DIAGEO PRELIMINARY RESULTS
YEAR ENDED 30 JUNE 2017

July 27, 2017
Good morning everyone

I am pleased to share another strong set of results which demonstrate the progress we are making towards our ambition to be one of the best performing, most trusted and respected consumer products companies in the world.

Let me start by thanking all Diageo employees for their role in making this happen.

Diageo is a stronger company that is executing effectively against our six priorities:
- We are more consumer centric, more efficient and more agile.
- This is demonstrated in our performance which has not only improved vs F16 but is also more consistent.
- Kathy will take you through the details of our progress on efficient growth and value creation but let me take you through some of the highlights first.
• Organic net sales grew 4.3% driven by volume growth and strong price mix with broad based growth across categories and regions
• Organic operating margin expanded by 37bps driven by our global productivity programme and positive mix
• We continued our strong cash generation with improvement in operating cash conversion and average working capital ratios.
• Eps pre exceptionals is up significantly at 21% driven by exchange benefits, organic growth and higher associate income.
• We are raising our productivity savings goal to £700 million with two thirds being reinvested in the business
• We continue to expect mid single digit top line growth but we are raising our margin improvement objective to 175bps for the three years ending fiscal 19
• These results demonstrate the effective delivery of our strategy with sustainable top line performance, consistent margin expansion and a third year of strong cash flow performance which we expect to sustain through continued strong cash conversion.
• And today we are announcing a share buy-back programme of up to £1.5 billion in F18
We operate in an industry with a natural runway for growth, when compared to other consumer sectors.

Four years ago I laid out our ambition to be one of the best performing, most trusted and respected consumer products companies in the world delivered through six executional priorities and significant shifts in culture.

While I am pleased with the strong F17 results, I am even more pleased that Diageo is now delivering consistent efficient growth and value creation.

Over the last four years we have created a stronger and more agile business that is now delivering sustainable top line performance.

Our productivity program has embedded the cultural shift to drive continuous improvement. We will constantly benchmark, identify areas of improvement, deliver against them and then start the journey again.

We have a strong track record of margin expansion with 120bps delivered in the three years prior to F17.

And today we have increased our productivity savings target to £700million and raised our margin guidance for F17-F19 to 175bps.

We are very focused on consistent cash delivery with strong improvement over the past three years and intend to sustain strong operating cash conversion.

We have a transparent and disciplined approach to our capital structure and to how we prioritize the allocation of capital to maximize value for shareholders.

Our primary focus is on investment in organic growth opportunities which we now identify faster and more effectively.

We regularly review our portfolio and have disposed non-core assets yielding over £1bn while allowing us to consolidate our beer position in Africa and trade Bushmills for 100% ownership of Don Julio.

We will also pursue bolt on acquisition opportunities that fit within our portfolio, can deliver attractive returns and strengthen our leadership position.

In June we announced the acquisition of Casamigos, the fastest growing super-premium tequila brand in the US which is an exciting opportunity to strengthen our position in the fast growing tequila category, as well as expand the brand internationally. Casamigos has an authentic brand identity and is growing fast. We aim to sustain the momentum of the brand in partnership with the founders, who will continue to promote the brand and provide their leadership and vision.

We have maintained dividend increases at 5% for the past two years as we rebuild dividend cover to our target range.

And today we have announced that we will return up to £1.5bn of capital to shareholders in F18 through a share buy-back program.

The actions we have taken means Diageo is a stronger company today.

We are not done.

The team and I will continue as we move forward to find all the opportunities to drive growth and value for our shareholders.
• We have delivered consistent performance improvement over the past two years and the improvement is broad based across regions and categories
• We have delivered this performance improvement while overcoming challenging operating conditions in some markets
• In F17, we have entered the mid single digit growth range and our focus now is to deliver it consistently as we build on the positive momentum in the business
We have made good progress on our three F17 focus areas and they have delivered almost half of our organic net sales growth. 
Including our performance in Europe this number goes up to over 60% 
In India, while we have continued to strengthen our business and brands, we have seen a particularly challenging environment with demonetisation and the ‘highway ban’, the supreme court ruling banning alcohol sales within 500 metres of national and state highways. The experienced team we have in place has navigated these challenges with agility, growing net sales 2% and growing market share.
• The progress we have made on the F17 focus areas and the broad based momentum across the business demonstrates the effective execution of our strategy
• Our F17 performance also marks the first year of delivery of our medium term guidance
• While there is more to be done, this reinforces our confidence in delivering our guidance for mid-single digit top line growth and our revised guidance of 175bps of organic margin improvement, in the three years ending fiscal 2019
• And now let me hand over to Kathy to cover these results in more detail
• Thank you Ivan and good morning everyone
• In the first year into our medium term guidance we have delivered a strong sets of results that show good progress against all the measures we track to deliver efficient growth and value creation
• Organic net sales growth was up 4.3% in line with the first half, underpinned by 1.1% organic volume growth
• Organic operating margin was up 37bps, driven by our productivity program which enabled gross margin expansion, marketing efficiencies and overheads savings. During the year we also benefited from positive market and category mix with stronger growth in scotch and Europe.
• Our discipline in converting cash and reducing working capital has enabled us to significantly improve free cash flow for the past 3 years, up £1.4bn from F14, and up £566m to £2.7bn this year.
• We delivered strong Eps growth, up 21% excluding exceptional items, driven by favourable exchange and higher organic operating profit growth.
• The same factors improved our return on invested capital by nearly 2 percentage points compared to last year
• Finally TSR was up double digit in the last 12 months, following a 17% increase in the prior year.
• A strong set of results that gives us confidence we can do even better as we look forward to the next few years.
• Let me take you through the numbers in more detail
• Reported net sales were up 15% as organic growth and positive exchange more than offset the impact from the disposal of non core assets last year.
• Organic net sales growth was driven by 1.1% volume growth and 3.2% positive price/mix
• Volume growth was modestly impacted by short term volatility in India, which I expect to ease in the second half of F18.
• Overall, pricing is muted across many of our markets but mix remains strong
• All regions delivered top line organic growth

• In North America, US Spirits net sales were up 3.4%, with shipments volume in line with depletions. Pricing remained muted. Net sales growth was driven by volume growth and mix, with strong contribution from North American whiskey and scotch. Elsewhere Captain Morgan net sales were up 4% and we gained share in rum. Don Julio delivered another year of strong growth, outperforming the tequila category. Performance in vodka continued to be subdued largely driven by Ciroc, whose performance was impacted by lapping the successful Apple innovation with a smaller Mango launch and a decline in legacy flavors.

• Momentum continued in Europe, Russia and Turkey where net sales were up 5%. Europe delivered another year of really solid growth, largely driven by our reserve brands, up 9%, and a strong performance from Captain Morgan and Baileys. Guinness net sales were also up 2%, supported by innovations from the Brewers project. In Russia, net sales increased 7%, despite lapping a series of price increases in the previous year and Turkey delivered net sales growth, although volume declined, as duty increases were passed on to consumers.

• Africa performance improved in the second half. Stronger performance in Nigeria was partially due to lapping a weaker comparative last year. Consumer confidence remains weak and value beer remains the fastest growing segment, where we are gaining share with Satzenbrau and Dubic. Elsewhere in the region performance was consistent with the first half. In East Africa growth in Senator was offset by weakness in bottled beer, due to tax increases. Net sales growth in South Africa benefitted from price increases and in Africa Regional Markets our business in Ethiopia continued to deliver solid growth. Spirits net sales growth in the region was stronger, up 13%, driven by a strong performance in mainstream spirits, up 21%.

• Latin America and Caribbean continued to deliver strong growth driven by Mexico and Colombia, both up double digit. The consumer environment, although showing initial signs of improvement, remains challenging in Brazil, but performance improved in PUB, largely driven in the second half by Brazil lapping the impact of advanced purchases that occurred ahead of the tax increases in December 2015.

• In Asia Pacific volume was negative as declines in India, in travel retail in the Middle East, and in South Korea were partially offset by volume growth in the other markets. Net sales in the region were up 3%. Greater China continued to deliver strong growth, up 25%, driven by the strong performance of Chinese White Spirits and growth in scotch. In South East Asia, Thailand improved in the second half and Australia saw growth across both spirits and the RTD portfolio.

• In India where we continued to strengthen our prestige and above brands, net sales grew 2% despite the impact of demonetisation and the highway ban.
• We saw broad based growth across all categories, except vodka.
• Scotch and North American whisk(e)y delivered half of Diageo net sales growth.
• Scotch net sales were up 5% with broad-based growth across most regions and brands: Johnnie Walker, Buchanan’s, single malts and primary scotch drove our strong performance.
• Net sales in North American Whisk(e)y were up 11% and we continued to gain share as Crown Royal and Bulleit both grew faster than the category.
• Vodka remains challenging, particularly in US spirits where competitive pressure is high in the category. Outside the US, vodka net sales were up 1.5% as growth in Africa offset weakness in Brazil and Europe.
• In rum, Captain Morgan was in growth in every region.
• In liqueurs, Baileys was up 6% in Europe, its biggest market. We were quick to transfer the learnings on how we turned around its performance to the US, its second biggest market, where performance has already improved in the second half.
• Indian made whisky grew 6%. This reflects strong performance of the brands we have relaunched over the last 18 months: McDowell No.1 whisky, Royal Challenge and Signature, with all three brands growing faster than the category and gaining share.
• Elsewhere Don Julio and Tanqueray drove net sales growth in tequila and gin, with net sales for those two brands up double digit as they gained share in their categories.
• Beer is our second largest category and net sales were up 2%. We saw improved performance in the second half led by Africa, up 6%, driven by our value beer brands Senator in East Africa and Satzenbrau in Nigeria. In Guinness, growth in Europe, North America and LAC was offset by a decline in Nigeria as well as Kenya, where bottled beer performance was impacted by duty increases.
• Net sales growth was broad based across our portfolio of brands, highlighting Diageo’s ability to deliver growth through both global and local brands.

• Global giants net sales were up 3%, with Johnnie Walker, Captain Morgan, Baileys and Tanqueray gin in growth in every region. Smirnoff net sales were down 1%, still challenged in a competitive vodka category in the US and Guinness sales were flat.

• Local stars were up 9% with a stand out performance from Crown Royal in the US, Buchanan’s in LAC and Chinese White Spirits in China.

• And finally our reserve brands continued to deliver good performance, with net sales up 7%, with growth led by Chinese White Spirits, Don Julio and Bulleit.
• We continued to make good progress against our three focus areas, despite some specific challenges in India.

• Scotch net sales were up 5%. The improvement in performance was broad based. We have a strategy that is working and Ivan will share with you some examples on how we are putting our strategy into action. We are also increasing investment behind our brands, and I expect scotch to continue its momentum in the next fiscal year.

• In US Spirits net sales were up 3.4%, an improvement compared to last year despite the overall market suffering from a slight slow down in the second half. Over the last 18 months we have made many changes to the way we operate in the US and performance did improve, in fact we are now gaining share in every key category except vodka, where our super premium vodka brands are driving the majority of the overall share losses. We have plans to improve and Ivan will share them in a few minutes. Our productivity program allowed us to up weight investment in US spirits in the second half and we will continue to increase investment in F18. Next year I expect overall performance to continue to improve.

• Net sales in India were up 2%, as anticipated the business was impacted by demonetization in the first half and the highway ban in the second half. Our strategic priority in India is to grow brands in the prestige and above segment, which were up 7%, a good result given the volatility in the market.

• Our business in India has been very resilient and agile in adapting to the fast changing consumer and regulatory environment. That said net sales in India declined 5% in the last quarter due to the highway ban, and I expect it will continue to impact performance in the first half of F18, although to a lesser extent. In July the new Goods and Services Tax (GST) became operational. While we are working on plans to mitigate it, I expect it to have a negative impact on margins in India in F18.
• Reported operating profit before exceptional items was up 19.7% driven by positive exchange and organic growth
• All regions contributed to organic operating profit growth and delivered organic margin expansion
• At a consolidated level organic operating profit grew 5.6%

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*Operating profit before exceptional items
• Reported operating margin excluding exceptional items also benefited from positive exchange and organic margin expansion, and ended the year at 29.9%, 1.2 percentage points higher than last year.
• On an organic basis operating margin expanded 37bps with gross margin improvement, marketing spend efficiencies and tight management of our overhead cost base more than offsetting the negative impact from other operating expenses.

• Gross margin expanded 57 basis points. Supply efficiencies achieved during the year as part of our productivity program broadly offset COGS inflation, and gross margin also benefited from volume growth and positive mix.

• We continued to deliver efficiencies on our marketing spend, which drove 19bps of margin expansion, even though we significantly increased marketing spend in the second half.

• Let’s dive into that for a minute before I close the discussion on margin.
Looking more closely at the marketing spend, you can see our underlying spend was up over 8% in the year, funded in large part from marketing efficiencies. This is a great example of making our spend work harder for us, a real win/win for the business. Our biggest regions, North America and Europe, delivered more than 50% of those procurement efficiencies as a result of better pricing on media spend, continued consolidation of the agencies we use and rationalization of our point of sale materials. We are not only driving efficiencies, our marketing spend is also more effective. As an example on POS we now have visibility to return on investment at a SKU level, allowing us to shift our POS spend to the most effective material. In Europe we analysed in detail the glassware we use to eliminate the least productive ones and focus on those with higher consumer engagement, such as the Guinness pint glass. This work generated nearly £4m of savings. As outlined at our capital markets day we are deploying our marketing catalyst system across our markets. This will ensure our marketers are equipped with better data to make faster and smarter choices on how to reallocate spend from one brand to another or from one growth driver to another, essentially enabling us to get a higher yield from our marketing spend.
Coming back to the other drivers of the margin expansion
Overheads as percentage of net sales were down and delivered 55bps of margin expansion
This reduction in overheads was driven by savings in our indirect costs, as a result of the implementation of Zero Based Budgeting and work on organizational effectiveness, which is increasing spans of control and reducing layers across the organization. Importantly these savings more than offset restructuring costs and other costs we incurred supporting our productivity work, which we no longer treat as exceptional.
As you can see we were also able to more than offset the negative impact of other operating expenses which was largely driven by the fact that last year we had one off gains from the sale of the UB shares and of some surplus land.
• As Ivan already announced we are increasing our margin expansion guidance from 100bps to 175bps for the three years ended F19.
• This is underpinned by additional productivity savings of £200m we expect to deliver
• I am pleased with the progress we have made in F17.
• This year we have expanded organic operating margin by 37bps, with gross margin, marketing and overheads efficiencies, all contributing to it. A very good result and slightly above our expectations.
• We have built momentum and we have made great progress to embed a culture in the business that we can deliver more with less. People are more accountable for delivering continuous improvement through simplification and using better data to be more agile and move faster.
• This year we have built improved capabilities on net revenue management and we have codified our ways of working across our markets, allowing us to identify more opportunities. Our centre of excellence in Europe is now fully resourced and operational and will help to accelerate how we build and improve capabilities
• We have also made good progress on supply efficiencies through tramlining and thorough reviews of our footprint, which showed more opportunities than we had in our initial plans. We are also deploying a new consistent approach to how we codify COGS across our markets, providing better internal and external benchmarks.
• At our recent capital market day you heard from our CMO Syl Saller on how we are rolling out our Catalyst system and how this new easy to access data driven platform will help us to make more informed decisions on how to allocate marketing spend across our brands.
• We have been extremely quick to implement ZBB tools across markets and functions, and while this is now embedded in the way we build our plans, I have confidence we can further improve how we prioritize our spend.
• The leaner we are, the more agile we become. The work we are doing on organizational effectiveness showed there are more opportunities to leverage our shared service centres, especially the new one we have opened in Bangalore, and further reduce layers across the organization
• In general, our continuous process of benchmarking both inside and outside our industry is showing we can do more. We know the bar is moving and we are clearly reaching for more
• This is an ambitious productivity program which in total will drive £700m of costs out of the business by F19. As previously indicated two thirds of these savings will be reinvested in the business and approximately one third will drop to the bottom line and underpin the guidance to improve organic operating margin by 175bps.
• I expect the phasing of the remaining margin expansion we are now guiding to be more weighted to F19 as we will have less costs to absorb and we will get full benefit from our investments to build improved NRM capabilities.
• Free cash flow delivery continued to be strong at £2.7 billion, up £566 million versus last year. The improvement was driven by favourable exchange, higher organic operating profit and better working capital management.

• It’s been terrific to see our focus on cash consistently deliver strong results. This is the third year in a row our cash conversion is well over 100%, at 107% this year. Our keen focus on day to day working capital management yielded a 2.6 percentage points improvement in average working capital as a percentage of net sales this year. In fact average working capital as a percentage of net sales has decreased 4.5 percentage points over the last 2 years, a testimony to our ongoing rigor in cash management.

• This year’s positive impact of working capital on free cash flow was primarily driven by lower debtors reflecting more efficient debtor management and reduction in overdue debt.

• Net capex was £472 million, £23 million higher compared to the same period last year. This is lower than the guidance we gave in January primarily due to phasing of projects. Next year I expect net capex to be about £600m, as we carry over some spend from F17 and we deliver strategic investments already announced such as the new brewery in Kenya and the new Irish whiskey distillery in Dublin.

• Tax payments were £225 million higher year-over-year, reflecting both higher profits at a higher rate and the impact of exchange.
- Moving on to net debt
- Strong free cash flow was the key driver behind the £743 million reduction in net debt, which also drove lower interest charges.
- Our effective interest rate increased to 3.5%, broadly in line with our guidance, as a result of the increase of US LIBOR rates.
- Next year I expect the effective interest rate to be broadly in line with F17.
- Other finance charges increased £17 million driven by higher pension costs and the charge we took in the first half related to the increased valuation of the Zacapa put option. For the next year I expect other finance charges to be broadly the same as F17, with the addition of the Casamigos earn out charge, subject to closing the transaction, being offset by a reduced pension charge as a result of a lower deficit position.
• We have a transparent and disciplined approach to our capital structure and to how we prioritize the allocation of capital to maximize value for shareholders
• We target an adjusted net debt to EBITDA ratio, which includes our pension liabilities, of between 2.5 to 3.0 times.
• This enables us to consistently invest in the business, supporting both organic growth and bolt on acquisitions, while achieving an efficient cost of capital. Our number one priority in allocating capital is to invest in the business where we see good returns.
• We regularly review our portfolio and over the last three years we have taken significant steps to simplify and focus on our core business. We sold the majority of our wine business, our non-core beer assets in Jamaica and Malaysia and the Gleneagles hotel. At the same time we consolidated our beer position in Africa and traded Bushmills for 100% control of Don Julio as well as Smirnoff distribution in Mexico.
• We will continue to look at inorganic opportunities to strengthen our position. We invest in nascent brands through Distill Ventures. This allows us to participate in founder led brands in interesting categories with potential for future growth. We will also continue to look at bolt on acquisition opportunities. In June we were pleased to announce the acquisition of Casamigos, which, as Ivan said, strengthens our position into the fast growing tequila category in the US. The brand enjoys attractive gross margins, sits in the sweet spot in this exciting category, and overtime we are confident that we will be able to bring synergies and expand the brand internationally. The transaction is expected to close in the first half of F18. This is a great acquisition that we are confident will create value once it becomes part of the Diageo portfolio.
• We have a progressive dividend policy and we expect to maintain a mid single digit increase until we rebuild dividend cover back to our target range. This year the final dividend is 38.5 pence per share, up 5% from the previous year, bringing the full year dividend to 62.2 pence per share. Our dividend cover has improved to 1.7x.
• We remain committed to our stated leverage policy and a disciplined approach to capital allocation
• We closed the year with an adjusted net debt to EBITDA ratio of 2.0 driven by continued strong cashflow performance so, as you have heard from Ivan, during the course of F18 we will return up to £1.5bn of capital to our shareholders in the form of a share buy-back program.
The devaluation of sterling following the results of the Brexit referendum in June last year had a positive impact on both net sales and operating profit, in line with our expectations.

Using the rates presented in this slide, I expect exchange to continue to have a positive impact of about £70 million on operating profit due to the unwind of our transactional hedging program, but a negative translational impact of about £80 million on net sales, due to the US dollar spot rate being higher than the average rate achieved in F17.
• Earnings per share before exceptional items increased 21% during the year.
• The favourable exchange, organic operating profit growth and higher associate income, more than offset the impact from higher tax payments and disposal of non core assets.
• Our tax rate before exceptional items increased from 19% to 21%, consistent with our guidance. As for most multinationals the current tax environment is creating increased levels of uncertainty. Our current expectation is that our tax rate before exceptional items will be approximately 21% in F18
So we put some strong points up on the board, against our ambition to deliver efficient growth and value creation.

I am pleased with the progress made but also restless to strive for more.

The momentum we have built in the business gives me confidence we can deliver the higher medium term guidance we announced today, specifically £700m of productivity savings and 175bps organic margin expansion for the three years ended F19.

We continue to deliver strong results on cash: our operating cash conversion metric is well above 100%, working capital as % of net sales continues to fall and our free cash flow was up nearly £600m in the year. We ended the year below our target adjusted net debt to EBITDA ratio of between 2.5 and 3 times and we will return up to £1.5bn of capital to shareholders in the form of a share buy back program during F18.

I am confident that the progress we have made and high performance culture we are building will continue to deliver strong results.

Back to you Ivan.
Thanks Kathy

Our results demonstrate the progress we are making on executing our strategy through our six priorities

Global Giants account for 41% of our net sales and grew 3.4%. There is good momentum on Johnnie Walker, Captain Morgan, Baileys and Tanqueray in their key markets. There is more work to be done to improve Smirnoff performance specifically in the US.

Beer continues to be a key priority. Net sales grew 2% with Guinness net sales flat and performance improving in the second half in Africa where net sales were up 6%.

In Mainstream spirits where we play selectively we have made good progress in F17. I will cover India later. In Africa mainstream spirits were up 21% with double digit growth in our established mainstream businesses in Kenya and South Africa. In Nigeria we made good progress on establishing a scale mainstream spirits business, tripling it as we broadened our mainstream spirits offering by innovating in whisky, vodka and gin. In Latin America and Caribbean double digit growth was driven by our lead primary scotch brand Black and White as it continues strong share gains in the primary scotch segment in Brazil and Mexico.

Strong growth on reserve brands continued, growing high single digit, as we continue to execute our reserve business model focusing on mass luxury, expanding outlet coverage and world class program,

Innovation continues to be a key growth driver contributing 16% of F17 net sales. We had particular success with Crown Royal Vanilla in the US which is recruiting multi-cultural and millennial consumers into the Crown Royal franchise

We have further strengthened our RTC in F17 through enhanced capability on four commercial standards which ensure a consistent way to establish customer and outlet plans, measure performance and incentivise our teams and our customers.

I am really pleased with the progress we have made on the productivity programme so far.

It is driving a focus on simplification and streamlining processes, and using data and information better to be more agile and move faster in our decision making

These changes are not “one off”, they have changed our ways of working permanently and increased personal accountability for continuous improvement and faster decision making across Diageo.

We have delivered the first year of our three year margin guidance but also reinvested some of our productivity savings in the business.

The progress we have made has given us the confidence to increase our productivity goal by an additional £200m savings
Kathy shared the results on the first two measures that track the progress made against our performance ambition.

Let me share with you the progress we have made to become one of the most trusted and respected

Ensuring we make a positive contribution to society has always been a priority for Diageo and is at the core of our performance ambition.

In FY17 we continued to make progress on making a positive contribution to society and our 2020 sustainability and responsibility targets.
• We have fewer Alcohol in Society programmes than in 2016 because we have concentrated our efforts on those that would have the biggest impact on the issues we aim to address.
• Employee safety continues to be an everyday priority for us. We are focused on markets in particular need of improvement to embed compliance to our core standards and programmes.
• We continue to make good progress on our environmental KPIs improving on carbon and water efficiency by 6% and 3% respectively.
• Employee engagement is a key metric to ensure we have engaged and empowered employees. Our Annual Employee Values Survey results show employees feel very connected to Diageo
• The progress we are making demonstrates our commitment to become one the most trusted and respected consumer product companies in the world.
• Let me share some examples of our Alcohol in Society programmes
• Join The Pact (JTP) is Johnnie Walker’s long standing responsible drinking program, inspiring consumers to pledge their commitment to never drink and drive. Over the past decade, we have been bringing this to life using Formula One as an aspirational platform, leveraging both Mika Hakkinen, 2-time world champion and our Johnnie Walker Responsible Drinking Ambassador, as well as the F1 drivers of our sponsored teams as credible ambassadors and role models to engage consumers at scale. In FY17 we received 314,000 commitments to Join The Pact.

• Smashed, is a theatre based education programme that aims to teach teenagers the dangers of underage drinking. It is a great example of where we have scaled up an existing successful programme and rolled it out to other countries. The school based programme has reached 1,400 schools and over 300,000 young people in the ten years since its inception of which 135,000 were reached this year as we expanded the program from GB to 6 more countries. The programme covers topics such as legal purchase age, how to deal with peer pressure, and who to go to for support when dealing with issues related to alcohol.

• In F17 we conducted Road safety workshops in Mexico, Nigeria, South Africa and South Korea in partnership with the UN Institute for Training and Research.

• And in the Dominican Republic we encouraged the passage of legislation in the Dominican Republic that sets a maximum blood alcohol content for drivers for the first time.
• Moving to our three F17 focus areas. I am very pleased with the progress we have made but there is more to be done.
• These will continue to be focus areas for us in F18 as we drive further progress
• Starting with scotch

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Scotch is about a quarter of Diageo’s net sales and we have built momentum in the category in F17.

Johnnie Walker, our flagship scotch brand, represents 55% of our scotch net sales and is back in solid growth. Momentum has also accelerated on Buchanan’s.

Of the three biggest regions for scotch malts, growth accelerated in Asia Pacific and North America. Europe growth slowed driven by Great Britain (GB) and Benelux. In GB we gained share growing three times faster than the malts category but net sales were flat due to changes in commercial footprint. In Benelux, performance was impacted by a significant tax increase implemented in the first half of fiscal 16.

In primary scotch, we saw strong growth on Black and White, VAT69 and White Horse, and Bell’s performance improved. However, overall performance slowed vs last year due to Black Dog being impacted by trading conditions in India.

Other scotch performance improved versus last year but declines continued driven by the decline of Windsor due to the scotch category contraction in Korea.

Let me share with you some examples of how we are driving Johnnie Walker and primary scotches.
• Scale execution of Johnnie Walker growth drivers is driving strong performance
• In F17, we have been telling inspiring local stories of personal progress across the world which have reached almost 180 million consumers
• In F17 we used our F1 partnership to sample and sell to the 3.4 million visitors to the events every year. This will allow us to get liquid on lips of 1 million consumers in F18 and progress towards our 5 million Join The Pact commitments
• We are also following up the success of Blender’s Batch Red Rye finish in recruiting new, younger legal purchase age consumers with Blender’s batch wine cask finish which has just started shipping.
• Though Johnnie Walker Blue Label is a pillar in our gifting strategy, we activate gifting across the portfolio.
• In F17 we delivered globally consistent execution, across off-trade and multiple festive occasions, from Diwali, Christmas, New Year, Chinese New Year to Father’s Day.
• Personalisation of labels, a key component of our gifting activation was activated in 33 countries and 59 cities
• I will now share with you how the activation of the four growth drivers is driving strong Johnnie Walker growth in the United States.
The “Keep Walking America” campaign, was launched on the eve of the Presidential election and celebrates American diversity and encourages progress.

By being bold and brave and leaning into the relevant cultural conversation we have engaged a new generation of drinkers and set the stage for long term growth.

In the second half we partnered with Los Angeles soul band Chicano Batman to launch the next phase of the campaign.

And we have leveraged the campaign even further in the US.

By creating localized Keep Walking assets, we bring the striding man into the neighbourhoods of millions of people.

Keep Walking Yankees: is a partnership with the NY Yankees with localized Keep Walking touchpoints at Yankee stadium and a limited edition bottle to celebrate one of the iconic symbols in baseball. Yankee stadium alone attracts over 3 million fans every season!

The campaign is driving strong improvement in brand equity measures.
• We know liquid on lips drives at least 20% conversion to purchase and in the US we have been sampling consumers at culturally relevant events like Coachella.
• Johnnie Walker headed to the Californian desert for an unforgettable weekend during the Coachella music festival.
• For the first time, the brand was front and center at some of the hottest parties and hosted a one-of-a-kind skywriting stunt over the festival grounds that had everyone talking about Johnnie Walker.
• Johnnie Walker showcased that light, fresh and delicious, Johnnie and Soda cocktails were the perfect way to escape the Coachella heat!
• We sampled Johnnie and Ginger at the Austin Grand Prix which was attended by 240,000.
• And in the second half we launched Blender’s Batch Triple Grain American Oak in the US
• Aged for at least 10 years in American oak, including bourbon casks it is crafted using five whiskies including grain from the now closed Port Dundas distillery and malt from Mortlach on Speyside
• The result is a whisky that is uniquely smooth, with notes of sweet fresh fruit and gentle spice.
This Father’s Day, Johnnie Walker hosted a Father’s Day Gifting Studio on the floor of the state of the art Oculus at the World Trade Center in NYC.

The activation ran for 2 weeks and provided visitors to this iconic transportation and shopping hub with complimentary Blue Label engraving and Johnnie Walker Trademark personalisation.

The physical activation was seen by over 3 million visitors.

Bottle fulfillment was facilitated by our partner Drizly and allowed consumers to receive their bottles at the venue or by same day delivery within Manhattan and surrounding areas.

The learnings from this activation will allow us to scale up this trademark gifting approach in F18.
• Scotch retains an aspirational role in emerging markets as the pre-eminent international premium spirit, however recruitment depends on affordability and it is led by the lower priced “primary scotch” segment.
• We have the brands, and we have the liquid to play a bigger role in this segment
• Black and White, from the House of Buchanan's is our priority in Latin America and we saw strong growth continue in F17 driven by exceptional performance in Mexico and Brazil
• VAT 69, Bell’s and White Horse all improved performance versus last year
Let me share with you the success we have had in Brazil with Black and White.

The scotch category has been impacted as consumers trade down in the challenging economic environment.

Consumers are looking for quality credentials in scotch at affordable price points and that is what Black and White offers.

We established Black and White’s quality credentials through targeted media investment, driving in-store visibility with displays highlighting the affordable price point and strong on premise activation.

Black and White is now the biggest primary scotch brand in Brazil and is driving our share gains in the scotch category.
• Turning to US Spirits, our second focus area
• We have strengthened our understanding of the consumer and the shifting attitudes and behaviours
• This defines what we need to do to win:
  • We must win with the three major consumer cohorts: Millennial, Multi-cultural and Ageless consumers
  • Targeting the right consumer occasions with communications that are purposeful while considering their shifting attitudes
  • And ensuring our brands stand out wherever they chose to consume spirits or look for information to make consumption choices such as on-premise, digital or third spaces
• We have been executing against our strategy with pace:
  o We now have purpose led marketing communications platforms for all our major brands
  o We activated against the multi-cultural consumer at scale with F17 spend more than 4X what we spent last year
  o We are using search and ‘always on’ digital content to connect at point of purchase
  o We enhanced our on premise RTC with the 200 person activation army that has been in place for two years now targeting over 7000 on-premise millennial accounts These accounts are growing 10% faster than the rest of the market.
  o We have added 65 reserve ambassadors in the first half focused on over 1400 trend leading accounts
  o And we are leveraging partnerships with the likes of Drizly, Uber and Tasty to amplify our brands
  o We are leading the spirits industry innovation driving fewer, bigger and more sustainable ideas and by nurturing smaller, earlier stage brands.
  o Over the past 12 months, while we have launched 11% of the industry innovation variants, these make up over 60% of industry year one innovation retail sales
  o And finally we continue to drive efficiencies in our costs in order to reinvest savings into the business to drive growth, up-weighting investment in the second half on key brands
• These actions are driving improved performance on core brands and continued momentum on our fast growing brands; Bulleit, Don Julio and Buchanan’s.
• However, overall F17 performance was held back by super premium vodka performance.
• Excluding Ketel One and Ciroc, net sales grew 6.1%
We have made good progress in improving the performance of our core brands. These represent over 50% of our business and grew 6.3% in F17.

Share gains were achieved in all key categories except vodka.

The strong growth and share gains for Crown Royal have continued with the base variant Deluxe and Regal Apple in growth. Vanilla is the #1 innovation in Nielsen and NABCA.

Johnnie Walker, Captain Morgan and Baileys also improved performance vs. last year.

Smirnoff depletion volume was flat but net sales declined as we continued inventory management initiatives and finished making the necessary price adjustments. The actions we have taken on the brand are driving improvement in brand equity scores and recruiting new consumers. We remain confident in bringing it back to growth.

Ciroc and Ketel One performance has softened and we believe we have the right plans in place to address this performance.
We will continue to improve our performance in F18 with our strong plans supported by an up weight in investment.

Core brands are key to our success and our goal is to sustain the trend on these brands.

We are making interventions to stabilise super premium vodka.

Ketel One has laudable quality credentials backed up by years of awards and with a family recipe, still produced by the family.

We have launched a new consumer communication platform designed to reinforce brand quality and heritage credentials.

We will increase weight of our communications targeted to female and ageless cohorts.

For Ciroc, we are establishing a platform that drives sustainable growth for the brand through the core variant and flavour range.

We are expanding consumer recruitment to urban Hispanics and introducing additional influencers to the brand like DJ Khaled and French Montana.

And bringing new news to the brand through:

- Expanding Ciroc into the summer entertaining occasion with the brand’s first limited time offer Summer Colada, which sold out quickly, online summer drink recipes and special pack for legacy flavours.
- Opening up the brand to new occasions and serves with the launch of a new variant.

Aside from super premium vodka, our reserve brands have continued to grow at double digit rates. Our plans will maintain the strong growth.

Our portfolio brands volume performance has improved through the interventions we have made and we have plans in place to further improve the performance in F18.

And innovation will continue to be a key growth driver as we deliver fewer, bigger and more sustainable ideas.
• I am pleased with the progress in India despite the short term headwinds we faced from de-monetisation and the highway ban which has slowed growth in F17.
• Strong growth continued on prestige and above brands driven by the success we have seen behind the relaunches of USL power brands and strong performance in scotch.
• We gained over 20bps of spirits industry share in the 12 months through May with prestige and above brands gaining over 70bps of industry share.
• The highway ban impacted second half performance and the impact is expected to continue to a lesser extent in the first half of F18.
• We also made progress towards our goal to improve operating margins with gross margin improving by 56 bps driven by positive mix, price increases and supply productivity savings
• Excluding productivity related costs, overheads reduced by 1% as we implemented zero based budgeting and took actions to right size the organisation
• These productivity savings were partially reinvested to support relaunch of Signature and increased activity in scotch
• India’s Goods and Services Tax (GST) went live on July 1. While the impact of increase in input costs was lower than expected due to extra neutral alcohol being excluded from GST, there is still an impact due to higher tax rates on packaging material, molasses and services.
• We are currently working through options to mitigate the impact, but we do expect margin impact from GST in F18.
• We remain committed to delivering our medium term goal of improving organic operating margin to mid-high teens
Let me close by saying:

- The shifts we have made over the past four years have made Diageo a stronger company
- We have created a high performing culture that is even more consumer centric
- We have the right talent with clear accountabilities and a more disciplined agile organization that is more data and insight driven
- We have intense everyday focus on efficiency that is providing the fuel to reinvest behind our brands
- There is momentum in the business and the performance improvement is broad based
- We have delivered the first year of our medium term guidance with consistent strong free cash flow
- I am confident about the future with the progress we have made and this strong sets of results.

As a result:
- We have accelerated our productivity savings and increased our goal to £700m
- We have raised our medium term operating margin expansion objective by 75bps
- We have announced share buy-back of up to £1.5bn in F18
- We are on track with our long term performance ambition to be one of the best performing, most trusted and respected consumer products companies in the world

Thank you
APPENDIX 1: 1/2
FORWARD LOOKING STATEMENTS

Exchange rate outlook
Using exchange rates £1 = $1.30; €1 = €1.13, the exchange rate movement for the year ending 30 June 2018 is estimated to adversely impact net sales by approximately £80 million and favourably impact operating profit by approximately £70 million.

Net sales
Our productivity program enabled us to up weight A&P investment in US spirits and we will continue to increase investment in the year ending 30 June 2018. We expect overall performance in US Spirits to continue to improve.

Net sales in India declined 5% in the last quarter due to the highway ban, and we expect it will continue to impact performance in the six months ended 31 December 2017, although to a lesser extent.

Operating margin
We expect the phasing of the remaining margin expansion we are now guiding to be more weighted to the year ending 30 June 2019 as we will have less costs to absorb and we will get the full benefit from our investments to build improved NRM capabilities.

In July 2017 the new Goods and Services Tax became operational in India. While we are working on plans to mitigate it, we expect it to have a negative impact on margins in India in the year ended 30 June 2018.

Net finance charges
The effective interest rate in the year ended 30 June 2017 increased to 3.5% as a result of the increase of US libor rates. For the year ending 30 June 2018 we expect the effective interest rate to be broadly in line with the year ended 30 June 2017.

Finance charges are expected to be broadly the same as in the year ended 30 June 2017, with the addition of the Casamigos earn out charge, subject to regulatory clearances to complete the transaction, being offset by a reduced pension charge as a result of a lower deficit position.
APPENDIX 1: 2/2
FORWARD LOOKING STATEMENTS

Taxation
As for most multinationals the current tax environment is creating increased levels of uncertainty. Our current expectation is that the tax rate before exceptional items for the year ending 30 June 2018 will be approximately 21%.

Medium term guidance
We continue to expect mid single digit top line growth in the medium term
We are increasing our margin expansion guidance from 100bps to 175bps over the three years ending 30 June 2019. This is underpinned by additional productivity savings of £200m.

Capital expenditure
Capital expenditure is expected to be approximately £600m for the year ending 30 June 2018, as we carry over some spend from F17 and we deliver strategic investments already announced such as the new brewery in Kenya and the new Irish whiskey distillery in Dublin.

Dividend
We have a progressive dividend policy and we expect to maintain a mid single digit increase until we rebuild dividend cover back to our target range of 1.8 to 2.2.

Share buy-back
During the year ending 30 June 2018 we will return up to £1.5bn of capital to our shareholders in the form of a share buy-back program.
APPENDIX 2: RECONCILIATION OF CASH FLOW STATEMENT

<table>
<thead>
<tr>
<th>Statement of cash flows (£m)</th>
<th>FY16P12</th>
<th>FY17P12</th>
<th>Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit after exceptional items</td>
<td>2,841</td>
<td>3,559</td>
<td>718</td>
</tr>
<tr>
<td>Net (increase) / decrease in working capital</td>
<td>(53)</td>
<td>151</td>
<td>204</td>
</tr>
<tr>
<td>Depreciation, amortisation and impairment</td>
<td>473</td>
<td>361</td>
<td>(112)</td>
</tr>
<tr>
<td>Dividends received</td>
<td>173</td>
<td>223</td>
<td>50</td>
</tr>
<tr>
<td>Post employment payments less amounts included in operating profit</td>
<td>(59)</td>
<td>(111)</td>
<td>(52)</td>
</tr>
<tr>
<td>Other items*</td>
<td>(15)</td>
<td>(6)</td>
<td>9</td>
</tr>
<tr>
<td>Net interest and tax</td>
<td>(812)</td>
<td>(1,045)</td>
<td>(233)</td>
</tr>
<tr>
<td>Net capex</td>
<td>(449)</td>
<td>(472)</td>
<td>(23)</td>
</tr>
<tr>
<td>Movements in loans and other investments</td>
<td>(2)</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>2,097</td>
<td>2,663</td>
<td>566</td>
</tr>
</tbody>
</table>

* Includes payment of £31m in respect of discontinued operations in the year ended 30 June 2017 (2016 – £nil)

Reconciliation of free cash flow waterfall on slide 21

<table>
<thead>
<tr>
<th>Movement on operating profit as shown on Cash slide YoY waterfall</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit after exceptional items</td>
<td>718</td>
</tr>
<tr>
<td>Depreciation, amortisation and impairment</td>
<td>(112)</td>
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<tr>
<td>Other items excluding discontinued operations</td>
<td>40</td>
</tr>
<tr>
<td>Post employment charges in operating profit</td>
<td>(1)</td>
</tr>
<tr>
<td>Operating profit movement excluding non-cash items</td>
<td>645</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Movement on other operating activities as shown on Cash slide YoY waterfall</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Post employment payments</td>
<td>(51)</td>
</tr>
<tr>
<td>Movements in loans and other investments</td>
<td>5</td>
</tr>
<tr>
<td>Dividends received</td>
<td>50</td>
</tr>
<tr>
<td>Other operating activities</td>
<td>(27)</td>
</tr>
</tbody>
</table>
Cautionary statement concerning forward-looking statements

This document contains ‘forward-looking’ statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook, objectives and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to Diageo, anticipated cost savings or synergies, expected investments, the completion of Diageo’s strategic transactions and restructuring programmes, anticipated tax rates, changes in the international tax environment, expected cash payments, outcomes of litigation, anticipated deficit reductions in relation to pension schemes and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo’s control.

These factors include, but are not limited to:

- economic, political, social or other developments in countries and markets in which Diageo operates, which may contribute to a reduction in demand for Diageo’s products, decreased consumer spending, adverse impacts on Diageo’s customer, supplier and/or financial counterparties, or the imposition of import, investment or currency restrictions;
- the negotiating process surrounding, as well as the eventual terms of, the United Kingdom’s exit from the European Union, which could lead to a sustained period of economic and political uncertainty and complexity while detailed withdrawal terms and any successor trading arrangements with other countries are negotiated, finalised and implemented, potentially adversely impacting economic conditions in the United Kingdom and Europe more generally as well as Diageo’s business operations and financial performance;
- changes in consumer preferences and tastes, including as a result of changes in demographics, evolving social trends (including potential shifts in consumer tastes towards locally produced small-batch products), changes in travel, vacation or leisure activity patterns, weather conditions, public health regulations and/or a downturn in economic conditions;
- any litigation or other similar proceedings (including with customs, competition, environmental, anti-corruption and other regulatory authorities), including litigation directed at the drinks and spirits industry generally or at Diageo in particular;
- changes in the international tax environment, including as a result of the OECD Base Erosion and Profit Shifting Initiative and EU anti-tax abuse measures, leading to uncertainty around the application of existing and new tax laws and unexpected tax exposures;
- the effects of climate change, or legal, regulatory or market measures intended to address climate change, on Diageo’s business or operations, including any impact on the cost and supply of water;

(Continued on following page)
• changes in the cost of production, including as a result of increases in the cost of commodities, labour and/or energy or as a result of inflation;
• legal and regulatory developments, including changes in regulations relating to production, distribution, importation, marketing, advertising, sales, pricing, packaging and labelling, product liability, labour, compliance and control systems, environmental issues and/or data privacy;
• the consequences of any failure by Diageo or its associates to comply with anti-corruption, sanctions, trade restrictions or similar laws and regulations, or any failure of Diageo’s related internal policies and procedures to comply with applicable law;
• Diageo’s ability to maintain its brand image and corporate reputation or to adapt to a changing media environment;
• increased competitive product and pricing pressures, including as a result of actions by increasingly consolidated competitors, that could negatively impact Diageo’s market share, distribution network, costs and/or pricing;
• Diageo’s ability to derive the expected benefits from its business strategies, including in relation to expansion in emerging markets, acquisitions and/or disposals, cost saving and productivity initiatives or inventory forecasting;
• contamination, counterfeiting or other circumstances which could harm the level of customer support for Diageo’s brands and adversely impact its sales;
• increased costs for, or shortages of, talent, as well as labour strikes or disputes;
• any disruption to production facilities, business service centres or information systems, including as a result of cyber-attacks;
• fluctuations in exchange rates and/or interest rates, which may impact the value of transactions and assets denominated in other currencies, increase Diageo’s cost of financing or otherwise adversely affect Diageo’s financial results;
• movements in the value of the assets and liabilities related to Diageo’s pension plans;
• Diageo’s ability to renew supply, distribution, manufacturing or licence agreements (or related rights) and licences on favourable terms, or at all, when they expire; or
• any failure by Diageo to protect its intellectual property rights.

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Past performance cannot be relied upon as a guide to future performance.
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