonds due 2029	**298**	–
US$ 1,000 million 2% bonds due 2030	**807**	–
€ 1,000 million 2.5% bonds due 2032	**911**	–
US$ 750 million 2.125% bonds due 2032	**603**	–
US$ 400 million 7.45% bonds due 2035[i]	**325**	315
US$ 600 million 5.875% bonds due 2036	**483**	468
US$ 500 million 4.25% bonds due 2042[i]	**402**	389
US$ 500 million 3.875% bonds due 2043	**400**	387
Bank and other loans	**260**	373
Fair value adjustment to borrowings	**201**	122
Borrowings due after one year	**14,790**	10,596
Total borrowings before derivative financial instruments	**16,785**	12,555
Fair value of cross currency interest rate swaps	**(469)**	(271)
Fair value of foreign exchange swaps and forwards	**(28)**	(99)
Fair value of interest rate hedging instruments	**(189)**	(104)
Lease liabilities[ii]	**470**	128
Gross borrowings	**16,569**	12,209
Less: Cash and cash equivalents	**(3,323)**	(932)
Net borrowings	**13,246**	11,277

(i) SEC-registered debt issued on an unsecured basis by Diageo Investment Corporation, a 100% owned finance subsidiary of Diageo plc.

(ii) In the year ended 30 June 2019 lease liabilities only includes leases that were classified as finance leases under IAS 17 – Leases.

(1) The interest rates shown are those contracted on the underlying borrowings before taking into account any interest rate hedges (see note 15).

(2) Bonds are stated net of unamortised finance costs of £86 million (2019 – £63 million; 2018 – £60 million).

(3) Bonds are reported above at amortised cost with a fair value adjustment shown separately.

(4) All bonds, medium-term notes and commercial paper issued on an unsecured basis by the group's 100% owned subsidiaries are fully and unconditionally guaranteed on an unsecured basis by Diageo plc.

Gross borrowings before derivative financial instruments are expected to mature as follows:

	2020 £ million	2019 £ million
Within one year	**1,995**	1,959
Between one and three years	**3,013**	2,940
Between three and five years	**3,134**	2,879
Beyond five years	**8,643**	4,777
	16,785	12,555

During the year the following bonds were issued and repaid:

	2020 £ million	2019 £ million	2018 £ million
Issued			
€ denominated	**1,594**	2,270	1,136
£ denominated	**298**	496	–
US$ denominated	**3,296**	–	1,476
Repaid			
€ denominated	**–**	(1,168)	–
US$ denominated	**(820)**	–	(1,571)
	4,368	1,598	1,041

(a) Reconciliation of movement in net borrowings

	2020 £ million	2019 £ million
At beginning of the year	**11,277**	9,091
Net increase in cash and cash equivalents before exchange	**(2,552)**	(54)
Net increase in bonds and other borrowings[(i)]	**4,089**	2,331
Change in net borrowings from cash flows	**1,537**	2,277
Exchange differences on net borrowings	**95**	22
Other non-cash items[(ii)]	**86**	(113)
Adoption of IFRS 16	**251**	–
Net borrowings at end of the year	**13,246**	11,277

(i) In the year ended 30 June 2020, net increase in bonds and other borrowings excludes £6 million cash outflow in respect of derivatives designated in forward point hedges (2019 – £12 million).

(ii) In the years ended 30 June 2020 other non-cash items are principally in respect of leases of £206 million entered into in the period 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.

(b) Analysis of net borrowings by currency

	2020		2019	
	Cash and cash equivalents £ million	Gross borrowings[(i)] £ million	Cash and cash equivalents £ million	Gross borrowings[(i)] £ million
US dollar	**2,649**	**(6,300)**	88	525
Euro	**57**	**(3,119)**	70	(2,910)
Sterling	**19**	**(6,233)**	40	(9,308)
Indian rupee	**13**	**(253)**	23	(247)
Kenyan shilling	**28**	**(351)**	79	(223)
Hungarian forint	**3**	**(239)**	4	157
Mexican peso	**16**	**(104)**	16	(78)
South African rand	**1**	**(23)**	23	(35)
Chinese yuan	**207**	**(1)**	249	9
Other[(ii)]	**330**	**54**	340	(99)
Total	**3,323**	**(16,569)**	932	(12,209)

(i) Includes foreign currency forwards and swaps and leases.

(ii) Includes £100 million (Turkish lira) cash and cash equivalents in cash-pooling arrangements (2019 – £122 million (Turkish lira)).

17. Equity

Accounting policies

Own shares represent shares and share options of Diageo plc that are held in treasury or by employee share trusts for the purpose of fulfilling obligations in respect of various employee share plans or were acquired as part of a share buyback programme. Own shares are treated as a deduction from equity until the shares are cancelled, reissued or disposed of and when vest are transferred from own shares to retained earnings at their weighted average cost.

Share-based payments include share awards and options granted to directors and employees. The fair value of equity settled share options and share grants is initially measured at grant date based on the binomial or Monte Carlo models and is charged to the income statement over the vesting period. For equity settled shares the credit is included in retained earnings. Cancellations of share options are treated as an acceleration of the vesting period and any outstanding charge is recognised in operating profit immediately. Any surplus or deficit arising on the sale of the Diageo plc shares held by the group is included as a movement in equity.

Dividends are included in the financial statements in the year in which they are approved.

(a) Allotted and fully paid share capital – ordinary shares of $28\frac{101}{108}$ pence each

	Number of shares million	Nominal value £ million
At 30 June 2020	**2,562**	**742**
At 30 June 2019	2,601	753
At 30 June 2018	2,695	780

(b) Hedging and exchange reserve

	Hedging reserve £ million	Exchange reserve £ million	Total £ million
At 30 June 2017	(21)	(432)	(453)
Other comprehensive loss	(44)	(530)	(574)
Adoption of IFRS 9 by associate	(3)	–	(3)
At 30 June 2018	(68)	(962)	(1,030)
Other comprehensive income	31	181	212
At 30 June 2019	**(37)**	**(781)**	**(818)**
Other comprehensive income/(loss)	**125**	**(241)**	**(116)**
Transfers from other retained earnings	**5**	**–**	**5**
At 30 June 2020	**93**	**(1,022)**	**(929)**

£30 million surplus (2019 – £1 million surplus, 2018 – £9 million deficit) out of the hedging reserve represents the cost of hedging arising as a result of imperfections of foreign exchange markets in the form of foreign currency basis spreads.

(c) Own shares

Movements in own shares

	Number of shares million	Purchase consideration £ million
At 30 June 2017	241	2,176
Share trust arrangements	(1)	(9)
Shares purchased – employee share plans	2	66
Shares used to satisfy options	(4)	(89)
Shares purchased – share buyback programme	59	1,507
Shares cancelled	(59)	(1,507)
At 30 June 2018	238	2,144
Share trust arrangements	(1)	(14)
Shares used to satisfy options	(5)	(104)
Shares purchased – share buyback programme	95	2,775
Shares cancelled	(95)	(2,775)
At 30 June 2019	**232**	**2,026**
Share trust arrangements	**(1)**	**(7)**
Shares used to satisfy options	**(4)**	**(83)**
Shares purchased – share buyback programme	**39**	**1,282**
Shares cancelled	**(39)**	**(1,282)**
At 30 June 2020	**227**	**1,936**

Share trust arrangements

At 30 June 2020 the employee share trusts owned 2 million of ordinary shares in Diageo plc (the company) at a cost of £51 million and market value of £57 million (2019 – 3 million shares at a cost of £58 million, market value £92 million; 2018 – 4 million shares at a cost of £72 million, market value £106 million). Dividends receivable by the employee share trusts on the shares are waived and the trustee abstains from voting.

Purchase of own shares

Authorisation was given by shareholders on 19 September 2019 to purchase a maximum of 237,177,623 shares at a minimum price of $28^{101}/_{108}$ pence and a maximum price of higher of (a) 105% of the average of the middle market quotations for an ordinary share for the five preceding business days and (b) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out. The programme expires at the conclusion of the next Annual General Meeting or on 18 December 2020 if earlier.

During the year ended 30 June 2019 the company purchased call options over 4 million shares at a cost of £14 million to hedge employee share awards and share option grants. These are three-year call options, denominated in sterling. During the year ended 30 June 2018, as part of the employee share schemes, the company purchased 2.5 million ordinary shares, nominal value of £1 million, representing approximately 0.1% of the issued ordinary share capital (excluding treasury shares).

On 25 July 2019, the Board approved a return of capital programme with up to £4.5 billion to be returned to shareholders over the three-year period to 30 June 2022. Under the first phase of the programme, which ended on 31 January 2020, the group returned £1.25 billion via share buybacks.

During the year ended 30 June 2020 the group purchased approximately 39 million ordinary shares (2019 – 94.7 million, 2018 – 58.9 million), representing approximately 1.5% of the issued ordinary share capital (2019 – 3.5%, 2018 – 2.1%) at an average price of £32.43 per share, and an aggregate cost of £1,282 million (including £7 million of transaction costs) (2019 – £29.24 per share, and an aggregate cost of £2,775 million including £6 million of transaction costs, 2018 – £25.43 per share, and an aggregate cost of £1,507 million, including £9 million of transaction costs) under the share buyback programme. 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 borrowings 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.

The monthly breakdown of all shares purchased and the average price paid per share (excluding expenses) for the year ended 30 June 2020 were as follows:

Period	Number of shares purchased under share buyback programme	Total number of shares purchased	Average price paid pence	Authorised purchases unutilised at month end
July 2019	270,502	270,502	3373	162,912,211
August 2019	5,945,767	5,945,767	3422	156,966,444
1-19 September 2019	5,662,939	5,662,939	3514	151,303,505
20-30 September 2019	2,549,669	2,549,669	3249	234,627,954
October 2019	9,959,084	9,959,084	3220	224,668,870
November 2019	3,837,551	3,837,551	3099	220,831,319
December 2019	6,597,406	6,597,406	3100	214,233,913
January 2020	4,176,677	4,176,677	3165	210,057,236
Total	**38,999,595**	**38,999,595**	**3243**	**210,057,236**

In April 2020, the Directors became aware that certain share buybacks and certain transactions related to the company's employee share schemes with or for the benefit of the company's employee benefit and share ownership trusts undertaken between 10 May 2019 and 9 August 2019, were undertaken contrary to the applicable provisions of the Companies Act 2006 as they were undertaken following utilisation in full of the company's distributable reserves. For further details, refer to note 9 of the company financial statements of Diageo plc.

(d) Dividends

	2020 £ million	2019 £ million	2018 £ million
Amounts recognised as distributions to equity shareholders in the year			
Final dividend for the year ended 30 June 2019			
42.47 pence per share (2018 – 40.4 pence; 2017 – 38.5 pence)	**1,006**	993	968
Interim dividend for the year ended 30 June 2020			
27.41 pence per share (2019 – 26.1 pence; 2018 – 24.9 pence)	**640**	630	613
	1,646	1,623	1,581

The proposed final dividend of £992 million (42.47 pence per share) for the year ended 30 June 2020 was approved by the Board of Directors on 3 August 2020. As this was after the balance sheet date and the dividend is subject to approval by shareholders at the Annual General Meeting, this dividend has not been included as a liability in these consolidated financial statements. There are no corporate tax consequences arising from this treatment.

Dividends are waived on all treasury shares owned by the company and all shares owned by the employee share trusts.

(e) Non-controlling interests

Diageo consolidates USL, a company incorporated in India, with a 42.73% non-controlling interest and has a 50% controlling interest in Ketel One Worldwide B.V. (Ketel One), a company incorporated in the Netherlands. All other consolidated subsidiaries are fully owned or the non-controlling interests are not material.

Summarised financial information for USL and other subsidiaries, after fair value adjustments on acquisition, and the amounts attributable to non-controlling interests are as follows:

	2020			2019	2018
	USL £ million	Others £ million	Total £ million	Total £ million	Total £ million
Income statement					
Sales	**2,790**	**1,898**	**4,688**	5,346	4,926
Net sales	**846**	**1,468**	**2,314**	2,656	2,431
(Loss)/profit for the year	**(53)**	**138**	**85**	383	244
Other comprehensive (loss)/income[i]	**(112)**	**16**	**(96)**	137	(163)
Total comprehensive (loss)/income	**(165)**	**154**	**(11)**	520	81
Attributable to non-controlling interests	**(71)**	**79**	**8**	234	53
Balance sheet					
Non-current assets[ii]	**2,041**	**3,129**	**5,170**	5,313	4,973
Current assets	**541**	**739**	**1,280**	1,469	1,384
Non-current liabilities	**(349)**	**(1,110)**	**(1,459)**	(1,526)	(1,425)
Current liabilities	**(466)**	**(722)**	**(1,188)**	(1,204)	(1,183)
Net assets	**1,767**	**2,036**	**3,803**	4,052	3,749
Attributable to non-controlling interests	**756**	**912**	**1,668**	1,795	1,765
Cash flow					
Net cash inflow from operating activities	**29**	**204**	**233**	542	334
Net cash outflow from investing activities	**(16)**	**(136)**	**(152)**	(157)	(136)
Net cash outflow from financing activities	**(34)**	**(175)**	**(209)**	(266)	(164)
Net (decrease)/increase in cash and cash equivalents	**(21)**	**(107)**	**(128)**	119	34
Exchange differences	**(1)**	**(2)**	**(3)**	3	(2)
Dividends payable to non-controlling interests	**–**	**(117)**	**(117)**	(114)	(101)

(i) Other comprehensive income is principally in respect of exchange on translating the subsidiaries to sterling.

(ii) Non-current assets include the global distribution rights to distribute Ketel One vodka products throughout the world. The carrying value of the distribution rights at 30 June 2020 was £1,464 million (2019 – £1,418 million; 2018 – £1,363 million).

(1) On 29 July 2019 East African Breweries Limited completed a purchase of 4% of the share capital of Serengeti Breweries Limited. This increased Diageo's effective economic interest from 39.2% to 40.2%.

(2) On 20 August 2019 and 28 February 2020 Diageo completed the purchase of 0.46% and 0.7% of the share capital of United Spirits Limited (USL) respectively. This increased Diageo's controlling shareholding position from 54.78% to 55.94%, excluding 2.38% owned by the USL Share Trust.

(f) Employee share compensation

The group uses a number of share award and option plans to grant to its directors and employees.

The annual fair value charge in respect of the equity settled plans for the three years ended 30 June 2020 is as follows:

	2020 £ million	2019 £ million	2018 £ million
Executive share award plans	**(3)**	41	33
Executive share option plans	**2**	4	3
Savings plans	**3**	4	3
	2	49	39

Executive share awards are primarily made under the Diageo 2014 Long Term Incentive Plan (DLTIP) from September 2014 onwards. Prior to the introduction of the DLTIP, employees in associated companies were granted awards under the Diageo plc 2011 Associated Companies Share Incentive Plan (DACSIP). There was a single grant in September 2016 under the Diageo Performance Incentive plan. Under all of these plans, conditional awards can be delivered in the form of restricted shares or share options at the market value at the time of grant.

Share awards normally vest and are released on the third anniversary of the grant date. Participants do not make a payment to receive the award at grant. Executive Directors are required to hold any vested shares awarded from 2014 for a further two-year period. Share options may normally be exercised between three and ten years after the grant date. Executives in North America and Latin America and Caribbean are granted awards over the company's ADSs (one ADS is equivalent to four ordinary shares).

Performance shares under the DLTIP are subject to the achievement of three equally weighted performance tests: 1) compound annual growth in profit before exceptional items over three years; 2) compound annual growth in organic net sales over three years; 3) cumulative free cash flow over a three-year period, measured at constant exchange rates. Shares awarded under the Diageo Performance Incentive plan (DPI) in September 2016 are subject to the achievement of two equally weighted performance tests over the three-year performance period. These were: 1) compound annual growth in organic net sales over three years; and 2) productivity savings over three years, with an assessment of line manager performance as an underpin. Performance share options under the DLTIP are subject to the achievement of two equally weighted performance tests: 1) a comparison of Diageo's three-year TSR with a peer group; 2) compound annual growth in profit before exceptional items over three years. Performance measures and targets are set annually by the Remuneration Committee. The vesting range is 20% or 25% (for Executive Directors and for other participants respectively) for achieving minimum performance targets, up to 100% for achieving the maximum target level. Retesting of the performance condition is not permitted.

For performance shares under the DLTIP dividends are accrued on awards and are given to participants to the extent that the awards actually vest at the end of the performance period. Dividends are normally paid out in the form of shares.

For the three years ended 30 June 2020, the calculation of the fair value of each share award used the Monte Carlo pricing model and the following assumptions:

	2020	2019	2018
Risk free interest rate	**0.4%**	0.8%	0.3%
Expected life of the awards	**37 months**	37 months	37 months
Dividend yield	**1.9%**	2.4%	2.6%
Weighted average share price	**3501 p**	2736 p	2573 p
Weighted average fair value of awards granted in the year	**899 p**	1941 p	1761 p
Number of awards granted in the year	**1.7 million**	2.5 million	2.3 million
Fair value of all awards granted in the year	**£16 million**	£48 million	£41 million

Transactions on schemes

Transactions on the executive share award plans for the three years ended 30 June 2020 were as follows:

	2020 Number of awards million	2019 Number of awards million	2018 Number of awards million
Balance outstanding at 1 July	**7.0**	7.8	7.9
Granted	**1.8**	2.5	2.3
Awarded	**(2.5)**	(2.1)	(0.7)
Forfeited	**(0.7)**	(1.2)	(1.7)
Balance outstanding at 30 June	**5.6**	7.0	7.8

The exercise price of share options outstanding at 30 June 2020 was in the range of 1080-3483 pence (2019 – 952-2773 pence; 2018 – 765-2602 pence).

At 30 June 2020, 3.8 million share options were exercisable at a weighted average exercise price of 1998 pence.

Other financial information

Introduction

This section includes additional financial information that are either required by the relevant accounting standards or management considers these to be material information for shareholders.

18. Contingent liabilities and legal proceedings

Accounting policies

Provision is made for the anticipated settlement costs of legal or other disputes against the group where it is considered to be probable that a liability exists and a reliable estimate can be made of the likely outcome. Where it is possible that a settlement may be reached or it is not possible to make a reliable estimate of the estimated financial effect appropriate disclosure is made but no provision created.

Critical accounting judgements and estimates

Judgement is necessary in assessing the likelihood that a claim will succeed, or a liability will arise, and an estimate to quantify the possible range of any settlement. Due to the inherent uncertainty in this evaluation process, actual losses may be different from the liability originally estimated. The group may be involved in legal proceedings in respect of which it is not possible to make a reliable estimate of any expected settlement, if any. In such cases appropriate disclosure is provided but no provision is made and no contingent liability is quantified.

(a) Guarantees and related matters

As of 30 June 2020, the group has no material unprovided guarantees or indemnities in respect of liabilities of third parties.

(b) Acquisition of USL shares from UBHL, winding-up petitions against UBHL and other proceedings in relation to the USL transaction

On 4 July 2013, Diageo completed its acquisition, under a share purchase agreement with United Breweries (Holdings) Limited (UBHL) and various other sellers (the SPA), of 21,767,749 shares (14.98%) in United Spirits Limited (USL) for a total consideration of INR 31.3 billion (£349 million), including 10,141,437 shares (6.98%) from UBHL. The SPA was signed on 9 November 2012 and was part of the transaction announced by Diageo in relation to USL on that day (the Original USL Transaction). Following a series of further transactions, as of 30 June 2020, Diageo has a 55.94% investment in USL (excluding 2.38% owned by the USL Benefit Trust).

Prior to the acquisition from UBHL on 4 July 2013, the High Court of Karnataka (High Court) had granted leave to UBHL under sections 536 and 537 of the Indian Companies Act 1956 (the Leave Order) to enable the sale by UBHL to Diageo to take place (the UBHL Share Sale) notwithstanding the continued existence of five winding-up petitions that were pending against UBHL on 9 November 2012, being the date of the SPA. Additional winding-up petitions have been brought against UBHL since 9 November 2012, and the Leave Order did not extend to them. At the time of the completion of the UBHL Share Sale, the Leave Order remained subject to review on appeal. However, as stated by Diageo at the time of closing on 4 July 2013, it was considered unlikely that any appeal process in respect of the Leave Order would definitively conclude on a timely basis and, accordingly, Diageo waived the conditionality under the SPA relating to the absence of insolvency proceedings in relation to UBHL and acquired the 10,141,437 USL shares from UBHL at that time.

Following closing of the UBHL Share Sale, appeals were filed by various petitioners in respect of the Leave Order. On 20 December 2013, the division bench of the High Court set aside the Leave Order (the December 2013 Order). Following the December 2013 Order, Diageo filed special leave petitions (SLPs) in the Supreme Court of India against the December 2013 Order.

On 10 February 2014, the Supreme Court of India issued an order giving notice in respect of the SLPs and ordering that the status quo be maintained with regard to the UBHL Share Sale pending a hearing on the matter in the Supreme Court. Following a number of adjournments, the next date for a substantive hearing of the SLPs (in respect of which leave has since been granted and which have been converted to civil appeals) is yet to be fixed.

In separate proceedings, the High Court passed a winding-up order against UBHL on 7 February 2017. On 4 March 2017, UBHL appealed against this order before a division bench of the High Court. On 6 March 2020, the division bench of the High Court, confirmed the winding up order dated 7 February 2017, and dismissed the appeal filed by UBHL. On 30 June 2020, UBHL filed a special leave petition in the Supreme Court of India against the order of the division bench of the High Court. This petition is currently pending.

Diageo continues to believe that the acquisition price of INR 1,440 per share paid to UBHL for the USL shares is fair and reasonable as regards UBHL, UBHL's shareholders and UBHL's secured and unsecured creditors. However, adverse results for Diageo in the proceedings referred to above could, absent leave or relief in other proceedings, ultimately result in Diageo losing title to the 6.98% stake acquired from UBHL (now represented by 50,707,185 USL shares following a share split). Diageo believes, including by reason of its rights under USL's articles of association to nominate USL's CEO and CFO and the right to appoint, through USL, a majority of the directors on the boards of USL's subsidiaries as well as its ability as promoter to nominate for appointment up to two-thirds of USL's directors for so long as the chairperson of USL is an independent director, that it would remain in control of USL and be able to consolidate USL as a subsidiary regardless of the outcome of this litigation.

There can be no certainty as to the outcome of the existing or any further related legal proceedings or the timeframe within which they would be concluded.

Diageo also has the benefit of certain contractual undertakings and commitments from the relevant sellers in relation to potential challenges to its unencumbered title to the USL shares acquired on 4 July 2013, including relating to the winding-up petitions described above and/or certain losses and costs that may be incurred in the event of third party actions relating to the acquisition of the USL shares.

(c) Continuing matters relating to the resignation of Dr Vijay Mallya from USL and USL internal inquiries

On 25 February 2016, Diageo and USL each announced that they had entered into arrangements with Dr Mallya under which he had agreed to resign from his position as a director and as chairman of USL and from his positions in USL's subsidiaries. As specified by Diageo in its announcement at that time, these arrangements ended its prior agreement with Dr Mallya regarding his position at USL, therefore bringing to an end the uncertainty relating to the governance of USL, and put in place a five-year global non-compete (excluding the United Kingdom), non-interference, non-solicitation and standstill arrangement with Dr Mallya. As part of those arrangements, USL, Diageo and Dr Mallya agreed a mutual release in relation to matters arising out of an inquiry into certain matters referred to in USL's financial statements and the qualified auditor's report for the year ended 31 March 2014 (the Initial Inquiry) which had revealed, among other things, certain diversions of USL funds. Dr Mallya also agreed not to pursue any claims against Diageo, USL and their affiliates (including under the prior agreement with Diageo). In evaluating entering into such arrangements, Diageo considered the impact of the arrangements on USL and all of USL's shareholders, and came to the view that the arrangements were in the best interests of USL and its shareholders.

Diageo's agreement with Dr Mallya (the February 2016 Agreement) provided for a payment of $75 million (£61 million) to Dr Mallya over a five year period in consideration for the five-year global non-compete, non-interference, non-solicitation and standstill commitments referred to above, his resignation from USL and the termination of his USL-related appointment and governance rights, the relinquishing of rights and benefits attached to his position at USL, and his agreement not to pursue claims against Diageo and USL. The February 2016 Agreement also provided for the release of Dr Mallya's personal obligations to indemnify (i) Diageo Holdings Netherlands B.V. (DHN) in respect of its earlier liability ($141 million (£115 million)) under a backstop guarantee of certain borrowings of Watson Limited (Watson) (a company affiliated with Dr Mallya), and (ii) Diageo Finance plc in respect of its earlier liability (£30 million) under a guarantee of certain borrowings of United Breweries Overseas Limited, a subsidiary of UBHL. $40 million (£32 million) of the $75 million (£61 million) amount was paid on signing of the February 2016 Agreement with the balance being payable in equal instalments of $7 million (£6 million) a year over five years, subject to and conditional on Dr Mallya's compliance with certain terms of the agreement.

While the first four instalments of $7 million (£6 million) each would have become due on 25 February 2017, 25 February 2018, 25 February 2019 and 25 February 2020, respectively, owing to various reasons (including breaches committed by Dr Mallya and certain persons connected with him of several provisions of the February 2016 Agreement and agreements of the same date between Dr Mallya and USL), Diageo believes that it was not liable to pay such amounts and did not do so. Diageo further believes that it is very unlikely to become liable to pay any future instalments, to Dr Mallya. By notice to Dr Mallya and certain persons connected with him on 24 February 2017, 3 November 2017, 23 February 2018, 22 August 2018, 22 February 2019 and 24 February 2020, Diageo and other group companies have demanded from Dr Mallya the repayment of $40 million (£32 million) which was paid by Diageo on 25 February 2016, and also sought compensation from him for various losses incurred by the relevant members of the Diageo group on account of the breaches committed by him and certain persons connected with him. On 16 November 2017, Diageo and other relevant members of the Diageo group commenced claims in the High Court of Justice in England and Wales (the English High Court) against Dr Mallya in relation to certain of the matters specified in those notices. At the same time DHN also commenced claims in the English High Court against Dr Mallya, his son Sidhartha Mallya, Watson (a company affiliated with Dr Mallya), Continental Administration Services Limited (CASL) (a company affiliated with Dr Mallya and understood to hold assets on trust for him and certain persons affiliated with him) for in excess of $142 million (£115 million) (plus interest) in relation to Watson's liability to DHN in respect of its borrowings referred to above and the breach of associated security documents. These additional claims are described in paragraph (d) below.

Dr Mallya, Sidhartha Mallya and the relevant affiliated companies filed a defence to such claims and the additional claims on 12 March 2018, and Dr Mallya also filed a counterclaim for payment of the two $7 million (£6 million) instalment payments withheld by Diageo as described above. Diageo and the other relevant members of its group filed a reply to that defence and a defence to the counter-claim on 5 September 2018.

Diageo continues to prosecute its claims and to defend the counterclaim. As part of this, on 18 December 2018, Diageo and the other relevant members of its group filed an application for strike out and/or summary judgement in respect of certain aspects of the defence filed by Dr Mallya and the other defendants, including their defence in relation to Watson and CASL's liability to repay DHN. That application was made by DHN on the basis that the defence filed by Dr Mallya and his co-defendants in relation to those matters had no real prospect of success.

DHN's summary judgement and strike out application was heard by the English High Court on 24 May 2019. The court decided in favour of DHN that (i) Watson is liable to pay, and has no defence against paying, $135 million (£110 million) plus interest of $11 million (£9 million) to DHN, and (ii) CASL is liable, as co-surety, to pay, and has no defence against paying, 50% of any such amount unpaid by Watson, i.e. up to $67.5 million (£55 million) plus interest of $5.5 million (£5 million) to DHN. Watson and CASL were ordered to pay such sums, as well as certain amounts in respect of DHN and Diageo's costs, to DHN by 21 June 2019. Such amounts were not paid on that date by either Watson or CASL. Accordingly, Diageo and DHN have sought asset disclosure and are considering further enforcement steps against those companies, both in the United Kingdom and in other jurisdictions where they are present or hold assets.

The remaining elements of the claims originally commenced on 16 November 2017 by Diageo and the relevant members of its group are now proceeding to trial and following a case management conference on 6 December 2019, that trial is scheduled to take place from 11 October 2021 through 21 October 2021.

As previously announced by USL, the Initial Inquiry identified certain additional parties and matters indicating the possible existence of other improper transactions. These transactions could not be fully analysed during the Initial Inquiry and, accordingly, USL, as previously announced, mandated that its Managing Director and Chief Executive Officer conduct a further inquiry into the transactions involving the additional parties and the additional matters to determine whether they also suffered from improprieties (the Additional Inquiry). USL announced the results of the Additional Inquiry in a notice to the Indian Stock Exchange dated 9 July 2016. The mutual release in relation to the Initial Inquiry agreed by Diageo and USL with Dr Mallya announced on 25 February 2016 does not extend to matters arising out of the Additional Inquiry.

As stated in USL's previous announcement, the Additional Inquiry revealed further instances of actual or potential fund diversions from USL and its Indian and overseas subsidiaries to, in most cases, Indian and overseas entities in which Dr Mallya appears to have a material direct or indirect interest, as well as other potentially improper transactions involving USL and its Indian and overseas subsidiaries.

In connection with the matters identified by the Additional Inquiry, USL has, pursuant to a detailed review of each case of such fund diversion and after obtaining expert legal advice, where appropriate, filed civil suits for recovery of funds from certain parties, including Dr Mallya, before the relevant courts in India.

The amounts identified in the Additional Inquiry have been previously provided for or expensed in the financial statements of USL or its subsidiaries for prior periods. Further, at this stage, it is not possible for the management of USL to estimate the financial impact on USL, if any, arising out of potential non-compliance with applicable laws in relation to such fund diversions.

(d) Other continuing matters relating to Dr Mallya and affiliates

DHN issued a conditional backstop guarantee on 2 August 2013 to Standard Chartered Bank (Standard Chartered) pursuant to a guarantee commitment agreement (the Guarantee Agreement). The guarantee was in respect of the liabilities of Watson, a company affiliated with Dr Mallya, under a $135 million (£110 million) facility from Standard Chartered (the Facility Agreement). The Guarantee Agreement was entered into as part of the arrangements put in place and announced at the closing of the USL transaction on 4 July 2013.

DHN's provision of the Guarantee Agreement enabled the refinancing of certain existing borrowings of Watson from a third party bank and facilitated the release by that bank of rights over certain USL shares that were to be acquired by Diageo as part of the USL transaction. The facility matured and entered into default in May 2015. In aggregate DHN paid Standard Chartered $141 million (£115 million) under this guarantee, i.e. including payments of default interest and various fees and expenses.

Watson remains liable for all amounts paid by DHN under the guarantee. Under the guarantee documentation with Standard Chartered, DHN is entitled to the benefit of the underlying security package for the loan, including: (a) certain shares in United Breweries Limited (UBL) held solely by Dr Mallya and certain other shares in UBL held by Dr Mallya jointly with his son Sidhartha Mallya, and (b) the shareholding in Watson.

Aspects of the security package are the subject of various proceedings in India in which third parties are alleging and asserting prior rights to certain assets comprised in the security package or otherwise seeking to restrain enforcement against certain assets by Standard Chartered and/or DHN. These proceedings are ongoing and DHN will continue to vigorously pursue these matters as part of its efforts for enforcement of the underlying security and recovery of outstanding amounts. Diageo believes that the existence of any prior rights or dispute in relation to the security would be in breach of representations and warranties given by Dr Mallya and others to Standard Chartered at the time the security was granted and further believes that certain actions taken by Dr Mallya in relation to the proceedings described above also breached his obligations to Standard Chartered. In addition to these third party proceedings, Dr Mallya is also subject to proceedings in India under the Prevention of Money Laundering Act and the Fugitive Economic Offenders Act in which the relevant Indian authority, the Directorate of Enforcement, is seeking confiscation of the UBL shares which were provided as security for Watson's liabilities. DHN is participating in these proceedings in order to protect its security interest in respect of the UBL shares.

Under the terms of the guarantee and as a matter of law, there are arrangements to pass on to DHN the benefit of the security package upon payment by DHN under the guarantee of all amounts owed to Standard Chartered. Payment under the guarantee has now occurred as described above. To the extent possible in the context of the proceedings described above, DHN continues to work towards enforcement of the security package, including, when appropriate, in conjunction with Standard Chartered. DHN's ability to assume or enforce security over some elements of the security package is also subject to regulatory consent. It is not at this stage possible to determine whether such consent would be forthcoming.

In addition to the Indian proceedings just described, certain of the assets comprised in the security package may also be affected by a worldwide freezing order of the English High Court granted on 24 November 2017 and continued on 8 December 2017 and 8 May 2018 in respect of the assets of Dr Mallya.

The agreement with Dr Mallya referenced in paragraph (c) above does not impact the security package. Watson remains liable for all amounts paid pursuant to the guarantee and DHN has the benefit of a counter-indemnity from Watson in respect of payments in connection with the guarantee, as well as a claim against CASL as a co-surety with DHN of Watson's obligations. The various security providers, including Dr Mallya and Watson, acknowledged in the February 2016 Agreement referred to in paragraph (c) above that DHN is entitled to the benefit of the security package underlying the Standard Chartered facility and have also undertaken to take all necessary actions in that regard. Further, Diageo believes that the existence of any prior rights or disputes in relation to the security package would be in breach of certain confirmations given to Diageo and DHN pursuant to that agreement by Dr Mallya, Watson and certain connected persons.

On 16 November 2017, DHN commenced various claims in the English High Court for, in aggregate, in excess of $142 million (£115 million) (plus interest) in relation to these matters, including the following: (i) a claim against Watson for $141 million (£115 million) (plus interest) under Watson's counter-indemnity to DHN in respect of payments made by DHN to Standard Chartered under the guarantee referred to above; (ii) a claim against Dr Mallya and Sidhartha Mallya under various agreements creating or relating to the security package referred to above for (a) the costs incurred to date in the various Indian proceedings referred to above (plus interest), and (b) damages of $141 million (£115 million), being DHN's loss as a result of those Indian proceedings which currently prevent enforcement of the security over shares in UBL (plus interest); and (iii) a claim against CASL, as a co-surety with DHN of Watson's obligations under the Facility Agreement, for 50% of the difference between the amount claimed under (i) above and the amount (if any) that DHN is in fact able to recover from Watson, Dr Mallya and/or Sidhartha Mallya.

As noted in paragraph (c), Dr Mallya, Sidhartha Mallya and the relevant affiliated companies filed a defence to these claims on 12 March 2018. Diageo and the other relevant members of its group filed a reply to that defence on 5 September 2018.

DHN and Diageo continue to prosecute these claims. As part of that, on 18 December 2018, Diageo and the other relevant members of its group filed an application for strike out and/or summary judgment in respect of certain aspects of the defence filed by Dr Mallya, Sidhartha Mallya and the relevant affiliated companies, including in respect of Watson and CASL's liability to repay DHN. The successful outcome of that application and the current status of other aspects of the claims are described in paragraph (c) above.

(e) Other matters in relation to USL

Following USL's earlier updates concerning the Initial Inquiry as well as in relation to the arrangements with Dr Mallya that were the subject of the 25 February 2016 announcement, USL and Diageo have received various notices from Indian regulatory authorities, including the Ministry of Corporate Affairs, Enforcement Directorate and Securities and Exchange Board of India (SEBI).

Diageo and USL are co-operating fully with the authorities in relation to these matters. Diageo and USL have also received notices from EBI requesting information in relation to, and explanation of the reasons for, the arrangements with Dr Mallya that were the subject of the 25 February 2016 announcement as well as, in the case of USL, in relation to the Initial Inquiry and the Additional Inquiry, and, in the case of Diageo, whether such arrangements with Dr Mallya or the Watson backstop guarantee arrangements referred to in paragraphs (c) and (d) above were part of agreements previously made with Dr Mallya at the time of the Original USL Transaction announced on 9 November 2012 and the open offer made as part of the Original USL Transaction. Diageo and USL have complied with such information requests and Diageo has confirmed that, consistent with prior disclosures, the Watson backstop guarantee arrangements and the matters described in the 25 February 2016 announcement were not the subject of any earlier agreement with Dr Mallya. In respect of the Watson backstop guarantee arrangements, SEBI issued a further notice to Diageo on 16 June 2016 that if there is any net liability incurred by Diageo (after any recovery under relevant security or other arrangements, which matters remain pending) on account of the Watson backstop guarantee, such liability, if any, would be considered to be part of the price paid for the acquisition of USL shares under the SPA which formed part of the Original USL Transaction and that, in that case, additional equivalent payments would be required to be made to those shareholders (representing 0.04% of the shares in USL) who tendered in the open offer made as part of the Original USL Transaction. Diageo is clear that the Watson backstop guarantee arrangements were not part of the price paid or agreed to be paid for any USL shares under the Original USL Transaction and therefore believes the decision in the SEBI notice to be misconceived and wrong in law and appealed against it before the Securities Appellate Tribunal, Mumbai (SAT). On 1 November 2017, SAT issued an order in respect of Diageo's appeal in which, amongst other things, it observed that the relevant officer at SEBI had neither considered Diageo's earlier reply nor provided Diageo with an opportunity to be heard, and accordingly directed SEBI to pass a fresh order after giving Diageo an opportunity to be heard. Following SAT's order, Diageo made its further submissions in the matter, including at a personal hearing before a Deputy General Manager of SEBI. On 26 June 2019, SEBI issued an order reiterating the directions contained in its previous notice dated 16 June 2016. As with the previous notice, Diageo believes SEBI's latest order to be misconceived and wrong in law and has filed an appeal before SAT against the order. This appeal is currently pending. Diageo is unable to assess if the notices or enquiries referred to above will result in enforcement action or, if this were to transpire, to quantify meaningfully the possible range of loss, if any, to which any such action might give rise to if determined against Diageo or USL.

In relation to the matters described in the 25 February 2016 announcement, Diageo had also responded to a show cause notice dated 12 May 2017 from SEBI arising out of the previous correspondence in this regard and made its further submissions in the matter, including at a personal hearing before a Whole Time Member of SEBI. On 6 September 2018, SEBI issued an order holding that Diageo had acquired sole control of USL following its earlier open offers, and that no fresh open offer was triggered by Diageo.

(f) USL's dispute with IDBI Bank Limited

Prior to the acquisition by Diageo of a controlling interest in USL, USL had prepaid a term loan of INR 6,280 million (£68 million) taken through IDBI Bank Limited (IDBI), an Indian bank, which was secured on certain fixed assets and brands of USL, as well as by a pledge of certain shares in USL held by the USL Benefit Trust (of which USL is the sole beneficiary). The maturity date of the loan was 31 March 2015. IDBI disputed the prepayment, following which USL filed a writ petition in November 2013 before the High Court of Karnataka (the High Court) challenging the bank's actions.

Following the original maturity date of the loan, USL received notices from IDBI seeking to recall the loan, demanding a further sum of INR 459 million (£5 million) on account of the outstanding principal, accrued interest and other amounts, and also threatening to enforce the security in the event that USL did not make these further payments. Pursuant to an application filed by USL before the High Court in the writ proceedings, the High Court directed that, subject to USL depositing such further amount with the bank (which amount was duly deposited by USL), the bank should hold the amount in a suspense account and not deal with any of the secured assets including the shares until disposal of the original writ petition filed by USL before the High Court.

On 27 June 2019, a single judge bench of the High Court issued an order dismissing the writ petition filed by USL, amongst other things, on the basis that the matter involved an issue of breach of contract by USL and was therefore not maintainable in exercise of the court's writ jurisdiction. USL has since filed an appeal against this order before a division bench of the High Court, which on 30 July 2019 has issued an interim order directing the bank to not deal with any of the secured assets until the next date of hearing. On 13 January 2020, the division bench of the High Court admitted the writ appeal and extended the interim stay. This appeal is currently pending. Based on the assessment of USL's management supported by external legal opinions, USL continues to believe that it has a strong case on the merits and therefore continues to believe that the aforesaid amount of INR 459 million (£5 million) remains recoverable from IDBI.

(g) 2019 Moët Hennessy dividend

No dividend was received during the financial year ended 30 June 2020 in respect of Diageo's 34% investment in Moët Hennessy SAS and Moët Hennessy International SAS (together MH). This investment is governed by a Partners' Agreement with certain members of the LVMH Moët Hennessy - Louis Vuitton group (LVMH) which holds 66% of MH, which includes the dividend policy and minimum annual dividend requirements for MH. Diageo believes that non-payment by MH of the dividend in respect of the financial year ended 31 December 2019 constitutes a breach by LVMH of the Partners' Agreement and that the minimum aggregate dividend that should have been received by Diageo in respect of that period was €181 million (£166 million). Diageo has commenced arbitration proceedings under the Partners' Agreement in respect of this dispute.

(h) Tax

The international tax environment has seen increased scrutiny and rapid change over recent years bringing with it greater uncertainty for multinationals. Against this backdrop, Diageo has been monitoring developments and continues to engage transparently with the tax authorities in the countries where Diageo operates to ensure that the group manages its arrangements on a sustainable basis.

In April 2019, the European Commission issued its decision in a state aid investigation into the Group Financing Exemption in the UK controlled foreign company rules. The European Commission found that part of the Group Financing Exemption constitutes state aid. The Group Financing Exemption was introduced in legislation by the UK government in 2013.

In common with other UK-based international companies whose arrangements are in line with current UK CFC legislation Diageo may be affected by the ultimate outcome of this investigation. The UK government and other UK-based international companies, including Diageo, have appealed to the General Court of the European Union against the decision. The UK government is required to commence collection proceedings and therefore it is expected that Diageo will have to make a payment in the year ending 30 June 2021 in respect of this case. At present it is not possible to determine the amount that the UK government will seek to collect. If the decision of the European Commission is upheld, Diageo calculates its maximum potential liability to be approximately £275 million. Based on its current assessment, Diageo believes that no provision is required in respect of this issue.

The group operates in a large number of markets with complex tax and legislative regimes that are open to subjective interpretation. As assessing an accurate value of contingent liabilities in these markets requires a high level of judgement, contingent liabilities are disclosed on the basis of the current known possible exposure from tax assessment values.

Diageo has reviewed its disclosures in relation to Brazil and India, where Diageo has a large number of ongoing tax cases. While these cases are not individually significant, the current assessment of the aggregate possible exposures is up to approximately £285 million for Brazil and up to approximately £150 million for India. The group believes that the likelihood that the tax authorities will ultimately prevail is lower than probable but higher than remote. Due to the fiscal environment in Brazil and in India the possibility of further tax assessments related to the same matters cannot be ruled out. Based on its current assessment, Diageo believes that no provision is required in respect of these issues.

Payments were made under protest in India in respect of the periods 1 April 2006 to 31 March 2017 in relation to tax assessments where the risk is considered to be remote or possible. These payments have to be made in order to challenge the assessments and as such have been recognised as a receivable on the consolidated balance sheet. The total amount of protest payments recognised as a receivable as at 30 June 2020 is £117 million (corporate tax payments of £107 million and indirect tax payments of £10 million).

A lawsuit was filed on 15 April 2019 by the National Association of Manufacturers (NAM) against the United States Department of the Treasury (U.S. Treasury) and the United States Customs and Border Protection (CBP) on behalf of its affected industry members, including Diageo, to invalidate regulations published in February 2019 and to ensure that substitution drawback is permitted in accordance with 19 U.S.C.§ 1313(j)(2) as amended by the Trade Facilitation and Trade Enforcement Act of 2015, which was enacted on 24 February 2016 (TFTEA). Substitution drawback permits the refund, including of excise taxes, paid on imported merchandise when sufficiently similar substitute merchandise is exported. The United States Congress passed the TFTEA to, among other things, clarify and broaden the standard for what constitutes substitute merchandise. This change should entitle Diageo to obtain substitution drawback in respect of certain eligible product categories. Despite this change in the law, U.S. Treasury and CBP issued final regulations in 2019 declaring that substitution drawback is not available for imports when substituted with an export on which no tax was paid. The Court of International Trade issued a judgement in favour of NAM on 18 February 2020, denying the request by the U.S. Treasury and CBP for a stay of payment on 15 May 2020, and on 26 May 2020, ordered the immediate processing of claims. Current eligible claims of Diageo Americas Supply, Inc. are estimated at £95 million ($117 million), with a financial impact of £87 million ($110 million) for the year ended 30 June 2020 of which Diageo has received £26 million ($33 million). However, on 23 July 2020 the U.S. Treasury and CBP filed an appeal with the U.S. Federal Court of Appeal, and, although Diageo believes that the NAM is more likely than not to ultimately prevail, if they were to fail, the CBP could be permitted to recover these payments.

(i) Other

The group has extensive international operations and is a defendant in a number of legal, customs and tax proceedings incidental to these operations, the outcome of which cannot at present be foreseen. In particular, the group is currently a defendant in various customs proceedings that challenge the declared customs value of products imported by certain Diageo companies. Diageo continues to defend its position vigorously in these proceedings.

Save as disclosed above, neither Diageo, nor any member of the Diageo group, is or has been engaged in, nor (so far as Diageo is aware) is there pending or threatened by or against it, any legal or arbitration proceedings which may have a significant effect on the financial position of the Diageo group.

19. Commitments

(a) Capital commitments

Commitments for expenditure on intangibles and property, plant and equipment not provided for in these consolidated financial statements are estimated at £312 million (2019 – £255 million; 2018 – £161 million).

(b) Other commitments

The minimum lease rentals payable in the year ending 30 June 2020 for short term and low value leases are estimated at £19 million. The total future cash outflows for leases that had not yet commenced, and not recognised as lease liabilities at 30 June 2020, are estimated at £133 million.

20. Related party transactions

Transactions between the group and its related parties are made on terms equivalent to those that prevail in arm's length transactions.

(a) Subsidiaries

Transactions between the company and its subsidiaries are eliminated on consolidation and therefore are not disclosed. Details of the principal group companies are given in note 21.

(b) Associates and joint ventures

Sales and purchases to and from associates and joint ventures are principally in respect of premium drinks products but also include the provision of management services.

Transactions and balances with associates and joint ventures are set out in the table below:

	2020 £ million	2019 £ million	2018 £ million
Income statement items			
Sales	**9**	9	10
Purchases	**29**	28	29
Balance sheet items			
Group payables	**2**	12	3
Group receivables	**1**	2	2
Loans payable	**6**	6	6
Loans receivable	**82**	55	59
Cash flow items			
Loans and equity contributions, net	**47**	32	37

Other disclosures in respect of associates and joint ventures are included in note 6.

(c) Key management personnel

The key management of the group comprises the Executive and Non-Executive Directors, the members of the Executive Committee and the Company Secretary. They are listed under 'Board of Directors and Company Secretary' and 'Executive Committee'.

	2020 £ million	2019 £ million	2018 £ million
Salaries and short-term employee benefits	**10**	10	10
Annual incentive plan	**–**	10	10
Non-Executive Directors' fees	**1**	1	1
Share-based payments(i)	**(11)**	20	15
Post employment benefits	**2**	3	2
Termination benefits(ii)	**2**	–	–
	4	44	38

(i) Time-apportioned fair value of unvested options and share awards.

(ii) £1 million of the termination benefits disclosed for 2020 have been paid in the year ended 30 June 2020; a further £1 million will be paid in the year ending 30 June 2021.

Non-Executive Directors do not receive share-based payments or post employment benefits. Details of the individual Directors' remuneration are given in 'Single total figure of remuneration for Executive Directors' and 'Non-Executive Directors' remuneration' in the Directors' remuneration report.

(d) Pension plans

The Diageo pension plans are recharged with the cost of administration services provided by the group to the pension plans and with professional fees paid by the group on behalf of the pension plans. The total amount recharged for the year was £nil (2019 – £3 million; 2018 – £14 million).

(e) Directors' remuneration

	2020 £ million	2019 £ million	2018 £ million
Salaries and short-term employee benefits	**2**	2	2
Annual incentive plan	**–**	2	3
Non-Executive Directors' fees	**1**	1	1
Share option exercises(i)	**–**	2	–
Shares vesting(i)	**11**	13	1
Post employment benefits	**1**	1	1
	15	21	8

(i) Gains on options realised in the year and the benefit from share awards, calculated by using the share price applicable on the date of exercise of the share options and release of the awards.

Details of the individual Directors' remuneration are given in 'Single total figure of remuneration for Executive Directors' and 'Non-Executive Directors' remuneration' in the Directors' remuneration report.

21. Principal group companies

The companies listed below include those which principally affect the profits and assets of the group. The operating companies listed below may carry on the business described in the countries listed in conjunction with their subsidiaries and other group companies.

	Country of incorporation	Country of operation	Percentage of equity owned(i)	Business description
Subsidiaries				
Diageo Ireland	Republic of Ireland	Worldwide	100%	Production, marketing and distribution of premium drinks
Diageo Great Britain Limited	England	Great Britain	100%	Marketing and distribution of premium drinks
Diageo Scotland Limited	Scotland	Worldwide	100%	Production, marketing and distribution of premium drinks
Diageo Brands B.V.	Netherlands	Worldwide	100%	Marketing and distribution of premium drinks
Diageo North America, Inc.	United States	Worldwide	100%	Production, importing, marketing and distribution of premium drinks
United Spirits Limited(ii)	India	India	55.94%	Production, importing, marketing and distribution of premium drinks
Diageo Capital plc(iii)	Scotland	United Kingdom	100%	Financing company for the group
Diageo Finance plc(iii)	England	United Kingdom	100%	Financing company for the group
Diageo Investment Corporation	United States	United States	100%	Financing company for the US group
Mey İçki Sanayi ve Ticaret A.Ş.	Turkey	Turkey	100%	Production, marketing and distribution of premium drinks
Associates				
Moët Hennessy, SAS(iv)	France	France	34%	Production, marketing and distribution of premium drinks

(i) All percentages, unless otherwise stated, are in respect of holdings of ordinary share capital and are equivalent to the percentages of voting rights held by the group.

(ii) Percentage ownership excludes 2.38% owned by the USL Benefit Trust.

(iii) Directly owned by Diageo plc.

(iv) French limited liability company.

Company balance sheet of Diageo plc

	Notes	30 June 2020 £ million	30 June 2020 £ million	30 June 2019 £ million	30 June 2019 £ million
Non-current assets					
Investment in subsidiary undertakings	3	**61,342**		27,046	
Other financial assets	4	**644**		386	
Post employment benefit assets	6	**963**		951	
			62,949		28,383
Current assets					
Amounts owed by group undertakings	4	**7,514**		253	
Trade and other receivables		**9**		5	
Other financial assets	4	**–**		6	
Cash and cash equivalents		**12**		35	
			7,535		299
Total assets			**70,484**		28,682
Current liabilities					
Amounts owed to group undertakings	4	**(7)**		(4)	
Other financial liabilities	4	**–**		(32)	
Trade and other payables		**(45)**		(54)	
Provisions	7	**(15)**		(13)	
			(67)		(103)
Non-current liabilities					
Amounts owed to group undertakings	4	**(9,556)**		(9,121)	
Other financial liabilities	4	**(644)**		(386)	
Provisions	7	**(173)**		(192)	
Deferred tax liabilities	5	**(127)**		(107)	
Post employment benefit liabilities	6	**(100)**		(95)	
			(10,600)		(9,901)
Total liabilities			**(10,667)**		(10,004)
Net assets			**59,817**		18,678
Equity					
Share capital (2020 – 2,562 million shares (2019 – 2,601 million shares) of 28 $^{101}/_{108}$ pence each)	9	**742**		753	
Share premium		**1,351**		1,350	
Merger reserve	9	**9,161**		9,161	
Capital redemption reserve		**3,201**		3,190	
			14,455		14,454
Retained earnings:					
At beginning of year		**4,224**		4,775	
Profit for the year		**11,480**		3,714	
Other changes in retained earnings		**29,658**		(4,265)	
			45,362		4,224
Total equity			**59,817**		18,678

The accompanying notes are an integral part of these parent company financial statements.

These financial statements were approved by a duly appointed and authorised committee of the Board of Directors and were signed on its behalf on 4 August 2020 by Ivan Menezes and Kathryn Mikells, Directors.

Company registration number No. 23307

Statement of changes in equity for Diageo plc

	Share capital £ million	Share premium £ million	Merger reserve £ million	Capital redemption reserve £ million	Retained earnings: Own shares £ million	Retained earnings: Other reserve £ million	Retained earnings: Total £ million	Total equity £ million
At 30 June 2018	780	1,349	9,161	3,163	(2,144)	6,919	4,775	19,228
Profit for the year	–	–	–	–	–	3,714	3,714	3,714
Other comprehensive income for the year	–	–	–	–	–	40	40	40
Total comprehensive income for the year	–	–	–	–	–	3,754	3,754	3,754
Employee share schemes	–	–	–	–	118	(49)	69	69
Share-based incentive plans	–	–	–	–	–	49	49	49
Tax on share-based incentive plans	–	–	–	–	–	1	1	1
Shares issued	–	1	–	–	–	–	–	1
Share buyback programme	(27)	–	–	27	–	(2,801)	(2,801)	(2,801)
Dividends paid	–	–	–	–	–	(1,623)	(1,623)	(1,623)
At 30 June 2019	**753**	**1,350**	**9,161**	**3,190**	**(2,026)**	**6,250**	**4,224**	**18,678**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**11,480**	**11,480**	**11,480**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**32,506**	**32,506**	**32,506**
Total comprehensive income for the year	–	–	–	–	–	**43,986**	**43,986**	**43,986**
Employee share schemes	**–**	**–**	**–**	**–**	**90**	**(36)**	**54**	**54**
Share-based incentive plans	**–**	**–**	**–**	**–**	**–**	**2**	**2**	**2**
Tax on share-based incentive plans	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**	**(2)**
Shares issued	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Share buyback programme	**(11)**	**–**	**–**	**11**	**–**	**(1,256)**	**(1,256)**	**(1,256)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(1,646)**	**(1,646)**	**(1,646)**
At 30 June 2020	**742**	**1,351**	**9,161**	**3,201**	**(1,936)**	**47,298**	**45,362**	**59,817**

The accompanying notes are an integral part of these parent company financial statements.

Notes to the company financial statements of Diageo plc

1. Accounting policies of the company

Basis of preparation

The financial statements of Diageo plc (the company) are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

In preparing these financial statements, the company applies the recognition, measurement, and disclosure requirements of International Financial Reporting Standards as adopted by the EU (IFRS), but makes amendments where necessary in order to comply with the Companies Act 2006 and has excluded certain information as permitted by FRS 101.

The financial statements are prepared on a going concern basis under the historical cost convention, except that certain financial instruments and post employment benefits which are measured and stated at their fair value.

By virtue of section 408 of the Companies Act 2006 the company is exempt from presenting an income statement and disclosing employee numbers and staff costs. The company has taken advantage of the exemption under FRS 101 from preparing a cash flow statement and related notes, disclosures in respect of transactions and the capital management of wholly owned subsidiaries, the effects of new but not yet effective IFRSs and disclosures in respect of the compensation of Key Management Personnel. As the consolidated financial statements of Diageo plc include equivalent disclosures, the company has also utilised exemptions available under FRS 101 from disclosing IFRS 2 Share-based Payments in respect of group settled share-based payments, disclosures required by IFRS 7 Financial Instruments Disclosures and by IFRS 13 Fair Value Measurement.

Investment in subsidiaries

Investments in subsidiaries are stated at historical cost less impairment provisions for any permanent decrease in value. The carrying amounts of the company's investments are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the asset's recoverable amount is estimated. Losses are recognised in the statement of comprehensive income and reflected in an allowance against the carrying value. Where an event results in the asset's recoverable amount being higher than the previously impaired carrying value, the original impairment may be reversed through the statement of comprehensive income in subsequent periods.

Dividends received and paid

Dividends are included in the financial statements in the financial year in which they are approved. Dividends received are included in the financial statements in the year in which they are receivable.

Share-based payments – employee benefits

The company's accounting policy for share-based payments is the same as set out in note 17 to the consolidated financial statements. Where the company grants options over its own shares to the employees of its subsidiaries, it generally recharges the cost to the relevant group company. Where the amount is not recharged, the value of the options is recognised as a capital contribution to the subsidiaries and increases the cost of investment.

Pensions and other post employment benefits

The company's accounting policy for post employment benefits is the same as set out in note 13 to the consolidated financial statements. The company acts as sponsor of all UK post employment plans for the benefit of employees and former employees throughout the group. There is no contractual agreement or stated policy for charging the net defined benefit costs for the plan measured in accordance with FRS 101, to other group companies whose employees participate in these group wide plans. However, recharges to other group companies are made on a funding basis and are credited against post employment service costs to the extent they are in respect of current service. The fair value of the plans' assets less the present value of the plans' liabilities are disclosed as a net asset or net liability on the company's balance sheet as it is deemed to be the legal sponsor of these plans. The net income charge/credit reflects the increase in the defined benefit obligation resulting from service in the current year, benefit changes, curtailments and settlements. Past service costs are recognised in income. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets and is included in the income statement. Any differences due to changes in assumptions or experience are recognised in other comprehensive income.

Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognised if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis. The carrying amounts of provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Taxation

Current tax is based on taxable profit for the year. Taxable profit is different from accounting profit due to temporary differences between accounting and tax treatments, and due to items that are never taxable or tax deductible. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, tax benefits are reviewed each year to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. Tax provisions are included in current liabilities. Penalties and interest on tax liabilities are included in profit before taxation.

Full provision for deferred tax is made for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their value for tax purposes. The amount of deferred tax reflects the expected recoverable amount and is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the basis of taxation enacted or substantively enacted by the balance sheet date. Deferred tax assets are not recognised where it is more likely than not that the assets will not be realised in the future.

Financial assets and liabilities

Financial assets and liabilities are initially recorded at fair value including, where permitted by IFRS 9, any directly attributable transaction costs. For those financial assets that are not subsequently held at fair value, the company assesses whether there is evidence of impairment at each balance sheet date. The company classifies its financial assets and liabilities into the following categories: financial assets and liabilities at amortised cost, financial assets and liabilities at fair value through profit and loss and financial assets at fair value through other comprehensive income. Where financial assets or liabilities are eligible to be carried at either amortised cost or fair value the company does not apply the fair value option.

Amounts owed by group undertakings are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade receivables are stated at their nominal value as they are due on demand. Allowances for expected credit losses are made based on the risk of non-payment, taking into account ageing, previous experience, economic conditions and forward looking data. Such allowances are measured as either 12-month expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

Amounts owed to group undertakings are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade payables are stated at their nominal value as they are due on demand. For a number of loans owed to other group companies, the company has a contractual right to defer payment by one year and one day and therefore these amounts are disclosed as non-current liabilities.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values. These liabilities are subsequently measured at the higher of the amount determined under IAS 37 and the amount initially recognised (fair value) less where appropriate, cumulative amortisation of the initial amount recognised.

Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The critical accounting policies, which the directors consider are of greater complexity and/or particularly subject to the exercise of estimates and judgements, are the same as those disclosed in note 1 to the consolidated financial statements in respect of taxation, post employment benefits, contingent liabilities and legal proceedings.

A critical accounting estimate, specific to the company is the assessment of the recoverable amount of the investments in subsidiaries. Impairment reviews are carried out to ensure that the value of the investments in subsidiaries are not carried at above their recoverable amounts. The tests are dependent on management's estimates in respect of the forecasting of future cash flows, the discount rates applicable to the future cash flows and expected growth rates. Such estimates and judgements are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts. Impairment testing for the year ended 30 June 2020 has identified some investments as being sensitive to reasonably possible changes in assumptions.

Additional estimates have been applied by management regarding the potential financial impact of the Covid-19 pandemic in respect of the anticipated future cash flows of the indirect operating subsidiaries of the company. Details in respect of Covid-19 assessment are set out in note 9 to the consolidated financial statements.

2. Income statement

Note 3 to the consolidated financial statements provides details of the remuneration of the company's auditor for the group.

Information on Directors' emoluments, share and other interests, transactions and pension entitlements is included in the Directors' remuneration report in this Annual Report.

3. Investment in subsidiary undertakings

	£ million
Cost	
At 30 June 2019	**27,332**
Additions (a)	**45,150**
At 30 June 2020	**72,482**
Provision	
At 30 June 2019	**(286)**
Increase in the year (b)	**(10,854)**
At 30 June 2020	**(11,140)**
Carrying amount	
At 30 June 2020	**61,342**
At 30 June 2019	27,046

(a) On 12 August 2019 the company increased its investment in its wholly owned subsidiary, Guinness Overseas Holdings Limited (GOHL), following the issuance of 87,560,000 new ordinary shares of £1 at par value by GOHL.

On 12 December 2019 the group carried out a restructuring of the ownership of a number of its subsidiaries. This involved Diageo plc increasing its investment in its wholly owned subsidiary, Tanqueray Gordon and Company Limited (TGCL) by £45,062 million through the issuance of 181,867,487 new ordinary shares of £100 at a premium of £26,875 million by TGCL. TGCL used this capital injection to purchase, itself and via an indirect wholly owned subsidiary, a number of companies from other Diageo wholly owned group companies at market value. The gains arising on the sales made by the relevant subsidiaries were paid up through the group as dividends in specie of £42,588 million to Diageo plc. This amount has been recognised in other comprehensive income as it arose from an intra-group restructuring and is considered to be non-distributable. Additional proceeds of the capital injection were used to settle certain intercompany loans between wholly owned indirect subsidiaries.

Investment in subsidiary undertakings include £132 million (2019 – £132 million) of costs in respect of share-based payments, granted to subsidiary undertakings which were not recharged to the subsidiaries.

(b) On 11 December 2019, Anyslam Limited (a wholly owned subsidiary of the company) declared and paid an interim dividend of £844 million, resulting in a decrease in the net assets of Anyslam Limited and consequently an impairment of £712 million in the company's investment.

During the year ended 30 June 2020 as a result of negative market conditions in Ethiopia, the recoverable amount of the company's investment decreased in GOHL, which is the owner of the group's business in Ethiopia. As a consequence, an impairment of £88 million was recognised in respect of the company's investment.

As a result of the intra-group transactions, the direct investments in TGCL and Diageo Holdings Limited (DHL) have been impaired by £10,054 million in the year ended 30 June 2020. To the extent that an impairment was recognised in the income statement on the investment Diageo plc holds in Diageo Holdings Limited, a corresponding amount has been released from other comprehensive income (that has earlier been recognised in relation to the dividend in specie) to the income statement in Diageo plc as it is deemed realised to the extent of the impairment.

Impairment testing for the year ended 30 June 2020 has identified that the recoverable amount of investments in DHL and TGCL are sensitive to reasonably possible changes in assumptions due to the fact that current investment book value is equal to current fair value of the underlying indirect operating subsidiaries. We refer to the sensitivities reported in our consolidated financial statements in note 9e. Any impairments in the sensitive cash-generating units as disclosed in note 9 have the potential to impact the carrying value of the Company's investments in DHL and TGCL by a similar amount. The impact may however be less as any such impairments could be compensated through better than expected performances in other business units that our subsidiaries are also invested in.

A list of group companies as at 30 June 2020 is provided in note 10.

4. Financial assets and liabilities

Other financial assets and liabilities are recorded at fair value through profit and loss and comprise the fair value of interest rate swaps and cross currency interest rate swaps with subsidiary undertakings, where the company acts as an intermediary between group companies, therefore it is not expected that there will be any net impact on future cash flows.

Amounts owed by and to group undertakings, trade and other receivables and trade and other payables are measured at amortised cost.

Amounts owed by and to group undertakings are interest bearing and unsecured. For a majority of the loans owed to other group companies, the company has a contractual right to defer payment by one year and one day and they are therefore classified as non-current liabilities. Other amounts owed by and to group undertakings are repayable on demand.

5. Deferred tax assets and liabilities

	Post employment plans £ million	Other temporary differences £ million	Total £ million
At 30 June 2018	(129)	39	(90)
Recognised in income statement	(9)	(1)	(10)
Recognised in other comprehensive income and equity	(8)	1	(7)
At 30 June 2019	**(146)**	**39**	**(107)**
Changes in tax rates	**(17)**	**4**	**(13)**
Recognised in income statement	**(5)**	**(3)**	**(8)**
Recognised in other comprehensive income and equity	**4**	**(3)**	**1**
At 30 June 2020	**(164)**	**37**	**(127)**

Deferred tax on other temporary differences includes assets in respect of the UK Thalidomide Trust liability of £36 million (2019 – £33 million) and share-based payment liabilities of £1 million (2019 – £5 million).

6. Post employment benefits

The movement in the net surplus for the two years ended 30 June 2020, for all UK post employment plans for which the company is the sponsor, is as follows:

	Plan assets £ million	Plan liabilities £ million	Net surplus £ million
At 30 June 2018	6,792	(6,035)	757
Charge before taxation	177	(180)	(3)
Other comprehensive income/(loss)	413	(399)	14
Contributions by group companies	88	–	88
Employee contributions	1	(1)	–
Benefits paid	(356)	356	–
At 30 June 2019	**7,115**	**(6,259)**	**856**
Charge before taxation	**155**	**(178)**	**(23)**
Other comprehensive income/(loss)	**699**	**(734)**	**(35)**
Contributions by group companies	**65**	**–**	**65**
Employee contributions	**1**	**(1)**	**–**
Benefits paid	**(339)**	**339**	**–**
At 30 June 2020	**7,696**	**(6,833)**	**863**

The net surplus for the UK post employment plans of £863 million (2019 – £856 million) for which the company is a sponsor comprises funded plans of £963 million (2019 – £951 million) disclosed as part of non-current assets and unfunded liabilities of £100 million (2019 – £95 million) disclosed as part of non-current liabilities.

The disclosures have been prepared in accordance with IFRIC 14. In particular, where the calculation for a plan results in a surplus, the recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan, and any additional liabilities are recognised as required.

Additional information on the UK post employment plans and the principal risks and assumptions applicable is disclosed in note 13 to the consolidated financial statements.

7. Provisions

	Thalidomide £ million	Other £ million	Total £ million
At 30 June 2019	**196**	**9**	**205**
Provisions utilised during the year	**(15)**	**–**	**(15)**
Reversal	**–**	**(8)**	**(8)**
Unwinding of discounts	**6**	**–**	**6**
At 30 June 2020	**187**	**1**	**188**

The company's commitment to the UK Thalidomide Trust is discounted and will be utilised over the period of the commitment up to 2037.

At 30 June 2020 £15 million (2019 – £13 million) of provision is current and £173 million (2019 – £192 million) is non-current.

8. Financial guarantees and letters of comfort

The company has guaranteed certain external borrowings of subsidiaries which at 30 June 2020 amounted to £15,701 million (2019 – £11,603 million).

The company has also provided irrevocable guarantees relating to the liabilities of certain of its Irish and Dutch subsidiaries. In addition, the company has provided a guarantee to the Guinness Ireland Group Pension Scheme. The company has assessed that the likelihood of these guarantees being called as remote. The Directors do not expect the company to be liable for any legal obligation in respect of these financial guarantee agreements, and they have been recognised at nil fair value. The company issued a non-binding letter of comfort to provide sufficient funds to directly owned subsidiary undertakings to enable them to continue to be accounted as going concerns, as and when required.

9. Shareholders' funds

(a) Merger reserve

On the acquisition of a business, or of an interest in an associate, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets acquired. Where merger relief is applicable under the UK Companies Acts, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

(b) Own shares

At 30 June 2020 own shares comprised 2 million ordinary shares held by employee share trusts (2019 – 3 million; 2018 – 4 million); 222 million ordinary shares repurchased and held as treasury shares (2019 – 222 million; 2018 – 222 million); and 3 million ordinary shares held as treasury shares for hedging share scheme grants (2019 – 7 million; 2018 – 12 million).

During the year ended 30 June 2020 the group purchased approximately 39 million ordinary shares (2019 – 94.7 million), representing approximately 1.5% of the issued ordinary share capital (2019 – 3.5%) at an average price of £32.43 per share, and an aggregate cost of £1,282 million (including £7 million of transaction costs) (2019 – £29.24 per share, and an aggregate cost of £2,775 million including £6 million of transaction costs) under the share buyback programme. 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.

Information on movements in own shares is provided in note 17(c) to the consolidated financial statements.

(c) Retained earnings

During the year ended 30 June 2020 the company received a dividend in specie from its subsidiary undertakings of £42,588 million. This amount has been recognised in other comprehensive income as it arose from an intra-group restructuring and is considered to be non-distributable. The impairment in respect of TGCL and Diageo Holdings Limited referred to in note 3 (b) has been offset against this gain as it reduces non-distributable reserves.

The company received dividend of £12,398 million (2019 – £3,931million) that has been recognised in the income statement. £11,996 million (2019 – £3,593 million) of retained earnings is available for the payment of dividends or purchases of own shares. Determining the company's reserves available for distribution is complex and requires, in some instances, the application of judgement. The company has determined what is realised and unrealised in accordance with the Companies Act 2006 and the guidance included in ICAEW Technical Release TECH 02/17BL 'Guidance on realised and distributable profits under the Companies Act 2006'. The company's reserves available for distribution include adjustments to retained earnings in respect of the unrealised portion of the dividend in specie received by the company, post employment benefit surpluses and share based payment charges capitalised to investments.

In April 2020, the Directors became aware that certain share buybacks and certain transactions related to the company's employee share schemes with or for the benefit of the company's employee benefit and share ownership trusts undertaken between 10 May 2019 and 9 August 2019, amounting to approximately £320 million, ('the affected transactions'), were undertaken contrary to the applicable provisions of the Companies Act 2006 as they were undertaken following utilisation in full of the company's distributable reserves as set out in its balance sheet as at 30 June 2018. At the Annual General Meeting to be held on 28 September 2020, a resolution will be proposed which will appropriate an equivalent amount of distributable profits of the company to the payments made in respect of the affected transactions and will implement arrangements to put all potentially affected parties, so far as possible, in the position in which they were intended to be had the affected transactions been undertaken in accordance with the applicable provisions of the Companies Act 2006. This resolution and the arrangements that it implements will, if approved by shareholders, constitute a related party transaction under IAS 24 and under the Listing Rules, as the Directors would benefit from the waiver of any claims that the company has or may have against them as a result of the affected transactions. These arrangements are not expected to have any effect on the company's financial position as the company has not recorded or disclosed its right potentially to make claims against any person in respect of the affected transactions as an asset or contingent asset of the company.

10. Group companies

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, joint ventures and joint arrangements, the country of incorporation and the effective percentage of equity owned, as at 30 June 2020 are disclosed below. Unless otherwise stated the share capital disclosed comprises ordinary shares which are indirectly held by Diageo plc.

FULLY OWNED SUBSIDIARIES

Angola

Rua Fernao de Sousa, Condominio Bengo, Letter A, 11.s floor, Fraction A37, neighbourhood Vila Alice, Province of Luanda

Diageo Angola Limitada

Argentina

Bernardo de Irigoyen 972, floor 7, office A, CABA

Diageo de Argentina S.A.

Australia

162 Blues Point Road, Level 1, NSW, 2060, McMahons Point

Bundaberg Distilling Investments Pty Ltd

Crescendo Australia Pty Ltd(iii)

D.C.L (Holdings) Australia Proprietary Limited(ii),(iii)

Diageo Australia Limited(iii)

Whitted Street, QLD, 4670, Bundaberg

Bundaberg Distilling Company Pty. Limited(v)

Austria

Teinfaltstrasse 8, 1010, Wien

Diageo Austria GmbH

Belgium

Z.3 Doornveld 150, 1731, Zellik

Diageo Belgium N.V.

Bermuda

Victoria Place, 5th Floor, 31 Victoria Street, Hamilton, HM10

Atalantaf Limited

Brazil

Av. Washington Soares, 1280, Ceará, 60.810-350, Fortaleza

Ypioca industrial de Bebidas S.A.

Fazenda Santa Eliza, s/n, Ceará, 62.685-000, Paraipaba

Ypioca Agricola LTDA

Rua Olimpiadas, 205, floor 14-15, 04551-000, Sao Paulo

Diageo Brasil Ltda

Bulgaria

7 Iskarsko Shose Blvd., Trade Center Europe, building 12, floor 2, 1528, Sofia

Diageo Bulgaria Ltd

Cameroon

Bassa industrial trade zone, Ndog Hemll, PO BOX 1213 Douala

Guinness Cameroun S A

Canada

134 Peter Street, Suite 1501, Ontario, M5V 2H2, Toronto

Diageo Canada Holdings Inc.

Diageo Canada Inc.

Boul Henri-Bourassa E., 9225, Local A, Quebec, H1E 1P6 , Montreal

Diageo Americas Supply Quebec Distribution Inc.

Diageo Ireland Quebec Distribution Inc.

Cayman Islands

Second Floor, Century Yard, PO Box 448GT, Cricket Square, Grand Cayman

Grand Metropolitan (Cayman Islands) Limited(ii)

Chile

Cerro El Plomo 5630, Piso 13, Las Condes

Diageo Chile Limitada

China

No. 9 Quanxing Road, Jinniu District, 610036, Chengdu City

Sichuan Chengdu Shuijingfang Group Co., Ltd

No.209 Gonghe Road, Tower 2, Enterprise Centre, 2101, 21, Jing'an District, 200070, Shanghai

Diageo China Limited

No.28 Jiafeng Road, 2502, 5, Pudong District, 200137, Shanghai

Diageo (Shanghai) Limited

Colombia

100 street No.13 21 Office 502. Bogota

Diageo Colombia S.A.

Costa Rica

1 km Este Periodico La Nacion, Llorente de Tibas, Edificio Vinum Store, San Jose

Diageo Costa Rica S.A.

Croatia

Hektoroviceva ulica 2, 10000, Zagreb

Diageo Croatia d.o.o.za usluge

Cyprus

3 Themistokli Dervi Ave, Julia House, 1066, Nicosia

Horizon Developments Limited(ii)

Czech Republic

Na Pankráci 1724/129, 140 00, Prague

Diageo Czech Marketing Services LLC

Denmark

Sundkrogsgade 21, 2100, Copenhagen

Diageo Denmark AS

Dominican Republic

A J Aybar 204 SD, Santo Domingo

Diageo Dominicana S.R.L.

Ethiopia

Region Oromia, Kebele 05 Sebeta Hawas, Sebeta Town

Meta Abo Brewery Share Company

France

73, Rue de Provence, 75009, Paris

Diageo France Investments S.A.S.

Diageo France S.A.S.

Guinness France Holdings S.A.S

United Distillers France SAS

Germany

Reeperbahn 1, 20359, Hamburg

Belsazar GmbH

Diageo Germany GmbH

Greece

27, Agiou Thoma street, Marousi, 151 24, Athens

Diageo Hellas S.A.

Guernsey

Heritage Hall, Le Marchant Street, St Peter Port, GY1 4HY

Diageo Group Insurance Company Limited

Hong Kong

11 Hoi Shing Road, Room 7, 18, Tsuen Wan, New Territories, 999077

Diageo RTD Hong Kong Limited

3/F, 21 Li Yuen Street West Central

Vast Fund Limited

31/F Tower Two, Times Square, 1 Matheson Street, Causeway Bay

Diageo International Spirits Company Limited

Hungary

1132 Budapest, Vaci ut 20-26

Diageo Business Services Limited

Diageo Employee Ownership Program Organization

Diageo Hungary Finance Limited Liability Company

Diageo Hungary Marketing Services Limited Liability Company

India

Block E, 2 nd Floor, The MIRA, Plot 1&2, Ishwar Nagar, Mathura Road New Delhi South Delhi DL 110065

Diageo Distilleries Private Limited(vii)

Ganpatrao Kadam Marg. Piramal towers 4, Maharashtra 400013, Mumbai

Diageo India Private Limited

Kempapura Main Road, Opp Nagawara Lake, Karle SEZ Tower, 2nd floor, Karnataka, 560045, Bangalore

Diageo Business Services India Private Limited

Indonesia

Jl Jend Sudirman Kav. 76-78, Sudirman Plaza, Plaza Marein, 15th, Jakarta Selatan, 12910, Jakarta

PT Gitaswara Indonesia(ix)

Jl. Raya Kaba-Kaba No. 88, Banjar Carik Padang, Desa Nyambu, Kecamatan Kediri, Kabupaten Tabanan, Provinsi Bali

PT Langgeng Kreasi Jayaprima

Italy

Strada Statale 63, 12069, Santa Vittoria d'Alba (CN)

Diageo Operations Italy S.p.A.

Via Ernesto Lugaro 15, 10126, Torino

Diageo Italia S.p.A.

Jamaica

7th Floor, Scotiabank Centre, Duke Street, Kingston

Trelawny Estates Limited

Lot14, Gilbert Drive, Lakeside Park, Discovery Bay, St. Ann

Myers Rum Company (Jamaica) Limited(ii)

Japan

Nakano-ku 4-10-2, Nakano Central Park South, 17, Tokyo, 164-0001

Diageo Japan K.K

Kazakhstan
Timiryazev street 28 V, office 704, Bostandik district, 50040, Almaty
Diageo Kazakhstan LLP.

Kenya
L R NO 1870/1/176, Aln House, Eldama Ravine Close, off Eldama Ravine Road, Westlands, Nairobi
Diageo Kenya Limited

La Reunion
14, rue Jules Thirel A30 97460 Saint Paul, Reunion Island
Diageo Reunion SA

Lebanon
Verdun Street, Ibiza Building, Beirut, PO Box 113-5631
Diageo Lebanon Holding SAL
Diageo LENA Offshore SAL

Mexico
Carretera Atotonilco Guadalajar, kilómetro 8, Atotonilco el Alto 47750 Jalisco
Diageo Mexico Comercializadora S.A. de C.V.
Diageo Mexico II SA de CV Sociedad Financiera de Objeto Multiple, E.N.R.
Diageo Mexico SA de CV
Porfirio Diaz 17, Jalisco, 47750, Atotonilco el Alto
Diageo Mexico Operaciones S.A.de C.V.
Don Julio Agavera S.A. de C.V.
Don Julio Agricultura y Servicios S.A. de C.V.
Servicios Agavera, S.A.de C.V.

Mozambique
Estrada Nacional numero 1, Micanhine, Marracuene
Diageo Supply Marracuene Lda.

New Zealand
123 Carlton Gore Road, Level 2, Newmarket, 1023, Auckland
Diageo New Zealand Limited(iii)
80 Queen Street, 1010, Auckland
Gilbeys New Zealand Limited

Nigeria
Oba Akran Avenue Ikeja, 24, Lagos, PMB 21071, 100001
Diageo Brands Nigeria Ltd

Norway
Apotekergata 10, 0180 Oslo
Diageo Norway AS

Panama
Costa del Este, Ave La Rotonda, Business Park, Torre V. piso 15 Panama City
Diageo Panama S.A.
Panama city, West Boulevard, PH ARIFA, 9th and 10th, Santa Maria Business
Diageo Taiwan Inc.

Paraguay
Avda Aviadores del Chaco 2050. Edificio World trade center. Torre 3 piso 11
Diageo Paraguay S.R.L.

Peru
Victor Andres Belaunde 147, Via Principal 133, Interior 107, Piso 10, San Isidro, Lima
Diageo Peru S.A.

Philippines
Lower G/F, Unit A Eight West Campus Le Grand Avenue, Mckinley West Fort Bonifacio, Taguig City, NCR Fourth District, 1630
Diageo Asia Pacific Shared Services Centre Limited, Inc.
Unit 1, 17th Floor, Ore Central 9th Avenue corner 31st Street Bonifacio Global City, Taguig City, 1634
Diageo Export SR Inc.(ii)
Diageo Philippines Free Port Inc(ii)
Diageo Philippines, Inc
North Island United Enterprise Holdings Inc(ii)
United Distillers & Vintners Philippines Inc(ii)

Poland
Warsaw, Przyokopowa Str. 31, PL 01 – 208 Warsaw
Diageo Polska Sp. z o.o.

Portugal
Avenida D. Joao II, No 50, piso 2, letra D, Edificio Mar Vermelho, 1990-095 Lisboa
Diageo Portugal – Distribuidora de Bebidas, Unipessoal, Lda

Republic of Ireland
Nangor House, Western Estate, Nangor Road, Dublin, 12
Gilbeys of Ireland Unlimited Company
R & A Bailey & Co
UDV Ireland Group (Trustees) Designated Activity Company
St. James's Gate, Dublin 8
1759 Property Limited
AGS Employee Shares Nominees (Ireland) Designated Activity Company
Arthur Guinness Son & Company (Dublin)(ii
Diageo Europe Holdings Limited
Diageo Ireland
Diageo Ireland Finance 1 Unlimited Company
Diageo Ireland Finance 2 Unlimited Company
Diageo Ireland Finance 3 Unlimited Company
Diageo Ireland Finance Unlimited Company
Diageo Ireland Holdings Unlimited Company
Diageo Ireland Pension Trustee Designated Activity Company
Diageo Retirement Savings Plan Designated Activity Company
Diageo Turkey Holdings Limited
Guinness Storehouse Limited
Irish Ale Breweries Holdings Unlimited Company(iii)
Irish Ale Breweries Limited
Powtom 11 Limited
Powtom 12 Limited
Powtom 13 Limited
Powtom 14 Limited
Powtom 16 Limited
Powtom 17 Limited
Powtom 18 Unlimited Company
R&A Bailey Pension Trustee Designated Activity Company

Russia
Kaspiyskaya Street, 22, main bld. 1, bld. 5, floor 3, apartment VII, room 31a, 115304, Moscow
D Distribution Joint-Stock Company
Diageo Brands Distributors LLC

Singapore
Singapore, 112 Robinson Road, 1, 5th Floor, 1, 68902
Diageo GTME Pte Ltd
Diageo Singapore Pte Ltd.
Diageo Singapore Supply Pte. Ltd.
Streetcar Investment Holding Pte. Ltd.

South Africa
Building 3, Maxwell Office Park, Magwa Crescent West, Waterfall City, Midrand, 2090
Diageo South Africa (Pty) Limited
Diageo Southern Africa Markets (Pty) Ltd
United Distillers Southern Africa (Proprietary) Limited

South Korea
46, Dumujae-ro, Bubal-eup, Icheon-shi, Gyeonggi-do, 17317, Icheon
Diageo Korea Company Limited

Spain
Avda de la Victoria 32, Edificio Spirit, 28023, Madrid
Diageo Espana S.A.

Sweden
Gavlegatan street 22/C, 11330, Stockholm
Diageo Sweden AB

Switzerland
Rue du Grand-Pre 2b, 1007, Lausanne
Diageo Suisse S.A.

Tanzania
CRB Africa Legal Attorneys, Plot 60, Ursino Street P.O. Box 32840, Dar es Salaam
Sumagro Limited(ii)

The Netherlands
Molenwerf 12, 1014 BG, Amsterdam
Diageo Atlantic B.V.
Diageo Brands B.V.
Diageo Highlands Holding B.V.
Diageo Holdings Netherlands B.V.
Diageo Molenwerf B.V.
Diageo Nederland B.V.
Global Farming Initiative B.V.
Relay B.V.(v)
Selviac Nederland B.V.
De Ruyterkades, Postbus 2852 1000cw Amsterdam
United Distillers & Vintners (SJ) B.V.(ii)

Turkey
Büyükdere Caddesi, Bahar Sokak, River Plaza, N0:13, 25-29, Þiþli, 34394, Istanbul
Mey Alkollu Ickiler Sanayi ve Ticaret A.S
Mey Icki Sanayi ve Ticaret A.S.

Ukraine
1v Pavla Tychyny avenue , 2152, Kyiv
Diageo Ukraine LLC

United Kingdom

3rd Floor Capital House, 3 Upper Queen Street, Belfast

Diageo Global Supply IBC Limited

Diageo Northern Ireland Limited[i]

S & B Production Limited[i]

61 St. James's Street, London, SW1A 1LZ

Justerini & Brooks, Limited

Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT

Arthur Bell & Sons Limited

Copper Dog Whisky Limited

Diageo Capital plc[i]

Diageo Scotland Limited

J & B Scotland Limited[ii]

John Haig & Company Limited

The Lochnagar Distillery Limited[ii]

William Sanderson and Son Limited[ii]

Zepf Technologies UK Limited

Lakeside Drive, Park Royal, NW10 7HQ, London

Anyslam Investments

Anyslam Limited[i,viii]

Cellarers (Wines) Limited

DEF Investments Limited

Diageo (IH) Limited[ii]

Diageo Balkans Limited

Diageo CL1 Limited

Diageo Distribution Company Limited

Diageo DV Limited

Diageo Eire Finance & Co

Diageo Employee Shares Nominees Limited[i,ii]

Diageo Finance Australia LLP

Diageo Finance plc[i]

Diageo Finance US Limited

Diageo Financing Turkey Limited

Diageo Great Britain Limited

Diageo Healthcare Limited[ii]

Diageo Holdings Limited[i]

Diageo Holland Investments Limited[ii]

Diageo Investment Holdings Limited

Diageo Overseas Holdings Limited[vi]

Diageo Scotland Investment Limited

Diageo Share Ownership Trustees Limited[i,ii]

Diageo Treasury Australia LLP

Diageo UK Turkey Holdings Limited[vi]

Diageo UK Turkey Limited

Diageo US Holdings

Diageo US Investments

Grand Metropolitan Capital Company Limited

Grand Metropolitan Estates Limited

Grand Metropolitan International Holdings Limited

Grand Metropolitan Limited

Guinness Limited[i]

Guinness Overseas Holdings Limited[i]

Guinness Overseas Limited

James Buchanan & Company Limited[ii]

John Walker and Sons Limited[ii]

Tanqueray Gordon and Company, Limited[i]

The Distillers Company (Biochemicals) Limited[ii]

The Pimm's Drinks Company Limited[ii]

Tipplesworth Limited

UDV (SJ) Holdings Limited[i]

UDV (SJ) Limited

United Distillers France Limited[ii]

Suites 5 & 6 Woodlands Court, Burnham Road, Beaconsfield, Buckinghamshire, HP9 2SF

Anna Seed 83 Limited

First Floor, Quay 2, 139 Fountainbridge, Edinburgh, EH3 9QG

3R Whisky Limited

United States

1 Estate Annaberg & Shannon Grove, RR1 Box 9400, Kingshill, VI 00850-9703

Diageo USVI Inc

1105 Bale Lane, Calistoga CA 94515

Whisky Archive Inc

1209 Orange Street, Wilmington, Delaware 19801

ASL Leasing and Investment LLC

CT Staffing Services LLC

DV Technology LLC

175 Greenwich Street, Three World Trade Center, New York, NY 10007

Ballroom Acquisition, Inc.

Diageo Americas Supply, Inc.

Diageo Americas, Inc.

Diageo Beer Company USA

Diageo Inc.

Diageo Investment Corporation

Diageo Latin America & Caribbean LLC

Diageo North America Foundation, Inc.

Diageo North America, Inc.[v]

Liquor Investment LLC

Stirrings LLC

The Bulleit Distillery, Inc.

222 Cliffwood Avenue, Los Angeles, CA 90049

Soh Spirits LLC

3411 Silverside Road Tatnall Building, Ste 104 Wilmington, DE 19810

Casamigos Spirits Company LLC

Casamigos Tequila LLC

Uruguay

Calle Guipuzcoa No. 331 – oficina 1301, Montevideo

Diageo Uruguay SA

Venezuela

Av Intercomunal Alí Primera, Los Taques, Estado Falcón

DV Paraguana, C.A.

Av La Hormiga con Intersección de la Carretera via Payara, C.C. Tierra Buena Acarigua

Mull Trading, C.A.

Av. Circunvalacion Norte (Jose Asunsion Rodriguez) Edificio Distribuidora Metropol, Porlamar, Estado Nueva Esparta

Clyde Trading, C.A.[v]

Cupar Trading, C.A.[v]

Diageo Nueva Esparta, C.A.[ii]

DV Trading, C.A.[v]

Zeta Importers, C.A.[v]

Ave. San Felipe Urbanización La Castellana, Edificio Centro Coinasa, Piso 6. Caracas, 1060

Diageo Venezuela C.A.

Industrias Pampero C.A.

Calle 1 con calle Calle 1 Este; Edificio y Galpon BTP, Zona Industrial La Caracarita; Municipio Los Guayos; estado Carabobo

Arran Tradings, C.A.

DV Release, C.A.

Islay Trading, C.A.

L4L Trading, C.A.

Lismore Trading, C.A.

Skye Trading, C.A.

Carretera Nacional Acarigua-Barquisimeto Casa Agropecuaria Las Marias I C.A.S-N Sector los Guayones La Miel, Lara

Agropecuarias Las Marias I C.A.

Vietnam

No. 157, 21/8 Street, Phuoc My Ward, Phan Rang – Thap Cham City, Ninh Thuan Province

Diageo Vietnam

Zimbabwe

48 Midlothian Avenue, Eastlea, Harare

International Distillers – Zimbabwe (Private) Limited[ii]

SUBSIDIARIES WHERE THE EFFECTIVE INTEREST IS LESS THAN 100%

Angola

Rua Dom Eduardo Andre Muaca, S/No, LOTE C4, Luanda

DIREF Industria de Bebidas,Lda-Angola JV – 50.10%

British Virgin Islands

Sea Meadow House, Blackburne Highway, P.O. Box 116, Road Town, Tortola

Palmer Investment Group Limited[xi] – 55.94%

USL Holdings Limited[ii,xi] – 55.94%

Wickhams Cay, 1, OMC Chambers, Road Town, Tortola

Rum Creation & Products, Inc.[v] – 50.00%

Canada

Labatt House, 207 Queen's Quay West, Suite 299, Ontario, M5J 1A7, Toronto

Guinness Canada Limited – 51.00%

China

Chengdu City, Jinjiang District Shuijing Street No21, 610011

Chengdu Swellfun Marketing Co. Limited – 63.14%

No. 9 Quanxing Road, Jinniu District, 610036, Chengdu City

Chengdu Jianghai Trade Development Co. Limited – 63.14%

Chengdu Ruijin Trade Co. Limited – 63.14%

Chengdu Tengyuan Liquor Marketing Co. Limited – 63.14%

Sichuan Swellfun Co., Ltd – 63.14%

Qionglai City, Linqiong Industrial Park Road 318 W, 611538

Chengdu Swellfun Liquor Co. Limited – 63.14%

Unit 215, Xinxing Building, No. 8, Jia Feng Road, Wai Gao Qiao Free Trade Zone, Shanghai

United Spirits (Shanghai) Trading Company Ltd[xi] – 55.94%

Ghana
Guinness Brewery, Plot 1 Block L, Industrial Area, Kaasi, P. O. Box 1536, Kumasi
Guinness Ghana Breweries Plc – 80.40%

Guatemala
Calle 8-19 zona 9, Quetzaltenango
Anejos De Altura, Sociedad Anonima – 50.00%

India
Roxana Towers, Ground Floor, M.No.7-1-24/1/RT/G1&G2, Greenlands, Begumpet, Hyderabad 500 016
Pioneer Distilleries Limited(xi) – 41.95%
Sovereign Distilleries Limited(xi) – 55.94%
Tern Distilleries Private Limited(xi) – 55.94%
UB Tower, #24, Vittal Mallya Road, Bangalore-560001
Royal Challengers Sports Private Limited(xi) – 55.94%
United Spirits Limited(xi) – 55.94%

Jersey
Ordnance House, 31 Pier Road, St Helier, JE4 8PW
UB Sports Management Overseas Ltd(xi) – 55.94%

Kenya
Tusker House, Ruaraka, PO Box 30161, 00100 Nairobi GPO
Allsopp (East Africa) Limited(ii) – 48.52%
EABL International Limited(ii) – 50.03%
East African Breweries Limited – 50.03%
East African Maltings Limited – 50.03%
Kenya Breweries Limited – 50.03%
Tembo Properties Limited(ii) – 50.03%
Tusker Football Club – 50.03%
UDV Kenya Limited – 76.85%

Lebanon
Beirut Symposium Bldg, 10th floor, Beirut, PO Box 113-5250, Beirut
Diageo Lebanon SAL – 84.99%

Mauritius
IFS Court, Twenty Eight, Cybercity, Ebene
Asian Opportunities and Investment Limited(ii),(xi) – 55.94%

Nigeria
Oba Akran Avenue Ikeja, 24, Lagos, PMB 21071, 100001
Guinness Nigeria plc – 58.02%

North Cyprus
Sehit Mehmet Cetin Sokak, Kucuk Sanayi Bölgesi, 48, 99450, Gazi Magusa
Turk Alkollu Icki ve Sarap Endustri Ltd. – 66.00%

Panama
Edificio Vallarino, Penthouse Calle 52 y Elvira Mendez, Panama City
Montrose International SA(xi) – 55.94%

Philippines
Unit 1, 17th Floor, Ore Central 9th Avenue corner 31st Street Bonifacio Global City, Taguig City, 1634
ULM Holdings Inc(ii) – 40.00%

Rwanda
Kimihurura, Gasabo, Umujyi was Kigali, 7130 Port Bell Luzira
East African Breweries Rwanda Limited – 50.03%

Seychelles
O'Brien House, 273 Le Rocher, Mahe
Seychelles Breweries Limited – 54.40%

Singapore
120 Robinson Road, #08-01, Singapore 068913
United Spirit Singapore Pte. Ltd.(xi) – 55.94%

South Sudan
Southern Sudan African Park Hotel, Juba Town
East African Beverages (Southern Sudan) Limited – 49.53%

Tanzania
2nd Floor, East Wing TDFL Building, Ohio street. P.O. Box 32840 Dar es Salaam
EABL (Tanzania) Limited(ii) – 50.03%
Plot 117/2, Access Road, Nelson Mandela Expressway, Chang'Ombe Industrial Area, P.O. Box 41080, Dar es Salaam
Serengeti Breweries Limited – 27.52%

The Netherlands
Molenwerf 12, 1014 BG, Amsterdam
Ketel One Worldwide B.V.(iv) – 50.00%

Uganda
PO BOX 7130 Kampala
East African Maltings (Uganda) Limited(ii) – 50.03%
Plot 3-17 Port Bell Road, Luzira, Kampala, P.O. Box 7130
Uganda Breweries Limited – 49.03%
Plot No 1 Malt Road, Portbell Luzira P.O. Box 3221 Kampala
International Distillers Uganda Limited – 50.03%

United Kingdom
Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT
Lochside MWS Limited Partnership
McDowell & Co. (Scotland) Ltd(xi) – 55.94%
Lakeside Drive, Park Royal, NW10 7HQ, London
Diageo Pension Trust Limited(i),(ix) – 55.00%
Lakeside MWS Limited Liability Partnership
Shaw Wallace Overseas Limited(xi) – 55.94%
United Spirits (Great Britain) Limited(xi) – 55.94%
United Spirits (UK) Limited(xi) – 55.94%
USL Holdings (UK) Limited(xi) – 55.94%
Suites 5 & 6 Woodlands Court, Burnham Road, Beaconsfield, Buckinghamshire, HP9 2SF
Seedlip Ltd – 91.10%

United States
175 Greenwich Street, Three World Trade Center, New York, NY 10007
California Simulcast Inc(ii) – 80.00%
D/CE Holdings LLC – 50.00%
1209 Orange Street, Wilmington, Delaware 19801
Corigin Minibar II LLC - 99.997%
2711 Centerville Road, Suite 400, Wilmington, Delaware 19808
Liquidity Inc.(ii),(xi) – 55.94%

Vietnam
621 Pham Van Chi Street, District 6, Ho Chi Minh City
Vietnam Spirits and Wine LTD – 55.00%

ASSOCIATES

Australia
50 Bertie Street, Port Melbourne, Victoria 3207
New World Whisky Distillery PTY Limited – 30.00%
Cabel Partners, Level 5, 1 James Place, North Sydney, NSW 2060
Mr Black Spirits Pty Ltd. – 45.00%

Curaçao
Citco Curacao, Schottegatweg Oost 44, Willemstad
International Brand Developers N.V. – 25.00%

Denmark
Stauningvej 38, 6900 Skjern
Stauning Whisky Holding ApS – 40.00%

France
24/32 rue Jean Goujon – 75008 Paris
Moet Hennessy International – 34.00%
Moet Hennessy, SAS – 34.00%

Hungary
26 Soroksari ut, Budapest, 1095
Zwack Unicum plc – 26.00%

India
No.34, 1St Floor, B.Ramachandra Adithanar Road (4th Main Road), Gandhi Nagar, Adyar Chennai Chennai Tn 600020
Hip Bar Private Limited – 14.54%

Italy
Via Tortona 15, 20144, Milan
Niococktails S.R.L. – 20.00%

Spain
Calle General Vara del Rey 5, 1 Piso, 26003 Logroño, La Rioja
El Bandarra, S.L. – 25.00%
Carrtera La Cuesta Taco Km 0.5. La Laguna, Santa Crus De Teneriffe
Compania Cervecera De Canarias, S.A. – 20.00%
Tomino (Ponteverda), 36750, Parroquia de Goian, Barrio de Centinela, 1
Valdomino Premium Spirits, S.L. – 25.52%

The Netherlands
Ceresstraat 1, 4811 CA Breda
Canbrew B.V.(iv) – 28.16%

United Kingdom
1 Orchard Road, St George, Bristol, BS5 7HS
Caleno Drinks Ltd – 20.00%
17 Grosvenor Street, Mayfair, London W1K 4QG
Del Professore Limited – 20.00%
28 Vale Road, Claygate, Esher, KT10 0NJ
London Botanical Drinks Limited – 20.00%
354 Castlehill, The Royal Mile, Edinburgh, EH1 2NE
The Scotch Whisky Heritage Centre Limited(vi) – 29.00%
Ballindalloch Castle, Ballindalloch, Banffshire AB37 9AX
Ballindalloch Distillery LLP – 33.33%
Cambridge Distillery, 20 High Street, Grantchester, Cambridge CB3 9NF
Cambridge Distillery Limited – 33.33%

Central Working, Eccleston Yards, 25 Eccleston Place, SW1W 9NF

Pulpex Limited(i) – 49.60%

20 King Street Prince Albert House Maidenhead SL6 1DT

El Rayo Limited – 20.00%

Harbourside Brewery, Tretoil Farm, Bodmin, Cornwall, PL30 5BA

The Southwest Fermentorium Limited – 25.00%

United States

1045 Dodge Lane Fallon, NV 89406

Nevada Spirits De LLC – 25.00%

2459 E 8th Street; Los Angeles, California 90021

Modern Spirits LLC – 20.00%

517 West 39th Street Austin, TX 78751

Gourmet Grade LLC – 20.23%

575 Grand Street, #E1507 New York, NY 10002

Grand Street Beverages LLC – 38.89%

65 SE Washington Street Portland, OR 97214

House Spirits Distillery LLC – 30.15%

1222 SE Gideon Street Portland, OR 97202

Naam Som LLC – 30.00%

874 Walker Rd. Suite C, Dover, 19904

Analog Liquid LLC – 27.78%

735 10th Street Fortuna, CA 95540

Redwood Spirits Inc – 20.00%

1935 W. Irving Park Chicago, IL 60613

Ritual Beverage Company LLC – 33.33%

1524 Sherman Avenue, Hood River, OR 97031

Wilderton, LLC – 30.56%

Vietnam

94 Lo Duc Street, Pham Dinh Ho Ward, Hai Ba Trung District, Ha Noi City

Hanoi Liquor Joint Stock Company (Halico) – 45.57%

JOINT VENTURES

United Kingdom

9 Wheatfield Road, EDINBURGH, EH11 2PX

Lothian Distillers Limited – 50.00%

North British Distillery Company Limited – 50.00%

JOINT OPERATIONS(x)

China

Room 1101,Building 3,No.68,Aoti Street, Jianye District, Nanjing City

Jiangsu Diageo Spirits Co., Ltd – 50.00%

702A, Taiping Finance Tower, 488 Middle Yincheng Road, Shanghai, Pilot Free Trade Zone

Moet Hennessy Diageo (China) Co Ltd(xii) – 67.00%

Costa Rica

Llorente de Tibás, 1Km este del Periódico La Nación

HA&COM Bebidas del Mundo, SA – 50.00%

Cuba

Calle 246 y Quinta Avenida, Complejo Barlovento, Jaimanitas, Playa, Havana

Ron Santiago S.A. – 50.00%

Dominican Republic

Independencia Street, No. 129, Santiago

Gist Dominicana S.A. – 60.25%

Salvador Sturla Street, Ensanche Naco, Santo Domingo

Seagram Dominicana S.A. – 60.83%

Segunda (2da) Street, Los Platanitos, Santiago

Industria de Licores Internationales S.A. – 59.71%

France

105 Boulevard de la Mission Marchand, Courbevoie, 92400

MHD Moet Hennessy Diageo SAS – 0.05%

Hong Kong

Level 54, Hopewell Centre, 183 Queen's Road East

Moet Hennessy Diageo Hong Kong Limited(xii) – 67.00%

Room 06, 13A/F. South Tower, World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon

Diageo International Spirits Company Limited – 50.00%

Japan

Jinbocho Mitsui Bldg, Chiyodaku, Kandajinbocho, Tokyo

MHD Moet Hennessy Diageo K.K.(xii) – 67.00%

Nakano-ku 4-10-2, Nakano Central Park South, 17, Tokyo, 164-0001

Diageo Kirin Company Limited – 51.00%

Macau

Unit 43 & 45, Level 20, AIA Tower, Nos 251A – 301 Avenida Comercial de Macau

Moet Hennessy Diageo Macau Limited(xii) – 67.00%

Malaysia

Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur

Moet Hennessy Diageo Malaysia Sdn Bhd.(xii) – 67.00%

Singapore

83 Clemenceau Ave, #09-01 UE Square, 239920

Moet Hennessy Diageo Singapore Pte. Ltd(xii) – 67.00%

Thailand

No. 944, Mitrtown Office Tower, 12th Floor, Rama 4 Road, Wangmai, Pathumwan, Bangkok, 10330

Diageo Moet Hennessy (Thailand) Limited(xiii) – 63.02%

The Netherlands

Molenwerf 12, 1014 BG, Amsterdam

Diageo-Moet Hennessy B.V.(iv) – 67.00%

Ukraine

Chervonoarmiyska Street, bld. 9/2, apt. 70, Kyiv

Seagram Ukraine Limited(ii) – 60.90%

United Kingdom

Persimmon House, Fulford, York YO19 4FE

Trafalgar Metropolitan Homes Limited – 50.00%

(i) Directly owned by Diageo plc
(ii) Dormant company.
(iii) Ownership held in class of A shares.
(iv) Ownership held in class of B shares.
(v) Ownership held in class of A shares and B shares.
(vi) Ownership held in preference shares.
(vii) Ownership held in equity shares and preference shares.
(viii) 99.11% owned by Diageo plc.
(ix) Companies controlled by the group based on management's assessments.
(x) Diageo shares joint control over these entities under shareholder's agreements, and Diageo's rights to profit, assets and liabilities of the companies are dependent on the performance of the group's brands rather the effective equity ownership of the companies.
(xi) Based on 55.94% equity investment in USL that excludes 2.38% owned by the USL Benefit Trust.
(xii) Operation is managed by Moet Hennessey.
(xiii) Operations is managed by Diageo.

Unaudited financial information

1. Five years financial information

The following tables present selected consolidated financial data for Diageo for the five years ended 30 June 2020 and as at the respective year ends. The data presented below for the five years ended 30 June 2020 and the respective year ends has been derived from Diageo's consolidated financial statements.

	Year ended 30 June				
Income statement data	**2020 £ million**	2019 £ million	2018 £ million	2017 £ million	2016 £ million
Sales	**17,697**	19,294	18,432	18,114	15,641
Excise duties	**(5,945)**	(6,427)	(6,269)	(6,064)	(5,156)
Net sales	**11,752**	12,867	12,163	12,050	10,485
Cost of sales	**(4,654)**	(4,866)	(4,634)	(4,680)	(4,251)
Gross profit	**7,098**	8,001	7,529	7,370	6,234
Marketing	**(1,841)**	(2,042)	(1,882)	(1,798)	(1,562)
Other operating expenses	**(3,120)**	(1,917)	(1,956)	(2,013)	(1,831)
Operating profit	**2,137**	4,042	3,691	3,559	2,841
Non-operating items	**(23)**	144	–	20	123
Net interest and other finance charges	**(353)**	(263)	(260)	(329)	(327)
Share of after tax results of associates and joint ventures	**282**	312	309	309	221
Profit before taxation	**2,043**	4,235	3,740	3,559	2,858
Tax before exceptional items	**(743)**	(859)	(799)	(736)	(552)
Exceptional taxation	**154**	(39)	203	4	56
Profit from continuing operations	**1,454**	3,337	3,144	2,827	2,362
Discontinued operations	**–**	–	–	(55)	–
Profit for the year	**1,454**	3,337	3,144	2,772	2,362

Weighted average number of shares	**million**	million	million	million	million
Shares in issue excluding own shares	**2,346**	2,418	2,484	2,512	2,508
Dilutive potential ordinary shares	**8**	10	11	11	10
	2,354	2,428	2,495	2,523	2,518

Per share data	**pence**	pence	pence	pence	pence
Dividend per share	**69.88**	68.57	65.30	62.20	59.20
Basic earnings per share					
Continuing operations – before exceptional items	**109.4**	130.8	118.6	108.5	89.4
Continuing operations – after exceptional items	**60.1**	130.7	121.7	108.2	89.5
Discontinued operations	**–**	–	–	(2.2)	–
	60.1	130.7	121.7	106.0	89.5
Diluted earnings per share					
Continuing operations	**59.9**	130.1	121.1	107.7	89.1
Discontinued operations	**–**	–	–	(2.2)	–
	59.9	130.1	121.1	105.5	89.1

Balance sheet data	As at 30 June 2020 £ million	2019 £ million	2018 £ million	2017 £ million	2016 £ million
Non-current assets	**21,837**	21,923	21,024	20,196	19,639
Current assets	**11,471**	9,373	8,691	8,652	8,852
Total assets	**33,308**	31,296	29,715	28,848	28,491
Current liabilities	**(6,496)**	(7,003)	(6,360)	(6,660)	(6,187)
Non-current liabilities	**(18,372)**	(14,137)	(11,642)	(10,160)	(12,124)
Total liabilities	**(24,868)**	(21,140)	(18,002)	(16,820)	(18,311)
Net assets	**8,440**	10,156	11,713	12,028	10,180
Share capital	**742**	753	780	797	797
Share premium	**1,351**	1,350	1,349	1,348	1,347
Other reserves	**2,272**	2,372	2,133	2,693	2,625
Retained earnings	**2,407**	3,886	5,686	5,475	3,761
Equity attributable to equity shareholders of the parent company	**6,772**	8,361	9,948	10,313	8,530
Non-controlling interests	**1,668**	1,795	1,765	1,715	1,650
Total equity	**8,440**	10,156	11,713	12,028	10,180
Net borrowings	**(13,246)**	(11,277)	(9,091)	(7,892)	(8,635)

2. Contractual obligations and other commitments

	Payments due by period Less than 1 year £ million	1-3 years £ million	3-5 years £ million	More than 5 years £ million	Total £ million
As at 30 June 2020					
Long-term debt obligations	**1,645**	**2,980**	**3,079**	**8,615**	**16,319**
Interest obligations	**466**	**669**	**541**	**1,741**	**3,417**
Credit support obligations	**180**	**–**	**–**	**–**	**180**
Purchase obligations	**1,073**	**567**	**128**	**9**	**1,777**
Commitments for short-term leases and leases of low-value assets	**12**	**5**	**1**	**1**	**19**
Post employment benefits(i)	**37**	**64**	**53**	**62**	**216**
Provisions and other non-current payables	**185**	**179**	**115**	**174**	**653**
Lease obligations	**115**	**148**	**80**	**189**	**532**
Capital commitments	**301**	**10**	**1**	**–**	**312**
Other financial liabilities	**167**	**–**	**–**	**–**	**167**
Total	**4,181**	**4,622**	**3,998**	**10,791**	**23,592**

(i) For further information see note 13 to the consolidated financial statements.

Long-term debt obligations comprise the principal amount of borrowings (excluding foreign currency swaps) with an original maturity of greater than one year. Interest obligations comprise interest payable on these borrowings and are calculated based on the fixed amounts payable and where the interest rate is variable on an estimate of what the variable rates will be in the future. Credit support obligations represent liabilities to counterparty banks in respect of cash received as collateral under credit support agreements. Purchase obligations include various long-term purchase contracts entered into for the supply of raw materials, principally bulk whisk(e)y, cereals, cans and glass bottles. Contracts are used to guarantee the supply of raw materials over the long term and to enable a more accurate prediction of costs of raw materials in the future. For certain provisions discounted numbers are disclosed.

Corporate tax payable of £246 million and deferred tax liabilities are not included in the table above, as the ultimate timing of settlement cannot be reasonably estimated.

Management believe that it has sufficient funding for its working capital requirements.

Post employment benefits contractual obligations comprise committed deficit contributions but exclude future service cost contributions.

3. Off-balance sheet arrangements

Neither Diageo plc nor any member of the Diageo group has any off-balance sheet financing arrangements that currently have or are reasonably likely to have a material future effect on the group's financial condition, changes in financial condition, results of operations, liquidity, capital expenditure or capital resources.

Cautionary statement concerning forward-looking statements

This document contains 'forward-looking' statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook, objectives and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to Diageo, anticipated cost savings or synergies, expected investments, the completion of any strategic transactions or restructuring programmes, anticipated tax rates, changes in the international tax environment, expected cash payments, outcomes of litigation or regulatory enquiries, anticipated changes in the value of assets and liabilities related to pension schemes and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo's control.

Factors that could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements include, but are not limited to:

- economic, political, social or other developments in countries and markets in which Diageo operates (including as a result of the Covid-19 pandemic), which may contribute to a reduction in demand for Diageo's products, adverse impacts on Diageo's customer, supplier and/or financial counterparties, or the imposition of import, investment or currency restrictions (including the potential impact of any global, regional or local trade wars or any tariffs, duties or other restrictions or barriers imposed on the import or export of goods between territories, including but not limited to, imports into and exports from the United States and the European Union and/or the United Kingdom);
- the impact of the Covid-19 pandemic, or other epidemics or pandemics, on Diageo's business, financial condition, cash flows and results of operation;
- the negotiating process surrounding, as well as the final terms of, the United Kingdom's future trading relationships with the European Union and other countries, which could lead to a sustained period of economic and political uncertainty and complexity whilst successor trading arrangements with other countries are negotiated, finalised and implemented, potentially adversely impacting economic conditions in the United Kingdom and Europe more generally as well as Diageo's business operations and financial performance;
- changes in consumer preferences and tastes, including as a result of changes in demographics, evolving social trends (including any shifts in consumer tastes towards small-batch craft alcohol, lower or no alcohol, or other alternative products), changes in travel, holiday or leisure activity patterns, weather conditions, health concerns, pandemics and/or a downturn in economic conditions;
- changes in the domestic and international tax environment, including as a result of the OECD Base Erosion and Profit Shifting Initiative and EU anti-tax abuse measures, leading to uncertainty around the application of existing and new tax laws and unexpected tax exposures;
- the effects of climate change, or legal, regulatory or market measures intended to address climate change, on Diageo's business or operations, including on the cost and supply of water;
- changes in the cost of production, including as a result of increases in the cost of commodities, labour and/or energy or as a result of inflation;
- any litigation or other similar proceedings (including with tax, customs, competition, environmental, anti-corruption or other regulatory authorities), including litigation directed at the beverage alcohol industry generally or at Diageo in particular;
- legal and regulatory developments, including changes in regulations relating to production, distribution, importation, marketing, advertising, sales, pricing, labelling, packaging, product liability, antitrust, labour, compliance and control systems, environmental issues and/or data privacy;
- the consequences of any failure by Diageo or its associates to comply with anti-corruption, sanctions, trade restrictions or similar laws and regulations, or any failure of Diageo's related internal policies and procedures to comply with applicable law or regulation;
- the consequences of any failure of internal controls, including those affecting compliance with existing or new accounting and/or disclosure requirements;
- Diageo's ability to maintain its brand image and corporate reputation or to adapt to a changing media environment;
- contamination, counterfeiting or other circumstances which could harm the level of customer support for Diageo's brands and adversely impact its sales;
- increased competitive product and pricing pressures, including as a result of actions by increasingly consolidated competitors or increased competition from regional and local companies, that could negatively impact Diageo's market share, distribution network, costs and/or pricing;
- any disruption to production facilities, business service centres or information systems, including as a result of cyber attacks;
- increased costs for, or shortages of, talent, as well as labour strikes or disputes;
- Diageo's ability to derive the expected benefits from its business strategies, including in relation to expansion in emerging markets, acquisitions and/or disposals, cost savings and productivity initiatives or inventory forecasting;
- fluctuations in exchange rates and/or interest rates, which may impact the value of transactions and assets denominated in other currencies, increase Diageo's cost of financing or otherwise adversely affect Diageo's financial results;
- movements in the value of the assets and liabilities related to Diageo's pension plans;
- Diageo's ability to renew supply, distribution, manufacturing or licence agreements (or related rights) and licences on favourable terms, or at all, when they expire; or
- any failure by Diageo to protect its intellectual property rights.

All oral and written forward-looking statements made on or after the date of this document and attributable to Diageo are expressly qualified in their entirety by the above cautionary factors and by the 'Risk Factors' included in Diageo's Annual Report on Form 20-F for the year ended 30 June 2020 filed with the US Securities and Exchange Commission (SEC). Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made. Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Diageo may make in any documents which it publishes and/or files with the SEC. All readers, wherever located, should take note of these disclosures.

The information in this document does not constitute an offer to sell or an invitation to buy shares in Diageo plc or an invitation or inducement to engage in any other investment activities.

This document may include information about Diageo's target debt rating. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating.

Past performance cannot be relied upon as a guide to future performance.

Additional information for shareholders

Articles of association

The company is incorporated under the name Diageo plc, and is registered in England and Wales under registered number 23307.

The following description summarises certain provisions of Diageo's articles of association (as adopted by special resolution at the Annual General Meeting on 19 September 2019) and applicable English law concerning companies (the Companies Acts), in each case as at 4 August 2020. This summary is qualified in its entirety by reference to the Companies Acts and Diageo's articles of association.

Investors can obtain copies of Diageo's articles of association by contacting the Company Secretary at the.cosec@diageo.com.

Any amendment to the articles of association of the company may be made in accordance with the provisions of the Companies Act 2006, by way of special resolution.

Directors

Diageo's articles of association provide for a board of directors, consisting (unless otherwise determined by an ordinary resolution of shareholders) of not fewer than three directors and not more than 25 directors, in which all powers to manage the business and affairs of Diageo are vested. Directors may be elected by the members in a general meeting or appointed by the Board of Diageo. At each annual general meeting, all the directors shall retire from office and may offer themselves for re-election by members. There is no age limit requirement in respect of directors. Directors may also be removed before the expiration of their term of office in accordance with the provisions of the Companies Acts.

Voting rights

Voting on any resolution at any general meeting of the company is by a show of hands unless a poll is duly demanded. On a show of hands, (a) every shareholder who is present in person at a general meeting, and every proxy appointed by any one shareholder and present at a general meeting, has/have one vote regardless of the number of shares held by the shareholder (or, subject to (b), represented by the proxy), and (b) every proxy present at a general meeting who has been appointed by more than one shareholder has one vote regardless of the number of shareholders who have appointed him or the number of shares held by those shareholders, unless he has been instructed to vote for a resolution by one or more shareholders and to vote against the resolution by one or more shareholders, in which case he has one vote for and one vote against the resolution.

On a poll, every shareholder who is present in person or by proxy has one vote for every share held by that shareholder, but a shareholder or proxy entitled to more than one vote need not cast all his votes or cast them all in the same way (the deadline for exercising voting rights by proxy is set out in the form of proxy).

A poll may be demanded by any of the following:
- the chairman of the general meeting;
- at least three shareholders entitled to vote on the relevant resolution and present in person or by proxy at the meeting;
- any shareholder or shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to vote on the relevant resolution; or
- any shareholder or shareholders present in person or by proxy and holding shares conferring a right to vote on the relevant resolution on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Diageo's articles of association and the Companies Acts provide for matters to be transacted at general meetings of Diageo by the proposing and passing of two kinds of resolutions:
- ordinary resolutions, which include resolutions for the election, re-election and removal of directors, the declaration of final dividends, the appointment and re-appointment of the external auditor, the remuneration report and remuneration policy, the increase of authorised share capital and the grant of authority to allot shares; and
- special resolutions, which include resolutions for the amendment of Diageo's articles of association, resolutions relating to the disapplication of pre-emption rights, and resolutions modifying the rights of any class of Diageo's shares at a meeting of the holders of such class.

An ordinary resolution requires the affirmative vote of a simple majority of the votes cast by those entitled to vote at a meeting at which there is a quorum in order to be passed. Special resolutions require the affirmative vote of not less than three-quarters of the votes cast by those entitled to vote at a meeting at which there is a quorum in order to be passed. The necessary quorum for a meeting of Diageo is a minimum of two shareholders present in person or by proxy and entitled to vote.

A shareholder is not entitled to vote at any general meeting or class meeting in respect of any share held by them if they have been served with a restriction notice (as defined in Diageo's articles of association) after failure to provide Diageo with information concerning interests in those shares required to be provided under the Companies Acts.

Pre-emption rights and new issues of shares

While holders of ordinary shares have no pre-emptive rights under Diageo's articles of association, the ability of the Directors to cause Diageo to issue shares, securities convertible into shares or rights to shares, otherwise than pursuant to an employee share scheme, is restricted. Under the Companies Acts, the directors of a company are, with certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's articles of association or given by its shareholders in a general meeting, but which in either event cannot last for more than five years. Under the Companies Acts, Diageo may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

Repurchase of shares

Subject to authorisation by special resolution, Diageo may purchase its own shares in accordance with the Companies Acts. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of Diageo's issued share capital.

Restrictions on transfers of shares

The Board may decline to register a transfer of a certificated Diageo share unless the instrument of transfer (a) is duly stamped or certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty, and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require, (b) is in respect of only one class of share and (c) if to joint transferees, is in favour of not more than four such transferees.

Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in Diageo's articles of association) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The Board may decline to register a transfer of any of Diageo's certificated shares by a person with a 0.25% interest (as defined in Diageo's articles of association) if such a person has been served with a restriction notice (as defined in Diageo's articles of association) after failure to provide Diageo with information concerning interests in those shares required to be provided under the Companies Acts, unless the transfer is shown to the Board to be pursuant to an arm's-length sale (as defined in Diageo's articles of association).

Documents on display

The Annual Report on Form 20-F and any other documents filed by the company with the US Securities Exchange Commission (SEC) may be inspected at the SEC's office of Investor Education and Advocacy located at 100 F Street, NE, Washington, DC 20549-0213, USA. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. Filings with the SEC are also available to the public from commercial document retrieval services, and from the website maintained by the US Securities and Exchange Commission at www.sec.gov.

External limited assurance of selected sustainability and responsibility performance data

We engaged PwC LLP to perform an independent limited assurance engagement, reporting to the Board of Directors of Diageo plc, over selected sustainability and responsibility (S&R) performance data marked with the symbol Δ within the Strategic Report of the Annual Report 2020, and the S&R Performance Addendum to the Annual Report 2020. PwC LLP's engagement was performed in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board.

PwC LLP's full assurance opinion is available in the S&R Performance Addendum to the Annual Report 2020, available at https://www.diageo.com/en/in-society/our-role-in-society/our-reporting/.

A summary of the work they performed is included in their assurance opinion. It is important to read the selected S&R performance data contained within this report in the context of PwC LLP's full limited assurance opinion and our reporting methodologies. Our reporting methodologies are included in the S&R Performance Addendum to the Annual Report, available at https://www.diageo.com/en/in-society/our-role-in-society/our-reporting/.

Warning to shareholders – share fraud

Please beware of the share fraud of 'boiler room' scams, where shareholders are called 'out of the blue' by fraudsters (sometimes claiming to represent Diageo) attempting to obtain money or property dishonestly. Further information is available in the investor section of the company's website (www.diageo.com) but in short, if in doubt, take proper professional advice before making any investment decision.

Electronic communications

Shareholders can register for an account to manage their shareholding online, including being able to: check the number of shares they own and the value of their shareholding; register for electronic communications; update their personal details; provide a dividend mandate instruction; access dividend confirmations; and use the online share dealing service. To register for an account, shareholders should visit www.diageoregistrars.com.

Dividend payments

Direct payment into bank account

Shareholders can have their cash dividend paid directly into their UK bank account on the dividend payment date.

For shareholders who live outside the UK, Link Asset Services offers an International Payment Service whereby shareholders can receive their dividend payment by draft or electronically in the currency of their choice for a fee.

To register UK bank account details or to sign up for the International Payment Service, shareholders can register for an online account at www.diageoregistrars.com or call the Registrar, Link Asset Services on +44 (0)371 277 1010* to request the relevant application form.

Dividend Reinvestment Plan

A Dividend Reinvestment Plan is offered by the Registrar, Link Market Services Trustees Limited, to give shareholders the opportunity to build up their shareholding in Diageo by using their cash dividends to purchase additional Diageo shares.

To join the Dividend Reinvestment Plan, shareholders can call the Registrar, Link Asset Services on +44 (0)371 277 1010* to request the relevant application form.

The Registrar

Link Asset Services acts as the Company's registrar and can be contacted as follows:

By email: Diageo@linkgroup.co.uk

By telephone: +44 (0) 371 277 1010*

In writing: Registrars – Link Asset Services, Diageo Registrar, PO Box 521, Darlington DL1 9XS

* Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 09:00 to 17:30, Monday to Friday, excluding public holidays in England and Wales.

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