

Chairman's statement



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

Javier Ferrán
Chairman

Recommended final dividend per share

42.47p ↑ 5%

2018: 40.4p

Total dividend per share⁽ⁱ⁾

68.57p ↑ 5%

2018: 65.3p

Total shareholder return (%)

27%

2018: 23%

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

Culture

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

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

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

Opportunities for growth

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

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

(i) Includes recommended final dividend of 42.47p.

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

The global environment

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

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

Our stakeholders

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

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

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

Diageo in society

We want to have a positive impact wherever we operate and we are determined to earn trust and respect by doing business in the right way, from grain to glass. At the core of our approach is a commitment to positive

drinking through encouraging moderation and tackling misuse, which Ivan outlines in more detail in his statement.

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

Communities

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

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

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

Creating value

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

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

We continue to target dividend cover (the ratio of basic earnings per share before

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

Board changes

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

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

Looking ahead

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



Javier Ferrán
Chairman

Chief Executive's statement



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

Ivan Menezes
Chief Executive

Volume movement

2.3% ↑

2018: 0.7% ↓

Organic volume movement

2.3% ↑

2018: 2.5% ↑

Net sales movement

5.8% ↑

2018: 0.9% ↑

Organic net sales movement

6.1% ↑

2018: 5.0% ↑

Reported operating profit movement

9.5% ↑

2018: 3.7% ↑

Organic operating profit movement

9.0% ↑

2018: 7.6% ↑

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

Creating value

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

We are determined to build a company that will prosper over the very long term. We continue to improve the quality and pace of execution in every part of our business.

We combine creative flair with leading-edge technology and invest in brand building, innovation, our route to consumer and data analysis.

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

Performance

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

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

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

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

We continue to invest and innovate to build our brands for the future. ‘White Walker by Johnnie Walker’ successfully recruited new consumers into the Johnnie Walker brand

(see more on page 17). We also announced a £150 million investment in Scotch whisky tourism, including a new Johnnie Walker Experience in Edinburgh; a \$130 million expansion of our Bulleit distillery in Kentucky; and we increased our shareholding in Sichuan Shuijingfang Co., Ltd, our super-premium baijiu business in China, from 40% to 63%.

Trusted and respected

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

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

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

I am particularly pleased that we have been recognised for our work to promote inclusion and diversity. I believe inclusivity is at the heart of our company and the more we become representative of the consumers we serve, the more it will fuel our success. This year, we ranked fourth in the Thomson Reuters Global Diversity and Inclusion Index; were recognised in the Bloomberg

Gender Equality Index; and were also ranked by Equileap as the top company for gender equality in the United Kingdom. Today, 40% of Diageo’s Executive Committee are women and we want our global senior leadership team to reach the same level of female participation by 2025 (we are currently at 36%).

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

Outlook

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

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

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



Ivan Menezes
Chief Executive

2019 net sales by category (%)

