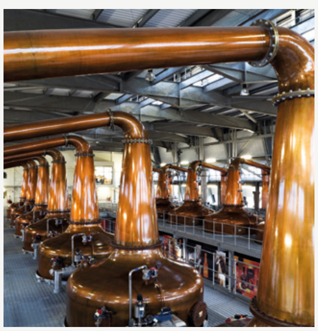
OUR BUSINESS

Diageo is a global leader in beverage alcohol with iconic brands in spirits, beer and wine. We invest behind our brands to drive growth, providing consumers with choice and quality across categories and price points.

Our business is built on foundations laid by the giants of our industry. Arthur Guinness, Alexander Walker and all those that followed in their footsteps, cared deeply about the people and businesses they fostered. They were driven to create products that would last for generations, the best conditions for their people, and the best financial performance. Today, we act like those entrepreneurs, passionate about our brands, our customers and consumers, our communities, and society as a whole. Our purpose is to help our consumers celebrate life, every day, everywhere, and to do so responsibly.

We give our people the freedom to do the best work of their careers. We take great pride in what we do, and in how we do it. Above all we value each other's commitment to delivering the best.



WE PRODUCE

Every year we produce more than 6.5 billion litres of our brands, from more than 100 sites in 30 countries.

Our supply functions are responsible for the distilling, brewing, bottling, packaging and distribution of our brands. We are committed to efficient, sustainable production to the highest quality standards, and are proud that our supply facilities are recognised as leaders in environmental sustainability.

Our 21 markets are designated as import markets, import and third-party production markets or import and local production markets. Our export-led International Supply Centre (ISC), based in Europe produces many of our heritage brands, including our Scotch whisky products. It employs over 4,000 people across more than 55 sites in Scotland, England, Ireland, Italy and the Netherlands.

WE MARKET

We are committed to ensuring that our brands are at the front of consumers' minds whenever a purchase decision arises. The strength of our portfolio means that we have relevant brands at almost every price tier of every category.

We work tirelessly to engage and delight existing and new consumers, constantly innovating with our products and how we market. For decades our brands have been at the forefront of marketing innovation and the same remains true today. We take seriously our obligations to market our brands responsibly, and to help our consumers make informed decisions about drinking, or not drinking. We are committed to the development and implementation of programmes to educate consumers about responsible drinking.

WE INNOVATE

Innovation is critical to our continued growth. We are committed to finding breakthrough innovations and ideas to serve our customers and consumers. We identify new consumer trends, and innovate at scale boldly. Innovation is a permanent engine of growth for our business and we are restless in our search for new products. We are open-minded to where these ideas will come from, combining our world-leading technical and research capability with investments in smaller start-ups. In each of the last five years our innovation pipeline has delivered double-digit growth for Diageo.

WE SELL

Everyone at Diageo is encouraged to sell or to help to sell. This is just one expression of the world-class customer focus that is at the heart of our business. Our founders and all those who followed, were obsessed with providing the best quality products to their customers in markets at home and abroad. Today we are no different. In each of our 21 markets, we are passionate about ensuring our products are available to consumers in every appropriate shop or bar. We are continually working to deliver amazing consumer experiences and to extend our sales reach.

OUR STRUCTURE

Diageo's strength is in its geographic reach. We operate as 21 geographically based markets around the world and have a presence in over 180 countries. We employ 28,000 talented people across our global business. 39% of Diageo's business is in the emerging markets in Latin America, Asia, Africa, Eastern Europe and Turkey. This presence is balanced through our strong businesses in the world's most profitable beverage alcohol market, the United States, and an integrated Western European business.

DIAGEO REPORTS AS FIVE REGIONS

	North America	Western Europe	Africa, Eastern Europe and Turkey	Latin America and Caribbean	Asia Pacific
FINANCIALS BY REGION					
Volume (EUm)	49.3	33.0	36.0	23.0	14.8
Net sales* (£m)	3,444	2,169	2,075	1,144	1,347
Operating profit** (£m)	1,460	639	554	328	283
% SHARE BY REGION					
Volume (%)	32	21	23	15	9
Net sales* (%)	34	21	21	11	13
Operating profit** (%)	45	19	17	10	9

Reported net sales for the year ended 30 June 2014.
*Excluding corporate net sales of £79 million; **Excluding exceptional operating charges of £427 million and corporate costs of £130 million.

% SHARE OF NET SALES BY OUR 21 MARKETS***

EACH OF OUR 21 MARKETS IS ACCOUNTABLE FOR ITS OWN PERFORMANCE AND FOR DRIVING GROWTH

	North America	Western Europe	Africa, Eastern Europe and Turkey	Latin America and Caribbean	Asia Pacific
>20%	US Spirits & Wines	Western Europe			
3-6%	Diageo-Guinness USA (DGUSA)		Nigeria East Africa Turkey Africa Regional Markets	WestLAC Paraguay, Uruguay & Brazil	Global Travel Asia & Middle East
2-3%	Canada		Russia & Eastern Europe South Africa		South East Asia Australia North Asia Greater China
<2%				Mexico Venezuela Colombia	India

Reported net sales for the year ended 30 June 2014.
***Throughout this Annual Report 2014, reference to Diageo's 21 geographically based markets will be stated as '21 markets'.

BRAND PERFORMANCE

These brands deliver approximately two-thirds of our net sales. They have broad consumer appeal across geographies, and while each of them has a rich heritage, they all continue to innovate and expand to meet new and emerging consumer trends.

	Johnnie Walker	Crown Royal	J&B	Buchanan's	Windsor	Bushmills
Category	Scotch whisky No.1 SCOTCH WHISKY IN THE WORLD*	Canadian whisky No.1 CANADIAN WHISKY IN THE WORLD**	Scotch whisky No.5 SCOTCH WHISKY IN THE WORLD*	Scotch whisky No.3 PREMIUM SCOTCH WHISKY IN LATIN AMERICA AND CARIBBEAN*	Scotch whisky No.2 SUPER PREMIUM SCOTCH WHISKY IN ASIA PACIFIC*	Irish whiskey No.3 IRISH WHISKEY IN THE WORLD*
Key markets	United States Global Travel & Middle East Brazil Mexico China Thailand South Africa Taiwan	United States Canada	Spain France South Africa United States Turkey Belgium Portugal	United States Mexico Venezuela Colombia	Korea China	United States Russia Ireland France Great Britain
Volume movement	(6)%	(4)%	(7)%	(13)%	(5)%	8%
Organic net sales movement	(4)%	1%	(8)%	6%	1%	7%
Reported net sales movement	(9)%	(3)%	(11)%	(24)%	1%	4%

Organic equals reported movement for volume. See page 50 for definition of organic movement.
*IWSR; **Impact Databank; ***Nielsen; ****Beverage Information Group; *****Plato Logic.

Read more on pages 40-41.

Captain Morgan	Smirnoff	Cîroc	Ketel One	Baileys	Don Julio	Tanqueray	Guinness
Rum	Vodka	Vodka	Vodka	Liqueur	Tequila	Gin	Beer
No.2	No.1	No.2	No.2	No.1	No.1	No.1	No.1
BRAND IN THE RUM CATEGORY IN THE WORLD**	PREMIUM VODKA IN THE WORLD**	ULTRA PREMIUM VODKA IN THE UNITED STATES***	SUPER PREMIUM VODKA IN THE UNITED STATES***	LIQUEUR IN THE WORLD**	ULTRA PREMIUM TEQUILA IN THE WORLD*	IMPORTED GIN IN THE UNITED STATES****	STOUT IN THE WORLD*****
United States Canada Great Britain Germany Russia South Africa	United States Great Britain Canada Brazil South Africa Australia	United States Brazil Great Britain	United States Canada Australia Brazil	United States Great Britain Canada Germany Spain	United States Colombia Australia Canada	United States Spain Canada Great Britain Australia Italy	Great Britain Ireland Nigeria United States Indonesia Cameroon
6%	(1)%	2%	3%	(2)%	27%	4%	(5)%
6%	(2)%	2%	6%	1%	27%	6%	(1)%
1%	(7)%	(2)%	2%	(3)%	22%	3%	(5)%

OUTSTANDING BREADTH AND DEPTH ACROSS PRICE POINTS

We have brands at almost every price tier of every category. The range of our price points means we are able to capture consumption shifts across the price spectrum. The breadth and depth of our business provides resilience, and enables us to sustain our performance over time.

	Scotch whisky	Other whisk(e)y	Vodka	Rum
Ultra premium*	Johnnie Walker Blue Label Trophy	Crown Royal Extra XR Rare	CÎROC	Ron Zacapa Centenario XO
Super premium	The Singleton of Glen Ord	Bulleit Bourbon	Ketel One Vodka	Pampero Aniversario Ron Extra Añejo
Premium	Johnnie Walker Black Label	Bushmills Black Bush	Smirnoff Iced Cake Flavored Vodka	Captain Morgan Private Stock
Standard	J&B	7	Smirnoff	Captain Morgan Black Spiced
Value	VAT 69	Rowson's Reserve	Premium Popov Vodka	Cacique Moneda De Oro

*Ultra premium includes prestige.

Liqueur	Tequila	Gin	Local spirits	Beer
Grand Marnier Cuvée du Cent Cinquantenaire 150	DeLeón Tequila	Tanqueray No TEN	水井坊 Shui Jing Fang	
Grand Marnier Cuvée Louis-Alexandre	Tequila Reserva de Don Julio			Kilkenny
Sheridan's Original Layered Liqueur		Tanqueray	Yeni Raki	Guinness
Baileys		Gordon's	Ypióca	Meta Beer
Emmets		Gilbey's	Vodka Hà Nội	Dubic Extra Lager

OUR PERFORMANCE AMBITION

Diageo's Performance Ambition is to create one of the best performing, most trusted and respected consumer products companies in the world.

DIAGEO'S STRATEGY AIMS TO DELIVER OUR PERFORMANCE AMBITION THROUGH:

Prioritised investment in:

Premium core spirits*

Read more on page 14.

Reserve

Read more on page 14.

Targeted investment in:

Other spirits*

Beer

Wine

*Spirits include ready to drink (RTDs)

We measure progress against our Performance Ambition using the following financial and non-financial indicators:

1 Efficient growth
- Organic net sales
- Operating margin
- Earnings per share
- Free cash flow

2 Consistent value creation
- Return on average invested capital
- Total shareholder return

3 Strong reputation
- Alcohol in society
- Water efficiency

4 Fully engaged employees
- Employee super-engagement

See our Key Performance Indicators (KPIs) on pages 20-21.

Strategic report
Governance
Financial statements
Additional information for shareholders

OUR BUSINESS MODEL

Diageo has grown through investment in our brands and route to consumer, and by acquisitions to broaden our geographical footprint and our category depth and range. Our business model is designed to drive returns for shareholders, while creating value for our customers, employees and the communities in which we operate.

STRONG PLATFORM

Broad portfolio

Leading capabilities

Geographic reach

Global functions

Financial strength

Values

AGILE OPERATING MODEL

21 markets

Participation strategy

Supply management

Consumer insights

FOCUSED INVESTMENT

Performance drivers

Read more on pages 14-15.

Sustainability & Responsibility priorities

Read more on pages 16-19.

Value creation: shareholder value; investment in the business; customer, employee and social value

Strong platform

Broad portfolio: Diageo has world-leading brands across categories and price points.

Geographic reach: we have geographic reach through the breadth and depth of our global and local brands.

Financial strength: our competitive advantage is reflected by our strong financial returns and consistent financial performance.

Leading capabilities: Diageo's focus is on brilliant execution: efficiency in supply and procurement; breakthrough marketing; scalable innovation; and winning relationships with our customers and consumers through distribution and sales.

Global functions: Diageo's 21 markets are supported by a global structure and shared services designed to share best practice, impart knowledge and help build capability at a local level, as well as apply governance of controls, compliance and ethics.

Values: at the heart of everything we do are our company values: passionate about customers and consumers; be the best; freedom to succeed; proud of what we do; valuing each other.

Agile operating model

Participation strategy: our participation strategy is to invest behind the biggest growth opportunities, by category and channel, for our brands in our 21 markets.

Supply management: our 21 markets are designated as import markets, import and third-party production markets or import and local production markets.

Consumer insights: our deep consumer insights help us to anticipate and respond to rapidly changing dynamics across all markets, and continue to nurture and grow some of the world's best-loved brands.

Focused investment

Performance drivers: Diageo has identified six performance drivers which are key to achieving our aims. Each market focuses on the priorities that will drive performance in that market: premium core brands; reserve; innovation; route to consumer; cost; and talent.

Sustainability & Responsibility priorities: Diageo has six priorities that support our sustainable growth while meeting key stakeholder expectations: alcohol in society; water and the environment; community empowerment; people; governance and ethics; and value chain partnerships.

> Diageo has an enviable history of entrepreneurialism that has built the leadership of our brands and business over many generations. Critical to our future success as a global consumer goods company operating in over 180 countries, is our ability to maintain that entrepreneurial spirit.

Interim dividend per share
19.7p (↑9%)
31 December 2012: 18.1p

Final recommended dividend per share
32.0p (↑9%)
30 June 2013: 29.3p

Total dividend per share*
51.7p (↑9%)
Full year 2013: 47.4p

*Includes recommended final dividend.

CHAIRMAN'S STATEMENT: IN BUILDING REPUTATION, DIAGEO STARTS FROM A POSITION OF STRENGTH.

Dr Franz B Humer,
Chairman

Ivan and the Executive Committee have set out the clear and stretching ambition to create one of the best performing, most trusted and respected consumer products companies in the world. To deliver this ambition, and with the support of your Board, Ivan has put in place a strategic framework to guide commercial execution and the allocation of our resources.

Performance and dividend
This financial year has seen a number of macroeconomic and one off challenges impact our performance. Cyclical weakness and volatility have slowed the growth of the emerging markets, and, while growth in the developed markets is improving, the pace of economic recovery remains uneven. We were quick to adapt to changing market and competitive dynamics, managing our cost base and shifting our organisation, culture and behaviours. The business is now well placed to step up our performance to drive efficient growth and consistent returns for shareholders.

This confidence in Diageo's future prospects has enabled the Board to recommend a final dividend of 32 pence per share, to be paid to shareholders on 2 October 2014. This brings the total dividend for the year to 51.7 pence per share, an increase of 9% over the prior year.

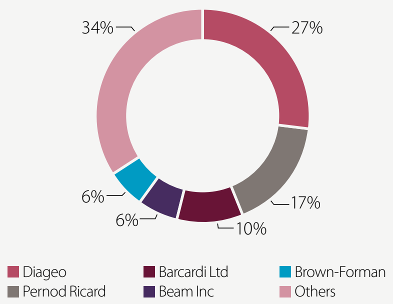
Strategic progress
Diageo has an enviable history of entrepreneurialism that has built the leadership of our brands and business over many generations. Critical to our future success as a global consumer goods company operating in over 180 countries, is our ability to maintain that entrepreneurial spirit. We continue to build our agility at a market level, empowering our local businesses to act with speed and authority. This journey was started in 2011 and culminated in the removal of our regional hub structures in Africa, Latin America and Asia this year, thus allowing for faster and more efficient decision making.

The reorganisation programme announced in January will improve operational efficiencies and will also drive out cost. It has identified annual savings of £200 million by the end of fiscal 2017.

Diageo continued to expand its global presence this year, and I am particularly pleased with the progress made in achieving a majority stake in United Spirits Limited (USL), through the acquisition of an additional 26% shareholding on 2 July 2014. This acquisition takes Diageo's holding in USL to 54.78%.

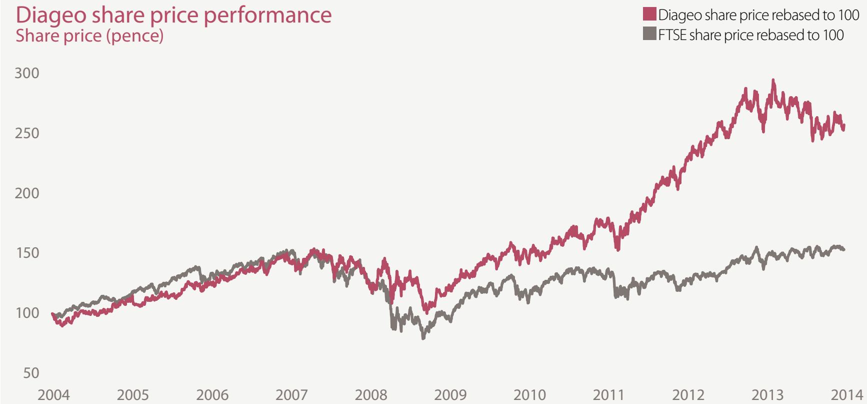
Trust and respect
Trust and respect have never been more important for a global business. In building reputation Diageo starts from a position of strength. We believe that alcohol can play a positive role in society and in order to achieve this we need to continue partnering with others to help reduce the harmful use of alcohol. As part of the United Nations (UN)

Global volume share of premium spirits (%)



Source: Impact Databank, February 2014

Diageo share price performance
Share price (pence)



charter to reduce non-communicable diseases, the World Health Organization (WHO) has set a voluntary target of a 10% reduction in the harmful use of alcohol by 2025. Diageo shares this goal. We believe we are making good progress, including importantly our efforts to consistently deliver the Global Beer, Wine and Spirits Producers' Commitments – a co-ordinated industry response to the WHO's call to action. We will continue to challenge ourselves and the industry to drive large scale progress.

While we continue to focus on maintaining a positive role for alcohol in society, we will not forget the business fundamentals that are an important part of our commitment to international frameworks such as the UN Global Compact. I am pleased that in this period of change for the business we have not lost sight of maintaining the highest standards of conduct, taking pride in embedding integrity in our daily business activities and in our relationships with others.

For many, Diageo is a badge of quality: our name engenders trust with our suppliers, customers, consumers and other stakeholders. In addition to building a strong culture of governance and ethics, earning the trust of our stakeholders requires us to make positive impacts at each stage of our value chain. We do this by supporting small scale farmers growing our grains or by supporting women and men working in the hospitality industry selling our brands. Beyond this, we work to protect resources such as water which we and our local communities need. In addition to meeting stakeholder expectations, this work also brings commercial benefits, including securing resources and raw materials, recruiting and retaining a talented and diverse workforce, creating operational efficiencies and ultimately maintaining our licence to operate around the world.

As Diageo grows in many parts of the world, we must continue to ensure that the way we do business supports and contributes to shared value for Diageo and the people and societies we work with.

Business environment
Creating an environment, whether at a global or national level, where businesses can drive growth and prosperity is a core responsibility for governments and businesses alike. It is particularly important for us in our home market to have clarity on any issues with the potential to add unnecessary cost and complexity to our business. Business does not like ambiguity. As the United Kingdom enters a potentially significant period domestically, and in relation to the EU, we will continue to seek the reassurances we need in areas of critical importance to the future success of our business, and of our great industry.

Board appointments
I am delighted that we have two new Non-Executive Director appointments to the Board, effective 1 September 2014, in Alan Stewart and Nicola Mendelsohn. Alan is Chief Financial Officer Designate of Tesco. He has extensive financial experience in retail as Chief Financial Officer at Marks & Spencer and Group Finance Director at WH Smith. He will bring to the Board a strong track record in accountancy and financial management together with experience in retail, travel and banking. Nicola Mendelsohn is currently Vice President, EMEA of Facebook Inc. and has senior experience at the forefront of digital marketing and communications. Nicola's admirable record in championing women in business will also be an inspiration to our people and the way that we work at Diageo.

Looking ahead
The current emerging market weakness does not reduce our confidence in the long term growth opportunities of these markets and we continue to invest to build our brands and routes to consumer for the future. This, together with Diageo's enviable strengths and the focus that Ivan and the Executive Committee will bring to bear, lead the Board to approach the year ahead with confidence.

Our people
Finally, I would like to thank every one of our employees for their hard work during a challenging year. It is the people in Diageo who will achieve our Performance Ambition, and I am confident that their talents and skills will enable us to build on the entrepreneurial spirit of the founders of our brands and ensure that, wherever we are in the world, the name Diageo is synonymous with commercial success, trust and respect.

Dr Franz B Humer,
Chairman

Top-line growth was affected by a slowdown in the emerging markets and currency weakness. Despite this, our increased focus on cost ensured we delivered our three-year margin expansion goal of 200 basis points.

CHIEF EXECUTIVE'S STATEMENT: I AM CONFIDENT THAT WE HAVE THE STRATEGY TO DELIVER, AND WILL DRIVE EFFICIENT GROWTH.

Ivan Menezes,
Chief Executive

I am honoured to be Chief Executive of Diageo; a global leader with outstanding brands, which have been the choice of consumers across many generations.

Today, Diageo is in good health, with high and improving margins and a robust balance sheet. Our business is balanced across geographies and we continue to build our global footprint accessing long term growth markets. While some of these economies have been challenging, we have the experience of managing volatility and we remain confident in the long term consumer trends, as well as our ability to grow market share.

This year we created a framework to guide delivery of our strategy called our Performance Ambition. The organisation is now focused on six performance drivers: premium core brands; reserve; innovation; route to consumer; cost; and talent. We have also restructured our business. The organisation we take into the next financial year is more agile and accountability lies directly in our 21 markets, making the link between our markets and global functions clearer. The benefits of this will come through in the coming years.

Given the attractiveness of our sector, our clear strategy, our operational focus and the demographic and consumer trends ahead of us, I have no doubt that we can achieve our ambition to become one of the best performing, most trusted and respected consumer products companies in the world.

Results

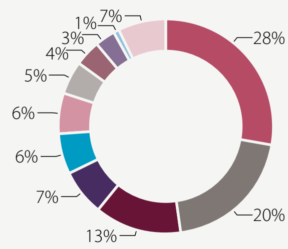
In fiscal 2014 top-line growth was affected by a slowdown in the emerging markets and currency weakness. Despite this, our increased focus on cost ensured we delivered our three-year operating margin expansion goal of 200 basis points. Performance was also impacted by some specific events, such as the anti extravagance measures in China. Our decision in Venezuela to convert our results at an exchange rate which some have judged conservative, but which I feel is appropriate, has reduced the risk that currency volatility will have on our performance in that country.

North America remains the engine of our business, accounting for about a third of our net sales and 45% of our operating profit. This year we again delivered solid growth and significant margin improvement.

Our Western Europe business reported stronger performance, as we expected. Western Europe is still challenging but there has been some recovery and the integrated model put in place in 2011 is proving effective.

In Africa, Eastern Europe and Turkey we posted modest growth, despite facing challenges in beer in Nigeria and following the imposition of duty on Senator keg in Kenya. Performance was up in Turkey following stabilisation of the raki category and continued growth of our scotch brands.

2014 net sales by category (%)



Latin America and Caribbean delivered a good performance despite currency fluctuations, and a slowdown in consumption has impacted wholesalers and distributors operating in the free trade area. In a challenging operating environment, local brands performed well in Venezuela, and Brazil and Colombia also delivered a solid performance.

Performance in Asia Pacific reflected the introduction of anti extravagance measures in China and the weaker trading environment in South East Asia. To counter the effects of the government anti extravagance campaign in China we rolled out innovations in Shui Jing Fang and broadened the range of price points away from dependence on super premium baijiu. Korea, Japan, Middle East, Taiwan and India delivered good growth.

Focusing on delivery

For our premium core brands this has been a year of progress. Improving brand equities and recruiting the next generation of consumers through world class marketing will pay dividends in the long term. We have delivered great launches in innovation, for example, Captain Morgan White in the United States and Jebel Gold in East Africa. I am also excited by the opportunity we have with our single grain whisky, Haig Club, our business partnership with David Beckham. Reserve has been an area of focus for us and we are now the leader in super and ultra premium spirits. We continue to roll out our route to consumer programme, and improvement here will be as big a driver of growth as innovation. Our focus on costs is yielding real results, as demonstrated in the delivery of our margin goal. Talent remains central to our growth plans, and is critical for each market.

Investing for growth

Our investment in the long term supply of premium core spirits continues, with investment in our operations in the United States and Scotland during the year, enabling our business to be well positioned to capture growth from the increase in future demand, particularly in bourbon and scotch. By acquiring an additional 26% of United Spirits Limited (USL) on 2 July 2014, taking our shareholding to a majority holding of 54.78%, we have taken a leadership position in India which will provide a transformational platform for growth in this very attractive spirits market. We will consolidate USL from the start of fiscal 2015, and with our combined strength, the Indian market will become one of Diageo's largest markets next year and a major contributor to our growth ambitions.

Trust and respect

We manage the Company's most material social and environmental impacts with a goal of creating shared value for both our business and our diverse stakeholders around the world. Core to this is a priority around alcohol in society. I'm proud of the approach we have taken as an industry, over many years, to promote responsibility and to help tackle alcohol misuse, but we still have work to do. Making a tangible difference in alcohol-related harm is not only smart business, it is the right thing to do and we will continue to enlist partners to help us build insights and scale. In addition to this, framing our behaviours with strong codes of governance and ethics, developing talent and skills in local communities and ensuring the long term sustainability of resources, are critical for businesses operating at scale across multiple markets, particularly in emerging economies. Being a force for good is essential for delivering commercial and financial benefits, retaining and attracting the best people and being true partners in the communities in which we operate.

Our people

One of the special things about Diageo is our people and the culture that we have created. In simplifying the organisation we have freed our people up to act like owners and be bold in execution, which is changing behaviours across the organisation, and encouraging people to be even more commercially minded.

We attract the best talent in our industry and we are committed to creating the best conditions for people to thrive and succeed. To my 28,000 colleagues around the world I would like to take the opportunity to thank them for their commitment and contribution during the year.

Outlook

Finally, to you, our shareholders, as well as our wide range of stakeholders, it has been a privilege to lead Diageo during the past year. I am confident that we have the strategy to deliver, and we will drive efficient growth. The future growth drivers for our industry, and the aspirational nature of our brands, as consumers in the emerging markets realise increasing disposable income, are undiminished. The opportunity for Diageo to grasp its unfulfilled potential is an exciting one.

Ivan Menezes,
Chief Executive

HOW WE WILL DELIVER OUR AMBITION: PERFORMANCE DRIVERS

Diageo's performance drivers are key to achieving our Performance Ambition and each market focuses on the priorities which are relevant to driving growth in that market.

❶ STRENGTHEN AND ACCELERATE GROWTH OF OUR PREMIUM CORE BRANDS

Our premium core brands are broadly distributed and enjoyed by consumers in the developed world and have wide appeal to the increasing number of middle class consumers in emerging markets. They include iconic brands such as Johnnie Walker, Smirnoff, Captain Morgan and Baileys.

SMIRNOFF: EXCLUSIVELY FOR EVERYBODY

Smirnoff is the No.1 spirit brand in the world by volume and the leading vodka brand in the United States (IRI data 2013). This year we launched a new global advertising campaign, Exclusively for Everybody, to reposition the brand and reinforce Smirnoff's credentials as a great quality vodka that is accessible to everyone. While remaining rooted in promoting responsible drinking, the new campaign celebrates the brand's belief that exclusivity for few is less fun than good times for all.

No.1

spirit brand in the world by volume (Impact Databank 2013).

❷ WIN IN RESERVE IN EVERY MARKET

The growth of luxury consumption is a global phenomenon. There are forecast to be 400 million new consumers in this category by 2020. Winning in reserve, our luxury portfolio, is a priority for Diageo and during the last five years we have transformed our luxury brand building capabilities. We have doubled the net sales of our reserve business, which now accounts for 13% of our total net sales and we are now the leaders in the super and ultra premium segments. This year Diageo has extended this leadership across key categories.

JOHNNIE WALKER BLUE LABEL LIMITED EDITION COLLECTION

In the spirit of craftsmanship, heritage and modernity, this year Johnnie Walker teamed up with luxury goods designer, Alfred Dunhill, to create the Johnnie Walker Blue Label Limited Edition Collection. The gift pack, designed by Alfred Dunhill, features a limited edition bottle with its interior evoking the contours of a map. The bottle's exterior marries the Johnnie Walker Blue Label signature blue colour packaging with Dunhill's signature 'Chassis' design and gunmetal finish. The innovation brings the two iconic brands' shared journey to life. We also launched a Travel Retail Exclusive gift pack that includes a unique one-litre bottle.

❸ INNOVATE AT SCALE TO MEET NEW CONSUMER NEEDS

We believe our ability to innovate gives Diageo competitive advantage. It's a proven driver of growth and is critical to performance in each of our markets. For each of the last five years innovation has accounted for at least half of Diageo's net sales growth, and has grown double-digit. As a result of defining our Performance Ambition we have put renewed focus on bigger, more scalable ideas, identifying and delivering results through impactful innovations.

DELIVERING GROWTH: BULLEIT RYE

Bulleit Rye was launched in 2011 to critical acclaim and has exceeded expectations; its 95% rye mash is exactly what key mixologists seek for making authentic classic whiskey cocktails. Its success is defined by the growth it continues to deliver in a measured and sustained way as it builds its credentials and presence in the North American whiskey market.

❺ DRIVE OUT COSTS TO INVEST IN GROWTH

By reducing costs we can invest more in the areas that we believe will drive future growth. We are committed to a long term, cost conscious culture which results in ongoing, year-on-year improvements in our cost base and margins.

TATA CONSULTANCY SERVICES

This year we selected Tata Consultancy Services to manage our global IT infrastructure, simultaneously improving efficiency and delivering cost savings. This decision was an important milestone in a programme to transform the way we provide IT services to our 28,000 employees. Tata's solution provides a greater level of flexibility and differentiation of services to meet market needs, and gives each market the freedom and agility to drive growth.

❹ BUILD AND THEN CONSTANTLY EXTEND OUR ADVANTAGE IN ROUTE TO CONSUMER

Our route to consumer performance driver is about enabling and empowering our markets to drive broader distribution and higher rates of sale for our brands in an efficient way. The global programme, that was rolled out this year, looks at how we can profitably extend where our brands appear and improve the quality of how our brands appear at every appropriate drinking or buying occasion. Each market is responsible for its own Route to Consumer programme, and for building an efficient local platform that creates competitively advantaged consumer and shopper experiences.

GUINNESS NIGERIA DISTRIBUTION CENTRES

Performance in Nigeria has been challenging this year, but the Route to Consumer programme has enabled us to take a new approach to expanding our distribution footprint. Until recently, we had direct coverage of outlets though our distributors, who used vans to deliver primarily in urban areas. Unfortunately this meant that there were pockets of consumers we didn't reach in semi-urban and rural areas because small deliveries made van distribution unprofitable. By positioning 40-foot shipping containers in key areas outside the cities, we created economical Guinness Distribution Centres from which motorised tricycles can deliver beer more widely. This gives us the flexibility to reach the next tier of potential consumers.

❻ ENSURE WE HAVE THE TALENT TO DELIVER OUR PERFORMANCE AMBITION

Our Performance Ambition can only be achieved by having the right people with the right capabilities in place across our business who can deliver our plans. Ensuring that we have the best talent – now and in the future – is one of our biggest challenges and one of our greatest opportunities.

CHAMPIONING DIVERSITY

At Diageo we champion diversity in the workplace and we believe that gender diversity gives us competitive advantage. We are proud that over 40% of our Executive Committee members are women and that almost 30% of senior leadership roles at Diageo are held by women. Diageo offers career development programmes to all employees across all levels and we are committed to growing and developing our future leaders.

40% Over 40% of our Executive Committee members are women.

HOW WE WILL DELIVER OUR AMBITION: SUSTAINABILITY & RESPONSIBILITY

Strong communities supported by local economic growth and a stable supply of natural resources are critical to Diageo's financial performance. This makes doing business in a sustainable and responsible way, including creating a positive role for alcohol in society, critical to achieving our Performance Ambition.

Through Diageo's Sustainability & Responsibility (S&R) Strategy, we manage the company's most material social and environmental impacts with a goal of creating shared value for both our business and our diverse stakeholders around the world.

At the core of our approach is a commitment to create a positive role for alcohol in society, which is fundamental to Diageo's purpose of celebrating life, every day, everywhere, and a critical expectation of our business.

Meeting stakeholder expectations also involves creating a positive role for our business and the industry as a whole. This includes protecting the watersheds on which our operations and communities rely, and investing in community programmes that empower stakeholders throughout our value chain. It also includes managing impacts that are fundamental for any consumer products company, such as governance and ethics, people and labour, and other environmental issues such as greenhouse gas emissions, waste and packaging.

Diageo's S&R Strategy supports our ambition to be one of the best performing, most trusted and respected consumer products companies in the world. It brings commercial benefits, including securing resources and raw materials, recruiting and retaining a talented and diverse workforce, creating operational efficiencies and ultimately maintaining our licence to operate around the world. S&R projects also save costs. For example, a water recovery project at our Tusker brewery, which operates in a water-stressed part of Kenya, started paying returns in just six months and now generates savings of £500,000 per year.

Materiality matrix (a comparative analysis of S&R interests)

Key stakeholders and their expectations

We define our stakeholders as all those who affect or are affected by Diageo's business. They include internal and external stakeholders, ranging from employees, investors, customers and suppliers, to governments and regulators, not-for-profit organisations, consumers and local communities. In 2013, we invited more than 40 stakeholders to share their expectations of Diageo in terms of our social and environmental impact. Communicating about the risks of alcohol consumption and tackling alcohol misuse were among the most frequently cited. A common piece of feedback was that all leaders in the alcohol industry should work together to have a greater collective impact on reducing alcohol misuse.

Empowering stakeholders in our value chain through skills and education – particularly for smallholder farmers and women – was also frequently cited as an important contribution to socio-economic development, while a third key expectation concerned water security, particularly in water-stressed areas. Stakeholders noted the need to continue to work on the issue within our operations but also to collaborate with local communities and raw material suppliers.

Defining our material issues

To identify and prioritise our material impacts, we coupled feedback from external stakeholders, our Board and management team, with commercial analysis. The results are shown in the materiality matrix above, with external stakeholder interests illustrated on the y axis and business interests on the x axis. Business interests represent the impact each issue might have on factors including equity, market share, price, operating profit, our reputation and employee engagement.

We recognise that this matrix is not fully comprehensive but it is illustrative of the variety of concerns stakeholders may have in the more than 180 countries in which we sell our products. We will continue to update it as we engage individuals and organisations around the world. We are currently in the process of developing targets for the most material issues, and we aim to announce them in December 2014.

❶ ALCOHOL IN SOCIETY

Diageo's iconic brands are enjoyed by millions every day and it has long been our priority to ensure that they are enjoyed responsibly. While drinking alcohol can play a positive role in social occasions and celebrations for those who choose to drink, Diageo recognises that the misuse of alcohol can cause serious problems for individuals, communities and society. Following a United Nations (UN) political declaration on the prevention and control of non-communicable diseases, the World Health Organization (WHO) has set a target of reducing alcohol-related harm by 10% across the world by 2025. Diageo shares this goal: every one of our responsible drinking programmes, partnerships and campaigns are in service of this.

In 2012, 13 leading alcohol beverage companies, including Diageo, announced the Global Beer, Wine and Spirits Producers' Commitments to Reduce Harmful Drinking. Built on long-standing industry efforts, these commitments represent the largest ever industry-wide initiative to implement effective ways to address harmful drinking. The initiative identified five broad areas in which to progress over five years from January 2013: (1) reducing underage drinking; (2) strengthening and expanding marketing codes of practice; (3) providing consumer information and responsible product innovation; (4) reducing drink driving; and (5) enlisting the support of retailers. Diageo and the other signatory companies have pledged to ensure that progress in implementing the commitments is transparent and independently assured.

Beyond these commitments, our approach to creating a positive role for alcohol in society focuses on promoting rigorous company and industry standards for responsible marketing; continuing to support effective programmes and partnerships to tackle drink driving and excessive drinking; and advocating effective, evidence-based policy.

The Diageo Marketing Code and Digital Code are our mandatory minimum standard for responsible marketing, and we review them every 12-18 months to ensure they represent best practice. In addition to abiding by these codes, all brands operate under the Diageo Alcohol Beverage Information Policy which mandates what information Diageo provides on labels, including, among other provisions, a link to our responsible drinking website, www.DRINKiQ.com.

373

responsible drinking programmes.

EFFECTIVE PROGRAMMES AND PARTNERSHIPS

Diageo supports 373 responsible drinking programmes in 53 countries. These programmes focus on preventing drink driving, underage drinking and excessive drinking. We believe that efforts to reduce the misuse of alcohol are most effective when government, civil society, individuals and families, as well as the industry, work together.

Our Model Cities programme in two Mexican cities (Querétaro and Mexico City) demonstrates the effectiveness of engaging all stakeholders in a municipality, including local retailers, educators, police and government, to promote responsible drinking through education and responsible service. Between 2012 and 2013, evaluation of the programme showed important improvements in attitudes toward alcohol, reductions in drink driving, and improvements in age verification where alcohol is sold.

❷ WATER AND THE ENVIRONMENT

Diageo uses a wide range of resources in its business. Some, like fossil fuel, are finite; others, like cereals, are vulnerable to the effects of climate change. Water, the main ingredient in all of our products, is becoming increasingly scarce in many parts of the world.

While our S&R Strategy includes targets and policies aimed at reducing the emissions of greenhouse gases, reducing the amount of waste sent to landfill, and improving the sustainability of our packaging, we and our stakeholders recognise that water stewardship is the most material aspect of our environmental strategy.

12%

decrease in water wasted at water-stressed sites this year.

This year, 23 of our sites, producing about one third of Diageo's packaged volume, were designated as being located in areas which are water-stressed*, which means they have a higher water supply risk. More than half of these sites are in Africa, where the UN predicts that nearly 50% of the population will face water scarcity by 2025. Water challenges in these areas will therefore affect not only Diageo's business but also our business partners and the local communities who rely on water for their livelihoods.

Our approach to water stewardship focuses on driving progress against targets for water efficiency, water wasted in water-stressed areas and water quality. We also invest in infrastructure and sanitation through our Water of Life programme to provide access to clean water in local communities, primarily in Africa.

*See page 25 for a map of our water-stressed sites.

COLLECTIVE ACTION TO ADDRESS WATER STRESS

We are committed to improving the water efficiency of our operations, and this year reduced absolute water withdrawals by 9%, improved water efficiency by 2.4% and decreased water wasted at water-stressed sites by 12%. While we are proud of this important accomplishment, we recognise that collective action with all our stakeholders is critical to managing local water supplies sustainably. This is why in Nairobi, Kenya, where three of our 23 water-stressed sites are located, Diageo and Kenya Breweries Limited recently established the Nairobi Water Roundtable – a multi-stakeholder group tasked with sharing best practice, influencing government and committing to intervention projects to protect local watersheds.

Read our S&R Review on pages 42-49.

❸ COMMUNITY EMPOWERMENT

Like most businesses, we create wealth directly for our local stakeholders through our daily business operations, including providing jobs, sourcing locally, and paying local duties. However, creating wealth in a lasting way requires partnering with others to address development challenges such as education and health, and advocating high standards of governance in the communities where we operate.

We invest in a variety of programmes that aim to empower our stakeholders, which represent our long-standing commitment to investing in communities. Our approach not only seeks to maximise the positive impact Diageo and its business partners can have on society, it also seeks to strengthen our value chain. In addition to helping to provide access to water for local communities through Water of Life, key programmes include partnerships and training for smallholder farmers supplying our ingredients; Diageo's Learning for Life programmes that provide education and vocational training in the hospitality, retail and alcohol industries; and Plan W programmes that focus on empowering women in our local communities. We also support local charities and disaster relief efforts through company contributions as well as through the Diageo Foundation, a UK-registered charity.

14,000

people enrolled in a Learning for Life programme this year.

LEVERAGING THE ECONOMIC IMPACT OF THE HOSPITALITY INDUSTRY

In an effort to reduce youth unemployment in Scotland, Diageo's Learning for Life programme provides young unemployed people with coaching, core employability skills and specialist bartender training. Participants benefit from advice in areas such as interview preparation, teamwork, and communication – helping to boost their life skills and confidence in support of their journey to employment. They are also offered ongoing mentoring and assistance to guide them both during the training and the job application process. Learning for Life in Scotland is the most recent addition to this flagship programme that we run in 30 countries, primarily in Latin America and the Caribbean.

❹ OUR PEOPLE

From the moment they join Diageo, we want our employees to feel engaged: aligned with our strategy, connected to our values and motivated to achieve their potential. And above all, we want them to be safe. Our Zero Harm philosophy is aimed at eliminating workplace accidents and we have a target of having fewer than one lost-time accident per 1,000 people by 2015 as a milestone towards that ambition.

We support our employees through clear policies, competitive reward programmes, coaching and development opportunities, and health and wellbeing initiatives. We continually monitor the impact of these programmes on employee engagement, conducting an annual values-based survey, which is now in its 13th year. The survey allows Diageo at group, market, functional and team levels, to assess how well we are bringing our values to life and engaging employees.

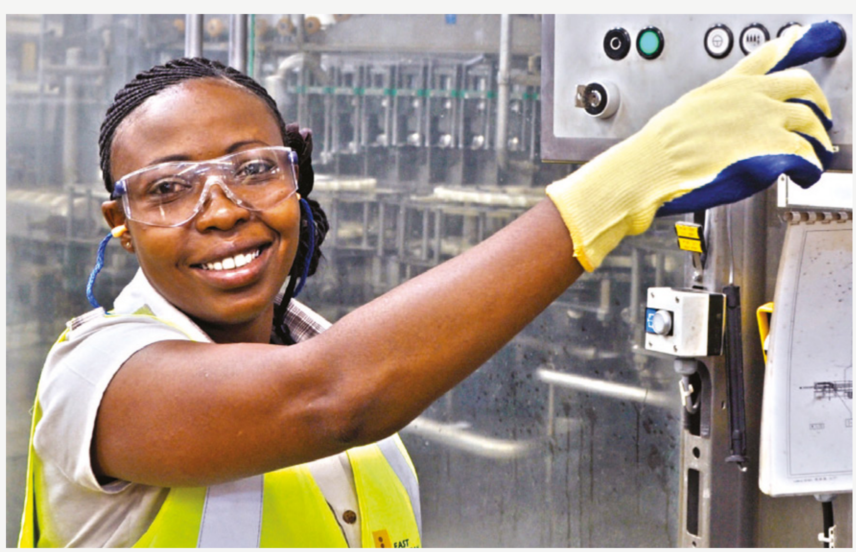
Maintaining a culture that embraces diversity from recruitment through to senior leadership is particularly important to Diageo's people strategy. We have a goal to have 30% of senior management positions held by women.

45%

global reduction in lost-time accidents since 2013.

HARVESTING EXCELLENCE – INVESTING IN SAFETY IN YPIÓCA

When we take on a new business we work quickly to introduce our safety standards. Diageo acquired Ypióca in 2012, taking on some of Brazil's best-known brands – and a business that employed approximately 1,000 people. We applied our Zero Harm safety philosophy to the business, and identified two particular hotspots for accidents – cane harvest and the handling of returnable glass. Thanks to our Harvest Excellence programme, lost-time accidents fell by more than 60% in 2014 compared with 2013.



5 GOVERNANCE AND ETHICS

People want to trust the company behind the brands that they love. Diageo's risk and compliance programme and strong corporate governance structure are designed to earn and keep that trust by protecting our reputation, supporting our core values and ensuring we act lawfully and with integrity in everything we do.

100%

manager level and above employees completed their Annual Certification of Compliance this year.

To help our employees make the right decisions at work, we train them on our Code of Business Conduct which is underpinned by our global policies. A network of control, compliance and ethics managers in each market and function carry out targeted, risk-based training to employees to support understanding and application of the policies that are most important to them. We also support our managers and senior leaders with specific and tailored tools and training to help them embed our culture of integrity. We take seriously the disciplinary consequences of breaches of our Code or policies. Our response to proven breaches varies depending on their severity, however, this year 146 people exited the business as a result of such breaches.

CODE OF BUSINESS CONDUCT

HELPING EMPLOYEES MAKE THE RIGHT DECISIONS

This year, Diageo introduced a simple new resource for all employees. The G&E tool, accessible online and on handhelds, helps employees make the right decisions by providing guidance based on our Anti-Corruption Policy. With a few clicks, the tool takes the user through simple stages designed to help ensure that Diageo can remain proud of our reputation for integrity – and for not tolerating bribery or corruption in any form. All employees can also speak to their local controls, compliance and ethics manager with any questions they might have about gifts and entertainment.

6 VALUE CHAIN PARTNERSHIPS

Our brands rely on a long and complex value chain that joins us with our suppliers, customers, and consumers. Our reputation, and the sustainability of our business model, depend on our ability to recognise and mitigate the potential risks along this chain.

Diageo's Partnering with Suppliers Standard sets out the minimum social, ethical and environmental standards required of suppliers as part of their contract with us, as well as aspirations for our long-term partners to work towards. We work through the Supplier Ethical Data Exchange (SEDEX), a not-for-profit organisation that enables suppliers to share assessments and audits of ethical and responsible practices with their customers.

The process by which we manage social and ethical risks in our supply chain has four stages: an initial screening, a prequalification questionnaire which covers social and ethical risks including human rights, a qualification process where potentially high-risk suppliers are required to register with SEDEX, and independent audits of suppliers who represent the highest risk.

Beyond upholding high standards across our whole supply chain, we are particularly keen to foster broader partnerships with agricultural suppliers, since the long term prosperity of our business is closely linked with our ability to work with farmers in ways that are sustainable, secure, and mutually beneficial.

To this end, we have continued actively using local raw materials like sorghum and cassava, which are more resilient and better adapted to their local climates. We also focus on sourcing locally. For example, we have a target of sourcing 70% of agricultural materials locally across Africa (including Nigeria, Ghana, Cameroon, Kenya, Uganda, Tanzania, Ethiopia and South Africa) by the end of 2015.

To sustain partnerships with farmers, Diageo and its other agricultural value chain partners help provide access to training, seeds and advanced credit. In many cases, this allows farmers to make longer term, sustainable investments.

SUPPORTING FARMERS IN AFRICA

Across Africa, we have worked with thousands of farmers who provide our raw materials. In addition to securing contracts, Diageo works with them to improve yields and develop scalable agribusiness models, linking larger farmers with smallholder communities. For example, this year, Serengeti Breweries Ltd, Diageo's subsidiary in Tanzania, provided 300 tonnes of barley seeds and helped more than 50 farmers plant 8,000 acres of land, as well as hosting workshops on sustainable farming practices.

300 tonnes

of barley seeds provided by Serengeti Breweries to farmers in Tanzania.

Read our S&R Review on pages 42-49.

HOW WE MEASURE PERFORMANCE: KEY PERFORMANCE INDICATORS

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

Their relevance to our strategy and our performance against these measures are explained below:

Relevance to strategy

1. Efficient growth
2. Consistent value creation
3. Strong reputation
4. Fully engaged employees

Remuneration

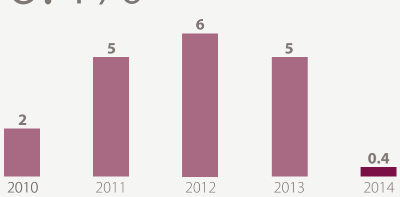
Some KPIs are used as a measure in the incentives plans for the remuneration of executives. These are identified with the symbol ®.

See our Directors' remuneration report from page 63 for more detail.

FINANCIAL

ORGANIC NET SALES GROWTH (%) ® 1

0.4%



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

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

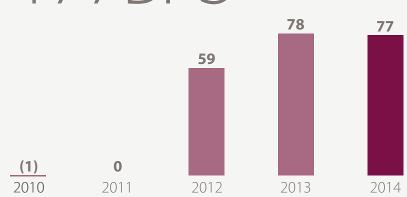
Performance
Organic net sales were up 0.4%, reflecting a mixed performance with growth in North America, stability in Western Europe and weakness in emerging market economies.

See page 27 for more detail.

FINANCIAL

ORGANIC OPERATING MARGIN IMPROVEMENT (BPS) ® 1

+77BPS



Definition
The percentage point movement in operating profit before exceptional items, divided by net sales after excluding the impact of exchange rate movements and acquisitions and disposals.

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

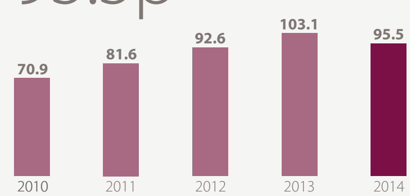
Performance
This year the biggest drivers of margin improvement have been overhead savings and marketing procurement savings, delivering our commitment to 200 basis points of operating margin expansion in three years.

See page 27 for more detail.

FINANCIAL

EARNINGS PER SHARE BEFORE EXCEPTIONAL ITEMS (PENCE) ® 1

95.5p



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

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 exceptionals was down 7.6 pence to 95.5 pence per share as foreign exchange movements reduced eps by 10 pence per share.

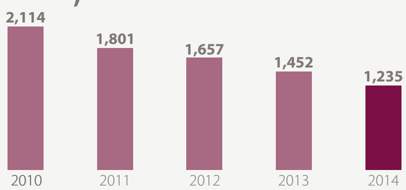
See page 27 for more detail.

Reconciliations of non-GAAP measures to GAAP measures is provided on pages 50-53.

FINANCIAL

FREE CASH FLOW* (£ MILLION) Ⓡ 1

£1,235m



Definition
Free cash flow comprises the net cash flow from operating activities aggregated with the net movements in loans receivable and other investments, and with the net purchase of property, plant and equipment, and computer software.

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

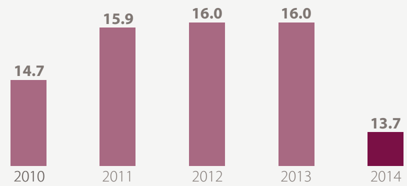
Performance
Lower operating profit, principally reflecting the strength of sterling and increased restructuring costs, was the biggest driver of lower free cash flow year on year.

See page 27 for more detail.

FINANCIAL

RETURN ON AVERAGE INVESTED CAPITAL (%) 2

13.7%



Definition
Profit before finance charges and exceptional items 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 and net borrowings.

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

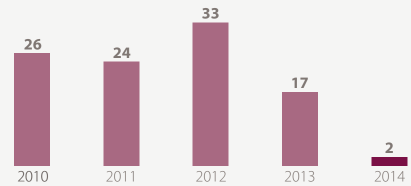
Performance
Lower operating profit, primarily due to adverse exchange movements, the investment in United Spirits Limited and increased working capital led to the reduction in ROIC.

See page 27 for more detail.

FINANCIAL

TOTAL SHAREHOLDER RETURN (%) Ⓡ 2

2%



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

Why we measure
As a public limited company, Diageo has a fiduciary responsibility to maximise long term value for shareholders. We also monitor our relative TSR performance against our peers.

Performance
Diageo recorded a total shareholder return of 2% as dividends received increased 9% and earnings moderated in the financial year, given weaker economies in the emerging markets and some market specific challenges.

NON-FINANCIAL

ALCOHOL IN SOCIETY** (RESPONSIBLE DRINKING PROGRAMMES) 3

373 PROGRAMMES

Definition
Programmes run or funded by Diageo that aim to prevent excessive drinking, tackle drink driving, address underage drinking, help retailers ensure responsible sales or otherwise promote a positive role for alcohol in society.

Why we measure
Harm related to alcohol misuse is our most important social issue. Supporting programmes that promote a positive role for alcohol in society, addresses risks such as: harm to consumers and communities; reputational damage; limitations to our licence to operate; and the loss of trust and respect from our stakeholders around the world.

Performance
Since 2013, we have increased the number and geographic scope of programmes we support by expanding our efforts and partnerships in emerging markets.

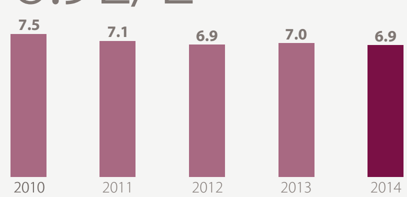
Note: In 2011, we started actively tracking our global performance for public reporting.

See page 42 for more detail.

NON-FINANCIAL

WATER EFFICIENCY*** (L/L) 3

6.9L/L$^{\Delta}$



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

Why we measure
Water is the main ingredient in all of Diageo's brands. To sustain our production growth around the world and respond to the growing global demand for water, Diageo aims to improve water use efficiency and minimise the amount of water used at production sites, particularly in water-stressed areas.

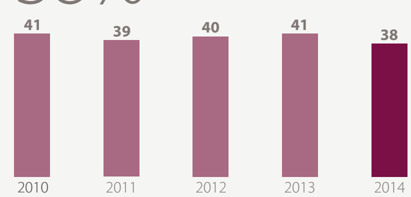
Performance
Diageo used 6.9 litres of water to produce one litre of packaged product, a 2.4% decrease from 2013. While some savings are the result of major investments, most come from operational improvements related to equipment, processes, culture and behaviours.

See page 43 for more detail.

NON-FINANCIAL

EMPLOYEE SUPER-ENGAGEMENT (%) 4

38%



Definition
A key element of Diageo's people strategy is employee engagement. As part of our annual values-based survey, Diageo measures super-engagement, a more stretching measure than engagement, requiring employees to assign the highest possible ranking to all six of the core engagement questions.

Why we measure
We want to understand what drives high engagement, a key performance enabler. All feedback from our annual values survey is carefully reviewed both qualitatively and quantitatively. The results inform leadership development, employee engagement strategies and ways of working.

Performance
For a second year running, 92% of employees took part in the survey. In the 2014 survey 38% of all employees were measured as being super-engaged, in a year when employees experienced change in the business.

See page 46 for more detail.

*Looking ahead to 2015, the free cash flow measure will be replaced by an operating cash conversion measure, to align with the fiscal 2015 Annual Incentive Plan.
**We are moving towards a new metric in future years that will demonstrate the impact of our programmes on awareness, attitudes or behaviour.
***In accordance with Diageo's environmental reporting methodologies data for each of the three years in the period ended 30 June 2013 have been restated and total water used excludes irrigation water for agricultural purposes on land under the operational control of the company.
$^{\Delta}$Within KPMG's limited assurance scope. Please see page 140 for further details.

Strategic report
Governance
Financial statements
Additional information for shareholders

HOW WE PROTECT OUR BUSINESS: RISK MANAGEMENT AND PRINCIPAL RISKS

Our Performance Ambition calls on us to be bold in execution and to act like owners. Well-managed risk taking lies at the heart of this. Great risk management drives better commercial decisions, creating a growing, resilient and sustainable business.

Our approach

Our risk management framework is straightforward. We believe that great risk management starts with the right conversations that drive better business decisions. We assign clear accountability for managing our risks in the right way. It is the responsibility of each market and function to manage its risks directly, and then to report on the risks and their management to the Executive. The Diageo Executive reviews the effectiveness of risk management through the Audit & Risk Committee, and the Board exercises independent review through the Audit Committee. The Diageo Executive updates the group's risk assessment annually, which is reviewed by the Board. Similarly, all markets and functions perform annual risk assessments and, at all levels in the business, risks are reviewed throughout the year, with updates to risks and/or mitigation plans made as necessary.

Further details about the group's risk management approach are described in the Report of the Audit Committee on page 61.

Focus in the year

The Diageo Executive and Board considered the risks described here as the group's key risks for this financial year. These range from risks that are wholly internal in interest (for example, managing raw material commodity prices in a volatile market) to risks that involve Diageo's place in society (for example, addressing the concerns of governments and other stakeholders about responsible alcohol promotion and consumption).

These risks remained the key areas of focus throughout this financial year.

Beyond this set of key group risks, the Audit Committee also receives periodic updates on emerging or otherwise topical risks. For example, during the year, the Audit Committee received an update on cyber risk, which examined the nature of the risk and its growing significance for all organisations, as well as the specific risks faced by Diageo and how we are managing those risks currently.

Relevance to strategy

1. Efficient growth
2. Consistent value creation
3. Strong reputation
4. Fully engaged employees

ECONOMIC AND POLITICAL CHANGE

Risk 1 2
Changes, often rapid, to economic, fiscal and/or socio-political environment.

Impact
Social unrest, liquidity issues, inflationary pressures, changes to tax systems and/or eroded consumer confidence, impacting our people's safety, our asset security, and/or business performance.

How we seek to mitigate

- Leveraging on the ground market and country intelligence.
- Building local preparedness for rapid change in external environment.
- Market-sensitive multi-country investment and capacity expansion strategy.
- Monitoring and where appropriate, expressing views on the formulation of laws either directly or through trade associations or similar bodies.

NON-COMPLIANCE WITH LAWS AND REGULATIONS

Risk 1 2 3 4
Non-compliance with local laws or regulations, or material breach of our internal global policies and standards and/or significant internal control breakdown.

Impact
Severe damage to our corporate reputation and/or significant financial penalty.

How we seek to mitigate

- Provide periodic training for employees on our Code of Business Conduct.
- Provide employees with periodic refresh training on global policies and standards.
- Utilise an internal control assurance programme, with local management accountability.
- Strong tone from the top, anchored by our Performance Ambition of 'most trusted and respected'.

PRICE AND SUPPLY OF RAW MATERIALS

Risk 1
Market and environmental pressures create price volatility and insecure supply of raw materials, including water.

Impact
Failure to meet financial targets or production plans due to unpredictability in input costs and availability.

How we seek to mitigate
- Leveraging an active risk management strategy for commodities pricing.
- Group monitoring of market management of commodities.
- Increasing local raw material sourcing to manage volatile foreign exchange rates and to benefit from more drought tolerant crops (sorghum/cassava).
- Developing a robust environmental management system that aims to secure resources through active water stewardship and resource efficiency.

CRITICAL INDUSTRY DEVELOPMENTS

Risk 1 2 3
Failure to shape or participate in critical industry developments.

Impact
- Consumers move away from our brands.
- Less efficient business model compared to key competitors.

How we seek to mitigate
- Annual strategy conference attended by Board and Executive Committee.
- Annual group and market strategic planning process.
- Local market strategy reviews by CEO, CFO and Strategy Director.
- Focus on building capability at market level.

CITIZENSHIP AND SUSTAINABILITY

Risk 2 3 4
Failure to meet the expectations of stakeholders to make a positive contribution to the sustainability agenda.

Impact
- Long term damage to our corporate reputation.
- Less influence shaping the citizenship and sustainability agenda as it relates to beverage alcohol.

How we seek to mitigate
- Sustainability & Responsibility strategy that seeks to respond to stakeholder expectations at global and market level.
- Developing new Sustainability & Responsibility targets.

RESPONSIBLE ALCOHOL PROMOTION AND CONSUMPTION

Risk 2 3 4
Failure to address the concerns of multiple stakeholders about the promotion and consumption of alcohol.

Impact
- One or more governments impose restrictions on access and/or increase tax and/or duty.
- Damage to our corporate reputation.
- Less influence shaping the citizenship and sustainability agenda as it relates to beverage alcohol.

How we seek to mitigate
- Clear strategy on tackling alcohol misuse, to be driven by a strengthened organisation design.
- Focusing on implementation of CEO Commitments through new single global industry organisation.

TALENT

Risk 1 2 3 4
Inability to recruit, retain and develop sufficient sales and marketing talent particularly in developing markets.

Impact
Failure to achieve our growth plans.

How we seek to mitigate
- Significant focus and intervention on moving talent into key local roles in developing markets.
- Strengthening learning and development strategy across the business.
- Global Talent Team established focusing on ensuring we have the strength of talent pipeline to fill critical leadership roles, supported by a bigger focus on succession planning and external recruitment.

BUSINESS ACQUISITIONS

Risk 1 2 3
Failure to deliver value from acquisitions and/or integrate them into Diageo effectively, including failure to embed Diageo's standards of compliance with laws, internal policies and controls.

Impact
- Business case for an acquisition is not delivered resulting in failure to meet financial targets.
- Market confidence in Diageo's ability to deliver on its strategy is weakened.
- Damage to our corporate reputation.
- Prospects for securing regulatory approval for other potential business combinations are harmed.

How we seek to mitigate
- Board and Executive Committee focused on delivering value from acquisitions.
- Include global minimum standards for control and compliance in post-acquisition integration plans.

MARKET DYNAMICS

The global beverage alcohol market is large and diverse, comprising an estimated six billion equivalent units* of alcohol and £300 billion of revenue. Across the world there are significant variations in the type of beverage alcohol consumed depending on local incomes, cultures and attitudes.

Commercial context

The global beverage alcohol market is large and diverse, comprising an estimated six billion equivalent units* of alcohol and £300 billion of revenue. Across the world there are significant variations in the type of beverage alcohol consumed depending on local incomes, cultures and attitudes. On average, per capita consumption is higher in developed markets at 2.4 equivalent units of alcohol per year versus 1.1 in emerging markets, which is driven, in part, by differences in the average level of disposable income. The shape of the beverage alcohol market also varies significantly across geographies; some regions, such as Asia, consume more spirits, others such as Africa are more focused on beer.

Our business is increasingly balanced across developed and emerging markets and we are able to capture share across a wide variety of consumer occasions given the geographic breadth of our participation, our leading portfolio of brands across categories and price points, the depth of our consumer insights and innovation capabilities, combined with the strength of our route to consumer.
Both developed and emerging markets are important beverage alcohol value pools, with different dynamics. Developed markets are large and profitable, but with lower growth rates. Emerging markets, also large, are less profitable, with faster growth rates. Given lower levels of disposable income in emerging markets they are more volatile in response to fluctuations in local economies, as we have seen this year.

Overall, the global beverage alcohol market is supported by the strong consumer fundamentals of a growing legal drinking age (LDA) population and increasing wealth, driving both consumer penetration and premiumisiation.

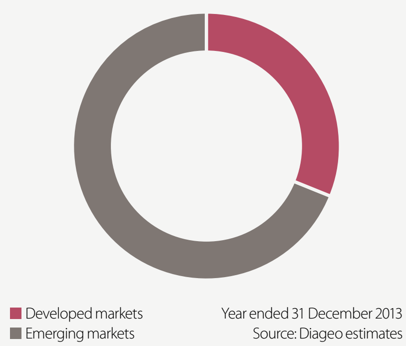
Developed markets

Consumers in developed markets are very conscious of what their brand choices say about them. Our strong portfolio of brands across categories and price points, coupled with our innovation capability, allows us to evolve our offering to provide what consumers are looking for, while the strength of our distribution networks enables us to get our products to the consumer, allowing us to benefit from these trends. Given the higher levels of disposable income and the importance of branding, these are markets where consumers are often prepared to pay more for high quality brands with heritage and provenance. There is also sustained growth in the number of consumers who are able to enjoy our reserve (luxury) portfolio of brands.

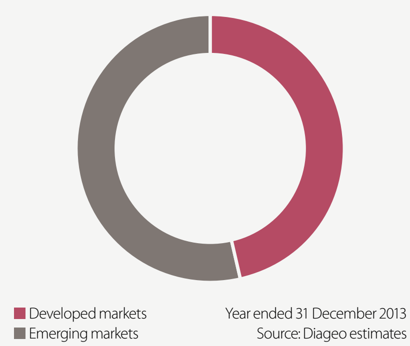
Emerging markets

In emerging markets we are seeing significant growth in the LDA population groups classified as emerging middle class and above. These consumers represent a significant opportunity, particularly for our premium core brands, as consumption per capita is currently far lower than in developed markets. Each country is different, and growth occurs at different price points depending on wealth, and in categories and occasions which reflect local culture. Accessing this growth requires an understanding of local consumers and the categories, brands and price points they are seeking. A broader distribution platform which makes these brands accessible to this set of consumers is a critical enabler. There are also a significant, and growing, number of globally affluent consumers in the emerging markets for whom our reserve (luxury) portfolio holds particular appeal.

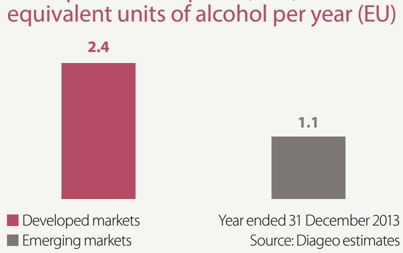
Split of global total beverage alcohol (TBA) volume (EU)



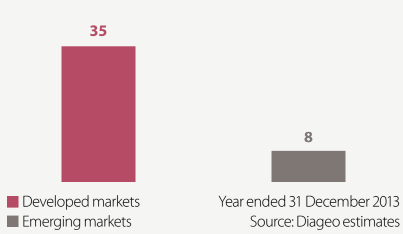
Split of global total beverage alcohol (TBA) net sales (£)



Per capita consumption (LDA) in equivalent units of alcohol per year (EU)



GDP/Capita £k (LDA)



*An equivalent unit is equal to one nine-litre case of spirits; 45 litres of wine; 90 litres of beer.

Regulatory and broader stakeholder context

Alcohol is one of the most regulated products in the world, and beverage alcohol companies rightly operate in the context of a range of stakeholder expectations and demands.

At the same time beverage alcohol companies, like the rest of the private sector, are increasingly expected to be transparent and demonstrate progress on the wider social and environmental agenda. Using voluntary frameworks (such as the Global Reporting Initiative Guidelines, launched in 2000 and updated this year, the United Nations Global Compact principles, established in 2006, and the International Integrated Reporting Framework, published this year) is becoming a standard expectation for companies to follow. Moreover, reporting on these issues is becoming mandatory in more parts of the world. For example, the UK Companies Act, the US California Transparency in Supply Chains Act and the US Dodd Frank Act, require public disclosure of human rights and environmental issues. This year, the European Council and the European Commission reached an agreement to require publicly-traded companies with more than 500 employees to report performance against a number of social and environmental metrics.

This high and growing level of regulation and scrutiny can be an advantage to companies with good corporate governance and the right approach to sustainability and responsibility.

Alcohol policy

While the approaches taken by governments to address alcohol misuse vary, Diageo believes that the most effective alcohol policies are evidence-based, account for drinking patterns, target at-risk groups, treat all forms of alcohol equally, and involve all stakeholders. These include mandating a minimum legal purchasing age of not less than 18; a maximum blood alcohol concentration (BAC) level for drivers of no more than 0.08mg; and lower BACs for novice and commercial drivers. Also effective are high-visibility enforcement campaigns of drink-driving laws and alcohol interlocks[1] for convicted drink drivers. Diageo advocates these policies while opposing measures that are not based on evidence, and are likely to have unintended consequences. For example the use of high taxes to control consumption can in some cases push consumers to unregulated alcohol markets.

Industry collaboration

Beverage alcohol companies have recognised, and stakeholders are expecting, that issues such as reducing the harmful use of alcohol should be addressed through concerted industry initiatives in collaboration with stakeholders. Diageo is one of 13 global producers of beer, wine and spirits to launch a new set of commitments in support of the WHO's Global strategy to reduce the harmful use of alcohol. The industry's commitments include a focus on reducing underage drinking, strengthening and expanding marketing codes of practice, providing consumer information and responsible product innovation, reducing drink driving, and enlisting the support of retailers to reduce harmful drinking.

Unrecorded alcohol

The WHO estimates that 25% of alcohol consumed is unrecorded, which means it is outside the usual systems of governmental control: regulation and taxation. Because it is not regulated, little is known about its production, consumption, and related outcomes. What little we do know, suggests that some may be contaminated, some toxic, and a risk to public health. Therefore working with governments and other stakeholders to improve data collection in this area is helpful to all consumers.

Climate change and water security

A variety of environmental issues associated with climate change, such as extreme weather events, water scarcity and biodiversity loss, will increasingly affect businesses and how they operate. For the alcohol industry, water scarcity is an issue that demands particular attention given that water is a main ingredient in all its products. The World Bank expects water scarcity to affect 2.8 billion people directly by 2025. In some countries that have always faced hydrologic variability, climate change could increase water scarcity. The map below shows the specific Diageo sites operating in water-stressed locations where measures to address supply chain risks, contribute to community infrastructure, and work with governments and other partners on water stewardship are particularly important.

Value chain partnerships

Alcohol beverage companies contribute to the economic development of their communities in a variety of ways, whether through direct employment, taxes or community investment efforts. However, companies can further contribute by leveraging the economic impact of their entire value chain in the way they work with suppliers and customers – and doing so is an increasing expectation of the private sector by government and international development institutions. One powerful trend in the food and beverage industry is a focus on local sourcing in markets with an agricultural economy or potential for one. Not only does this help build trust with government and other stakeholders, but with the use of long term contracts, it can help secure supply. At the other end of the value chain, strategic partnerships and investment to train and support individuals interested in working in hospitality can build trust while strengthening the industry itself.

Diageo sites located in water-stressed areas

Site		Site		Site		Site	
1	Kumasi, Ghana	7	Nairobi (Maltings), Kenya	13	SA Cider, South Africa	19	Chalone Vineyard
2	Achimota, Ghana	8	Nairobi (Glass), Kenya	14	Acacia Vineyard	20	Chalone Winery
3	Lagos-Ogba, Nigeria	9	Seybrew, Seychelles	15	Acacia Winery	21	Blossom Hill Winery
4	Uganda IBL (Brewing)	10	Dar Es Salaam, Tanzania	16	Provenance Vineyard	22	Ypióca distillery
5	Uganda IDU (Spirits)	11	Moshi, Tanzania	17	Provenance Winery	23	Ypióca sugar cane farm
6	Nairobi (EABL), Kenya	12	Mwanza, Tanzania	18	Lake Ranch Winery		

1. Interlocks are breathalysers that stop a car from starting if the driver's blood alcohol level is above a certain limit.

GROUP FINANCIAL REVIEW

"This year was tougher than anticipated with mixed regional performance as North America delivered top-line growth and significant margin expansion; Western Europe was stable and performance in emerging markets reflected economic weakness and market specific challenges. Despite this tougher environment we have gained share in a number of markets, invested for the future, expanded margins and simplified the organisation.

Deirdre Mahlan,
Chief Financial Officer

Net sales, up
0.4%,
reflecting mixed performance; growth in North America, stability in Western Europe and weakness in emerging market economies.

Fourth quarter net sales up
0.8%.

Positive consumer trends in higher priced categories, Diageo's reserve brands net sales were up 14% and targeted price increases drove
3ppt
of positive price/mix.

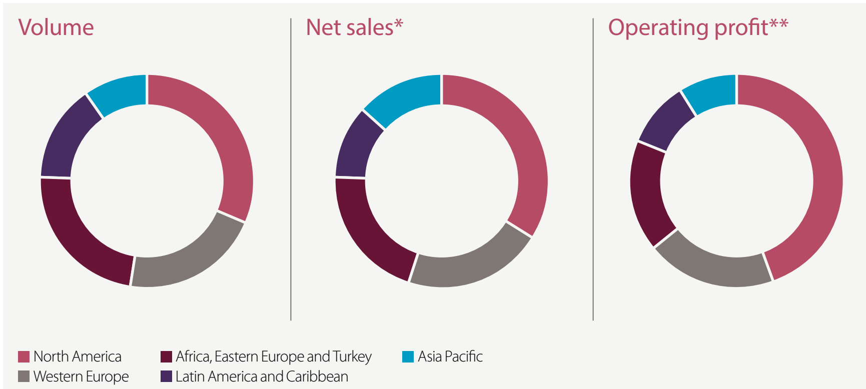
Operating margin improved
0.8ppt.

Procurement driven savings, worth 4% of total marketing spend, more than offset the cost of increased activity, contributing
0.2ppt
of the total margin improvement.

Eps before exceptionals was down 7.6p to
95.5 pence
per share as foreign exchange movements reduced eps by 10 pence per share.

Free cash flow was
£1,235 million.

Recommended final dividend of 32.0 pence per share, up
9%.



*Excluding corporate net sales. **Before exceptional items and corporate costs.

Key performance indicators		2014	2013 (restated)*
Organic net sales growth	%	–	5
Organic operating margin improvement	basis points	77	78
Earnings per share before exceptional items	pence	95.5	103.1
Free cash flow	£ million	1,235	1,452
Return on average invested capital	%	13.7	16.0

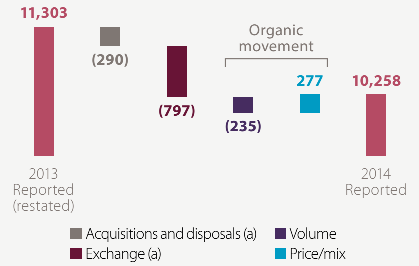
Other financial information		2014	2013 (restated)*
Volume	EUm	156.1	164.2
Net sales	£ million	10,258	11,303
Marketing spend	£ million	1,620	1,769
Operating profit before exceptional items	£ million	3,134	3,479
Operating profit	£ million	2,707	3,380
Reported tax rate	%	16.5	16.6
Reported tax rate before exceptional items	%	18.2	17.4
Profit attributable to parent company's shareholders	£ million	2,248	2,452
Basic earnings per share	pence	89.7	98.0
Recommended full year dividend	pence	51.70	47.40

Organic growth by region	Volume %	Net sales %	Marketing spend %	Operating profit** %
North America	(1)	3	2	8
Western Europe	–	–	–	–
Africa, Eastern Europe and Turkey	(5)	1	1	–
Latin America and Caribbean	(1)	2	1	3
Asia Pacific	(5)	(7)	(7)	(13)
Diageo***	(2)	–	(1)	3

* Restated following the adoption of IFRS 11 and the amendment to IAS 19.
** Before exceptional items
*** Includes Corporate. In the year ended 30 June 2014 Corporate reported net sales and net operating charges were £79 million (2013 – £76 million) and £130 million (2013 – £151 million) respectively. The reduction in net operating charges primarily comprised lower costs in respect of global functions. For the reconciliation of reported to organic results, see page 50.

Organic net sales growth (£ million)

Reported net sales were adversely impacted by foreign exchange, while sustained performance in North America offset emerging market weakness

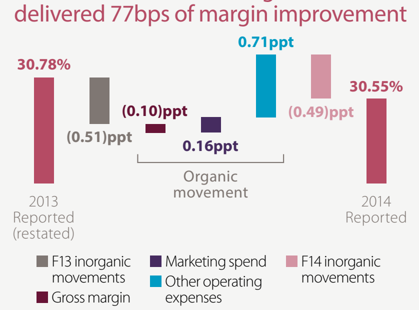


(a) See page 28.

Organic volume growth in reserve brands was largely offset by decline in beer and in scotch in emerging markets. The strong performance of reserve brands and selective price increases drove positive price/mix.

Organic operating margin improvement

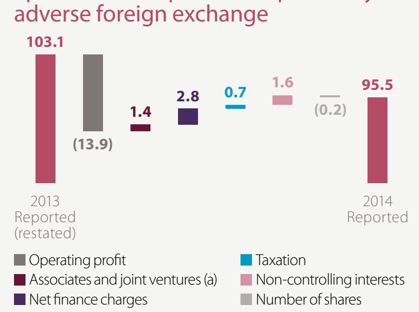
Focus on costs and driving efficiencies delivered 77bps of margin improvement



Significant supply chain savings and positive price/mix from growth of reserve brands was offset by cost inflation and under recovery of fixed costs in Africa due to weaker beer volume. The organic increase in operating margin was primarily driven by an increased focus on costs and efficiencies across the business and by procurement savings on marketing spend.

Earnings per share before exceptional items (pence)

Eps before exceptionals impacted by adverse foreign exchange



(a) The group's after tax share of the results of associates and joint ventures was £252 million for the year ended 30 June 2014 (2013 – £217 million), of which, Diageo's 34% equity interest in Moët Hennessy contributed £246 million (2013 – £230 million).

Reduction in eps due to lower operating profit was largely as a result of adverse foreign exchange movements. Increased income from associates and joint ventures and lower net finance charges partly mitigated the impact of reduced operating profit. The reduction in non-controlling interests is largely driven by the operating loss that has been reported by Shuijingfang.

Basic eps was 89.7 pence (2013 – 98.0 pence), with exceptionals reducing eps by 5.8 pence (2013 – 5.1 pence).

For movements in net finance charges see below:

	£ million
2013 Reported (restated)	457
Net interest charge	(51)
Post employment charges	(26)
Venezuela hyperinflation adjustment	9
Other finance charges	(1)
2014 Reported	388

	2014	2013 (restated)
Average monthly net borrowings (£ million)	9,174	8,267
Effective interest rate (%)	3.8	4.9

For the calculation of the effective interest rate, the net interest charge excludes fair value adjustments to derivative financial instruments and borrowings. Average monthly net borrowings include the impact of interest rate swaps that are no longer in a hedge relationship but excludes the market value adjustment for cross currency interest rate swaps.

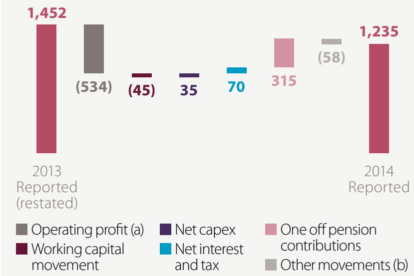
The increase in average net borrowings was principally a result of the acquisition of shares in USL, completed on 4 July 2013, and the one off pension contribution to the UK pension plan in the year ended 30 June 2013 and a €100 million (£85 million) contribution to the Irish pension plans in the year ended 30 June 2014. Despite the increase in debt, the interest charge decreased in the year driven by lower interest rates on new debt issues and proportionally higher commercial paper balances.

On 2 July 2014 Diageo acquired an additional 37.8 million shares in USL for £1,118 million. This will increase average net borrowings in the year ending 30 June 2015.

The positive impact on post employment charges is mainly driven by the reduction of the pension deficit as a result of the one off contributions mentioned above.

Free cash flow (£ million)

Lower pension contributions and capex partly offset the impact of reduced operating profit on cash flow

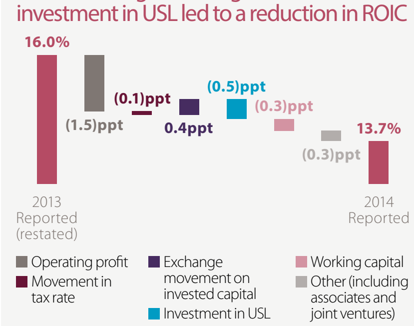


(a) Operating profit adjusted for non cash items including depreciation and amortisation and excluding the thalidomide charge.
(b) Other movements includes dividends received from associates and joint ventures, movements in loans receivable and other investments, pension contributions excluding one off contributions and the payment of £53 million in respect of the settlement of Thalidomide litigation in Australia and New Zealand in the year.

The decrease in free cash flow was primarily driven by lower operating profit due to the adverse impact of exchange rate movements and restructuring exceptional charges during the year. The reduction attributable to the termination of the distribution agreement with Jose Cuervo was largely offset by organic growth. The negative working capital movement arose in respect of lower creditors driven by reductions in overhead spend, bonus accruals and phasing of marketing spend. One off contributions to pension plans in the year ended 30 June 2014 were lower than last year, resulting in a favourable cash movement.

Return on average invested capital (ROIC)[a]

Adverse foreign exchange movements and investment in USL led to a reduction in ROIC



(a) ROIC calculation excludes exceptional items

Lower operating profit reduced ROIC by 1.5ppt primarily due to adverse exchange movements. Average invested capital increased as a result of our acquisition of shares in USL. The negative movement in working capital is partly accounted for by increased maturing inventory.

INCOME STATEMENT

	2013 (restated) £ million	Exchange (a) £ million	Acquisitions and disposals (b) £ million	Organic movement £ million	2014 £ million
Sales	15,276	(1,082)	(368)	154	13,980
Excise duties	(3,973)	285	78	(112)	(3,722)
Net sales	11,303	(797)	(290)	42	10,258
Cost of sales*	(4,389)	243	167	(27)	(4,006)
Gross profit	6,914	(554)	(123)	15	6,252
Marketing	(1,769)	108	31	10	(1,620)
Other operating expenses*	(1,666)	110	(8)	66	(1,498)
Operating profit before exceptional items	3,479	(336)	(100)	91	3,134
Exceptional operating items (c)	(99)				(427)
Operating profit	3,380				2,707
Non-operating items (c)	(83)				140
Net finance charges	(457)				(388)
Share of after tax results of associates and joint ventures	217				252
Profit before taxation	3,057				2,711
Taxation	(507)				(447)
Profit from continuing operations	2,550				2,264
Discontinued operations (c)	–				(83)
Profit for the year	2,550				2,181

*Before exceptional operating items.

(a) Exchange

The impact of exchange rates movements on reported figures is principally in respect of the Venezuelan bolivar, the US dollar, the Turkish lira and the South African rand.

In March 2014, the Central Bank of Venezuela opened the Second Ancillary Foreign Currency Administration System (Sicad II) that allows private and public companies to trade foreign currency at a higher exchange rate than the official exchange rate. As a result, the group has applied a consolidation rate of $1 = VEF49.98 (£1 = VEF85.47) for its Venezuelan operations for the year ended 30 June 2014. For the year ended 30 June 2013 a rate of $1 = VEF9 (£1 = VEF13.68) was used. The change in the exchange rate for the year ended 30 June 2014 reduced net sales by £358 million, operating profit by £229 million, cash and cash equivalents by £329 million and net assets by £378 million.

The estimated effect of exchange rate and other movements on profit before exceptional items and taxation for the year ended 30 June 2014 is set out in the table below.

	Gains/ (losses) £ million
Translation impact	(182)
Transaction impact	(154)
Operating profit before exceptional items	(336)
Net finance charges – translation impact	12
Mark to market impact of IAS 39 on interest expense	(6)
Impact of IAS 21 and IAS 39 on net other finance charges	(2)
Interest and other finance charges	4
Associates – translation impact	8
Profit before exceptional items and taxation	(324)

	2014	2013
Exchange rates		
Translation £1 =	**$1.63**	$1.57
Transaction £1 =	**$1.59**	$1.57
Translation £1 =	**€1.20**	€1.21
Transaction £1 =	**€1.26**	€1.18

(b) Acquisitions and disposals

The impact of acquisitions and disposals on the reported figures was primarily attributable to the termination of the distribution agreement with Jose Cuervo. See page 52 for further details.

(c) Exceptional items

Exceptional operating charges of £427 million (2013 – £99 million) in the year ended 30 June 2014 comprise:

- £98 million (2013 – £nil) in respect of the Global efficiency programme announced in January 2014;
- £35 million (2013 – £25 million) in respect of the Supply excellence restructuring programme;
- £30 million (2013 – £44 million) for the restructuring of the group's supply operations; and
- a brand and tangible asset impairment charge of £264 million in respect of Shui Jing Fang (2013 – £50 million in respect of the Cacique brand) as a result of the downturn in the baijiu category in China driven by the anti extravagance measures by the Chinese government. The related deferred tax liability of £65 million has been written back to taxation in the income statement and therefore the net charge is £199 million. As the group has a 39.7% controlling interest in Sichuan Shuijingfang Co., Ltd (Shuijingfang), the impact of this impairment on the group's basic earnings per share is a reduction of 3.2 pence.

In the year ended 30 June 2013 exceptional operating items also included a gain of £20 million in respect of changes to future pension increases for the Diageo Guinness Ireland Group Pension Scheme.

Non-operating items in the year ended 30 June 2014 comprise a gain of £140 million following the acquisition of additional investment in United Spirits Limited (USL) which increased the group's investment in USL from 10.04% to 25.02% on 4 July 2013 and triggered a change in accounting from available-for-sale investments to associates. As a result, the difference between the original cost of the investment and its fair value has been included in the income statement. In the year ended 30 June 2013 exceptional non-operating items comprised a loss of £83 million in respect of the Nuvo disposal.

Discontinued operations in the year ended 30 June 2014 represent a charge after taxation of £83 million (2013 – £nil) in respect of the settlement of thalidomide litigation in Australia and New Zealand and anticipated future payments to thalidomide organisations.

Cash payments in the year ended 30 June 2014 in respect of exceptional restructuring items and thalidomide were £104 million (2013 – £61 million) and £59 million (2013 – £23 million), respectively. An exceptional operating charge of approximately £130 million is expected to be incurred in the year ending 30 June 2015 primarily in respect of the Global efficiency and Supply excellence programmes, while total cash expenditure is expected to be approximately £200 million.

(d) Dividend

The directors recommend a final dividend of 32.0 pence per share, an increase of 9% from the year ended 30 June 2013. The full dividend will therefore be 51.7 pence per share, an increase of 9% from the year ended 30 June 2013. Subject to approval by shareholders, the final dividend will be paid on 2 October 2014 to shareholders on the register on 15 August 2014. Payment to US ADR holders will be made on 7 October 2014. A dividend reinvestment plan is available to holders of ordinary shares in respect of the final dividend and the plan notice date is 10 September 2014.

BALANCE SHEET

Movement in net borrowings	2014 £ million	2013 (restated) £ million
Net borrowings at the beginning of the year	**(8,403)**	(7,573)
Free cash flow (a)	**1,235**	1,452
Acquisition and sale of businesses (b)	**(534)**	(660)
Proceeds from issue of share capital	**1**	–
Net purchase of own shares for share schemes (c)	**(113)**	(11)
Dividends paid to non-controlling interests	**(88)**	(100)
Purchase of shares of non-controlling interests (d)	**(37)**	(200)
Net (decrease)/increase in bonds and other borrowings (e)	**(157)**	1,238
Equity dividends paid	**(1,228)**	(1,125)
Net (decrease)/increase in cash and cash equivalents	**(921)**	594
Net decrease/(increase) in bonds and other borrowings	**157**	(1,238)
Exchange differences (f)	**349**	(116)
Other non-cash items	**(32)**	(70)
Net borrowings at the end of the year	**(8,850)**	(8,403)

(a) See page 27 for the analysis of free cash flow.

(b) Primarily includes cash payments of £474 million in respect of the acquisition of an additional 18.74% investment in USL. On 2 July 2014 the group acquired an additional 26% investment in USL for INR 114.5 billion (£1,118 million) taking its aggregate investment to 54.78% (excluding 2.38% of the shares owned by the USL Benefit Trust on behalf of USL). From 2 July 2014 the group accounts for USL as a subsidiary with a 43.9% non-controlling interest.

In the year ended 30 June 2013 cash payments principally included £284 million in respect of 100% equity stake in Ypióca Bebidas S.A. (Ypióca) and £274 million in respect of a 10.04% investment in USL.

(c) Net purchase of own shares comprised purchase of treasury shares for the future settlement of obligations under the employee share option schemes of £208 million (2013 – £143 million) less receipts from employees on the exercise of share options of £95 million (2013 – £132 million).

(d) Primarily comprises the purchase of the remaining 7% (2013 – purchase of 40%) equity stake in Sichuan Chengdu Shuijingfang Group Co., Ltd.

(e) In the year ended 30 June 2014 the group issued bonds of €1,700 million (£1,378 million) and repaid bonds of €1,150 million (£983 million) and $804 million (£488 million). In the prior year, the group issued bonds of $3,250 million (£2,100 million) and repaid bonds of $1,350 million (£869 million).

(f) Primarily arose on US dollar and euro denominated borrowings offset by adverse exchange rate movement on cash and cash equivalents held in Venezuela.

Movement in equity	£ million
Equity at 30 June 2013 (restated)	**8,088**
Profit for the year	**2,181**
Exchange adjustments (a)	**(1,133)**
Net remeasurement of post employment plans (b)	**(167)**
Fair value movements on available-for-sale investments (c)	**(85)**
Dividends to non-controlling interests	**(88)**
Purchase of shares of non-controlling interests	**(37)**
Dividends paid	**(1,228)**
Other reserve movements	**59**
Equity at 30 June 2014	**7,590**

(a) Primarily arose on the US dollar, the euro, the Turkish lira and the Venezuelan bolivar denominated intangible assets, investments and borrowings.

(b) Mainly driven by the decrease in discount rate assumptions used to calculate the net post employment liabilities partly offset by the actual return on the plan assets being higher than the discount rate.

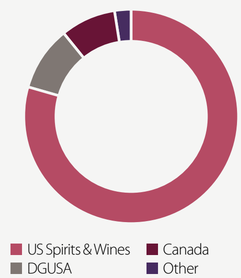
(c) Comprises the net recycling of the cumulative fair market value adjustment on the group's investment in USL due to the change in accounting from available-for-sale investment to associate.

Post employment deficit

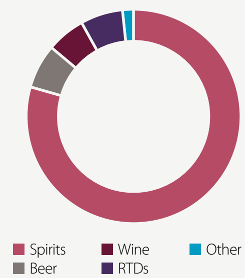
The deficit in respect of post employment plans before taxation decreased by £66 million from £541 million at 30 June 2013 to £475 million at 30 June 2014. The decrease was primarily due to the cash contributions of £288 million (2013 – £591 million) made into the post employment plans, which included a one off €100 million (£85 million) payment into the Irish pension plans, partially offset by the net remeasurement of post employment plans. Total cash contributions to the group's post employment plans for the year ending 30 June 2015 are expected to be approximately £185 million.

NORTH AMERICA

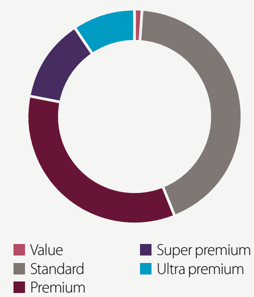
Net sales by markets
(%)



Net sales by categories
(%)



Net sales by price points
(%)



North America accounts for about a third of our net sales and around 45% of operating profit and is the largest market for premium drinks in the world. Due to our continued leadership in innovation, strong route to consumer, positive consumer trends, and increased marketing investment in key brands, we continue to be well positioned.

Key financials

	2013 Reported (restated)* £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2014 Reported £ million	Reported movement %
Net sales	3,723	(156)	(231)	108	3,444	(7)
Marketing spend	581	(27)	(24)	10	540	(7)
Operating profit before exceptional items	1,478	(54)	(71)	107	1,460	(1)
Exceptional items	–				(35)	
Operating profit	1,478				1,425	(4)

*Restated following the adoption of IFRS 11 and the amendment to IAS 19.

Our markets

Our North America business comprises US Spirits and Wines, Diageo-Guinness USA (DGUSA) and Canada.

Route to market

Route to market in the United States (US) is through the three-tier system and we distribute our products through more than 100 spirits and wines distributors and brokers, and more than 400 beer distributors nationally. We have a unique route to market for our spirits and wine business in the US, with more than 3,000 dedicated distributor sales personnel focused only on Diageo and Moët Hennessy spirits and wine brands. To date, Diageo has consolidated its US Spirits and Wines business into a single state-wide distributor or broker in 41 states and the District of Columbia, representing more than 80% of the company's US Spirits and Wines volume. We continue to focus on building capabilities within our distributor dedicated sales forces and creating a more efficient and effective value chain.

Diageo North America's US Spirits and Wines business operates through five divisions in Open States where we sell to distributors who then sell to retailers, and through two divisions in Control States where in most cases, we sell to the state, which in turn sells to state or agency stores and on premise retailers. US Spirits and Wines sells the vast majority of the Californian and imported wines we own and represent, with the remaining small portion of sales coming from winery visitor centres and online sales.

DGUSA sells and markets brands including Guinness, Smirnoff Ice and Red Stripe. Beer distribution generally follows the three-tier open state regulations across the United States.

Canada distributes our collection of spirits, beer and wine brands across all Canadian provinces, which generally operate through a provincial control system. In 2014, we announced that we are moving to a broker model effective 1 July 2014, appointing a single broker for Canada with a dedicated sales force handling our brands in the country.

National brand strategy and strategic accounts marketing, as well as corporate functions are managed at North American level. In North America, we market a total beverage alcohol portfolio. Diageo North America's strong innovation pipeline and reserve business help fuel growth.

Supply operations

We have 11 bottling, distilling, blending and maturation sites including operations in Plainfield, Illinois; Amherstburg, Ontario; Valleyfield, Quebec; Relay, Maryland; Gimli, Manitoba; Tullahoma, Tennessee; and seven wineries, and wine bottling operations, in California.

Sustainability & Responsibility

As part of our commitment to tackling alcohol misuse, Diageo North America dedicates 20% of broadcast advertisement towards responsible drinking messages. Operations continue to progress against all environmental targets; Diageo's Gimli, Manitoba plant, where the Company distills Crown Royal, is 99% carbon neutral. Our employee-focused culture won the company the best place to work accolade from the Human Rights Campaign again this year, and Diageo was listed as one of Working Mother magazine's top 100 companies this year.

North America, our biggest and most profitable region given our brand and market strength and its consistent strong performance, again delivered top line growth, driven by 5% growth in US Spirits and Wines, and margin expansion of 183bps as a result of gross margin expansion and cost reduction. Economic recovery in the US is uneven and this is reflected in the consumer trends seen in US spirits with overall spirits category growth slowing and premium and above price points driving category growth. Our growth reflects this with scotch, North American whiskey and tequila leading the growth. Our strength in innovation has continued. Launches of super and ultra premium variants have accelerated growth of our reserve brands, which grew 14%, and innovations against our premium core brands have driven brand relevance and recruited new consumers. However, performance in vodka was weak as Smirnoff volume has been impacted as its price premium has been maintained for another year. In Canada the spirits market is softer than the US and net sales grew 1%. Our DGUSA business declined 7% mainly reflecting reduced focus on the pouches segment.

KEY HIGHLIGHTS

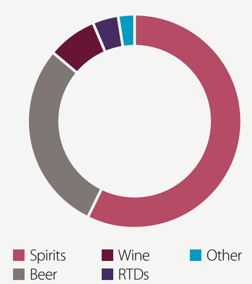
- **US Spirits and Wines.** Diageo continues to lead the industry on price and mix but the volume performance was weaker, especially in the increasingly price sensitive standard vodka segment where the decline of Smirnoff was the main driver of overall volume down 1%. Price increases, which drove around 120bps of net sales growth, and the strong performance of reserve brands were the primary drivers of 6ppt of positive price/mix. Reserve brands grew double digit fuelled by almost 50% growth of Johnnie Walker super and ultra premium variants following the successful launches of Johnnie Walker Platinum and Gold Reserve, as well as the introduction of limited edition variants and packs targeted at the gifting occasion. Strong growth of Don Julio and scotch malts, especially Lagavulin, Talisker and Oban, contributed to the performance of reserve brands as did Bulleit which grew net sales 69%. Innovation delivered incremental net sales, with flavour extensions in vodka, as well as the launch of Captain Morgan White in February, which has expanded the brand's presence across the rum category and driven growth of the brand. Cîroc Amaretto performed strongly in the year, however, price pressure on the base variant resulted in an overall net sales decline of 3%. Buchanan's, the fastest growing scotch brand in the United States, continued to grow double digit through its continued focus on the growing Hispanic consumer segment. Crown Royal net sales grew 1%, lapping growth of 18% last year fuelled by the launch of Crown Royal Maple.
- **DGUSA** net sales declined 7%, primarily driven by continued decline of pouches, as the segment was defocused, and weakness in beer, while Smirnoff Red Ice performance improved. Renovation of Smirnoff Red Ice with new packaging, new flavour innovations and a new marketing campaign 'Cheers to Us' targeted at Hispanic and African American consumers, halted the brand's decline with net sales broadly flat for the year and improved brand equity scores amongst all major consumer groups. Guinness performance reflects weak performance of Guinness Black Lager and slower growth in the on trade, particularly in the second half, with increased competition from the craft beer segment.
- In **Canada**, net sales grew 1% impacted by slowdown in the category. Reserve brands grew by over 40%, with Cîroc and scotch malts being the biggest contributors. Guinness grew net sales, largely driven by the launch of Guinness Black Lager with some growth also from the base variants.
- Last year, **marketing spend** increased 10% with upweighted investment behind global and local leading brands. This year spend was up and benefited from 3ppt of procurement efficiencies. Investment in the year was focused on supporting new launches, in particular Cîroc Amaretto and Captain Morgan White Rum, the re-invigoration of Guinness and the growth of Johnnie Walker focused on the 'Keep Walking' campaign as well as supporting growth of super and ultra premium variants. Guinness investment increased significantly in the year to support the 'Basketball' advertising as part of the global 'Made of More' platform and the digital and television campaign saluting US sport heroes leading up to the Winter Olympics.

	Organic volume movement* %	Organic net sales movement %	Reported net sales movement %
Key markets and categories:			
North America	(1)	3	(7)
US Spirits and Wines	(1)	5	(7)
DGUSA	(5)	(7)	(11)
Canada	(2)	1	(17)
Spirits**	(1)	4	(7)
Beer	(7)	(5)	(9)
Wine	(1)	6	2
Ready to drink	(5)	(9)	(24)
Global and local leaders:**			
Johnnie Walker	–	6	2
Crown Royal	(4)	–	(4)
Buchanan's	22	24	19
Bulleit	69	69	63
Smirnoff	(4)	(2)	(6)
Ketel One vodka	1	4	–
Cîroc	(3)	(3)	(7)
Captain Morgan	2	5	–
Baileys	(1)	2	(3)
Tanqueray	(1)	1	(3)
Don Julio	26	26	22
Guinness	(6)	(3)	(8)

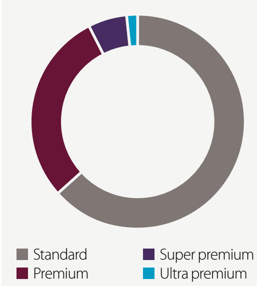
* Organic equals reported movement for volume except for North America (8)%, US Spirits and Wines (9)%, Canada (4)%, spirits (8)% and ready to drink (7)%, reflecting the disposal of Nuvo and the termination of the Jose Cuervo distribution agreement.
** Spirits brands excluding ready to drink.

WESTERN EUROPE

Net sales by categories
(%)



Net sales by price points
(%)



Diageo is the largest premium drinks business in Western Europe. Consumer marketing programmes are developed at a market level to drive consistency, efficiency and scale across all countries.

Key financials

	2013 Reported (restated)* £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2014 Reported £ million	Reported movement %
Net sales	2,203	9	(38)	(5)	2,169	(2)
Marketing spend	328	–	(4)	(1)	323	(2)
Operating profit before exceptional items	650	(5)	(8)	2	639	(2)
Exceptional items	(31)				(20)	
Operating profit	619				619	–

*Restated following the adoption of IFRS 11 and the amendment to IAS 19.

Countries within Western Europe

Western Europe is managed as a single market with country teams focusing on sales and customer marketing execution. This market comprises Great Britain, Ireland, Iberia, France, Germany, Benelux, Italy, Nordics, Greece, Switzerland, Austria, Diageo Guinness Continental Europe beer business and European wines.

Route to market

In Great Britain we sell and market our products through three business units: Diageo GB (spirits, beer and ready to drink); Percy Fox & Co (wines); and Justerini & Brooks Retail (private client wines). Products are distributed both through independent wholesalers and directly to retailers. In the on trade, products are sold through major brewers, multiple retail groups and smaller regional independent brewers and wholesalers.

In both the Republic of Ireland and Northern Ireland, Diageo sells and distributes directly to both the on trade and the off trade through a telesales operation, sales calls to outlets and third-party logistics providers.

Across the remainder of Western Europe, we distribute our spirits brands primarily through our own distribution companies, except for France where products are sold through a joint venture arrangement with Moët Hennessy. In Norway and Sweden, off trade sales are controlled by state monopolies, with alcohol tax rates among the highest in the world.

Diageo Guinness Continental Europe, a specialist unit, distributes our beer brands in mainland Europe, focusing particularly in Germany, Russia and France, which for us are the largest mainland European beer markets by net sales.

Supply operations

The International Supply Centre (ISC) comprises the supply operations in the United Kingdom, Ireland and Italy and distils, brews, matures and packages product for other Diageo companies throughout the world. The group owns 29 whisky distilleries in Scotland, an Irish whiskey distillery and a Dublin based beer brewery. The ISC ships whisk(e)y, vodka, gin, rum, beer, wine and other spirit-based drinks in a combination of bottles, cans, kegs and pouches to over 180 countries. In 2012, we announced a £1 billion investment in Scotch whisky production and inventory. To date we have focused on expanding malt distillation capacity across Scotland at existing sites and developed a major new warehousing site to mature our inventory investment. The investment programme has generated additional employment and benefited local communities. We are also planning to build a new malt whisky distillery in Scotland. A brewing rationalisation programme will be completed in 2015.

Sustainability & Responsibility

In Western Europe we focus on promoting responsible drinking in every country through partnerships with government agencies, non-governmental organisations (NGOs), independent charities and large retail customers. Such partnerships include Teach about Alcohol in Sweden, a schools-based programme that helps young people to resist social pressure, peer pressure and learn to say no to alcohol. Also the Avenue programme in Greece is tackling a culture of drink driving with support from the European Commission and European Transport Safety Council. We also expanded our Learning for Life community investment programme to Scotland as part of a five-year effort aiming to provide valuable life skills, technical training and work experience to young people across various sectors. We also launched Learning for Life Programmes in Germany and Ireland.

Western Europe still has weak economies and fragile consumer confidence but there has been steady improvement and our business has stabilised year on year, gaining share of spirits. There was modest growth in Great Britain, Benelux, France and the Nordics which counter-balanced the slowing declines in Southern Europe and Ireland. Germany was weaker due to higher trade investment and an increasingly price competitive off trade. Marketing was targeted more effectively, and we kept our investment as a percentage of net sales flat while prioritising higher growth and margin brands. We have focused on fewer, bigger pan-regional innovation launches with Baileys Chocolat Luxe, Smirnoff Gold, frozen pouches and premix, and our reserve business was strong with net sales up 15% driven by the scotch malts, Cîroc, Zacapa and Johnnie Walker. Operating margin expansion of nearly 20bps was driven by product optimisation and reductions in warehousing and logistic costs. Our route to consumer programme focused on efficiency, effectiveness and expansion, increasing the focus of our sales people, improving their capabilities and putting more feet on the street, which has given us a strong platform as we move into next year.

KEY HIGHLIGHTS

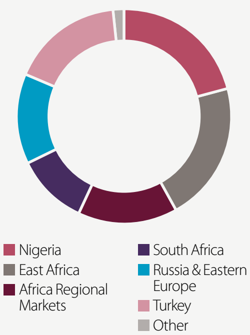
- In **Great Britain**, in a relatively flat beverage alcohol market, net sales were up 2%. Baileys delivered a strong performance with top line growth of 8% on the back of a new advertising campaign and the launch of Chocolat Luxe which was one of the top five spirits sold on Amazon over the week of Christmas. Captain Morgan and Cîroc also performed well. Bell's was weaker as it faced increasingly intense price pressure. Smirnoff net sales declined 3% given the weak vodka category but it gained volume share supported by the 'Great Drinks Made Easy with Smirnoff' campaign and the launch of Smirnoff Gold. Ready to drink was up double digit led by the success of premix, providing popular brands, such as Diageo's Gordon's and Pimm's in more convenient formats.
- Following a significant increase in excise duties in the first half of the year, the market in **Ireland** remained challenging and net sales declined 4%. Spirits were impacted and net sales were down double digit. Roughly half of the decline was driven by weakness in agency beer brands, and Guinness net sales declined 3%, but brand equity improved with the launch on television and YouTube of the 'Basketball' campaign, and the launch of an on trade footfall driver, the GUINNESS Plus app which provides consumers with in outlet experiences and discounts.
- In **Southern Europe**, which now represents 16% of Western Europe, net sales declined 3%. Greece and Italy net sales were down 7% and 5% respectively, as economic weakness continued to weigh on scotch and Smirnoff performance in both countries, and on Baileys performance in Italy. In Iberia the net sales decline moderated to 1%. Scotch net sales declined 8% as J&B was impacted by an increasingly price competitive off trade environment but the brand gained share in the second half of the year. This was partly offset by the performance of Tanqueray which was up 14% on the back of a double digit increase in media spend and Baileys, which was up 2%. Increased investment in the Spanish route to consumer was partially offset by cost saving initiatives.
- In **France**, in an environment of intensified price competition amongst major off trade retailers, net sales grew 1%. The strong performance of scotch malts, which were up 7% led by The Singleton, Cardhu and Talisker, and of Captain Morgan where net sales more than doubled, offset weakness in J&B.
- In **Germany**, following a number of years of double digit growth, which has built Captain Morgan to be Diageo's second biggest brand, performance was weaker this year as Baileys and Smirnoff continued to decline.
- Net sales in **wine** declined 2%, with innovations on Blossom Hill and strong growth of [yellow tail] partially offsetting soft Bordeaux En Primeur performance and the decision to exit unprofitable sales channels and distribution agreements.
- **Marketing spend** as a percentage of net sales was held at 15%. Spend in premium core, innovation and reserve were prioritised over lower margin local brands. Efficiencies in procurement and promotional activities were used to fund a 15% increase in media spend.

	Organic volume movement* %	Organic net sales movement %	Reported net sales movement %
Key categories:			
Western Europe	–	–	(2)
Spirits**	1	(1)	(2)
Beer	(5)	(3)	(3)
Wine	(2)	(2)	(10)
Ready to drink	1	5	5
Global and local leaders**:			
Johnnie Walker	1	(1)	(1)
J&B	(9)	(11)	(10)
Smirnoff	1	(6)	(6)
Captain Morgan	15	6	6
Baileys	(4)	(2)	(2)
Guinness	(4)	(3)	(2)

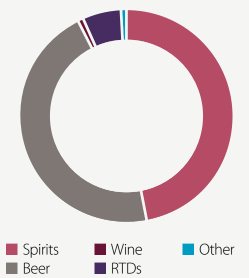
* Organic equals reported movement for volume except for Western Europe (2)%, spirits (1)% and wine (9)%, reflecting the termination of some agency brand distribution agreements including Jose Cuervo.
** Spirits brands excluding ready to drink.

AFRICA, EASTERN EUROPE AND TURKEY

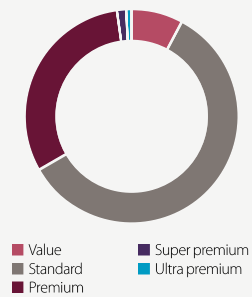
Net sales by markets
(%)



Net sales by categories
(%)



Net sales by price points
(%)



In Africa our strategy is to grow Diageo's leadership across beer and spirits by providing brand choice across a broad range of consumer motivations, profiles, and occasions. We are focused on growing beer faster than the market and accelerating the growth of spirits through continued investment in infrastructure and brands. In Russia & Eastern Europe we are driving our premium core and reserve portfolio, whilst in Turkey, Diageo continues to focus its mainstream route to consumer presence to drive accelerated growth in international premium spirits.

Our markets

The region comprises Nigeria, East Africa (Kenya, Tanzania, Uganda, Burundi, Rwanda and South Sudan), Africa Regional Markets (including Ghana, Cameroon, Ethiopia, Angola and Mozambique), South Africa, Russia and Eastern Europe, and Turkey.

Key financials

	2013 Reported (restated)* £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2014 Reported £ million	Reported movement %
Net sales	2,276	(210)	(6)	15	2,075	(9)
Marketing spend	265	(24)	(1)	2	242	(9)
Operating profit before exceptional items	653	(95)	(2)	(2)	554	(15)
Exceptional items	(5)				(23)	
Operating profit	648				531	(18)

*Restated following the adoption of IFRS 11 and the amendment to IAS 19.

Route to market

In Africa our largest businesses are in Nigeria, where we own 54.3% of a listed company whose principal brands are Guinness, Harp and Malta, and in East Africa, where we own 50.03% of East African Breweries Limited (EABL). EABL produces and distributes beer and spirits brands to a range of consumers in Kenya and Uganda, and has a 51% equity interest in Serengeti Breweries Limited, Tanzania. Within Africa Regional Markets, we have wholly-owned subsidiaries in Cameroon, Ethiopia, Mozambique and Reunion and majority-owned subsidiaries in Ghana and the Seychelles. Angola is supplied via a third-party distributor. In South Africa we sell spirits through a wholly-owned subsidiary and our beer, cider and ready to drink products through our 42.25% stake in DHN Ltd, a joint venture with Heineken and Namibia Breweries Ltd. In addition, we own a 50% equity stake in United National Breweries, a sorghum beer business. Diageo has brewing arrangements with the Castel Group to license, brew and distribute Guinness in the Democratic Republic of Congo, Gambia, Gabon, Ivory Coast, Togo, Benin, Burkina Faso, Chad, Mali and Guinea. Diageo sells spirits through distributors in most other sub-Saharan countries.

Russia and Eastern Europe comprises the principal markets of Russia and Poland, where there are wholly-owned subsidiaries and distributor agreements.

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

Supply operations

We have 14 breweries in Africa, including our 25% stake in Sedibeng in South Africa.

In addition, our beer and spirits brands are produced by third-parties under licence in 20 other African countries. We also own six manufacturing facilities including glass, blending, malting and cider plants.

Raki and vodka is produced in Turkey at a number of sites, and we produce Smirnov vodka in Russia.

Sustainability & Responsibility

In Africa we create wealth both directly through our operations and indirectly through our broader value chains where we support development and growth in partnership with businesses and communities. We source over 60% of agricultural and packaging materials locally, and we work with more than 45,000 local farmers for our agricultural inputs. Thirteen of our production sites in Africa are in water-stressed areas, so much of our focus is on managing water use in our operations effectively and reducing water poverty in surrounding communities through our pan-African Water of Life programme. Since its launch in 2006, we have brought safe drinking water to around 10 million people. In Russia we have launched some highly innovative responsible drinking programmes.

In a tough year and despite facing significant challenges, net sales grew 1% as the region responded to the specific market challenges that it faced. In Nigeria, where beer performance was weak, we adjusted prices and increased our presence in the growing value segment. Innovation was a key enabler for responding to changing consumer trends through new formats and brands and the region delivered the highest growth rate for innovation through the success of brands such as Snapp in Nigeria, Jebel in Kenya, Smirnoff Black Ice in Cameroon and Ghana and super premium brands in Turkey. We have expanded our route to consumer, revitalised the Guinness brand across its key markets in Africa and reserve brands grew 26%. Under recovery of fixed costs in supply due to lower beer volumes and cost and salary inflation drove an overall reduction in organic operating margin, although significant procurement and supply chain savings partly mitigated this impact.

KEY HIGHLIGHTS

- **Nigeria** net sales declined 9% for the full year driven by beer, while spirits and ready to drink grew double digit. The beer market has become more price competitive, significantly impacting Harp, which lost share and some distribution. Although pricing was adjusted in the third quarter this was not fully passed through to consumers. Malta performance was similarly impacted by increased competition and pricing pressure. Despite these challenges, performance slightly improved in the second half, driven by growth of Guinness following reinvigoration of the brand, including a new pack, media campaign and trade promotion and the launch of Orijin, a new local spirit and ready to drink brand, which sold over 100k cases of the spirit format in the year.
- **East Africa's** net sales grew and price increases taken across the beer portfolio led to strong price/mix. For the market's two largest beer brands, Guinness and Tusker, double digit growth was driven by price increases, supported by increased investment behind strong marketing campaigns. Innovations such as Jebel and Senator Dark Extra, targeted at providing value for money offering to consumers, have driven growth. Balozi lager, launched last year and priced just below mainstream beer, has also contributed to growth. This strong performance was partly offset by Senator keg in Kenya where the brand declined around 80% post the duty change.
- In **Africa Regional Markets**, net sales grew 2% with growth of beer partly offset by the decline in spirits largely as a result of distributor changes in Angola. Growth was led by Malta both in its existing markets, aided by a new pack, as well as its launch in Ethiopia, the growth of Meta in Ethiopia and the launch of Harp Premium and the recovery of Guinness in Cameroon.

	Organic volume movement* %	Organic net sales movement %	Reported net sales movement %
Key markets and categories:			
Africa, Eastern Europe and Turkey	(5)	1	(9)
Africa	(6)	–	(9)
Nigeria	(9)	(9)	(14)
East Africa	(12)	2	(2)
Africa Regional Markets	(3)	2	(8)
South Africa	4	12	(9)
Russia and Eastern Europe	(1)	2	(7)
Turkey	(3)	5	(12)
Spirits**	2	3	(10)
Beer	(16)	(5)	(11)
Ready to drink	44	34	21
Global and local leaders**:			
Johnnie Walker	–	–	(8)
J&B	(1)	(2)	(12)
Smirnoff	(5)	(3)	(16)
Captain Morgan	16	17	3
Baileys	(8)	(7)	(13)
Guinness	(7)	1	(5)

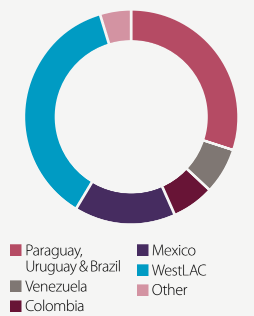
* Organic equals reported movement for volume except for South Africa 3%, Russia and Eastern Europe (2)% and spirits 1%, reflecting the termination of the Jose Cuervo distribution agreement.
** Spirits brands excluding ready to drink.

Following the changes in Angola, while spirits shipments declined overall, depletions and share continued to grow and performance improved in the second half.

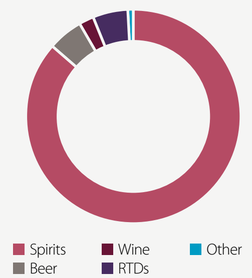
- **South Africa**. Despite softness in the economy, share gains and price increases resulted in spirits net sales growth of 2%. Johnnie Walker grew double digit with growth across price segments supported by the 'King of Flavours' campaign and trade activation. This growth was partly offset by the decline of Smirnoff 1818 due to reduced inventory levels, although depletions and share of spirits grew and performance improved in the second half. South Africa's strong net sales performance includes the sale of Smirnoff Ice Double Black & Guarana at cost to Diageo Heineken Namibia Drinks (DHN Drinks) to cover demand in excess of supply capacity following the strong performance of the brand. This capacity shortage has now been resolved.
- Net sales growth in **Russia and Eastern Europe** slowed this year to 2%. In Russia net sales grew 4%. While performance was impacted by reduced consumer confidence and higher excise taxes, Diageo grew share in whisk(e)y with growth of White Horse and double digit growth of Bushmills and Bell's and in rum with strong growth of Captain Morgan. The impact of the crisis in Ukraine offset high single digit growth in the rest of Diageo's distributor markets in Eastern Europe. In Poland we retained leadership of the scotch category in softer than expected market conditions.
- Following a much improved performance in the second half, net sales for **Turkey** grew 5%. Following two years of decline, the raki category volume is stabilising and through price increases and premiumisation, the business's raki net sales grew low single digit and contributed significantly to the markets positive price/mix. The scotch market has continued to show solid growth and scotch net sales grew double digit led by Johnnie Walker on the back of increased distribution and visibility in the off trade. Vodka net sales grew in the second half and recovered to flat for the full year with festivals and the new Apple Bite serve driving share gains and growth of Smirnoff.
- **Marketing spend** increased 1%, benefiting from 6ppt of procurement efficiencies. In Russia and Eastern Europe and in Turkey, in response to marketing restrictions, investment was increasingly focused on commercial activations, driving improved visibility across trade channels, supporting new serves and bartender programmes to build brands.

LATIN AMERICA AND CARIBBEAN

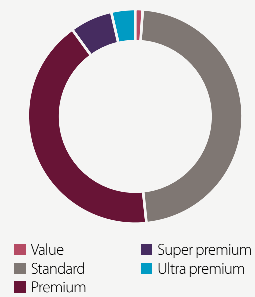
Net sales by markets
(%)



Net sales by categories
(%)



Net sales by price points
(%)



In Latin America and Caribbean the strategic priority is continued leadership in scotch, while broadening the category range to include vodka, rum, liqueurs and local spirits. We are continuing to invest in routes to market and in the range and depth of our portfolio of leading brands. We are also enhancing our supply structure to enable the business to provide the emerging middle class and an increasing number of wealthy consumers with the premium brands they aspire to.

Our markets

Our Latin America and Caribbean (LAC) business comprises Paraguay, Uruguay and Brazil (PUB), Venezuela, Colombia, Mexico and WestLAC (Central America and Caribbean, Argentina, Chile, Peru, Ecuador and Bolivia).

Key financials

	2013 Reported (restated)* £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2014 Reported £ million	Reported movement %
Net sales	1,453	(328)	(8)	27	1,144	(21)
Marketing spend	233	(30)	(2)	2	203	(13)
Operating profit before exceptional items	468	(151)	2	9	328	(30)
Exceptional items	–				(14)	
Operating profit	468				314	(33)

*Restated following the adoption of IFRS 11 and the amendment to IAS 19.

Route to market

We sell our products through a combination of our own companies and third-party distributors. In Brazil, sales are primarily made directly to international retailers and distributors. In addition to Diageo Brazil, Diageo owns 100% of Ypióca, a leading cachaça producer and distributor. In Uruguay, Diageo manages distribution directly and through distributors.

All products in Venezuela are sold through dedicated third-party distributors. In Colombia we sell directly to major grocers, serving all other accounts and channels through distributors.

In Mexico, distribution of Smirnoff is managed by Casa Cuervo SA, while all other brands are sold directly by Diageo, either through direct sales to international accounts or through wholesalers and distributors.

In selected markets in WestLAC, we manage sales ourselves, while in key markets, such as Costa Rica and the Dominican Republic, we use exclusive distributors. In Jamaica, we own a 58% controlling interest in Desnoes & Geddes Limited, the Jamaican brewer of Red Stripe lager.

In Argentina, we sell directly to major grocers, and other businesses are managed through a combination of wholesalers and distributors outside of major grocers, to whom we sell directly.

Supply operations

The majority of brands sold in the region are manufactured in our International Supply Centre in Europe. However, we have been expanding our local footprint. Our largest owned asset base in the region is Ypióca in Brazil. We also have a controlling interest in a company in Guatemala (Anejos de Altura) producing Zacapa. The region has a brewery in Jamaica (Red Stripe), and the Navarro Correas winery in Mendoza, Argentina. In addition, we partner with more than 12 brewers and over 20 co-pack partners to manufacture brands and package products under strict quality assurance protocols.

Sustainability & Responsibility

Our strategy in the Latin America and Caribbean region focuses on Diageo being the partner of choice with all our key stakeholders in the diverse countries in which we operate. We seek to demonstrate informed leadership in public policy, and positively impact our communities. For example, customer programmes with Walmart in Mexico and Puerto Rico are aimed at combating alcohol misuse issues, such as underage drinking. In Brazil we have created a glass-recycling programme, which also serves to create jobs through the development of recycling co-operatives with local authorities. This work is underpinned by Diageo's flagship community re-investment programme, Learning for Life. Since 2008, Learning for Life has provided life skills and vocational training to more than 100,000 disadvantaged individuals in more than 30 countries across the region.

Our Latin America and Caribbean business has delivered a good set of results despite mixed performance in individual countries. In WestLAC, our biggest market, net sales were down 8% following a destocking in the border zones. Both Brazil and Colombia delivered solid performance, benefiting from changes in the route to consumer and, in Brazil, from synergy with Ypióca. In a challenging operating environment Venezuela net sales grew 78%, with slower growth in the second half as high inflation and currency devaluation has affected demand and the affordability of imported products. Mexico was weak as tax reforms and a general economic slowdown impacted consumers' discretionary spend. While scotch remains the largest category in the region, growth came from the investment we made to widen participation to categories such as vodka, cachaça, liqueurs and to capture the growing affluent and emerging middle class. Despite the negative country mix from weakness in WestLAC and Mexico, total operating margin for the region improved 18bps driven by strong price/mix, and a focus on overhead cost reductions.

KEY HIGHLIGHTS

- **Paraguay, Uruguay and Brazil (PUB)** reflected the strong performance of Brazil where improvements in route to consumer, synergy with Ypióca and a favourable comparison versus last year contributed to net sales growth in every category. Strong growth from Old Parr, White Horse and Black & White, and 5% net sales growth in Johnnie Walker, with half of the growth coming from super and ultra premium segments, drove 13% net sales increase in scotch and Diageo Brazil gained share in scotch. Ypióca again grew strongly with net sales up 21% on the back of the 'Vamos Brazilizar' campaign and the launch of new packaging to upgrade the brand perception. Vodka was back in growth with net sales increasing 15% driven by Smirnoff which gained share in the standard vodka segment. In the growing luxury segment, Cîroc and Ketel One vodka continued to perform strongly with net sales growing 41% and 25% respectively. The duty free zones of Paraguay and Uruguay were affected by currency weakness and net sales declined 13%.
- Diageo **Venezuela** net sales grew 78% with volume down 17%. High inflation and currency devaluation impacted consumer demand for scotch with volume declining 47%. Net sales in locally produced rum such as Pampero and Cacique grew 84% as consumers traded down from scotch to rum. Diageo Venezuela continued to gain share in scotch and rum, however it lost share in ready to drink due to supply constraints.
- In **Colombia**, net sales grew high single digit with changes in the route to consumer and a review of commercial terms driving a stronger performance in the second half. Old Parr and Buchanan's contributed to over 60% of net sales growth supported by new marketing campaigns such as 'The more you give, the more you have'. Ready to drink net sales grew 24% as it benefited from distribution gains driven by changes in the route to consumer.
- Diageo **Mexico** net sales declined 4% as tax reforms and a weaker economy affected consumer confidence. Buchanan's net sales were down 11% as the brand was impacted by competition from the growing value segment and Johnnie Walker net sales were down 7% but gained share across all brand's segments. In the fast growing value segment, Black & White nearly doubled in size, albeit from a small base, and grew share. Old Parr net sales were up 30% supported by the launch of Old Parr Silver, a non age declared variant of the main brand driving share gains. Baileys extended its lead in the liqueur category, supported by the successful Mother's Day 'Hija de mi Madre' campaign.
- Net sales in **WestLAC** were down 8%. Performance was largely driven by the destocking in the border zones where net sales declined 66%. Net sales in other countries which make up the market grew 8%, driven by double digit growth in Argentina, as local production of Smirnoff started in the first half and import restrictions on Johnnie Walker eased, and Jamaica which benefited from a new distribution joint venture.
- **Marketing spend** increased 1%, less than net sales, as Diageo Brazil reallocated some marketing spend into trade spend to secure in store visibility and benefit from the FIFA world cup and the expansion into new outlets. Increased investment behind reserve brands, mainly Cîroc, and non scotch categories such as rum, particularly in Mexico with the successful Captain Morgan's 'Morgan Fest' campaign, Baileys and cachaça in Brazil was in line with the strategy to expand beyond scotch and capture the affluent and growing emerging middle class.

	Organic volume movement* %	Organic net sales movement %	Reported net sales movement %
Key markets and categories:			
Latin America and Caribbean	(1)	2	(21)
PUB	9	10	(4)
Venezuela	(17)	78	(71)
Colombia	5	8	(7)
Mexico	(1)	(4)	(10)
WestLAC	(9)	(8)	(15)
Spirits**	(1)	1	(23)
Beer	5	10	(3)
Wine	(19)	2	(24)
Ready to drink	6	16	(11)
Global and local leaders:**			
Johnnie Walker	(7)	(4)	(15)
Buchanan's	(20)	1	(32)
Smirnoff	12	18	(1)
Baileys	–	9	(6)

* Organic equals reported movement for volume except for Venezuela (19)%, Colombia (3)%, Mexico (2)% and WestLAC (10)% and spirits (2)% reflecting the disposal of Nuvo and the termination of the distribution agreement with Jose Cuervo.
** Spirits brands excluding ready to drink.

Strategic report
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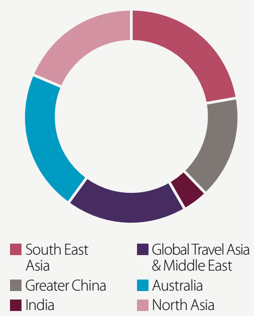
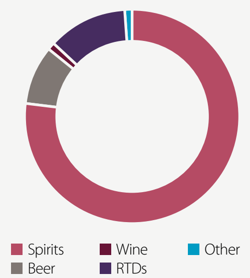
ASIA PACIFIC

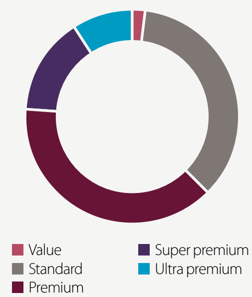
Net sales by markets
(%)



Net sales by categories
(%)



Net sales by price points
(%)



Our strategy in Asia Pacific, which encompasses both developed and emerging markets, is to operate across categories with participation in international spirits, local spirits and beer. Our strategy focuses on the highest growth categories and consumer opportunities, driving continued development of super and ultra premium scotch, and leveraging the emerging middle class opportunity through a combination of organic growth and selective acquisitions.

Our markets

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

Key financials

	2013 Reported (restated)* £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	2014 Reported £ million	Reported movement %
Net sales	1,572	(112)	(7)	(106)	1,347	(14)
Marketing spend	356	(27)	–	(24)	305	(14)
Operating profit before exceptional items	381	(35)	(19)	(44)	283	(26)
Exceptional items	(1)				(276)	
Operating profit	380				7	(98)

*Restated following the adoption of IFRS 11 and the amendment to IAS 19.

Route to market

In South East Asia, spirits and beer are sold through a combination of Diageo companies, joint venture arrangements, and third-party distributors. Diageo manages a Singapore based key accounts business. In Thailand, Malaysia and Singapore, joint venture arrangements are in place with Moët Hennessy, where administrative and distribution costs are shared. Diageo has wholly-owned subsidiaries in the Philippines and Vietnam. In Vietnam we also have a 45.56% equity stake in Hanoi Liquor Joint Stock Company. In Malaysia, Diageo's own and third-party beers are brewed and distributed by a listed company, Guinness Anchor Berhad, in which we have an effective 25.5% equity interest. In Indonesia, Guinness is brewed by, and distributed through, third-party arrangements.

In Greater China, a significant part of our spirits business is conducted through a joint venture arrangement with Moët Hennessy. We are also the sole distributor of Shui Jing Fang, a super premium Chinese white spirit, through our controlling 39.71% equity stake in a listed company.

In India, we have our own distribution company for our international spirits brands and in 2014 we expanded our route to market through a sales promotion agreement with United Spirits Limited (USL), the leading spirits company in India. Diageo is now the largest shareholder in USL with a 54.78% equity interest. 26% of this equity interest was acquired on 2 July 2014. Diageo will fully consolidate the results of USL from 2 July 2014.

In Australia, Diageo owns production, distillation and distribution companies and in New Zealand we operate through third-party distributors.

In North Asia, we have our own distribution company in Korea, whilst in Japan, the majority of sales are through joint venture agreements with Moët Hennessy and Kirin.

Airport shops and airline customers are serviced through a dedicated Diageo sales and marketing organisation. In the Middle East, we sell our products through third-party distributors.

Johnnie Walker houses in Shanghai, Beijing and Seoul have been driving ultra premium scotch sales.

Supply operations

We have distilleries in Chengdu in China that produce Chinese white spirit and in Bundaberg, Australia for the production of rum.

Sustainability & Responsibility

Promoting responsible drinking is a particular focus for us as it is in many parts of the world. We run a number of programmes to address drink driving, to train bartenders and promotional staff on how to serve alcohol responsibly, and to raise awareness of alcohol and its effects. We also focus on empowering women through our Plan W programme, which aims to reach two million women by 2017. In Australia, which is home to our largest blending and packaging site in the region, we have developed some of our most innovative and award-winning sustainable manufacturing initiatives.

Performance in Asia Pacific was impacted by a weaker trading environment in China and South East Asia and this top line weakness and negative country mix impacted operating margin, which, despite a reduction in overheads, decreased 136bps. In China the effects of the government's anti extravagance campaign severely impacted the on trade channel, and continued to affect performance of both our Chinese white spirits and scotch businesses, while South East Asia was impacted by tax increases and social unrest in Thailand and destocking in other markets and channels. Despite the challenging trading environment we gained share in scotch in both Thailand and China. Elsewhere, Korea, Japan, GTME, Taiwan and India delivered good growth and we gained share in scotch across the countries. Strong growth of scotch malts in Taiwan and successful innovation launches in super and ultra premium scotch segments contributed to another year of double digit growth of the reserve brands.

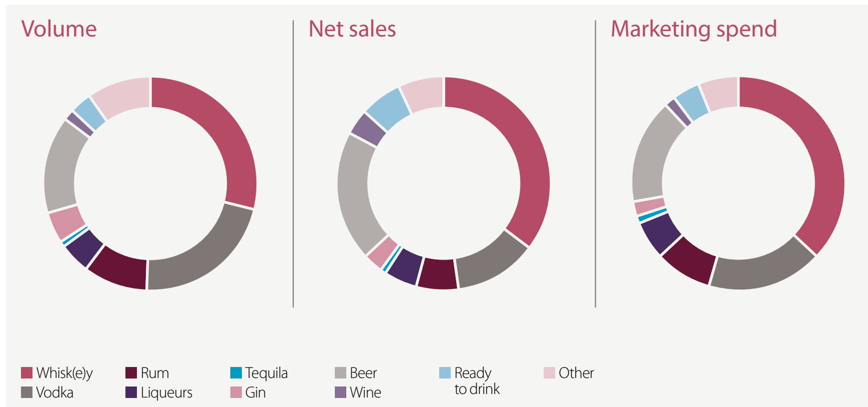
KEY HIGHLIGHTS

- In **South East Asia** performance was largely driven by Thailand and destocking in other markets and channels as trade confidence was affected by pricing pressure, currency devaluation and economic uncertainty in the region. In Thailand tax increases and political unrest contributed to a weak consumer environment with net sales down 24%. In a declining scotch category Diageo gained 5.8ppt volume share. In Indonesia net sales were up double digit driven by 7% growth of Guinness and strong performance in ready to drink.
- **Greater China** performance continued to be affected by the government's anti extravagance measures. Shui Jing Fang net sales declined 78% as the brand suffered from pricing pressure from other leading brands. Net sales of Diageo's international brands in China declined 14%, largely driven by weakness in scotch, down 20%, as Johnnie Walker Black Label net sales declined 28%. However, Johnnie Walker Black Label grew share 1.2ppt as activation was increased into tier 2 and 3 cities. Reserve brands net sales grew 9%, driven by a strong growth in scotch malts. Baileys net sales grew double digit, as the brand continued to capture the trend of increasingly empowered female consumers with the support of the 'Sisterhood Campaign'. In Taiwan, net sales grew 9% driven by strong growth from The Singleton, the fastest growing scotch malt in the market, and it gained 2ppt of share.
- Diageo **India** continued to deliver strong double digit net sales growth as it benefited from having its brands sold through the sales agency agreement with USL. Strong performance by Johnnie Walker Black Label, VAT 69 and Black & White drove most of the growth in scotch, and share in scotch increased 1.9ppt. Smirnoff net sales grew high single digit benefiting from its partnership with several music festivals.
- In **Global Travel Asia and Middle East (GTME)** net sales were up 19% driven by the Middle East where despite political turmoil in the region, it delivered strong growth boosted by an increase in tourism, expansion in the region's airport as well as improvements in Diageo's route to consumer. Global Travel Asia returned to growth with net sales up 9% mainly driven by an increased focus on Johnnie Walker Blue Label which showcased the Dunhill partnership, including a limited edition pack, in many airports in the region.
- In **Australia** net sales declined 3%, largely driven by the decline in ready to drink, where net sales were down 5% as tax increases continued to impact pricing and demand in the category. Spirits net sales declined 1%, as Baileys, which benefited from the launch of Baileys Chocolat Luxe, and Captain Morgan grew, but not enough to offset a decline in Smirnoff and Bundaberg, which suffered from growth in spiced rum. Reserve brands net sales grew 30% mainly driven by the launch of Bundaberg 125th anniversary bottle and Ketel One vodka which almost doubled in size.
- In **North Asia**, net sales increased 4% driven by Windsor in Korea and strong growth from Smirnoff Ice in Japan. In Korea's declining scotch category, Windsor volume was broadly flat and gained 1.7ppt of volume share driven by strong performance of Windsor 12 and the launch of Windsor Black. The business increased its participation into other categories with Smirnoff net sales up 13%, as it benefited from sponsoring music festivals, and Guinness net sales increased 5%, supported by new in venue vending machines. In Japan, ready to drink net sales increased 20% driven by Smirnoff Ice and the launch as a permanent SKU of Smirnoff Ice Green Apple after a successful limited edition offer last year.
- **Marketing spend** decreased 7% in line with net sales, as a result of lower spend in international spirits in China and South East Asia. Investment behind innovation increased and new launches across the region included Johnnie Walker Gold Label Reserve limited edition in the Middle East, to celebrate the Dubai duty free 30th anniversary, the Bundaberg 125th anniversary bottle in Australia and the Johnnie Walker Blue Label and Dunhill partnership. Shui Jing Fang marketing spend was maintained and focused on new launches which target more attractive price points in the baijiu segment.

	Organic volume movement* %	Organic net sales movement %	Reported net sales movement %
Key markets and categories:			
Asia Pacific	(5)	(7)	(14)
South East Asia	(25)	(19)	(25)
Greater China	(20)	(31)	(33)
India	22	42	8
Global Travel Asia and Middle East	18	19	15
Australia hub	(2)	(3)	(17)
North Asia	2	4	(2)
Spirits**	(5)	(11)	(15)
Beer	(1)	2	(9)
Ready to drink	1	(1)	(14)
Global and local leaders**:			
Johnnie Walker	(13)	(11)	(14)
Windsor	(5)	1	1
Smirnoff	4	(3)	(13)
Baileys	12	11	3
Guinness	(1)	3	(9)

* Organic equals reported movement for volume except for Greater China (21)% and Australia (3)% reflecting the termination of the distribution agreement with Jose Cuervo.
** Spirits brands excluding ready to drink.

CATEGORY REVIEW



	Organic volume movement* %	Organic net sales movement %	Reported net sales movement %
Key markets and categories:			
Spirits**	(1)	–	(10)
Whisk(e)y	(4)	–	(8)
Johnnie Walker	(6)	(4)	(9)
Crown Royal	(4)	1	(3)
JεB	(7)	(8)	(11)
Buchanan's	(13)	6	(24)
Windsor	(5)	1	1
Bushmills	8	7	4
Bulleit	66	69	62
Vodka	(1)	–	(5)
Smirnoff	(1)	(2)	(7)
Ketel One vodka	3	6	2
Cîroc	2	2	(2)
Rum	9	7	(4)
Captain Morgan	6	6	1
Liqueurs	(2)	–	(7)
Baileys	(2)	1	(3)
Tequila	43	34	(71)
Don Julio	27	27	22
Gin	3	3	(1)
Tanqueray	4	6	3
Beer	(11)	(3)	(8)
Guinness	(5)	(1)	(5)
Wine	(4)	1	(6)
Ready to drink	8	4	(11)
Total	(2)	–	(9)

* Organic equals reported movement for volume except for total (5)%, spirits (4)%, wine (8)%, ready to drink 5%, liqueurs (4)%, and tequila (86)%, largely reflecting the disposal of Nuvo and the termination of agency brand distribution agreements, including Jose Cuervo.

** Spirits brands excluding ready to drink.

Spirits net sales were broadly flat, with growth in the United States offset by weakness in emerging markets, particularly Asia Pacific. Reserve brands delivered the strongest growth up 14%, with 5ppt of positive price/mix.

Whisk(e)y, our largest spirits category, performed broadly in line with overall spirits, and again strong performance in North America offset weak performance in emerging markets. Consequently scotch net sales declined 1%, largely Johnnie Walker, given its strong presence in emerging markets.

Johnnie Walker's net sales decline was driven by Johnnie Walker Red and Black Label which were adversely impacted by market weakness in a number of emerging markets, particularly in South East Asia, WestLAC and PUB. Reserve brands grew strongly, with 7ppt of price mix, driven by successful innovation launches in the United States and pricing in Venezuela.

Crown Royal in the United States grew, driven by the launch of Crown Royal XO and Crown Royal 75th Anniversary, which drove positive price/mix. Its growth was partly offset by the negative impact of lapping last year's launch of Crown Royal Maple Finished and competition from flavoured whiskey brands. Marketing investment focused on the 'Reign On' campaign.

JεB net sales declined 8%, primarily driven by increased price competition in the Spanish scotch market, and a weaker market in Mexico. This was partly offset by growth in South Africa, the brand's third largest market, and in Korea. JεB Urban Honey, an innovation in the rapidly growing favoured whisk(e)y segment, was launched.

Buchanan's grew net sales 6% on strong price/mix. Volume in Latin America and Caribbean, its biggest region was significantly impacted by; destocking in WestLAC; softer consumer demand in Mexico; and weak volume growth in Venezuela. Net sales growth was driven by Venezuela and the United States where the brand continued to target Latin American consumers. In the United States Buchanan's is now the #3 blended scotch brand, with 375k cases, driven by increased marketing behind the 'A lo Grande' campaign, sponsorships and trade activation.

Windsor's performance improved with net sales up 1%. In Korea, the brand's primary market, net sales grew 3%, in a declining market. Windsor's volume share gains were driven by the strong performance of Windsor 12 and the launch of a new super premium variant, Windsor Black, to drive incremental growth in the on trade.

Bushmills net sales growth of 7% was driven by the music based 'Bushmills Live' platform and the honey flavour innovation, with Russia and Eastern Europe, Germany and GTME the strongest markets.

Bulleit continued its strong trajectory, net sales grew 69% as the brand grew strongly in the United States and expanded in to new markets.

Scotch Malts performed very strongly with net sales up 18% driven by the recently launched Talisker Storm and the Talisker Whisky Atlantic Challenge, and strong growth of The Singleton and Lagavulin, up 17% and 23% respectively.

Vodka net sales were broadly flat, with strong growth in reserve offsetting the decline in standard and value segments. In the United States volume declined in the value and standard price segments due to a challenging price environment and lapping of prior year innovations. Growth in Latin America was strong, driven by Brazil and Argentina.

Smirnoff net sales declined, driven by increasing price pressure in its largest markets. In the United States the brand held price in an increasingly price competitive segment, losing share. In Western Europe net sales also declined driven by poor performance in Germany, where the brand was impacted by pricing pressure from wholesalers, in Great Britain where we gained share in an increasingly price competitive market, and in Ireland where duty increases drove up retail prices. In contrast in Latin America, Smirnoff delivered strong growth in both Brazil and Argentina. There was also positive momentum from innovations, with strong performance from the Smirnoff Confectionary line in the United States, and the launch of the new signature serve Smirnoff Apple Bite and Smirnoff Gold in Western Europe.

Ketel One vodka grew both net sales and volume, with 3ppt of positive price/mix. In the United States, its largest market, net sales growth was driven by the launch of the 'Vodka of Substance' campaign and by brand ambassador and mentoring programmes supporting Ketel One's strong on premise positioning. Outside of the United States, net sales grew over 40%, led by net sales in Australia almost doubling and strong performance in GTME and Western Europe.

Over 85% of **Cîroc's** net sales are from the United States, where strong performance and share gains driven by the launch of Cîroc Amaretto were not enough to offset a decline in the core brand which faced tough price competition. The brand was supported with increased investment to support the launch Cîroc Amaretto as well as the 'Luck be a Lady' campaign and the new NBA partnership. Outside of the United States Cîroc sustained its growth trajectory, with strong net sales growth in Western Europe, Brazil, GTME and launches in to new markets.

Rum net sales grew 7% driven by Captain Morgan, Zacapa and Cacique.

Captain Morgan performed strongly with net sales growing 6% driven by continued growth in the United States, its largest market, Great Britain, Russia and Eastern Europe and Australia. This was driven through the success of the 'Keys to Adventure' experiential events and the new 'Live like the Captain' campaign. Growth in the United States was driven by the successful launch of Captain Morgan White in February which was supported by increased investment.

Zacapa net sales grew 22%, driven by 37% growth in its largest region, Western Europe, with strong growth in Russia and Eastern Europe and North America. Investment focused on mentoring, trade activation and sampling, with a continuation in the roll out of the successful Zacapa Rooms, a luxury temporary lounge dedicated to tasting events for key influencers, media and consumers across Western Europe.

Cacique net sales increased 16% driven by both volume growth and price increases in Venezuela as consumers switched to more affordable local spirits.

Liqueurs performance was driven by Baileys, which represents over 85% of the category.

Baileys grew 1% and performance was broadly mixed across markets. In China the brand grew double digit as the 'Sisterhood Campaign' resonated strongly with female consumers. In Australia the brand benefited from the growth of Chocolat Luxe. In Latin America and Caribbean the roll out of the global campaign, and activation in Mexico focused on the Baileys and coffee serve, drove 9% net sales growth. In the United States the brand continued to grow net sales driven by the success of the launch of Baileys Vanilla Cinnamon and the 'Stylish Shot' campaign. In Western Europe however, net sales declined, with performance impacted by price increases in Germany and Benelux. This decline was partly offset by the successful launch of Baileys Chocolat Luxe, which drove share gains in Great Britain.

Tequila net sales grew 34% driven by strong performance of **Don Julio**, with strong growth and share gains in the United States, its primary market. This was driven by a significant increase in marketing spend to support new brand positioning and commercial activation around the summer programme, 'Elevate your Summer' and 'Your Margarita Crafted'. Don Julio continued to perform strongly outside of the United States, growing net sales 34%, with particularly strong growth in Western Europe and Australia.

Gin net sales grew 3%, with strong growth in Western Europe, Africa, and Latin America partly offset by a decline in Asia Pacific.

Tanqueray net sales grew 6% with growth in all regions supported by the extension of the 'Tonight we Tanqueray' campaign. There was strong performance across Western Europe, in particular Great Britain, Germany and Iberia where net sales grew and the brand gained share and also Latin America, driven by Brazil, Mexico and Colombia. In the United States, depletions performed well and Diageo grew share but shipments were impacted by higher stock levels at the start of the financial year.

Beer net sales declined 3%. In Nigeria consumers traded down to value beer resulting in share losses, duty changes had a negative impact on Senator keg in Kenya, and there were continued challenges in Ireland and Great Britain.

Guinness net sales declined 1%, delivering 4ppt of positive price/mix from price increases. The brand declined in Nigeria due to challenging market conditions, however performance improved in the second half driven by a number of activities including new packaging, a new media campaign and increased trade promotions. Guinness was down 5% in the United States, lapping the launch of Guinness Black Lager and down 3% in Western Europe where the on trade remains challenging. Guinness performed strongly in East Africa where price increases drove net sales growth of 19%, supported by an increase in marketing spend. Growth was also strong in Indonesia.

Performance of local African beers was negatively impacted by the decline of Harp which was impacted by pricing pressure in Nigeria, and Senator keg which declined driven by October's excise duty increase in Kenya. These challenges were in part offset by the growth of other local beer brands including Tusker which grew double digit driven by price increases and strong football related marketing programmes, and value beer brands such as Dubic and Satzenbrau in Nigeria and Balozi lager in Kenya which are benefiting from growth in the value segment.

Wine grew net sales 1% with growth largely driven by the United States, as a result of price increases and innovation.

Ready to drink grew 4% driven by South Africa, Great Britain, Venezuela, and Japan, partly offset by a decline in the United States and Australia. In South Africa, strong performance reflects the production and sale to DHN Drinks of Smirnoff Ice Double Black and Guarana to resolve short term capacity issues. In Japan, net sales grew 20% with Smirnoff Ice, the leading bottled ready to drink, extending its leadership position with strong performance by core variants and innovation. Net sales declined in the United States driven by the continued decline of pouches and in Australia where our performance continued to be impacted by the market contraction.

SUSTAINABILITY & RESPONSIBILITY REVIEW

ALCOHOL IN SOCIETY

PERFORMANCE AGAINST 2015 TARGETS

Responsible drinking programmes

373* (VS 315 IN 2013)

*We are moving towards a new metric in future years that will demonstrate the impact of our programmes on awareness, attitudes or behaviour.

This year we made good progress in implementing the landmark Global Beer, Wine and Spirits Producers' Commitments to Reduce Harmful Drinking, as well as our broader goals to support effective programmes that tackle alcohol misuse; communicate about alcohol responsibly; and advocate effective, evidence-based policy.

The Global Beer, Wine and Spirits Producers' Commitments

The first annual report on progress against the Commitments was published in July 2014. The report concludes that signatory companies made good progress, but that more remains to be done. The first year was used to establish benchmarks, set key performance indicators and create resources for future work. These building blocks will inform, strengthen and accelerate future efforts. The following are highlights included in the report:

- Producers supported 135 education programmes aimed at preventing and reducing underage drinking which together reached nearly one million young people under the legal purchase age, and more than 500,000 parents, teachers, and community leaders
- An analysis in seven countries found more than 96% of producer advertising is compliant with the '70/30' rule under which advertising is placed in media where at least 70% of the audience is of legal drinking age
- Producers developed guiding principles for responsible digital marketing, which are now under public stakeholder review

The report, which was independently assured, can be found on www.producerscommitments.org. Information about Diageo's performance can be found on our website.

Tackling alcohol misuse

We will continue to work with others to implement programmes that tackle misuse in ways that go beyond these Commitments. The choice of programme in each market reflects local stakeholder concerns but our focus is always on initiatives that can be shown to shift awareness, attitudes and behaviour.

This year, Diageo supported 373 programmes, including Commitments programmes in 53 countries, many of which have been evaluated to show measurable effects on awareness, attitudes and behaviour. Our sponsorship of the McLaren Mercedes F1 team continues to give Diageo a stylish and impactful platform to speak credibly about the importance of staying in control while driving. Johnnie Walker's Join the Pact campaign has a goal to give one million kilometres of safe rides home to consumers across the globe who have pledged never to drink and drive. So far it has given about 423,025 rides, representing around 265,491 kilometres.

Complaints about advertising upheld by industry bodies that report publicly (2014)

		Industry complaints upheld	Complaints about Diageo brands
Australia	Alcohol Beverage Code	3	–
Ireland	Advertising Standards Authority for Ireland (ASAI)	3	–
United Kingdom	The Portman Group	8	–
	Advertising Standards Authority (ASA)	38	1
United States	Distilled Spirits Council of the United States (DISCUS)	3	–

TACKLING DRINK DRIVING IN GHANA

Based at five major transport terminals, the Twa Kwano Mmom campaign aimed to reduce drink driving in Ghana over Christmas 2013 with positive results.

During that time, clinical psychologists from the University of Ghana Medical School provided information on the effects of alcohol to 1,230 participating commercial drivers while random breathalyser tests were set up at the terminals' exit points. Any drivers who tested positive for alcohol – a blood alcohol concentration (BAC) of more than 0.08 – were replaced and sanctioned by their union executives. Drivers who behaved responsibly during the programme were rewarded.

Of the 1,500 breathalyser tests in the campaign's first week, 33 were positive for alcohol. The 4,841 tests conducted in subsequent weeks, however, resulted in no positive tests at all. The campaign has been endorsed by the Ministry of Health, the Ghana Police Motor Transport and Traffic Department, the National Road Safety Commission and the Ministry of Transport.

Communicating about alcohol responsibly

Five industry bodies publicly report breaches of their self-regulatory codes. The industry bodies that monitor these self-regulatory codes do not impose fines; nevertheless, removing the offending marketing can be a costly lesson for any company. Further consequences include reputational damage and, in some instances, additional controls, such as being subject to mandatory pre-clearance for future advertising. This year, Diageo was found to be in breach by the Advertising Standards Authority in the United Kingdom for a Captain Morgan television commercial on the grounds of linking alcohol with daring, tough and aggressive behaviour. The commercial was immediately withdrawn.

Further details in the S&R Performance Addendum 2014.
Further details at www.diageo.com.

WATER STEWARDSHIP

PERFORMANCE AGAINST 2015 TARGETS

Improve water efficiency by 30%

2.4% (VS 2013)

21% (VS 2007)

Reduce water wasted in water-stressed sites by 50%

12% (VS 2013)

25% (VS 2007)

Reduce polluting power of wastewater by 60%

4% (VS 2013)

(13)% (VS 2007)

Overall this year, Diageo has delivered improved performance across all water and other environmental target areas versus the prior year, and progressed towards meeting 2015 goals. We reduced absolute water use by 9% or 2,268,000 cubic metres while water efficiency improved by 2.4% compared to the prior year. In water-stressed locations, we have reduced water wasted by 12%, an important contribution towards our target of a 50% reduction versus the company's 2007 baseline.

While some savings are the result of major investments, most come from operational improvements related to equipment, processes, culture and behaviour. For example, our distillery at Valleyfield, Canada has reduced water used by 44% through investment in surface condensers. In Nairobi, where three of our sites are in water-stressed locations, brewing, malting and glass production facilities have reduced the absolute volume of water withdrawn by 23%, reflecting the impact of a sustained focus on water conservation.

Water used for irrigation purposes on land under Diageo's operational control extends to 7,512,000 cubic metres and is reported separately from direct operations water use efficiency performance. The significant majority of this irrigation water relates to sugar cane production at the Ypióca business in Brazil, where Diageo is investing in improving irrigation techniques and broader water stewardship improvements. See page 49 for information about our Value chain partnerships.

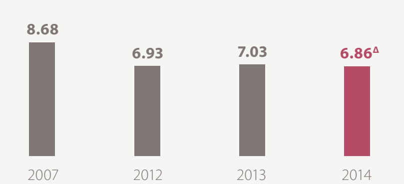
We also aim to reduce the polluting power of wastewater, measured in biochemical oxygen demand (BOD) grams per litre of product packaged. Overall we reduced BOD by 4%, with a 56% improvement at sites in Africa as a result of better wastewater treatment facilities and operation.

A significant proportion of Diageo's BOD in wastewater comes from our Cameronbridge distillery in Scotland, where we have built a new bioenergy plant which generates renewable energy from co-products while also reducing BOD load. This facility, once fully commissioned, will significantly reduce BOD load to the environment in future years.

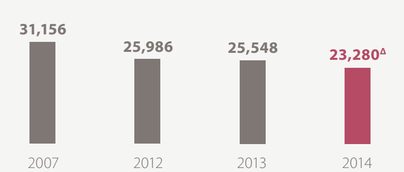
In addition to driving improvements in our operations, we also invest in infrastructure and sanitation through our Water of Life programme to provide access to clean water in local communities. Please see page 45 for more information.

Further details in the S&R Performance Addendum 2014.
Further details at www.diageo.com.

Water efficiency by year[1,2]



Water use by year (1,000s m³)[1,2]



Water efficiency by region, by year (l/l)[1,2]

	2007	2012	2013	2014
North America	6.68	4.96	6.45	**5.27**
Western Europe	7.56	6.57	6.57	**6.90**
Africa, Eastern Europe and Turkey	9.94	7.21	6.64	**6.23**
Latin America and Caribbean	21.87	15.98	21.01	**20.61**
Asia Pacific	4.41	3.52	3.34	**3.63**
Diageo (total)	8.68	6.93	7.03	**6.86Δ**

Wastewater polluting power by region, by year (BOD/kt)[1]

	2007	2012	2013	2014
North America	248	13	11	**13**
Western Europe	21,802	28,437	33,689	**35,990**
Africa, Eastern Europe and Turkey	11,613	8,398	6,623	**2,756**
Latin America and Caribbean	565	35	11	**10**
Asia Pacific	22	8	6	**0**
Corporate	1	1	1	**1**
Diageo (total)	34,251	36,892	40,341	**38,770**
Total under direct control	33,426	36,646	40,088	**38,541Δ**

1. 2007 baseline data and data for each of the six years in the period ended 30 June 2013 have been restated in accordance with Diageo's environmental reporting methodologies.
2. In accordance with Diageo's environmental reporting methodologies, total water used excludes irrigation water for agricultural purposes on land under the operational control of the company.

Δ Within KPMG's limited assurance scope. Please see page 140 for further details.

ENVIRONMENT

PERFORMANCE AGAINST 2015 TARGETS

Reduce carbon emissions equivalent by 50%

5% (VS 2013) 30% (VS 2007)

Eliminate waste to landfill

23% (VS 2013) 83% (VS 2007)

Reduce average packaging weight by 10%*

0.8% (VS 2013) 6% (VS 2009)

Increase average recycled content across all packaging to 42%

1% (VS 2013) 37% (VS 2009)

Make all packaging 100% recyclable/reusable

0.01% (VS 2013) 98.6% (VS 2009)

*A 2009 baseline was established for packaging targets versus the 2007 baseline for other environmental metrics.

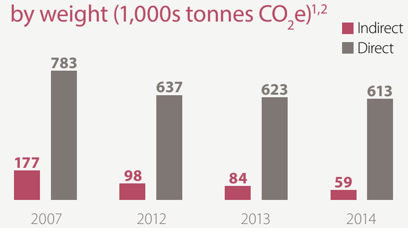
Alongside water stewardship, our environmental programme focuses on reducing greenhouse gases and waste sent to landfill as well as improving the sustainability of our packaging.

Carbon emissions

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 over which we have operational control for the full fiscal year.

This year Diageo's net carbon emissions (CO_2e) were reduced by 5% in absolute terms or 35,000 tonnes, compared to the prior year. We achieved this reduction despite production volume going up in the most energy intensive area of our business, malt and grain whisky distilling. Cumulatively we have reduced absolute net tonnes of CO_2e by 30% since 2007.

Direct and indirect carbon emissions by weight (1,000s tonnes CO_2e)[1,2]



1. CO_2e figures are calculated using 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.
2. 2007 baseline data, and data for each of the six years in the period ended 30 June 2013, have been restated in accordance with the WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo's environmental reporting methodologies.

These results represent the sum of many small improvements, increases in green energy sourcing and the application of new technology combined with larger capital projects such as a £4 million investment in a combined heat and power plant at the Red Stripe brewery in Jamaica, which will reduce the site's carbon emissions by 4,000 tonnes per year.

Diageo's gross carbon emissions for this year are 865,000$^{\Delta}$ tonnes, with an intensity ratio of 255 grams per litre packaged. Our targets for absolute reduction of carbon emissions, set in 2007, are based on net emissions. This is the first year we are reporting both net and gross emissions.

This year, approximately 59% of electricity at our supply sites came from low-carbon sources such as wind, hydro and nuclear (2013 – 52%). In the United Kingdom, 99% of our electricity came from low-carbon sources. This year marked our second year in the CDP (formerly the Carbon Disclosure Project) Supply Chain programme, a platform for engaging key suppliers on carbon emissions. Of the 146 suppliers we engaged, 83% responded to the CDP questionnaire.

This has provided important insights into the carbon impacts of our supply chain, and we will use the information to explore opportunities to reduce them.

Waste to landfill

Another focus of our environmental programme is to reduce the amount of waste we send to landfill. As well as having a positive impact on the environment, it saves money by reducing waste levies and fees, and saving on material inputs. In 2014, we reduced waste to landfill by 23% compared to the prior year. One of the key drivers was the progress made by our sites in Nigeria, where the business has accelerated an initiative started in 2012 to extensively reuse brewing by-products previously sent to landfill for animal feed and fertiliser applications.

Sustainable packaging

Complementing our focus on our own waste is our aim to use packaging that has a low environmental impact, an aspiration set out in our Sustainable Packaging Guidelines, published in 2011, which are used by all brands. Among the initiatives are light weighting, or reducing the weight of packaging; removing materials that cannot be recycled, or are difficult to recycle, including PVC, foil, mixed plastics, ceramics and some laminates; and, where viable alternatives exist, removing materials such as inks and heavy metals that may pose a risk to the environment. Among a number of projects, this year Ypióca in Brazil introduced an outercase for Smirnoff made from sugar cane by-products.

Assurance

Independent limited assurance was provided for Diageo's operational environmental metrics for CO_2e, water, wastewater discharge (BOD) under direct control and waste to landfill. See page 140 for details. This year assurance was extended to include 2013 carbon emissions associated with transport and distribution.

Further details in the S&R Performance Addendum 2014.
Further details at www.diageo.com.

Carbon emissions by weight by region (1,000 tonnes CO_2e)[1, 2]

	2007	2012	2013	2014
North America	218	67	51	**56**
Western Europe	364	318	333	**337**
Africa, Eastern Europe and Turkey	294	295	275	**232**
Latin America and Caribbean	32	23	19	**19**
Asia Pacific	29	15	13	**14**
Corporate	23	17	16	**14**
Diageo (total)	960	735	707	**672$^{\Delta}$**

1 CO_2e figures are calculated using 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.
2 2007 baseline data, and data for each of the six years in the period ended 30 June 2013, have been restated in accordance with the WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo's environmental reporting methodologies.
Δ Within KPMG's limited assurance scope. Please see page 140 for further details.

Total waste to landfill by region (tonnes)[1]

	2007	2012	2013	2014
North America	40,828	16,573	539	**246**
Western Europe	3,627	181	1,240	**705**
Africa, Eastern Europe and Turkey	52,536	30,753	19,596	**15,565**
Latin America and Caribbean	4,931	1,162	919	**870**
Asia Pacific	1,287	107	91	**66**
Corporate	1,140	852	843	**499**
Diageo (total)	104,349	49,628	23,228	**17,951$^{\Delta}$**

1 2007 baseline data and data for each of the six years in the period ended 30 June 2013 have been restated in accordance with Diageo's environmental reporting methodologies.
Δ Within KPMG's limited assurance scope. Please see page 140 for further details.

COMMUNITY EMPOWERMENT

PERFORMANCE AGAINST TARGETS

Improve access to safe drinking water for one million people in Africa every year until 2015

1 million (VS 1 MILLION IN 2013)

Train 100,000 people through our Learning for Life programme by 2016

14,000 (VS 25,307 IN 2013)

Empower two million women through our Plan W programme by 2016

40,545 (VS 16,750 IN 2013)

Like most businesses, we create wealth directly for our local stakeholders through our daily business operations, including providing jobs, sourcing locally, and paying local duties. However, creating wealth in a lasting way requires more: we must work with local people to address development challenges such as skills gaps or access to clean water, and advocate high standards of governance in the communities where we operate.

This year we invested £16.5 million or 0.6% of operating profits to charitable projects that help serve critical local need. This marks a decrease from the charitable giving reported last year, primarily because we have chosen not to include our legacy commitment of £10.3 million to the Thalidomide Trust and the Thalidomide Foundation Ltd and instead focus our community investment reporting on our long-term, actively managed flagship programmes.

Water of Life

Complementing our efforts to protect water resources, we work with local communities to provide access to safe drinking water through our Water of Life programme. Since June 2006, we have reached more than 10 million people through more than 200 projects in 18 countries. Our initiatives support boreholes, wells, rainwater harvesting and domestic filtration devices.

Learning for Life

Learning for Life was established with the belief that vocational and life-skills training can produce a ripple effect that will positively impact individuals, families, communities and societies while strengthening Diageo's value chain.

Last year we expanded our programme beyond Latin America, where it was founded, to North America and Scotland. In total this year Diageo ran 71 Learning for Life programmes in 30 countries, training 14,000 people. This brings the numbers of people trained since the launch of the programmes five years ago to more than 102,000, beating our target of 100,000 two years early.

Plan W

In Asia Pacific, we run a similar sustainable development programme to empower women to play a greater role in the economy by developing their hospitality and business enterprise skills. Since launching in December 2012, we have worked with 57,295 women in 16 countries in partnership with 13 organisations. We also believe that educating men on issues that concern women ultimately can help empower women, and thus far 19,501 men have gone through the programme.

Further details in the S&R Performance Addendum 2014.
Further details at www.diageo.com.

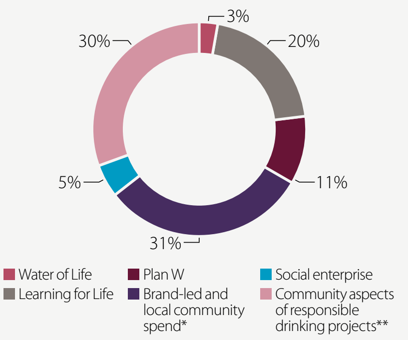
EMPOWERING URBAN WOMEN IN INDIA – PLAN W

Our Plan W programme aims to empower two million women in 17 countries in Asia-Pacific by 2017 through systematic investment in knowledge and skills. In India, two pilot programmes are showing early positive results towards this goal.

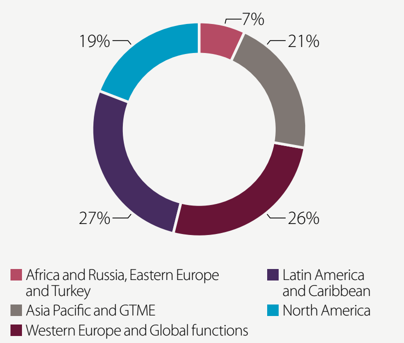
In Bangalore, we are working with the Samarthanam Trust, a not-for-profit organisation that assists visually impaired, disabled, and underprivileged women through a diverse array of training programmes. Our pilot programme with the Trust focuses on providing women with technical and life skills including spoken English and leadership, as well as career counselling. Thus far, 1,050 women at Samarthanam's five urban training centres have been trained. Of those who completed training, 65% were employed in medium and large businesses in 2014. We are encouraged by these results, which are well on the way to our 80% employment target.

Plan W's second partnership is with Udyogini – which translates as 'woman entrepreneur' – a not-for-profit organisation based in New Delhi which works with low-income women to improve their skills as small business owners and managers. In addition to working with more than 15,000 women directly, Udyogini also works with around 25,000 women indirectly through its services to build the capacity of other not-for-profit organisations. In its partnership with Plan W, Udyogini trained five not-for-profit organisations in urban areas to help improve their services to women entrepreneurs.

Community investment by focus area



Community investment by region



* Category includes cause-related brand campaigns, local market giving and disaster relief.
** This is a sub-section of the total responsible drinking budget.

OUR PEOPLE

PERFORMANCE

Super-engagement score

38% (VS 41% IN 2013)

Gender diversity in senior management

28% (VS 28% IN 2013)

Reduction of lost-time accidents (LTAs)

47% (SINCE 2013)

Our commitment to helping our people reach their full potential is at the heart of our success and at the core of our business strategy. We aim to create a working environment that is welcoming but also challenging, stimulating and inspiring.

We are proud to have been recognised in the Great Place to Work Institute's prestigious 25 Best Multinational Workplaces, achieving 8th place and reinforcing our position as a leading global employer. We have also been recognised as a great employer in Argentina, Belgium, Germany, Great Britain, Greece, Ireland, Mexico, Netherlands, Nigeria, Portugal and Spain. These are achievements which have only been possible through the commitment of thousands of talented and inspirational employees who together make Diageo a great place to work.

Employee engagement

Our Annual Values Survey is our primary means of measuring how connected our employees feel to the business and the extent to which they believe the company is living the Diageo values. This year, we made a number of changes to our survey to align it more closely to our Performance Ambition. We took a new approach to measuring engagement to focus on Diageo's five values and four Performance Ambition behaviours.

For the second year running, 92% of employees took part, with 84% of employees identified as being engaged. We received 24,000 comments from employees, many with constructive suggestions for how we can achieve our Performance Ambition.

Diageo also measures super-engagement. This is a more stretching measure than engagement, which requires employees to assign the highest possible ranking to all six of the core engagement questions in the Values Survey. There have been no changes to the way we measure this metric from past years.

We have largely maintained our strong results in a year when employees experienced change in the business. 38% of employees were identified as being super-engaged, compared to 41% in 2013. This year's survey confirmed that Diageo's core strength is employees' pride and passion in our brands and it highlighted that employees are more positive about the quality of their line management, both of which we see as critical enablers of strong performance in a year when employees experienced change in the business.

Diversity

As a business which operates in countries all around the world with a variety of cultures and consumers, we believe diversity to be a key competitive advantage.

Diversity can be illustrated in many ways. Without seeking to set a specific goal for female representation on the Board, it remains our aspiration to maintain a high level of diversity, including gender diversity, within the Boardroom, appropriate to and reflecting

Average number of employees by region by gender[1]	Men	Women	Total
North America	2,023	1,386	3,409
Western Europe	5,182	3,065	8,247
Africa, Eastern Europe and Turkey	6,225	2,536	8,761
Latin America and Caribbean	2,096	1,276	3,372
Asia Pacific	2,217	1,349	3,566
Diageo (total)	17,743	9,612	27,355

Average number of employees by role by gender[2]	Men	Women	Total
Line manager	3,596	1,944	5,540
Supervised worker	13,291	7,262	20,553
Total	16,887	9,206	26,093

New hires by region by gender[2]	Men	Women	Total	% of total new hires
North America	267	176	443	15%
Western Europe	208	171	379	12%
Africa, Eastern Europe and Turkey	848	363	1,211	39%
Latin America and Caribbean	505	271	776	25%
Asia Pacific	139	137	276	9%
Diageo (total)	1,967	1,118	3,085	
Percentage of total new hires	64%	36%		

Leavers by region by gender[2]	Men	Women	Total	% of leavers
North America	467	342	809	17%
Western Europe	620	487	1,107	23%
Africa, Eastern Europe and Turkey	1,168	496	1,664	34%
Latin America and Caribbean	565	310	875	18%
Asia Pacific	215	179	394	8%
Diageo (total)	3,035	1,814	4,849	
Percentage of total leavers	63%	37%		

1. Employees have been allocated to the region in which they reside. In note 3 to the consolidated financial statements, employees are allocated to the segment for which they provide the majority of service.
2. Not all acquisitions collate full employee demographic data, hence the discrepancy in the total figures between this table and the 'Average number of employees by region by gender' table. Where there is a lower total number, the figure excludes Shuijingfang.

the global nature of the company and the strategic imperatives the Board has agreed upon. Reflecting these values, we have four women on our Board, representing 44% of the directors. This year, Diageo along with Capita plc, received the Opportunity Now Female FTSE100 award, given to FTSE100 companies with the highest female representation on the Board.

Diageo's commitment to diversity at the senior management level is just as strong and we actively work to increase the number of women in leadership positions in the company. Currently, six of the 14 members of the Executive Committee are women, in comparison to five out of 15 members in 2013. Furthermore, 28% (2013 – 28%) of leadership positions across the business are filled by women.

We also embrace a business model which aims to promote local leaders: our 21 Managing Directors represent 13 different nationalities.

Human rights

We have a responsibility to respect human rights, and that starts with the rights of our employees. Everyone has the right to expect their basic human identity and dignity to be fully respected in the workplace. We do not use forced or compulsory labour and we will not work with others who do. We will not employ children under the age of 16 and have a special responsibility to protect employees under 18, and ensure that their interests are promoted. Our commitment to pay wages and benefits for a standard working week that meet, at a minimum, national legal standards, is also an important element of our commitment to human rights.

We aim to provide opportunities for a wide range of people including those with disabilities, fostering a culture that allows for a variety of lifestyles. Our training and education programme includes re-training, if needed, for people who have become disabled. Where possible, we encourage a flexible approach to working and emphasise the importance of treating individuals justly and in a non-discriminatory manner throughout the employment relationship, including recruitment, compensation, training, promotion and transfers.

We have outlined our approach in our policies and guidelines, including our Human Rights and Anti-Discrimination Policy, and have a robust controls, compliance and ethics programme to ensure we uphold our commitment. See the Governance and Ethics section for more information on page 48. We expect our suppliers to abide by the same principles; see page 49 for information on how we manage social risks in our supply chain.

Health and safety

The health and safety of our people is a critical measure of human rights. Diageo has a Severe and Fatal Incident Prevention (SFIP) programme, specifically designed to identify and effectively control severe and fatal risks in our operations. This year, the programme has helped avoid SFIP related fatalities across our operations, however, we are deeply saddened to report a fatality resulting from a security incident at our Tusker brewery in Kenya. In April, an armed criminal gang broke through a concrete perimeter wall at the rear of our site and fatally injured one of the guards patrolling the area. We have reviewed our security procedures and are working closely with local police to enhance our security.

This year we reduced LTAs by over 45% compared to 2013. Of particular note is our new business in Brazil delivering more than a 60% improvement in their first year of Zero Harm. We have also seen an increase to 86% in the number of supply locations with no LTAs. Despite this excellent performance trend and highly favourable comparison with peer performance, we remain focused on a number of business units that did not make the degree of progress we expect.

Our Zero Harm philosophy is aimed at eliminating workplace accidents, and we have a global target to deliver less than one lost-time accident per 1,000 people by 2015 as a milestone towards that ambition. Over the next 12 months we will focus on improving our safety culture and performance at our European office locations and will continue to deliver improvement in new acquisitions, behavioural safety interventions and our fatality prevention programme.

Our talent and organisation

During the year Diageo announced changes to the structure of its global operations across every function. This was part of an overall review to simplify the business and drive accountability for performance to our 21 markets, putting our resources and decision making closer to our customers and consumers. The reconfiguration included removing regional hubs as well as reducing the size of global teams so that their primary function is to support the markets and manage vital global activities that benefit us all.

During periods of change Diageo supports affected employees in line with our global people principles, which set out intentions of being transparent and fair, minimising uncertainty for individuals, and complying with all relevant legal obligations. Diageo makes great efforts to find new roles for those who wish to stay in the company, and where no alternative position exists within Diageo, employees receive full outplacement support and severance in line with local policy.

Further details in the S&R Performance Addendum 2014.
Further details at www.diageo.com.

Lost-time accident frequency rate per 1,000 full-time employees[1]	2010	2011	2012	2013[2]	2014[2]
North America	9.98	5.06	4.15	1.64	**0.58**
Western Europe[3]	1.36	2.49	1.24	1.61	**2.29**
Africa, Eastern Europe and Turkey	3.13	1.37	1.63	2.00	**0.69**
Latin America and Caribbean	2.78	3.42	1.44	10.88	**4.7**
Asia Pacific	1.97	1.41	–	1.26	**1.62**
International Supply Centre	7.8	7.81	3.52	3.45	**2.31**
Diageo (total)	4.96	3.73	2.14	2.97	**1.58**

1. Number of accidents per 1,000 employees and directly supervised contractors resulting in time lost from work of one calendar day or more.
2. Includes results from recent acquisitions in Ethiopia, Turkey, Guatemala, China and Brazil. The 2013 numbers for Diageo (total) and Latin America and Caribbean from last year's report are restated for the inclusion of our new acquisition, Ypióca in Brazil. The original rate for Latin America and Caribbean was 0.90.
3. Western Europe numbers 2010–2013 have been restated to split out the International Supply Centre.

Number of days lost to accidents per 1,000 full-time employees	2010	2011	2012	2013	2014
Diageo (total)	190.71	158.79	106.63	66.00	**49.67**

Fatalities	2010	2011	2012	2013	2014
Diageo (total)	2	4	1	4	**1**

GOVERNANCE AND ETHICS

PERFORMANCE

Manager level and above employees completing Annual Certification of Compliance

100% (100% IN 2013)

Employees leaving Diageo due to a breach of the Code of Business Conduct or other policies

146 (VS 116 IN 2013)

We are committed to conducting our business responsibly and in accordance with all laws and regulations to which our business activities are subject. Our risk and compliance programme, overseen by the Audit and Risk Committee, focuses on effective risk management, compliance and ethics, and strong internal controls – each of which has an annual plan to ensure we have a strong culture of integrity at Diageo. How the programme is implemented, however, is determined by each of our markets, based on their areas of greatest risk. We tailor the interventions and training to create what will work best for each market, in the context of local and international laws and regulation. Our over-riding aim is to encourage integrity in every part of Diageo: we want employees to act with exemplary conduct in all their business interactions and truly embody our value of being proud of what we do.

Standards and procedures

Our Code of Business Conduct ('our Code') sets the standard for what is expected of everyone working at Diageo and our other policies and standards flow from its principles. Our manager level and above complete an Annual Certification of Compliance (ACC) to confirm their understanding of, and adherence to, our Code and any applicable policies, and to identify any areas of possible non-compliance. In 2014, the ACC was completed in 16 languages by all eligible managers – 9,960 of our employees, or 36% of our people.

Due care in delegating authority

As our business expands, it is important to ensure that we embed our standards and procedures in all new business units. We plan ahead and move quickly to ensure our new acquisitions are operating to the same standards as our existing businesses, and we are consistent in our stance on non-compliance issues.

We are also committed to establishing good working relationships with our partners and ensuring that they adhere to our standards. For more information on how we manage social and ethics risks in our supply chain, see page 49 on Value chain partnerships.

Organisational leadership and culture

This year we developed specific training for general managers (and their direct reports where appropriate), which is being rolled out by each of our markets. We also continued our focus on line managers with the 'Leaders of Integrity' toolkit and training, as this middle tier of our organisation is central to developing a more fundamental culture of ethics and integrity.

Risk management

Our risk management standard requires all markets and functions to perform risk assessments at least annually to ensure that risks concerning human rights, bribery and corruption, anti-money laundering, and all other relevant laws and regulations, as well as our own Code, policies and standards, have been considered, and that mitigation plans for their most significant risks have been established.

Training and communications

During the year we took all our employees through a refresher training session on our Code. 16,819 employees completed the training in one of 16 languages via a new interactive online course, with the rest of our employees receiving face-to-face training.

Each market also has its own training plan for our Code and key policies, which they deliver through locally organised, risk-based training. To further embed ownership of this agenda with employees, some regions go beyond basic training with annual engagement events such as the Pathway of Pride programme in Africa, and Ethics Day in Asia Pacific.

When an employee joins Diageo, he or she must complete training about our Code within 30 days. The estimated 3,085 employees who joined us this year were taken through a one-hour induction on compliance and ethics.

Monitoring, auditing, and reporting

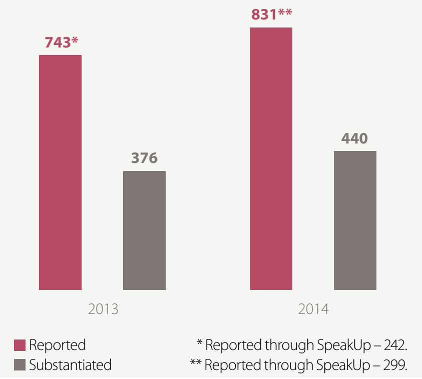
We strive to have a culture in which employees feel comfortable raising concerns about potential breaches of our Code or policies. We expect anyone who comes across a breach to report it immediately, either through SpeakUp, our confidential whistleblowing helpline, to their line manager, or to a member of the controls, compliance and ethics, human resources or legal teams. SpeakUp is also available to suppliers.

There were 831 suspected breaches reported this year, of which 440 were subsequently substantiated. Of the suspected breaches, 299 were reported through SpeakUp, compared with 242 in 2013. We believe that there are two contributing factors to this increase. First, we have seen an increase in reporting of concerns from some of our acquisitions and emerging markets as our Code and policies have been embedded further in these areas. Second, there is greater awareness about SpeakUp amongst all our employees, following refresher training on our Code which everyone went through this year.

Response and continuous improvement

All identified breaches are taken very seriously and those that require action are investigated.

Reported and Substantiated Breaches



Our response to proven breaches varies depending on the severity of the matter. Internally, we carefully monitor our breaches to identify any trends or common areas where further action may be required, and respond accordingly. This year, 146 people exited the business as a result of breaches of our Code or policies.

Enforcement and incentive

Wherever possible, we look to improve our culture through training, coaching and incentives. Annual performance appraisals are weighted with 70% based on performance and the other 30% based on behaviour – including the individual's commitment to Diageo's controls, compliance, and ethics agenda. Employees' overall performance affects their pay increases, and where relevant, their bonuses.

Controls

We have a strong internal control environment, and we have an annual programme to assess, test, and report on the effectiveness of internal controls across our company. Our controls cover all aspects of risk, ranging from financial to operational to reputational risk, and all markets and functions are required to certify annually whether their internal controls are operating effectively and quickly remediate any weaknesses identified.

Further details in the S&R Performance Addendum 2014.
Further details at www.diageo.com.

OUR VALUE CHAIN PARTNERSHIPS

PERFORMANCE

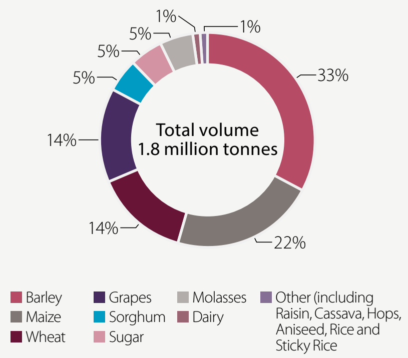
Percentage of potential high risk supplier sites registered on SEDEX that were audited in 2014

17% (VS 12% IN 2013)

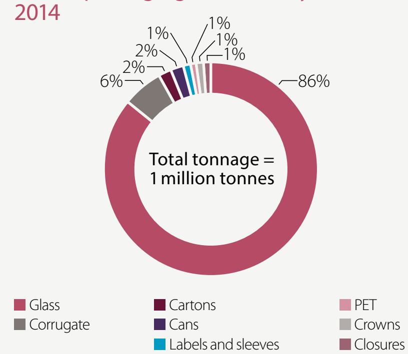
Percentage of agricultural materials sourced locally across Africa in 2014

66% (VS 52% IN 2013)

Global raw materials by volume 2014



Global packaging materials by volume 2014



About our supply chain

We source goods and services from a wide variety of businesses around the world, and our procurement systems depend on relationships with suppliers that are local, regional, and global. Alignment with our Sustainability & Responsibility standards, which include our Partnering with Suppliers Standard, is among the many factors we consider in choosing our suppliers, alongside cost, quality, and service.

The goods and services we buy include marketing materials, raw materials and utilities, information services and business support, packaging materials and logistics. This year, in total we purchased 1.8 million tonnes of agricultural raw materials like barley, wheat and maize, and approximately one million tonnes of packaging. See the graphs above for a breakdown.

Responsible sourcing

Given our large network of suppliers in more than 100 countries, we are working to develop our understanding of the full range of social and environmental impacts we have throughout our supply chain. We see our role as a catalyst, working in partnership with others to help suppliers embed ethical, social and environmental principles.

Diageo works through SEDEX, a not-for-profit organisation that enables suppliers to share assessments and audits of ethical and responsible practices with their customers. We are an active member of AIM-PROGRESS, a forum of 37 leading consumer goods companies which promotes responsible sourcing practices and sustainable supply chains. We also have an internal Know Your Business Partner (KYBP) programme to assess our third parties against the risk of bribery and corruption, which we do not tolerate in any form.

To date, 1,193 of the company's potential high risk supplier sites have registered with SEDEX, up from 1,095 last year. Of these, 718 have completed a SEDEX self-assessment questionnaire. More than 200 of the highest risk companies were independently audited during the last three years; audits were commissioned by Diageo (7), or accessed through SEDEX and AIM-PROGRESS (194). Among the issues most frequently raised were those related to health, safety, hygiene and working hours.

Merchandising materials remain one of our highest risk categories, because they are often made in higher risk countries and we often buy through intermediaries and therefore may not know where they were produced. We continue to work with our key merchandising suppliers to develop assurance further down the supply chain, with around 160 of our second-tier suppliers now audited.

Our confidential whistleblowing service, SpeakUp, is also shared with our suppliers. This year Diageo received four calls relating to suppliers and vendors through SpeakUp, though none were substantiated breaches.

Agricultural value chain partnerships

Historically, we have focused our attention on agricultural value chains in Africa, where we see significant potential for developing more sustainable farming practices. We have a goal to source 70%* of agricultural materials locally across Africa by 2015 – locally being defined as materials sourced within Africa and used by our African markets. We are well along our way to reaching this target having sourced 66% of agricultural materials locally in 2014.

To support these partnerships, Diageo invests in a variety of initiatives. In Kenya, for example, we work with a large number of farmers who supply barley to our malting facility. Diageo's partnerships with these farmers are focused on crop rotation, soil and crop management, and are aimed at improving yield and quality. We are working to develop scalable business models, supporting the creation of farmer groups and co-operatives, and giving farmers and processors access to financial services companies who provide credit facilities and basic insurance against loss of income due to drought.

Similarly, we are putting in place a scalable barley value chain in Ethiopia, which is being delivered in partnership with over 1,000 smallholders, the Ethiopian Government's Agricultural Transformation Agency (ATA) and the not-for-profit organisation, Technoserve.

We are also taking what we have learned from agricultural development in Africa to other countries – particularly where we have recently acquired businesses with a significant agricultural footprint.

SWEET SUCCESS OF SUGAR CANE PARTNERSHIPS IN BRAZIL

An increasing number of the farmers who grow sugar cane in the fields surrounding our Ypióca distillery in Brazil are becoming our 'parceiros' – our third-party supply partners. It is an arrangement that suits both sides: we want to buy high-quality sugar cane with the lowest possible haulage costs, and the farmers want a reliable, fair market for their produce. By ensuring an income to farmers around our operations, we are also making a contribution to the community in which we work.

Partnerships have to be based on trust if they are to be sustainable. Our 'Parceria para o Crescimento' (Partner for Growth) programme gives farmers access to agricultural inputs, technical support, and a fair price for their sugar cane. Accurate cane weight recording, correct invoicing, and prompt payment for the cane delivered to the Ypióca distillery have been essential in fostering transparency and trust.

The parceiros are also invited to three open days each year, where the agenda includes updates on distillery activities, discussions, and demonstrations of agricultural improvements on Ypióca's Santa Eliza farm, as well as sharing best practice in water stewardship in this water stressed area. In the long term, we aim to buy 30-35% of our sugar cane from local farmers – ensuring that this partnership is truly sustainable.

*The target we have disclosed previously included packaging materials, but we determined that agricultural materials were the most material.

DEFINITIONS AND RECONCILIATIONS OF NON-GAAP MEASURES TO GAAP MEASURES

Diageo's strategic planning process is based on the following non-GAAP measures. They 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.

Volume

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

Organic movements

In the discussion of the performance of the business, 'organic' information is presented using pounds sterling amounts on a constant currency basis, excluding the impact of exceptional items 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 headed 'Organic movement' in the tables below, expressed as a percentage of the amount in the row headed '2013 adjusted'. Organic operating margin is calculated by dividing operating profit before exceptional items by net sales after excluding the impact of exchange rate movements and acquisitions and disposals.

(a) Exchange rates

'Exchange' in the organic movement calculation reflects the adjustment to recalculate the prior year results as if they had been generated at the current year's exchange rates. Exchange impacts in respect of the external hedging of intergroup sales of products and the intergroup recharging of third party services are allocated to the geographical segment to which they relate. Residual exchange impacts are reported in Corporate.

(b) Acquisitions and disposals

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

Where a business, brand, brand distribution right or agency agreement was disposed of, or terminated, in the current or prior year, the group, in the organic movement calculations, excludes the results for that business from the current and prior year. 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 which, in management's judgement, need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information. Such items are included within the income statement caption to which they relate but are excluded from the organic movement calculations.

Organic movement calculations for the year ended 30 June 2014 were as follows:

	North America units million	Western Europe units million	Africa, Eastern Europe and Turkey units million	Latin America and Caribbean units million	Asia Pacific units million	Corporate units million	Total units million
Volume							
2013 reported	53.7	33.6	37.9	23.3	16.5	–	165.0
IFRS 11*	(0.1)	–	–	–	(0.7)	–	(0.8)
2013 reported (restated)	53.6	33.6	37.9	23.3	15.8	–	164.2
Disposals***	(4.3)	(0.6)	–	(0.2)	(0.2)	–	(5.3)
2013 adjusted	49.3	33.0	37.9	23.1	15.6	–	158.9
Acquisitions and disposals* **	**0.7**	**0.1**	**–**	**0.1**	**–**	**–**	**0.9**
Organic movement	**(0.7)**	**(0.1)**	**(1.9)**	**(0.2)**	**(0.8)**	**–**	**(3.7)**
2014 reported	**49.3**	**33.0**	**36.0**	**23.0**	**14.8**	**–**	**156.1**
Organic movement %	**(1)**	**–**	**(5)**	**(1)**	**(5)**	**n/a**	**(2)**

	North America £ million	Western Europe £ million	Africa, Eastern Europe and Turkey £ million	Latin America and Caribbean £ million	Asia Pacific £ million	Corporate £ million	Total £ million
Sales							
2013 reported	4,272	3,686	3,423	1,745	2,285	76	15,487
IFRS 11*	(10)	(17)	(4)	(4)	(176)	–	(211)
2013 reported (restated)	4,262	3,669	3,419	1,741	2,109	76	15,276
Exchange**	(176)	8	(358)	(389)	(167)	–	(1,082)
Disposals***	(336)	(64)	(8)	(11)	(11)	–	(430)
2013 adjusted	3,750	3,613	3,053	1,341	1,931	76	13,764
Acquisitions and disposals* **	52	9	–	1	–	–	62
Organic movement	113	22	84	62	(130)	3	154
2014 reported	3,915	3,644	3,137	1,404	1,801	79	13,980
Organic movement %	3	1	3	5	(7)	4	1
Net sales							
2013 reported	3,733	2,220	2,280	1,457	1,667	76	11,433
IFRS 11*	(10)	(17)	(4)	(4)	(95)	–	(130)
2013 reported (restated)	3,723	2,203	2,276	1,453	1,572	76	11,303
Exchange**	(156)	9	(210)	(328)	(112)	–	(797)
Disposals***	(272)	(45)	(6)	(9)	(7)	–	(339)
2013 adjusted	3,295	2,167	2,060	1,116	1,453	76	10,167
Acquisitions and disposals* **	41	7	–	1	–	–	49
Organic movement	108	(5)	15	27	(106)	3	42
2014 reported	3,444	2,169	2,075	1,144	1,347	79	10,258
Organic movement %	3	–	1	2	(7)	4	–
Marketing							
2013 reported	585	328	265	233	370	6	1,787
IFRS 11*	(4)	–	–	–	(14)	–	(18)
2013 reported (restated)	581	328	265	233	356	6	1,769
Exchange**	(27)	–	(24)	(30)	(27)	–	(108)
Disposals***	(27)	(4)	(1)	(2)	–	–	(34)
2013 adjusted	527	324	240	201	329	6	1,627
Acquisitions and disposals* **	3	–	–	–	–	–	3
Organic movement	10	(1)	2	2	(24)	1	(10)
2014 reported	540	323	242	203	305	7	1,620
Organic movement %	2	–	1	1	(7)	17	(1)
Operating profit before exceptional items							
2013 reported	1,484	656	654	471	414	(149)	3,530
IFRS 11 and amendment to IAS 19*	(6)	(6)	(1)	(3)	(33)	(2)	(51)
2013 reported (restated)	1,478	650	653	468	381	(151)	3,479
Exchange**	(54)	(5)	(95)	(151)	(35)	4	(336)
Acquisitions and disposals***	(59)	(8)	1	2	(1)	–	(65)
2013 adjusted	1,365	637	559	319	345	(147)	3,078
Acquisitions and disposals* **	(12)	–	(3)	–	(18)	(2)	(35)
Organic movement	107	2	(2)	9	(44)	19	91
2014 reported	1,460	639	554	328	283	(130)	3,134
Organic movement %	8	–	–	3	(13)	13	3
Organic operating margin %							
2014	43.3%	29.6%	26.8%	28.7%	22.3%	n/a	31.0%
2013	41.4%	29.4%	27.1%	28.6%	23.7%	n/a	30.3%
Margin improvement (bps)	183	16	(29)	11	(140)	n/a	77

(1) For the reconciliation of sales to net sales and operating profit before exceptional items to operating profit see pages 28 and 96.
(2) Percentages and margin improvement are calculated on rounded figures

Notes: Information in respect of the organic movement calculations
* Prior year figures are restated following the adoption of IFRS 11 and the amendment to IAS 19, see note 1 and note 18 to the consolidated financial statements.
** The exchange adjustments for sales, net sales, marketing and operating profit are principally in respect of the Venezuelan bolivar, the US dollar, the Turkish lira and the South African rand.
*** In the year ended 30 June 2014 the acquisitions and disposals that affected volume, sales, net sales, marketing and operating profit were as follows:

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	Volume units million	Sales £ million	Net sales £ million	Marketing £ million	Operating profit £ million
2013					
Acquisitions					
Transaction costs	–	–	–	–	4
Integration costs	–	–	–	–	4
	–	–	–	–	8
Disposals					
Jose Cuervo	(4.7)	(379)	(295)	(29)	(72)
Nuvo	(0.2)	(14)	(13)	(5)	3
Other disposals	(0.4)	(37)	(31)	–	(4)
	(5.3)	(430)	(339)	(34)	(73)
Acquisitions and disposals	(5.3)	(430)	(339)	(34)	(65)
2014					
Acquisitions					
DeLeón	–	–	–	3	(3)
Transaction costs	–	–	–	–	(13)
Integration costs	–	–	–	–	(12)
	–	–	–	3	(28)
Disposals					
Jose Cuervo	0.7	53	42	–	(9)
Other disposals	0.2	9	7	–	2
	0.9	62	49	–	(7)
Acquisitions and disposals	0.9	62	49	3	(35)

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 years ended 30 June 2014 and 30 June 2013 are set out in the table below.

Free cash flow

Free cash flow comprises the net cash flow from operating activities aggregated with the net movements in loans receivable and other investments and with the net purchase of 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.

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

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

Free cash flow reconciliations for the years ended 30 June 2014 and 30 June 2013 are set out in the table below.

Earnings per share before exceptional items

	2014 £ million	2013 (restated) £ million
Profit attributable to equity shareholders of the parent company	2,248	2,452
Exceptional operating items	261	99
Non-operating items	(140)	83
Tax in respect of exceptional operating and non-operating items	(58)	(55)
Discontinued operations	83	–
	2,394	2,579
Weighted average number of shares in issue (million)	2,506	2,502
Earnings per share before exceptional items	95.5p	103.1p

Free cash flow

	2014 £ million	2013 (restated) £ million
Net cash from operating activities	1,790	2,033
Disposal of property, plant and equipment and computer software	80	39
Purchase of property, plant and equipment and computer software	(642)	(636)
Movements in loans and other investments	7	16
Free cash flow	1,235	1,452

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 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 for the year, excluding post employment benefit net 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 years ended 30 June 2014 and 30 June 2013 are set out in the table below.

Tax rate before exceptional items
The tax rate before exceptional items is calculated by dividing the total tax charge on continuing operations before tax charges and credits, classified as or 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 continuing operations before and after exceptional items for the years ended 30 June 2014 and 30 June 2013 are set out in the table below.

Other definitions
Volume share is a brand's volume expressed as a percentage of the volume of all brands in its segment. Value share is a brand's retail sales expressed as a percentage of the retail sales 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 exceeds the organic movement in volume. The difference arises because of changes in the composition of sales between higher and lower priced variants or as price changes are implemented.

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

References to ***reserve brands*** include Johnnie Walker Blue Label, Johnnie Walker Green Label, Johnnie Walker Gold Label 18 year old, Johnnie Walker Gold Label Reserve, Johnnie Walker Platinum Label 18 year old, John Walker & Sons Collection, Johnnie Walker The Gold Route, Johnnie Walker The Royal Route, and other Johnnie Walker super premium brands; 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 Malacca; Cîroc, Ketel One vodka; Don Julio, Zacapa and Bundaberg SDlx.

References to ***premium core brands*** include brands that markets identified as their core offerings. These are selected on a market by market basis and generally include brands such as Johnnie Walker Red Label, Johnnie Walker Black Label, Crown Royal, Buchanan's, J&B, Baileys, Smirnoff, Captain Morgan, Guinness, Shui Jing Fang and Yenì Raki.

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

References to ***beer*** include non-alcoholic malt based products such as Guinness Malta.

Return on average total invested capital

	2014 £ million	2013 (restated) £ million
Operating profit	2,707	3,380
Exceptional operating items	427	99
Share of after tax results of associates and joint ventures	252	217
Tax at the tax rate before exceptional items of 18.2% (2013 – 17.4%)	(616)	(643)
	2,770	3,053
Average net assets (excluding post employment liabilities)*	8,414	8,183
Average net borrowings	8,783	7,956
Average integration and restructuring costs (net of tax)	1,498	1,413
Goodwill at 1 July 2004	1,562	1,562
Average total invested capital	20,257	19,114
Return on average total invested capital	13.7%	16.0%

*The opening balance sheet for the year ended 30 June 2014 was adjusted to include £342 million in respect of the acquisition of an additional investment in USL on 4 July 2013.

Tax rate before exceptional items

	2014 £ million	2013 (restated) £ million
Tax before exceptional items (a)	546	562
Tax in respect of exceptional items	(99)	(55)
Taxation on profit from continuing operations (b)	447	507
Profit from continuing operations before taxation and exceptional items (c)	2,998	3,239
Non-operating items	140	(83)
Exceptional operating items	(427)	(99)
Profit before taxation (d)	2,711	3,057
Tax rate before exceptional items (a/c)	18.2%	17.4%
Tax rate from continuing operation after exceptional items (b/d)	16.5%	16.6%

This Strategic Report was approved by a duly appointed and authorised committee of the Board of Directors on 30 July 2014 and signed on its behalf by Paul D Tunnacliffe, Company Secretary.