



A solid platform for *future growth*

It is impossible to reflect on the past year without thinking of Sir Ivan Menezes.

Ivan's leadership defined the culture of Diageo: diverse, creative, agile and entrepreneurial, passionately engaged, and committed to social responsibility and environmental sustainability. Today, our culture is our greatest strength in an uncertain world, and the living embodiment of Ivan's legacy at Diageo. He will be missed by all of us.

Global environment

The last year has been another period of broad and sustained uncertainty, and we continue to see re-adjustment in working patterns and consumer behaviour following the Covid-19 pandemic. Major economies are facing the challenge of inflation, compounding cost-of-living pressures. Geopolitical uncertainty remains elevated, and the terrible conflict in Ukraine continues.

As ever, my colleagues have responded to this operating environment with resilience and entrepreneurialism. On behalf of the Board, I would like to thank them for their sustained commitment and hard work.

Dealing with uncertainty and volatility is the 'new normal' - and is likely to remain so for some time. While this inevitably brings some short-term challenges, especially for consumer goods companies like ours, the breadth and depth of our portfolio and our geographical footprint, harnessed to the passion and agility of our colleagues, mean we are well positioned to navigate those challenges and to take advantage of emerging opportunities, as we have done successfully in recent years.

Long-term view of the business

Despite this ongoing turbulence, the fundamentals of our category remain attractive, and we are well-placed to realise

Recommended final dividend per share

49.17p ↑

2022: 46.82p

Total dividend per share⁽¹⁾

5% to 80.00p ↑

2022: 76.18p

Total shareholder return

(2)% ↓

2022: 4%

(1) Includes recommended final dividend of 49.17p

brands and targeted innovation to respond to evolving consumer needs and tastes. Combined with active portfolio management, we believe that continuing to invest in our brands now is fundamental to sustaining performance for the future.

Long-term value creation

Diageo continues to deliver long-term value creation for our shareholders. We achieved another strong year of performance for fiscal 23. We grew organic net sales by 6.5% at the top end of guidance, with strong price/mix performance mitigating a modest decline in volume. Pre-exceptional earnings per share increased 7.6%. We increased our final dividend by 5%, reflecting our continued strong performance and our commitment to a progressive dividend policy.

Our philosophy of investing over the long-term can occasionally impact return on average invested capital (ROIC) in the short-term, as it did in fiscal 23. ROIC was 16.3%, a decline of 50bps. In fiscal 23 we increased capex, invested in maturing stock and continued to actively and strategically manage our portfolio through acquisitions and disposals. Finally, total shareholder return (TSR) for the ten-year and five-year periods of 9% and 7%, respectively remains strong despite the 12 month return of (2)% for fiscal 23 which was mainly driven by a lower year-on-year share price.

Employee engagement

This was my final year as the lead Board member for workforce engagement. I have enormously enjoyed engaging with hundreds of colleagues at all levels across Diageo, and I continue to be impressed by their passion. My fellow Board member, Karen Blackett OBE, has taken up this important role from July 2023.

That passion is reflected once again in the results of our annual Your Voice employee survey. Employee engagement remains very high at 84% - two points ahead of last year, while pride in Diageo is at an all-time high of 91% - 14 points above our external benchmark. The proportion of our colleagues who would recommend Diageo as a place to work is also the highest ever recorded, and our Net Promoter Score now stands at +36.

I believe that our culture - the combination of passion and commitment with agility, speed and entrepreneurial talent - is a major differentiator for Diageo and a significant source of our ongoing competitive advantage.

Board changes

I would like to extend a very warm welcome to Debra Crew who re-joins the Board having taken over as Chief Executive a little sooner than we had planned.

At our Annual General Meeting (AGM) in September, Lady Mendelsohn will have reached her nine-year term as a Non-Executive Director and will not stand for re-appointment. On behalf of our Board, employees and shareholders, I would like to express my heartfelt thanks to Nicola for her significant contribution to Diageo.

Alan Stewart will also reach his nine-year anniversary in September; however, he will stand for re-appointment for a further year at the request of the company to enable a smooth transition during fiscal 24 to a successor who will take over as Chair of the Audit Committee.

Leadership

The Board diligently planned for Ivan's succession, and we are delighted to have appointed a leader of Debra's calibre to the role.

Debra has been a highly valued member of Diageo's leadership team in recent years with an impressive track record of delivery both at Diageo and across other global consumer goods companies. She has deep consumer industry expertise as well as proven strategic capabilities, strong operational performance and a clear ability to build and lead teams.

I have no doubt that Diageo is in the right hands for the next phase of its growth and I look forward to working with Debra in her new role.

Delivering 'Society 2030: Spirit of Progress'

I am encouraged by the energy, progress and ingenuity I see in our work to deliver our 'Society 2030: Spirit of Progress' ESG action plan. For example, agave is a key ingredient in our tequilas, and we have been using targeted drone technology on our agave farms in Jalisco, Mexico to help us minimise water and fertiliser use.

We expect this innovation to contribute to our 2030 target to deliver a 40% improvement in water use efficiency in water stressed areas. We are proud that Don Julio Blanco has become the first brand to receive Environmentally Responsible Agave certification from the Tequila Regulatory Council and the government of Jalisco.

We also believe in the power of partnerships. In the UK, we're investing in a new recycled aluminium production facility, saving raw materials and cutting carbon emissions. Our backing will help the British Aluminium Consortium for Advanced Alloys, a collective of industry experts, develop a closed-loop, circular approach to aluminium. Its recycling and manufacturing plant will roll hundreds of thousands of tonnes of aluminium sheet - enough for over 400 million Guinness and premixed Gordon's and tonic cans a year.

We have again incorporated the Task Force on Climate-related Financial Disclosures framework into our reporting. While our analysis indicates the financial impact is not likely to be significant to 2030, we know that managing the increasing climate risks we face, such as water stress, remains a priority.

Summary

While sustained volatility and uncertainty will continue to present challenges for the consumer goods sector, we believe Diageo remains well-positioned and resilient. We are diversified by category, price point and geography. Our people are highly engaged and have a track record of delivery through uncertainty. And, our continued investment in our brands and deep understanding of our consumers position us well to capture opportunities in TBA, a market we believe has very attractive fundamentals.

Diageo's Board and leadership team remain focussed on securing long-term, sustainable value creation, by nurturing Diageo's culture, building our brands, and delivering our Performance Ambition.

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 110-113