



PROUD TO BE DIAGEO INDIA

Celebrating Life, Every day, Everywhere.

Executive Committee

Anand Kripalu

Managing Director & Chief Executive Officer

Sanjeev Churiwala

Executive Director & Chief Financial Officer

Prathmesh Mishra

Chief Commercial Officer

Amrit Thomas

Chief Marketing Officer

Abanti Sankaranarayanan

Chief Strategy & Corporate Affairs Officer

Steve Correa

Chief Human Resources Officer

Kedar Ulman

Chief Supply Chain Officer

Mamta Sundara

General Counsel

Executive Vice President and Company Secretary

V. Ramachandran

Auditors

Price Waterhouse & Co. Chartered Accountants LLP

(Registration No.: 304026E/E-300009)

5th Floor, Tower 'D', The Millenia,

1 & 2 Murphy Road, Ulsoor, Bengaluru - 560 008

Tel: 080 4079 5000

Registered & Corporate Office

"UB Tower", #24, Vittal Mallya Road,

Bengaluru - 560 001

Registrars & Transfer Agents

Integrated Registry Management Services Private Limited

30, Ramana Residency, 4th Cross,

Sampige Road, Malleswaram,

Bengaluru - 560 003

Tel: 080 2346 0815 to 818

Fax: 080 2346 0819

TABLE OF CONTENTS

02-11

Business Overview

- 02 Chairman's Message
- 04 MD & CEO's Message
- 06 Proud to be... Part of Diageo
- 08 Proud to be... Diageo India
- 10 Proud of... Our Exceptional Portfolio and Iconic Brands

24-94

Statutory Reports

- 25 Report of the Directors
- 32 Corporate Governance Report
- 46 Management Discussion and Analysis
- 53 Annexure to the Report of Directors

12-23

Strategic Review

- 12 Proud to be... Part of Celebrations
- 14 Proud to... Drive Productivity as Fuel for Growth
- 16 Proud to... Build a Great Place to Work
- 18 Proud to... Set Standards for the Industry
- 20 Proud to... Be a Force for Good in our Local Communities
- 22 Proud to... Be a National Catalyst for Road Safety

95-234

Financial Statements

- 95 Independent Auditor's Report & Standalone Financial Statements
- 164 Independent Auditor's Report & Consolidated Financial Statements



CHAIRMAN'S MESSAGE



We will continue to work closely with all stakeholders, including the State and Central governments, to script a faster growth for your Company. We are determined to make India the crown jewel for Diageo.

Dear Shareholders,

We stand today at a milestone moment in our journey. It marks the completion of five years of Diageo in India and a business transformation that has been remarkable in many ways.

Board of Directors



Anand Kripalu

Managing Director & Chief Executive Officer



V. K. Viswanathan

Independent Director



Rajeev Gupta

Independent Director



D. Sivanandan

Independent Director

As we look back at the last five years, I am proud to see the performance turnaround of Diageo India. Our strategy into execution is making us better and stronger, taking us closer to our vision of becoming the country's best performing, most trusted and respected consumer goods company.

What I am delighted by is that we have achieved this despite multiple challenges faced by India's beverage alcohol industry. The Supreme Court's highway ban, GST implementation and the uncertainty caused by route to market changes in certain states this year, disrupted the industry. However, these big changes are now behind us, ushering in what we believe will be a more stable environment next year.

The rigid limitations on pricing freedom of our products across most States continues to be a dampener on our performance even though we seek to mitigate the challenge by judicious cost control.

The foundation for the next phase of Diageo India's performance trajectory is strong. However, we still need to resolve several legacy issues to achieve our true potential, reduce our financial leverage by repaying interest bearing debt by disposal of non-core/surplus assets. We will continue to work closely with all stakeholders, including the State and Central governments, to script a faster growth for your Company. We are determined to make India the crown jewel for Diageo.

I look forward to your continued support as we take big strides towards profitable and socially responsible growth in the coming years.

Yours sincerely,

Mahendra Kumar Sharma
Chairman



Dr. (Mrs.) Indu Shahani
Independent Director



John Thomas Kennedy
Non-Executive Director



Sanjeev Churiwala
Executive Director &
Chief Financial Officer



Vinod Rao
Non-Executive Director



Randall Ingber
Non-Executive Director

MD & CEO'S MESSAGE



Reducing the harm caused by irresponsible consumption of alcohol and making a positive contribution to society is core to our business. Consequently, we continued to invest in being a transformative force towards improving Road Safety in India.

Dear Shareholders,

I am pleased to present our Annual Report for FY 2017-18. In a year of extraordinary changes – the highway ban, alcohol exclusion in GST and its fall-out and the uncertainty caused by expected route to market changes in many states – we have delivered strong financial performance.

This is a validation of the strategic direction we set out four years ago following the acquisition by Diageo. It is also a testimony to the strong capabilities we have built over the years, as well as the quality of talent now in the Company.

Improving financial performance

Despite several regulatory challenges impacting the industry last year, we posted improvement in our performance, underlined by growth in net sales after adjusting for operating model changes. We delivered a significant enhancement of Gross Margins, made possible through mitigation of the GST risk through policy advocacy, a relentless focus on productivity and realization of headline pricing.

I am happy to share that this year has been strong in terms of pricing, a major challenge for our industry in India. Effective engagement between the industry and state governments led to absolute pricing gains across 18 states, signifying early signs of a larger policy shift on pricing that we hope to build on, in the years to come.

With our sustained efforts on reducing interest costs and monetising non-core assets, we secured a 23% increase in PAT for the year. I am pleased to share that the long-term credit rating of your Company has been upgraded to AA+ by CRISIL and ICRA, a further vote of confidence in the strategic direction, operating performance and financial discipline of your Company.

Strengthening the operational focus

Our performance has been driven by our focus on the Prestige and Above segment, aimed at driving premiumisation of our product mix in line with the evolving preference of consumers. Our premiumization efforts have started yielding results, with the Prestige and Above segment accounting for 63% of our net sales by value, up 5 pts compared to last year.

We have created a new category of Prestige Rum with Captain Morgan – which in its very first year has received an overwhelming response. The success of our brand renovations, including McDowell's No. 1 whisky, Royal Challenge and Signature, along with continued investment in focus brands helped the growth of our Prestige and Above brands.

Parallely, we made further progress on our 'fit for purpose' operating model in the Popular segment, where we franchised nine additional states in FY18, taking the total number of franchisee states to 13.

Despite the turbulent year, we increased our marketing investments by 18% to better engage with consumers and build brand equity.

Our role in society

Reducing the harm caused by irresponsible consumption of alcohol and making a positive contribution to society is core to our business. Consequently, we continued to invest in being a transformative force towards improving Road Safety in India.

We are seen as a genuine contributor to this cause, and I am pleased to say that this year, we have seen more and deeper partnership from state governments, traffic police, enforcement agencies, media and reputed not-for-profit organizations. Our flagship programme, 'Diageo NDTV Road to Safety', in its 4th year reached over 3 million viewers. We also organized a national Road Safety Workshop with our global partner, The United Nations Institute for Training and Research (UNITAR). We invited our global responsible drinking ambassador and two-time Formula 1 Champion, Mika Hakkinen, to India for #JOINTHEPACT, a Johnnie Walker The Journey initiative, which attracted over 2 million pledges to #NeverDrink&Drive.

Diageo is committed to minimising the environmental impact across its operations. We are proud of the progress

we are making on Key Performance Indicators (KPI) towards our environmental initiatives. Our achievements in India include reducing carbon emission by 68%, improving water conservation by 55% and recycling 95% of solid waste, compared to when we began this journey in 2007.

Building a talented, diverse and inclusive workplace

At the core of our business strategy is our commitment to enable employees to 'be the best they can be.' We support our employees through empowering policies, competitive reward programmes, coaching and wellbeing initiatives. Indeed, our achievements in this challenging year bear testimony to the quality of talent in the Company, our growing reputation as an employer, and our focus on leadership development.

We have striven hard to build a diverse and inclusive workplace in India and I am happy to report that our efforts are bearing fruit. The alcobev industry, due to its inherent nature, is not a natural choice for women. At Diageo India, we treat diversity goals with the same intensity as our financial goals. Women's representation in our workforce rose to 10% in March 2018, compared to 7.5% in 2015 with women occupying critical roles in sales, marketing, research and development, innovation, human resources and finance.

Proud to be Diageo India

3 years ago, when we started our transformation journey, we aimed to make your Company one of India's best performing, most trusted and respected consumer goods companies in India. I am pleased to report the significant progress we have made towards reaching our goal.

On this note, let me conclude by saying that we are more than ready to embrace the opportunities of tomorrow and to map the next phase of our journey.

Thank you for standing by us in this spirited journey!

Yours sincerely,

Anand Kripalu

Managing Director and CEO

PROUD TO BE... PART OF DIAGEO

Diageo is a global leader in beverage alcohol, with an outstanding collection of brands across spirits and beer.

Diageo's products are sold in more than 180 countries around the world.

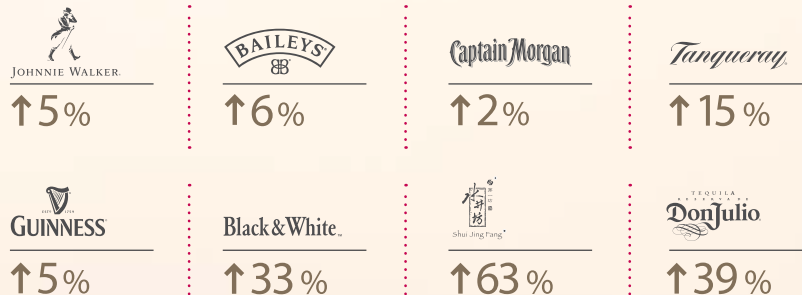
The brands include Johnnie Walker, Crown Royal, J&B, Buchanan's and Windsor whiskies; Smirnoff, Ciroc and Ketel One vodkas; Captain Morgan; Baileys; Don Julio; Tanqueray and Guinness.

Diageo's performance ambition is to be the best performing, most trusted and respected consumer products company in the world.

Diageo is committed to tackling alcohol misuse and believes that when consumed in moderation and responsibly alcohol can be a part of a balanced lifestyle. This philosophy is central to Diageo's purpose to celebrate life every day, everywhere.

BRANDS Net sales growth

Global Giants, Local Stars
and Reserve in growth



CATEGORIES Net sales growth



PERFORMANCE

Strong performance reflects consistent and rigorous execution of strategy

Organic volume growth

↑ 2.5%

Organic net sales growth

↑ 5%



REGIONS Net sales growth

All regions delivered volume and net sales growth

North America

↑ 4%

Europe and Turkey

↑ 4%

Africa

↑ 3%

Asia Pacific

↑ 9%

Latin America and Caribbean

↑ 7%



PROUD TO BE... DIAGEO INDIA

A bartender with dark, curly hair and a focused expression is pouring a clear liquid from a tall, slender bottle of Diageo Gin & Tonic into a clear glass. The bottle is tilted, and a stream of liquid is visible falling into the glass. The background shows a bar with various bottles and glassware. The lighting is warm and focused on the bartender and the glass.

We are India's leading beverage alcohol company with an outstanding portfolio of premium brands. We are a high-performing business that is sensitive to consumer, community and societal needs. We are proud of being a responsible producer and marketer of beverage alcohol, and we champion responsible consumption as part of a balanced lifestyle.