

A strong platform for future growth



This has been a challenging year for all consumer goods categories, with continuing reverberations from the Covid-19 pandemic, significant economic uncertainty and the terrible conflict in Ukraine. Our thoughts are with all those, including our colleagues, affected by this conflict.

Recommended final dividend per share

46.82p

2021: 44.59p

Total shareholder return

4%

2021: 32%

Total dividend per share¹

5% to 76.18p

2021: 72.55p

Despite these challenges, I am pleased that Diageo has, once again, delivered strong performance. Employee engagement remains high and we continue to invest, for long-term growth, in our brands and in our portfolio. On behalf of the Board, I would like to thank our employees for their hard work and commitment to the company. Their focus and agility have enabled Diageo to navigate the volatility and finish the year a stronger business.

Global environment

We have again seen considerable instability in the global environment over the past year. Covid-19 continues to have unpredictable impacts in some countries, even as the easing of restrictions across most of the world has seen a welcome recovery for the on-trade in many regions. In June, we took the difficult decision to wind down our business in Russia – after having stopped shipments and sales in March. And our focus will remain on supporting our employees in the region, as we have done since this terrible conflict began.

Our supply chain has also been impacted by inflationary pressures. While high energy prices affect our suppliers and operations, they can also impact consumers' disposable income. We have been agile in our response to this volatility, leveraging our supply chain capabilities and longstanding experience in managing the complexities of international trade.

Long-term view

In the face of these challenges, we continue to take a long-term view of our business, our portfolio and our brands. At our Capital Markets Day in November 2021, we set out our ambition to increase our value share of the total beverage alcohol (TBA) market by 50%, from 4% to 6%, by 2030. This ambition reflects our view of TBA as a long-cycle market with attractive fundamentals, including demand from a growing, global middle class. Hundreds of millions more consumers will be able to access premium brands, as they increasingly choose to trade up and 'drink better, not more.'

Our sustained investment in brand building and the active management of our portfolio continue to build equity and position us well to capture trends and occasions. We are responding to our consumers' evolving tastes and demands with innovation, creativity and precision in our marketing. And we believe that investing in our brands, even in periods of volatility, is the right way to grow their long-term equity and our business. Our teams are building brands that are relevant today and which, we believe, consumers will choose for many years to come. You can read more about some of our brand building work over the last year on pages 2-3.

Building an entrepreneurial culture

I believe Diageo's culture is a key source of competitive advantage. Our heritage is rooted in the vision of extraordinary entrepreneurs, such as John and Alexander Walker, Elizabeth Cumming, Don Julio González, Charles Tanqueray and Arthur Guinness, creating brands whose relationships with consumers have endured for centuries. Continuing that tradition, we are striving to become ever more entrepreneurial, as the proud custodians of exceptional brands from iconic names to innovative newcomers, such as Bulleit Bourbon, Seedlip or Casamigos.

This entrepreneurial spirit is embedded across Diageo through an agile, purpose-driven culture, which demonstrated its value in our response to the challenges of the Covid-19 pandemic. We have grown market share while supporting the industry, our customers and each other.

1. Includes recommended final dividend of 46.82p

Delivering 'Society 2030: Spirit of Progress'

I was delighted to see the launch of our 'Society 2030: Spirit of Progress' ESG targets in fiscal 21, and the decision to link 20% of long-term incentive plan (LTIP) grants, for all our senior leaders, to performance against several of our ESG measures. I am encouraged by the energy and progress I see in our work to deliver our 2030 goals.

We now have four carbon-neutral distilleries in Scotland and North America, with another four sites, globally, committed to achieving carbon neutrality. And we are proud that the Scotland-based Alliance for Water Stewardship (AWS), which sets a global benchmark for water sustainability, awarded the International Water Stewardship Standard (AWS Standard) certification to 12 of our distilleries this year, including our largest distillery, Cameronbridge, in Scotland.

We have incorporated the Task Force on Climate-related Financial Disclosures framework into our reporting. And this year, we have continued to extend the scope and sophistication of our climate risk assessments and the scenario analysis of climate change impacts. While our analysis indicates the financial impact will not be material to 2030, we know that managing the increasing climate risks we face, such as water stress, remains a priority. We expect to invest around £1 billion in environmental sustainability to reduce our impact and adapt to a changing climate, including decarbonisation of direct operations through biomass, bioenergy and electrification.

Read more on pages 30-31, 35-38 and 47-56.

Engaging stakeholders

As designated Non-Executive Director for workforce engagement, I have very much enjoyed meeting hundreds of employees across Diageo during the year. My Board colleagues and I have been delighted to see some of them face-to-face again, and I am encouraged by their pride in the company and their ambition for the future. I am very pleased by the results of the annual Your Voice survey, with engagement at 82%, and 90% of respondents² proud to work for Diageo – 10 percentage points higher than our external benchmark.³ Read our workforce engagement statement on page 96.

Creating value

I am pleased with the momentum and the performance delivered in fiscal 22. We have built solid foundations for future progress across the four areas of performance we measure: efficient growth, consistent value creation, credibility and trust, and engaged people. Return on invested capital was up 331 basis points to 16.8%, driven mainly by organic operating profit growth. Total shareholder return (TSR) was 4% this year. And our 10-year annualised TSR is 11%.

We continue to target dividend cover (the ratio of basic earnings per share before exceptional items to dividend per share) of between 1.8 and 2.2 times. The recommended final dividend is 46.82 pence per share, an increase of 5%. This brings the recommended full-year dividend to 76.18 pence per share and dividend cover to 2.0 times. Subject to shareholder approval, the final dividend will be paid to ordinary shareholders on 20 October 2022. Payment will be made to ADR holders on 25 October 2022.

On 21 February 2022, we announced the commencement of the third phase of our fiscal 20 to fiscal 23 return of capital (ROC) programme of up to £4.5 billion. Under the first two phases of the ROC programme, which were completed on 31 January 2020 and 11 February 2022 respectively, Diageo repurchased shares with an aggregate value of £2.25 billion. Under the third phase, due to complete no later than 5 October 2022, Diageo is seeking to return up to £1.7 billion to shareholders via share buybacks. As at 30 June 2022, £1.4 billion of phase three had been completed and the remaining £0.9 billion of the ROC programme is expected to be completed by 30 June 2023. During fiscal 22, the company purchased 61 million ordinary shares returning £2.3 billion to shareholders.

Board changes

We are delighted to have appointed Karen Blackett, OBE, as a non-executive Director from 1 June 2022. Karen joined the Audit, Nomination and Remuneration Committees on appointment, and brings 25 years' experience of the media, marketing and creative industries. She is also a strong advocate for inclusion, diversity and creating opportunities for all.

Following Siobhán Moriarty's retirement on 30 September 2021, after an outstanding contribution to the company over 20 years, Tom Shropshire, formerly a Partner & Global US Practice Head at Linklaters LLP, succeeded Siobhán as General Counsel and Company Secretary.

Looking ahead

We recognise that regulatory change to tackle the threat of climate change and increased scrutiny of our own social and economic contribution will likely accelerate in years to come. And there is potential for increased volatility in our operating environment, including ongoing impacts from Covid-19, the conflict in Ukraine, inflationary pressures and disruption in our supply chains, as well as the potential for broader economic malaise, which could impact consumer demand in fiscal 23. Diageo is, however, well diversified, by category, price point and geography; our people are engaged and proud of Diageo; and we continue to invest for the future to sustain the momentum in our brands and deliver a positive impact on society. We have consistently shown resilience in the face of volatility in recent years and proven our ability to emerge stronger in these circumstances.

I believe that our strengths in brand building, our supply chain operations and our culture, combined with the attractive fundamentals of the TBA market, give us a strong platform to realise our ambitions for the future growth of Diageo, even in the face of continued volatility. Your Board and executive leadership team will remain focussed on delivering long-term value creation for all our stakeholders.



Javier Ferrán
Chairman

Statement on Section 172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires the Directors to promote the success of the company for the benefit of the members as a whole, having regard to the interests of stakeholders in their decision-making. In making decisions, the Directors consider what is most likely to promote the success of the company for its

shareholders in the long term, as well as the interests of the group's stakeholders. The Directors understand the importance of taking into account the views of stakeholders and the impact of the company's activities on local communities, the environment, including climate change, and the group's reputation.

 READ MORE ABOUT HOW STAKEHOLDERS WERE TAKEN INTO ACCOUNT IN DECISION-MAKING ON PAGES 92-94

2. 88% of our global employees completed the survey (fiscal 21: 85%)

3. Benchmark consists of over 30 fast moving consumer goods and manufacturing companies with similar global reach to Diageo