DIAGEO

Annual Report 2021

DIAGEO

CELEBRATING LIFE, EVERY DAY, EVERYWHERE

Strategic report

Governance report

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Baileys 'Shakeado' cocktail

Cover image: Don Julio Margarita cocktails

A global leader in beverage alcohol with an outstanding collection of brands across spirits and beer

Financial performance

Volume (equivalent units)

EU238.4m

(2020: EU217.0m)

Reported movement	9.9% ↑
Organic movement	11.2% ↑

Net sales[1]

£12,733m

(2020: £11,752m)

Reported movement	8.3% ↑
Organic movement	16.0% ↑

Operating profit

£3,731m

(2020: £2,137m)

Reported movement	74.6% ↑
Organic movement	17.7% ↑

Net cash from operating activities

£3,654m

(2020: £2,320m)

2021 increase of £1,334m

2021 free cash flow[2] £3,037m

Earnings per share (eps)

113.8p

(2020: 60.1p)

Reported movement	89.4% ↑
eps before exceptional items movement[2]	7.4% ↑

Total recommended dividend per share[3]

72.55p

(2020: 69.88p)

4% ↑

Non-financial performance

Positive drinking

210,443Δ

(2020: 376,102)

Number of people educated on the dangers of underage drinking through a Diageo supported education programme

Health and safety

1.03Δ

(2020: 0.60)

Lost-time accident frequency rate[4]

Water efficiency[5]

4.30l/lΔ

(2020: 4.66l/l)

Carbon emissions (1,000 tonnes CO_2e)

481Δ

(2020: 507)

1. Net sales are sales less excise duties
2. See definitions and reconciliation of non-GAAP measures to GAAP measures on pages 74-83
3. Includes recommended final dividend of 44.59p
4. Per 1,000 full-time employees
5. Data for the year ended 30 June 2020 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 ESG Reporting Index

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 74-83. Share refers to value share. Percentage figures presented are reflective of a year-on-year comparison, namely 2020-2021, unless otherwise specified.

With over 200 brands sold in more than 180 countries, our portfolio offers something for every taste and celebration

Brand building expertise

People and brands are at the very heart of Diageo. To develop, launch and grow a brand requires creativity, determination and belief. Arthur Guinness had belief – signing a 9,000-year lease on the St. James's Gate Brewery in Dublin. Alexander Walker, John's son, was determined that their whiskies would be carried by every ship's captain, 'from the four corners of Scotland to the four corners of the world'. Today, our people share these attributes, combining their entrepreneurial flair and award-winning creativity, with deep understanding of consumer insights and the latest data to nurture and build our brands.

Global or local, every one of our brands has a story. Many benefit from bearing witness to the changing world over centuries while others are products of our world today. All have a unique purpose and role to play in creating enduring connections with people. While we honour the past, we are passionate about nurturing categories old and new, and about building authentically crafted, culturally relevant brands.

Innovation drives us forward to create new products, tastes and experiences for people to enjoy as part of celebrations big or small. We are obsessed with building brands that will stand the test of time and are continuously learning from our consumers, our partners and today's entrepreneurs to ensure we are developing the brands of tomorrow. This requires focus, precision and investment in what we call a perfect blend of 'creativity with precision'. This is our shorthand for the way we effectively combine data, insights and innovation with the creative flair our consumers expect from the custodian of some of the most iconic brands in the world.

We own Johnnie Walker and Smirnoff, two of the world's four largest international spirits brands by retail sales value[1]

1. IWSR, 2020

We are the global leader in super premium and above international spirits with retail sales value of over

£4.5bn[2]

2. IWSR, 2020

GUINNESS

Making connections, rooted in culture

How do you build a 'global icon with a local heartbeat'? For us, it's about continually building on the rich cultural heritage of this outstanding, distinctive brand, weaving it into the fabric of a local culture. That means understanding key moments in people's lives – and the meaningful role Guinness can play in those moments – and connecting with consumers in unforgettable ways.

This year, Guinness was the most talked about beer brand in the world on social media,[1] driven by a series of innovative campaigns that built on a long legacy of creative excellence and cultural relevance.

Guinness stands for optimism – after all, 'good things come to those who wait' – and during Covid-19, we all needed to be reminded that the best is yet to come. So in Great Britain, where lockdown restrictions meant people were missing the shared communion of a pint in the pub, our 'Welcome Back' campaign responded by celebrating that first pint back – back with friends and family, and back in the community.

Hope characterised our campaign in the United States too, which focussed on football, America's most popular sport. In partnership with legendary quarterback Joe Montana, the 'Comeback Kid', we delivered a message of optimism and resilience – that success is measured not only by your wins, but also by how you come back from a hard loss, or a hard year.

In Nigeria we found new ways to join the conversation. We partnered with Prince Nelson Enwerem, the hugely popular Big Brother Nigeria contestant, in a campaign that paid homage to the culture of East Nigeria. The campaign had over two million views in the first three days of launch, underlining the power of Guinness's cultural ties.

1. Sprinklr, July 2020 to June 2021

Building a company that will prosper over the long term

We are a global company built on 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 and Alexander Walker, Elizabeth Cumming, Charles Tanqueray, Arthur Guinness and many more that have followed in their footsteps. Today, we stand on their shoulders and act with the same entrepreneurial spirit and determination.

They understood, as we do today, that our distilleries, breweries and the hospitality industry we serve are at the heart of local communities and that our business will only thrive if it helps these communities prosper too. We have an important role to play in ensuring we create shared value, deliver consistent performance and have a positive impact where we live, work, source and sell.

Bulleit Bourbon Kentucky Mule cocktail

At the heart of everything we do

OUR PURPOSE

Celebrating life, every day, everywhere.

Our purpose 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 believe that our responsibility and influence extend beyond our direct operations. Our 'Society 2030: Spirit of Progress' action plan sets ambitious goals that support our commitment to shaping a more sustainable and inclusive business and society. We are building and nurturing some of the world's most well-loved brands, rooted in culture and local communities. 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 development, empowerment, inclusion and diversity.

OUR AMBITION

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 and respected, we must do business the right way from grain to glass and ensure our people are highly engaged and continuously learning.

Shaping the way we work

OUR VALUES AND CULTURE

Our culture is rooted in a deep sense of our purpose and values.

Our values underpin our business, sitting at the heart of our culture and guiding all our work:

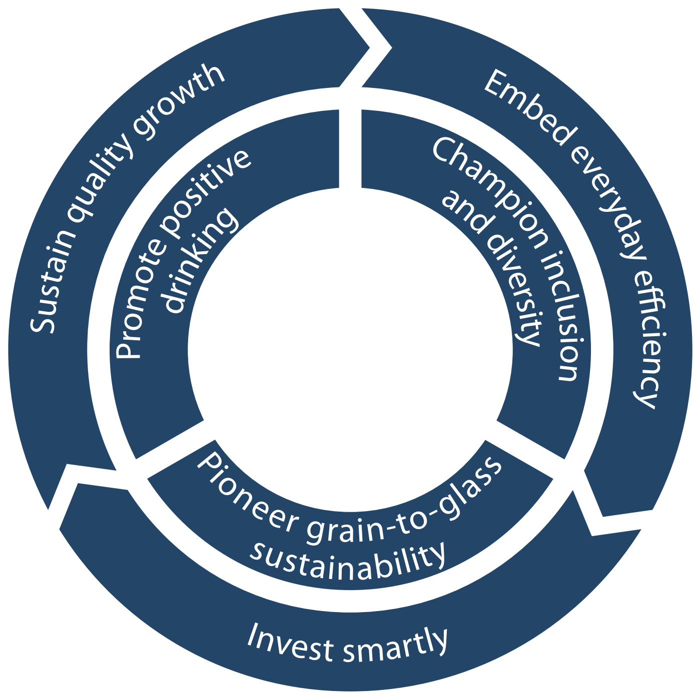
– Passionate about consumers and customers
– Freedom to succeed
– Proud of what we do
– Valuing each other
– Be the best

A roadmap for achieving our ambition

OUR STRATEGIC PRIORITIES

Our six inter-related and mutually reinforcing strategic priorities drive our company forward.

They help us deliver the strategic outcomes against which we measure our performance.



OUR STRATEGIC OUTCOMES

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

Read more on page 23

Aligned to stakeholders' interests

OUR STAKEHOLDERS

- Our people
- Communities
- Consumers
- Investors
- Customers
- Governments and regulators
- Suppliers

Read more on pages 20-21

Measuring our progress

OUR KEY PERFORMANCE 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
CVC CT EP	Percentage of ethnically diverse leaders globally
CVC CT EP	Percentage of female leaders globally
CT EP	Reach and impact of positive drinking programmes
CT EP	Health and safety
CVC CT EP	Water efficiency
CVC CT EP	Carbon emissions
CT EP	Employee engagement

Read more on pages 36-37

Creating a positive impact

The pandemic has continued to pose unprecedented challenges for our people and the communities where we operate. Our employees have shown tremendous resilience and dedication, making major contributions to alleviate the public health emergency while supporting the hospitality industry around the world. I would like to express my thanks on behalf of the Board for their care to one another, to our suppliers, to our customers and to society at large.

Throughout the pandemic, our first priority has been the health, safety and wellbeing of our employees. We believe the results of this year's Your Voice survey, which continue to reflect high levels of employee engagement, also recognise the wellbeing programmes we have provided in response to Covid-19: 89% of respondents told us they are proud to work for Diageo and 81% would recommend Diageo as a great place to work.[1]

Again this year, Diageo has displayed its culture of agility, moving at pace to adapt ways of working, capturing emerging opportunities with our consumers and trade partners, delivering further efficiencies and continuing to invest in the foundations of our long-term success.

Recommended final dividend per share

44.59p

2020: 42.47p

Total shareholder return

32%

2020: (19)%

Total dividend per share[2]

↑ 4% to 72.55p

2020: 69.88p

1. 85% of our global employees completed the survey
2. Includes recommended final dividend of 44.59p

Diageo in society – 'Society 2030: Spirit of Progress'

The terrible toll of the pandemic has rightly brought even greater scrutiny to corporations' social and environmental impacts and to their governance and reporting of non-financial performance. In November 2020, we were proud to launch our new 10-year sustainability action plan, 'Society 2030: Spirit of Progress'. The plan builds on Diageo's long and ambitious track record on environmental, social and governance (ESG) issues, with 25 new goals focussed in three core areas: promoting positive drinking; championing inclusion and diversity; and pioneering grain-to-glass sustainability.

Diageo is a business that has long been committed to ESG progress, delivering strong performance across our social and environmental targets to 2020. We have delivered a 50% absolute reduction in our direct carbon emissions since 2008. This places us among the leading companies in our peer set, with consistent inclusion in CDP's A list for both climate change and water security over the last five years. We are pleased with the progress we are making on packaging and regenerative agriculture, building partnerships with cutting-edge innovators. This year, we launched Pulpex Limited with Pilot Lite, developing the world's first ever 100% paper-based spirits bottle, which we anticipate will debut with Johnnie Walker in fiscal 23. We believe this innovation will transform the use of sustainable packaging at scale in the years to come.

Our 2030 goals represent a 'whole of business' agenda and accountability for them sits across the Board and the Executive Committee. For the first time, 20% of the shares granted to our senior management under the Long-Term Incentive Plan (LTIP) will be linked to ESG measures across all three of the plan's focus areas, creating direct accountability for our 2030 goals. We are among the first group of companies directly to incentivise delivery on societal impact in this way. Read more on pages 104-127.

Climate change is a significant issue and the transition to a low-carbon economy will create both risks and opportunities for all businesses. We have taken steps over many years to understand and address climate change impacts through our work to both decarbonise our business and value chain, and champion water stewardship. We continue to build our understanding of the impacts of climate change and have been reporting quantitative progress against our targets since 2009. We also continue to extend our assessment of climate change impacts, and our existing disclosures, on our journey to adopting all the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Read more about our work on pages 50-55.

Stakeholders

Our ambition is to be one of the best performing, most trusted and respected consumer products companies in the world and we know we can only achieve this through engagement and partnership with our stakeholders. We have responded to the hardship created by Covid-19 with support measures ranging from wellbeing initiatives, additional flexibility in working hours and healthcare support for our people, to our $100 million 'Raising the Bar' programme to help pubs and bars recover from the pandemic. Read more about our approach to stakeholder engagement on pages 20-21.

As designated Non-Executive Director for workforce engagement, I have had the pleasure of 'virtually' meeting a wide range of employees around the world this year. In these open, participative and engaging sessions we discussed our approach to developing talent, our culture, business strategy, innovation and, of course, our response to the pandemic. Our people continue to provide a rich source of ideas and perspectives which are invaluable to the Board. Read our workforce engagement statement on page 96.

Global environment

Although the economic disruption from Covid-19 has started to ease in some parts of the world, many countries continue to experience uncertainty and volatility. We have adapted quickly to shifts in consumer behaviour and have increased investment behind effective marketing and innovation to ensure Diageo emerges stronger from this terrible pandemic.

International trade is at the heart of our business. We were well prepared for the United Kingdom's departure from the European Union and we see some potential longer-term opportunities for the United Kingdom to strike beneficial new trade deals for spirits. We were also pleased to see the United Kingdom, European Union and United States resolve their aerospace dispute involving Boeing and Airbus, with US tariffs on single malt scotch and liqueurs removed. We look forward to the United Kingdom utilising its newly independent trade policy to support spirits exports to key markets, with tariffs to be removed by Australia with the ratification of its new free trade agreement with the United Kingdom and the opening of trade talks with India this year.

Creating value

I am encouraged by the performance Diageo has delivered in fiscal 21. The business has good momentum, built on 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 up 112 basis points to 13.5%. Total shareholder return (TSR) was 32% this year and our 10-year annualised TSR is in the top quartile of our 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 44.59 pence per share, an increase of 5%. This brings the recommended full-year dividend to 72.55 pence per share and dividend cover to 1.6 times. Subject to shareholder approval, the final dividend will be paid to UK shareholders on 7 October 2021. Payment will be made to US ADR holders on 13 October 2021. On 9 April 2020, due to uncertainties related to Covid-19, we announced that we would not initiate, in fiscal 20, the second phase of our return of capital programme, approved by the Board on 25 July 2019. On 12 May 2021, the Board approved the recommencement of this programme, extending the completion date to 30 June 2024. The second phase of the programme, which will return up to £1.0 billion, is expected to be completed by 30 June 2022, and the group has purchased 3.2 million ordinary shares returning £108 million to shareholders this year.

Board changes

After eight years on the Board, Ho KwonPing stepped down on 28 September 2020. On behalf of all my Board colleagues, I would like to thank him for the valuable contribution he made during his tenure on the Board.

From 1 October 2020, Sir John Manzoni, formerly Chief Executive of the Civil Service and Permanent Secretary to the Cabinet Office in the United Kingdom, was appointed Non-Executive Director. Ireena Vittal, who brings experience in strategy, consumer insights and digital, with a particular focus on the Indian market, joined the Board as a Non-Executive Director on 2 October 2020. Valérie Chapoulaud-Floquet, the former CEO of Rémy Cointreau S.A., joined the Board on 1 January 2021. Sir John, Ireena and Valérie all joined the Audit, Nomination and Remuneration Committees on appointment.

In January 2021, we announced that Kathy Mikells, Chief Financial Officer, would be leaving Diageo and the Board at the end of June. My sincerest thanks go to Kathy for her dedicated contribution to Diageo over the past six years and her exceptional partnership with the Board. I was delighted to welcome Kathy's successor, Lavanya Chandrashekar, to the Board from 1 July 2021. Her strong track record at Diageo and, previously, with leading consumer products companies, will ensure she makes a valuable contribution to both the Board and the Executive Committee.

Siobhán Moriarty, General Counsel and Company Secretary, will be retiring from Diageo on 30 September 2021 after a career at the company spanning over 20 years. I am very thankful to Siobhán for both her outstanding contribution to the company and her support and wise counsel to the Board. Tom Shropshire, formerly a Partner & Global US Practice Head at Linklaters LLP, will succeed Siobhán as General Counsel and Company Secretary, and the Board looks forward to working with him.

Looking ahead

Diageo's broad portfolio and geographic footprint, our expertise in brand building and execution, as well as our leading market positions, provide a solid foundation for sustainable growth. Throughout the year, the business has acted with agility, seizing opportunities to invest prudently where we saw recovery and continuing to allocate capital for the long term. Whilst uncertainty remains and travel retail is still severely impacted, the long-term trends for our industry continue to be extremely attractive. Your Board and executive leadership team will ensure that Diageo continues to focus on long-term value creation for all our stakeholders.

Javier Ferrán
Chairman

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 about:

Our stakeholder groups on pages 20-21

How stakeholders were taken into account in decision-making on pages 92-94

Positioned to win

Diageo is a global leader in the premium and above spirits segment – which is growing globally and gaining share.[1]

And with Guinness at the heart of our portfolio, the majority of our beer business is positioned in the premium, flavourful beer segments, which are growing fastest.[2]

Talisker 43-Year-Old Xpedition Oak

1. IWSR, 2020 – retail sales value (RSV) CAGR 2010-2020
2. Global Data, 2019

In an attractive industry

Total beverage alcohol (TBA) has a strong record of value growth over the last 10 years, with international spirits growing faster than TBA.[3] Premiumisation has been a consistent trend with the highest price tiers growing at more than double the spirits category growth rate between 2015 and 2020.[4] And our Reserve portfolio of exceptional brands, which is focussed on capturing the global luxury opportunity, grew 36% this year.

Spirits' versatility provides the flexibility to respond to evolving consumer tastes and occasions. With low spirits penetration in many emerging markets and only 4% of global TBA share,[5] we have opportunities to grow in all regions. In beer, our geographic footprint and brand portfolio best position us for opportunities in premium and above segments, distinctive flavours and developing markets.

Read more on pages 14-17

With a leading footprint and brand portfolio

Diageo owns over 200 brands sold in more than 180 countries. Combined with the breadth and depth of our portfolio across attractive categories and price points, we have both exposure to some of the greatest consumer growth opportunities, and some resilience to global trading volatility.

We take an active and disciplined approach to managing our portfolio of brands. Through the acquisition of premium-plus brands in fast-growing categories, such as tequila brands Don Julio in 2015 and Casamigos in 2017, as well as strategic disposals, including the sale of our main US wine businesses in 2016 and 19 US brands in 2018, we have strengthened our portfolio and geographic footprint.

We are experts in the art of brand building and in innovation, combining creativity with data and tools that deepen our understanding of consumers and customers. Strong organic growth of brands such as Crown Royal, Gordon's and Baileys has been driven by creative, effective marketing and insights-driven innovation. It has also contributed to the strengthening of our portfolio in fast-growing categories, including US whiskey, Canadian whisky, baijiu, tequila and gin.

54% of our reported net sales are now generated from premium-plus products. Geographically, we continue to benefit from our market-leading position in North America and our exposure to India and China. China now accounts for just over 5% of our reported net sales.

Read more on pages 29 and 56-73

An effective route to consumer

We need to have the right product in the right place at the right time in order to win with consumers. We have invested in transformational digital and data capabilities that deliver consistent ways of working and enable teams to bring a customer-first mindset to every interaction. Our tools, such as Trax, EDGE365 and Diageo One, give us deeper insights that improve the quality of our customer service and enhance our productivity.

We are also building our e-commerce and direct-to-consumer capabilities, which further expand our sales reach to consumers.

In combination with the strength of our on-trade customer relationships, which are enhanced through programmes such as Diageo Reserve World Class™ and Diageo Bar Academy, we have an effective route to our consumers that we continue to work to improve.

Read more on pages 17 and 27

Financial strength and a culture of efficiency

A culture of efficiency and effectiveness is embedded across Diageo. We continue to deliver progress on productivity, creating savings that fuel investments across our business. We continuously challenge ourselves to simplify and automate more of our processes and systems, enabling faster and better decision-making.

We have a consistent and disciplined approach to capital allocation, prioritising investment in the business to deliver sustainable and efficient organic growth and pursuing acquisitions that further strengthen our exposure to attractive categories. Excess cash is returned to shareholders.

We have a track record of growing shareholder value and have increased our full-year dividend per share every year since 2001, including during Covid-19. This means that over the last 20 years our absolute dividend per share has increased 225%. Over the last four years we have returned £5.6 billion to shareholders through share buybacks.

Read more on pages 26-27

Highly engaged people

Our people make the difference. This year, 89% of respondents to our Your Voice survey told us they are proud to work for Diageo and 81% would recommend Diageo as a great place to work.[6]

Read more on page 22

And a commitment to shaping a more sustainable future

It is fundamental to our Performance Ambition that we do business in the right way, which is why our 'Society 2030: Spirit of Progress' action plan is an integrated part of our strategic priorities. We strongly believe there are commercial benefits to our actions across a full range of ESG issues. These are not just about meeting regulatory requirements and stakeholder expectations, but are fundamental to attracting and retaining the best talent, building deep consumer loyalty, creating new partnerships, and increasing innovation, efficiency and resilience across our operations.

Read more on pages 23, 30-35 and 38-44

3. IWSR, 2020
4. IWSR, 2020
5. IWSR, 2020
6. 85% of our global employees completed the survey

Emerging stronger

I am very proud of how Diageo's 27,650 employees have supported each other, our customers and the communities in which we live and work throughout this terrible pandemic. Our company is emerging stronger and I would like to thank all my colleagues for their dedication and resilience. I would also like to express my deepest condolences to the families of employees who lost their lives and to all who have lost loved ones this year due to the pandemic.

As we have faced the immediate challenges of the pandemic, we have also continued to focus on investing for the long term and on building a sustainable business with our ambitious 10-year ESG action plan, 'Society 2030: Spirit of Progress'. Diageo's success rests on the commitment of my colleagues, the strength of our brands, and our determination to be a responsible, sustainable and inclusive business. The past year has demonstrated powerfully the importance and the strength of these foundations.

Reported volume movement
9.9% ↑
2020: 11.8% ↓

Volume movement
11.2% ↑
2020: 11.2% ↓

Reported net sales movement
8.3% ↑
2020: 8.7% ↓

Net sales movement
16.0% ↑
2020: 8.4% ↓

Reported operating profit movement
74.6% ↑
2020: 47.1% ↓

Operating profit movement
17.7% ↑
2020: 14.4% ↓

Performance

We have seen continued volatility in fiscal 21, with disruption caused by the closure of bars and restaurants in many countries; the severe impact on travel retail; the need to adapt quickly to an increase in demand through retail outlets and disruption in our supply chains; and significant changes to ways of working for our employees across our supply operations and for those working from home. Notwithstanding this dynamic and challenging operating environment, we have delivered a strong set of results.

For the full year, reported net sales increased 8.3% with strong organic growth partially offset by an adverse foreign exchange impact. Organic net sales were up 16%, following a decline in fiscal 20, with growth across all regions. Growth was driven by consumer demand in the off-trade channel (customer retail outlets) and a partial recovery of the on-trade channel (pubs, bars and restaurants) in key markets. Organic net sales growth also benefitted from lapping a reduction of inventory levels by our customers in fiscal 20, and the replenishment of stock levels by distributors and retailers in North America in fiscal 21. This was partially offset by continued destocking in Travel Retail. Overall, however, we held or grew off-trade market share in over 85% of total net sales in measured markets, up from 65% last year.[1]

Reported operating profit increased 74.6%. This was due to a significant reduction in exceptional items and 17.7% growth in organic operating profit, partially offset by an adverse foreign exchange impact. Following a decline in fiscal 20, organic operating profit grew in all regions except Europe and Turkey. Organic operating margin increased 46 basis points (bps). This was driven by overhead efficiencies and the lapping of one-off expenses related to disruption in the operating environment, partially offset by a decline in gross margin and increased marketing spend. Gross margin declined 40bps driven by adverse mix, especially in our Guinness beer business, which was impacted by channel and market mix.

Reported and organic net sales were up across all categories, with the exception of beer, where reported net sales were down 4%. Due to Covid-19, the on-trade channel was significantly restricted in many markets, particularly impacting beer in Europe.

Organic net sales of our global giant brands were up 9%, with all brands in growth other than Guinness. Guinness growth was flat due to restrictions in the on-trade channel, particularly in Great Britain and Ireland. Our local stars grew 17%, largely driven by growth in Chinese white spirits, Crown Royal, Buchanan's and McDowell's No.1. Our Reserve brands grew 36%, largely driven by Don Julio and Casamigos, which grew 62% and 125% respectively. Ketel One net sales were flat.

Basic earnings per share before exceptional items increased 7.4%, primarily driven by an increase in organic operating profit, partially offset by unfavourable exchange and, to a lesser extent, increased tax.

We delivered £3 billion in free cash flow this year, an increase of £1.4 billion. This was driven by growth in operating profit, working capital management and receipt of a delayed 2019 dividend from associates.

During the year, we have continued to invest for the future, extending our brand portfolio and adapting to changing consumer tastes and occasions. We increased investment in marketing by 23%, ahead of our organic net sales growth, and also continued to invest in manufacturing capacity, digital capabilities, consumer experiences and sustainability.

We acquired two new premium and above portfolios: Aviation American Gin through the Davos Brands acquisition in the United States and Chase Distillery and brands in the United Kingdom. To support our ambitions

1. Internal estimates incorporating AC Nielsen, Association of Canadian Distillers, Dichter & Neira, Frontline, Intage, IRI, ISCAM, NABCA, Scentia, State Monopolies, TRAC and other third-party providers

Net sales by category

in the rapidly growing ready to drink category, we made two further acquisitions in the United States, Lone River Ranch Water and Loyal 9 Cocktails, and announced an $80 million investment in our manufacturing footprint.

I am also delighted to see our £185 million investment in Scotch whisky tourism in Scotland now coming on stream, with the re-opening of Glenkinchie, Clynelish, Cardhu and Brora distilleries and visitor centres this year, and the imminent opening of our flagship Johnnie Walker experience in Edinburgh.

We have innovated and created new offerings for consumers looking for convenience and celebration at home and we have increased both the visibility and 'ease-of-shop' of our brands for online purchase, as online sales of alcohol have rapidly accelerated this year. Consumers have also sought the reassurance of well-known and trusted brands during Covid-19. We have prioritised innovation for our global giants this year, launching, for example, Captain Morgan Tiki in Europe to access the growing early evening occasion with a lower alcohol by volume (ABV) variant; Guinness Nitro Cold Brew Coffee in North America; and Gordon's 0.0% in Great Britain.

Building a sustainable, responsible and inclusive business

In 2015, we set ambitious environmental and social targets for 2020 and we are proud of the progress we made.[2] We recognise, however, that there is much more to do. Our new 10-year ESG action plan, 'Society 2030: Spirit of Progress', challenges us to go further. Its 25 goals are built around the most material issues affecting our business and are informed by the lessons we have learned through the delivery of our previous targets.

It is fundamental to our Performance Ambition that we do business in the right way, which is why 'Society 2030: Spirit of Progress' sits at the heart of our strategy. We take the same rigorous, data-driven approach to the delivery of our ESG goals as we take to the rest of our business. We understand the importance of measurement and transparency and are moving towards a fully integrated approach to reporting, with all our goals directly linked to our strategic priorities.

As one of the world's leading distillers and brewers, the two most fundamental material inputs to our business, aside from raw materials, are heat and water. We have a longstanding commitment to preserving the natural resources on which we all depend and to working together to tackle climate change and water stress. In November 2020, Diageo was recognised for the third consecutive year in the Dow Jones World Sustainability Index 2020. We were an early adopter of absolute, rather than relative reductions in our carbon emissions, setting both our 2020 and 2030 targets in line with the principles of the Science Based Targets initiative. And we have committed to achieving net zero carbon in our direct operations (Scopes 1 and 2) by 2030 and to being net zero across our full value chain by 2050 or sooner. Read more on pages 34-35.

2. Read more about our 2015-2020 targets and progress on diageo.com

Our response to Covid-19

Fiscal 21 has been an extraordinary year for our business and our customers, suppliers and partners, as the entire world has navigated through a very dynamic and volatile period. Covid-19 restrictions around the world meant the continued closure of pubs, bars and restaurants, leading to sharp increases in consumer purchases from retail outlets in some markets, such as Great Britain and the United States, and decreases in markets where consumers purchase more of our brands in pubs, bars and restaurants, such as Ireland. Restrictions also led to shifts in consumer behaviour and purchasing patterns, with a large increase in the 'at home' occasion and online shopping for our brands.

Throughout the pandemic, the health and wellbeing of our employees has been our priority and we have implemented a range of new policies, resources and support. These include additional flexibility to enable employees to manage family responsibilities, an enhanced Employee Assistance Programme, as well as a range of resources to support wellbeing and our new ways of working.

In addition to our immediate steps to donate masks, hygiene products and alcohol to make more than 10 million bottles of hand sanitiser, last June, we launched 'Raising the Bar', our $100 million commitment to support the recovery of the hospitality sector around the world. The fund has already benefitted over 39,000 venues that have received hygiene and sanitation kits, furniture for outdoor spaces and solutions for table reservations and contactless ordering. We have also trained over 37,000 bar staff on Covid-19-related protocols to ensure safe operations. Beyond our direct support to pubs, bars and restaurants, the funding has created an economic multiplier effect as over 60% of the procurement funded by 'Raising the Bar' has been local. In some countries, such as India, Brazil and China, nearly 100% of procurement spend was local. And we recently pledged £4.5 million to provide infrastructure and equipment in support of India's Covid-19 response.

Diageo Bar Academy (DBA) is also helping bar owners and staff with training and content that addresses the challenges of adopting new operating models for their businesses, such as guidance on safe re-openings, wellbeing resources, online menus and 'Cocktails to Go'. A record more than 1.5 million people used DBA this year, an increase of 50%.

We have also worked closely with our suppliers and partners this year, who have managed their businesses through similar supply chain challenges. Sourcing raw materials, such as glass and packaging, for example, led to industry shortages in the United States earlier this year. In working with our suppliers and partners to reduce disruption to their businesses and ours, we have provided support such as sharing our enhanced global supply site operating procedures to help protect the health and wellbeing of our suppliers' employees. We have also launched our Diageo Supplier Service Hub, which provides a one-stop shop to simplify our ways of working with suppliers.

"In the United States, 'Raising the Bar' is supporting 25 Historically Black Colleges and Universities with $10 million lifetime endowments for scholarships and grant programmes."

Promoting moderation and addressing the harmful use of alcohol is at the heart of our approach to responsible business and is a critical part of our premiumisation strategy. Although the prevalence of harmful drinking, including heavy-episodic or binge drinking and underage drinking, has been falling in many regions over the last decade, we know there is much more to do. We also know there is no drink of moderation, only a practice of moderation. So we have set goals to reach one billion people with responsible drinking messages from our brands by 2030 and to educate people on the risks of the harmful use of alcohol through the further rollout of our DRINKiQ platform.

Visit DRINKiQ.com to find out more

We have also set a goal to expand SMASHED, our award-winning alcohol education programme, and educate 10 million people on the dangers of underage drinking by 2030. This year, the development of SMASHED Online and its launch in Great Britain, Northern Ireland, India, Australia and Mexico means we are now able to reach more students virtually. Read more on pages 30-31.

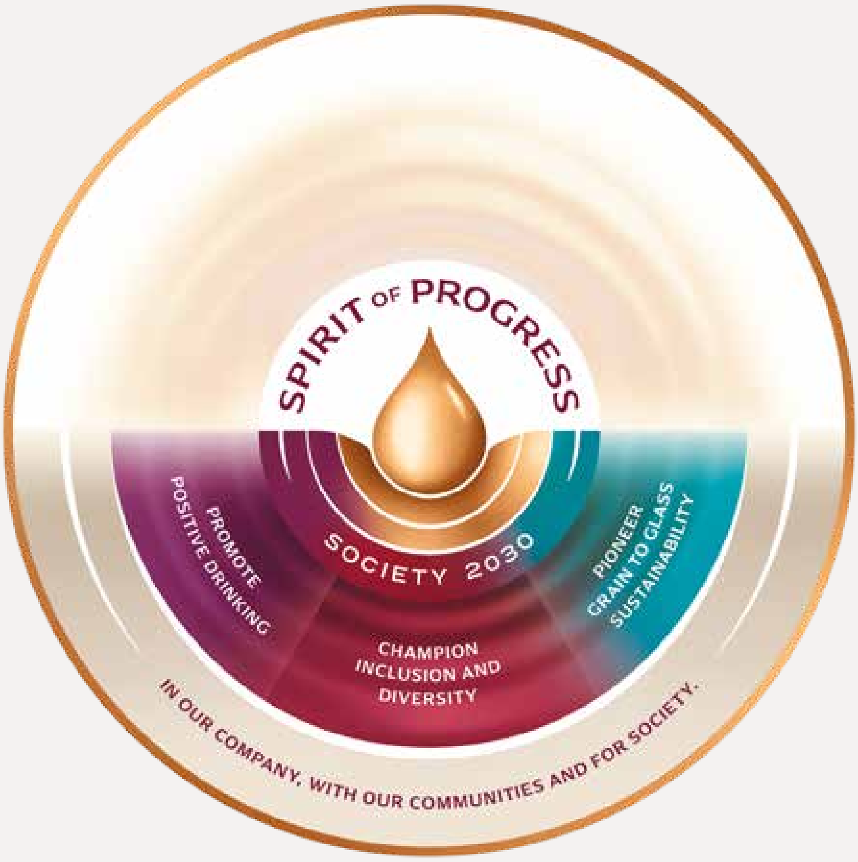
We are proud of the culture of inclusion and diversity we have built at Diageo and were ranked the number one FTSE company for female Board and leadership representation in the 2020 Hampton Alexander Review. This year, we have increased female Board representation to 60% and the percentage of female leaders globally is now 42%.$^{\Delta}$ Our inclusive culture fuels our ability to attract and retain terrific talent around the world, with recent senior hires citing our approach to flexible working and inclusion and diversity as key drivers in their decision to join us.

We have now set new goals to ensure 50% of all leadership roles are held by women, as well as increasing the percentage of ethnically diverse leaders globally to 45% by 2030. Today, 30% of our Board and 37%$^{\Delta}$ of our leaders globally, including the Executive Committee, are ethnically diverse. Read more on pages 32-33.

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index.

We are committed to building a more sustainable, responsible and inclusive business and society.

To lead our business through the next decade, we have set 25 ambitious goals which are aligned to the United Nations' Sustainable Development Goals. The issues facing society are complex and connected and we are focussed on the impact we can have throughout our value chain across communities, suppliers, our partners, customers and consumers. From our people to our brands and the way we promote our category, we will leverage the full breadth and reach of our business to shape market-leading policies and practices.



Read more on pages 30-35 and 38-44

Visit diageo.com to learn more about 'Society 2030: Spirit of Progress'

"In Ireland, Guinness launched a 'Keep the Lights On' campaign, which invited consumers to embrace their local pubs and pay a visit when they re-opened."

We are building and nurturing some of the world's most iconic brands, rooted in culture and local communities, which is why we are focussed on creating an inclusive, sustainable business in its widest sense. We believe that our responsibility and influence extend beyond our direct operations. We also want to help to build a thriving hospitality sector. Before the pandemic, the sector contributed nearly US$9 trillion to the world's GDP and accounted for one in ten jobs.[3] If there is one positive to come from this pandemic, it is perhaps the broader appreciation of the vital role a thriving hospitality sector plays in communities as a job creator, particularly for younger adults, and as an engine for economic recovery and growth. We will continue to play our part in helping the sector to rebuild after the pandemic.

3. World Travel and Tourism Council, 2021

Looking ahead

I am very proud of the financial results we have delivered in fiscal 21. These results demonstrate the strength and relevance of our brands, our agile response to shifts in consumer behaviour and the extraordinary efforts of our talented people.

Our foundation, built on our brand-building expertise, active portfolio management, consumer-led innovation, investment in data and tools, as well as embedding a culture of everyday efficiency, helped position us to manage through the volatility and disruption caused by Covid-19 and emerge stronger.

While our business has performed strongly this year, we expect near-term volatility in some markets. Notwithstanding this volatility, I remain optimistic about the growth prospects for our industry and believe Diageo is well-positioned to capture the opportunities to drive long-term sustainable growth and shareholder value.

Ivan Menezes
Chief Executive

PROMOTE POSITIVE DRINKING

We want to change the way the world drinks for the better.
We will do this by celebrating moderation and continuing to address the harmful use of alcohol, expanding our programmes that tackle underage drinking, drink driving and binge drinking.

CHAMPION INCLUSION AND DIVERSITY

We believe the most inclusive and diverse culture makes for a better business and a better world.
We will champion inclusion and diversity across our business, with our partners and communities, to celebrate diversity and help shape a tolerant society.

PIONEER GRAIN TO GLASS SUSTAINABILITY

We are committed to preserving the natural resources on which we all depend.
We will work in partnership to tackle climate change, water stress and biodiversity loss, and help create a more sustainable world.

PRESERVE WATER FOR LIFE

Water is the basis of life and our most precious resource.
By 2030, every drink we make will use 30% less water than today and by 2026 we will replenish more water than we use in all our water-stressed areas.

BECOME SUSTAINABLE BY DESIGN

We all have a responsibility to restore the natural world on which life depends.
We will do our bit by eliminating waste from our value chain, collaborating with farmers to regenerate landscapes and creating innovative solutions to grow sustainably.

ACCELERATE TO A LOW CARBON WORLD

The planet needs significant science-based action to create a sustainable low-carbon future.
We will decarbonise our own operations by 2030 and work with our suppliers to halve theirs too.

DOING BUSINESS THE RIGHT WAY FROM GRAIN TO GLASS

We believe doing business the right way contributes to a fair and just society.

We will create an environment where all our people feel they are treated fairly and with respect. We will act with integrity to ensure we are doing business in the right way, meeting external expectations and our own standards.

An attractive industry with a runway for 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. Premium total beverage alcohol has remained resilient during Covid-19 and the long-term trends for our industry remain attractive.

Read more about our strategic priorities on pages 23-35 and our principal risks and risk management on pages 45-55

Tanqueray Flor de Sevilla Gin and Tonic cocktails

Retail sales value of global alcohol market[1]

£728 billion

Equivalent units of alcohol sold[2]

5 billion

New legal purchase age consumers expected to enter the market by 2031[3]

600 million

1. IWSR, 2020
2. IWSR, 2020
3. World Bank, 2021

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'[1] – increasingly choosing brands and categories that offer 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.

Higher price spirits tiers grew **9 times** faster than the total spirits category

IWSR, 2020, volume CAGR for the period 2010 to 2020

Impact

Over the last 15 years, brands in higher price tiers have consistently grown volume faster than those in lower price tiers.[2] 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 focussed 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 able to influence the evolution of both mass and high-end luxury spirits across different categories and occasions, including super premium scotch and tequila.

We are also growing brands of the future, including no- and lower-alcohol choices. We do this through a combination of acquisition, by growing our own brands and by investing in entrepreneurs through the Diageo-backed accelerator programme, Distill Ventures.

This market dynamic aligns with these strategic priorities:
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 variety and new experiences.

+9% increase in spirits share of total beverage alcohol

IWSR, 2020, for the period 2010 to 2020

Impact

Gin and ready to drink are examples of categories benefitting from switching.[3] In the United States, this trend has accelerated during the pandemic, with consumers increasingly choosing spirits in the 'at home' occasion.[4] This year, in the United States, spirits penetration grew nearly three times as fast as beer and twice as fast as wine.[5] In many emerging markets, spirits penetration is still low compared to developed markets, providing the potential for future growth.

1. IWSR, 2020 for 2015 to 2020
2. IWSR, 2020
3. Numerator, 2021
4. Numerator, 2021
5. Numerator, 2021

Our response

Our broad, global portfolio across categories and price points provides consumers with product choice to suit different occasions and their disposable income. Our innovation is driven by our consumer insight on trends and occasions, ensuring we provide choices to suit evolving consumer attitudes and motivations.

This market dynamic aligns with these strategic priorities:
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 continue 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 illicit 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.

550m consumers expected to join 'middle class and above' income bracket by 2031

World Bank, 2021

Impact

Demand for international-style spirits is rising. Around 600 million new legal purchase age consumers are expected to enter the market globally by 2031. Over the same period, we expect hundreds of millions of additional consumers to be able to afford international-style spirits.

Our response

We have built a portfolio of lower price point options such as Smirnoff X1 in Africa, McDowell's No. 1 in India and Black & White in Latin America. As emerging market consumers' disposable incomes rise, these products give them access to quality at affordable prices and enable us to help shape responsible drinking trends. This year, we launched our Chrome Gin innovation in Kenya, in response to rapidly growing interest in the gin category. Chrome Gin is a premium offering at a lower price point, which has proven popular with consumers.

This market dynamic aligns with these strategic priorities:
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, food-related occasions.

They are increasingly interested in drinks that fit occasions before, during and after meals and in choices that suit 'at home' and 'outdoor' occasions, which have grown significantly during Covid-19.

+12% increase in spirits' share of 'with meal' occasions in Great Britain

Kantar, 2021 for the period 2018 to 2021

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 within 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. This year when consumers were unable to visit their local pub for a pint, Guinness launched a campaign to show how it could be enjoyed in any type of glassware, not just the iconic Guinness pint glass.

This market dynamic aligns with these strategic priorities:
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 and has dramatically accelerated during Covid-19. 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.

+45% increase in e-commerce

IWSR, 2020, global total beverage alcohol retail sales value 2020 vs 2019

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 and in some markets has favoured spirits. At the peak of the pandemic in 2020, spirits became the biggest beverage alcohol category for the first time on the American e-commerce site Drizly, a position which it has retained in 2021.[1]

Our response

We have developed our route to consumer approach through multiple channels. Continued development of our owned e-commerce channels and capabilities has been a key global focus this year. We expanded the availability of TheBar.com to Colombia and Malts.com to Germany. We also launched Diageo Rare & Exceptional in Singapore and Australia and Party Central in Kenya and Uganda. These help consumers grow their understanding and knowledge of our brands and help them find the right drink for the right occasion. In East Africa, Covid-19-related closures of neighbourhood bars and restaurants meant we needed new, fast and safe ways of getting our products to consumers. In Kenya and Uganda, consumers are now able to order through easy-to-use apps to ensure safe delivery of our brands to their doorstep via digitally enabled 'boda boda' motorbike delivery companies.

This market dynamic aligns with these strategic priorities:
Sustain quality growth, Invest smartly, Promote positive drinking

A COMPLEX REGULATORY ENVIRONMENT

The beverage alcohol industry is highly regulated.

Regulation varies widely around the world, often evolving in response to changes in society. This year, for example, we have seen temporary restrictions introduced by some governments in response to Covid-19. Compliance with law and regulation wherever we operate is a minimum and we have long understood that a responsible alcohol company must go beyond mere compliance.

1. Drizly, 'One year post-lockdown: The new normal of Bev Alc' 18 March 2021

Johnnie Walker Blue Label Forbidden City Edition

Scotch in China: positioned for premiumisation

Greater China has the largest and fastest-growing super premium and above spirits segment in the world[1] – and our portfolio of super premium and luxury Scotch whiskies is helping us meet Chinese consumers' desire to 'drink better, not more'.[2]

Our super premium and luxury Scotch portfolio includes Johnnie Walker, which is Greater China's biggest Scotch brand by volume and retail sales value.[3] It also includes fast-growing brands such as Mortlach and Talisker, and The Singleton, which is Greater China's largest single malt brand by volume.[4]

The growth of Johnnie Walker Blue Label over the last four years shows how we are harnessing the trend of premiumisation through the combination of an outstanding liquid, powerful brand building and innovation driven by insights into local culture.

This year, the brand launched a series of eye-catching innovations, including the Forbidden City Edition and a limited edition Chinese New Year bottle celebrating the Year of the Ox – both of which sold out quickly. These innovations combine Chinese consumers' deep pride in their culture with their demand for unique products that suit gifting and business entertainment occasions. They also trigger a desire to explore and learn about Scotch whisky. We are helping to grow that consumer interest, working with key customers and consumers on product education and mentoring events. For example, we have held 13 Whisky Summits across China and reached over 15,000 people through our Diageo Whisky Academy since 2017.

1, 2, 3, 4. IWSR, 2020

We are proud of our brands and we want them to be enjoyed responsibly. Through our work, we are aligned with the United Nations' and the World Health Organization's goal of reducing harmful drinking by 10% by 2025. We also advocate policies 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.

210,443$^{\Delta}$ young people, parents and teachers educated on the dangers of underage drinking this year

Diageo, 2021

Impact

While most people who choose to enjoy alcohol do so 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 approach to positive drinking, described on pages 30-31, includes ambitious targets for areas in which we can have the greatest impact in reducing harm: drink driving, underage drinking and binge drinking.

This market dynamic aligns with these strategic priorities:
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 across all aspects of society.

They rightly expect to see that businesses are generating wealth, fostering inclusion and diversity, respecting human rights, supporting their communities and acting on important societal and environmental issues, including climate change and water stress.

89% of people say companies and brands have a responsibility to take care of the planet and its people

'Regeneration Rising', Wunderman Thompson, 2021

Impact

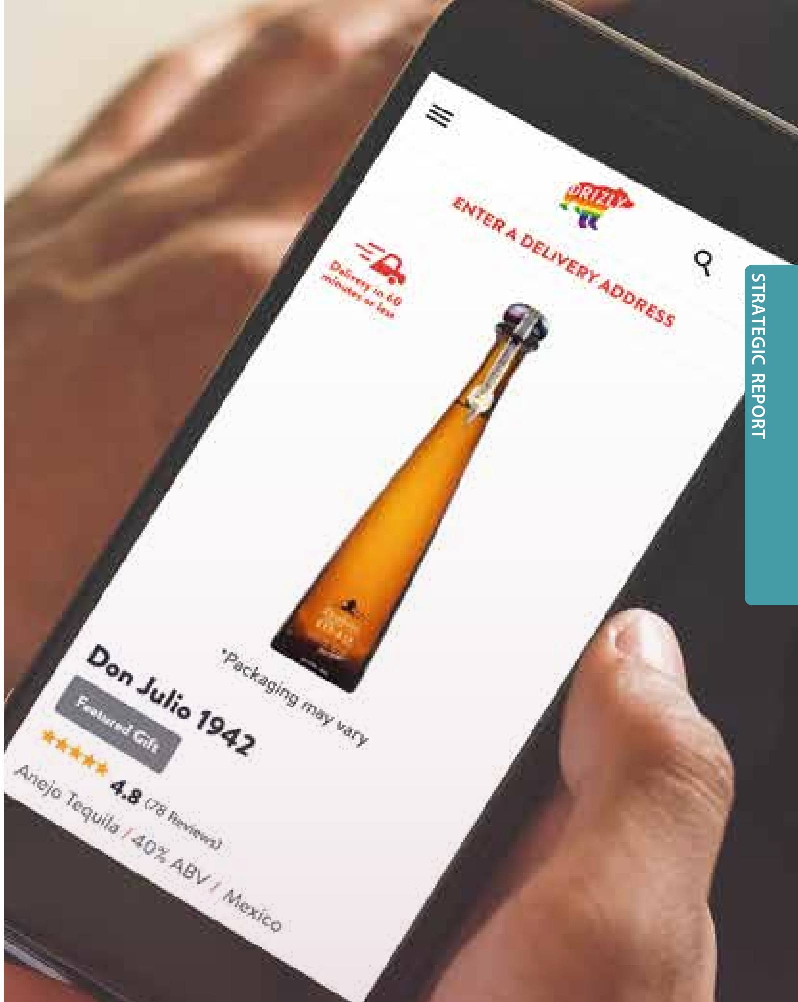
Earning trust and respect is fundamental to achieving our ambition. We know our brands must continue to play an active role in society to meet consumer demands. This must be underpinned by a business that reduces environmental impact and promotes inclusive economic growth, while making sure to do business with integrity and respect for human rights.

Our response

The 25 goals in our 'Society 2030: Spirit of Progress' plan provide a platform for many of our global brands' sustainability programmes, such as Johnnie Walker's 'Next Steps' initiative and Talisker's partnership with Parley to rewild the oceans. This year, in response to Covid-19, we have supported increased investment in WASH (water, sanitation and hygiene) programmes and we have taken our commitment to a thriving hospitality sector a step further through our $100 million 'Raising the Bar' fund, which includes our $20 million Community Fund in the United States in support of social justice initiatives.

This market dynamic aligns with these strategic priorities:
Sustain quality growth, Invest smartly, Promote positive drinking, Champion inclusion and diversity, Pioneer grain-to-glass sustainability

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index.



Online, on-demand, on track: accelerating Diageo's e-commerce strategy

The online market for alcohol sales has changed and we have accelerated our approach to digitalising our engagement with consumers all over the world. Our e-commerce retail sales are still relatively small – but they are growing rapidly, expanding by around 70% over the last year across 13 key markets, including the United Kingdom, Germany and China.

As well as building e-commerce opportunities with existing retail customers, we are developing new channels and partnerships, including on-demand.

On-demand platforms take consumers' orders and find brick-and-mortar retailers to fulfil them in a fast delivery service model. Investing in partnerships with on-demand platforms at the right time can help give us first mover advantage. That is what we have done in the United States through our partnership with Drizly, a leading on-demand alcohol delivery service.

As well as increasing sales, channels like Drizly give us a greater ability to connect with consumers who are looking to discover more about our brands and who tend towards whiskeys, tequilas and higher-priced products. They also support brand building through features such as customised notifications and on-site marketing.

Our investment in e-commerce is driving results. Between July 2020 and June 2021, five Diageo brands were in the top ten spirits brands sold on Drizly, including two of the top three.[1] And on China's largest platform, T-Mall, Diageo is the market leader in whisky, with a 24% market share.[2]

1. Drizly, 2020
2. Smartpath, 2021

Don Julio 1942 for sale on drizly.com

Creating a truly sustainable business for the long term

Johnnie Walker Midnight Black cocktail

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.

Through our 'Society 2030: Spirit of Progress' 10-year action plan, we want to help create a more inclusive and sustainable world, creating a positive impact in our company, with our communities and for our society.

Our enablers

Our people

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

27,650 people

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 brands

We have a leading portfolio of iconic brands across spirits and beer. Its breadth across categories and price points offers choice for every taste and celebration.

200+ brands

Our infrastructure

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

138 sites

Our relationships

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

180+ countries

Our financial strength

We believe attractive industry margins, a strong balance sheet and solid free cash flows give us the financial strength to execute our strategic priorities and deliver strong stakeholder returns over the long term.

What sets us apart

Our brand portfolio and geographic footprint

We actively manage our leading brand portfolio to ensure we offer 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- and long-term industry growth.

Our track record in innovation and brand building

To recruit consumers, we innovate across centuries-old brands such as Johnnie Walker, Tanqueray and Guinness, and develop and grow new brands like Aviation American Gin and Casamigos. We use our archives in Scotland and Ireland, two of the largest and most comprehensive in the drinks industry, to provide a rich source of inspiration for our brands. Our creative expertise is enhanced through the use of data and tools, which we use to develop a deep understanding of our consumers and customers. We call this combination 'creativity with precision'.

Read more about our strategic priorities on pages 23-35 and our principal risks and risk management on pages 45-55

Our business activities

Consumer insights
We continually evolve our 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 is practicable, we source locally.

Marketing
We invest in world-class marketing to responsibly build vibrant brands that resonate with our consumers. We have a rigorous global 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 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 closely with our customers. Our global and local sales teams use our data, digital tools and insights to extend our sales reach, improve our execution and help generate value for us and for our customers. When our customers grow, we grow too.

Our relationships with the trade
In June 2020, we launched our $100 million 'Raising the Bar' programme to support the recovery, from Covid-19, of pubs, bars and restaurants in major hospitality centres around the world. Through Diageo Reserve World Class™ and Diageo Bar Academy programmes, we continue to build a network of relationships with bartenders, customers and distributors that provides us with a strong route to our consumers.

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[1]

For 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.

89% of respondents are proud to work for Diageo[2]

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

367m people reached with moderation messages from our brands

For our customers
We work closely with customers to build sustainable ways of working that help grow their businesses through great insight and execution.

1.6 million bar professionals used the Diageo Bar Academy website

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

> 63,000 people benefitted from our community programmes

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

+38 supplier net promoter score[3]

For our investors
We aim to maximise long-term 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

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

£800,000 average amount generated for every £1m we contribute to national GDP[4]

1. Data points refer to fiscal 21 other than where indicated
2. 85% of our global employees completed our Your Voice survey
3. Net promoter score indicates the likelihood that suppliers surveyed would recommend Diageo as a preferred business partner
4. Oxford Economics, 2021 for calendar year 2020

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 dialogue helps us build trust and respect and make choices as a business that help shape the role we play in society.

The strength of our stakeholder relationships has never been more important than during Covid-19. We continue to be committed to actively supporting our people, our industry and our communities.

Consumers

Why we engage

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 innovation. We make our products with pride and want them to be enjoyed responsibly. On occasions when consumers choose to drink alcohol, we want them to 'drink better, not more'.

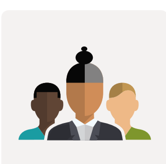
Their interests

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

How we respond

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

Our people



Why we engage

Our people and our brands are at the core of our business. We aim to build a trusting, respectful and inclusive culture where every individual feels highly engaged and fulfilled. We want our people to feel their human rights are respected and that they are treated with dignity at work. We are committed to creating opportunities for career growth and building a continuous learning culture.

Their interests

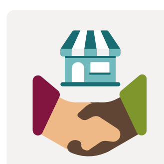
- Prioritisation of health, safety and wellbeing
- Investment in learning opportunities for employee growth and development
- Ways of working, culture and benefits programme
- Contribute to the growth of our brands and our performance
- The promotion of inclusion and diversity

How we respond

- 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/business resource groups

Read more about how our Board engages with our stakeholders on pages 92-94

Customers



Why we engage

Our customers 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-trade, retailers, wholesalers and distributors, digital and e-commerce. Our passion is to ensure we nurture mutually beneficial relationships that deliver joint value and great outcomes for our consumers.

Their interests

- 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

- Use of digital sales technology and best practice analytics to support our retailers and distributors
- Ongoing dialogue and account management support
- Physical and virtual sales calls and our new digital customer sales portal
- Development of joint business plans, including Covid-19 support for our on-trade and distributor customers
- Regular business updates
- Training and webinars through unique offerings such as Diageo Bar Academy

Suppliers

Why we engage

Our suppliers and agencies are experts in the wide range of goods and services we require to create and market our brands. Through collaboration 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.

Their interests

- Strong, mutually beneficial partnerships
- Strategic alignment and growth opportunities
- Fair contract and payment terms
- Collaboration to realise innovation
- Consistent performance measurement
- Joint risk assessment and mitigation

How we respond

- Partnering with Suppliers standard, our code for working with suppliers, which incorporates our 'Society 2030: Spirit of Progress' goals
- Supplier Service Hub, our portal for end-to-end supplier interactions, including real-time invoicing information
- Sharing of best practice and learnings, including Covid-19 safety protocols
- Global Supplier Diversity programme and access to DRINKiQ tools and information
- Confidential, independent whistleblowing helpline and website
- Supplier Connect sessions and regional supplier awards
- Supplier performance measurement and performance reviews with two-way feedback
- Standardised assessments through independent bodies

Investors

Why we engage

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.

Their interests

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

How we respond

- Stock exchange announcements, including financial results
- Investor roadshows
- Meetings and calls
- Capital markets days
- Annual general meeting
- Succession planning, Board and Executive appointments
- Annual Report, Form 20-F and ESG Reporting Index
- Shareholder information on diageo.com
- Participation in investor conferences

Communities

Why we engage

Investing in sustainable growth means creating long-term value for the communities in which we live, work, source and sell. By ensuring we empower people, increase their access to opportunity and champion inclusion and diversity, we can help build thriving communities, shape a tolerant society and strengthen our business.

Their interests

- Impact of our operations on the local economy
- Access to skills development, opportunities for employment and supplier opportunities
- Inclusion and diversity and tackling inequality in all forms
- Improved access to water, sanitation and hygiene
- Responsible use of natural resources
- Transparency and engagement

How we respond

- 'Raising the Bar', our $100 million fund supporting the recovery of pubs, bars and restaurants in global hospitality centres
- Partnerships with local and global NGOs, such as Care International and WaterAid, and local raw material supply partnerships in Africa
- Providing skills and resources through initiatives such as Diageo Bar Academy and Learning for Life
- Inclusion and diversity embedded into community programme design
- Community water, sanitation and hygiene (WASH) programmes in Africa and India

Governments and regulators

Why we engage

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 public health and our business, as well as on the broader environment and community.

Their interests

- Contribution to national and local economic, development and public health priorities
- International trade, excise, regulation and tackling illicit trade
- Tackling harmful drinking and the impact of responsible drinking initiatives
- Climate change and wider sustainability agenda, including carbon reduction, human rights, environmental impacts, sustainable agriculture and support for communities
- Corporate behaviour

How we respond

- 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
- Support for communities and hospitality sector during Covid-19, including provision of hand sanitiser and personal protective equipment (PPE)
- Diageo Code of Business Conduct

An engaged and empowered workforce

At the core of our Performance Ambition is a commitment to enable our 27,650 people to be the best they can be, have the freedom to succeed and feel valued for who they are. From the moment they join Diageo, we want our people to feel engaged: passionate about our Performance Ambition, connected to our values and motivated to achieve their potential.

We provide our people with robust career and development opportunities, competitive reward offerings, and an inclusive environment that harnesses their diversity. The health and wellbeing of our people continues to be our priority and we have implemented progressive policies and procedures to safeguard them and help them successfully navigate the Covid-19 pandemic.

Staying engaged and responsive

We pride ourselves on our unique culture, rooted in a deep sense of purpose, a passion for winning, and a personal connection to our brands and each other. Everyone at Diageo plays a part in creating this culture. Our bi-annual Your Voice survey, in addition to the regular pulse surveys we ran throughout the pandemic, provides us with valuable insights on employee engagement, what works well in the organisation, and what can be improved. The Your Voice survey results released in May 2021 told us that 89% of respondents are proud to work for Diageo and 81% would recommend Diageo as a great place to work. Across our business, the insights gained from the Your Voice and pulse surveys are used to develop meaningful action plans. We ran a Global Wellness week in February 2021, in response to the feedback from the pulse survey conducted on the impact of the pandemic on people's wellbeing. The impact of this initiative can be seen in 78% of respondents telling us in this year's Your Voice survey that they believe Diageo is sufficiently supporting their health and wellbeing.

85%

of our people completed the Your Voice survey

81%

of respondents were identified as engaged

Over the past year, it has become even more important to embed more flexible ways of getting work done, so our people can own how they deliver their best work. We call this our 'Diageo Flex philosophy' – a framework of principles for our people and their line managers to discuss and agree working patterns that best reflect each employee's individual needs alongside business requirements. This framework continues to be a catalyst for stronger employee engagement and performance.

A commitment to human rights, including employees' rights, underpins everything we do – see page 42

Investing in our people's growth and development

Upskilling and reskilling our workforce is critical to future-proofing our organisation. We are embedding a continuous learning culture that gives our people learning opportunities that promote speed of performance and experimentation and helps to deliver business growth. Our learning management platform, My Learning Hub, offers rich experiential learning content that can be accessed anywhere, anytime. In the past year, we have increased our investment in developing our people's skills in the areas of digital marketing, e-commerce, data and analytics, leadership, and inclusion and diversity. Our people experienced over 466,000 hours of learning in the last financial year. We have also expanded the scope of offering on My Learning Hub to our extended workforce (temporary and fixed term contractors) to support their personal and professional growth.

Our leaders play a critical role in inspiring and influencing employee experience, culture and performance. In 2020, we launched our Accelerate programme to over 600 leaders in the organisation, aimed at providing them with world-class thinking and insights on how to lead in a continuously changing world. Our annual talent review approach continues to be a strength. Across our markets, our leaders run a series of talent investment meetings aimed at providing insights into our people, their strengths and development needs and actions needed to unlock their future growth and development. Movement and progress of internal talent continues to be a focus of our talent reviews, providing employees with stretching opportunities to grow their careers.

Strengthening our performance management

As the pace of change accelerates, we must continue to inject speed and simplification in our business and focus our resources on critical growth opportunities. Our performance management framework has been further strengthened with the shift from annual to quarterly goal setting, helping our teams adapt faster to changing consumer and business needs. Leaders work with their teams to set focussed priorities at the beginning of each quarter and meet regularly to review progress. This has allowed employees to have frequent performance feedback conversations. We are also seeing more areas of the business deliver rapid work through 'sprints' – cross-functional teams organised to work on critical business projects. Through sprints, our people gain new skills and collaborate across functions and regions to deliver against our biggest business priorities.

Our ESG Reporting Index includes further information, including data on our employees by region, role and gender and new hires and leavers by gender

Average number of employees by region by gender[1,2,3]

Region	Men	%	Women	%	Total
North America	1,626	60%	1,078	40%	2,704
Europe and Turkey	5,885	60%	3,915	40%	9,800
Africa	2,862	72%	1,109	28%	3,971
Latin America and Caribbean	1,809	62%	1,091	38%	2,900
Asia Pacific	6,020	73%	2,255	27%	8,275
Total	**18,202**	**66%**	**9,448**	**34%**	**27,650**

Average number of employees by role by gender[1,2]

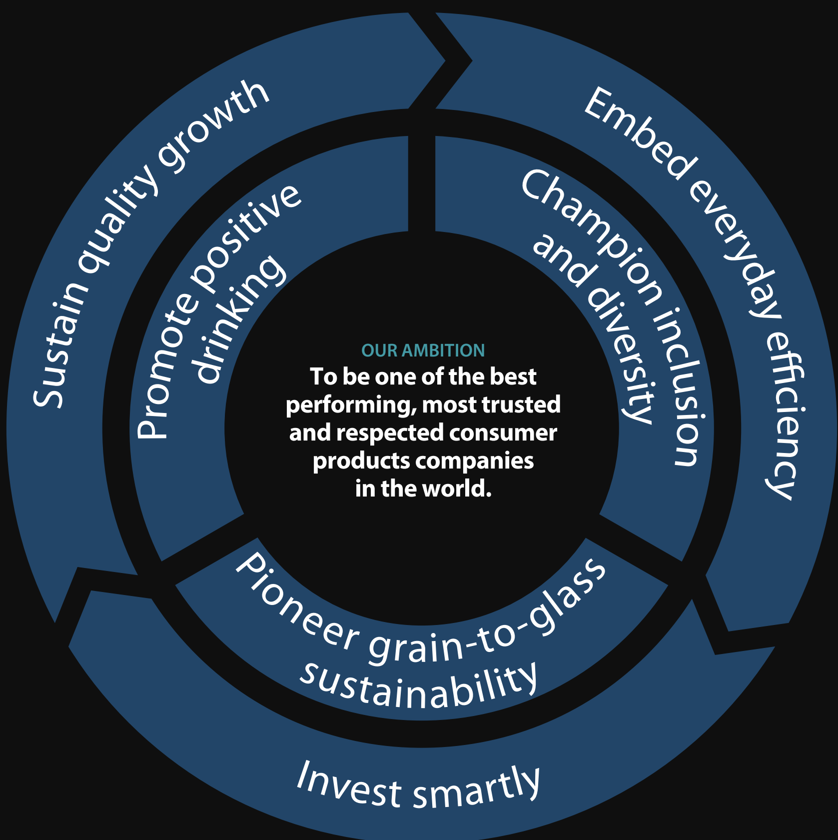
Role	Men	%	Women	%	Total
Executive	8	62%	5	38%	13
Senior manager[4]	312	58%	229	42%	541
Line manager[5]	2,263	69%	1,039	31%	3,302
Supervised employee[6]	15,619	66%	8,175	34%	23,794
Diageo (total)	**18,202**	**66%**	**9,448**	**34%**	**27,650**

1. This data is correct as of 30 June 2021
2. This data has been compiled based on answers provided by respondents who have identified their gender identity as male or female, and will not be fully representative of the gender identity or diversity within our employee population
3. Employees have been allocated to the region in which they reside
4. Top leadership positions in Diageo, excluding Executive Committee
5. All Diageo employees (non-senior managers) with one or more direct reports
6. All Diageo employees (non-senior managers) who have no direct reports

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.

OUR STRATEGIC PRIORITIES



OUR STRATEGIC OUTCOMES

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

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

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

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

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 at 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.

Johnnie Walker Whisky Bramble cocktail

1 Sustain quality growth

Creating sustainable and consistent quality growth is at the heart of our ambition to be 'one of the best performing'. It means delivering consistent net sales and margin growth as well as top-tier shareholder returns.

DELIVERING OUR STRATEGIC OUTCOMES

Sustained quality growth contributes to the delivery of our strategic outcomes of Efficient growth, Consistent value creation and Credibility and trust.

EG CVC CT

Creating sustained, quality growth is not new to us. Brands such as Guinness, Tanqueray and Baileys show how the right approach to quality, brand building, innovation and investing for the long term can build lasting value. This year, we continued to focus on emerging from the pandemic stronger. We rapidly responded to increased consumer demand in the off-trade channel and also focussed on: developing the successful new brands of the future; on growing volume, price and mix – what we call Revenue Growth Management (RGM); on executing the most effective route to our consumers; and on working with governments and stakeholders around the world to ensure our brands compete on a more equal playing field for alcohol taxation and regulatory policy.

Read more about how we are responding to our market dynamics on pages 14-17

Progress in 2021

- Launched innovations across our global giant brands to recruit new consumers and unlock new occasions, including Guinness Nitro Cold Brew Coffee, Captain Morgan Sliced Apple, Smirnoff Seltzers and Baileys Apple Pie
- Enhanced Guinness 0.0 product quality through the introduction of a new filtration process and additional quality assurance measures, leading to product re-launch in Summer 2021
- Expanded no- and lower choices with launch of Tanqueray 0.0%, Gordon's 0.0% and Baileys Deliciously Light
- Accelerated development of e-commerce capabilities, including further development of our direct to consumer e-commerce platforms, such as HaigClub.com, TheBar.com and Seedlip.com

Looking ahead to 2022

- Drive further improvements in quality market share
- Continue to invest in brands and regions where we see the most attractive opportunities
- Continue to grow position in no- and lower-alcohol, and ready to drink categories
- Continue to build our e-commerce position and expand physical and digital routes to our consumers

Crown Royal ready to drink cocktails

Innovating to capture new opportunities

Driving sustainable growth, led by consumer insights, lies at the heart of our innovation: we use purposeful innovation to recruit new consumers to our brands and access new occasions in which they can be enjoyed. This year, consumers sought the reassurance of well-known and trusted brands as well as convenience and choices for 'at home' occasions.

Worth over US$13.9 billion in 2020,[1] ready to drink (RTD) is the fastest growing total beverage alcohol category in the United States, growing 42% between 2017 and 2020.[2] Growth in RTDs has accelerated over the last year, driven by consumer interest in delicious, ready-made cocktails 'at home' and offerings that are ideal for at home celebrations.

Building on this exciting consumer opportunity, we have accelerated the development of our RTD portfolio, including the launch this year of Crown Royal ready to drink cocktails, Ketel One Botanical Vodka Spritz and Tanqueray Crafted Gin Cocktails. In creating these innovations, we leveraged our longstanding expertise in research and development and packaging design to deliver premium bar-quality cocktails.

Launched in three flavours, our Crown Royal RTD range quickly became the third largest spirits RTD cocktail in the United States,[3] even in limited distribution, and is the only RTD product in Nielsen's Top Ten innovations for 2021.[4]

1. IWSR, 2020
2. IWSR, 2020
3. Nielsen: week ending 11.07.20 to 19.06.21
4. Nielsen US Spirits Innovation Report: 11.07.20 to 19.06.21

Don Julio and Casamigos: how quality drives our growth

What does sustainable quality growth look like? One example is the success of our Don Julio and Casamigos tequila brands in the United States, where the tequila category is growing more than twice as fast as total spirits.[1]

While consumer interest in tequila continues to grow, our insights and brand building are delivering more – with our brands gaining year-on-year tequila category market share in the United States.[2]

At the heart of that growth is the fact that Don Julio and Casamigos are well positioned to capture the benefits of wider changes in consumer preferences.

Consumers want higher quality products that stand out for authenticity, taste and cultural relevance – spurring demand for premium and luxury brands. At the same time, the appeal of tequila is broadening across generations and demographics, with a truly multi-cultural consumer base. And that increased demand is accompanied by a growing awareness of the many great ways in which tequila can be enjoyed – both in terms of serves and occasions.

Don Julio, for example, is contributing to this growing understanding through high-quality liquid and inclusive marketing that has cemented it as a brand for a wide consumer base which is also suited to special yet relaxed occasions, such as dinner with friends.

Don Julio 1942, our luxury añejo tequila, has become renowned for its quality. It has steadily built cultural cachet among celebrities, influencers and discerning tequila fans to become the largest prestige and above spirits brand in the United States by volume and net sales value.[3]

The growth of Don Julio 1942 is just part of the wider progress of our tequila portfolio, which we believe has a clear runway for further sustained quality growth. As well as looking forward, we continue to recognise and support tequila's deep roots in Mexican culture. Through initiatives such as the Tequila Don Julio fund, which celebrated Cinco de Mayo this year with a commitment of $1 million over the next four years, we are supporting approved charities whose missions help the restaurant and bar communities that have helped build Don Julio into the brand it is today.

1. IWSR, 2020
2. Nielsen/NABCA, 2018 to 2021
3. IWSR, 2020

Don Julio Margarita cocktails

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.

DELIVERING OUR STRATEGIC OUTCOMES

Embed everyday efficiency contributes to the delivery of our strategic outcomes of Efficient growth, Consistent value creation and Engaged people.

EG CVC EP

We are focussed on 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 generates savings that we can reinvest smartly.

Read more about how we are responding to our market dynamics on pages 14-17

Progress in 2021

- Tightly controlled discretionary spend and continued to drive efficiency and effectiveness
- Launched a value chain transformation programme across Supply and Procurement to increase digitisation and drive efficiency improvements
- Continued to focus on opportunities to centralise and standardise our financial controls, reporting and analysis activities
- Automated additional processes across functions, such as inventory procurement and logistics
- Continued deployment of back-office processes
- EDGE365 now available in 14 countries across all our regions

Looking ahead to 2022

- Continue day-to-day focus on efficiency and effectiveness throughout our value chain
- Acceleration of end-to-end Supply Chain and Procurement's digital transformation
- Further progress the development and rollout of sales operation's digitisation, including EDGE365 and Diageo One
- Continue investment in data analytics and automation

'Never Be Out' products: improving customer service and supply chain agility by simplifying our business

We are always looking for ways to make our supply and procurement operation more agile, efficient and effective. This year, our global product segmentation programme helped us move away from a 'one size fits all' approach to producing brands for our customers and markets, and towards a more agile model that helps us deliver the highest levels of tailored customer service, improves financial performance and supports market share growth.

Through a sharper analytical focus on the products that drive the most volume and value for our customers and our markets, we identified over 1,200 priority products globally that we aim to ensure are never out of stock – what we call 'Never Be Out' stock keeping units (SKUs). This has never been more important, given the volatility we have seen as a result of Covid-19.

'Never Be Out' SKUs typically represent the majority of volume and sales value in a market. They can also be higher-margin products, or strategically important products – for example recent innovations or Reserve brands.

Key to the success of our product segmentation programme has been greater alignment of priorities between our sales and supply chain teams, who through more effective collaboration can ensure that supply chain resilience is being strengthened for the products that are most important to our customers and our business. In practice this can mean ensuring we always have enough materials for these critical SKUs or proactively dedicating spare production capacity to making more.

This year, despite Covid-19-related volatility and disruption in our supply chains, we maintained high levels of service to our customers, demonstrating the importance of focussing on our priority products.

Retail outlet

Transforming our execution: every customer, every day, everywhere

It makes clear business sense to put customers at the heart of our approach to execution. They are experts in the products they buy and sell, as well as in the experiences they create and deliver.

The continued deployment and development of our Every Day Great Execution (EDGE) suite of technologies and applications continues to enhance our ability to offer the right brands, in the right outlets, in the right way. They are making our execution simpler, more efficient and more effective. As they are increasingly embedded across the business, our teams have more time to work with more customers. And it is creating clear business impacts in the form of higher sales and increased market share.

Diageo One: a single portal to empower customers

Launched this year, Diageo One provides a single, digital point of engagement with our customers. It gives them the power to manage their account and access any Diageo content or services they need, on any device, anytime, anywhere. Diageo One is fully integrated with EDGE365, a customer-focussed Diageo application that integrates everything our sales forces need to manage their customer relationships, into a single mobile application. This means that we are able to provide our customers with real-time access to brand content, promotional information, training materials and much more. Through this integrated solution our customers have access to data, insights and analytics that help them to accelerate decision-making and ensure they have the right brands, activated in the right way, for their outlets and their consumers.

More engagement, more sales, more market share

We are deploying our Every Day Great Execution suite of technology, including EDGE365 and Diageo One, quickly. These solutions have enabled an almost 20% increase in the number of outlets called on since the start of Covid-19 and they are also supporting off-trade market share growth in all regions.

Example of Diageo One user interface

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.

DELIVERING OUR STRATEGIC OUTCOMES

Investing smartly contributes to the delivery of our strategic outcomes of Efficient growth, Consistent value creation and Engaged people.

EG CVC EP

We focus our investment in areas where we believe it 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).

Read more about how we are responding to our market dynamics on pages 14-17

Progress in 2021

- Continued to invest for the long term, including: the acquisition of Davos Brands LLC; a new Customer Collaboration Center (United States); a water recovery plant (Uganda); carbon-neutral distilleries (Scotland); and biomass boilers (Uganda and Kenya)
- Upweighted our investment in A&P and delivered enhancements to our Catalyst suite of tools, enabling more effective short- and long-term A&P spend and improved insight into our return on investment
- Invested in the development of our ready to drink portfolio in North America through acquisition of the Lone River Ranch Water and Loyal 9 Cocktails brands, and an $80 million expansion of our manufacturing footprint in Plainfield, Illinois
- Received seven prestigious marketing effectiveness awards from the Institute of Practitioners in Advertising (IPA)
- Co-developed a bespoke media planning platform to further increase A&P efficiency

Looking ahead to 2022

- Continue to develop our marketing effectiveness tools to further improve our return on investment and enable faster decision-making
- Continue to enhance and develop e-commerce and enabling technologies across the business
- Continue to actively manage and invest in our portfolio of brands and brand experiences, as well as capital expenditure to support the delivery of our 'Society 2030: Spirit of Progress' plan and long-term growth

Scotch whisky tourism – supporting growth with the right capital investment

Despite Covid-19, we continued to invest smartly behind opportunities that support our goal of driving quality growth.

Our multi-year, £185 million Scotch whisky tourism investment programme – the largest ever seen in Scotland – is creating a powerful platform to engage and recruit new generations of consumers, as well as creating jobs and supporting our local communities. And as consumers seek once again to travel, they will want to visit the places where their favourite brands are made, meet the people who make them and experience the passion of those people and places.

At the centre of the programme is Johnnie Walker Princes Street, a new global visitor attraction in Edinburgh which celebrates scotch and more than 200 years of Johnnie Walker's heritage. When it opens later this summer, visitors will experience a multi-sensory, immersive tour through Johnnie Walker's history and world of flavour, whether in person or online. They will be able to catch live performances, shop for brand home exclusive bottles and soak up breathtaking views from two rooftop bars.

We are also well advanced in our work to transform the visitor experiences at four celebrated Diageo distilleries and in reopening the 'ghost' distilleries of Port Ellen and Brora. Glenkinchie, Clynelish, Cardhu and Brora successfully reopened this year and have all received Scotland's most prestigious Green Tourism Gold Awards for sustainable practices in both the visitor experiences and distillery operations.

The entrance to Brora distillery

Chase Distillery Pink Grapefruit & Pomelo flavoured gin

Building our portfolio for the long term: strategic acquisitions

Many of our iconic brands have been built over decades, or even centuries. While never losing sight of the importance of investing in the growth of these great brands, we need to identify and nurture the new brands that consumers will enjoy in the future. We do this through innovation, by investing in entrepreneurs with new ideas through the Diageo-backed accelerator programme, Distill Ventures, and through acquisitions.

We look to make acquisitions of high-growth brands in fast-growing categories – such as those we have made in recent years in tequila, gin, no- and lower-alcohol and ready to drink. Super premium tequila brand Casamigos, which we acquired in 2017, grew net sales 125% this year and recently joined the 'Millionaires' Club',[1] having sold over one million cases in 2020.[2]

This year, we acquired Aviation American Gin and Chase Distillery: two fast-growing, premium plus gin brands with exciting growth potential. Aviation American Gin has disrupted the gin category in North America with its subtle juniper notes and modern craft credentials. It is the second largest and one of the fastest growing brands in the super premium gin segment in the United States.[3]

The acquisition of Chase Distillery, the producer of Chase GB Gin and a crafted portfolio of flavoured gin innovations, broadened our offering in the United Kingdom – the largest gin market in Europe.[4] The flavoured gin category in the United Kingdom grew at a compound annual growth rate of over 140% between 2015 and 2020,[5] and Chase Distillery's flavoured gin portfolio – with its fresh and zesty flavour combinations – is well positioned to benefit from this growth.

1. Drinks International, June 2021
2. IWSR, 2020
3. IWSR, 2020
4. IWSR, 2020
5. IWSR, 2020

4 Promote positive drinking

We want to change the way the world drinks for the better. That means promoting moderation and continuing to address the harmful use of alcohol by changing attitudes and expanding our programmes that tackle underage drinking, drink driving and binge drinking.

DELIVERING OUR STRATEGIC OUTCOMES
Promoting positive drinking contributes to the delivery of our strategic outcomes of Credibility and trust, Engaged people.

CT EP

Promoting moderation and addressing the harmful use of alcohol is not only the right thing to do – 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. And, as a premium drinks company, we want people around the world who choose to drink alcohol to drink better, not more – and to trade up to our higher quality, better-tasting drinks.

Our brands have been part of people's celebrations for generations. We make them with pride – and they are made to be enjoyed responsibly.

Progress in 2021

- Transformed DRINKiQ with new content, design and interactive tools
- Launched SMASHED Online in Great Britain, Northern Ireland, India, Australia and Mexico
- Launched digital learning experience, 'The Wrong Side of the Road', to help people understand the consequences of drink driving

Looking ahead to 2030

- Champion health literacy and tackle harm through DRINKiQ in every market where we live, work, source and sell
- Scale up our SMASHED partnership, and educate 10 million young people, parents and teachers on the dangers of underage drinking
- Extend our UNITAR partnership, and promote changes in attitudes to drink driving, reaching five million people
- Leverage Diageo marketing and innovation to make moderation the norm – reaching one billion people with dedicated responsible drinking messaging

We want everyone at Diageo to be an advocate for positive drinking and we have long campaigned to reduce the harmful use of alcohol. We know that for most people who choose to drink, drinking responsibly is common sense – but we also know that harmful drinking causes significant issues for individuals, their families and society as a whole. We share our stakeholders' concerns about that harm and we want to work with others as part of a whole-of-society approach to address it – which is why promoting positive drinking is at the heart of our 'Society 2030: Spirit of Progress' plan.

The right thing to do – for society and our business

In 2015, Diageo was a founding member of IARD, the International Alliance for Responsible Drinking, a not-for-profit organisation comprising 12 leading beer, wine and spirits companies. IARD members work together to actively support the WHO's target within the Non-Communicable Diseases (NCD) Global Monitoring Framework of an 'at least 10% relative reduction in the harmful use of alcohol' by 2025.

Promoting moderation

To meet our goal of changing attitudes and reaching one billion people with dedicated responsible drinking messages, we are committed to reinforcing moderation in everything we do.

We want our people to be ambassadors and we are using the reach and influence of our brands to connect with consumers. For example, in Mexico we have reached over 46 million people with messages of moderation through a cross-brand campaign on social media supported by Johnnie Walker, Smirnoff, Don Julio, Buchanan's and Black & White. Our brands also use major sponsorships to reinforce moderation messaging – as Guinness does through its role as title sponsor and official responsible drinking partner of the Guinness Six Nations rugby tournament.

Tackling underage drinking

When it comes to those who are underage, it is never acceptable to consume alcohol, and we have a long track record of campaigns and programmes to tackle underage drinking. We are committed to educating 10 million people on the dangers of underage drinking by 2030. A key part of this approach is scaling up SMASHED, an award-winning alcohol education programme, developed by Collingwood Learning and sponsored by Diageo, through which we measure changed attitudes as well as the number of people we reach. Since launching in the United Kingdom more than 15 years ago, SMASHED has reached over 1.2 million people and is currently available in 16 countries. It began as a live theatre production presented by professional actors accompanied by interactive workshops, evaluation and teaching resources for schools. As part of our joint long-term strategy with Collingwood Learning to reach a greater number of students, we developed SMASHED Online. This work was accelerated in response to Covid-19 and the closure of many schools. SMASHED Online launched in 2021 in Great Britain, Northern Ireland, India, Australia and Mexico. We plan to expand the programme next year with more localised versions for other markets.

This year we educated 210,443[Δ] people on the dangers of underage drinking through a Diageo supported education programme. 195,544[Δ] of those people confirmed a changed attitude on the dangers of underage drinking following participation.

Δ Within PwC's limited assurance scope. See page 201 for further details.

We have set ourselves a set of stretching targets for changing attitudes and encouraging moderation, described in full on page 38

Changing attitudes; preventing drink driving
Attitude change is crucial in achieving another of our priorities: preventing drink driving. For decades, we have been addressing drink driving through a range of interventions, including partnerships with police, local authorities and other agencies that support enforcement of drink drive laws. We provide education for drivers and law enforcers and we support safe rides and public transportation.

Since 2016 we have partnered on this issue with the United Nations Institute for Training and Research (UNITAR). Together we are supporting the second UN Decade of Action for Road Safety, and our 'Society 2030: Spirit of Progress' plan commits us to changing the attitudes of five million drivers towards drink driving by 2030. This year, together with UNITAR and ahead of UN Global Road Safety Week, we launched a digital learning experience to help people understand the consequences of drink driving. 'The Wrong Side of the Road' allows people to have a conversation with a drink driver to help them understand the effects of alcohol, and the shame and stigma that come with drink driving. Launched in Great Britain in May 2021, the experience will be rolled out to more countries in the next 12 months.

We also collaborate with UNITAR on our flagship high visibility enforcement training programme to support government authorities and police officers in their work to reduce road traffic accidents as a result of drink driving.

Adapting and innovating in how we work
Promoting positive drinking during the Covid-19 pandemic has had its challenges – particularly for programmes such as SMASHED, which previously relied on live, in-person events. But by finding new ways to reach audiences and pivoting quickly to online solutions in many markets, we are opening up new opportunities for positive impact in the future.

Expanding our digital approach has given us more data insights, which we can use to increase engagement and measure impact. It will help us drive our industry-leading programmes to make an even greater difference in changing attitudes to avoid the harmful use of alcohol around the world.

Advocating improved laws and industry standards
As a minimum, we aim to comply with all laws and regulations wherever we operate. We advocate effective new regulation based on evidence, including blood-alcohol volume driving limits, responsible digital marketing and legal purchase age laws, equalised for all alcohol categories, in countries where these do not exist.

We have also joined in collective action with our industry. We support IARD's commitments on digital marketing and commercial practices and its package of measures to combat underage drinking. We have committed to including an age-restriction symbol or equivalent words on all of our alcohol brand products in all markets by 2024.

We are also part of the new global alliance formed between IARD and prominent online retailers and e-commerce and delivery platforms to develop industry standards for this fast-growing channel to promote moderation and address the risk of alcohol being sold to people who are underage or intoxicated.

Responsible marketing
Our Diageo Marketing Code (DMC) and Digital Code set mandatory minimum standards for responsible marketing and we review the Codes 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, one case was upheld against Diageo's advertising by a key industry body, ABAC, the advertising regulator in Australia.

Advertising complaints upheld by key industry bodies that report publicly[1]
A complaint was upheld by ABAC on 8 January 2021 for the Baileys Original Irish Cream Liqueur Milk Glass Gift Pack. The complaint was upheld on the basis that the gift pack had strong and evident appeal to minors. It was noted that the desserts and milkshakes on the pack were styled in a way that makes the imagery relatable to minors and creates an illusion of a smooth transition from non-alcoholic to alcoholic beverages.

As it was a complaint relating to packaging, Diageo had two opportunities to respond and provide our point of view. We responded to each question posed by ABAC, articulating why we did not feel that any of the elements of the packaging had strong and/or evident appeal to minors. It is important to note that the Baileys Original Irish Cream Liqueur Milk Glass Gift Pack was approved through ABAC's pre-vetting system prior to going into production. Once the determination was upheld, we stopped selling the remaining stock to customers, destroyed the gift pack elements and sold the Baileys as standalone bottles.

Country	Body	Industry complaints upheld	Complaints about Diageo brands upheld	Brand
Australia	ABAC scheme	71	1	Baileys
Ireland	Advertising Standards Authority for Ireland (ASAI)	0	0	
United Kingdom	Advertising Standards Authority	2	0	
	Portman Group	4	0	
United States	Distilled Spirits Council of the United States (DISCUS)	3	0	

DRINKiQ: championing consumer health literacy
Information is a critical component of empowering consumers to make responsible choices – and DRINKiQ is one of our most important tools in promoting moderation and addressing harmful drinking. DRINKiQ is a dedicated responsible drinking online platform that provides facts about alcohol, the effects of drinking on the body and the mind, and the impact of harmful drinking on individuals and society. DRINKiQ is currently available in 29 countries and we have plans to extend it to more than 35 countries by December 2021.

This year we transformed DRINKiQ with new content, design and interactive tools to redefine and improve the way we talk to people about drinking. DRINKiQ is designed to complement resources offered by governments, charities or independent bodies, not replace them.

The new DRINKiQ aims to inspire consumers to take action – inviting them to drink better, not more and to shape a long-term positive change in their attitudes to alcohol. We use tools to frame people's relationship with alcohol and empower them to achieve a balanced lifestyle. One key new element is the drinking self-assessment tool, which aligns with the WHO's AUDIT tool. 'AUDIT' stands for Alcohol Use Disorders Identification Test, which can help determine whether someone is at risk of problem drinking.

1. From 1 July 2020 to 30 June 2021

5 Champion inclusion and diversity

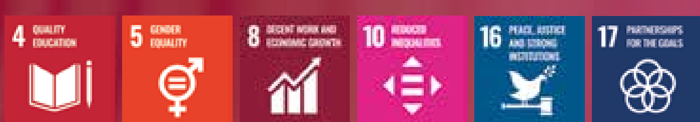
We champion inclusion and diversity across our business: from the way we attract, develop, retain and recruit the very best diverse talent, to the way we source services and progressively portray diversity through our brands. We are determined to remove barriers, while having a positive impact on our partners, suppliers and communities.

DELIVERING OUR STRATEGIC OUTCOMES
Championing inclusion and diversity contributes to the delivery of our strategic outcomes of Consistent value creation, Credibility and trust, Engaged people.

CVC CT EP

We want to have world-leading employment policies and practices that foster inclusion. At the same time, we aim to use our influence, creative skills and media spend to help shape a more tolerant society.

An inclusive and diverse culture has always been central to our purpose of 'Celebrating life, every day, everywhere'. As well as being the right thing to do, having the best and most diverse talent drives innovation and commercial performance.



Progress in 2021

- Increase in female representation in our leadership group to 42%$^{\Delta}$ (from 39% last year)
- Developed a progressive Ethnic Diversity Framework, while setting an ambition to increase ethnically diverse representation in our leadership
- Trained nearly 2,000 marketeers and agencies around the world in our four-part Progressive Portrayal programme

Looking ahead to 2030

- Champion gender diversity with an ambition to achieve 50% representation of women in leadership roles by 2030[1]
- Champion ethnic diversity with an ambition to increase representation of leaders from ethnically diverse backgrounds to 45% by 2030[1]
- Improve employability and livelihoods for 200,000 people through Learning for Life and other skills initiatives
- Deliver 1.5 million training sessions through Diageo Bar Academy providing skills and resources to help build a thriving hospitality sector that works for all
- Use our creative and media spend to support progressive voices, measuring and increasing the percentage spend year on year
- Accelerate inclusion and diversity in our value chain, measuring and increasing the percentage of Diageo suppliers from female- and minority-owned businesses year on year[1]
- Ensure 50% of beneficiaries from our community programmes are women and our community programmes are designed to enhance ethnic diversity and inclusion of underrepresented groups

1. Statements on representation are an ambition for Diageo and should not be considered a target

Living our values

We aim to create an environment where every individual feels a sense of belonging and can thrive and contribute to their fullest. That means embracing diversity in the broadest possible sense, including gender, ethnicity, ability, age, sexual orientation, social class, education, experience and ways of thinking.

We have a global focus on goals in two key areas: developing a strong pipeline of female talent for all roles and increasing the representation of leaders from ethnically diverse backgrounds.

As with a number of our other ESG goals, we have backed up our ambition by directly linking our Long-Term Incentive Plan (LTIP) awards to delivering diversity in our leadership. Our LTIP is described in our Remuneration report on page 127.

Change at the top: progress on women in leadership

We are committed to supporting gender equality through representation, policy development and transparency. We are proud to have increased female Board representation by 10 percentage points to 60% this year. Through our continued focus and efforts we are strengthening female representation in our leadership group, increasing it from 39% to 42%$^{\Delta}$ over the last 12 months as we move towards our goal of 50% female representation by 2030.

Leading the FTSE100 on female leadership representation

Diageo was named the top FTSE100 company for female leadership representation of women at Board, Executive and leadership level in the 2020 Hampton-Alexander Review.

Focus on ethnic diversity

We employ 27,650 people in over 70 countries, which means we already have a diverse workforce representing the markets in which we operate. However, we want to ensure we have ethnic diversity at every level of our business, with a focus on our leadership. Today 30% of our Board and 37%$^{\Delta}$ of our leadership population, including our Executive Committee, is ethnically diverse.

In 2020 we set up a global taskforce which developed a progressive Ethnic Diversity Framework to support markets in defining multi-year plans covering talent representation and development, supplier ethnic diversity and inclusive marketing.

Since launching confidential ethnicity data collection in 2019 we now have a greater understanding of diversity in 61 countries. Where local law allows, we have invited all our employees to share their ethnicity voluntarily. In these markets more than 80% of our global workforce and 92% of our leadership population has confidentially disclosed their ethnic background, which has helped us set our goal on leadership representation.

Creating an inclusive culture through progressive policies and employee resource groups

Our network of employee resource groups (ERGs) gives employees the opportunity to support each other, while helping leaders better understand the barriers and concerns of diverse communities.

Shaping a more equitable society

In February 2021 we established an innovative programme with Historically Black Colleges and Universities (HBCUs) in North America to develop future leaders. A $10 million pledge will fund permanent endowments at more than 20 HBCUs across the United States and create internship platforms to help drive diversity within the industry.

Performance against all our 'Society 2030: Spirit of Progress' goals is described on pages 38-41

Our active ERGs include: AHEAD (African Heritage Employees at Diageo), Conectados (Diageo employees championing Latin culture) and PAN (Pan Asian Network) in the United States; We Are All Able and REACH (Race, Ethnicity and Cultural Heritage) in the United Kingdom, and our international Spirited Women and Rainbow Networks. Initiatives led by these networks and others include:

- **10,000 care packages** for Americans serving overseas assembled by members of the Veterans and Friends of Veterans Resource Group and employees from their homes
- **Six-month internship programme** established across Scotland focussing on people with disabilities in partnership with the We Are All Able ERG
- **Fourth annual inclusion 'INC' week** with over 30 sessions led by ERGs globally and 9,000 people tuning in live
- **50 Diageo sites** took part in our annual Pride flag-raising event which saw the new Progress flag flown, representing marginalised LGBTQIA+ transgender and ethnically diverse communities.

We also support inclusion through progressive policies. Globally, all new mothers are entitled to 26 weeks' fully-paid maternity leave, with all new fathers being entitled to a minimum of four weeks' paid paternity leave. In the majority of our markets, we have fully equalised maternity and paternity leave to 26 weeks, regardless of how they become parents. This year, our people took more than 180,000 days of parental leave – and the average number of days taken by men was 99.

Using our reach and influence to drive 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. As advertisers of some of the world's most iconic brands, we know we can make a difference through our advertising – both in terms of its content, and through how it is made.

Supporting transgender and non-binary employees

In partnership with our Rainbow Network we launched gender identity and gender expression guidelines across several markets in support of our transgender and non-binary employees. The guidelines included the introduction of voluntary and confidential self-disclosure of gender identity, sexual orientation and pronouns on our internal Workday system in order to progress our LGBTQIA+ inclusion agenda.

Thriving through menopause

In March 2021 we introduced our 'Thriving Through Menopause' guidelines, to raise awareness and understanding of menopause throughout our business, inspired by inputs from our Spirited Women network. The guidelines support increased flexibility (including changing working patterns, or access to sick pay entitlements to manage symptoms where appropriate) and access to counselling or mindfulness sessions through our Employee Assistance Programme.

Confronting racial bias

In 2021 we launched 'Confronting Racial Bias' training for all our employees – a 30-minute interactive learning experience. 97% of our employees have completed the training, which is also part of our onboarding process. We have developed an e-learning programme for managers, the 'Confronting Racial Bias Hiring Manager', and adapted the programme for use with our agency, distributor and supplier partners.

We have trained almost 2,000 marketeers and agencies around the world in our four-part Progressive Portrayal programme, which breaks stereotypes in advertising in the areas of gender, race, sexuality and age and covers representation, perspective, characterisation and agency. We continue to break boundaries in our creative work, while collaborating with inclusive talent that reflects our broad consumer base. For example, initiatives such as the Guinness 'Never Settle' campaign in May 2021, aimed to redress the imbalance of coverage of women's rugby during the Guinness Six Nations.

By ensuring our supply chain reflects our values of inclusion and diversity, we believe we can have a much bigger impact on equality beyond our business, working closely with our suppliers to advance sustainable economic impact in diverse communities where we source. We continue to develop our Diverse Representation programme globally, championing equal employee representation with our suppliers, and helping to inspire greater diversity throughout their organisations.

Working with diverse suppliers

In North America, our largest market, we have continued to increase diversity in our supply chain, increasing the proportion of diverse suppliers by over 15% in the last 12 months.

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 longstanding community programmes include a focus on promoting gender equality and empowering people from under-represented groups, alongside skills and entrepreneurship, and health and wellbeing. Our partnership with CARE International, for example, includes tackling barriers for women in smallholder farming, improving safety and inclusivity in the hospitality industry, and hospitality skills training and initiatives to support female entrepreneurs.

Our Learning for Life (L4L) programme focusses on training in hospitality, retail and entrepreneurship, while we also support communities by providing access to clean water, sanitation and hygiene (WASH) in water-stressed areas (see page 34).

This year we invested a total of £20.95 million in community initiatives, equivalent to 1% of operating profit (2020 – 1%). See our ESG Reporting Index for more details of our community investments.

Gender representation of our leadership[1]

Role	Men	%	Women	%	Total
Leadership population[2]	319	58%	234	42%Δ	553[3]

Ethnic representation of our leadership[1,4]

Role	Ethnically diverse	%	Non-ethnically diverse	%	Decline to self-identify	%	Not disclosed	%	Total
Leadership population[2]	207	37%Δ	289	52%	12	2%	46	9%	554

1. This data is correct as of 30 June 2021
2. Leadership population encompasses Executive Committee and senior managers
3. One person has opted not to disclose their gender; they cannot be positively attributed to either group and therefore are not included
4. Please refer to our reporting boundaries and methodologies for more information on how data has been compiled, including standards and assumptions used. In particular, attention is drawn to page 90 of our ESG Reporting Index, which describes the exercise that was undertaken in the Latin America and Caribbean region to address the fact that the Hispanic/ Latin American ethnicity category is not available, at a local market level for selection in Workday.

Δ Within PwC's limited assurance; see page 201 for further details

Pioneer grain-to-glass sustainability

We have always understood that for our business to be sustainable, it needs to create enduring value – for us and for those around us. Our 'Society 2030: Spirit of Progress' ambitions take us further than ever in our drive to preserve water for life, accelerate to a low carbon world and become sustainable by design.

DELIVERING OUR STRATEGIC OUTCOMES
Pioneering grain-to-glass sustainability contributes to the delivery of our strategic outcomes of Consistent value creation, Credibility and trust, Engaged people.

CVC CT EP

'Society 2030: Spirit of Progress' is our 10-year action plan for contributing to the achievement of the UN Sustainable Development Goals (SDGs). It sets out how we will build on our track record, pioneer new approaches, and work with others to make a difference in the critical period to 2030, while giving our business a platform for sustained and responsible quality growth.

Our long-term success depends on the people and planet around us. Poverty, inequality, climate change, water stress, biodiversity loss and other challenges threaten the environment and the prosperity of communities. We must make sure that our stakeholders and society at large all thrive as a result of our business. Our commercial performance and effective stewardship of the environment go hand in hand, because sustainability is critical to the efficiency and effectiveness of our operations and our ability to maintain trust and respect.

Progress in 2021

- Reduced carbon emissions from our operations by 5.1%$^{\Delta}$
- Agreed a renewed five-year partnership with WaterAid to help transform lives through clean water, decent toilets and good hygiene
- Successfully piloted the lowest carbon footprint glass bottles ever produced for a Scotch whisky brand

Looking ahead to 2030

We have set a range of ambitious targets to help drive our performance in preserving water for life, accelerating to a low carbon world, and becoming sustainable by design.

Achievement against all our 'Society 2030: Spirit of Progress' goals is described on pages 38-41. We describe our work on embedding human rights throughout our value chain on page 42 and our engagement with stakeholders on pages 20-21.

We work with our whole value chain – our employees, our suppliers, our communities, our customers and consumers – to look after the people and resources that contribute to our success, from grain to glass.

Celebrating external recognition

In November 2020, Diageo was recognised for the third year in a row in the Dow Jones World Sustainability Index. In December 2020, we appeared on the CDP's annual A list for both water security and climate change. We were recognised as a CDP supplier engagement leader in February 2021.

"We have a track record of setting ambitious targets and our 'Society 2030: Spirit of Progress' plan is no different. The power of the ambition has a mobilising effect on our people and is a catalyst for innovation."

Ewan Andrew
President, Global Supply Chain and Procurement and Chief Sustainability Officer

Our 'Society 2030: Spirit of Progress' ambitions

Our plan mobilises 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 be 'sustainable by design'. To achieve our ambitious goals, we expect to invest around £1 billion of capital expenditure over the next decade in environmental sustainability. This will help us to be more efficient, reduce our resource consumption, invest in innovative solutions and build a more secure and resilient supply chain. It will also drive the trust, respect and commercial success that define our Performance Ambition.

Preserving water for life

Water is our most important ingredient. But it is also a precious shared resource, which is coming under increasing pressure in many parts of the world. Preserving this critical resource, particularly in water-stressed areas, has been a strategic priority for many years. Our holistic strategy aims to address risks and drive towards a net positive water impact in our priority water basins. It recognises the need for collective action and the many inter-dependencies between water and communities, our supply chain, climate change and the environment.

Our grain-to-glass approach supports farmers, improves water-use efficiency in our own agricultural and production operations, replenishes water in water-stressed catchments and provides clean water to our communities. It also makes us strong advocates for more collective action for better water stewardship and increased water security.

A key element of our integrated strategy is supporting communities by providing access to clean water, sanitation and hygiene (WASH) in communities near our sites and in the water-stressed areas that supply our raw materials. Our strategy contributes to SDG 6 (clean water and sanitation), while also helping to replenish the water we use in our operations. We have supported WASH programmes for more than 20 years and, given the increased importance of WASH for individual and community wellbeing during the Covid-19 pandemic, we launched 15 additional WASH projects in Africa during this year.

Δ Within PwC's limited assurance, see page 201 for further details

Performance against all our 'Society 2030: Spirit of Progress' goals is described on pages 38-41

We continue to recognise the importance of returning water to the environment at an equal or better quality than the water we abstract, and seek to improve our performance in this area. We describe our approach and performance in our ESG Reporting Index.

Committed to water stewardship

Advocacy and collaboration are essential to our ambitions for water stewardship. This year we worked with the CEO Water Mandate, the Water Resilience Coalition, the Alliance for Water Stewardship, Wash4Work, CDP, WaterAid, and many local partners.

In December 2020, we agreed a renewed £4 million, five-year partnership with WaterAid to help transform lives with clean water, decent toilets and good hygiene in communities.

Supporting salmon; restoring Speyside

In collaboration with the Spey Fishery Board, in February we replaced a damaged weir and installed a fish pass in the river Dullan in Scotland – a part of the River Spey catchment that is crucial to the Scotch whisky industry.

Accelerating to a low carbon world

Combatting climate change and its associated impacts – including those on water – is at the heart of our strategy. We have an ambition to reach net zero carbon across our operations by 2030, harnessing 100% renewable energy everywhere we operate. We have a clear path to follow. We have already halved the carbon emissions associated with our operations since 2008, and look beyond our own business, in our work to decarbonise our value chain and campaign for a low carbon world.

For our own operations, we are developing site-by-site roadmaps to carbon neutrality. We are also working to achieve net zero carbon across our full supply chain (Scope 3), by 2050 or sooner with an interim milestone to achieve a 50% reduction by 2030. In line with our new targets, we are analysing the data and reporting methodology for our value chain emissions – which fall under our Scope 3 disclosures – including those from new acquisitions. This has expanded the number of categories we report and resulted in a significant increase in our reported Scope 3 emissions compared to our previous baseline (see page 40). We will partner with our suppliers in areas including renewable energy solutions, circular-designed products, increasing recycled content of packaging and regenerative agriculture solutions in pursuit of our Scope 3 target.

Our approach to carbon emissions reduction is described further in Responding to climate-related risks on pages 50-55

Pursuing science-based targets

We were an early adopter of absolute rather than relative reductions in our carbon emissions, setting both our 2020 and 2030 targets in line with the principles of the Science Based Targets initiative.

Becoming sustainable by design

We have made important strides in reducing our environmental impact over decades of focus on waste, recycling and packaging. We aim to keep going until we have reduced our impact everywhere: cutting down packaging, increasing recycled content and eliminating waste.

Partnerships will be critical. Initiatives such as our new Diageo Sustainable Solutions programme, which enables us to partner with innovators to share ideas for growing brands sustainably, help us work together with customers, suppliers, NGOs, research institutions and governments to help create a truly circular economy.

Innovation drives progress

In April 2021 we successfully piloted the lowest carbon footprint glass bottles ever produced for a Scotch whisky brand. Working with glass manufacturer Encirc and research and technology experts Glass Futures, we produced 173,000 bottles for our Black & White brand with 100% recycled glass and using waste-based biofuel-powered furnaces. This reduced the carbon footprint of the bottle by up to 90%.

Working with suppliers and farmers

Our supply chain connects us to communities all over the world, where we can have a positive social and environmental impact by creating economic opportunity, promoting human rights and improving agricultural and environmental practices.

This year we engaged our top 200 suppliers in various elements of our 2030 ambition: from providing DRINKiQ training, to collaborating on inclusion and diversity initiatives, to partnering on manufacturing pilots that delivered low carbon glass bottles.

We continue to work through our Partnering with Suppliers standard, which sets our minimum social, ethical and environmental expectations. We have updated it this year to reflect our 'Society 2030: Spirit of Progress' ambition. We also work through AIM-PROGRESS, a forum of leading consumer goods companies, and the not-for-profit organisation SEDEX. Our approach is described in more detail on our website.

Our Sustainable Agriculture Guidelines (SAG) set out the standards we expect of suppliers of agricultural raw materials. We use the Sustainable Agriculture Initiative Platform's Farm Sustainability Assessment (FSA) tool, with FSA's bronze rating (or benchmarked equivalent standard) being our minimum requirement. We work directly with farmers on sustainable agriculture projects, and we aim to source locally where practicable. We also assist smallholder farmers, including providing access to training, seeds, fertilisers and technology.

Blending traditional and modern practices

In our agricultural operations in Mexico we are putting our sustainable agriculture ambitions into action as we aim to significantly expand the number of our agave plants for our tequila brands. We use a blend of traditional and modern practices to care for our plants – including innovative drone technology, which currently is used to count the number of plants we have. In the future we plan to use this technology to analyse plant health and apply fertiliser with precision so that we can minimise our impact on the surrounding soil.

Monitoring performance and progress

Financial indicators

Organic net sales growth (%) EG R

↑16.0%

2021	16.0
2020	(8.4)
2019	6.1
2018	5.0
2017	4.3

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 growth of 16.0%, following a decline in fiscal 20, reflects organic volume growth of 11.2% and positive price mix of 4.8%. All regions grew organic net sales.

More detail on page 57

Organic operating profit growth (%) EG R

↑17.7%

2021	17.7
2020	(14.4)
2019	9.0
2018	7.6
2017	5.6

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 grew 17.7% ahead of net sales, driven by growth in all regions except Europe and Turkey.

More detail on page 57

Earnings per share before exceptional items (pence) EG R

117.5p

2021	117.5
2020	109.4
2019	130.8
2018	118.6
2017	108.5

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

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

Performance
Eps before exceptional items increased 8.1 pence, primarily driven by an increase in organic operating profit, partially offset by unfavourable exchange and increased tax.

More detail on page 58

Non-financial indicators

Positive drinking CT EP R

By 2030 educate 10 million young people, parents and teachers on the dangers of underage drinking	210,443$^{\Delta}$ Total to date: 1.2m[2]
By 2030 promote changes in attitudes to drink driving, reaching five million people	9,859
By 2030 reach one billion people with dedicated responsible drinking messages	367m

Definition
We report against three indicators for positive drinking as defined above.

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 approach to positive drinking in 2018 and we refreshed our targets in November 2020 as part of the launch of our 'Society 2030: Spirit of Progress' strategy.

More detail on page 38

Inclusion and diversity[3] CVC CT EP R

Percentage of female leaders globally	42%$^{\Delta}$
Percentage of ethnically diverse leaders globally	37%$^{\Delta}$

Definition
The percentage of women who are in Diageo leadership roles and the percentage of ethnically diverse individuals who are in Diageo leadership roles.

Why we measure
An inclusive and diverse culture is central to our purpose of 'Celebrating life, every day, everywhere'. As well as being the right thing to do, having the best and most diverse talent drives innovation and commercial performance.

Performance
This year 42%$^{\Delta}$ of our leadership roles were held by women, compared with 39% last year. This year we measured the percentage of ethnically diverse individuals in Diageo leadership roles for the first time.

More detail on page 38

Carbon emissions[4] (1,000 tonnes CO_2e) CVC CT EP R

481$^{\Delta}$

2021	481
2020	507
2019	552
2018	588
2017	593

Definition
Absolute volume of Scope 1 and 2 carbon emissions, in 1,000 tonnes.

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

Performance
Carbon emissions reduced by 5.1%$^{\Delta}$ in 2021. Ongoing displacement of fossil fuels and energy efficiency gains are the principal drivers of the reductions.

More detail on page 45

Our strategic outcomes:
- EG Efficient growth
- CVC Consistent value creation
- CT Credibility and trust
- EP Engaged people

R **Remuneration:** Some KPIs are used as a measure in the incentives plans for the remuneration of executives. See our Directors' remuneration report from page 104 for more detail.

1. 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
2. The baseline year for our 'Society 2030: Spirit of Progress' goals is 2020 unless otherwise stated. For our target to educate 10 million young people, parents and teachers on the dangers of underage drinking the baseline year is 2018.
3. In this section this year we have included two new non-financial key performance indicators on inclusion and diversity. These two measures demonstrate progress against our strategic priority to champion inclusion and diversity, which is also a core

Free cash flow (£ million)[1]

EG R

3,037m

2021	3,037
2020	1,634
2019	2,608
2018	2,523
2017	2,663

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.

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.

Free cash flow increased by £1,403 million to £3,037 million, primarily driven by an increase in operating profit, working capital management and higher dividends from joint ventures and associates.

More detail on page 57

Return on average invested capital (ROIC) (%)

CVC

13.5%

2021	13.5
2020	12.4
2019	15.1
2018	14.3
2017	13.8

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

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.

ROIC increased 113bps against the prior comparable period driven mainly by organic operating profit growth, partially offset by increased tax and unfavourable exchange.

More detail on page 57

Total shareholder return (%)

CVC R

32%

2021	32
2020	(19)
2019	27
2018	23
2017	12

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

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

TSR was up 32% over the past 12 months driven by the higher year on year share price.

More detail on page 57

Water efficiency[5] (l/l)

CVC CT EP R

4.30l/l$^{\Delta}$

2021	4.30
2020	4.66
2019	4.71
2018	4.86
2017	4.90

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

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.

Water efficiency improved by 7.7%$^{\Delta}$ compared to 2020. This resulted from a fully commissioned water recovery and reuse plant at Uganda Brewery and overall improved water use rates in Nigeria and at a number of other locations.

More detail on page 39

Employee engagement (%)

CT EP

81%

2021	81
2020	N/A[6]
2019	75
2018	76
2017	75

Measured through our Your Voice survey; includes metrics for employee satisfaction, advocacy and pride.[7]

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.

This year 85% of our people completed our Your Voice survey. 81% were identified as engaged. 89% declared themselves proud to work for Diageo, 81% would recommend Diageo as a great place to work and 74% were extremely satisfied with Diageo as a place to work.

More detail on page 22

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

CT EP

1.03$^{\Delta}$

2021	1.03$^{\Delta}$
2020	0.60
2019	0.98
2018	1.00
2017	1.14

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.

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.

After sustaining less than one lost-time accident (LTA) per 1,000 employees in 2019 and 2020, this year the LTA frequency rate increased from 0.60 to 1.03$^{\Delta}$, largely due to an increase in incidents at our sites in Europe. This year's rate of 1.03$^{\Delta}$ is broadly in line with our performance prior to 2020. The severity rate of these LTAs, which measures the seriousness of the incident and time off work, reduced by 11.9% globally.

More detail on page 42

pillar of our 'Society 2030: Spirit of Progress' strategy. We have reported on the percentage of female leaders globally since 2016, the percentage of ethnically diverse leaders globally is being reported on for the first time this year.

4. In accordance with Diageo's environmental reporting methodologies and WRI/WBCSD GHG Protocol, data for the baseline year 2020 and for the three years in the period ended 30 June 2019 has been restated where relevant
5. In accordance with Diageo's environmental reporting methodologies, data for the baseline year 2020 and each of the three years in the period ended 30 June 2019 has been restated where relevant
6. Because of the Covid-19 pandemic, in 2020 we did not run a full Your Voice survey. Instead we used a pulse survey tool to listen to employees' feedback and learn from their experiences of working during the pandemic. We therefore do not have a comparable employee engagement metric for 2020.
7. This year we updated the way we measure employee engagement in our Your Voice survey to bring it in line with standard practice. When the 2019 employee engagement index score from the Your Voice survey is recalculated based on the three questions we used in 2021 (satisfaction, advocacy and pride), as opposed to the four we used in 2019 (satisfaction, advocacy, pride and loyalty) the difference is a one percentage point increase.

Δ Within PwC's limited assurance scope. See page 201 for further details.

Performing against our 2030 targets[1]

Target by 2030	KPI	Commentary
Promote positive drinking		
Champion health literacy and tackle harm through DRINKiQ in every market where we live, work, source and sell SDG alignment: 3.4; 3.5; 17.16	Number of markets that have launched DRINKiQ **29**	We launched an updated version of our DRINKiQ platform this year, with comprehensive information on alcohol and health and a new screening tool to identify whether users are drinking at higher risk levels. By the end of June 2021, we had 33 sites live in 29 geographies. Some have sites in more than one language, including the United States, where DRINKiQ is available in English and Spanish.
Scale up our SMASHED partnership, and educate 10 million young people, parents, and teachers on the dangers of underage drinking SDG alignment: 3.5; 12.8; 17.16	Number of people educated on the dangers of underage drinking through a Diageo supported education programme **210,443[Δ]**	SMASHED began as a live theatre-based education programme in 2005. We sponsored the development of SMASHED Online this year to include interactive activities that help educate young people about the dangers of underage drinking. Where Covid-19 restrictions allowed, we ran SMASHED Live in a number of countries and this year we launched SMASHED Online in five countries, reaching 35,420 people so far. Survey data shows that of the 210,443[Δ] educated this year, 195,544[Δ] or 93% confirmed changed attitudes on the dangers of underage drinking following participation in a Diageo supported education programme. We have educated a total of 1.2 million people since 2018.
Extend our UNITAR partnership and promote changes in attitudes to drink driving reaching five million people SDG alignment: 3.5; 3.6; 12.8; 17.16	Number of people educated about the dangers of drink driving **9,859**	This year we educated 9,859 people about the dangers of drink driving. We developed an innovative new drink drive online module which aims to change attitudes about drink driving. We launched 'The Wrong Side of the Road' initiative in Great Britain in May 2021. While Covid-19 delayed its roll out in many markets, we aim to scale the programme quickly over the next 12 months.
Leverage Diageo marketing and innovation to make moderation the norm – reaching one billion people with dedicated responsible drinking messaging SDG alignment: 3.5; 12.8; 17.16	Number of people reached with responsible drinking messages from our brands **367m**	We reached 367 million people this year, reflecting both significant progress towards our 2030 goal and enhanced data capture and measurement. We moved to a more systemic process of measurement led by our media partners OMG, leading to increased data capture, which has driven a significant increase in our reported performance. Setting market-level targets helped drive progress. A leading contribution came from Latin America, with Mexico delivering a cross-brand campaign from Smirnoff, Johnnie Walker, Don Julio and Black & White which reached over 46 million consumers.
Champion inclusion and diversity		
Champion gender diversity with an ambition to achieve 50% representation of women in leadership roles by 2030[2] SDG alignment: 5.5; 8.1; 10.2; 10.4	Percentage of female leaders globally **42%[Δ]**	Each of our markets has stretching multi-year inclusion and diversity plans which include a focus on developing a strong pipeline of female talent. We have exceeded our previous female leadership representation goals (35% by 2020 and 40% by 2025) and have set a further ambitious goal, aiming for 50% female leadership representation by 2030. This year, 42%[Δ] of our leadership roles were held by women.
Champion ethnic diversity with an ambition to increase representation of leaders from ethnically diverse backgrounds to 45% by 2030[2] SDG alignment: 10.2	Percentage of ethnically diverse leaders globally **37%[Δ]**	We have identified ethnicity as a global inclusion and diversity priority, defining similarly ambitious goals for ethnic diversity as we have for gender. This year we created and launched a progressive Ethnic Diversity Framework to support our markets in creating plans that cover talent representation and development, supplier ethnic diversity and inclusive marketing. We aim to increase representation of leaders from ethnically diverse backgrounds to 45% by 2030. Currently voluntary ethnicity data collection is live in 61 countries where it is legally permissible. In these countries over 80% of employees across all levels have disclosed their ethnicity information confidentially. 37%[Δ] of leadership roles are currently held by people from ethnically diverse backgrounds.
We will use our creative and media spend to support progressive voices, measuring and increasing the percentage spend year on year SDG alignment: 5.5; 5B; 10.2; 10.4	Measurement and evaluation framework under development	This year we updated our Progressive Portrayal framework to be at the forefront of breaking stereotypes in advertising for gender, race, sexuality and age, and have used the framework to train nearly 2,000 internal and external people so far. We continue to break boundaries and work with inclusive talent that reflects our broad consumer base – for instance with Guinness's Never Settle campaign, which launched in May 2021 to redress the imbalance of coverage of women's rugby. We continue to work with our advertising agencies and partners to ensure our creative teams are as diverse as the consumers who enjoy our products. We are in the third year of collecting insight about the makeup of our agency workforce and have now gone beyond gender to also look at ethnicity and age. We continue to partner with Creative Equals globally on the Creative Comeback programme and work with the Unstereotype Alliance. We have committed to a multi-million sterling media investment over the next two years to media platforms and publishers who are working to make mainstream media more diverse and inclusive. We are currently developing a robust measurement and evaluation framework for this target and will be reporting quantitatively against it in the future.

Target by 2030	KPI	Commentary
Accelerate inclusion and diversity in our value chain, measuring and increasing the percentage of Diageo suppliers from female and minority owned businesses year on year[2] SDG alignment: 5.5; 5B; 10.2; 10.4	Percentage of suppliers with female and minority ownership **N/A**	We aim to build a robust and sustainable supplier base that reflects the regions in which we operate. We are measuring and increasing the percentage of diverse-owned and -operated suppliers, year on year. We provide equal opportunities to all suppliers to compete for our projects. We are developing our Supplier Diversity programme by leveraging the best practice from our work in North America over the past six years (where we more than doubled our spend with diverse suppliers) and extending the programme and targets to all markets. We aim to report on this next year. We are also looking at ways to work collaboratively with suppliers and agencies to drive greater diversity within their organisations. We are currently developing a robust measurement and evaluation framework for this ambition and will be reporting quantitatively against it in the future.
Provide business and hospitality skills to 200,000 people, increasing employability and improving livelihoods through Learning for Life (L4L) and our other skills programmes SDG alignment: 4.4; 8.1; 8.6; 10.2; 17.16	Number of people reached through L4L and other skills programmes **8,631**	This year we reached 8,631 people through our skills programmes. Covid-19 had a devastating effect on the hospitality sector, but we were able to continue to deliver our L4L programme where it was most needed. We pivoted our programmes to work online, in partnership with our network of charities and training providers, to allow us to continue to provide effective support. The success of the programme in helping to build careers in hospitality was highlighted with Bianca Lima, a 2019 L4L graduate, becoming the champion of cocktail competition Diageo World Class™ in Brazil.
Through the Diageo Bar Academy we will deliver 1.5 million training sessions providing skills and resources to help build a thriving hospitality sector that works for all SDG alignment: 4.4; 8.1; 8.6; 10.2; 17.16	Number of training sessions delivered through Diageo Bar Academy **113,447**	We delivered 113,447 skills training sessions to hospitality industry workers (owners, managers, bartenders and waiting staff) through Diageo Bar Academy (DBA) this year. DBA has various ways to deliver courses (physical training, virtual training, e-learnings and master classes). This year, virtual training became increasingly important and enabled us to continue to reach and upskill people. We modified many of our courses to help address the unique challenges of continued industry lockdowns and re-openings, including training for businesses on adapting their infrastructure to keep employees and customers safe. DBA also supports the development of a more diverse and inclusive hospitality sector: we have increased the participation of women in DBA training, and run women-only training sessions in Africa and India.
Ensure 50% of beneficiaries from our community programmes are women and our community programmes will be designed to enhance ethnic diversity and inclusion of underrepresented groups SDG alignment: 5.5; 5A	Percentage of beneficiaries of our community programmes who are women **51%**	This year 51% of beneficiaries from community programmes were women. Currently we include female beneficiaries from registered skills programmes, where we can accurately track the gender of participants through their registrations. In the future, we plan to use qualitative impact assessment protocols (QUIP) where it is currently challenging to accurately measure female beneficiaries, such as for water sanitation and hygiene programmes. We are also researching the best way to support people from ethnically diverse backgrounds in the hospitality sector.

Pioneer grain-to-glass sustainability: Preserve water for life

Target by 2030	KPI	Commentary
Reduce water use in our operations with a 40% improvement in water use efficiency in water-stressed areas and 30% improvement across the company SDG alignment: 6.4	Percentage improvement in litres of water used per litre of packaged product **7.7%Δ**	We delivered a 7.7%Δ improvement in water efficiency this year and cumulatively, water-use rates have improved by over 53% since our water stewardship programme began in 2007. Water efficiency improved by 12.1% in water-stressed areas. In addition, the volume of water we recycled or reused in our own production was 843,115m^3, representing 5% of total water withdrawals. The Africa region's water stewardship work has been particularly successful this year. Key water recycling and reuse facilities are now operational in Kenya and Uganda, and we have begun construction of water recycling facilities in both our Nigerian sites. This year, 33,830m^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.
Replenish more water than we use for our operations for all of our sites in water-stressed areas by 2026 SDG alignment: 6.1; 6.2; 6.6; 6B; 15.1	Percentage of water replenished in water-stressed areas **12.7%**	Our refreshed water replenishment programme had a strong year despite the challenges of implementation in areas under lockdown. We exceeded our target for the year, completing a total of 20 projects in nine countries, which replenished 583,656m^3 of water, representing 12.7% of our target for 2026. Given the importance of handwashing during the Covid-19 pandemic, we prioritised WASH projects (see below), but we also completed tree planting, dam desilting, drip irrigation and aquifer recharge projects in water-stressed catchments where we operate or source raw materials.
Invest in improving access to clean water, sanitation, and hygiene (WASH) in communities near our sites and local sourcing areas in all of our water-stressed markets SDG alignment: 6.1; 6.2; 6.6; 6B; 15.1	Percentage of water-stressed markets with investment in WASH **89%**	The Covid-19 pandemicΔ made it an especially important year for implementing WASH projects in vulnerable communities. As part of our replenishment programme we completed 13 WASH projects in seven countries: Tanzania, Nigeria, Ghana, Uganda, Ethiopia, Kenya and South Africa. 54,691 people benefitted from these WASH projects this year.

1. All baselines for our 'Society 2030: Spirit of Progress' 2030 targets and ambitions are 2020, unless otherwise stated
2. Statements on representation are ambitions for Diageo and should not be considered a target

Δ Within PwC's limited assurance; see page 201 for further details

Target by 2030	KPI	Commentary
Engage in collective action in all of our priority water basins to improve water accessibility, availability and quality and contribute to a net positive water impact SDG alignment: 6.1; 6.2; 6.5; 6.6; 6A; 6B	Percentage of priority water basins with collective action participation **15%**	We have built on our history of participation in collective action by creating a new, structured collective action programme that is fundamental to our water and climate change risk strategies. Our assessment identified 13 priority water basins in 11 countries on four continents, based on water risk and strategic importance to our business. We have developed detailed guidance on collective action for our markets, consulting with key external stakeholders and we have made our guidelines open source to encourage adoption by more companies. We are participating in collective action in two priority water basins. In the Santiago/Lerma basin in Mexico we joined a new initiative called 'Charco Bendito' comprising many food and beverage companies. In the Spey basin in Scotland we continued our support for the multi-stakeholder Spey Catchment Initiative.

Pioneer grain-to-glass sustainability: Accelerate to a low carbon world

Target by 2030	KPI	Commentary
Become net zero carbon in our direct operations (Scopes 1 and 2) SDG alignment: 7.2; 7.3; 12.6; 13.3	Percentage reduction in absolute GHG ($ktCO_2e$) **5.1%Δ**	Diageo's total direct and indirect carbon emissions (location/gross)[1] this year were 691,999Δ tonnes (2020 – 702,204 tonnes), comprising direct emissions (Scope 1) of 549,469 tonnes (2020 – 568,720 tonnes), and indirect (Scope 2) emissions of 142,530 tonnes (2020 – 133,484 tonnes). The intensity ratio for this year was 177Δ grams per litre packaged (2020 – 195 grams per litre packaged).[1] This year we reduced GHG emissions by 5.1%Δ, building on our 2020 achievement of a 50% reduction in absolute emissions. This emissions reduction was despite a year-on-year increase of 9.9% in packaged volume and 16.3% in distilled volume. As markets opened back up after lockdown restrictions, there have been some increased emissions associated with production growth, especially from sites in Africa, Mexico and the United Kingdom. Reductions were driven by increased use of on-site renewable energy, particularly in India and the use of renewable energy attribute certificates, including through green gas certificates generated by converting distillery co-products. Some capital investments were delayed in this financial year due to lockdown restrictions but the associated benefits are on track to be delivered in the next financial year. Our annual targets to achieve net zero by 2030 in Scope 1 and 2 emissions have been calculated in accordance with the principles of Science Based Targets initiative (SBTi) and have been submitted to the SBTi for validation. This year we have made progress in line with our expectations and are on track to achieve this goal. Our Scope 3 target of net zero by 2050 is also aligned with the principles of the SBTi.
Reduce our value chain (Scope 3) carbon emissions by 50%[2,3] SDG alignment: 7.2; 7.3; 7A; 12.6; 13.3; 17.16	Percentage reduction in absolute GHG ($ktCO_2e$) **(2.1)%**	Our new target of reducing Scope 3 emissions by 50% by 2030 and achieving a net zero value chain by 2050 or sooner triggered a comprehensive review of our total value chain footprint and associated emissions. Consequently, we re-set our baseline, incorporating additional categories of Scope 3 upstream and downstream emissions. This year our value chain Scope 3 emissions increased by 2.1%. This was mainly due to increased production and its associated increased use of raw materials, packaging, third-party operations and neutral spirit sourcing, as well as a relatively depressed new baseline year of 2020, which was affected by Covid-19. We remain committed to accelerating progress on reducing total value chain emissions and working collaboratively with our suppliers and partners in future years. We have added the Scope 3 target to our Partnering with Suppliers standard, which is reflected in our procurement contracts.
Use 100% renewable energy across all our direct operations SDG alignment: 7.2; 7A; 17.16	Percentage of renewable energy across our direct operations **36.0%**	Our total renewable energy increased to 36% this year, an increase of 2.6% on the prior year. The main drivers of this progress are programmes switching from fossil fuel to renewable sources, including wider use of biomass and renewable electricity. 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, 66.4% of electricity consumed was from renewable sources such as wind, hydro and solar (2020: 66%), exceeding our 2025 interim target of 50%. In the United Kingdom, 100% of our electricity came from renewable sources.

Pioneer grain-to-glass sustainability: Become sustainable by design

Target by 2030	KPI	Commentary
Achieve zero waste in our direct operations and zero waste to landfill in our supply chain SDG alignment: 12.5; 12.6	Percentage reduction in total waste to landfill (tonnes) **97.5%Δ**	We maintained zero waste to landfill[2] at all our supply and office sites through continuous improvement, ongoing segregation of materials at our sites and close collaboration with partners. This year we started to identify and baseline our waste to landfill footprint in supply chains. We have also added the target to our Partnering with Suppliers standard, which is reflected in our procurement contracts.

Target by 2030	KPI	Commentary
Continue our work to reduce total packaging and increase recycled content in our packaging (delivering a 10% reduction in packaging weight and increasing the percentage recycled content of our packaging to 60%)	Percentage reduction of total packaging (by weight) **(3.6)%**	As a result of the on-trade closures due to Covid-19, there was an increase in the use of cans rather than returnable kegs which resulted in an increase in our overall packaging weight of 3.6%. Aside from this challenge, our work with Pulpex on a paper-based bottle has demonstrated the potential to reduce the packaging weight of a bottle by 95%, which we anticipate will debut with Johnnie Walker in fiscal 23. This and other innovative approaches will be central to delivering this target.
	Percentage of recycled content (by weight) **42.8%**	The recycled content in our packaging was 42.8%, a decrease of 3% compared with last year because less 'cullet' (recycled glass) was available in our main markets. Over 85% of our finished packaged product uses glass and glass recycling infrastructure has been severely impacted by Covid-19.
Ensure 100% of our packaging is widely recyclable (or reusable/compostable) SDG alignment: 12.2; 12.6	Percentage of packaging recyclable (by weight) **99.5%**	The application of the 'widely recyclable' definition across all our markets will require some further work to embed a universal definition for subsequent years' reporting. As last year, 99.5% of our packaging is recyclable by our previous definition. The remaining non-recyclable components are currently either technically or operationally not replaceable, and we continue to explore alternatives for these residual materials.
Achieve 40% average recycled content in our plastic bottles by 2025 (and 100% by 2030)[4] SDG alignment: 12.5; 12.6	Percentage of recycled content/ percentage of plastics used **5.4%**	We have made solid progress with 5.4% recycled content in all plastic (PET) bottles globally and we have moved certain formats to 100% recycled content. While just 2% of our packaging is made from PET, we nonetheless consider this an important target.
Ensure 100% of our plastics is designed to be widely recyclable (or reusable/ compostable) by 2025[4] SDG alignment: 12.5; 12.6	Percentage of recyclable (or reusable/ compostable)/ percentage of plastic used **66.8%**	We are encouraged by the innovative approach in our South Africa market to ensure our Smirnoff and Captain Morgan PET formats were adapted to enable the PET bottles to be widely recyclable or reusable. This contributes to the PETCO initiative in market where 56,500 tonnes of PET was collected for reuse. The remaining non-recyclable plastic components are challenging to displace, however we will continue to explore alternatives. This year, we created a set of Global POS (point-of-sale) Sustainable Guidelines for our marketing teams which will be fully implemented next year. We reduced the use of single use plastic cups in Europe, moved to 100% recycled and recyclable paper in North America with our key POS supplier, and reduced material waste and obsolescence within our warehouses.
Provide all of our local sourcing communities with agricultural skills and resources, building economic and environmental resilience (supporting 150,000 smallholder farmers) SDG alignment: 2.3; 2.4; 8.3; 12.2; 12.3	Number of smallholder farmers who we have provided with, or facilitated access to, initiatives providing agricultural skills and a minimum of three inputs **N/A**	On-farm practices in our farmer network vary widely in maturity. Some growers already use sustainable and regenerative practices, while others still need to adapt. Moving to regenerative agriculture across this network is a substantial step requiring understanding and planning, and we have focussed this year on building our strategy and engaging market teams through a new Regenerative Agriculture Community of Practice to share learnings and build capability. We are also building a baseline of supplier and market maturity and assessing the materiality of issues to create implementation plans for next year and beyond. We have developed a number of tools which will be rolled out to suppliers and farmers. We are currently developing a robust measurement and evaluation framework for this target and will be reporting quantitatively against it in the future.
Develop regenerative agriculture pilot programmes in five key sourcing landscapes SDG alignment: 15.2; 15.3; 15.5; 15A; 17.16	Number of regenerative agriculture pilot programmes active **N/A**	To help suppliers and farmers overcome potential barriers, we will partner with them to implement regenerative, on-the-ground projects that help test new farming approaches and practices, measure impacts, and disseminate learnings. To make these initiatives effective, we are working on understanding where our current grower groups are operating, what practices they may be considering adopting, and where we can best support them in partnership and collaboration with others. We are exploring new technologies that will allow us to plan, define and frame pilot programmes. One example is a collaboration project targeting our growers in Scotland and Ireland, which aims to gather on-farm data using satellite imagery and deep data analysis to establish a baseline of existing carbon footprint and other on-farm environmental metrics. We are currently developing a robust measurement and evaluation framework for this target and will be reporting quantitatively against it in the future.

1. 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
2. Please refer to our reporting methodologies for more information on how data has been compiled, including standards and assumptions used
3. A comprehensive review of Scope 3 categories has increased the fiscal 20 baseline to 4,87 $MtCO_2e$
4. These targets were introduced in 2018

Δ Within PwC's limited assurance; see page 201 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 includes embedding our commitment to business integrity and respect for human rights into the way we work, every day, everywhere. We consider health and safety as a fundamental human right – and at an operational level 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. We are continuing to embed human rights into every function of our business, in every market, 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 business integrity. 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 due diligence and 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 measures including awareness programmes focussed on child protection and training for a variety of internal and external stakeholders on modern slavery risks. We have also developed standards and training in all our markets aimed at protecting brand promotion teams from harassment.

We describe our human rights approach and performance in more detail in our ESG Reporting Index. We publish our Modern Slavery Statement on our website.

Strengthening our approach

Embedding human rights is a continuous and evolving process. We have now carried out 19 HRIAs since we began our programme in 2015. In previous years we have conducted HRIAs in Kenya, Ghana, Mexico, Brazil, Thailand, Turkey, Uganda, Colombia, the United Kingdom, Guatemala, Tanzania, Nigeria, South Africa, China, North America (United States/Canada) and Australia. This year, we carried out HRIAs in the Middle East (second phase), PEBAC (Peru/Ecuador/Bolivia/Argentina/Chile), and North Asia (South Korea/Japan), and the second phase in India was in progress as this report was published. These last four HRIAs were delayed from 2020 as a result of Covid-19.

During the pandemic we developed a robust desk-based approach to HRIAs. This included an in-depth review of the human rights context relevant to our operations and value chain in each country, a detailed scoping of our operations and value chain, and the development of an information gathering tool, and follow-up interviews as needed. All our HRIA reports include an action plan to address identified risks and an action plan for their delivery.

Following on from the completion of the extensive human rights due diligence across our business and value chain through the HRIA programme, we are now working to further embed our human rights approach across all aspects of our business. This year that included further embedding our 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.

Health and safety

Our global health and safety strategy aims to take a holistic approach to the wellbeing, as well as 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.

Last year we introduced a new, broader total recordable accident frequency rate (TRAFR) metric, with the aim of achieving a TRAFR performance of 3.5 or less. Our TRAFR helps us identify and analyse the root causes of all levels of accidents and near misses, which enables us to predict and prevent more serious accidents and illnesses. This year we have sustained a TRAFR performance of 1.98 at a global level, an improvement from 2.12 last year.

After sustaining less than one lost-time accident (LTA) per 1,000 employees in 2019 and 2020, this year the LTA frequency rate increased from 0.60 to 1.03[Δ], largely due to an increase in incidents at our sites in Europe. This year's rate of 1.03[Δ] is broadly in line with our performance prior to 2020. The severity rate of these LTAs, which measures the seriousness of the incident and time off work, reduced by 11.9% globally.

We have introduced a new global governance structure and approach to co-ordinating our health and safety strategy across the business. This blends local ownership and agility with global oversight of trends, enabling sharing of best practice and policies.

There is no acceptable level of accidents and we want to continue to encourage safe behaviour among all our people. A core part of our strategy is to identify and leverage the best available health and safety practices, technologies and systems to effectively interrogate data.

We continue to build our people's capabilities to provide them with the most up-to-date health and safety skills and knowledge to consistently carry out their roles safely. We are also committed to working in partnership with our contractors and third-party providers to ensure they are equally committed to our Zero Harm ambition.

We have taken a strategic approach to managing the ongoing Covid-19 pandemic and successfully implemented new protocols and safe ways of working across the business, including in offices, production facilities, commercial premises and among our new remote working population.

The global pandemic has been a physical and emotional challenge for all our people for a variety of reasons. This year Diageo's annual Your Voice survey included questions on wellbeing, which gave us additional insights into the progress we are making in this area, as described in Our people on page 22. We have also created a new, dedicated health and wellbeing channel in our learning management system, which provides tools and resources to help our people manage their own specific needs.

2021 safety data by region

Region	Employee LTA rate	Employee TRA rate	Independent contractor	LTAs[1]	Fatalities[2]
North America	1.14	2.07	0	3	0
Europe and Turkey	2.44	3.21	3	25	0
Africa	0.25	1.12	5	2	0
Latin America and Caribbean	1.06	2.16	4	3	0
Asia Pacific	0.33	1.80	3	4	0
Diageo (total)	**1.03Δ**	**1.98**	**15**	**37**	**0**

1. We do not report an LTA rate for independent contractors due to the difficulty and administrative burden in accurately recording headcount
2. 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

Δ Within PwC's independent limited assurance scope, see page 201

Our Life Saving Rules: 11 ways to make our people safer

We want everyone to go home safe and healthy, every day, everywhere. That means constantly reinforcing the behaviours that have made us an industry leader on safety – and going further until we reach our ambition of zero harm.

This year we found a new way to bring our health and safety culture to life for our people – through our Life Saving Rules programme. Launched in every market, Life Saving Rules focusses on the 11 key behaviours that can prevent the worst kinds of accidents – what are known as severe and fatal incidents.

The rules are built around the activities we have identified as highest risk, such as driving on roads, working at height, and entering confined spaces, and outline the key safe behaviour expectations for our employees to understand and adopt as part of their working day. We brought the message home through booklets, posters, t-shirts, display screens, videos, virtual engagements and face-to-face training, and teams at our local sites focus on communicating a specific rule each month.

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 every day, everywhere.

Our global Code of Business Conduct, available in 20 languages, 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 on our Code of Business Conduct and key global policies, which includes an integrated Annual Certification of Compliance (ACC) for all managers and their direct reports, encompassing a total of 15,002 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.

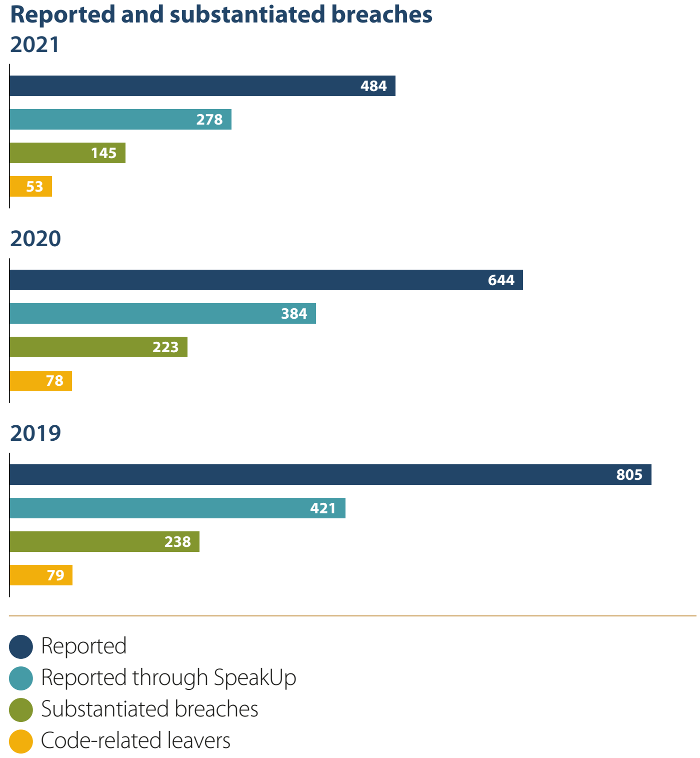
Another area of potential compliance risk is our interactions with third parties. Our Know Your Business Partner programme is designed to help us evaluate the risk of doing business with a third party prior to entering a contractual relationship, as well as monitor for any changes throughout our interactions. This year we refreshed our third-party risk programme to include additional mitigations to the increased risk of economic sanctions. We assess all our business partners for potential economic sanctions and compliance risks such as bribery and corruption, money laundering, facilitation of tax evasion, data privacy or other reputational red flags and implement additional due diligence processes on those parties 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 of Business Conduct 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 484 allegations of breaches were reported. Whilst on an annual basis we saw a decline in allegations versus last year, due to increased virtual working as a result of the pandemic, we are noting that the reporting levels are slowly going back to pre-pandemic levels. The substantiation rate of allegations has slightly increased compared to last year with 39% of cases confirmed as a breach.

All allegations are taken seriously, investigated and where required consequence management is performed. We monitor all breaches to identify trends and root causes where further action may be required. This year 53 people exited the business as a result of breaches of our Code of Business Conduct or policies versus 78 people last year. The reduced number of breach leavers is due to a reduction in severity and type of breaches this year.

Reported and substantiated breaches



Our ESG reporting approach

Reporting transparently on the environmental, social and governance (ESG) issues that affect our business and that our business creates plays a vital role in delivering our strategy. It helps us to manage ESG risks, seize opportunities and promote sustainable development everywhere we live, work, source and sell.

Our ESG reporting suite aims to provide comprehensive and comparable disclosures for a broad range of stakeholders. As well as publishing our integrated Annual Report and ESG Reporting Index at the year-end, we also submit non-financial information to benchmarking and index organisations throughout the year, including those listed on page 3 of our ESG Reporting Index.

The non-financial reporting space is evolving quickly. We are committed to continual evaluation and improvement of our approach and to actively track emerging ESG frameworks and good practice.

How we report to our stakeholders – our reporting suite

Annual Report Where we present our most material disclosures and describe how our strategy delivers value for our business and other stakeholders.

Diageo.com Where, through the 'Society 2030: Spirit of Progress' section, we give further details of our approach and performance, including examples of our strategy in action.

ESG Reporting Index Where we give additional disclosures in line with the GRI Standards index and the UNGC advanced reporting criteria index, plus our response to the Sustainability Accounting Standards Board (SASB). This document also includes detailed non-financial reporting boundaries and methodologies.

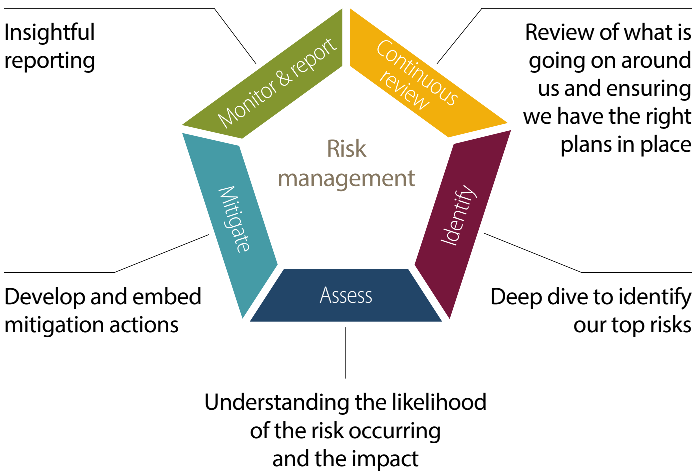
Who are our stakeholders? Everyone who is affected by our business, and everyone who affects it, is a stakeholder. A detailed description of our stakeholder engagement process is on pages 20-21 of our Annual Report.

Non-financial information statement

Focus area	Relevant policies and standards	Read more in this report	Page
Promote positive drinking	– Marketing and Digital Marketing Policy – Employee Alcohol Global Policy – Position papers	– Promote positive drinking – Performing against our 2030 targets	30-31 38-41
Champion inclusion and diversity **Our people**	– Code of Business Conduct – 2020 Gender Pay Gap Report – Human Rights Global Policy	– Champion inclusion and diversity – Our people – Performing against our 2030 targets	32-33 22 38-41
Pioneer grain-to-glass sustainability	– Environmental Global Policy – Sustainable Agriculture Guidelines – Sustainable Packaging Commitments – Partnering with Suppliers standard	– Pioneer grain-to-glass sustainability – Performing against our 2030 targets – Responding to climate-related risks	34-35 38-41 50-55
Human rights	– Human Rights Global Policy – Modern Slavery Statement – Global Brand Promoter Standard	– Doing business the right way from grain to glass	42-43
Health and safety	– Health, Safety and Wellbeing Global Policy	– Doing business the right way from grain to glass	42-43
Anti-bribery and corruption	– Code of Business Conduct	– Doing business the right way from grain to glass	43
Our contribution to the UN Sustainable Development Goals		– Performing against our 2030 targets	38-41

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. We regularly review and refresh our principal risks, our risk appetite and our approach to risk management. Our approach is also structured to ensure that all reasonable steps are taken to mitigate, but not to eliminate, our principal risks in this context.

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.

Our Executive Audit & Risk Committee regularly assesses risk, and the Board independently reviews the assessment. This Committee meets quarterly and receives 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 use expert advice where necessary to ensure significant risks are effectively managed and, where appropriate, escalated to the Executive and Board for consideration. This year we implemented an integrated risk management tool across the business to enhance our risk management process.

Further details about our risk management approach are described in the Corporate governance report on page 97 and in the Audit Committee report on pages 99-101

Our principal risks

The Executive and Board considered the group's principal risks and 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.

Risks that can be partially mitigated through insurance are also identified and evaluated. We focus our insurance resources on the most critical areas or where there is a legal requirement, seeking a balance between retained risk and risk transfer. As insurance markets are getting tighter this is an area we continue to monitor.

The Board considers principal risks to be the most significant risks faced by the group, including those that are the most material to our performance and that could threaten our business model or future long-term performance, solvency or liquidity. They do not comprise all the risks associated with our business and are not set out in priority order. Additional risks not known to management, or currently deemed to be less material, may also have an adverse effect on the business.

We have reviewed and updated the descriptions, risk outlooks and mitigating actions of our principal risks. The overall level of risk, despite mitigation efforts, is increasing in line with significant external threats such as digital revolution, climate change, geopolitical risks and the resulting surge of global uncertainty in many areas. Pandemics was elevated from an emerging risk in the prior year to a principal risk this year to reflect the increased impact and mitigations needed to manage this risk. Counterfeit, previously grouped with Product Quality risk, is now shown separately.

Update to the response to the Covid-19 pandemic

The World Health Organization declared Covid-19 a global pandemic in March 2020. Unprecedented restrictive measures were put in place worldwide to help prevent the spread of the disease to ensure safety and wellbeing, protect health services and attempt to stabilise economies.

The pandemic has continued to create uncertainty; however, as vaccination rollouts progress and our understanding and agility in managing through preventative measures has grown, the outlook is more optimistic. While our approach to risk mitigation and assessing risk appetite has not changed materially as a consequence of the Covid-19 pandemic, certain of our principal risks have been revisited in the light of the potential impact of the pandemic on those risks. In addition, the impact and developments concerning Covid-19, including the pace of recovery in different geographies, are articulated in our new Pandemic principal risk.

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 and Enterprise Risk Management teams undertake 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 period. Emerging risks we are monitoring include changes to the global socio-economic landscape.

Global socio-economic landscape

The human and economic cost of Covid-19 is significant with increased poverty and numerous job losses versus pre-pandemic levels. These factors as well as others are contributing to increased social inequities and widening the wealth gap between demographics. We are monitoring the potential impact of this on our consumer base and their buying preferences.

For more information on our market dynamics and our strategic priorities and outcomes please see pages 14-17

Risk & impact	How we mitigate	Developments in 2021
1 **Cyber threats** Risk outlook: Increasing EG CVC CT EP V Sophisticated cyber and IT threats, including those facilitated through breaches of internal policies and unauthorised access, could lead to theft, loss and misappropriation of critical assets and/or personal data and disruption to core business operations including manufacturing and supply, resulting in financial loss, significant fines and reputational damage.	– Enterprise-wide cyber risk management processes and policies. – Our employees engage in mandatory global e-learning and regular phishing exercises. – We have deployed next-generation security technologies to tackle advanced attacks. – We have multi-factor authentication, single sign-on and privileged access management for sensitive applications. – Enhanced cloud security measures are in place. – We have strong operating procedures to ensure our cyber incident response readiness.	– Ransomware attacks against high-profile peers are becoming more frequent. The pace and sophistication of the attacks are faster and more widespread than ever before. In response, while full mitigation is not possible, we have acted quickly to further strengthen our security posture in both IT and operational technologies environments. We perform regular cyber crisis simulation drills to enhance overall readiness to respond to cyber-attacks and serious data breaches and perform penetration testing to help identify and fix security vulnerabilities to continuously improve the risk posture across our networks and systems. – Successfully implemented additional security measures enabling secure working from home environments. – Our employees continue to improve capability in recognising and reporting security incidents, as a result of focussed cyber training.
2 **Climate change, sustainability & responsibility** Risk outlook: Increasing EG CVC CT EP V Physical and transition climate change risks including water stress and increased regulation, as well as inability to meet sustainability goals, could reduce revenues and profits. These risks could also impact trust and reputation amongst consumers, investors and other stakeholders.	– Resource scarcity issues identified and mitigated, especially within agricultural ingredient sourcing and manufacturing, water and energy. – 'Society 2030: Spirit of Progress' strategy launched and operationalised to deliver against key targets and longer-term goals. – Water blueprint defined and operationalised in water-stressed locations. – Communications programmes in place to share impact, strengthen reputation and support advocacy platform.	– Extreme weather, climate action failure and human-led environmental damage continue to top the list of the globe's highest risks with regulations and government interventions expected to continue to increase. – 'Society 2030: Spirit of Progress' ambition launched, and headway made against targets in the first year (see pages 34-35). – Multi-year climate change risk assessment to assess short and long-term impacts from physical and transition risks launched with phase 1 completed focussing on Scotland and North America. – Cross-functional Climate Risk Steering Group continuing to develop approach to climate change risk reporting (see page 50 for more details).
3 **Pandemics** Risk outlook: Stable EG CVC CT EP Global outbreak of a public health threat or fear of such an event could result in increased government restrictions and regulations including the shutdown of the on-trade, restrictions to travel, and quarantining of our employees resulting in a negative impact to consumer demand, or a slowdown or halting of our business operations due to supply or logistic constraints, could adversely impact our financial performance.	– Global crisis management and business continuity management programme in place to enhance our capability to react effectively to crises and minimise damage and disruption in our business operations. – Multi-channel product availability enabling consumers to continue to purchase our products for consumption. – Established links to government bodies enabling dialogue regarding industry response and regulation. – Decentralised decision-making enables re-prioritisation and resource re-deployment where required.	– Protecting our people and our business and supporting our suppliers, customers and communities continued to be at the forefront of our response to the Covid-19 pandemic. Risk mitigations have been agile and effective, with support and oversight by the Board. – The Executive Working Group and local crisis management teams continue to monitor and enhance the mitigation actions and processes established during the pandemic. This includes continuing to work closely in challenging areas such as employee wellbeing, return to work norms and supply disruption. – Further actions we are taking to protect our business and support our partners and communities are also described across the Strategic report and in the Chief Executive's statement on pages 10-13.
4 **Global economic volatility** Risk outlook: Increasing EG CVC V Economic volatility or failure to react quickly enough to changing economic conditions, currency instability, inflationary pressures, changes to customs duties and tariffs, and/or eroded consumer confidence could impact forecasting and/or financial performance.	– Local and global monitoring of key business drivers and performance to prepare for rapid changes in the external environment. – Group-level strategic analysis and scenario planning to strengthen market strategies and risk management. – Multi-country investment strategy and local sourcing strategies. – Central hedging and currency monitoring to manage volatility.	– Implemented more regular planning focussed on generating more insights at global and local levels, which have been instrumental in allowing timely adjustment of our commercial strategies in a dynamic environment. As conditions improve, we continue to assess multiple scenarios to ensure our preparedness to invest and grow.

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

Risk outlook Increasing Decreasing Stable

Risk & impact	How we mitigate	Developments in 2021
5 **Consumer disruption** Risk outlook: Stable EG CVC CT V Inability to respond and adapt either our products or our processes to disruptive market forces including e-commerce, digital, and new formats could impact our ability to effectively service our customers and consumers with the required agility, thereby threatening market share, revenue, profitability and growth ambitions.	– We have a highly diversified portfolio of brands to ensure coverage of consumer occasions, trends and price points. – We operate a rigorous process of strategy development and governance at corporate and market level. – We perform a 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.	– Covid-19 has accelerated digital adoption across our consumer and customer landscape. We perceive that there is an increased awareness by consumers of the possibility of buying spirits online, and retailer investment in capacity to meet online demand. In response, we reviewed our e-commerce operating model across key markets, rolling out specific plans and digital tools, and developing a competitive direct to consumer platform. – To ensure we are in a strong position to capitalise on shifts in consumer behaviours, we have increased our exposure to attractive markets, price tiers and categories both organically through investment choices and resource allocation, and inorganically through acquisitions.
6 **Geopolitical & natural hazards risk** Risk outlook: Increasing EG CVC CT EP International and domestic security risks including terrorism, as well as natural hazards, pose a threat to the safety of our employees and third parties at our sites and events, as well as to property and products. Political instability may also impact on our freedom to operate in a market.	– We have established a comprehensive security and crisis programme to protect employees from injury or death and safeguard the business from disruption to operations and loss of property. – Our security function, led by subject matter experts, draws on a global management framework to ensure risks are systematically identified and controlled. – Global risk analysis and threat intelligence programmes identify and monitor threats to our people, property, assets, and supply chain.	– The frequency and intensity of civil unrest have generally reduced over the past year due to widespread restrictions, however the Covid-19 pandemic continues to exert pressure on economic, political and societal systems, and the gradual easing of restrictions globally could exacerbate the intensity of civil unrest and volatility. – Unstable geopolitics: resurgent populist nationalism has driven the erosion of multilateralism in recent years, and has been exacerbated in 2021, raising the risk of regional conflict, trade wars and state-sponsored cyber-attacks. Major geopolitical rivalries and tensions continue, widening across some of our key markets.
7 **Counterfeit** Risk outlook: Increasing CVC CT Ineffective brand protection and/or prevention/intervention to address counterfeiting of our products increases the threats posed by counterfeit products, including harm to consumers and damage to our corporate and brand reputation, as well as potential physical threats to our people due to the illicit nature of organisations involved in counterfeiting activities.	– Anti-counterfeiting measures embedded in our packaging deter against reuse, making our products more difficult to copy and enabling rapid authentication. – We operate an active programme to identify high-risk areas, engage with customs and law enforcement authorities and participate in industry initiatives to monitor and prevent counterfeiting activity. – We run an online monitoring and takedown programme across high-risk e-commerce and social media platforms, and undertake direct engagement with many platforms to create awareness and stop counterfeit listings.	– The Covid-19 pandemic has led to an increase in illicit activity in markets that have experienced alcohol sales bans. We have also seen an increased focus at industry level on cross-border counterfeit operations involving organised crime. – Market visits to review counterfeiting activities have been curtailed due to lockdowns in many markets; however enforcement activity has remained steady. – Next-generation design of security closures and digital and liquid authentication devices are in development and on track. – Glass collection and recycling team established to drive empty glass collection initiatives in all high and medium counterfeit risk markets, to reduce the availability of empty genuine glass bottles for refilling by counterfeiters.
8 **Business integrity, compliance & controls** Risk outlook: Stable EG CVC CT EP Lack of an embedded business integrity culture and associated control framework increases risk that we are not compliant with relevant laws and regulations, including but not limited to anti-corruption, money laundering, global competition and economic sanction laws impacting on our reputation and/or resulting in significant financial penalties and/or material misstatement of financial reporting.	– Our 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 control assurance programme and strong centralised second line of defence. – Global third-party due diligence process supported by technology and central oversight.	– Macroeconomic uncertainty has heightened the risk of fraud and pressure on employees, customers and suppliers. This may be further exacerbated with remote working. We have implemented a regional support model for business integrity, with an enhanced focus across the commercial landscape, delivering tailored interventions and better oversight specific to markets and regions. – Refreshed our know your business partner programme to include enhanced due diligence for high-risk partners, possible tax evasion facilitation, and risk and sanction screening for all third parties. – Global introduction of sanction clauses in all contracts. – Deployment of values-based training and engagement across all levels, to raise awareness of cyber risk and data privacy, as well as launching sanctions training for specialist groups.

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

Risk outlook Increasing Decreasing Stable

Risk & impact	How we mitigate	Developments in 2021
9 **Data privacy** Risk outlook: Increasing EG CT EP We are subject to a wide variety of laws and regulations regarding protection of personal data and any failure or perceived failure by us may result in significant fines, which could have a material adverse effect on our business, operating results or reputation.	– Our vendors must comply with our standards for the processing of personal data relating to customers, employees and partners. – All customer and consumer activities that include processing of personal data must comply with our internal controls, codes of conduct, and data privacy policies. – We deliver mandatory annual data privacy training to all employees.	– Global Data Privacy Lead Counsel has been appointed, with accountability to liaise with business and functions to ensure effective performance of the privacy programme and central oversight. – We have enhanced our processes and controls to incorporate the increased use of first-party data and consumer tracking with the expansion of direct-to-consumer channels. – We are well positioned to manage the increasing number of countries which are implementing legislation equivalent to the GDPR.
10 **Product quality** Risk outlook: Stable CVC CT Accidental or malicious contamination of raw materials or finished product which is supplied to the market could cause harm to consumers and damage our corporate and brand reputation.	– We have food safety system certification (FSSC 22000) in place for our owned brewing and packaging sites. We monitor the certification for third-party sites and where necessary exercise our contractual right to audit. – Food fraud and food threat risk assessments are regularly undertaken. – Our Global Product Recall Standards have been strengthened, training has been developed.	– Enhanced governance monitoring and exception reporting delivered across wholly owned breweries and packaging sites, as well as key third-party production sites. – Extension of our global product integrity programme to no- and lower-alcohol products. – Refreshed product recall crisis management policy and process rolled out.
11 **Regulation, indirect tax & trade barriers** Risk outlook: Increasing EG CVC CT V Regulators in major markets increasingly impose indirect tax increases, trade barriers and/or restrictions on the marketing and sale of alcohol.	– We run multi-year public policy campaigns to minimise risk and unlock tax, trade and regulatory opportunities. – We have an active involvement with the United Kingdom, the European Union and the United States authorities to prevent escalation of tariff tensions. – Our positive drinking programmes are supported by a global industry platform to promote responsible drinking and tackle spirits discrimination. – We practise evidence-based engagement to build trust and reputation with governments, health ministries and other stakeholders.	– Government lockdowns in response to Covid-19 had an impact on the on-trade business and on the availability of alcohol to consumers, varying across markets. The off-trade has remained open in almost all of our markets with some of the on-trade business shifting to the off-trade. There has been some regulatory flexibility in certain countries, such as allowing direct-to-consumer e-commerce, and/or allowing on-premise to provide take-out alcohol. – We have continued to be at the forefront of industry initiatives to promote positive drinking, including responsible drinking at home, and other awareness-building programmes. – Trade tensions and protectionism continue to impact the global trading environment, but we have seen recent de-escalation on tariffs in the United Kingdom, United States and European Union. In March 2021, 25% tariffs on single malt Scotch and Baileys imposed in the US were suspended for four months and then in June 2021 for a further five years. A free trade deal between UK and Australia has been recently announced.
12 **International direct tax** Risk outlook: Increasing EG CVC CT V Significant changes to the international tax environment alter our operating position, leading to an increase in our effective tax rates and/or unexpected tax exposures and uncertainty.	– We monitor and, where appropriate, express views on the formulation of tax laws either directly or through trade associations or similar bodies. – We are continuing the implementation of our tax transformation programme to standardise, centralise and automate tax activities and controls where possible. – We have embedded our refreshed global transfer pricing policy to ensure the way profits are taxed is consistent with business activities and economic substance.	– The risk of unilateral tax increases as governments seek to fund their spending during the Covid-19 pandemic has begun to materialise, with the UK corporation tax rate increase to 25% as of 1 April 2023. – 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 tax increases through the implementation of a global agreement on minimum effective taxation or unilateral actions by individual countries. – In common with other multinationals, we face increasing scrutiny from certain authorities, as outlined in our contingent liability note.

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

Risk outlook Increasing Decreasing Stable

STRATEGIC REPORT

Viability statement

The Directors have reviewed the long-term prospects of the group in order to assess its viability. This review considered the activities and principal risks of the group together with factors likely to affect the group's future development, performance, financial position, cash flows, liquidity position and borrowing facilities as described in the Annual Report. These factors have also been carefully assessed in light of the Covid-19 pandemic.

Assessment

In order to report on the long-term viability of the group, the Directors reviewed the overall funding capacity and headroom available to withstand severe but plausible downside events, and 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. This assessment also included reviewing and understanding the mitigation factors for each principal risk. The risks and mitigating factors are summarised in the previous pages.

The viability assessment has three parts

First, the Directors considered the period over which they have a reasonable expectation that the group will continue to operate and meet its liabilities. A three-year period is considered appropriate for this viability assessment because it is the period covered by the strategic plan and enables a high level of confidence in assessing viability.

Second, they considered the current debt facilities and debt headroom over the viability period, assuming that any debt maturing can be refinanced at commercially acceptable terms. None of the future outlooks considered resulted in headroom issues, primarily because the group has a healthy balance of short-term and long-term debt programmes, £2.5 billion of committed credit facilities if required and flexibility for reductions in discretionary spending including acquisitions and capital expenditure, as well as a temporary suspension of the share buyback programme and dividend payments.

Third, they considered the potential impact of severe but plausible scenarios over this period for each principal risk. None of the scenarios individually or in aggregate would cause Diageo to cease to be viable. A summary of the severe but plausible risks modelled and the level of severity reviewed is included below.

Risk scenarios modelled	Level of severity considered
Regulation, indirect tax and trade barriers	An increase in duty rates on all products, and a reduction in trade openness.
Global economic volatility	Deeper Covid-19 impacts including a slower on-trade and travel recovery over three years; incremental unrecoverable inflation in costs, a market share loss and foreign currency devaluation.
Consumer disruption	Range of scenarios including share loss from not capturing the new-to-world brand trends; missing future e-commerce growth; and the legalisation of cannabis impacting the beverage alcohol segment.
Climate change	Key areas considered include an imposed carbon tax; price increase in our key raw materials due to climate change; impact of rotational short-term shut-downs occurring at a number of our water-stressed sites, and two severe storms in high-risk areas.
Cyber threats	Cyber-attacks on our manufacturing systems shut down our ability to ship products for three weeks.
International direct tax	Incremental effective tax rate levied by governments to fund Covid-19 spending.

Management has prepared cash flow forecasts which have also been sensitised to reflect severe, but plausible downside scenarios taking into consideration the group's principal risks. In our base case scenario, we expect net sales momentum to continue in the year ending 30 June 2022, however, we expect near-term volatility to remain. The potential financial impact of a slower Covid-19 pandemic recovery has been modelled in the plausible downside scenarios. 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 launching and pricing €700 million of fixed rate Euro and £400 million of fixed rate Sterling denominated bonds under Diageo's European Debt Issuance Programme. Mitigating actions, should they be required, are all within management's control and could include reductions in discretionary spending including acquisitions and capital expenditure, as well as a temporary suspension of the share buyback programme and dividend payments in the next 12 months or drawdown on committed facilities. Having considered the outcome of these assessments, the Directors are comfortable that the Company is a going concern for at least 12 months from the date of signing the company's consolidated financial statements.

Conclusion

On the basis described above, the Directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Committed to combatting climate change

We have a longstanding commitment to combatting climate change and the related issue of water stress. Since 2008, we have been working to decarbonise our value chain, implementing adaptation measures and acting as champions for water stewardship around the world. This focus forms a key part of our strategic priorities, which support the achievement of our ambition to be one of the best performing, most trusted and respected consumer products companies in the world.

Committed to action

The threats to our environment are urgent and growing, and the world must, as defined by the Paris Agreement, ensure that the global temperature rises no more than 1.5°C above pre-industrial levels. We are committed to playing our part and championing policies that support the Paris Agreement. We are proud to be a signatory to the Business Ambition for 1.5°C, which calls on companies to set ambitious science-based emissions reduction targets, and we are committed to achieving net zero carbon emissions from our direct operations (Scopes 1 and 2) by 2030 and across our full value chain (Scope 3) by 2050 or earlier.

We welcome the Task Force on Climate-related Financial Disclosures (TCFD) as an important step in increasing stakeholders' and companies' focus on climate change. We have incorporated the TCFD framework into our reporting and are accelerating efforts to mitigate climate change risks and identify opportunities for transitioning quickly to a low carbon future.

Climate change will be a major disruptor for decades to come. Both physical risks, such as changes in climate and acute weather events, and transition risks, such as impacts on economies, changes in consumer attitude, and regulatory developments, have the potential to affect all businesses, including our own. Many are difficult to quantify, but we are monitoring developments closely with the support of expert partners. There are also elements highly relevant to our business which are easier to assess now, such as water stress, the impact on the supply of raw materials and the viability of our manufacturing sites and key supplier sites.

We know that we cannot separate climate change from other issues such as water stress, biodiversity loss, poverty and inequality; all are closely linked and threaten both the environment and the prosperity of communities everywhere. We created our bold 10-year ESG action plan, 'Society 2030: Spirit of Progress', in response to this challenge. It builds on the work we have done since 2008 to decarbonise our value chain and mitigate the impact of water stress, and forms a key part of our response to both mitigating and adapting to climate change risk.

For more details on our 'Society 2030: Spirit of Progress' strategy, see our CEO's statement

Governance

Climate change presents various economic, business and social risks which will affect our business over the short, medium and longer term. Given its importance, climate change is overseen at the highest level of the company and integrated into business processes.

The Diageo Board and Executive Committee are responsible for managing climate change risks and opportunities, with Executive responsibility shared jointly between the President of Global Supply Chain and Procurement and the Corporate Relations Director. At an operational level, they are supported by our cross-functional Climate Risk Steering Group (see governance diagram on this page).

Our Executive Committee discusses climate change-related updates at least quarterly, and the Executive Sponsors formally update the Board on climate risk quarterly including, where relevant, reviewing the outputs of our climate change risk assessments and scenario analyses and overseeing any related decision-making. Any material financial implications of climate risk and potential impacts on Diageo's accounts, including performance and progress against non-financial metrics, are also shared with the Audit Committee of the Board.

Given the rapidly increasing understanding of climate change and the risks and opportunities for business, we continue to engage externally to monitor good practice and keep pace with stakeholder expectations in this critical area. We are active members of the TCFD working group through the UN Global Compact and we also contributed to the consultation by the United Kingdom's Financial Reporting Council on climate risk reporting.

For more details on climate risk governance within our risk management framework, see our Effective risk management section, page 46

Climate risk as part of remuneration

Given the importance of managing climate risk, factors relevant to it are considered as part of the remuneration of our senior leaders. Specifically, the performance share element of the Long-Term Incentive Plan encourages and rewards performance against an ESG measure (introduced in 2020, for fiscal 2021 to 2023). It constitutes 20% of the performance share award, which is granted to the Executive Committee as well as senior leaders across the business. This ESG measure includes targets on carbon emissions and water efficiency, which directly support mitigation of and adaptation to climate change risk.

For more details on how climate-related considerations are incorporated into incentive plans, see the Remuneration report, pages 104-128

For more details on how the Board is engaged on climate risk, see our governance section, page 91

Strategy and risk management

We have operations all over the world and are therefore exposed to a wide variety of physical and transition risks. Our strategy is influenced by the findings of our extensive climate change risk assessments and scenario analyses, which we continually improve as more data and insights become available. The geographical provenance of certain products, such as Scotch and tequila, is key to their identity, so it has always been critical for us to proactively manage risks to supply and production in these locations.

In adapting to the impacts of climate change, innovation is key, and our company-wide research and development programme incorporates climate considerations as a matter of course with sustainability built into the decision-making process. But we want to go beyond internal research and development, so this year we launched a new global programme, Diageo Sustainable Solutions, that invites innovators to work with us to develop their ideas for more sustainable and climate-resilient technologies and practices across the supply chain. As part of this initiative, we will be looking particularly at renewable energy, water recycling technologies, novel packaging and regenerative agriculture.

Activity before this year

Strong commitment to cutting carbon emissions, increasing water efficiency and measuring and managing water stress. Climate change highlighted in our principal risks, sustainability and responsibility. Clear governance established for oversight of climate change risk.

2021 highlights

Climate change risk assessment and scenario analyses in Scotland and North America, geographies which represent half of net sales value.

2022 priorities

Climate change risk assessment and scenario analysis planned for India and Africa, incorporating a more sophisticated approach building on work from 2021. Include Scope 3 emissions in our scenario analysis.

Priorities for 2023 and beyond

Refresh 2021 and 2022 analyses and extend to other material regions, applying learnings gathered during previous years to increase sophistication of analyses.

Continuous process of improvement, increased sophistication and further embedding into core business decision-making and risk management

Understanding and planning for climate-related impacts

Assessing climate-related risks and how best to report on them is a complex, multi-year process, that must continue to adapt to the risks and opportunities of transitioning to a low carbon world. We have gained experience in assessing and responding to climate change impacts as part of our targets up to 2020.

In 2020, we highlighted climate-related risk within our principal risk, sustainability and responsibility (see page 46). Our approach to managing our principal risks is holistic and integrated, with risk assessments built into annual plans at a global and market level. We develop mitigations based on these assessments, accompanied by internal controls to assure the quality of risk management. This year, we built on that by conducting the next phase of our risk analysis and planning work on our global water footprint, and by carrying out a detailed risk assessment and scenario analysis of our operations in Scotland and North America, as discussed below. A key output is an approach that we will use to guide assessments in other markets and regions in 2022 and beyond.

Our 2021 risk analysis and planning work

Guided by expert external partners, we completed three key pieces of work this year:

1. We updated our analysis of water-stressed sites around the world
2. We carried out climate change risk assessments in North America and Scotland
3. We carried out scenario analyses of selected risks identified from both assessments.

1. Global analysis of water-stressed sites

We have been conducting water risk assessments since 2008 and have taken extensive steps to mitigate risks to our water-stressed sites as part of our sustainability and responsibility targets up to 2020, including improving water use efficiency and replenishing the water we use in our final product. We have updated our water risk assessments five times since 2008, most recently this year, when we carried out a detailed examination of the effects of water stress on our own production and packaging facilities. The map on page 54 shows our current global water stress footprint.

2. Climate change risk assessments of our sites in North America and Scotland

We typically develop strategic plans, forecasts and viability statements for a three-year timeframe, sometimes longer in the case of major capital investments. However, climate risk requires a longer-term view, because its impacts tend to be felt more gradually, while the work needed to mitigate its effects – renewable energy for example – will take years to come to fruition. For our climate scenarios, therefore, we have chosen to use 2030 and 2050 as our timeframe.

We conducted a detailed climate change risk assessment (CCRA) this year in Scotland and North America. We chose these two regions for our first assessment, since they account for around half of our net sales value globally, are home to many of our manufacturing sites, and have extensive global raw material supply chains. We established a cross-functional team of Diageo leaders and worked with external partners to develop an approach that would also work for future climate change risk assessments of other regions. The CCRA considered both the physical and the transition risks of climate change, with more detail on local physical risks as described on page 52.

For physical risks, we looked at medium and high temperature scenarios for both 2030 and 2050. For transition risks, we examined the policy, technology, market and reputational impacts on our markets and supply chain. See the diagram on page 52 for more details on the process.

Physical risks

Assessments

Incoming materials

189 supplier locations and 37 key agricultural commodities
- Raw materials (e.g. barley)
- Intermediates (e.g. grain neutral spirit)
- Processed commodities (e.g. flavours)
- Packaging materials (e.g. glass)

Diageo sites and locations

- Diageo owned and operated sites in Scotland (47) and North America (12) footprint including malting, distilling, maturation, packaging, office and engineering and coproduct plants (high level)
- Five sites of strategic importance in Scotland and four in North America (more detailed)

Domestic product distribution

- Distribution of finished goods from Diageo sites including market distribution and warehousing
- Road, rail and ocean distribution routes in country of production
- Ports (15 United Kingdom, six North America)

Time horizons

Present day → 2030 → 2050

Temperature scenarios

Medium scenario	High scenario
– +2°C to +3°C	– +4°C to +5°C
– RCP[1]4.5 pathway	– RCP[1]8.5 pathway

Transition risks

Assessments

Upstream supply chain

- Agricultural materials
- Packaging materials

Diageo market and countries

- Production sites

Downstream supply chain

- Distribution
- Sales

Time horizons

Present day → 2025 → 2030

Temperature scenarios

- 1.5°C (Paris Agreement) RCP[1]2.6
- 2°C (Government/policy)

Results of our CCRA

Physical While the assessments indicate that physical risks will increase, meaning that we are likely to see more frequent disruption to our operations in both regions, the overall risk of climate change to North America and Scotland is reasonably low, for both time horizons. Specifically, while we are more at risk of flooding, storms and higher temperatures in these regions, it is unlikely that any of our sites, or indeed our suppliers' assets, will be unable to operate. These risks are ones we already manage, but the CCRA gave us further insights into their severity and velocity, which allows us to improve our mitigation plans. While climate change poses a risk to raw material yields in some regions, there is also some opportunity for increased yields in other regions.

Transition The main risks identified relate to increased costs of agricultural raw materials and packaging. Factors affecting the former include, for example, increasing energy costs at farms, sustainable land practices, and competition for land from biofuel crops. Factors affecting the latter include the rising cost of natural gas, United Kingdom/European Union carbon prices, and compliance and quality costs linked with packaging taxes. There are opportunities, however; for example innovating to reduce the carbon footprint of our products to make them more appealing to consumers, who are increasingly interested in sustainable options.

3. Scenario analyses of selected risks

Using the findings from our CCRA in North America and Scotland, and the results of our global analysis of water-stressed sites, we conducted climate change scenario analyses in line with TCFD recommendations, looking particularly at 2030.

We used three scenarios in this assessment: one focussed on the impacts of a low carbon transition (RCP2.6: 1°C to 2°C temperature rise) and two focussed on the impacts of physical climate risk (RCP4.5: 2°C to 3°C temperature rise and RCP8.5: 4°C to 5°C temperature rise). For carbon pricing, we assessed the impact on our Scopes 1 and 2 emissions only.[2]

Scope and assumptions

The scenarios we have modelled are useful for understanding the potential impacts of climate change on our business, but there are limitations – such impacts are systemic and unpredictable. Scenario analysis requires us to pick specific factors and model them using fixed assumptions. However, there are many wider potential impacts – including opportunities – that we cannot capture from one type of modelling. For this reason, we also look more broadly at possible physical and transition risks and opportunities to our business from climate change, and work to integrate climate insights into our strategy and decision-making processes.

Assumptions Our scenario modelling is underpinned by several key assumptions, principally that the risks assessed are based on a scenario without mitigation. The risks modelled under the different scenarios are mutually exclusive; we have not assessed a situation where physical and transition risks occur in parallel. The first iteration of our scenario modelling assumes the business remains static (including our operating model, current sourcing practices and sourcing volumes), and we have not factored in rising costs, such as passing on costs to our customers.

1. A representative concentration pathway (RCP) is a way of expressing the impact of global warming relating to the degree of warming of the Earth's surface. Four pathways were developed for climate research by the Intergovernmental Panel on Climate Change (IPCC) in 2014.
2. To measure and manage our carbon emissions, we follow the Greenhouse Gas Protocol global framework, which identifies three scopes of emissions. Scope 1 represents the direct emissions we create. Scope 2 represents the indirect emissions resulting from the use of electricity and energy to run our business. Scope 3 represents indirect emissions attributed to upstream and downstream activities involved in producing our brands.

Our assessment of carbon emission pricing was informed by the Global Energy Outlook 2020 report from the International Energy Agency (IEA). Based on IEA projections of the carbon price to limit warming to below 2°C for 2025 and 2040, we extrapolated a carbon price of \$88.67/tCO_2e for 2030, and used this price in evaluating the financial impacts of our Scopes 1 and 2 emissions.

Scope The scope of the scenario analysis was our assets and the key raw materials used in 59 sites owned and/or operated by Diageo in North America and Scotland. The agricultural raw materials assessed account for a large portion of our global raw material costs (barley, wheat, maize) or were identified as being most vulnerable to the effects of climate change (sugar cane/molasses, vanilla).

For the transition risk scenario analysis, we considered the impact of a carbon tax on the following emissions from the agricultural sector:

1. Nitrous oxide emissions from the use of synthetic fertiliser
2. Methane from flooded rice cultivation
3. Nitrous oxide and methane from the use of manure
4. Methane from enteric fermentation (digestive process by which carbohydrates are broken down by microorganisms).

For our global analysis of water stress, we assessed all operational production or packaging sites in water-stressed areas (see water stress map on page 54). To assess its financial impact in 2030, we used WRI water stress scores to estimate the probability and duration of increased downtime at water-stressed sites. Based on the predicted downtime we estimated the resulting lost sales.

Limitations of the scenario analysis

This exercise is not representative of the business as a whole and additional risks and opportunities are likely to be identified once further assessments have taken place. Nor can the results for Scotland and North America be extrapolated to the rest of our business due to the diversity of our portfolio and the climates in which we operate.

Summary of findings

In the low carbon transition scenario, the main risk is carbon pricing leading to increased costs. In both physical impact temperature scenarios, the main risks arise from water stress, and include potential disruption to production and increased costs of agricultural inputs and other materials. The scenario analyses undertaken this year did not identify any material financial impact.

Lack of data for long-term storm patterns limits our ability to predict accurately the likelihood of some more extreme weather events occurring. Nonetheless, we monitor changing weather patterns in the short term, and act to mitigate negative effects. We have well established contingency plans aimed at securing alternative key material supplies at short notice, to transfer or share production between manufacturing sites where possible, and to substitute materials in products and recipes where it is possible to do so without altering the nature of the product. We have a longstanding focus on building resiliency into our value chain including long-term inventory planning and flood prevention to ensure critical assets are protected. As we develop our understanding of the impact climate change may have on our business, we expect to extend this value chain resilience planning to other parts of our business.

Findings from scenario one: low carbon transition scenario, RCP2.6 (1°C to 2°C temperature rise)

Under this scenario we examined the impact of the transition to a low carbon economy on our assets and on the key raw materials outlined above. Here, the impact mainly relates to increased raw material prices resulting from the cost of low carbon land management practices and the increased cost of carbon emissions globally. We expect the impact of this scenario to increase when Scope 3 emissions are assessed and incorporated in the analysis.

Findings from scenario two: intermediate warming scenario, physical impact, RCP4.5 (2°C to 3°C temperature rise)

Under this scenario we examined the impact of a rise in temperature of 2-3°C on our assets in North America and Scotland as outlined above, and on all our water-stressed sites across the world.

Impact to 2030

	Transition risk	Physical risk	
Scenario analysis parameters	1 Low warming RCP2.6	2 Intermediate warming RCP4.5	3 Extreme warming RCP8.5
Temperature rise	1°C to 2°C	2°C to 3°C	4°C to 5°C
Impact	Directly-owned assets in Scotland and North America		
	In scope	In scope	In scope
	Priority agricultural raw materials in Scotland and North America		
	In scope	N/A	In scope
	All water-stressed sites globally		
	N/A	In scope	In scope

The key risks we identified to assets were physical – namely exposure to extreme weather events. Such events can have a wide range of impacts, all of which are likely to be exacerbated by climate change. Extreme weather can principally affect Diageo financially in two ways: first, through disrupting operations by damaging assets or increasing running costs, and second through loss of potential revenue as a result of site closure or production disruption.

This analysis examined the financial impact from flood risk. While a quantitative assessment of storm impact was not possible due to the lack of available climate data at the time of the report, the scenario analysis did highlight those sites most at risk. The only site deemed to be at high risk of storm damage is our distillery in St Croix, an island located in the Eastern Caribbean vulnerable to hurricanes.

Diageo's production sites in water-stressed areas are exposed to potential disruption if demand for water exceeds the available amount during a certain period or if poor quality restricts its use. The potential impact by 2030 of such disruptions was assessed as loss in profit due to production downtime or impact on efficiency, which may affect both volume and costs.

Findings from scenario three: Extreme warming scenario, physical impact, RCP8.5 (4°C to 5°C temperature rise)

Under this scenario we examined the impact of an extreme rise in temperatures of 4-5°C on the same assets, raw materials and water-stressed sites outlined in scenario two.

Assets The financial modelling of acute weather and chronic climate change on our assets under this scenario indicates a more severe impact than under scenario two.

Raw materials The results show an increase in the cost of those raw materials that would be less readily available in certain areas due to the impact of climate change. We assumed that we would be able to substitute the scarce material with the same material obtained from a different area, at a higher price.[1]

Water-stressed sites For all our water-stressed sites, the results under this scenario were very similar to those observed under scenario two, because:

- The emissions trajectory of RCP4.5 and RCP8.5 are not significantly different until 2030
- The mitigation actions under RCP4.5 will only start to produce discernibly different outcomes after 2030.

In the case of severe warming, we might expect a further risk owing to GDP reduction in the market resulting from factors such as migration due to climate change.

Future risk analysis and planning work

In the first half of next year we will explore opportunities to broaden the geographical reach of the risk analysis and scenario work we did this year, with assessments of our operations in India and Africa. From 2023, we aim to do the same in our remaining markets. We will also evaluate opportunities to increase the scope of our work and refine our scenario analysis model, including testing multiple scenarios, sensitivities and timeframes. This will enhance our risk management and climate change decision-making processes and inform our future strategy.

Researching consumers' attitudes to climate change

Beyond our climate change risk assessment, we consider consumers' attitudes through the work of our Brand Sustainability Council. Our research to date has identified a significant increase in consumers' concerns about the climate crisis. Concerns are translating into action, with a rise in consumers reducing, reusing and recycling packaging across all food and beverage categories, as well as considering the impact of their choices in terms of energy and water used, transport and waste. Consumers are motivated by what matters most to them through personal experience, such as pollution and packaging. Beyond their own actions, consumers expect businesses and governments to act to make the systemic changes needed for the world to combat climate change. We are committed to continually improving the sustainability of our brands and communicating their sustainability credentials in clear, compelling ways.

Diageo sites located in water-stressed areas

Sites

1. Meta Abo, Ethiopia
2. Achimota, Ghana
3. Kaase, Ghana
4. East Africa Maltings, Kenya
5. Kisumu, Kenya
6. Tusker, Kenya
7. Marracuene, Mozambique
8. Lagos, Nigeria
9. Seybrew, Seychelles
10. Isipingo, South Africa
11. Dar Es Salaam, Tanzania
12. Moshi, Tanzania
13. Mwanza, Tanzania
14. Kampala, Uganda
15. Alwar, India
16. Aurangabad, India
17. Baramati, India
18. Hospet, India
19. Kumbalgodu, India
20. Malkajgiri, India
21. Meerut, India
22. Nacharam, India
23. Nasik, India
24. Pathankot, India
25. Pioneer, India
26. Rosa, India
27. Udaipur, India
28. Seramore, India
29. Sovereign, India
30. LKJ Packaging, Indonesia
31. El Charcon, Mexico
32. Agricultural lands, Guadalajara, Mexico
33. La Primavera, Mexico
34. Agricultural lands, Céara, Brazil
35. Itaitinga, Brazil
36. Maracanaú, Brazil
37. Messejana, Brazil
38. Paraipaba, Céara, Brazil
39. Alaşehir, Turkey
40. Acıpayam, Turkey
41. Karaman, Turkey
42. Nevşehir, Turkey
43. Taşel, Turkey
44. Tarsus, Turkey

1. We manage commodity price risks through forward-buying of traded commodities and other hedging mechanisms. We also explore the use of alternative raw materials. For example sorghum, a crop more resilient to climate change than the more commonly-used barley, is the mainstay of our new brewery in Kenya.

Metrics and targets[1]

We understand that managing climate change risk effectively and taking advantage of opportunities in transitioning to a low carbon world means developing robust adaptation and mitigation plans. We also know we must be flexible and quick to adapt because regulatory and legal change is on the horizon, as governments consider questions such as further carbon taxes which could affect our financial performance.

Our 'Society 2030: Spirit of Progress' strategy includes stretching goals which directly help us respond to climate change risks and opportunities across our value chain. It is deliberately bold to prompt us to act decisively, and to give us the credibility to be an advocate for climate action in the wider world. Our annual targets to achieve net zero by 2030 in Scope 1 and 2 emissions have been calculated in accordance with the principles of Science Based Targets initiative (SBTi) and have been submitted to the SBTi for validation. This year we have made progress in line with our expectations and are on track to achieve this goal. Our Scope 3 target of net zero by 2050 is also aligned with the principles of the SBTi.

Science-based carbon targets

By 2030, we commit to:

Target	KPI	2021 performance
Becoming net zero carbon in our direct operations (Scopes 1 and 2)	Percentage reduction in absolute GHG ($ktCO_2e$)	5.1%$^{\Delta}$
Reducing our value chain (Scope 3) emissions by 50%	Percentage reduction in absolute GHG ($ktCO_2e$)	-2.1%
Using 100% renewable energy across our direct operations	Percentage of renewable energy across our direct operations	36%

We are working hard to deliver our plan to reach our Scopes 1 and 2 net zero carbon target by 2030. It includes capital investment plans and internal interim targets for all Diageo sites which are linked to senior leadership remuneration. We track progress against these targets internally each month, and have strategic reviews twice a year, which are used to inform our planning.

Water efficiency and replenishment targets

As a beverage business, robust water stewardship is a critical part of adapting successfully to climate change. We have set a number of water targets for 2030 or earlier, focussing particularly on water-stressed areas:

Target	KPI	2021 performance
Reduce water use in our operations with a 40% improvement in water use efficiency in water-stressed areas and 30% improvement across the company	Percentage improvement in litres of water used per litre of packaged product	7.7%$^{\Delta}$
Replenish more water than we use for our operations in 100% of sites in water-stressed areas by 2026	Percentage of water replenished in water-stressed areas	12.7%
Invest in improving access to clean water, sanitation, and hygiene (WASH) in communities near our sites and local sourcing areas in 100% of our water-stressed markets	Percentage of water-stressed markets with investment in WASH	89%
Engage in collective action in all of our priority water basins to improve water accessibility, availability and quality and contribute to a net positive water impact	Percentage of priority water basins with collective action participation	15%

Water stress is not a fixed state, however, so we will carry out global assessments every two to three years to make sure we are addressing the issue properly. Where sites are newly classified as water-stressed, they will be included in our more stretching targets for water efficiency and replenishment. This year, we added three countries to the list to those defined as water-stressed: Indonesia, Mexico and Turkey.

Carbon emissions (Scopes 1 and 2) by region by year (1,000 tonnes CO_2e)[2,3,4]

Region	2019	2020 (baseline)	2021
North America	54	128	**128**
Europe and Turkey	234	153	**128**
Africa	198	166	**182**
Latin America and Caribbean	18	23	**27**
Asia Pacific	48	37	**16**
Diageo (total)	552	507	**481$^{\Delta}$**
United Kingdom	167	85	**70**

Water efficiency by region by year[3,5]

Region	2019	2020 (baseline)	2021
North America	5.29	5.33	**4.91**
Europe and Turkey	5.31	5.10	**5.10**
Africa	4.33	4.21	**3.58**
Latin America and Caribbean	4.65	5.02	**5.15**
Asia Pacific	3.56	3.95	**3.58**
Diageo (total)	4.71	4.66	**4.30$^{\Delta}$**

1. Baseline year for 'Society 2030: Spirit of Progress' targets is 2020 unless otherwise stated
2. 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
3. 2020 baseline data, and data for the periods ended 30 June 2020 and 2019, have been restated in accordance with the WRI/WBCSD GHG Protocol and Diageo's environmental reporting methodologies
4. Diageo UK total direct and indirect carbon emissions were 69,748, comprising direct emissions (Scope 1) of 69,748 and indirect emissions (Scope 2) of 0. The intensity ratio was 69 grams/litre packaged. The UK total energy consumption was 1,055,666MWh, comprising 919,173MWh of direct energy and 136,493MWh of indirect energy.
5. 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 ESG Reporting Index for more information on how data has been compiled, including standards and assumptions used.

We report on our performance against our 'Society 2030: Spirit of Progress' targets in full on pages 38-41. Our overall approach to risk management is described further on pages 45-48. A commitment to pioneering grain-to-glass sustainability is central to our strategy – read about our approach on pages 34-35. Our ESG Reporting Index contains more detailed disclosures aligned with the GRI, SASB and UN Global Compact reporting frameworks.

Fiscal 21 organic net sales were up 16%, with all regions growing above prior year level

Reported net sales increased

8.3%

driven by organic growth.

Reported operating profit was up

74.6%

driven by growth in organic operating profit and reduction in exceptional operating items.

Organic results improved with volume growth of

11%

Organic net sales growth of

16%

Organic operating profit grew

17.7%

Net cash from operating activities was

£3.7bn

Free cash flow was

£3.0bn

Basic eps of

113.8p

was up 89.4%

Eps before exceptional items increased

7.4%

to 117.5 pence

"Our business has seen strong recovery in top line performance from the impact of the Covid-19 pandemic with net sales above pre-Covid fiscal 19 levels, driven by our quick pivot to changes in consumer occasions and behaviours. As a result, in fiscal 21 organic net sales were up 16%, with all regions growing above prior year levels. Our marketing investment grew ahead of sales as we up weighted investment in the markets and categories with positive growth momentum and quickly responded to channel shifts and the increase in at-home occasions.

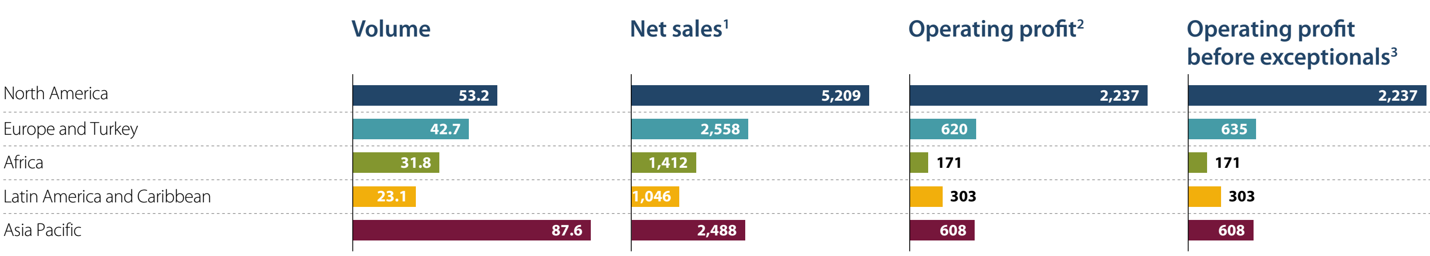
"Operating margin expanded 46bps primarily driven by overhead efficiencies and lapping one-off expenses in the prior year. We generated £3.0 billion in free cash flow through disciplined actions, further strengthening Diageo's liquidity position to ensure our ability to continue to invest for long term sustainable growth. While the environment remains volatile, our strategy, which remains relevant, combined with our agile and high-performance culture, give me confidence that we are well-positioned to drive growth and continue to create value for all of our stakeholders."

Lavanya Chandrashekar
Chief Financial Officer

Summary financial information

		2021	2020
Volume	EUm	**238.4**	217.0
Net sales	£ million	**12,733**	11,752
Marketing	£ million	**2,163**	1,841
Operating profit before exceptional items	£ million	**3,746**	3,494
Exceptional operating items[1]	£ million	**(15)**	(1,357)
Operating profit	£ million	**3,731**	2,137
Share of associate and joint venture profit after tax	£ million	**334**	282
Non-operating exceptional items[1]	£ million	**14**	(23)
Net finance charges	£ million	**(373)**	(353)
Exceptional taxation (charge)/credit[1]	£ million	**(84)**	154
Tax rate including exceptional items	%	**24.5**	28.8
Tax rate before exceptional items	%	**22.2**	21.7
Profit attributable to parent company's shareholders	£ million	**2,660**	1,409
Basic earnings per share	pence	**113.8**	60.1
Basic earnings per share before exceptional items	pence	**117.5**	109.4
Recommended full year dividend	pence	**72.55**	69.88

1. For further details of exceptional items see pages 151-152



1. Excluding corporate net sales of £20 million (2020 – £38 million)
2. Excluding net corporate cost of £208 million (2020 – £147 million)
3. Excluding exceptional operating charges of £15 million (2020 – £1,357 million) and net corporate operating costs of £208 million (2020 – £147 million)

	Volume %	Net sales %	Marketing %	Operating profit[1] %
North America	10	13	29	10
Europe and Turkey	6	–	11	(16)
Africa	10	5	5	69
Latin America and Caribbean	22	15	4	22
Asia Pacific	9	10	15	21
Diageo – reported growth by region[2]	**10**	**8**	**17**	**7**

	Volume %	Net sales %	Marketing %	Operating profit[1] %
North America	11	20	34	17
Europe and Turkey	7	4	13	(5)
Africa	18	20	14	101
Latin America and Caribbean	22	30	18	63
Asia Pacific	9	14	16	22
Diageo – organic growth by region[2]	**11**	**16**	**23**	**18**

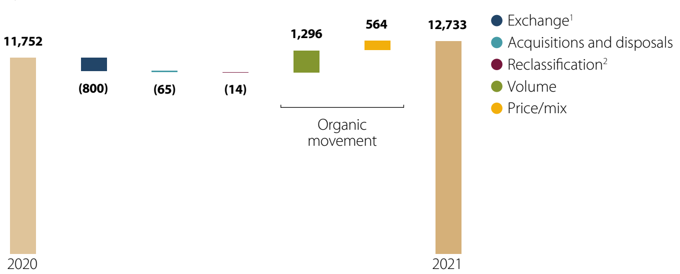
1. Before exceptional operating items
2. Includes Corporate. In the year ended 30 June 2021 corporate net sales were £20 million (2020 – £38 million). Net corporate operating costs were £208 million (2020 – £147 million)

Net sales (£ million)

Reported net sales grew 8.3%
Organic net sales grew 16.0%

Reported net sales grew by 8.3%, driven by strong organic growth, partially offset by unfavourable foreign exchange.

Organic net sales growth of 16.0%, following a decline in fiscal 20, reflects organic volume growth of 11.2% and positive price mix of 4.8%. All regions grew organic net sales, driven by strong consumer demand in the off-trade channel and a partial recovery of the on-trade channel in key markets. Growth was particularly strong in North America. Positive price mix was primarily driven by strong premiumisation trends, particularly in North America and Greater China, and price increases in Latin America and Caribbean. Net sales benefitted from lapping a reduction in inventory levels by our customers in fiscal 20 and the replenishment of stock levels by distributors and retailers in North America in fiscal 21, partially offset by continued destocking in Travel Retail.



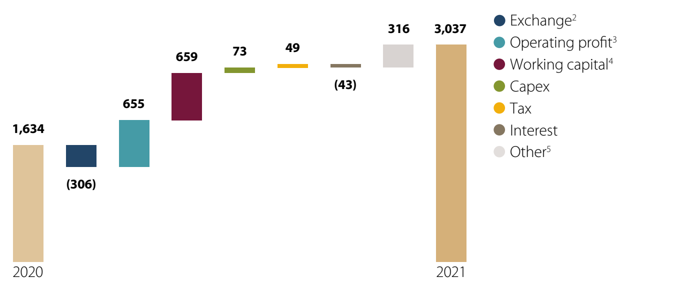
1. Exchange rate movements reflect the adjustment to recalculate the reported results as if they had been generated at the prior period weighted average exchange rates
2. For the year ended 30 June 2021, £14 million has been reclassified from cost of goods sold to excise duties

Free cash flow (£ million)

Generated £3,654 million from operating activities[1] and £3,037 million free cash flow.

Net cash from operating activities was £3,654 million, an increase of £1,334 million compared to fiscal 20. Free cash flow increased by £1,403 million to £3,037 million.

This was driven by an increase in operating profit, working capital management and receipt of a delayed 2019 dividend from associates, partially offset by an unfavourable movement in foreign exchange. Working capital benefitted from a large increase in creditors relative to the end of June 2020, when the creditor balance was particularly low as a result of reduced volumes and cost control measures. Creditors increased in fiscal 21 due to improved business performance and increased investment in marketing. Debtors and inventory levels also increased but to a lesser extent.



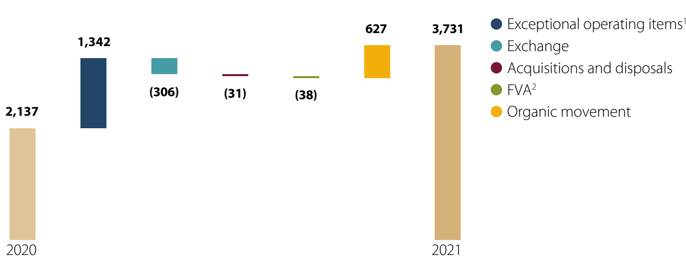
1. Net cash from operating activities excludes net capex and movements in loans and other investments (2021 – £(617) million; 2020 – £(686) million)
2. Exchange on operating profit before exceptional items
3. Operating profit excludes exchange, depreciation and amortisation, post employment charges and other non-cash items
4. Working capital movement includes maturing inventory
5. Other items include post employment payments, dividends received from associates and joint ventures, and movements in loans and other investments

Operating profit (£ million)

Reported operating profit grew 74.6%
Organic operating profit grew 17.7%

Reported operating profit increased 74.6%, primarily due to a significant reduction in exceptional operating items compared to fiscal 20, and growth in organic operating profit. This was partially offset by the negative impact from adverse exchange rate movements.[3]

Organic operating profit grew 17.7% ahead of organic net sales, driven by growth in all regions except Europe and Turkey.

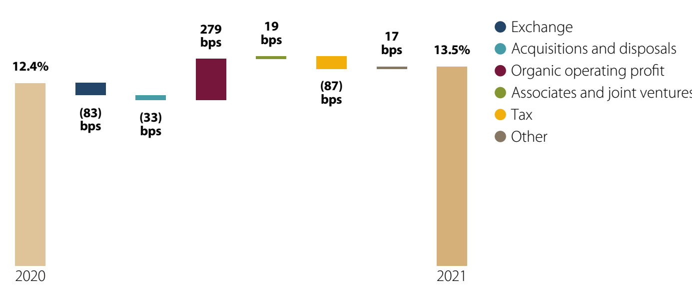


1. For further details on exceptional operating items see pages 151-152
2. Fair value remeasurements. For further details see page 60
3. For further details on exchange rate movements see page 145

Return on average invested capital (%)[1]

ROIC increased 112bps

ROIC increased 112bps against fiscal 20 driven mainly by organic operating profit growth, partially offset by increased tax and unfavourable exchange.



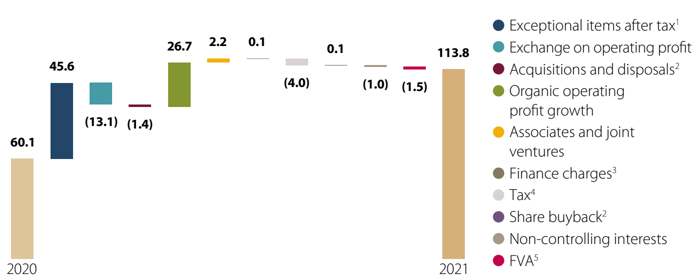
1. ROIC calculation excludes exceptional operating items from operating profit

Basic earnings per share (pence)

Basic eps increased 89.4% from 60.1 pence to 113.8 pence
Basic eps before exceptional items increased 7.4% from 109.4 pence to 117.5 pence

Basic eps increased 53.7 pence due to significantly lower exceptional items after tax and an increase in organic operating profit. This increase was partially offset by the impact from unfavourable exchange and higher tax charges.

Basic eps before exceptional items increased 8.1 pence, primarily driven by an increase in organic operating profit, partially offset by unfavourable exchange and to a lesser extent increased tax.



1. For further details on exceptional items see pages 151-152
2. Includes finance charges net of tax
3. Excludes finance charges related to acquisitions, disposals and share buyback
4. Excludes tax related to acquisitions, disposals and share buyback
5. Fair value remeasurements. For further details see page 60.

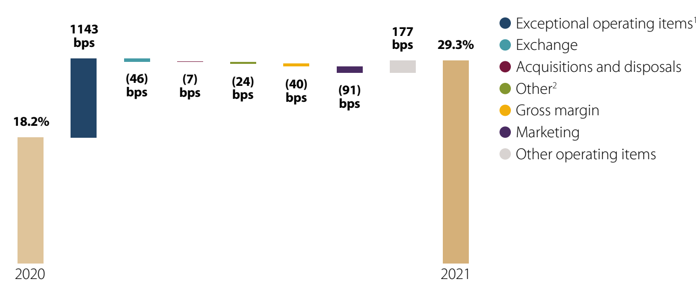
Operating margin (%)

Reported operating margin increased 1,112bps
Organic operating margin increased 46bps

Reported operating margin increased 1,112bps, mainly driven by a significant reduction in exceptional operating items compared to fiscal 20 and to a lesser extent by an increase in organic operating margin. This was partially offset by unfavourable exchange and fair value remeasurement.

Organic operating margin increased 46bps, driven by overhead efficiencies and lapping one-off expenses in fiscal 20 related to the operating environment disruption, partially offset by gross margin decline and upweighted marketing spend. In fiscal 21, we have upweighted marketing investment in the markets and categories with positive growth momentum, quickly responding to channel shifts and the increase in at-home occasions.

Gross margin declined 40bps driven by adverse mix, especially in our Guinness beer business, which was impacted by channel and market mix. Supply productivity and improved fixed cost absorption from volume growth largely offset inflation and one-off costs in the year.



1. For further details on exceptional operating items see pages 151-152
2. Fair value remeasurements and reclassification. For the year ended 30 June 2021, £14 million has been reclassified from cost of goods sold to excise duties. For further details on fair value remeasurements see page 60.

Income statement

	2020 £ million	Exchange (a) £ million	Acquisitions and disposals (b) £ million	Organic movement[1] £ million	Fair value remeasurement (d) £ million	Reclassification[2] £ million	2021 £ million
Sales	17,697	**(1,317)**	**(105)**	**2,878**	**–**	**–**	**19,153**
Excise duties	(5,945)	**517**	**40**	**(1,018)**	**–**	**(14)**	**(6,420)**
Net sales	11,752	**(800)**	**(65)**	**1,860**	**–**	**(14)**	**12,733**
Cost of sales	(4,654)	**325**	**59**	**(773)**	**(9)**	**14**	**(5,038)**
Gross profit	7,098	**(475)**	**(6)**	**1,087**	**(9)**	**–**	**7,695**
Marketing	(1,841)	**105**	**(9)**	**(417)**	**(1)**	**–**	**(2,163)**
Other operating items	(1,763)	**64**	**(16)**	**(43)**	**(28)**	**–**	**(1,786)**
Operating profit before exceptional items	3,494	**(306)**	**(31)**	**627**	**(38)**	**–**	**3,746**
Exceptional operating items (c)	(1,357)						**(15)**
Operating profit	2,137						**3,731**
Non-operating items (c)	(23)						**14**
Net finance charges	(353)						**(373)**
Share of after tax results of associates and joint ventures	282						**334**
Profit before taxation	2,043						**3,706**
Taxation (e)	(589)						**(907)**
Profit for the year	1,454						**2,799**

1. For the definition of organic movement see page 74
2. In the year ended 30 June 2021, £14 million has been reclassified from cost of good sold to excise duties

(a) Exchange

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

The effect of movements in exchange rates and other movements on profit before exceptional items and taxation for the year ended 30 June 2021 is set out in the table below.

	Gains/ (losses) £ million
Translation impact	**(207)**
Transaction impact	**(99)**
Operating profit before exceptional items	**(306)**
Net finance charges	**12**
Associates – translation impact	**4**
Profit before exceptional items and taxation	**(290)**

	Year ended 30 June 2021	Year ended 30 June 2020
Exchange rates		
Translation £1 =	**$1.35**	$1.26
Transaction £1 =	**$1.34**	$1.35
Translation £1 =	**€1.13**	€1.14
Transaction £1 =	**€1.14**	€1.12

(b) Acquisitions and disposals

The acquisitions and disposals movement was primarily attributable to the acquisition of Aviation Gin LLC ('Aviation Gin') and Davos Brands LLC ('Davos Brands') in the year ended 30 June 2021 and to the impact of prior year's disposals.

See pages 157-158 for further details

(c) Exceptional items

Exceptional operating items in the year ended 30 June 2021 were £15 million loss before tax (2020 – £1,357 million).

In the year ended 30 June 2021, based on recent developments, an additional provision of TRY 156 million (£15 million) was recorded as an exceptional item in respect of ongoing litigation in Turkey, bringing the provision's balance to TRY 272 million (£23 million) following a settlement of TRY 15 million (£1 million) during the year.

On 20 November 2020, the High Court of Justice of England and Wales issued a ruling that requires schemes to equalise pension benefits for men and women for the calculation of their guaranteed minimum pension liability (GMP) on historic transfers out, which resulted in an additional liability of £5 million. The corresponding expense was recognised as an exceptional operating item, consistent with the charge in relation to the initial GMP ruling in the year ended 30 June 2019.

An exceptional charge of $6 million (£5 million) was recognised as part of the 'Raising the Bar' programme, in addition to the commitment of $100 million (£81 million) announced in the year ended 30 June 2020. The additional charge represents the re-investment of corporate tax benefit in the fund in certain markets, where a corporate tax deduction is available. In the year ended 30 June 2021, an inventory provision of £7 million was released (2020 – a charge of £30 million) in respect of inventories that had earlier been expected to be returned and destroyed as a consequence of the Covid-19 pandemic, resulting in an exceptional gain. Given the original charge was classified as an exceptional item in the year ended 30 June 2020, the change to the provision was also classified as exceptional.

In the year ended 30 June 2021, an additional gain of $4 million (£3 million) (2020 – £83 million) was recognised in exceptional operating items for excess receipts in respect of substitution drawback claims on prior year accruals.

In the year ended 30 June 2020, an impairment charge of £1,345 million was recognised in exceptional operating items, comprising of £655 million in respect of the India cash-generating unit containing the India goodwill, £116 million in respect of the USL popular brands category (Old Tavern brand £78 million and Bagpiper brand £38 million) and £1 million in respect of fixed assets in India; £434 million in respect of the Windsor Premier brand; £84 million in respect of the group's Nigerian tangible fixed assets; and £55 million in respect of the group's Ethiopian tangible fixed assets.

In line with the group's accounting policy, given the unusual nature and magnitude of the below items, these were reported as exceptional operating items in the year ended 30 June 2020:

i. Diageo launched the 'Raising the Bar' programme, including a commitment of $100 million (£81 million) over a period of up to two years from 1 July 2020, to support pubs and bars to recover following the Covid-19 pandemic. Diageo also provided other forms of support to help the communities and the industry which amounted to £8 million.
ii. An exceptional charge of £30 million was recognised in respect of obsolete inventories that had been or were expected to be destroyed as a direct consequence of the Covid-19 pandemic. The amount comprised of a £23 million inventory provision and £7 million directly attributable to handling and destruction costs.
iii. An estimated benefit of $105 million (£83 million) for substitution drawback claims that had been filed and were to be filed with the US Government in relation to prior years was recognised in exceptional operating items.

An assessment was issued by the Korea Tax Authority in the year ended 30 June 2020 that resulted in the reversal of the prior year's provision in the amount of £24 million. The corresponding income was recognised as an exceptional operating item, consistent with the charge in relation to the initial provision in the year ended 30 June 2019.

Non-operating items in the year ended 30 June 2021 were £14 million income before tax (2020 – £23 million loss).

In the year ended 30 June 2021, ZAR 209 million (£10 million) of deferred consideration was paid to Diageo in respect of the sale of United National Breweries, the full amount of which represented a non-operating gain (2020 – loss of £32 million).

Certain United Spirits Limited subsidiaries were sold in the year ended 30 June 2021. The sale of businesses resulted in an exceptional gain of £3 million.

In the year ended 30 June 2021, the group reversed $2 million (£1 million) (2020 – £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 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.

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

See page 74 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 a £9 million gain for the year ended 30 June 2020. The adjustments to marketing and other operating expenses are the elimination of fair value changes to contingent consideration liabilities and earn out arrangements in respect of prior year acquisitions of £36 million loss for the year ended 30 June 2021 and £7 million loss for the year ended 30 June 2020.

(e) Taxation

The reported tax rate for the year ended 30 June 2021 was 24.5% compared with 28.8% for the year ended 30 June 2020.

On 24 May 2021, legislation was substantively enacted in the UK to increase the corporate tax rate to 25% with effect from 1 April 2023. As a result of the change, an exceptional tax charge of £46 million was recognised for the year ended 30 June 2021 in relation to the remeasurement of deferred tax assets and liabilities. In addition, there was a one-off charge of £48 million to other comprehensive income and equity, mainly in respect of the remeasurement of the deferred tax liabilities on the post employment assets.

On 15 December 2020, legislation was substantively enacted in the Netherlands to maintain the headline corporate tax rate at 25%, reversing a previously enacted reduction in the corporate tax rate to 21.7% in 2021. As a result of the change, an exceptional tax charge of £42 million was recognised for the year ended 31 June 2021 in relation to the remeasurement of deferred tax liabilities.

As disclosed in the 2020 Annual Report, Diageo 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 uncertainty about the precise nature of the spend, it could not be determined whether the amounts were deductible for tax purposes in future periods. As a result, no deferred tax asset was recognised in respect of the provision for the year ended 30 June 2020. In 2021, additional information regarding the nature of the spend was available and this has been re-assessed and a £5 million exceptional tax credit has been recognised, mainly in respect of amounts spent in the United States, United Kingdom and Ireland for the year ended 30 June 2021.

The reported tax charge for the year ended 30 June 2020 included 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.

The tax rate before exceptional items for the year ended 30 June 2021 was 22.2% compared with 21.7% for the year ended 30 June 2020.

We expect the tax rate before exceptional items for the year ending 30 June 2022 to be in the range of 22%-24%.

(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 2021 dividend cover is 1.6 times. The recommended final dividend for the year ended 30 June 2021, to be put to the shareholders for approval at the Annual General Meeting is 44.59 pence, an increase of 5% on the prior year final dividend. This brings the full year dividend to 72.55 pence per share, an increase of 4% on the prior year. We will keep future returns of capital, including dividends, under review through year ending 30 June 2022 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 register as of 27 August 2021. The ex-dividend date both for the holders of the ordinary shares and for US ADR holders is 26 August 2021. The final dividend, once approved by shareholders, will be paid to shareholders on 7 October 2021 and payment to US ADR holders will be made on 13 October 2021. A dividend reinvestment plan is available to holders of ordinary shares in respect of the final dividend and the plan notice date is 16 September 2021.

(g) Return of capital

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 from 1 July 2019 to 30 June 2022, utilising the most appropriate mechanic of either share buybacks or special dividends depending on market conditions. Under the first phase of the programme, which ended on 31 January 2020, the company returned £1.25 billion to shareholders via share buybacks. On 9 April 2020, due to uncertainties related to Covid-19 pandemic, Diageo announced that it had not initiated the next phase of the programme. On 12 May 2021, the Board approved recommencing the return of capital programme. Due to the impact of Covid-19, the original completion date for the programme has been extended by two years to 30 June 2024. The second phase of the programme of up to £1 billion to shareholders via share buybacks was also initiated on 12 May 2021 and it is expected to be completed by the end of the financial year ending 30 June 2022.

Between 12 May 2021 and 30 June 2021, the company purchased 3.2 million ordinary shares at a cost of £109 million (including £1 million of transaction costs). All shares purchased under the share buyback programmes were cancelled. A financial liability of £91 million was established at 30 June 2021 representing the 2.6 million shares that were expected to be purchased before 29 July 2021.

Movement in net borrowings and equity

Movement in net borrowings

	2021 £ million	2020 £ million
Net borrowings at the beginning of the year	**(13,246)**	(11,277)
Free cash flow (a)	**3,037**	1,634
Acquisitions (b)	**(488)**	(130)
Sale of businesses and brands	**14**	11
Share buyback programme	**(109)**	(1,282)
Proceeds from issue of share capital	**–**	1
Net sale of own shares for share schemes (c)	**49**	54
Dividends paid to non-controlling interests	**(77)**	(111)
Net movements in bonds (d)	**(216)**	4,368
Purchase of shares of non-controlling interests (e)	**(42)**	(62)
Movements in other borrowings (f)	**(753)**	(285)
Equity dividends paid	**(1,646)**	(1,646)
Net increase/(decrease) in cash and cash equivalents	**(231)**	2,552
Net increase/(decrease) in bonds and other borrowings	**967**	(4,089)
Exchange differences (g)	**598**	(95)
Other non-cash items (h)	**(197)**	(86)
Adoption of IFRS 16	**–**	(251)
Net borrowings at the end of the year	**(12,109)**	(13,246)

a. See page 57 for the analysis of free cash flow.
b. On 30 September 2020, Diageo completed the acquisition of Aviation Gin LLC and Davos Brands LLC to support Diageo's participation in the super premium gin segment for a total consideration of $337 million (£263 million) upfront in cash and contingent consideration of up to $275 million (£214 million) linked to performance targets. Diageo also completed a number of additional acquisitions in the year ended 30 June 2021 comprising: (i) on 26 February 2021, the acquisition of Chase Distillery Limited, to further support Diageo's participation in the premium-plus gin segment in the United Kingdom; (ii) on 8 March 2021, the acquisition of Far West Spirits LLC, owner of the Lone River Ranch Water brand, to improve Diageo's participation in the ready to drink category in the United States; and (iii) on 14 April 2021, the acquisition of Sons of Liberty Spirits Company, to expand Diageo's spirits-based ready to drink portfolio with Loyal 9 Cocktails. The aggregate up-front cash consideration paid on completion of these three transactions in the year ended 30 June 2021 was £95 million. In addition, two of these transactions include provision for further contingent consideration of up to £86 million in aggregate, in each case linked to performance targets, and one of the transactions provides for a further £2 million of deferred consideration, of which £1 million has been paid by 30 June 2021.
In the year ended 30 June 2020, Diageo acquired the remaining share capital of Seedlip Limited and Anna Seed 83 Limited (the brand owner of Aecorn) which it did not already own, and completed a number of smaller acquisitions.
In both financial years acquisitions also include additional investments as part of the Distill Ventures programme, as well as deferred and contingent consideration paid in respect of previous acquisitions.
c. Net sale of own shares comprised receipts from employees on the exercise of share options of £57 million (2020 – £56 million) less purchase of treasury shares for the future settlement of obligations under the employee share option schemes of £8 million (2020 – £2 million).
d. In the year ended 30 June 2021, the group issued bonds of €700 million (£636 million – net of discount and fee) and £395 million (including £5 million discount and fee) and repaid bonds of $696 million (£551 million) and €775 million (£696 million).
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).
e. In the year ended 30 June 2021, East African Breweries Limited (EABL), completed the purchase of 30% of the share capital of Serengeti Breweries Limited for $55 million (£42 million).
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, EABL completed the purchase of 4% of the share capital of Serengeti Breweries Limited for $3 million (£2 million).
f. In the year ended 30 June 2021, the net movements in other borrowings principally arose from cash movement of foreign exchange swaps and forwards. In the year ended 30 June 2020, the net movements in other borrowings principally arose from foreign exchange swaps and forwards, partially offset by the cash movement on lease liabilities.
g. The exchange differences arising on net borrowings of £598 million is primarily driven by favourable exchange movements on US dollar and euro denominated borrowings, partially offset by an unfavourable movement on cash and cash equivalents, foreign exchange swaps and forwards.
In the year ended 30 June 2020 the £95 million exchange on net borrowings was 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.
h. In the year ended 30 June 2021, other non-cash items are principally in respect of fair value changes of cross currency interest rate swaps and interest rate swaps partially offset by the fair value changes of borrowings. 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.

Movement in equity

	2021 £ million	2020 £ million
Equity at the beginning of the year	**8,440**	10,156
Profit for the year	**2,799**	1,454
Exchange adjustments (a)	**(836)**	(282)
Remeasurement of post employment plans net of taxation	**(27)**	3
Purchase of shares of non-controlling interests (b)	**(42)**	(62)
Associates' transactions with non-controlling interest	**(91)**	–
Dividends to non-controlling interests	**(72)**	(117)
Equity dividends paid	**(1,646)**	(1,646)
Share buyback programme	**(200)**	(1,256)
Other reserve movements	**106**	190
Equity at the end of the year	**8,431**	8,440

a. Exchange movement in the year ended 30 June 2021 primarily arose from exchange losses driven by the Indian rupee, the US dollar and the Turkish lira.
b. In the year ended 30 June 2021, East African Breweries Limited completed the purchase of 30% of the share capital of Serengeti Breweries Limited for $55 million (£42 million).
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).

Post employment plans

The net surplus of the group's post employment benefit plans have increased by £82 million from £362 million at 30 June 2020 to £444 million at 30 June 2021. The increase in net surplus is attributable to the favourable discount rate change in the United Kingdom, due to the increase in returns from 'AA' rated corporate bonds used to calculate the discount rates on the liabilities of the post employment plans (from 1.5% to 1.9%) that was partially offset by the change in inflation rate assumptions in the United Kingdom and Ireland (UK from 2.1% to 2.5%; Ireland from 1.2% to 1.6%). Following the experience analysis carried out for the Diageo Pension Scheme in the United Kingdom, demographic assumptions have been updated, having a further adverse impact on the net surplus.

The operating profit charge before exceptional items increased by £40 million from £47 million for the year ended 30 June 2020 to £87 million for the year ended 30 June 2021 . The operating profit charge for the year ended 30 June 2020 includes past service gain of £47 million in respect of the Guinness Ireland Group Pension Scheme (GIGPS), following 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, and curtailment gains of £12 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 2022 are estimated to be approximately £120 million.

North America

North America remains the second largest beverage alcohol market worldwide[1] and represents over one-third of our net sales.

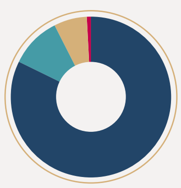
With consumers at the heart of our business, our strategy is focussed on accelerating growth through smart investments in current and new brands, data-led insights and executional excellence in our route to market. We have evolved our portfolio to lean into premiumisation, and recruit and re-recruit consumers. This year, we added to our ready to drink portfolio, capitalised on the e-commerce channel opportunity and dialled up our purposefulness to make a positive impact in the communities where we live and work.

1. IWSR, calendar year 2020.

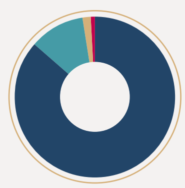
Key financials

	2020 £ million	Exchange £ million	Acquisitions and disposals £ million	**Organic movement £ million**	**Other[1] £ million**	**2021 £ million**	**Reported movement %**
Net sales	4,623	(353)	10	**929**	**–**	**5,209**	**13**
Marketing	727	(52)	12	**248**	**1**	**936**	**29**
Operating profit before exceptional items	2,034	(131)	(19)	**352**	**1**	**2,237**	**10**
Exceptional operating items[2]	54					**–**	
Operating profit	2,088					**2,237**	**7**

Reported net sales by market (%)



Reported net sales by category (%)



Markets:	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
North America[3]	11	10	20	13
US Spirits	13	14	24	16
DBC USA	10	10	12	5
Canada	3	3	4	1
Spirits	11	10	21	13
Beer[4]	8	8	10	3
Ready to drink[4]	55	48	101	89

Global giants, local stars and reserve[5]:	Organic volume movement[6] %	Organic net sales movement %	Reported net sales movement %
Crown Royal	10	12	5
Smirnoff	4	4	(2)
Johnnie Walker	8	15	8
Captain Morgan	6	5	(1)
Don Julio	72	68	57
Ketel One[7]	9	1	(6)
Guinness	–	2	(4)
Baileys	16	28	21
Bulleit	8	9	2
Cîroc vodka	25	26	18
Casamigos	115	125	110
Tanqueray	5	5	(1)

1. Fair value remeasurements. For further details see page 60.
2. For further details on exceptional operating items see pages 151-152

Our markets

Headquartered in New York, Diageo North America is comprised of US Spirits, Diageo Beer Company USA (DBC USA) and Diageo Canada, headquartered in Toronto.

Supply operations

With nine domestic production facilities across the United States, Canada and the US Virgin Islands, Diageo North America's supply function is one of the largest producers of beverage alcohol on the continent. We have made major investments in innovation and sustainability driving efficiency and best in class operations. To support the growth in our ready to drink portfolio, the manufacturing footprint is being expanded with the creation of a new RTD facility in Plainfield with capacity to produce over 25 million cases. The facility is due to be completed in summer 2021.

Route to consumer

The route to consumer in the United States is through the three-tier system across our spirits and beer/RTD 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 and spirits-based RTD products and manages sales through two divisions focussed 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

3. Reported volume and net sales growth include impacts from the disposal of a portfolio of 19 brands to Sazerac in a prior period and the acquisition of Aviation Gin LLC ('Aviation American Gin'), Davos Brands LLC ('Davos Brands'), Far West Spirits LLC ('Lone River') and Loyal 9 Cocktails from Sons of Liberty Spirits Company in the year ended 30 June 2021
4. Flavoured malt beverages have been reclassified from ready to drink to beer from 1 July 2020. This reflects the nature of these products and how management reviews performance. Movements reported in the table above are on a like for like basis.
5. Spirits brands excluding ready to drink and non-alcoholic variants.
6. Organic equals reported volume movement
7. Ketel One includes Ketel One vodka and Ketel One Botanical

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 focussed on developing competitive differentiation in both our brand propositions and our route to consumer. This includes building key capabilities around commercial execution, Revenue Growth Management, e-commerce and robust performance management all of which is underpinned by data and analytics.

'Society 2030: Spirit of Progress'

We are committed to supporting underrepresented communities, particularly in the areas of education and hospitality. This year, as part of the $20 million Diageo Community Fund, we funded permanent endowments at 25 Historically Black Colleges and Universities across the United States. We were also a founding contributor of the 'Raising the New York State Bar' Restaurant Recovery Fund to help businesses adjust to Covid-19 requirements, and we financially supported recovery efforts by Chicago neighbourhoods to create more public spaces. Our brands, including Bulleit, Don Julio and Guinness, also led various initiatives to help the hospitality industry and those whose livelihoods were directly affected by the pandemic. Promoting positive drinking is a priority for the company and we recently relaunched our DRINKiQ site with new content, design and interactive tools to redefine and improve the way we talk to people about drinking. Additionally, our brands – led by Crown Royal and its sports partnerships – reached 151 million consumers through responsible drinking campaigns.

As part of our ongoing sustainability efforts, we have analysed water flows and consumption at some of our sites, identifying significant opportunities for saving water across our operations. Our net zero carbon whiskey distillery at Lebanon, Kentucky will be powered by 100% renewable electricity; is designed for highly-efficient water usage; and will be operational later this year. Increasing recycled content in our packaging is another key priority and this year we doubled the recycled materials in our plastic bottles (rPET) as we further our efforts supporting progress towards our target of 40% recycled content by 2025.

Regional performance

- Net sales growth of 20%, following slower growth of 2% in fiscal 20, driven primarily by US Spirits.
- Strong growth primarily reflects resilient consumer demand, spirits category continuing to take share of total beverage alcohol and the replenishment of stock levels by distributors and retailers.
- Spirits growth of 21% reflects particularly strong performance in tequila and broad-based growth across all other spirits categories supported by consumer led marketing and innovation.
- Beer growth of 10% primarily driven by flavoured malt beverages.
- Organic operating margin decreased 124bps, primarily reflecting increased investment in marketing, adverse category mix and inflationary impact of agave.

Market highlights

US Spirits

Strong growth in tequila and broad based growth across all categories

Net sales increased 24%, reflecting resilient consumer demand, spirits category continuing to take share of total beverage alcohol and lapping a softer fiscal 20. Shipments were ahead of depletions by approximately 5 percentage points, due to the replenishment of stock levels by distributors, following a reduction by distributors of inventories in fiscal 20.

The tequila category benefitted from strong growth with its broad occasion appeal. Net sales increased 87% with Don Julio growing 69% and Casamigos growing 126% with both gaining spirits market and tequila category share. The acceleration of growth in our tequila portfolio reflects some benefit of price increases on Casamigos. This strong performance was delivered despite constraints on the supply of certain aged variants of our brands.

Crown Royal net sales increased 13% largely driven by continued momentum in Crown Royal Peach, Crown Royal Regal Apple and Crown Royal Vanilla. Crown Royal gained category share but growth was impacted by constraints in the supply of aged liquid.

Scotch grew 18%. Johnnie Walker net sales grew 19% benefitting from premiumisation trends with strong growth in Johnnie Walker super deluxe variants as well as Johnnie Walker Black Label. Buchanan's net sales increased 40% driven by commercial interventions in key states and a more effective media plan to recruit target consumers. Scotch malts declined 13%, lapping successful Game of Thrones innovations.

Vodka net sales grew 8%. Cîroc net sales increased 27% driven by strong growth in the core variant as well as key flavour variants resulting from refreshed activations to re-engage consumers. Smirnoff sales increased 5% as growth in new flavour variants including Smirnoff Pink Lemonade more than offset the decline in Smirnoff No.21 Red. Ketel One net sales increased 2% largely driven by Ketel One Botanical. Captain Morgan net sales grew 7%, largely driven by growth in Captain Morgan Spiced and the launch of Captain Morgan Sliced Apple.

Bulleit net sales increased 10% with upweighted marketing investment driving strong performance in the off-trade channel.

Baileys net sales grew 31% driven by strong volume growth, price increases on Baileys Original and the successful launches of Baileys Deliciously Light, Baileys Apple Pie limited time offer and Baileys Colada limited time offer.

Spirit based ready to drink innovations delivered a strong contribution driven primarily by the launch of Crown Royal Cocktails and Ketel One Botanical Vodka Spritz.

Diageo Beer Company USA

Continued growth of flavoured malt beverages

Net sales grew 12%. Flavoured malt beverages net sales increased 17%. Beer net sales, excluding flavoured malt beverages, increased 5% as off-trade beer sales growth more than offset lower keg sales from the on-trade slow down due to Covid-19.

Canada

Growing despite strong prior year performance

Net sales grew 4%, lapping a strong fiscal 20, with growth mainly in Baileys and ready to drink. This more than offset the decline in beer due to its higher on-trade exposure.

Marketing

Focussed investment in growth drivers

Marketing grew 34%, ahead of net sales, driven by investment across our brands behind opportunities in the off-trade and e-commerce channels, informed by our marketing analytics tools.

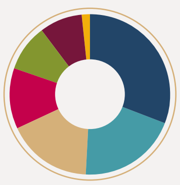
Europe and Turkey

Across our Europe business we have brought our consumer marketing programmes closer to our consumers and customers as we have embedded our new operating model in F21. We continue to optimise our route to market and execute our strategy of growth through international premium spirits and beer through premiumisation.

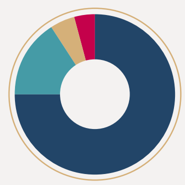
Key financials

	2020 £ million	Exchange £ million	Acquisitions and disposals £ million	**Organic movement £ million**	**Other[1] £ million**	**2021 £ million**	**Reported movement %**
Net sales	2,567	(85)	(32)	**108**	**–**	**2,558**	**–**
Marketing	428	(9)	(2)	**56**	**–**	**473**	**11**
Operating profit before exceptional items	757	(49)	(12)	**(38)**	**(23)**	**635**	**(16)**
Exceptional operating items[2]	(62)					**(15)**	
Operating profit	695					**620**	**(11)**

Reported net sales by market (%)



Reported net sales by category (%)



Markets:	**Organic volume movement %**	**Reported volume movement %**	**Organic net sales movement %**	**Reported net sales movement %**
Europe and Turkey[3]	**7**	**6**	**4**	**–**
Great Britain	**13**	**12**	**7**	**7**
Northern Europe	**17**	**17**	**22**	**23**
Southern Europe	**1**	**2**	**1**	**3**
Eastern Europe	**13**	**12**	**6**	**(4)**
Ireland	**(8)**	**(17)**	**(23)**	**(30)**
Turkey	**17**	**17**	**28**	**(3)**
Spirits	**10**	**9**	**11**	**7**
Beer[4]	**(12)**	**(18)**	**(21)**	**(25)**
Ready to drink[4]	**13**	**13**	**14**	**13**

Global giants and local stars[5]:	**Organic volume movement[6] %**	**Organic net sales movement %**	**Reported net sales movement %**
Guinness	**(11)**	**(19)**	**(19)**
Johnnie Walker	**12**	**10**	**4**
Baileys	**17**	**19**	**19**
Smirnoff	**(4)**	**(2)**	**(3)**
Captain Morgan	**18**	**17**	**16**
Yenì Raki	**2**	**(3)**	**(24)**
Tanqueray	**14**	**18**	**18**
J&B	**–**	**(1)**	**(3)**

Our markets

Fiscal 21 saw the new six market operating model come into operation across Europe. It now comprises of GB, Ireland, Northern Europe, Eastern Europe, Southern Europe and Turkey. All of these markets now operate 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 in the United Kingdom, Ireland and Italy. The group owns 30 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.

The company is currently investing £185million in Scotch whisky and tourism in Scotland to create a major new Johnnie Walker global brand attraction in Edinburgh (Johnnie Walker Princes Street), to transform its distillery visitor experiences and to bring the iconic lost distilleries of Brora and Port Ellen back into production. The distillery visitor investment will 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. Construction of Johnnie Walker Princes Street in Edinburgh will be completed later this year and we have already opened the new visitor experiences at Glenkinchie, Clynelish and Cardhu to the public. The revived Brora Distillery also began production in May 2021.

1. Fair value remeasurements. For further details see page 60.
2. For further details on exceptional operating items see pages 151-152
3. From 1 July 2020, Europe and Turkey are managed as six individual markets: Great Britain, Ireland, Northern Europe, Southern Europe, Eastern Europe and Turkey, each with end-to-end accountability. This reflects how management reviews performance.
4. Flavoured malt beverages have been reclassified from ready to drink to beer from 1 July 2020. This reflects the nature of these products and how management reviews performance. Movements reported in the table above are on a like for like basis.
5. Spirits brands excluding ready to drink and non-alcoholic variants
6. Organic equals reported volume movement

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, directly to retailers and directly to consumers through thebar.com. 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 Northern, Eastern and Southern Europe, we distribute our spirits brands primarily through our own in market companies (IMC) , 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.

'Society 2030: Spirit of Progress'

Promoting positive drinking, with a focus on moderation, remains a key priority. This year we launched an updated version of our DRINKiQ platform in key markets, including Great Britain, Ireland, Spain, Belgium, and Germany. We reached more than 79 million consumers with responsible drinking messages through our brands. We also launched a new drink driving e-learning module.

Our Learning for Life hospitality skills programme reached over 2,700 people in Great Britain, Italy, Spain, Ireland, Portugal, the Netherlands, Belgium, Germany and Greece.

Three of our distilleries in Scotland achieved carbon neutrality in their operations this year. Our Oban, Royal Lochnagar and Brora distilleries in Scotland use renewable liquid biofuel or renewable locally-sourced woodchip biomass – saving approximately 3,500 tonnes of carbon emissions per year.

Regional performance

- Net sales increased 4%, following a significant decline in fiscal 20, primarily reflecting strong consumer demand in the off-trade channel and market share gains. The on-trade remained impacted.
- Growth was primarily driven by Northern Europe, Turkey and Great Britain.
- Southern Europe experienced slower growth, and Ireland declined significantly, due to the higher exposure to the on-trade in those markets.
- Spirits net sales grew 11%, with broad-based growth across scotch, Baileys, rum, gin and raki.
- Beer net sales declined 21%, driven by Guinness in Ireland and Great Britain, as a result of higher exposure to the on-trade.
- Travel Retail Europe declined 56%, reflecting the continued restrictions on international travel.
- Operating margin declined 265bps due to the adverse mix impact from on-trade closures and growth in marketing investment ahead of net sales.

Market highlights

Great Britain

Strong off-trade growth

Net sales increased 7% primarily driven by strong consumer demand in the off-trade. The e-commerce channel experienced strong growth as consumption shifted to the at-home occasion. Spirits growth of 16% was driven by scotch, Baileys, vodka and gin, supported by innovation, including Gordon's Sicilian Lemon and Captain Morgan Tiki. Beer declined 16% due to the significant impact of lost sales in the on-trade being only partially offset by strong growth in the off-trade channel.

Northern Europe

Strong off-trade growth

Net sales increased 22%, reflecting strong off-trade growth primarily driven by scotch and Baileys. Baileys grew 30%, benefiting from innovation, including Baileys Salted Caramel. Scotch sales grew 24% driven by Johnnie Walker and scotch malts.

Southern Europe

Slower growth due to higher on-trade exposure

Net sales increased 1%. The slower pace of recovery reflects the continued impact of on-trade restrictions and reduced tourism. Growth was mainly driven by rum, partially offset by a decline in vodka.

Eastern Europe[1]

Growth mainly driven by Russia

Net sales increased 6%, mainly driven by strong growth in Russia, partially offset by decreased sales in Lebanon as a result of on-trade restrictions and political instability.

Ireland

Severe on-trade restrictions drove net sales decline

Net sales declined 23%, primarily due to a decline in Guinness net sales of 32% as a result of continued on-trade restrictions. Spirits grew 14% driven by strong off-trade growth, particularly in Baileys and Gordon's.

Turkey

Strong scotch and raki performance

Net sales increased 28%, driven partially by inflation and excise-led price increases. Scotch sales grew 94% driven by strong off-trade momentum, particularly in Johnnie Walker. Raki grew 10%, driven by our more premium variant Tekirdağ Raki, partially offset by decreased sales of Yenì Raki, reflecting increased category premiumisation.

Travel Retail Europe

Significant impact from international travel restrictions

Net sales declined 56%.

Marketing

Increased investment behind growth drivers

Investment increased 13%, ahead of net sales, driven by upweighted media spend and strong activation in the off-trade and e-commerce channels.

1. The Diageo Eastern Europe market includes the Middle East and North Africa (MENA)

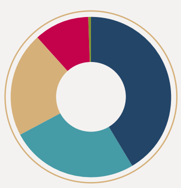
Africa

In Africa our strategy is to grow through selective participation in beer, near beer and spirits, leveraging the broad range of the Diageo Portfolio. Guinness, Malta Guinness and several local brands including Tusker and Serengeti 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 at the mid-level price range and tailored to local tastes and flavours. Our operating model builds resilience into our African businesses and we drive smart investments through local manufacturing, innovation and partnerships to unlock growth. Local sourcing is very important to our strategy, currently at 80%, directly supporting our commercial operations whilst bringing wider economic benefits to local communities, agricultural development and farmers.

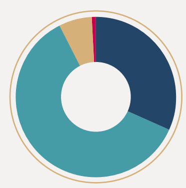
Key financials

	2020 £ million	Exchange £ million	Acquisitions and disposals £ million	**Organic movement £ million**	**2021 £ million**	**Reported movement %**
Net sales	1,346	(150)	(42)	**258**	**1,412**	**5**
Marketing	160	(13)	(1)	**22**	**168**	**5**
Operating profit before exceptional items	101	(43)	–	**113**	**171**	**69**
Exceptional operating items[1]	(145)				**–**	
Operating profit	(44)				**171**	**489**

Reported net sales by market (%)



Reported net sales by category (%)



Markets:	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
Africa[2]	**18**	**10**	**20**	**5**
East Africa	**13**	**13**	**13**	**2**
Africa Regional Markets[2]	**12**	**(12)**	**15**	**(2)**
Nigeria	**39**	**39**	**57**	**35**
South Africa[2]	**13**	**8**	**11**	**(7)**
Spirits	**20**	**20**	**21**	**10**
Beer[3]	**15**	**15**	**19**	**7**
Ready to drink[2,3]	**30**	**7**	**31**	**(2)**

Global giants and local stars[4]:	Organic volume movement[5] %	Organic net sales movement %	Reported net sales movement %
Guinness	**30**	**32**	**22**
Johnnie Walker	**(5)**	**4**	**(2)**
Smirnoff	**28**	**20**	**9**
Other beer:			
Malta Guinness	**38**	**35**	**19**
Senator	**2**	**4**	**(7)**
Tusker	**8**	**4**	**(6)**
Serengeti	**6**	**7**	**(1)**

1. For further details on exceptional operating items see pages 151-152
2. Africa, Africa Regional Markets, South Africa and ready to drink reported volume movement impacted by disposals. For further details see pages 157-158.
3. Flavoured malt beverages have been reclassified from ready to drink to beer from 1 July 2020. This reflects the nature of these products and how management reviews performance. Movements reported in the table above are on a like for like basis.

Our markets

The region comprises East Africa (Kenya, Tanzania and Uganda), Africa Regional Markets (including 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, malting and bottling services. In addition, our beer and mainstream spirits brands are produced under licence by third parties in 14 African countries and we distribute beer and spirits through several third party relationships across the region.

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.

4. Spirits brands excluding ready to drink and non-alcoholic variants
5. Organic equals reported volume movement

'Society 2030: Spirit of Progress'
We continue to focus on campaigns and programmes to promote positive drinking, and have seen notable successes this year despite the disruption caused by Covid-19. For example, SMASHED reached 69,932 people across the region.

At the same time, we continued to work with the many smallholders and farmers across Africa who supply us with raw materials, and to make significant investments in our breweries, where we are developing solar and biomass energy projects and water treatment plants.

Our partnership with the NGO WaterAid continues to bring clean water, sanitation and hygiene (WASH) programmes to communities across Africa. These WASH projects were especially important this year as hand washing plays a key preventative role in addressing Covid-19 and we more than doubled our target for reaching beneficiaries. By the end of the year we had reached 54,691 people through initiatives such as our Budada project in Eastern Uganda, which involved the construction of a water reservoir and pump house and the laying of over three kilometres of pipelines to supply three standpipes which provide precious clean water to the community.

This year water efficiency improved by 15% across the region, realising the benefits from our investments in water recovery and reuse in Uganda and Kenya. While the implementation of biomass installations in East Africa was delayed due to Covid-19 , the programme is now well advanced. Commissioning of the new facilities will start later this year as we switch from fossil to renewable fuels to power our breweries in the region. At our facility in Kisumu, Kenya, 8% of the site's electricity consumption is now generated from onsite solar panels. On our journey to net zero carbon emissions by 2030, we intend to increase our solar capacity at Kisumu and extend this proven pilot project across Africa.

Regional performance
– Net sales grew 20%, following a decline in fiscal 20, driven by Nigeria, East Africa and Africa Regional Markets.
– Strong performance reflects resilience in consumer demand in the off-trade and partial recovery of the on-trade, despite ongoing Covid-19 restrictions.
– Slower growth in South Africa, due to trade restrictions and periodic bans on alcohol sales.
– Beer net sales grew 19% primarily driven by Guinness and Malta Guinness.
– Spirits net sales grew 21% mainly driven by growth in mainstream spirits.
– Operating margin improved 586bps, lapping a significant decline in fiscal 20. Margin improvement was driven by net sales recovery, positive price/mix and productivity initiatives, partially offset by market mix.

Market highlights

East Africa
Growth across all markets
Net sales grew 13%, lapping a 10% decline in fiscal 20. Kenya grew 11%, with strong spirits growth, particularly in mainstream gin, and slower beer growth due to on-trade restrictions. Uganda grew 24% driven primarily by strong beer growth, benefitting from production capacity expansion. Tanzania net sales grew 10%, building on growth in fiscal 20.

Africa Regional Markets
Growth driven by strong Guinness performance
Net sales grew 15%, following a decline in fiscal 20 with good growth in Ghana and Cameroon, partially offset by continued decline in Ethiopia. Guinness grew 28%, benefiting from focussed strategic marketing investment and improved supply capacity.

Nigeria
Strong broad based recovery
Net sales grew 57%, partially benefitting from lapping a soft comparative. Strong growth in beer, mainstream spirits and international premium spirits reflects momentum in the off-trade and improved route to consumer across the business. Growth in beer was primarily driven by Guinness and Malta Guinness which also benefitted from partial recovery of the on-trade and innovation.

South Africa
Market impacted by Covid-19 related restrictions
Net sales grew 11%, following a disrupted fiscal 20, despite on- and off-trade closures and periodic bans on sales and distribution of alcohol. Growth was primarily driven by scotch, followed by vodka and gin.

Marketing
Focussed investment in off-trade and new channels
Marketing spend grew 14%, behind net sales growth. Investment in the on-trade was selectively scaled back and spending was focussed on the off-trade, e-commerce and new route to consumer programmes.

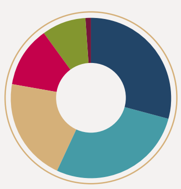
Latin America and Caribbean

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.

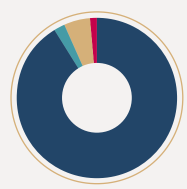
Key financials

	2020 £ million	Exchange £ million	Acquisitions and disposals £ million	**Organic movement £ million**	**Other[1] £ million**	**2021 £ million**	**Reported movement %**
Net sales	908	(137)	–	**275**	**–**	**1,046**	**15**
Marketing	155	(22)	–	**28**	**–**	**161**	**4**
Operating profit before exceptional items	248	(82)	–	**153**	**(16)**	**303**	**22**
Exceptional operating items[2]	(6)					**–**	
Operating profit	242					**303**	**25**

Reported net sales by market (%)



Reported net sales by category (%)



Markets:	**Organic volume movement %**	**Reported volume movement %**	**Organic net sales movement %**	**Reported net sales movement %**
Latin America and Caribbean	**22**	**22**	**30**	**15**
PUB	**24**	**24**	**50**	**20**
Mexico	**10**	**10**	**24**	**11**
CCA	**15**	**15**	**12**	**8**
Andean	**27**	**27**	**33**	**19**
PEBAC	**47**	**47**	**73**	**62**
Spirits	**22**	**22**	**30**	**15**
Beer[3]	**11**	**11**	**17**	**16**
Ready to drink[3]	**24**	**24**	**38**	**17**

Global giants and local stars[4]:	**Organic volume movement[5] %**	**Organic net sales movement %**	**Reported net sales movement %**
Johnnie Walker	**25**	**29**	**16**
Buchanan's	**18**	**23**	**11**
Old Parr	**14**	**16**	**4**
Smirnoff	**16**	**25**	**7**
Black & White	**33**	**44**	**26**
Tanqueray	**27**	**34**	**11**
Baileys	**39**	**44**	**32**

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.

1. Fair value remeasurements. For further details see page 60.
2. For further details on exceptional operating items see pages 151-152
3. Flavoured malt beverages have been reclassified from ready to drink to beer from 1 July 2020. This reflects the nature of these products and how management reviews performance. Movements reported in the table above are on a like for like basis.
4. Spirits brands excluding ready to drink and non-alcoholic variants
5. Organic equals reported volume movement

'Society 2030: Spirit of Progress'
As in other regions, we supported efforts to combat Covid-19 through donations. For example, in September 2020 we donated 8,000 480ml bottles of 70% liquid alcohol to the Brazilian Red Cross who distributed them to the vulnerable. The Diageo Institute also supported an initiative where women prisoners manufactured protective masks for use in the prison system – an extension of the Tecendo o Futuro (Weaving the Future) programme, which promotes the employment and re-socialisation of inmates at the Auri Moura Costa Female Criminal Institute in Aquiraz, Brazil. We also became a signatory to the UN's Women Empowerment Principles.

Our SMASHED programme educated over 38,000 people across the region on the dangers of underage drinking. In 2021 we launched the new version of DRINKiQ in Brazil, Colombia, Uruguay, Peru and Mexico. Brands including Johnnie Walker, Smirnoff and Tanqueray launched social media campaigns which emphasised messages of responsible drinking, reaching 132 million people across the region.

Our 'Raising The Bar' and #BarResponsável Manifest programmes supported people in the hospitality industries in Mexico and Brazil in the face of the challenges brought by the Covid-19 pandemic. So far over 1,000 outlets have registered in our programme. Our Learning for Life skills programme moved some elements online in response to the pandemic, and reached over 2,500 people, including 129 in the Dominican Republic. The virtual part of the programme lasted for one month and culminated with practical sessions and internships adhering to Covid-19 safety protocols. More than 70% of participants were women. In Mexico, we began a collaboration with Mujer Emprende and Victoria147, the first online business academy in Latin America aimed at women.

We continue to make progress on the grain-to-glass sustainability journey: 18% of our energy is now from renewable sources and in Brazil, 47% of all energy use is derived from renewable sources. Our new facility in Ceará state, Brazil, which brings together production from two existing sites, will use solar energy to further increase our use of renewable energy and will use water treatment and reuse facilities to reduce water consumption in beverage production by up to 40%.

Regional performance

– Net sales increased 30%, lapping a significant decline in fiscal 20, driven by growth in all markets.
– Growth reflects resilient consumer demand in the off-trade channel and price increases in key markets.
– Spirits grew 30% with strong growth across key categories, particularly scotch.
– Travel Retail Latin America and Caribbean declined 63% due to continued international travel restrictions.
– Operating margin improved by 674bps driven by net sales recovery, positive price interventions and productivity initiatives.

Market highlights

PUB (Paraguay, Uruguay and Brazil)
Strong broad based growth in key categories
Net sales increased 50%, primarily driven by scotch, as well as growth in gin, vodka and ready-to-drink. Scotch net sales increased 66%, with double-digit growth in Johnnie Walker and triple-digit growth in White Horse. Brazil net sales grew 62%, reflecting a recovery in consumption and pricing interventions, which more than offset a decline in duty free sales.

Mexico
Market recovery supported by strong off-trade execution
Net sales increased 24%, benefitting from lapping a reduction of inventory levels by distributors in fiscal 20 and growth in the off-trade channel in fiscal 21. Tequila grew 47% driven by Don Julio, supported by limited editions and a strong activation plan, resulting in share gains in the off-trade. Scotch sales grew 12% driven by Buchanan's and Johnnie Walker.

CCA (Caribbean and Central America)
Growth in domestic consumption
Net sales increased 12%, lapping the decline in fiscal 20 due to reduced levels of international tourism and on-trade restrictions. Growth was driven by domestic consumption supported by "The Moment is Now" campaign. Scotch net sales increased 13% driven by double digit growth of Johnnie Walker, Buchanan's and Old Parr.

Andean (Colombia and Venezuela)
Growth driven by strong scotch performance in Colombia
Net sales increased 33%, building on growth in fiscal 20, driven by Colombia. Growth was primarily driven by scotch with net sales increase of 25% driven by double-digit growth in Buchanan's and triple-digit growth in Black & White.

PEBAC (Peru, Ecuador, Bolivia, Argentina and Chile)
Partial recovery following significant declines in fiscal 20
Net sales increased 73%, lapping a significant decline in fiscal 20 due to ongoing social and political instability across key markets and the impact of Covid-19. Growth in fiscal 21 was supported by strong execution through enhanced distribution partnerships. Scotch delivered double-digit net sales growth, primarily driven by Johnnie Walker.

Travel Retail Latin America and Caribbean
Persistent travel restrictions affect performance
Net sales decreased 63% due to continued international travel restrictions.

Marketing
Investment redeployed to off-trade and e-commerce
Investment increased 18%, behind net sales, following a decline in fiscal 20. On-trade marketing was redeployed to the off-trade and e-commerce in response to at-home consumption trends.

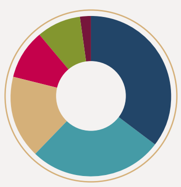
Asia Pacific

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.

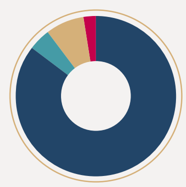
Key financials

	2020 £ million	Exchange £ million	Reclassification[1] £ million	Acquisitions and disposals £ million	**Organic movement £ million**	**2021 £ million**	**Reported movement %**
Net sales	2,270	(75)	(14)	(1)	**308**	**2,488**	**10**
Marketing	365	(7)	–	–	**60**	**418**	**15**
Operating profit before exceptional items	501	(6)	–	–	**113**	**608**	**21**
Exceptional operating items[2]	(1,198)					**–**	
Operating profit	(697)					**608**	**187**

Reported net sales by market (%)



Reported net sales by category (%)



Markets:	**Organic volume movement %**	**Reported volume movement %**	**Organic net sales movement %**	**Reported net sales movement %**
Asia Pacific	**9**	**9**	**14**	**10**
India	**9**	**9**	**13**	**4**
Greater China	**24**	**24**	**38**	**37**
Australia	**21**	**22**	**23**	**29**
South East Asia	**–**	**(1)**	**7**	**(3)**
North Asia	**18**	**16**	**9**	**4**
Travel Retail Asia and Middle East	**(57)**	**(57)**	**(63)**	**(63)**
Spirits	**9**	**9**	**12**	**8**
Beer[3]	**9**	**9**	**9**	**(7)**
Ready to drink[3]	**13**	**13**	**16**	**20**

Global giants, local stars and reserve[4]:	**Organic volume movement[5] %**	**Organic net sales movement %**	**Reported net sales movement %**
Johnnie Walker	**4**	**3**	**2**
McDowell's	**10**	**10**	**1**
Shui Jing Fang[6]	**42**	**51**	**51**
Guinness	**8**	**9**	**(8)**
The Singleton	**6**	**5**	**5**
Smirnoff	**–**	**(4)**	**(4)**
Windsor	**(16)**	**(6)**	**(8)**
Bundaberg	**6**	**4**	**9**

1. For fiscal 21, £14 million has been reclassified from cost of good sold to excise duties
2. For further details on exceptional operating items see pages 151-152
3. Flavoured malt beverages have been reclassified from ready to drink to beer from 1 July 2020. This reflects the nature of these products and how management reviews performance. Movements reported in the table above are on a like for like basis.

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 15 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 63.17% equity investment in Sichuan Shuijingfang Company Limited which manufactures and sells baijiu, and our wholly owned entity Diageo China

4. Spirits brands excluding ready to drink and non-alcoholic variants
5. Organic equals reported volume movement
6. Growth figures represent total Chinese white spirits of which Shui Jing Fang is the principal brand

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, sales are through our wholly owned entity Diageo Japan as well as through joint venture agreements with Moët Hennessy. 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.

'Society 2030: Spirit of Progress'

We continue to promote positive drinking across the region and this year saw a number of new partnerships and approaches alongside our longstanding campaigns. In Taiwan, for example, we formed a partnership with local doctors to promote moderation and worked with the Mackay Memorial Hospital in Taipei to incorporate our DRINKiQ resources into the training materials used by local government vehicle authorities. In China we signed a memorandum of understanding with one of the country's largest e-commerce providers to promote responsible drinking and moderate consumption of alcohol among Chinese consumers. Our SMASHED programme, which educates people on the dangers of underage drinking, reached 52,189 people, and launched an online version in India and Australia. In India alone, we reached nine million people with responsible drinking messages from our brands.

Through programmes such as Learning for Life we reached 2,142 people with skills and empowerment training.

Water efficiency improved by 9.4% this year and we also began development work on a water replenishment programme in Bali. In India, we replenished 198,500m^3 of water. Renewable energy accounts for 98% of our total energy consumption with onsite renewable electricity generation accounting for 54% of our total demand, in India. Consequently, GHG emissions reduced by 80% year-on-year and plans are in development to eliminate the residual emissions, on our journey to net zero by 2030.

Regional performance

- Net sales grew 14%, following a significant decline in fiscal 20, driven by Greater China, India and Australia, partially offset by a continued significant decline in Travel Retail Asia and Middle East.
- Growth reflects strong recovery in China and off-trade momentum in most markets.
- Slower growth in North Asia and South East Asia reflects continuing impact of Covid-19.
- Spirits grew 12% driven mainly by Chinese white spirits, IMFL whisky and scotch.
- Operating margin grew 169bps driven primarily by positive market mix, category mix and operating leverage driven by net sales recovery.

Market highlights

India

Partial recovery in a challenging environment

Net sales grew 13%, lapping a significant decline in fiscal 20, despite the continued economic slowdown and the impact of Covid-19. Growth was driven by off-trade momentum, and the occurrence of the Indian Premier League which was postponed from fiscal 20, partially offset by the contraction of business in Andhra Pradesh and restrictions in the on-trade channel. The Prestige and Above segment grew 12%, with strong performance in scotch and growth of the renovated McDowell's No.1 whisky. Net sales in the popular brands segment declined 1%.

Greater China

Strong market recovery

Net sales increased 38%, lapping a decline in fiscal 20. Growth was driven by Chinese white spirits and scotch which grew 53% and 21%, respectively. Double-digit growth in scotch malts and Johnnie Walker super deluxe was driven by focussed investment, innovation and route to market expansion, including increased city coverage and new distribution channels.

Australia

Strong growth across categories

Net sales increased 23%, building on mid-single digit growth in fiscal 20, benefiting from a strong spirits category, including spirits taking share of total beverage alcohol and off-trade momentum. Growth was broad based across categories, with particularly strong performance in ready to drink. Ready to drink net sales grew 27% supported by the Smirnoff Spiked Seltzers and Gordon's Pink Gin Premix innovations.

South East Asia

Soft growth due to Covid-19 impact

Net sales grew 7%, lapping significant decline in fiscal 20. Growth was mainly driven by strong scotch performance in Vietnam, due to Johnnie Walker super deluxe variants and scotch malts. Key Accounts grew 11%, lapping double-digit decline in fiscal 20. However, Covid-19 related restrictions continued to impact tourism in many markets.

North Asia

Covid-19 continues to impact recovery

Net sales grew 9%, lapping double-digit decline in fiscal 20, driven by momentum in the off trade. Japan net sales grew 8% benefiting from focussed investment in Johnnie Walker and White Horse. Korea grew net sales 10%, driven primarily by Johnnie Walker, partially offset by continuing decline in Windsor.

Travel Retail Asia and Middle East

Persistent travel restrictions continue to impact performance

Net sales declined 63%.

Marketing

Increased investment behind growth drivers

Investment increased 16%, mainly in Greater China, across Chinese white spirits and scotch. Australia and North Asia also invested ahead of net sales. Marketing investment was reduced in the more impacted markets of South East Asia and Travel Retail Asia and Middle East.

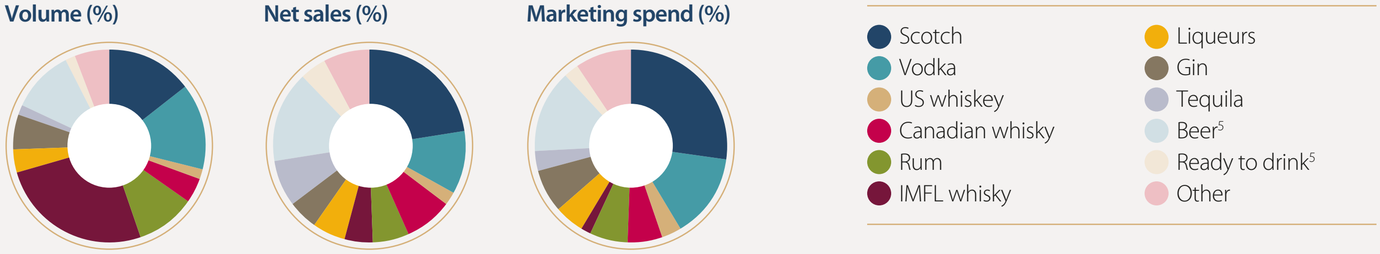
Category and brand review

Key categories

	Organic volume movement[1] %	Organic net sales movement %	Reported net sales movement %
Spirits[2]	**11**	**18**	**11**
Scotch	15	15	8
Vodka[3,4]	7	7	1
Canadian whisky	8	12	4
Rum[3]	–	7	1
Liqueurs	15	22	18
Indian-Made Foreign Liquor (IMFL) whisky	13	12	3
Tequila	70	79	67
Gin[3]	14	14	12
US whiskey	3	7	1
Beer[5]	**8**	**4**	**(4)**
Ready to drink[5]	**24**	**30**	**21**

1. Organic equals reported volume movement except for rum (1)%, liqueurs 14%, tequila 69%, gin 15%, US whiskey 4%, beer 7% and ready to drink 16%, which were impacted by acquisitions and disposals
2. Spirits brands excluding ready to drink and non-alcoholic variants
3. Vodka, rum, gin including IMFL brands
4. Vodka includes Ketel One Botanical
5. Flavoured malt beverages have been reclassified from ready to drink to beer from 1 July 2020. This reflects the nature of these products and how management reviews performance. Movements reported in the table above are on a like for like basis.

Volume (%) **Net sales (%)** **Marketing spend (%)**



Scotch

23% of Diageo's net sales and grew 15%

Growth in all regions partially offset by the impact of Covid-19 on Travel Retail.

- Johnnie Walker net sales increased 12% with growth in all regions.
  - Johnnie Walker Reserve grew 23% mainly driven by US Spirits, Greater China, Vietnam and South Korea.
  - Johnnie Walker Red Label grew 19% with strong growth in Brazil, PEBAC, Turkey, Northern Europe and India driven by consumption recovery.
  - Johnnie Walker Black Label grew 6%, with growth in all regions except Africa.
- Primary scotch brands grew 27% driven by White Horse and Black & White in Latin America and Caribbean and Bell's in Europe and Turkey.
- Scotch malts grew 11% driven by Asia Pacific and Europe and Turkey partially offset by a decline in North America.
- Buchanan's net sales grew 29% driven by strong growth in North America and Latin America and Caribbean.
- Old Parr net sales increased 16% driven by strong growth in Brazil.

Vodka

10% of Diageo's net sales and grew 7%

Growth in all regions except Asia Pacific.

- Cîroc grew 26% driven mainly by US Spirits on the back of refreshed activations to engage with Cîroc's consumer base.
- Smirnoff net sales increased 5% driven by growth in Smirnoff flavours in North America, Africa and Latin America and Caribbean partially offset by declines in Europe and Turkey and Asia Pacific.
- Ketel One performance was flat with growth in North America offset by a decline in Europe and Turkey.

Tequila

8% of Diageo's net sales and grew 79%

Growth was mainly driven by strong performance of Don Julio and Casamigos within the fast growing tequila category in North America which benefitted from its broad occasion appeal.

Canadian whisky

8% of Diageo's net sales and grew 12%

Growth of Crown Royal in North America was largely driven by continued momentum on flavours with Crown Royal Regal Apple, Crown Royal Peach and Crown Royal Vanilla all growing strongly.

Rum

6% of Diageo's net sales and grew 7%

Growth was driven by Captain Morgan in North America, Great Britain, Northern Europe and Southern Europe, Zacapa in North America and Europe and Turkey, partially offset by a decline in McDowell's No.1 in India.

Liqueurs

6% of Diageo's net sales and grew 22%

Growth was driven by Baileys, which had broad-based growth across all regions. Performance was driven by Baileys Original, the successful launches of Baileys Deliciously Light and Baileys Apple Pie limited time offer and continued focus on Baileys' positioning as a year-round indulgent treat.

IMFL whisky

5% of Diageo's net sales and grew 12%.

The growth was driven by McDowell's No.1, McDowell's No.1 Luxury and Haywards Fine Whisky.

Gin

5% of Diageo's net sales and grew 14%

Growth across all regions with strong double-digit growth in Africa and Latin America and Caribbean.

- Growth in Africa was mainly driven by Gilbey's in Kenya and broad-based growth of Gordon's across the region.
- Growth in Latin America and Caribbean was mainly driven by growth of Tanqueray and Gordon's in Brazil.
- Growth in Europe was mainly driven by Gordon's and Tanqueray in Great Britain and Tanqueray in Northern Europe.

US whiskey

2% of Diageo's net sales and grew 7%

Performance was driven by strong growth in Bulleit and George Dickel in North America.

Beer

15% of Diageo's net sales and grew 4%

- Guinness was overall flat with strong growth in Africa, particularly Nigeria following partial recovery of the on-trade and Cameroon due to improved supply capacity and improved recruitment, offset by decline in Europe and Turkey where sales decreased 19% due to the continuing impact of Covid-19 on the on-trade, particularly in Ireland and Great Britain.
- Beer in Africa grew 19% driven by Guinness and Malta Guinness.
- Smirnoff flavoured malt beverages in Diageo Beer Company USA increased 17%.

Ready to drink

4% of Diageo's net sales and grew 30%

Growth was broad-based across all regions, particularly in the US Spirits and Australia markets. US Spirits ready to drink performance was driven by successful launches of Crown Royal Cocktails and Ketel One Botanical Vodka Spritz and Australia ready to drink performance was driven by Smirnoff, Bundaberg and Gordon's ready to drink variants.

Global giants

37% of Diageo's net sales and grew by 9%

All brands grew net sales apart from Guinness which was flat due to restrictions on the on-trade channel, particularly in Great Britain and Ireland, which was offset by growth in Guinness Foreign Extra Stout and Guinness Extra Smooth in Africa and Guinness Draught in Can in Europe and Turkey.

Local stars

20% of Diageo's net sales and grew 17%

Largely driven by growth in net sales in Chinese white spirits in Asia Pacific, Crown Royal in North America, Buchanan's in North America and Latin America and Caribbean and McDowell's No.1 in India.

Reserve

25% of Diageo's net sales and grew 36%

Largely driven by the strong net sales growth of Casamigos and Don Julio in US Spirits, Chinese white spirits in Asia Pacific and Johnnie Walker Reserve variants in all regions.

Global giants, local stars and reserve[1]:

	Organic volume movement[2] %	Organic net sales movement %	Reported net sales movement %
Global giants			
Johnnie Walker	11	12	6
Smirnoff	6	5	(1)
Baileys	18	24	20
Captain Morgan	10	9	4
Tanqueray	10	12	6
Guinness	7	–	(6)
Local stars			
Crown Royal	9	12	5
Yenì Raki	2	(3)	(24)
Buchanan's	24	29	19
JεB	3	3	(1)
Windsor	(16)	(6)	(8)
Old Parr	14	16	5
Bundaberg	6	5	10
Black & White	24	26	12
Ypióca	10	9	(15)
McDowell's	10	11	1
Shui Jing Fang[3]	42	51	51
Reserve			
Scotch malts	10	11	9
Cîroc vodka	23	26	19
Ketel One[4]	6	–	(6)
Don Julio	50	62	51
Bulleit	9	10	3
Casamigos	114	125	110

1. Spirits brands excluding ready to drink and non-alcoholic variants
2. Organic equals reported volume movement
3. Growth figures represent total Chinese white spirits of which Shui Jing Fang is the principal brand
4. Ketel One includes Ketel One vodka and Ketel One Botanical

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 to the most comparable GAAP measure 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 performance indicator 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 '2020 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.

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. Results from hyperinflationary economies are translated at respective years' actual rates.

(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.

(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. Changes in estimates and reversals in relation to items previously recognised as exceptional are presented consistently as exceptional in the current year.

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, earn-out arrangements that are accounted for as remuneration and fair value changes relating to contingent consideration liabilities and equity options that arose on acquisitions recognised in the income statement.

2019 to 2021 growth on constant basis

In order to provide the reader with a better understanding of how our 2021 performance compares to a pre-Covid-19 environment we are disclosing the 2019 to 2021 growth on a constant basis. This measure is not used to incentivise management, however it has been used in 2021 to understand performance. Management believes that it is a useful measure to understand the trends of our business and recovery towards our pre-Covid-19 performance. Management uses volume, net sales, operating profit as these give the most insight to understand the trends and recovery of the business. We continue to present an organic movement reconciliation for sales and marketing for 2020 to 2021 as in prior periods.

The 2019 adjusted base is an appropriate comparator for 2019 to 2021 growth calculation on a constant basis, as the rates used for 2020 constant currency calculations were not materially different from those used for 2021 constant currency calculations, and there were no material acquisition or disposal related adjustments or accounting treatment changes in 2021 compared to 2020.

2019 to 2021 growth on a constant basis is calculated as adding up the respective years' organic movement 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'. The most comparable GAAP financial measure is 2019 to 2021 reported movement % below, which is calculated by combining the reported movement for 2019-2020 and 2020-2021, expressed as a percentage of the 2019 reported amount.

Organic growth excluding Travel Retail and Guinness

The performance of the Travel Retail channel is dependent on the level of international travel and the performance of Guinness is highly dependent on the availability of the on-trade channel (particularly in Europe and Turkey).

Due to ongoing travel restrictions and market variability of on-trade recovery conditions brought about by the Covid-19 pandemic, we are experiencing slower recovery in Travel Retail and Guinness performance.

Therefore, in order to provide additional insight on how these parts of our business and the performance of the remainder of our business have been impacted in each of fiscal 20 and fiscal 21 by Covid-19, additional information has been provided about these components and on the performance of the business excluding Travel Retail and Guinness. Management uses this information to monitor and assess business performance and believes that having the additional information provides them with improved insight to manage the business, particularly related to rate of growth. Management also believes that such information will be similarly useful to the readers of this document.

The measures noted are calculated by excluding the performance of Travel Retail and Guinness from '2020 adjusted' and 'Organic movement' respectively on memo lines, and 'Movement excluding Travel Retail and Guinness' expressed as a percentage of the absolute amount in the associated relevant row titled '2020 adjusted excluding Travel Retail and Guinness'.

In respect of Global Travel, the decline in this channel due to the impact of Covid-19 travel restrictions will have also driven some level of incremental sales of our products in certain domestic markets, which would have a positive impact on their reported results. It is not possible to quantify the impact of any such incremental sales either at Diageo or an individual market level.

Organic movement calculations for the year ended 30 June 2021 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[7]	(2.1)	(0.1)	(2.7)	–	–	–	(4.9)
2019 adjusted	47.3	45.3	30.9	22.4	95.1	–	241.0
memo: 2019 Travel Retail and Guinness	2.1	6.6	3.9	0.7	3.8	–	17.1
memo: 2019 adjusted excluding Travel Retail and Guinness	45.2	38.7	27.0	21.7	91.3	–	223.9
Organic movement	**0.1**	**(5.2)**	**(4.0)**	**(3.4)**	**(14.5)**	**–**	**(27.0)**
memo: 2020 Travel Retail and Guinness movement	**(0.3)**	**(1.5)**	**(0.7)**	**(0.1)**	**(1.5)**	**–**	**(4.1)**
memo: 2020 Movement excluding Travel Retail and Guinness	**0.4**	**(3.7)**	**(3.3)**	**(3.3)**	**(13.0)**	**–**	**(22.9)**
Acquisitions and disposals[7]	**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)**
memo: Organic Movement % excluding Travel Retail and Guinness	**1**	**(10)**	**(12)**	**(15)**	**(14)**	**–**	**(10)**
Volume (equivalent units)							
2020 reported	48.4	40.2	28.8	19.0	80.6	–	217.0
Disposals[8]	(0.4)	(0.4)	(1.9)	–	–	–	(2.7)
2020 adjusted	48.0	39.8	26.9	19.0	80.6	–	214.3
memo: 2020 Travel Retail and Guinness	1.8	5.1	3.2	0.6	2.3	–	13.0
memo: 2020 adjusted excluding Travel Retail and Guinness	46.2	34.7	23.7	18.4	78.3	–	201.3
Organic movement	**5.1**	**2.9**	**4.8**	**4.1**	**7.0**	**–**	**23.9**
memo: 2021 Travel Retail and Guinness movement	**(0.4)**	**(1.4)**	**0.9**	**(0.1)**	**(0.7)**	**–**	**(1.7)**
memo: 2021 Movement excluding Travel Retail and Guinness	**5.5**	**4.3**	**3.9**	**4.2**	**7.7**	**–**	**25.6**
Acquisitions and disposals[8]	**0.1**	**–**	**0.1**	**–**	**–**	**–**	**0.2**
2021 reported	**53.2**	**42.7**	**31.8**	**23.1**	**87.6**	**–**	**238.4**
Organic movement %	**11**	**7**	**18**	**22**	**9**	**–**	**11**
memo: Organic Movement % excluding Travel Retail and Guinness	**12**	**12**	**16**	**23**	**10**	**–**	**13**
2019 to 2021 reported growth %	8	(6)	(5)	3	(8)	–	(3)
2019 to 2021 growth on a constant basis %	**11**	**(5)**	**3**	**3**	**(8)**	**–**	**(1)**

	North America £ million	Europe and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	Corporate £ million	Total £ million
Sales							
2020 reported	5,222	4,697	1,911	1,184	4,645	38	17,697
Exchange	3	(32)	(22)	1	(5)	–	(55)
Disposals[8]	(26)	(59)	(60)	–	(1)	–	(146)
2020 adjusted	5,199	4,606	1,829	1,185	4,639	38	17,496
memo: 2020 Travel Retail and Guinness	270	673	319	42	267	26	1,597
memo: 2020 adjusted excluding Travel Retail and Guinness	4,929	3,933	1,510	1,143	4,372	12	15,899
Organic movement	**970**	**436**	**368**	**366**	**756**	**(18)**	**2,878**
memo: 2021 Travel Retail and Guinness movement	**(22)**	**(150)**	**88**	**(13)**	**(78)**	**(22)**	**(197)**
memo: 2021 movement excluding Travel Retail and Guinness	**992**	**586**	**280**	**379**	**834**	**4**	**3,075**
Acquisitions and disposals[8]	**30**	**3**	**8**	**–**	**–**	**–**	**41**
Exchange	**(396)**	**(250)**	**(185)**	**(182)**	**(249)**	**–**	**(1,262)**
2021 reported	**5,803**	**4,795**	**2,020**	**1,369**	**5,146**	**20**	**19,153**
Organic movement %	**19**	**9**	**20**	**31**	**16**	**(47)**	**16**
memo: Organic movement % excluding Travel Retail and Guinness	**20**	**15**	**19**	**33**	**19**	**33**	**19**

	North America £ million	Europe and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	Corporate £ million	Total £ million
Net sales							
2019 reported	4,460	2,939	1,597	1,130	2,688	53	12,867
Exchange[1]	(34)	(19)	(2)	4	1	2	(48)
Reclassification[3]	–	–	–	(10)	–	–	(10)
Disposals[7]	(75)	(1)	(91)	(1)	(1)	–	(169)
2019 adjusted	4,351	2,919	1,504	1,123	2,688	55	12,640
memo: 2019 Travel Retail and Guinness	283	622	296	52	386	42	1,681
memo: 2019 adjusted excluding Travel Retail and Guinness	4,068	2,297	1,208	1,071	2,302	13	10,959
Organic movement	**105**	**(358)**	**(200)**	**(169)**	**(423)**	**(16)**	**(1,061)**
memo: 2020 Travel Retail and Guinness movement	**(33)**	**(150)**	**(50)**	**(11)**	**(135)**	**(16)**	**(395)**
memo: 2020 movement excluding Travel Retail and Guinness	**138**	**(208)**	**(150)**	**(158)**	**(288)**	**–**	**(666)**
Acquisitions and disposals[7]	**32**	**10**	**50**	**–**	**1**	**–**	**93**
Exchange[1]	**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)**
memo: Organic movement % excluding Travel Retail and Guinness	**3**	**(9)**	**(12)**	**(15)**	**(13)**	**–**	**(6)**

	North America £ million	Europe and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	Corporate £ million	Total £ million
Net sales							
2020 reported	4,623	2,567	1,346	908	2,270	38	11,752
Exchange[5]	2	(17)	(13)	6	7	–	(15)
Reclassification[6]	–	–	–	–	(14)	–	(14)
Disposals[8]	(18)	(34)	(47)	–	(1)	–	(100)
2020 adjusted	4,607	2,516	1,286	914	2,262	38	11,623
memo: 2020 Travel Retail and Guinness	258	471	245	42	241	26	1,283
memo: 2020 adjusted excluding Travel Retail and Guinness	4,349	2,045	1,041	872	2,021	12	10,340
Organic movement	**929**	**108**	**258**	**275**	**308**	**(18)**	**1,860**
memo: 2021 Travel Retail and Guinness movement	**(23)**	**(119)**	**73**	**(13)**	**(83)**	**(22)**	**(187)**
memo: 2021 movement excluding Travel Retail and Guinness	**952**	**227**	**185**	**288**	**391**	**4**	**2,047**
Acquisitions and disposals[8]	**28**	**2**	**5**	**–**	**–**	**–**	**35**
Exchange[5]	**(355)**	**(68)**	**(137)**	**(143)**	**(82)**	**–**	**(785)**
2021 reported	**5,209**	**2,558**	**1,412**	**1,046**	**2,488**	**20**	**12,733**
Organic movement %	**20**	**4**	**20**	**30**	**14**	**(47)**	**16**
memo: Organic movement % excluding Travel Retail and Guinness	**22**	**11**	**18**	**33**	**19**	**33**	**20**

2019 to 2021 reported growth %	17	(13)	(12)	(7)	(7)	(62)	(1)
2019 to 2021 growth on constant basis %	**24**	**(9)**	**4**	**9**	**(4)**	**(62)**	**6**

Marketing							
2020 reported	727	428	160	155	365	6	1,841
Exchange	10	(5)	(3)	–	1	(3)	–
Disposals[8]	–	(2)	(1)	–	–	–	(3)
2020 adjusted	737	421	156	155	366	3	1,838
memo: 2020 Travel Retail and Guinness	58	94	33	4	40	–	229
memo: 2020 adjusted excluding Travel Retail and Guinness	679	327	123	151	326	3	1,609
Organic movement	**248**	**56**	**22**	**28**	**60**	**3**	**417**
memo: 2021 Travel Retail and Guinness movement	**11**	**(17)**	**9**	**(1)**	**(15)**	**–**	**(13)**
memo: 2021 movement excluding Travel Retail and Guinness	**237**	**73**	**13**	**29**	**75**	**3**	**430**
Acquisitions[8]	**12**	**–**	**–**	**–**	**–**	**–**	**12**
Fair value remeasurement of contingent considerations, equity option and earn out arrangements	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Exchange	**(62)**	**(4)**	**(10)**	**(22)**	**(8)**	**1**	**(105)**
2021 reported	**936**	**473**	**168**	**161**	**418**	**7**	**2,163**
Organic movement %	**34**	**13**	**14**	**18**	**16**	**100**	**23**
memo: Organic movement % excluding Travel Retail and Guinness	**35**	**22**	**11**	**19**	**23**	**100**	**27**

	Total £ million
Operating profit before exceptional items	
2019 reported	4,116
Exchange[2]	–
Acquisition and disposal[7]	(29)
2019 adjusted	4,087
memo: 2019 Travel Retail and Guinness	759
memo: 2019 adjusted excluding Travel Retail and Guinness	3,328
Organic movement	**(589)**
memo: 2020 Travel Retail and Guinness movement	**(289)**
memo: 2020 movement excluding Travel Retail and Guinness	**(300)**
Acquisitions and disposals[7]	**(5)**
Fair value remeasurement of contingent considerations and equity option[4]	**(7)**
Fair value remeasurement of biological assets	**9**
Exchange[2]	**(1)**
2020 reported	**3,494**
Organic movement %	**(14)**
memo: Organic movement % excluding Travel Retail and Guinness	**(9)**

	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							
2020 reported	2,034	757	101	248	501	(147)	3,494
Exchange[5]	44	(18)	11	10	9	(5)	51
Fair value remeasurement of contingent considerations and equity option	10	4	–	(7)	–	–	7
Fair value remeasurement of biological assets	–	–	–	(9)	–	–	(9)
Disposals[8]	(1)	(9)	–	–	–	–	(10)
2020 adjusted	2,087	734	112	242	510	(152)	3,533
memo: 2020 Travel Retail and Guinness	80	185	56	24	113	20	478
memo: 2020 adjusted excluding Travel Retail and Guinness	2,007	549	56	218	397	(172)	3,055
Organic movement	**352**	**(38)**	**113**	**153**	**113**	**(66)**	**627**
memo: 2021 Travel Retail and Guinness movement	**(27)**	**(76)**	**24**	**(8)**	**(47)**	**(13)**	**(147)**
memo: 2021 movement excluding Travel Retail and Guinness	**379**	**38**	**89**	**161**	**160**	**(53)**	**774**
Acquisitions[8]	**(18)**	**(3)**	**–**	**–**	**–**	**–**	**(21)**
Fair value remeasurement of contingent considerations, equity option and earn out arrangements	**(9)**	**(27)**	**–**	**–**	**–**	**–**	**(36)**
Exchange[5]	**(175)**	**(31)**	**(54)**	**(92)**	**(15)**	**10**	**(357)**
2021 reported	**2,237**	**635**	**171**	**303**	**608**	**(208)**	**3,746**
Organic movement %	**17**	**(5)**	**101**	**63**	**22**	**(43)**	**18**
memo: Organic movement % excluding Travel Retail and Guinness	**19**	**7**	**159**	**74**	**40**	**(31)**	**25**
Organic operating margin %							
2021	**44.1**	**26.5**	**14.6**	**33.2**	**24.2**	**n/a**	**30.9**
2020	45.3	29.2	8.7	26.5	22.5	n/a	30.4
Margin movement (bps)	**(124)**	**(265)**	**586**	**674**	**169**	**n/a**	**46**
2019 to 2021 reported growth %							(9)
2019 to 2021 growth on constant basis %							**1**

i. For the reconciliation of sales to net sales see page 57.
ii. Percentages and margin movement are calculated on rounded figures.

Notes: Information in respect of the organic movement calculations

1. 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
2. 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
3. For the year ended 30 June 2019, trade investment of £10 million has been reclassified from marketing to net sales
4. Change in contingent consideration re Casamigos was reported as part of acquisitions in year ended 30 June 2019
5. The impact of movements in exchange rates on reported figures for net sales and operating profit are principally in respect of the translation exchange impact of the strengthening of sterling against the US dollar, the Brazilian real, the Indian rupee and the Turkish lira, partially offset by the weakening of sterling against the euro
6. In the year ended 30 June 2021, £14 million has been reclassified from cost of goods sold to excise duties
7. In the year ended 30 June 2020, the acquisitions and disposals that affected volume, net sales and operating profit were as follows:

	Volume equ. units million	Net sales £ million	Operating profit £ million
Year ended 30 June 2019			
Acquisition			
Change in contingent consideration re Casamigos	–	–	15
	–	–	15
Disposals			
Portfolio of 19 brands	(2.2)	(79)	(42)
South African ready to drink	(0.5)	(43)	–
South African cider	–	(4)	(1)
UNB	(2.2)	(43)	(1)
	(4.9)	(169)	(44)
Acquisitions and disposals	(4.9)	(169)	(29)
Year ended 30 June 2020			
Acquisition			
Seedlip and Aecorn	0.1	12	(8)
	0.1	12	(8)
Disposals			
Supply contracts in respect of the 19 brands sold to Sazerac	1.1	31	3
South African ready to drink	0.3	19	–
UNB	1.5	31	–
	2.9	**81**	**3**
Acquisitions and disposals	3.0	93	(5)

8. In the year ended 30 June 2021, 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 2020					
Disposals					
UNB	(1.5)	(29)	(29)	(1)	–
Budweiser distribution license termination	(0.3)	(57)	(32)	(2)	(9)
Supply contracts in respect of the 19 brands sold to Sazerac	(0.6)	(29)	(21)	–	(1)
South African ready to drink	(0.3)	(31)	(18)	–	–
	(2.7)	**(146)**	**(100)**	**(3)**	**(10)**
Year ended 30 June 2021					
Acquisitions					
Aviation Gin and Davos Brands	**0.1**	**26**	**24**	**(9)**	**(14)**
Chase Distillery	**–**	**3**	**2**	**–**	**(3)**
Lone River	**–**	**3**	**3**	**(2)**	**(3)**
Loyal 9 Cocktails	**–**	**1**	**1**	**(1)**	**(1)**
	0.1	**33**	**30**	**(12)**	**(21)**
Disposal					
South African ready to drink	**0.1**	**8**	**5**	**–**	**–**
	0.1	**8**	**5**	**–**	**–**
Acquisitions and disposals	**0.2**	**41**	**35**	**(12)**	**(21)**

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 2021 and 30 June 2020 are set out in the table below:

	2021 £ million	2020 £ million
Profit attributable to equity shareholders of the parent company	**2,660**	1,409
Exceptional operating and non-operating items	**1**	1,380
Exceptional taxation charges/(benefits)	**88**	–
Tax in respect of exceptional operating and non-operating items	**(4)**	(154)
Exceptional items attributable to non-controlling interests	**1**	(69)
	2,746	2,566

	million	million
Weighted average number of shares		
Shares in issue excluding own shares	**2,337**	2,346
Dilutive potential ordinary shares	**8**	8
	2,345	2,354

	pence	pence
Basic earnings per share before exceptional items	**117.5**	109.4
Diluted earnings per share before exceptional items	**117.1**	109.0

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 acquisition and sale of businesses are discretionary.

Where appropriate, separate explanations are given for the impacts of acquisition 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 2021 and 30 June 2020 are set out in the table below:

	2021 £ million	2020 £ million
Net cash inflow from operating activities	**3,654**	2,320
Disposal of property, plant and equipment and computer software	**13**	14
Purchase of property, plant and equipment and computer software	**(626)**	(700)
Movements in loans and other investments	**(4)**	–
Free cash flow	**3,037**	1,634

Operating cash conversion

Operating cash conversion is calculated by dividing cash generated from operations excluding cash inflows and outflows in respect of exceptional items, dividends received from associates, maturing inventories, provisions, other items and post employment payments in excess of the amount charged to operating profit by operating profit before depreciation, amortisation, impairment and exceptional operating items.

The ratio is stated at the budgeted exchange rates for the respective year in line with management reporting and is expressed as a percentage.

Operating cash conversion for the year ended 30 June 2021 and 30 June 2020 were as follows:

	2021 £ million	2020 £ million
Operating profit	**3,731**	2,137
Exceptional operating items	**15**	1,357
Fair value remeasurement	**36**	(2)
Depreciation and amortisation[1]	**447**	494
Retranslation to budgeted exchange rates	**375**	(2)
	4,604	3,984
Cash generated from operations	**4,857**	3,529
Net exceptional cash received[2]	**(49)**	(1)
Post employment payments less amounts included in operating profit[1]	**35**	109
Net movement in maturing inventories[3]	**174**	262
Provision movement	**60**	(22)
Dividends received from associates	**(290)**	(4)
Other items[1]	**(88)**	14
Retranslation to budgeted exchange rates	**387**	12
	5,086	3,899
Operating cash conversion	**110.5%**	97.9%

1. Excluding exceptional items
2. Exceptional cash received for substitution drawback was £60 million (2020 – £26 million), exceptional cash payments for other donations was £1million (2020 – £7 million) and for tax payments £10 million (2020 – £18 million)
3. Excluding non-cash movements such as exchange and the impact of acquisitions and disposals

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 2021 and 30 June 2020 are set out in the table below:

	2021 £ million	2020 £ million
Operating profit	**3,731**	2,137
Exceptional operating items	**15**	1,357
Profit before exceptional operating items attributable to non-controlling interests	**(138)**	(114)
Share of after tax results of associates and joint ventures	**334**	282
Tax at the tax rate before exceptional items of 22.2% (2020 – 21.7%)	**(906)**	(795)
	3,036	2,867
Average net assets (excluding net post employment assets/liabilities)	**8,146**	9,063
Average non-controlling interests	**(1,587)**	(1,723)
Average net borrowings	**12,672**	12,551
Average integration and restructuring costs (net of tax)	**1,639**	1,639
Goodwill at 1 July 2004	**1,562**	1,562
Average total invested capital	**22,432**	23,092
Return on average total invested capital	**13.5 %**	12.4 %

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, providing flexibility to invest through the economic cycle and giving 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 2021 and 30 June 2020 are set out in the table below:

	2021 £ million	2020 £ million
Borrowings due within one year	**1,862**	1,995
Borrowings due after one year	**12,865**	14,790
Fair value of foreign currency derivatives and interest rate hedging instruments	**(232)**	(686)
Lease liabilities	**363**	470
Less: Cash and cash equivalents	**(2,749)**	(3,323)
Net borrowings	**12,109**	13,246
Post employment benefit liabilities before tax	**574**	749
Adjusted net borrowings	**12,683**	13,995
Operating profit	**3,731**	2,137
Depreciation, amortisation and impairment (excluding exceptional items)	**447**	494
Share of after tax results of associates and joint ventures	**334**	282
Exceptional impairment	**–**	1,345
Non-operating items	**14**	(23)
EBITDA	**4,526**	4,235
Exceptional operating items (excluding impairment)	**15**	12
Non-operating items	**(14)**	23
Adjusted EBITDA	**4,527**	4,270
Adjusted net borrowings to adjusted EBITDA	**2.8**	3.3

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 2021 and year ended 30 June 2020 are set out in the table below:

	2021 £ million	2020 £ million
Tax before exceptional items (a)	**823**	743
Tax in respect of exceptional items	**(4)**	(154)
Exceptional tax charge	**88**	–
Taxation on profit (b)	**907**	589
Profit before taxation and exceptional items (c)	**3,707**	3,423
Non-operating items	**14**	(23)
Exceptional operating items	**(15)**	(1,357)
Profit before taxation (d)	**3,706**	2,043
Tax rate before exceptional items (a/c)	**22.2 %**	21.7 %
Tax rate after exceptional items (b/d)	**24.5 %**	28.8 %

STRATEGIC REPORT

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 Poland, 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 Botanical; Don Julio, Casamigos, Zacapa, Bundaberg SDlx, Shui Jing Fang, Jinzu gin, Haig Club whisky, Orphan Barrel whiskey and DeLeón; Villa Ascenti, Copper Dog whisky, Belsazar, and 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, JεB, 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-mixed cans in some markets.

References to beer include cider, flavoured malt beverages 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 28 July 2021.