Ivan was undoubtedly one of the finest leaders of his generation. He was there at the creation of Diageo and over 25 years, shaped the company to become one of the best performing, most trusted and respected consumer companies. I saw first-hand his steadfast commitment to our people and to creating a culture that enabled everyone to thrive. He invested his time and energy in people at every level of the company and saw potential that others may have overlooked. This is one of many reasons why he was beloved by our employees, past and present.

Ivan’s energy and his commitment to diversity created an inclusive business and enabled Diageo to have a positive impact on the communities we serve. His passion for our brands was second-to-none and in his heart, he remained the Johnnie Walker marketer from his early days. The desire to build the world’s best brands never left him. We are truly privileged to have had the opportunity to work alongside such a thoughtful and passionate colleague and friend – a true gentleman. He has built an extraordinary legacy.”

Javier Ferrán
Chairman

Career highlights

Ivan Manuel Menezes was born on 10 July 1959, in Pune, India. He held UK and US citizenship, and Overseas Citizenship for India. Ivan joined Diageo at its creation in 1997 and held many senior positions in a career spanning over 25 years at the company. He had been the Strategy Director for Guinness plc, and when Diageo was created through the merger of Guinness plc and Grand Metropolitan, Ivan was appointed Group Integration Director tasked with integrating this “merger of equals.” He became Global Marketing Director, UDV, in 1998 and was responsible for developing the now iconic ‘Keep Walking’ campaign for Johnnie Walker.

He subsequently held several senior positions within Diageo including Chief Operating Officer, President, Diageo North America, Chairman, Diageo Asia Pacific; and Chairman, Diageo Latin America and Caribbean.

Ivan was appointed to the Board as an Executive Director of Diageo in July 2012 and served as Chief Executive Officer since July 2013. He was due to retire on 30 June 2023.

During his decade as Chief Executive, Ivan oversaw an outstanding period of change, growth and high performance. Diageo made huge strides towards his ambition for the company to become one of the best performing, most trusted and respected companies in the world.

Now selling over 200 brands in nearly 180 countries, today Diageo is the number one company by retail sales value in international spirits, including tequila (1), a category in which only eight years ago the company had no substantive position.

Ivan was particularly proud to announce that in December 2022, Guinness was ranked the number one selling beer by value for the first time in the on-trade in Great Britain (2).

Ivan was an inspirational champion for both women and ethnic minorities in business. In 2008, there were no women on Diageo’s Executive Committee; today, over half are women, including his successor as Chief Executive, the Chief Financial Officer and the Presidents of Diageo’s largest markets – North America, Europe and India, and almost half of the Executive Committee are ethnically diverse.

Ivan was determined to be a pioneer on environmental, social and governance (ESG) issues, committing that Diageo would have a positive impact on society everywhere it operates. Diageo reduced carbon emissions in absolute terms under his leadership – even as the company significantly increased production and sales.

Over the last five years, Diageo’s total shareholder returns have outperformed the FTSE 100, and the company has continued its progressive policy to increase dividends every year.

In January 2023, Ivan was awarded a knighthood for services to business and to equality in His Majesty The King’s 2023 New Year Honours List.

(1) IWSR, 2022
(2) CGA, 4 weeks to 3 December 2022
We are a global leader in spirits. From centuries-old names to the latest innovations, we have over 200 brands and sell in nearly 180 countries.

At Diageo, we are committed to building and sustaining the very best portfolio of brands, in what we believe to be the most exciting consumer products category.
Since its formation more than 25 years ago, Diageo has been committed to building and nurturing some of the world’s most iconic brands which are rooted in culture and local communities.

From a pint of Guinness to a Johnnie Walker highball, a Don Julio margarita to a Tanqueray highball, the brands behind our drinks have become household names. And whether local or global, all our products share a common goal to be part of celebrations, big or small.

Our footprint is truly global and we push our brands, our relationships with each other and our culture to last. This visionary thinking underpins why we must continue to do business the right way, from grain to glass.

Two years ago we set out our 2030 share ambition to grow from a 4% to 6% value share. But we are confident that there is still plenty of headroom to grow.

We are proud to be almost a third of the TBA. We are committed to always encouraging moderation and share buybacks to our shareholders in partnership with our suppliers to halve the emissions in our supply chain (Scope 3).

Our consumer insights, strong sense of purpose and strong performance – never one without the other. This is why our ambition is to become one of the best leaders globally.

The secret to our success is our understanding of those we serve. We constantly strive to know the consumers of our brands and our on-trade and off-trade customers better than anyone else. And we have invested in new digital and data capabilities to constantly evolve our insights, putting people at the heart of the way we make, market and sell our brands. With the right product in the right place at the right price, we are well positioned to win new consumers and retain existing ones.

But we know consumer habits are changing. Today, people prioritise quality over quantity – they are drinking better. We encourage this ‘premiumisation’; in fact, in every region of the world, we have been steadily positioning our portfolio to capitalise on this long-term trend.

We believe ‘premiumisation’ goes hand in hand with moderation. And as we grow, we are committed to always encouraging moderation through the promotion of responsible drinking through a Diageo supported education programme.

We delivered over £3.1 billion through dividends and share buybacks to our shareholders in partnership with our suppliers to halve the emissions in our supply chain (Scope 3).

We know that purpose goes hand in hand with performance – never one without the other. This is why our ambition is to become one of the best performing, most trusted and respected consumer products companies.

Our ambition to achieve net zero emissions across our direct operations (Scope 1 and 2) and to work in partnership with our suppliers to halve the emissions in our supply chain (Scope 3).

Visit diageo.com for more information.

Diageo Annual Report 2023
Brand building expertise

Our portfolio offers something for every taste and celebration.

From much-loved, established brands, such as Johnnie Walker, to the latest innovations, like Tanqueray 0.0, we create products, tastes and experiences for people to enjoy.

This requires focus and investment in what we call a brilliant blend of ‘creativity with precision’. We combine data, insights and innovation with the creative flair our consumers expect from us as a custodian of some of the most iconic brands in the world.

Organic net sales growth by category

<table>
<thead>
<tr>
<th>Category</th>
<th>Organic net sales growth</th>
<th>2023 %</th>
<th>2019 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotch</td>
<td></td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Tequila</td>
<td></td>
<td>19%</td>
<td>16%</td>
</tr>
<tr>
<td>Vodka</td>
<td></td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>Canadian whiskey</td>
<td></td>
<td>20%</td>
<td>12%</td>
</tr>
<tr>
<td>Rum</td>
<td></td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Liqueurs</td>
<td></td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Gin</td>
<td></td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>IMI whisky</td>
<td></td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Chinese white spirits</td>
<td></td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>US whiskey</td>
<td></td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>Ready to drink</td>
<td></td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>26%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Reported net sales by price tier, F19–F23

<table>
<thead>
<tr>
<th>Price tier</th>
<th>F19</th>
<th>F23</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Super-premium</td>
<td>36%</td>
<td>36%</td>
<td>+2%</td>
</tr>
<tr>
<td>Premium</td>
<td>36%</td>
<td>34%</td>
<td>+7ppt</td>
</tr>
<tr>
<td>Standard</td>
<td>22%</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Value</td>
<td>23%</td>
<td>22%</td>
<td></td>
</tr>
</tbody>
</table>

Innovative spirit

We want to build brands that will stand the test of time. This is why we strive to move at pace with the latest consumer trends. And while we honour the past, we are passionate about creating the brands of the future.

Redefining categories

With a rich and actively managed portfolio and a proven innovation capability, we are well placed to seize new opportunities, recruit new consumers, continue to premiumise and drive ongoing performance.

Advantaged portfolio

The breadth and depth of our portfolio has helped us grow across most categories, with strong net sales growth in our three largest categories: scotch, tequila and beer.

Premium-plus brands contributed 63% of reported net sales growth and drove 57% of organic net sales growth in fiscal 23.

Organic net sales growth by category

<table>
<thead>
<tr>
<th>Category</th>
<th>Organic net sales growth</th>
<th>2023 %</th>
<th>2019 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Super-premium and above price points</td>
<td>£4,559m ↑</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium price points</td>
<td>£6,258m ↑</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard and below price points</td>
<td>£6,296m ↑</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Net sales are sales less excise duties
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 a readjustment 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 and I have responded to this operating environment with resilience and entrepreneurship. 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 its potential. The growth of a global middle class and the appetite for increasing prosperity and to ‘drink better, not more’ are long-term, sectoral trends. We expect to continue to drive value growth in the total beverage alcohol (TBA) category as hundreds of millions of consumers become able to access the premium drinks market, often moving away from informal or illicit alcohol in the process.

At the same time, we have significant headroom to grow within TBA, reflected in our medium-term ambition to grow our value share of the global market by 50%, from 4% to 6% by 2030. We believe that share growth will be driven by sustained investment in our 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 margins improving and net revenue outperforming a modeled 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 longterm can occasionally impact return on average invested capital (ROIC) in the short-term, as in fiscal 23. ROIC was 36.1%, a decline of 30bps. 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, remain 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 first 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 99% – 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.

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 delivering 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 focused on securing long-term, sustainable value creation, by nurturing Diageo’s culture, building our brands, and delivering our Performance Ambition.

Javier Ferrán Chairman
Another year of strong performance

Like everyone at Diageo, I will miss Ivan’s kindness, wisdom and counsel in the months and years ahead. It was an extraordinary privilege to know, work with and learn from Ivan over the last four years, and to benefit from his experience and generosity of spirit. Together with all my colleagues, I am determined that we will build on and do justice to his legacy.

Fiscal 23 performance

Diageo today is a business built to deliver resilient performance, even in turbulent times. We are geographically diverse, with a product portfolio built on long-term investments in strong markets that deliver everyday efficiency while pursuing opportunities with focus and agility. Those underlying strengths are reflected in our performance over the last year. We drove strong growth in four of our five regions, with Europe and Asia Pacific growing double-digit. Even with North America sales flat, following a period of very rapid growth, we have still been able to deliver overall organic net sales value growth of 6.5% within our medium-term guidance, and organic operating margin expanded by 180bps. Our preexceptional earnings per share rose 7.6% in fiscal 23 to 163.5 pence. And, we have once again been able to increase the dividend by 5% to a full-year dividend of 80.00 pence.

Fiscal 23 also saw standout performance from our scotch, tequila and beer categories. Scotch grew 12%, tequila grew 19% and beer was up 9% respectively. Johnny Walker, the world’s leading international spirit brand, delivered another year of strong double-digit growth, increasing 15%. Tequila continues to have strong consumer momentum and our global market share of tequila rose 120bps to just over 23% of retail sales value. We also launched our strategy to ignite a new ‘Golden Age for Guinness’, with immediate results: organic net sales were up 15% in the period, and in December 2022, Guinness became the number one beer brand by value share in the on-trade in Great Britain. We have also continued to benefit from sustained investment in our brand portfolio, with our premium-plus brands now accounting for 57% of net sales growth. Our premium-plus brands now account for 63% of Diageo’s net sales, up 7pts from fiscal 19.

Like everyone at Diageo, I will miss Ivan’s kindness, wisdom and counsel in the months and years ahead. It was an extraordinary privilege to know, work with and learn from Ivan over the last four years, and to benefit from his experience and generosity of spirit. Together with all my colleagues, I am determined that we will build on and do justice to his legacy.

Debra Crew
Chief Executive
An attractive industry with a runway for growth

Total beverage alcohol (TBA) has seen a strong record of value growth over the last 10 years. And international spirits, where Diageo is the number one player, has grown faster than TBA.\(^1\)

We believe TBA presents sustainable long-term growth opportunities for Diageo, underpinned by attractive consumer fundamentals. This includes three key factors: a growing middle class; increased spirits penetration; and premiumisation in both developed and emerging markets.

1 Consumer base that can afford premium spirits is growing

The latest projections by the United Nations suggest that the global population could grow to around 8.5 billion by 2030.\(^2\)

Globally, an emerging middle class continues to grow in key markets such as China, where it is estimated that, between 2022 and 2030, the middle class and affluent consumer will increase by 80 million, reaching nearly 40% of the population.\(^3\)

This continued growth of the ‘middle class and above’ income bracket should enable 470 million\(^4\) more consumers to access and enjoy our brands by 2032.

2 Consumers are increasingly choosing spirits over beer and wine

Over the past five years, the TBA market worldwide grew at a 4% compound annual growth rate.\(^1\) Spirits grew considerably faster at a 6% compound annual growth rate as consumers increasingly move away from beer and wine.\(^5\)

Spirits, which are versatile and adaptable, have a strong position and considerable runway for growth given consumers’ interest in new serves suitable for a broader range of occasions, including with food and at home.

3 Consumers across the world are trading up, choosing superior quality

Consumers are ‘drinking better, not more’ and are increasingly choosing brands and categories that stand out for superior quality, authenticity and taste. We call this trend premiumisation, in which consumers have a greater desire to explore new aspirational experiences, driving demand for quality drinks at a range of price points.

Retail sales value of global alcohol market\(^6\)

<table>
<thead>
<tr>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.17 trillion</td>
</tr>
</tbody>
</table>

Equivalent units of alcohol sold\(^5\)

<table>
<thead>
<tr>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.4 billion</td>
</tr>
</tbody>
</table>

\(^1\) IWSR, 2022
\(^2\) United Nations Department of Economic and Social Affairs, Population Division, 2022
\(^3\) Mind the Generation Gap, Boston Consulting Group, 2023
\(^4\) World Bank, 2022
\(^5\) Diageo

546 million
new legal purchase age consumers estimated to enter the market by 2033\(^4\)

470 million
estimated to join the middle class and above income bracket by 2032\(^4\)

+9% increase in spirits TBA share\(^5\)

Ketel One Bloody Mary

(\(\)) Marked
**Investing for the long term**

Diageo has a bold ambition and is well-positioned to capture more of the total beverage alcohol (TBA) market opportunity.

With only 4.7% of global TBA share(1), we believe we have significant headroom for sustainable, long-term growth, and our ambition is to outperform the market and increase our TBA value share to 6% by 2030.

Increasing spirits penetration Diageo has a diversified footprint globally with an advantageous portfolio of brands. The breadth and depth of our portfolio across attractive categories and price points positions us to capture large consumer growth opportunities, and provides resilience to international trading volatility. Globally, there is a significant opportunity to increase spirits penetration.

In markets where the spirits category is less mature, our mainstream brands give emerging market consumers access to our products at affordable prices. For example McDowell’s No.1 in India and Black & White in Latin America offer quality products at more affordable price points and give opportunities to consumers to trade up in the future.

**Quality growth for Guinness**

Beer is our second largest category after spirits, and Guinness leads our beer portfolio and is available in more than 100 countries and territories.

**Active portfolio management**

We use our deep consumer insights to acquire strategic brands in higher-growth categories. In fiscal 23, we acquired Balcones Distilling, a leading producer of award-winning super-premium and above US whiskey. We also acquired Don Papa Rum, a super-premium dark rum from the Philippines, strengthening our position in the rum category, which is premiumising.

Our active portfolio management also includes strategic disposals. In fiscal 23, we sold Guinness Cameroon S.A., following a strategic review which identified a more efficient model to support the strong growth of the brand in Cameroon. We also disposed of Archers, as well as the disposal and franchising of a portfolio of brands in India.

**Our core competencies**

Diageo is a world-class brand builder and has supply chain expertise, as well as an entrepreneurial spirit and advantaged culture.

Our world-class brand building is underpinned by deep consumer understanding, which fuels innovation and recruits consumers. We combine our consumer insights with marketing creativity which we execute with precision. This is underpinned by smart investment in marketing effectiveness tools, such as Catalyst, Sensor and CreativeX.

We believe that our diverse supply chain across the markets where we source, make and sell is a key competitive advantage. We leverage the scale and breadth of our business to build strategic relationships with suppliers that deliver regular cost savings, which we reinvest. Our culture of everyday efficiency and strong pipeline of productivity initiatives drove £450 million of savings in fiscal 23, fuelling sustained investment in brand building.

We are consumer-focused and brand obsessed, and our workforce is encouraged to have an entrepreneurial spirit, where new ways of thinking are welcomed. Our ability to adapt to market challenges and our consistent focus on consumers and trade partners are the foundations from which we deliver our Performance Ambition. As an organisation, we are resilient and we work hard to operate with agility and urgency to deliver consistent quality growth.

We expect to deliver organic net sales growth consistently in the range of 5% to 7% and organic operating profit growth sustainably in the range of 6% to 9% for fiscal 23 to fiscal 25. Sustainable top-line growth and productivity savings enable smart re-investment to drive long-term growth.

**Delivering consistent performance and quality growth**

To help ensure we deliver consistent performance and sustainable quality growth, we invest smartly in the areas we believe will bring the greatest benefits: capital expenditure for our strategic categories, digital capabilities, our ambitious sustainability agenda and our supply chain agility programme.

**Production capacity and maturing inventories**

In fiscal 23, Scotch and tequila grew by 12% and 19% in net sales, respectively. Investing capital in production capacity is key to delivering long-term sustainable growth. We are investing in new whiskey distilleries in North America and China and increasing our tequila manufacturing footprint in Mexico.

We are also investing in maturing inventories to support the future growth of these fast-growing categories. Over the last five years, we have increased maturing inventories from £4.0 billion to £5.8 billion, including investments of £0.6 billion in fiscal 23.

**Digital and data capabilities**

We’re investing in transformational digital and data capabilities. In marketing, CreativeX, our latest tool, enables us to assess the effectiveness of our digital content before deployment and ensure we provide the perfect serve of advertising content to consumers. It is now deployed in markets covering 75% of our net sales value. We are also supporting our customers and our global sales teams leverage data and insights from digital tools such as EDGE365 to extend our sales reach and improve our execution.

Continuing the digital transformation journey we embarked on in 2017, in fiscal 23, we launched a five-year programme to modernise our IT environment and standardise our business operations. This makes us more agile in our response to customer needs, provides us with world-class actionable insights and allows us to be more efficient in our day-to-day operations.

**Investing in sustainability**

By 2030, we expect to have invested around £1 billion of capital to support our drive to be a global champion for water stewardship and a strong contributor to a lower-carbon world. We are doing this by improving water use efficiency, investing in water replenishment, using renewable energy, scaling circular solutions and implementing regenerative agriculture. These investments will also help us to be more efficient, reduce our resource consumption, develop innovative solutions and ensure a more resilient supply chain.

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(1) IWSR, 2022

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**Shareholder value creation**

We expect to deliver organic net sales growth consistently in the range of 5% to 7% and organic operating profit growth sustainably in the range of 6% to 9% for fiscal 23 to fiscal 25. Sustainable top-line growth and productivity savings enable smart re-investment to drive long-term growth.
Delivering our Performance Ambition

At the core of our strategy is the flywheel for growth. After several years of strong performance at Diageo, it has a proven track record.

Our six strategic priorities support the achievement of our ambition to be one of the best performing, most trusted and respected consumer products companies in the world. Through these priorities, we deliver the strategic outcomes against which we measure our performance.

- **Engaged people**: High-performing and engaged teams, continuous learning, inclusive culture
- **Credibility and trust**: Trusted by stakeholders for doing business the right way, from grain to glass
- **Consistent value creation**: Top-tier total shareholder returns, increase return on invested capital
- **Embed everyday efficiency**: Everyday efficiency creates the fuel that allows us to invest smartly and sustain quality growth. At its heart, everyday efficiency is a mindset and a culture, which everyone in Diageo is encouraged to bring to life in their daily work.
- **Invest smartly**: We are investing in the future success of our business - but that investment needs to be smart to support the delivery of consistent performance and enable sustainable, quality growth.
- **Pioneer grain-to-glass sustainability**: We are focused on preserving the resources upon which our business and our communities depend. We are working to preserve water for life, accelerate to a low-carbon world and become sustainable by design - helping to create a better future for communities everywhere.

Find out more about our performance against all our ‘Society 2030: Spirit of Progress’ ESG action plan on pages 57-87.

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**OUR AMBITION**

To be one of the best performing, most trusted and respected consumer products companies in the world.

**OUR STRATEGIC PRIORITIES**

- Sustain quality growth
- Embed everyday efficiency
- Invest smartly
- Pioneer grain-to-glass sustainability
- Promote positive drinking
- Champion inclusion and diversity

**OUR STRATEGIC OUTCOMES**

- Efficient growth
- Consistent value creation
- Credibility and trust
- Engaged people

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Sustain quality growth

Creating sustainable and consistent quality growth is at the heart of our ambition. It means delivering consistent net sales and margin growth as well as top-tier shareholder returns.

Read more on pages 18-19

Embed everyday efficiency

Everyday efficiency creates the fuel that allows us to invest smartly and sustain quality growth. At its heart, everyday efficiency is a mindset and a culture, which everyone in Diageo is encouraged to bring to life in their daily work.

Read more on pages 20-21

Invest smartly

We are investing in the future success of our business – but that investment needs to be smart to support the delivery of consistent performance and enable sustainable, quality growth.

Read more on pages 22-23

Pioneer grain-to-glass sustainability

We are focused on preserving the resources upon which our business and our communities depend. We are working to preserve water for life, accelerate to a low-carbon world and become sustainable by design – helping to create a better future for communities everywhere.

Find out more about our performance against all our ‘Society 2030: Spirit of Progress’ ESG action plan on pages 57-87.

Read more on pages 71-87

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Sustain quality growth

To achieve our ambition of being one of the best performing, most trusted and respected consumer products companies in the world, delivering and sustaining quality growth is key. This means consistent net sales and margin growth, as well as top-tier shareholder returns.

Delivering sustained, quality growth is not new to us. Brands such as Johnnie Walker and Don Julio show how the right approach to quality, brand building, innovation and investing for the long-term can build lasting value.

Case study: Johnnie Walker

Johnnie Walker has been a key driver of our strong scotch performance this year, seeing sales growth of 15%.

This is the brand’s third consecutive year of double-digit net sales growth, with sales at an all-time high.

Premiumising scotch
Johnnie Walker’s growth has been primarily driven by premiumisation. Ensuring we offer consumers choice and provide options to easily trade up (e.g. moving from Johnnie Walker Red Label to Johnnie Walker Black Label) have meant that price and volume have had strong growth across all our regions and variants. In fact, the proportion of net sales from Johnnie Walker premium products – Johnnie Walker Black Label and above – reached 73% for the first time in fiscal 23.

This broad-based strong volume, price and mix performance allowed us to offset record inflation seen globally as well as strong foreign exchange headwinds to grow gross margin by +1.1ppt.

Record share performance
Johnnie Walker has also extended its lead as number one international spirits brand by 34bps. Every month, 93 million people who choose to drink alcoholic beverages choose Johnnie Walker. As ever, this year we also looked to the future, and continued to invest ahead with a record high advertising and promotion (A&P) spend of £545 million and 22% sales return on A&P investment level with all markets increasing spend versus last year.

Sustaining quality growth in Latin America and Caribbean
This financial year, Johnnie Walker’s performance in Latin America and Caribbean stands out, with the region heavily focused on premiumisation.

Net sales grew +16% to a record high, and gross margin percent grew +3ppt. Likewise A&P grew +36% which funded double-digit net sales growth of core variants (Johnnie Walker Red Label +15%, Johnnie Walker Black Label +19% and Johnnie Walker Blue Label +22%). We were also excited to roll out Johnnie Walker Blonde special edition across Mexico, Brazil and Chile.

Examples of progress in fiscal 23:
• We drove strong growth in four of our five regions, with Europe and Asia Pacific growing double-digit
• Continued to generate quality growth across key brands, including Guinness, which became the number one beer in the Great Britain on-trade for the first time in December 2022
• Launched new innovations in premium categories, including Don Julio Rosado in tequila and Elusive Expressions in scotch

To sustain quality growth, we focus on:
• Developing new brands of the future
• Balancing volume, price and mix – what we call Revenue Growth Management
• Executing the most effective route to our consumers
• Working with governments and stakeholders around the world to ensure our brands compete on a more equal playing field for alcohol taxation and regulatory policy

Alongside this, we have a disciplined approach to portfolio management, making acquisitions and disposals in line with our strategy.
Embed everyday efficiency

Everyday efficiency creates the fuel that allows us to invest smartly and sustain quality growth. We want to ensure our resources are deployed where they are most effective.

This means using technology and data analytics to make better, faster decisions. It also means simplifying our business so that we can better meet the needs of our consumers and customers.

Case study: Logistics reinvention

Through our logistics interventions, we are driving sufficiency, efficiency, sustainability, agility and resilience by focussing on five key areas.

1. Synchronised fulfilment
   We revised our operating strategy by identifying never out of stock and strategic brands and products, which account for 80% of our revenue. Focussing on these stock keeping units has enabled us to service our customers faster, cutting cost, lead-time and carbon.

2. Alternative routes, ports, carriers and modes
   In order to avoid congestion, we contracted alternative transportation routes, ports, carriers and modes. For example, we transferred a significant portion of our movements in Scotland from ships to rail.

3. Multi-dimensional partnerships with suppliers, customers and industry
   We built stronger partnerships with our customers, our suppliers and the industry, working closer and more collaboratively. For example, we evolved our partnership with ocean freight carrier CMA, becoming their largest transatlantic customer to better support both parties.

4. Supply network design and investment
   We studied our logistics process end-to-end, from the plant to the customer, which helped us anticipate and manage disruptions, allowing us to deliver to markets more quickly and efficiently. Additionally, by using regional hubs, we also brought products closer to our end customers and consumers.

5. Digitisation
   All of this has been underpinned by strategic interventions on digitisation. We have real-time insights to anticipate supply chain blockages, enabling us to take timely action. We have been spearheading the use of automation such as bots and intelligent automation as a way to make the best decision at any point. We are also implementing artificial intelligence in our order cycle to optimise product availability, container fill rate and pricing.

Examples of progress in fiscal 23:
1. Delivered £450 million annualised savings across the end-to-end value chain
2. Began the first year of a five-year supply chain agility programme which will strengthen and make fit for the future our supply chain
3. Made an £82 million saving from procurement efficiency, which was impactful across all regions
4. Drove greater efficiency in our advertising and promotional (A&P) investment, with savings made through marketing effectiveness

In the face of heightened inflation, more than ever, we have focussed on agility and speed to enable efficiencies across everything we do. These savings have been realised and have enabled us to continue to meet the needs of our customers and consumers, whilst still generating sufficient amounts to reinvest smartly.
We continually invest in the future success of our business – but that investment needs to be smart to support the delivery of consistent performance and enable sustainable, quality growth.

This year, we have balanced quality growth and volume by driving pricing and mix to increase premiumisation. We have also optimised commercial decisions to best sustain long-term growth.

**Invest smartly**

We are constantly making investments across our business in different areas to ensure we are delivering consistent growth. This includes investing in our supply chain, including transforming the end-to-end supply network across our physical assets, as well as in our technical and digital capabilities.

Examples of progress in fiscal 23:

- Maintained our 18% investment in A&P, enabling us to continue to invest behind and grow our brands.
- Invested in premium, high-growth categories, such as tequila, as well as brands like Don Papa Rum.
- We significantly stepped up investments in key digital and experiential areas, including our Direct to Consumer (D2C) platform.
- In sustainability, we invested capex in data foundations and decarbonising our supply chain.
- Committed more than £60 million in capex funding for water efficiency projects over the next three years.
- We have hired colleagues with the aim of building the internal capabilities necessary to deliver on our 2030 target.

**Case study: Tequila**

With the popularity of tequila on the rise, we saw an opportunity to be a driver of growth in the category. We did this by investing in strategic key areas.

*Investing in new distilleries*

In September 2021, we announced plans to expand our tequila manufacturing footprint in Mexico through an investment of more than £400 million.

In fiscal 23, £160 million of this investment was spent on the construction of two new distilleries in the state of Jalisco, building further resilience into our tequila supply chain and supporting growth in the category by increasing production capacity. Because of this, we can now operate 24 hours a day.

The first of the two distilleries is expected to be operational by fiscal 24 Q1, and the second expected in fiscal 25 Q1.

*Using new technologies to drive efficiency*

As part of our ‘Society 2030: Spirit of Progress’ ESG action plan, we have been investing in innovative environmentally friendly technologies. This includes drones which can count the number of agave plants in a field with greater accuracy and efficiency than manual processes.

Traditionally, spraying agave fields was done manually and had to take place in the night or very early in the morning. Operating in darkness created high complexity, including the risk of injury, wildlife attacks and exposure to harmful agricultural supplies.

Using drones has not only ensured the safety of our workers, but has also meant we can spray between 20-30 hectares of agave a day, the equivalent of the work of 30 people.

*Saving water*

The drone is also more efficient from a water saving perspective, using 70% less water than manual applications, as well as decreasing costs and having a positive impact on our carbon footprint through reducing the requirement for vehicles.

Because of this, water savings in fiscal 23 are expected to be 5.5 million litres, aiding us further in our water stewardship ambitions.

*Digitising our supply chain*

As we seek to further digitise our supply chain processes, we have designed and implemented the first ever digital planning tool on aged liquid, including the rotation of barrels between different age groups.

In addition, we have introduced an advanced supply planning tool which should enable us to drive end-to-end scenario planning and inventory optimisation.

The investment actions that we are taking now, and those we have planned for the future, will support our plans to take tequila global.

(1) IWSR, 2022

22 Diageo Annual Report 2023
Creating a sustainable business

What we do

1. We source
From smallholder farmers in Africa and Mexico to multinational companies, we work with our suppliers to procure high-quality raw materials and services, with environmental sustainability in mind. Where it is practicable, we source locally.

2. We innovate
Using our deep understanding of trends and consumer socialising occasions, we focus on driving sustainable innovation that provides new products and experiences for consumers, whether they choose to drink alcohol or not.

3. We make
We distil, brew and bottle our spirits and beer brands through a globally coordinated supply operation, working to the highest quality and manufacturing standards. Where it makes sense, we produce locally.

4. We transport
We move our products to where they need to be in the world, whether that’s from a local distillery in market or shipping to consumers around the world.

5. We sell to customers
We grow by working closely with our customers. Our global and local sales teams use our data, digital tools and insights to increase our sales reach, improve our execution and help generate value for us and for our customers. When our customers grow, we grow too.

6. We market to consumers
We invest in world-class marketing to responsibly build vibrant brands that resonate with our consumers. We have a rigorous global Marketing Code and belong to the Global Alliance for Responsible Media, working with peers to push for further consumer and brand safeguards.

7. We help consumers celebrate
We continually evolve our data tools to understand consumers’ attitudes and motivations. We convert this information into insights which enable us to respond with agility to our consumers’ interests and preferences.

Our core competencies

The ability to work our business model hard to deliver success comes from our strength across several key areas. These core competencies set us apart from our competition.

- **World-class brand building**
  Our track record shows us to be experts in innovation and brand building. This is vital in order to first make the right products, then be able to take those products to consumers and help them celebrate.

- **Supply chain efficiency**
  We are constantly striving for excellence across our supply chain, finding ways to improve across all components and sites, whether it’s research and development, brewing or packaging.

- **Entrepreneurial spirit**
  Our inclusive, collaborative culture enables us to work together in a dynamic and agile manner, creating a vibrant workplace as well as delivering our Performance Ambition.

Creating value

Our business model allows us to create value across four main areas:

- **Financial** – for our investors
- **Human** – for our people, suppliers, customers and consumers
- **Social** – for our communities
- **Natural** – for our environment

We deliver our strategic priorities through a business model that leverages global and local expertise, has the consumer at its heart and puts our responsibilities to our stakeholders front and centre. Since launching our ‘Society 2030: Spirit of Progress’ ESG action plan, we have set out to help create a more inclusive and sustainable world, creating a positive impact in our company, and for our society.
The year Guinness became Great Britain’s favourite pint

Secrets to success
Guinness, which has been around for over two centuries, still manages to firmly embed itself in culture with its visual distinctiveness. In Great Britain, ‘the black stuff’ is heavily associated with events like St Patrick’s Day and the Six Nations rugby – because of this, Guinness saw a record on-trade share of 12.1% in March 2023.(2)

But the brand is not only focussed on select moments or seasons. Guinness has been making its biggest marketing investment to date in celebrations around the calendar such as Christmas and summer – including launching the ‘Lovely Day For A Guinness’ campaign which truly captures the summer feeling.

Guinness also has an ability to spot trends and jump on new opportunities. This year, the brand partnered with the Women’s Six Nations and viral DJ, Fred Again. Choosing authentic partners in Great Britain, who are both established and emerging in terms of recognition, has enabled the brand to increase +60bps to 3.6% among women and +80bps to 7.7% amongst 18-34 year olds.(3)

While the recipe remains relatively unchanged, the Guinness brand is continually evolving and we actively pursue innovation. In fact, we are currently sustaining our biggest innovation pipeline in the last 30 years.

This includes scaling up our alcohol-free option, Guinness 0.0, growing our distribution and launching new packs in the off-trade and launching in the on-trade. In the off-trade, the Guinness 0.0 four-pack was recently the number one non-alcoholic item by value and volume in Great Britain.(4)

And, in support of our ‘Society 2030: Spirit of Progress’ ESG action plan to promote positive drinking, we put Guinness 0.0 at the heart of the Six Nations Championship.

New products have also been key. ‘Guinness Nitrosurge’, a first-of-its-kind device that allows Guinness fans to enjoy the two-part pour at home, was rolled out in Great Britain in fiscal 23, premiumising the Guinness experience in new spaces.

These unique abilities are underpinned by world-class brand building. We are consistently leveraging our distinctive assets and deep understanding of our consumers, all powered by precision marketing.

This is the reason why in fiscal 23, more new consumers drank Guinness than ever before.

Great Britain loves Guinness.
So much so, for the first time ever, in December 2022, Guinness became Britain’s number one beer in the on-trade.(1)
A little over 150 years ago, Johnnie Walker had a packaging problem. Too many bottles were being broken in transit over choppy seas. The solution? The iconic ‘square’ bottle: packaging that could be stacked safely and efficiently.

Today, we continue that tradition of finding new ways to solve problems. Diageo remains as proud of its whiskies as ever, and no less careful with its packaging. But in the modern world, the task is different. Our packaging is already robust; now it must become sustainable too.

Diageo is synonymous with waste, and too many industries have adopted a ‘take-make-dispose’ model. At Diageo, we want to change this. We believe convenience should not come at the cost of our natural resources.

At the beginning of fiscal 23, we began a thorough review of our whiskies and came to the conclusion that not only could we change our packaging, but in some places, we could get rid of it altogether. This is why we started our work to phase out cardboard gift boxes across a selection of products in our premium scotch portfolio.

Unboxing premium scotch to reduce waste

After all, the luxury of our products is in the liquid, not the packaging.

Solving a problem at scale

The next step was to bring a team together. With the sheer scale of the project, and the range of packaging across different markets, we gathered a group with global and cross-functional expertise. The taskforce worked to scope out the project, agree timelines, communicate to customers and make sure every market was aligned. To minimise disruption to our supply chain, the project was initially rolled out across selected markets, testing the consumer response and assessing if waste could really be reduced.

After a successful test, we were able to expand the project internationally. The first phase was delivered over fiscal 23, and we plan to roll it out to new markets in fiscal 24. The work is a continuation of Diageo’s ‘Society 2030: Spirit of Progress’ ESG action plan to help create a more inclusive and sustainable world.

Promising results

In fiscal 23, this new workstream has resulted in:

- 141 million cardboard boxes eliminated from our supply chain
- c.5,520 tonnes reduction in carbon emissions

Bottles included in the trial
In fiscal 23, organic net sales in Latin America and Caribbean increased by 9% and we plan to keep growing. Part of our growth plan in the region is making critical investments in one of the most rapidly advancing parts of our business: digital marketing.

Growing our e-commerce offering
For more than a decade, our award-winning website, TheBar.com, has helped customers to make cocktails at home. It has also been a key driver of our digital performance, connecting people directly to Diageo’s brands through recipes, luxury gifts and personalised engraving. Brazil now hosts the site’s biggest operation worldwide, with an omnichannel approach that combines physical stores and online engagement in a powerful media engine.

Expertise across borders
This year, we also set up Diageo’s first digital hub in Latin America, allowing us to share analytics, media insights, online commerce and scalable content across countries. The new hub has helped us engage more closely with the people buying our brands. It means we can create more relevant content, engage in live conversations, and be more responsive to what consumers are saying online.

The hub has also enabled Diageo to scale up its key capabilities from one market to another – getting data from Colombia to Mexico, fast. Artificial intelligence helps tailor our work to local social media algorithms, which has enabled us to optimise our media in more than 37% of the region.

Led by consumers
In Brazil, we have invested in a new content laboratory. This is an interactive, digital platform run by a team of creators who monitor everything consumers are talking about, searching for, listening to or sharing online – in real-time. It’s part of our evolution from precision marketing to predictive marketing, not only listening to what consumers want, but anticipating future trends, too. The content lab is a complete shift in communication, putting our brands at the heart of communities.

Together, these innovations are challenging the notions of traditional marketing. Diageo’s digital tools mean communication is no longer one-way, with brands talking to consumers, but consumers talking to each other: a more collective way of engaging with online culture. And it’s working. Since our content lab was launched, Diageo’s whisky brands in the region have expanded their leading share of consumer engagement, growing ‘talkability’ share by +7ppt.(1)

(1) Sprinklr, 2022
### Reported measures

<table>
<thead>
<tr>
<th>Net sales growth (%)</th>
<th>Operating profit growth (%)</th>
<th>Basic earnings per share (pence)</th>
<th>Net cash from operating activities (£ million)</th>
<th>Return on closing invested capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2023</td>
<td>2022</td>
<td>2023</td>
<td>2024</td>
</tr>
<tr>
<td>10.7</td>
<td>10.1</td>
<td>91.2</td>
<td>160.2</td>
<td>40.5</td>
</tr>
<tr>
<td>9.9</td>
<td>8.3</td>
<td>76.6</td>
<td>92.8</td>
<td>35.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.9</td>
<td>60.5</td>
<td>33.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9.8</td>
<td>70.7</td>
<td>17.2</td>
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<tr>
<td></td>
<td></td>
<td>8.8</td>
<td>2,390</td>
<td>24.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.3</td>
<td>3,248</td>
<td>32.8</td>
</tr>
</tbody>
</table>

### Definition

- **Sales growth after deducting excise duties.**
- **Operating profit growth, including exceptional items.**
- **Basic earnings attributable to equity shareholders of the parent company, divided by the weighted average number of shares in issue.**
- **Net cash from operating activities comprises the net cash flow from operating activities as disclosed on the face of the consolidated statement of cash flows.**
- **Profit for the year divided by net assets at the end of the financial year.**

### Non-GAAP measures

<table>
<thead>
<tr>
<th>Organic net sales growth (%)</th>
<th>Organic operating profit growth (%)</th>
<th>Earnings per share before exceptional items (pence)</th>
<th>Free cash flow (£ million)</th>
<th>Return on average invested capital (ROIC) (%)</th>
<th>Total shareholder return (TSR) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.5%</td>
<td>7.0%</td>
<td>163.5p</td>
<td>1,800m</td>
<td>16.3%</td>
<td>(2)%</td>
</tr>
<tr>
<td>2020</td>
<td>2022</td>
<td>2023</td>
<td>2024</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1</td>
<td>12.9</td>
<td>14.5</td>
<td>1,600</td>
<td>16.1</td>
<td>24</td>
</tr>
<tr>
<td>9.4</td>
<td>9.3</td>
<td>12.9</td>
<td>2,760</td>
<td>15.5</td>
<td>10</td>
</tr>
<tr>
<td>2019</td>
<td>2020</td>
<td>2019</td>
<td>2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.1</td>
<td>16.0</td>
<td>10.6</td>
<td>3,037</td>
<td>12.6</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>9.9</td>
<td>130.8</td>
<td>2,668</td>
<td>15.1</td>
<td>27</td>
</tr>
</tbody>
</table>

### Why we measure

<table>
<thead>
<tr>
<th>Why we measure</th>
<th>Reported measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>This measure reflects our delivery of efficient growth and consistent value creation. Organic net sales growth is the result of the choices we make between categories and market participations and reflects Diageo’s ability to build brand equity, increase prices and grow market share.</td>
<td>Organic net sales growth grew 10.7%, driven by strong organic growth and favourable foreign exchange impacts. Organic net sales growth of 8.5% reflects 7.3 percentage points of positive price/mix and a decline in organic volume of 0.9%. Four out of five regions delivered growth, despite tapping strong double-digit growth at the group level in fiscal 20. Free in-line was driven by price increases and premiaisation.</td>
</tr>
</tbody>
</table>

### Performance

- **Reported operating profit grew 5.1%, mainly driven by growth in organic operating profit and positive impacts from foreign exchange movements.**
- **Reported operating profit grew 24.7%, mainly driven by organic operating profit growth and exceptional items, partially offset by increased finance charges and higher tax.**
- **Basic eps increased 24.7% on a constant currency basis, ahead of organic net sales growth, driven by growth across all regions except North America.**

### Why we measure

<table>
<thead>
<tr>
<th>Why we measure</th>
<th>Reported measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free cash flow is a key indicator of the financial management of the business. Free cash flow reflects the delivery of efficient growth and consistent value creation over time.</td>
<td>Free cash flow was £3,024 million, a decrease of £91 million compared to fiscal 22. Free cash flow declined by £180 million to £1,800 million. Free cash flow declined as strong growth in operating profit and favourable foreign exchange impacts were more than offset by higher year-on-year working capital outflows, tax payments, interest paid and capital investment.</td>
</tr>
</tbody>
</table>

### Non-GAAP measures

| ROIC is used by management to assess the return obtained from the group’s asset base. Over time, ROIC reflects consistent value creation, as the returns Diageo generates from its asset base are both reinvested in the business and used to generate returns for investors through dividends and return of capital programmes. | ROIC was 16.3% for the year ended 30 June 2023, down 1% from fiscal 22. Dividends declared in fiscal 23 were £426m in cash, up 12% from fiscal 22. ROIC was down 2% over the last 12 months driven by increased capex, maturing stock investment and continued portfolio optimisation through acquisitions and disposals. |

### Remuneration

<table>
<thead>
<tr>
<th>Remuneration</th>
<th>Reported measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diageo’s Directors have a fiduciary responsibility to maximise long-term value for shareholders. TSR measures consistent value creation as it reflects the returns Diageo has delivered to investors in the year and over time. We also monitor our relative TSR performance against our peers.</td>
<td>TSR was down 2% over the last 12 months driven by increased capex, maturing stock investment and continued portfolio optimisation through acquisitions and disposals.</td>
</tr>
</tbody>
</table>

### Key Performance Indicator

<table>
<thead>
<tr>
<th>Key Performance Indicator</th>
<th>Reported measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong TSR performance against our peers.</td>
<td>TSR was down 2% over the last 12 months driven by increased capex, maturing stock investment and continued portfolio optimisation through acquisitions and disposals.</td>
</tr>
</tbody>
</table>
Non-financial performance

Positive drinking

Number of people educated on the dangers of underage drinking through a Diageo supported education programme.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of people</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>1,985,817 (2022: 1,857,754)</td>
</tr>
</tbody>
</table>

Total to date: 3.8 million

Employee engagement (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>84%</td>
</tr>
</tbody>
</table>

Health and safety (LTA)

<table>
<thead>
<tr>
<th>Year</th>
<th>Severity rate</th>
<th>Lost-time accidents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>0.91</td>
<td>3.8 million</td>
</tr>
</tbody>
</table>

Inclusion and diversity

Percentage of female leaders globally

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>44%</td>
</tr>
</tbody>
</table>

Percentage of ethnically diverse leaders globally

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>43%</td>
</tr>
</tbody>
</table>

Water efficiency

<table>
<thead>
<tr>
<th>Year</th>
<th>Water use efficiency per litre of product packaged (litres/litre)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>401</td>
</tr>
</tbody>
</table>

Carbon emissions

<table>
<thead>
<tr>
<th>Year</th>
<th>Total direct and indirect carbon emissions by weight (market/net based) (1000 tonnes CO₂)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>508</td>
</tr>
</tbody>
</table>

Why we measure

We want to change the way the world drinks for the better by promoting moderation and addressing the harmful use of alcohol. We build credibility and trust by transparently reporting the total number of people educated on the dangers of underage drinking. This figure also demonstrates our commitment to engaging people on the dangers of harmful alcohol use.

Why we measure

Employee engagement is a key enabler of our performance, as our people deliver our strategy. The survey allows us to measure the extent to which employees believe we are living our values and is a measure of our culture. Reflecting on the results of our employee engagement level and taking action where needed each year helps us build credibility and trust with our people.

Why we measure

Health and safety is a basic human right; our Zero Harm philosophy is that everyone should go home safe and healthy, every day, everywhere. The LTA measure demonstrates our engagement with our people on safety and delivering on our Zero Harm philosophy and through reduced LTA builds credibility and trust.

Why we measure

Nurturing an inclusive and diverse culture drives commercial performance and is the right thing to do. Transparently reporting the gender and ethnic diversity of our leadership cohort reflects our commitment to consistent value creation through our diverse workforce, building credibility and trust with our stakeholders and engaging with our people on inclusion and diversity.

Why we measure

Water is the main ingredient in all of our brands. We aim to improve efficiency, and minimise our water use, particularly in water-stressed areas. Reporting on our efforts to increase water efficiency builds credibility and trust and helps us engage with our stakeholders on this important topic. Our efforts to increase our water efficiency also reflect our commitment to deliver consistent value creation by future proofing our business to the impacts of climate change.

Why we measure

Militating our impact on climate change is a business imperative. Reporting in detail on our efforts to reduce carbon emissions from our direct operations, even when it is challenging to do, demonstrates our commitment to reduce our contribution to global warming and helps build credibility and trust. This is an important topic for our business and external stakeholders and supports our commitment to consistent value creation by future proofing our business.

Performance

This year’s 90% of our people completed our Your Voice survey. 84% were identified as engaged. 99% declared themselves proud to work for Diageo. 84% would recommend Diageo as a great place to work and 77% were extremely satisfied with Diageo as a place to work.

Performance

This year’s rate of 0.91 is a marginal improvement on fiscal 22 performance. Whilst the numbers of lost-time accidents decreased, the severity rate relating to lost-time accidents increased due to a carry-over of days lost for accidents in 2022. Severity rate is a measure of the seriousness of the incident and consequent absence from work.

Performance

This year 44% of our leadership roles were held by women, the same percentage as last year and 43% of our leaders were ethnically diverse, compared with 47% last year.

Performance

Fiscal 23 saw changes to our production profile which drove a 12% reduction in efficiency overall despite implementation of a number of water efficiency projects. Our water efficiency has increased by 9.4% against the 2020 baseline.

Performance

Our direct operations carbon emissions reduced by 5.4% in fiscal 23. The main drivers contributing to the lower emissions are the beneficial impact from our East Africa biomass plants and increases in use of liquid biofuel and renewable electricity.

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(1) The baseline year for our ‘Society 2030: Spirit of Progress’ goals is 2020 unless otherwise stated. For our target to educate 10 million young people, parents and teachers on the dangers of harmful alcohol use.

(2) Because of the Covid-19 pandemic, in 2020 we did not run a full Your Voice survey. Instead we used a pulse survey tool to listen to employees’ feedback and learn from their experiences of working during the pandemic. We therefore do not have a comparable employee engagement metric for 2020.

(3) We measure employee satisfaction, advocacy and pride through the use of the same three questions applied in the 2021-2023 surveys (satisfaction, advocacy and pride).

(4) In accordance with Diageo’s environmental reporting methodologies and, where relevant, M3 14032G G49 Protocol, data for 2019, the baseline year 2020 and for the intervening period up to the end of last financial year has been restated where relevant.

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(1) More detail on page 58
(2) More detail on page 63
(3) More detail on page 65
(4) More detail on page 67
(5) More detail on page 79
(6) More detail on page 82

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Diageo

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I am encouraged by our fiscal 23 results which were in line with our medium-term guidance despite ongoing economic volatility and continued inflationary pressure. Our diversified portfolio and profitable growth algorithm continue to deliver sustainable growth, and our consistent productivity savings enables us to smartly reinvest in our brands.

I am pleased with our performance in fiscal 23. We delivered a strong set of results, despite ongoing global economic volatility and continued inflationary pressure. Both organic net sales and organic operating profit growth were within our medium-term guidance. Our advantaged portfolio of brands and diversified global footprint continue to fuel sustainable growth on top of two consecutive years of double-digit growth.

Our profitable growth algorithm underpins this strong top line performance. Our focus on quality sustainable growth is backed by investing smartly in marketing and data analytics tools to support our outstanding brand-building capabilities, active portfolio management and consumer-led innovation. Combined with our agile and dynamic supply chain and operational capabilities, they enable us to deliver sustainable, long-term growth. Alongside premiumising our portfolio, we are strategically increasing price and driving productivity, all of which enables us to invest smartly in the long term.

We drove £450 million in productivity savings in fiscal 23 and delivered organic operating margin expansion of 15bps. We continued our disciplined conversion of profit into cash and delivered free cash flow of £1.8 billion. Strong operating discipline led to a reduction in debtors. However, credit reducing due to the moderation of sales growth in the year. We remain a progressive dividend payer and in addition to completing our £4.5 billion multi-year return of capital programme, we also returned an additional half a billion pounds of capital to shareholders. In total, we returned £3.1 billion to shareholders through dividends and share buybacks in fiscal 23.

Our core capabilities, strategic priorities and highly-engaged people give me confidence in our ability to navigate short-term volatility and uncertainty while continuing to drive sustainable long-term growth and deliver shareholder value.

Finally, starting in fiscal 24, in line with reporting requirements the functional currency of Diageo plc changed from sterling to US dollar. Diageo has also changed its presentation currency to US dollar.*

Lavanya Chandrashekar (Chief Financial Officer)

SUMMARY FINANCIAL REVIEW

Chief Financial Officer’s introduction

"I am encouraged by our fiscal 23 results which were in line with our medium-term guidance despite ongoing economic volatility and continued inflationary pressure. Our diversified portfolio and profitable growth algorithm continue to deliver sustainable growth, and our consistent productivity savings enables us to smartly reinvest in our brands.

I am pleased with our performance in fiscal 23. We delivered a strong set of results, despite ongoing global economic volatility and continued inflationary pressure. Both organic net sales and organic operating profit growth were within our medium-term guidance. Our advantaged portfolio of brands and diversified global footprint continue to fuel sustainable growth on top of two consecutive years of double-digit growth.

Our profitable growth algorithm underpins this strong top line performance. Our focus on quality sustainable growth is backed by investing smartly in marketing and data analytics tools to support our outstanding brand-building capabilities, active portfolio management and consumer-led innovation. Combined with our agile and dynamic supply chain and operational capabilities, they enable us to deliver sustainable, long-term growth. Alongside premiumising our portfolio, we are strategically increasing price and driving productivity, all of which enables us to invest smartly in the long term.

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Finally, starting in fiscal 24, in line with reporting requirements the functional currency of Diageo plc changed from sterling to US dollar. Diageo has also changed its presentation currency to US dollar.*

Lavanya Chandrashekar (Chief Financial Officer)"

Net sales (£ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Reported net sales</th>
<th>Organic net sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>15,652</td>
<td>122</td>
</tr>
<tr>
<td>2022</td>
<td>14,409</td>
<td>114</td>
</tr>
</tbody>
</table>

Organic net sales grew 6.5%.

--

Operating profit (£ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Reported operating profit</th>
<th>Organic operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>4,632</td>
<td>321</td>
</tr>
<tr>
<td>2022</td>
<td>3,024</td>
<td>234</td>
</tr>
</tbody>
</table>

Organic operating profit grew 7.0%.

--

Earnings per share

<table>
<thead>
<tr>
<th>Year</th>
<th>Basic earnings per share</th>
<th>Earnings per share before exceptional items</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>164.9 pence</td>
<td>163.5 pence</td>
</tr>
<tr>
<td>2022</td>
<td>152.0 pence</td>
<td>150.6 pence</td>
</tr>
</tbody>
</table>

--

Free cash flow

<table>
<thead>
<tr>
<th>Year</th>
<th>Free cash flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>£1,800m</td>
</tr>
<tr>
<td>2022</td>
<td>£1,640m</td>
</tr>
</tbody>
</table>

--

Return on closing invested capital

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on closing invested capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>40.5%</td>
</tr>
<tr>
<td>2022</td>
<td>31.7%</td>
</tr>
</tbody>
</table>

--

Total shareholder return

<table>
<thead>
<tr>
<th>Year</th>
<th>Total shareholder return</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>(2)%</td>
</tr>
<tr>
<td>2022</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

--

Total shareholder return

<table>
<thead>
<tr>
<th>Year</th>
<th>Total shareholder return</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>(2)%</td>
</tr>
<tr>
<td>2022</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

--

Notes:

1. Organic net sales growth, organic operating profit growth, earnings per share before exceptional items, free cash flow and return on average invested capital are non-GAAP measures. See definitions and reconciliation of non-GAAP measures to GAAP measures on pages 232-239.
2. For further details on exceptional operating items see pages 179-181.
3. For further details on exceptional operating items see pages 181 and 232-239.
Operating margin (%)  
Reported operating margin declined by 147bps  
Organic operating margin expanded by 15bps  

Net cash from operating activities and free cash flow (£ million)  
Generated £3,024 million net cash from operating activities(1) and £1,800 million free cash flow  

Operating margin in waterfall is rounded to nearest decimal place.  
For further details on exceptional operating items see pages 179-181.  
See pages 232-239 for details of hyperinflation adjustment.  

Basic eps increased 17.6% from 140.2 pence to 164.9 pence  
Basic eps before exceptional items(1) increased 7.6% from 151.9 pence to 163.5 pence  

Reported operating margin declined by 147bps, with organic operating margin expansion more than offset by exceptional operating items, negative impact of foreign exchange, acquisitions, disposals and other items.  
Organic operating margin expanded by 15bps, reflecting disciplined cost management despite inflation. Strong organic margin expansion in Asia Pacific, Africa and Latin America and Caribbean was partially offset by declines in North America and Europe.  
Organic gross margin declined by 97bps, primarily driven by cost pressures. Price increases more than offset the absolute impact of cost inflation.  

Basic eps increased 24.7 pence, mainly driven by organic operating profit growth and exceptional items, partially offset by increased finance charges and higher tax.  
Basic eps before exceptional items increased 11.6 pence.  

Net cash from operating activities was £3,024 million, a decrease of £911 million compared to fiscal 22. Free cash flow declined by £983 million to £1,800 million.  
Free cash flow declined as strong growth in operating profit and favourable foreign exchange impacts were more than offset by higher year-on-year working capital outflows, tax payments, interest paid and capital investment.  
The higher year-on-year working capital outflow was primarily driven by normalisation of creditors relative to fiscal 22 as our growth rate moderated in fiscal 23.  
The additional tax payments were the result of increased profit impacting tax instalments and higher balancing payments. The increase in interest paid reflects the higher interest rate environment globally.  

Summary Financial Review continued

[1] Operating margin in waterfall is rounded to nearest decimal place.  
[2] For further details on exceptional operating items see pages 179-181.  
[3] For further details on fair-value remeasurements and hyperinflation adjustment.  
[8] ROIC calculation excludes exceptional operating items from operating profit. For further details on ROIC see page 238.

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Operating profit, FVR, and Hyperinflation adjustment movement was £5 million compared to fiscal 22 (F23 - £22 million; F22 - £17 million).
Our global reach

Our regional profile maximises the opportunity for growth in our sector. Where our products are sold each market is accountable for its own performance and driving growth.

% share of reported net sales by region(1,2)

North America 39%
Europe 21%
Asia Pacific 19%
Latin America and Caribbean 11%
Africa 10%

Our route to consumer

We have five different route to consumer models across our business. Most of the regions employ four of the five high level models defined below; however, how each model operates in certain countries will vary, as will the percentage of net sales delivered through the respective models in each market.

Wholesalers and Distributors

Diageo sells to a wholesaler or distributor who also sells a range of other brands and categories directly to end outlets where consumers can purchase our brands. Where required, this model may include a government control board (or similar), as is the case in certain states in the US and Canada.

Modern Trade

Diageo sells directly to a customer who owns and manages retail outlets, who then in turn sells to consumers via their outlets.

eMarketplace

Diageo sells to a third-party digital marketplace customer where that customer sells to B2C customers and consumers.

Direct to Consumer

Diageo sells directly to consumers, predominantly through portals such as Thebar.com, which is a growing route to consumer model for our business. It allows for direct interface with our consumers rather than through third-party sites as in the eMarketplace model above.

Direct to Store

Diageo sells and delivers directly to end outlets rather than via a central purchasing customer as in the Modern Trade model above. This model is less common than the other models. For example, it is used in Ireland for beer distribution.

Production facilities

The company owns manufacturing production facilities across the globe, including distilleries, breweries, packaging plants, maturation warehouses, cooperages, and distribution warehouses. Diageo’s brands are also produced at plants owned and operated by third parties and joint ventures at several locations around the world. We believe that our facilities are in good condition and working order. We have adequate capacity to meet our current needs, and, in the beer and spirit categories, we have undertaken activities to increase our production capacity to address our anticipated future demand.

The major facilities with locations, principal activities, and products are presented in the below table.

<table>
<thead>
<tr>
<th>Location</th>
<th>Principal activities</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>distilling, bottling, warehousing, cooperage</td>
<td>beer, scotch, gin, vodka, rum, ready to drink, non-alcoholic</td>
</tr>
<tr>
<td>Ireland</td>
<td>distilling, brewing, bottling, warehousing</td>
<td>beer, liqueur, Irish whiskey, non-alcoholic</td>
</tr>
<tr>
<td>Italy</td>
<td>distilling, bottling, warehousing</td>
<td>vodka, rum, ready to drink, non-alcoholic</td>
</tr>
<tr>
<td>Turkey</td>
<td>distilling, bottling, warehousing</td>
<td>raki, vodka, gin</td>
</tr>
<tr>
<td>North America</td>
<td>distilling, bottling, warehousing</td>
<td>vodka, gin, rum, Canadian whiskey, US whiskey, ready to drink</td>
</tr>
<tr>
<td>Brazil</td>
<td>distilling, bottling, warehousing</td>
<td>cachaca, vodka, ready to drink</td>
</tr>
<tr>
<td>Mexico</td>
<td>distilling, bottling, warehousing</td>
<td>tequila</td>
</tr>
<tr>
<td>East Africa</td>
<td>distilling, brewing, bottling, packaging, warehousing</td>
<td>beer, rum, vodka, gin, whisky, brandy, liqueur</td>
</tr>
<tr>
<td>Nigeria</td>
<td>distilling, brewing, bottling, packaging</td>
<td>beer, rum, vodka, gin</td>
</tr>
<tr>
<td>South Africa</td>
<td>distilling, bottling, warehousing</td>
<td>rum, vodka, gin</td>
</tr>
<tr>
<td>ARM</td>
<td>distilling, bottling, warehousing</td>
<td>beer, vodka, gin</td>
</tr>
<tr>
<td>India</td>
<td>distilling, bottling, warehousing</td>
<td>rum, vodka, Indian-Made Foreign Liquor (IMFL), whiskey, scotch, gin</td>
</tr>
<tr>
<td>Australia</td>
<td>distilling, bottling, warehousing</td>
<td>rum, vodka, gin, ready to drink</td>
</tr>
</tbody>
</table>

For more details about our capital investments please see page 267.

For the above map is intended to illustrate general geographic regions where Diageo has a presence and/or in which its products are sold. It is not intended to imply that Diageo has a presence in and/or that its products are sold in every country or territory within a geographic region.

(1) Based on reported net sales for the year ended 30 June 2023. Does not include corporate net sales of £88 million (2022 – £54 million).

(2) Excluding net corporate operating costs of £326 million (2022 – £238 million).

(3) Excluding exceptional operating charges of £622 million (2022 – £388 million) and net corporate operating costs of £326 million (2022 – £238 million).

(4) Employees have been allocated to the region where they live.
North America

North America is the largest market for Diageo and represents over one-third of our net sales. We have a well-positioned portfolio of brands that leads into premiumisation and high-growth categories such as whiskey and tequila. Our strategy is focused on accelerating sustainable growth through data-led insights, targeted investment, and excellence in innovation and our route to market.

Key financials

<table>
<thead>
<tr>
<th>2023</th>
<th>Exchange</th>
<th>Acquisitions and disposals</th>
<th>Organic movements</th>
<th>Other*</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>6,095</td>
<td>332</td>
<td>20</td>
<td>11</td>
<td>—</td>
<td>6,758</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>1,200</td>
<td>122</td>
<td>15</td>
<td>22</td>
<td>1</td>
<td>1,360</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Operating profit before exceptional items</td>
<td>2,456</td>
<td>269</td>
<td>[2]</td>
<td>[57]</td>
<td>55</td>
<td>2,689</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Exceptional operating items (3)</td>
<td>[1]</td>
<td>[1]</td>
<td>[1]</td>
<td>[7]</td>
<td>—</td>
<td>[7]</td>
<td>[7]</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>2,453</td>
<td>2,592</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Other (principally Travel Retail)

Organic sales data is presented for the regions and categories below:

Markets

- US Spirits
- DBC USA
- Canada
- Other (principally Travel Retail)

Regional performance:

- Reported net sales grew 11%, primarily driven by a favourable foreign exchange impact from the strengthening US dollar.
- Organic net sales were flat as growth in Canada and Diageo Beer Company USA (DBC USA) were offset by a decline in US Spirits.
- Strong price/mix growth was offset by a decline in volume, while the region held share of TBA.
- US Spirits net sales declined 11%, tapping strong double-digit growth impacted by distributor stock replenishment and increased inventories of imported products in fiscal 22. Depletion growth was approximately two percentage points ahead of shipment growth in fiscal 23, with some variation across brands. Overall inventory levels at distributors at the end of fiscal 23 were in line with historical levels.
- DBC USA net sales grew 9% reflecting strong growth in Guinness, partially offset by a decline in Smirnoff flavoured malt beverages.
- Organic operating margin declined by 101bps, primarily driven by cost inflation and an adverse category mix. Strategic price increases and productivity savings more than offset the absolute impact of cost inflation.
- Marketing investment grew 2% as we continue to invest and support growth across key categories.
- Doubling the number of brands running responsible drinking campaigns, we reached more than 150 million consumers. We also led efforts with Black, Latino, and Native American organizations to address the harmful use of alcohol in the United States through our Multicultural Consortium for Responsible Drinking.
- Our operations reduced Scope 1 and 2 carbon emissions by 17% through continued energy efficiency and renewable energy initiatives. Key factors in this included a full year of operation for our carbon neutral distillery at Lebanon, powered by 100% renewable electricity, and running our Valleyfield site on renewable natural gas.
- Due to higher volume of distilled products going to maturation, overall water efficiency decreased by 0.8%. We implemented water-saving initiatives across our sites that enabled us to reduce total water usage compared to last year.

Brands

- Crown Royal net sales grew 23%.
- Don Julio net sales grew 19%, primarily driven by aged variants and the launch of ultra-premium Don Julio Rosado Reposado. Both Casamigos and Don Julio shipments grew ahead of depletions as supply availability enabled distributors to increase inventory to more optimal levels.
- Crown Royal whisky net sales declined 10%, tapping inventory replenishment in fiscal 22 when the brand recovered from supply constraints. Crown Royal gained double-digit share of the Canadian whisky category, and depletions grew ahead of shipments in fiscal 23.
- Vodka net sales declined 7%, primarily due to Cîroc, partially offset by growth in Smirnoff. Smirnoff growth of 4% was driven by core and flavoured variants. Ketel One net sales were flat, reflecting growth in the core variant offset by a decline in Ketel One Botanicals. Cîroc net sales declined 22% as consumers shifted into other spirits categories.
- Johnnie Walker net sales declined 15%. Johnnie Walker gained share of the scotch category driven by Johnnie Walker Black Label and Johnnie Walker Blue Label, and depletions grew ahead of shipments.
- Rum net sales declined 44% as consumers shifted into other spirits categories.
- Spirit-based ready to drink (RTD) net sales declined 44% primarily due to lapping the launch of Crown Royal RTD and Loyal 9 underperformance in certain US states.

Forecasted movements (3) (in £ million)

<table>
<thead>
<tr>
<th>Brands</th>
<th>Sales (2)</th>
<th>Disposals (1)</th>
<th>£ million</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guinness</td>
<td>4</td>
<td>9</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>
| Cask. Lagavulin 16YO and luxury innovation Lagavulin 11YO Charred Oak Re replenishment in fiscal 22 when the brand recovered from supply constraints. Bulleit whiskey gained both spirits industry and US whisky category share, and depletions grew double-digit.
- Buchanan’s net sales grew 31%, primarily driven by the launch of Buchanan’s Pineapple, an innovation that gained spirits industry share. Buchanan’s Scotch declined 44%, but gained both spirits industry and scotch category share, and depletions grew ahead of shipments.
- Single Malts net sales grew 25%, primarily driven by ultra-premium Lagavulin 16YO and luxury innovation Lagavulin 11YO Charred Oak Cask.
- Spirit-based ready to drink (RTD) net sales declined 44% primarily due to lapping the launch of Crown Royal RTD in fiscal 22 and Loyal 9 underperformance in certain US states.

Market highlights - US Spirits:

- Tequila net sales grew 15%, and drove significant share gains in both the spirits industry and tequila category. Casamigos net sales grew 14% driven by strong price/mix and volume growth, and the launch of Casamigos Cristalino. Don Julio net sales grew 13%, primarily driven by aged variants and the launch of ultra-premium Don Julio Rosado Reposado. Both Casamigos and Don Julio shipments grew ahead of depletions as supply availability enabled distributors to increase inventory to more optimal levels.
- Vodka net sales declined 7%, primarily due to Cîroc, partially offset by growth in Smirnoff. Smirnoff growth of 4% was driven by core and flavoured variants. Ketel One net sales were flat, reflecting growth in the core variant offset by a decline in Ketel One Botanicals. Cîroc net sales declined 22% as consumers shifted into other spirits categories.
- Johnnie Walker net sales declined 13%. Johnnie Walker gained share of the scotch category driven by Johnnie Walker Black Label and Johnnie Walker Blue Label, and depletions grew ahead of shipments.
- Rum net sales declined 44% as consumers shifted into other spirits categories.
- Spirit-based ready to drink (RTD) net sales declined 44% primarily due to lapping the launch of Crown Royal RTD and Loyal 9 underperformance in certain US states.

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Europe

Europe is a diverse region with a trend-leading on-trade channel and tourism hotspots, all of which offer a strong platform for the development of our premium brands. We hold a leadership positions across major categories and markets, and have been able to achieve strong share gains in the last fiscal to deliver another year of double-digit organic net sales growth.

Key financials

<table>
<thead>
<tr>
<th>2022 net sales (£ million)</th>
<th>Exchange</th>
<th>Acquisitions and disposals (£ million)</th>
<th>Organic movement</th>
<th>Other (1) (£ million)</th>
<th>Hyperinflation (2) (£ million)</th>
<th>2023 net sales (£ million)</th>
<th>Reported movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>3,212</td>
<td>(85)</td>
<td>(9)</td>
<td>347</td>
<td>106</td>
<td>3,569</td>
<td>11</td>
</tr>
<tr>
<td>Marketing</td>
<td>577</td>
<td>3</td>
<td>2</td>
<td>42</td>
<td>11</td>
<td>635</td>
<td>10</td>
</tr>
<tr>
<td>Operating profit before exceptional items</td>
<td>1,077</td>
<td>5</td>
<td>(34)</td>
<td>103 (11)</td>
<td>22</td>
<td>1,094</td>
<td>9</td>
</tr>
<tr>
<td>Exceptional operating items(3)</td>
<td>(146)</td>
<td></td>
<td></td>
<td>(8)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>871</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,097</td>
<td>26</td>
</tr>
</tbody>
</table>

Regional performance:

- Reported net sales grew 11%, driven by organic growth and the hyperinflation adjustment(2) related to Turkey, partially offset by an unfavourable impact from foreign exchange.
- Organic net sales grew 11%, driven by double-digit growth across most markets. Growth was mainly driven by price/mix, while holding volume.
- Price/mix was primarily driven by strong price increases across all markets, and supported by positive mix in beer and scotch.
- Spirits net sales grew 10%, driven by growth in Scotch, vodka, and tequila. Johnnie Walker grew 29% driven by Northern European, Southern Europe and Travel Retail.
- Beer net sales grew 18%, driven by price increases and volume growth. Guinness net sales grew 20% and gained share in the on-trade in Great Britain and Ireland.
- Organic operating margin declined by 12bps, primarily driven by cost inflation, partially offset by price increases, improved category mix and productivity savings.
- Marketing investment grew 7%, with focused investment in Tanqueray, Johnnie Walker, Baileys and Guinness.
- The SMASHED programme educated 112,910 young people on the dangers of underage drinking.
- We built strong momentum in year two of our water replenishment projects in Turkey, generating the annual capacity to replenish 157,349m³ water.
- Scope 1 and 2 carbon emissions increased by 35%, primarily driven by increased scope 2 distillation. To mitigate some of this growth we switched some key distilleries (Auchroisk, Talisker and Cardhu) to biofuels. Our GHG emissions for beer stayed flat, even though production volumes were higher than planned.
- Water efficiency decreased by 2.4% due to the volume of distilled water.

Markets

- Water efficiency.
- And water recovery in St James’s Gate led to a 9% improvement in water efficiency.
- The SMASHED programme educated 112,910 young people on the dangers of underage drinking.
- Winding down of its operations announced in June 2022. In the rest of the market, spirits grew double-digit and gained market share primarily driven by Johnnie Walker.
- Turkey net sales grew 38%, with volume growth of 9%. Growth was driven by price increases in response to inflation and higher excise duties. Growth was broad-based, led by Scotch, vodka and raki.

Brands

- Guinness: 6 20 31
- Johnnie Walker: 18 29 25
- Baileys: (3) (1) 1
- Smirnoff: (1) 14 16
- Captain Morgan: 9
- Tanqueray: 6 7
- J&J: (7) (1) 2
- Yari Baki: 7 (10)

Market highlights:

- Great Britain net sales grew 7%, mostly driven by strong performance in Guinness with strong market share gains. Spirits net sales growth was driven by tequila, vodka and RTDs, partially offset by gin.
- Northern Europe net sales grew 11%. Growth was primarily driven by Scotch with strong double-digit growth in Johnnie Walker, and strong growth in vodka and tequila. Spirits gained market share.
- Southern Europe net sales grew 12%, led by strong performance in Scotch, in addition to tequila and gin. Growth reflected continued recovery in the on-trade and increased tourism, alongside market share gains in spirits.
- Ireland net sales grew 16%, primarily driven by growth in Guinness reflecting share gains in a recovering on-trade.
- Eastern Europe net sales declined 3%, due to the suspension of exports to and sales in Russia as announced in March 2022 and the winding down of its operations announced in June 2022. In the rest of the market, spirits grew double-digit and gained market share primarily driven by Johnnie Walker.
- Turkey net sales grew 38%, with volume growth of 9%. Growth was driven by price increases in response to inflation and higher excise duties. Growth was broad-based, led by Scotch, vodka and raki.

(1) For volume remeasurements. For further details see page 55.
(2) See pages 181 and 232-239 for details of hyperinflation adjustment.
(3) Exceptional items in respect of Diageo’s decision, announced on 28 June 2022, to wind down its operations in Russia. For further details on exceptional operating items see pages 179-180.
(4)(5) Reported volume movement has been impacted by acquisitions and/or disposals. For further details see pages 232-236.
(6) Spirits brands excluding ready-to-drink and non-alcoholic variants.
(7) Organic equals reported volume movement, except for Tanqueray and J&J, which had reported volume movement of 3% and 8% respectively.
Asia Pacific

In Asia Pacific, our focus is to grow in both developed and emerging markets across our entire portfolio. We manage our portfolio to meet the increasing demands of the growing middle class, and aim to inspire our consumers to drink better, not more.

Key financials

<table>
<thead>
<tr>
<th>Markets and categories</th>
<th>2022 (£ million)</th>
<th>2021 (£ million)</th>
<th>% change</th>
<th>2022 (£ million)</th>
<th>2021 (£ million)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
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<tr>
<td>Greater China</td>
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<td>6 (18)</td>
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<td>China</td>
<td>10 (12)</td>
<td>11 (11)</td>
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<td>10 (12)</td>
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<td>Australia</td>
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<td>33 (16)</td>
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<td>33 (16)</td>
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<tr>
<td>South East Asia</td>
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<td>4 (6)</td>
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<tr>
<td>North Asia</td>
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<td>67 (65)</td>
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<tr>
<td>Travel Retail Asia and Middle East</td>
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<td>38 (38)</td>
<td>67 (65)</td>
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</tbody>
</table>

Brands

Markets

The above map is intended to illustrate general geographic regions where Diageo has a presence and/or that its products are sold in every country or territory within a geographic region.

Reported net sales by market (%)

- India
- Greater China
- Australia
- South East Asia
- North Asia
- Travel Retail Asia and Middle East

Reported net sales by category (%)

- Spirits
- Beer
- Ready to drink
- Other

Regional performance:
- Reported net sales grew 11%, primarily reflecting strong organic growth and a favourable impact from foreign exchange.
- Organic net sales grew 13%. All markets grew, except Greater China, with strong double-digit growth in India, South East Asia, Travel Retail Asia and Middle East, and North Asia.
- Price/mix of 7% was led by strong price increases across all markets. Positive mix was driven by strength in premium-plus scotch in most markets. Volume grew 8% in premium-plus price tiers.
- Spirits net sales grew 14%, primarily driven by double-digit growth in scotch, the region’s largest category. IMFL whisky also contributed to growth, partially offset by a decline in Chinese white spirits.
- Organic operating margin expanded by 363bps as the benefits from the continued recovery of Travel Retail, price increases and operational efficiencies more than offset the impact of cost inflation.
- Marketing investment grew 9%, with focused investment in scotch in South East Asia, India, Greater China.
- Advocating for responsible consumption of alcohol through DRINKING and brand campaigns, we reached more than 134 million consumers with messages that promote moderation.
- The SMASHED programme educated 340,216 young people on the dangers of underage drinking.
- We trained more than 8,236 people on business and hospitality skills through our Learning for Life programme and delivered 38,467 training sessions through Diageo Bar Academy.
- Our water efficiency improved by 16.2% this year, mainly by focusing on continuous improvement across the region. We piloted waterless cooling towers successfully in India and plan to introduce them more widely.
- Our Scope 1 and 2 carbon emissions decreased by 9%, mainly because of a green energy tariff in Australia and focused energy improvement across the region.

Market highlights:
- India net sales grew 17%, driven by strong consumer demand and continued premiumisation. IMFL whisky and scotch delivered double-digit growth. Scotch growth was driven by Black Dog, Johnnie Walker Black Label and Black & White.
- Greater China net sales declined 4%. Strong performance in scotch was more than offset by a decline in Chinese white spirits which continued to be impacted by Covid-19 restrictions, especially in the on-trade. Scotch grew 13%, driven primarily by Taiwan, with strong performance in the super-premium plus segment led by Johnnie Walker and The Singleton.
- Australia net sales grew 2%, primarily driven by price increases.
- Growth was led by rum, tequila and beer.
- South East Asia net sales grew 33%, benefiting from a strong recovery following the easing of Covid-19 restrictions and strong growth in the super-premium plus segment. Scotch grew 31%, mostly driven by Johnnie Walker premium variants, and single malts, primarily The Singleton and Mortlach.
- North Asia (Korea and Japan) net sales grew 15%, benefiting from the recovery of the on-trade. Growth was primarily driven by double-digit growth in Windsor and Johnnie Walker premium plus variants led by Johnnie Walker Blue Label and Johnnie Walker Black Label.
- Travel Retail Asia and Middle East net sales grew 47% primarily driven by Johnnie Walker premium plus variants, led by Johnnie Walker Blue Label and Johnnie Walker Black Label.

[1] India’s Marked Foreign Input (MFI) centralisation.
[2] Reported volume movement has been impacted by acquisitions and/or disposals. For further details see pages 222-228.
[3] Spirits brands excluding ready to drink and non-alcoholic variants.
[5] Growth figures represent total Chinese white spirits of which Shui Jing Fang is the principal brand.
Latin America and Caribbean

In Latin America and Caribbean (LAC), we are increasing our market share through focused consumer-centric delivery across core categories including scotch, gin, tequila and vodka. We do this through targeted marketing investment in consumer focussed occasions where traditionally non-spirit TBA products have had a strong presence.

Key financials

<table>
<thead>
<tr>
<th>2023</th>
<th>$ million</th>
<th>£ million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisitions and disposals</td>
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<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Organic movement</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other(1)</td>
<td>—</td>
<td>—</td>
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</tr>
<tr>
<td>Net sales</td>
<td>1,525</td>
<td>129</td>
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<tr>
<td>Marketing</td>
<td>243</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>Operating profit</td>
<td>538</td>
<td>52</td>
<td>—</td>
</tr>
</tbody>
</table>

Reported net sales by market (%)

- Brazil (2)
- Mexico (2)
- CCA (Central America and Caribbean) (2)
- Andean (Colombia and Venezuela) (2)
- South LAC (Argentina, Bolivia, Chile, Ecuador, Paraguay, Peru and Uruguay) (3)
- PUB (Paraguay, Uruguay and Brazil) (3)
- Other (principally Travel Retail)

Reported net sales by category (%)

- Spirits(2)
- Beer(2)
- Ready to drink(2)
- Other(2)

Global giants and local stars(4)

- Johnnie Walker
- Don Julio
- Smirnoff
- Black & White
- Bolivar

Regional performance:

- Reported net sales grew 18%, reflecting organic growth and a favourable impact from foreign exchange, mainly due to a strengthening of the Mexican peso and Brazilian real.
- Organic net sales grew 9%, with most markets delivering growth, despite lapping strong double-digit growth in fiscal 22. Growth was broad-based across price tiers, except for value, which declined as a result of our premiumisation strategy. Strong price/mix was partially offset by a 3% decline in volume, primarily in the value price tier. Double-digit sales growth in the first half of fiscal 23 was followed by inventory normalisation in the second half.
- Price/mix was driven by strong price increases across all markets, and positive mix supported by the strength in premiumplus scotch in most markets.
- Spirits net sales grew 11%, primarily led by double-digit growth in scotch, particularly Johnnie Walker Black Label, Johnnie Walker Red Label and Old Parr. Growth was also driven by strong double-digit growth in Don Julio and Smirnoff.
- Organic operating margin expanded by 72bps. The positive impact of price increases, premiumisation, leverage on operating costs and one-off tax benefits more than offset the increases in marketing investment and cost inflation.
- Marketing investment grew 34%, ahead of organic net sales growth, with increased investment in most markets.
- We reached more than 376 million people with campaigns promoting moderation. They included ‘Derribando Mitos’, a campaign created in fiscal 20 for Peru and expanded this year to the Caribbean and Central America market. It aims to challenge myths about alcohol consumption. In fiscal 23, ‘Derribando Mitos’ reached more than 51 million people.
- The SMASHED programme educated 984,213 young people on the dangers of underage drinking.
- We reduced our Scope 1 and 2 carbon emissions by 32%. Tequila was the biggest contributor, through new or upgraded biomass boilers in Mexico, and our changing production mix has also played a part.
- We generated the annual capacity to replenish more than 280,977 m³ through water sanitation and hygiene, tree planting and water catchment rehabilitation projects for communities in Brazil and Mexico.

Market highlights:

- Brazil net sales grew 8%, led by double-digit growth in Johnnie Walker and Old Parr. Growth was driven by price increases and higher marketing investment, leading to market share growth.
- Mexico net sales grew 9%, primarily driven by scotch and tequila. Scotch growth was led by Johnnie Walker Red Label and Johnnie Walker Black Label, driven by price increases. Tequila growth was driven by price increases, the lapping of aged liquid supply constraints in fiscal 22 and increased marketing investment.
- Central America and Caribbean (CCA) net sales grew 14%, mainly driven by scotch and tequila. Growth was driven by price increases, premiumisation and continuing momentum in the on-trade. Scotch growth was mostly driven by Johnnie Walker Black Label and Buchanan’s, supported by increased marketing investment. Tequila growth was driven by Don Julio 1942.
- South LAC (Argentina, Bolivia, Chile, Ecuador, Paraguay, Peru and Uruguay) net sales grew 21%, primarily driven by scotch, vodka and gin. Growth was driven by price increases and premiumisation, partially offset by a decline in volume.
- Andean (Colombia and Venezuela) net sales declined 3%, due to an adverse macroeconomic environment in Colombia. Strong price increases and premiumisation were more than offset by a decline in volume.

Market and categories

<table>
<thead>
<tr>
<th>Markets and categories</th>
<th>Organic movement</th>
<th>Reported net sales</th>
<th>Organic net sales</th>
<th>Reported net sales</th>
<th>%</th>
<th>%</th>
<th>%</th>
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<td>(3)</td>
<td>(3)</td>
<td>9</td>
<td>18</td>
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<td>Brazil(1)</td>
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<td>Mexico(1)</td>
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<tr>
<td>Andean</td>
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<td>(7)</td>
<td>(13)</td>
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<td></td>
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<tr>
<td>Spirits(1)</td>
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<td>(3)</td>
<td>11</td>
<td>19</td>
<td></td>
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</tr>
<tr>
<td>Ready to drink</td>
<td>(13)</td>
<td>(13)</td>
<td>(7)</td>
<td>—</td>
<td></td>
<td></td>
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</tbody>
</table>

(1) Fair value remeasurements, for further details see page 55.
(2) Reported volume movement has been impacted by acquisitions and/or disposals. For further details see pages 232-236.
(3) From July 2022 Uruguay and Paraguay domestic channels moved on a management basis from PBL (Paraguay, Uruguay and Brazil) to TEMAC (Peru, Ecuador, Bolivia, Argentina and Chile) and the new cluster has been called South LAC. This reflects how management reviews performance.
(4) Spirits brands excluding ready to drink and non-alcoholic variants.
(5) Organic equals reported volume movement.
Africa

In Africa, our strategy is to grow our beers fast and our spirits faster. Our operating model seeks to build resilience, agility and strength into our African businesses as they develop. We drive smart investments through local manufacturing, innovation and partnerships to unlock growth.

Key financials

<table>
<thead>
<tr>
<th></th>
<th>2022 (£ million)</th>
<th>Exchange</th>
<th>Acquisitions and disposals (£ million)</th>
<th>Operating margin (€ million)</th>
<th>2021 (£ million)</th>
<th>Exchange</th>
<th>Acquisitions and disposals (£ million)</th>
<th>Operating margin (€ million)</th>
<th>%</th>
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<td>1,599</td>
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<td>1,479 (36)</td>
<td>186</td>
<td>1,412</td>
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<td>11</td>
<td>(7)</td>
<td>(2)</td>
<td>(4)</td>
<td>11</td>
<td>1</td>
<td>—</td>
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<tr>
<td>Operating profit before exceptional items</td>
<td>315 (14)</td>
<td>9</td>
<td>220 (20)</td>
<td>(60)</td>
<td>315</td>
<td>9</td>
<td>176 (44)</td>
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<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>315</td>
<td>176</td>
<td>116</td>
<td>(44)</td>
<td>315</td>
<td>176</td>
<td>116</td>
<td>(44)</td>
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</tr>
</tbody>
</table>

Markets

The above map is intended to illustrate general geographic regions where Diageo has a presence and/or in which its products are sold. It is not intended to imply that Diageo has a presence in and/or that its products are sold in every country or territory within a geographic region.

 Reported net sales by market (%)

<table>
<thead>
<tr>
<th>Markets and categories</th>
<th>2021</th>
<th>2022</th>
<th>Reported movement</th>
<th>Reported sales (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ million</td>
<td>£ million</td>
<td>%</td>
<td>%</td>
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<td>East Africa(2)</td>
<td>(1)</td>
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<td>5</td>
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<td>Africa Regional Markets</td>
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<td>(2)</td>
<td>8</td>
<td>3</td>
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<tr>
<td>Nigeria</td>
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<td>(4)</td>
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<td>South Africa</td>
<td>(16)</td>
<td>(16)</td>
<td>1</td>
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<tr>
<td>Other (principally Travel Retail)</td>
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<td>(2)</td>
<td>8</td>
<td>2</td>
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<td>Spirits(1)</td>
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<tr>
<td>Ready to drink</td>
<td>(4)</td>
<td>(4)</td>
<td>11</td>
<td>5</td>
</tr>
</tbody>
</table>

Regional performance:

• Reported net sales grew 1%, primarily driven by organic growth and disposals, mostly offset by an unfavourable impact from foreign exchange.
• Organic net sales grew 5%, with growth across all markets, except East Africa. Growth was driven by price increases, partially offset by a decline in volume.
• Price/mix of 12% was driven by price increases across all markets and positive mix. Volume declines were primarily in the value and standard price tiers.
• Spirits net sales grew 8%, driven by growth in international spirits particularly Johnnie Walker Black Label, and Orijin.
• Beer net sales grew 3%, with strong growth in Africa Regional Markets and Nigeria, partially offset by a decline in East Africa. Growth was primarily driven by Malta Guinness and Guinness, which grew 22% and 7% respectively.
• Organic operating margin expanded by 126bps, primarily driven by price increases, productivity savings, positive category mix and tapping prior year one-off costs. These impacts were partially offset by cost inflation.
• Marketing investment grew 2%, focused on supporting spirits premiumisation and Guinness.
• The SMASHED programme educated 548,478 young people on the dangers of underage drinking.
• We reduced our Scope 1 and 2 carbon emissions by 33%, thanks largely to commissioning and optimising three biomass facilities in Kenya and Uganda.
• Our water efficiency decreased by 2.6% because of lower production volumes. We partly mitigated this by commissioning our water recovery plants in Nigeria and further optimising our water recovery plants in Kenya and Uganda.
• We trained more than 9,517 people (51% women) in business and hospitality skills through our Learning for Life programme in seven countries, including for the first time, Mozambique.
• Our community water, sanitation and hygiene (WASH) programmes provided clean water, sanitation and hygiene for water-stressed communities near our sites in all our water-stressed markets.

Brands

Reported net sales by category (%)

<table>
<thead>
<tr>
<th>Global giants and local stars(2)</th>
<th>2021</th>
<th>2022</th>
<th>Reported movement</th>
<th>Reported sales (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ million</td>
<td>£ million</td>
<td>%</td>
<td>%</td>
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<tr>
<td>Guinness</td>
<td>(8)</td>
<td>(7)</td>
<td>7</td>
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</tr>
<tr>
<td>Johnnie Walker</td>
<td>5</td>
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<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Smirnoff</td>
<td>(23)</td>
<td>(4)</td>
<td>(9)</td>
<td>(9)</td>
</tr>
<tr>
<td>Other beers</td>
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<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Malta Guinness</td>
<td>(7)</td>
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<td>2</td>
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<tr>
<td>Senator</td>
<td>(17)</td>
<td>(4)</td>
<td>(4)</td>
<td>(4)</td>
</tr>
<tr>
<td>Tuskier</td>
<td>(8)</td>
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<td>(8)</td>
<td>(8)</td>
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<tr>
<td>Sawangali</td>
<td>(7)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
</tr>
</tbody>
</table>

Market highlights:

• East Africa net sales declined 2%. Growth in spirits was more than offset by a volume decline in beer following price and duty increases. Spirits growth was primarily driven by Scotch, particularly Johnnie Walker.
• Africa Regional Markets net sales grew 22% led by growth in beer, primarily driven by Malta Guinness supported by price increases. Spirits growth was primarily driven by Johnnie Walker Black Label.
• Nigeria net sales grew 11%. Growth was led by Guinness and Orijin.
• South Africa net sales grew 1%, primarily driven by growth in tequila and rum, which offset declines in vodka and gin. Super-premium plus brands grew strongly at 38%.

(1) For further details on exceptional operating items see pages 179-181.
(2) Reported volume movement has been impacted by acquisitions and disposals. For further details see pages 233-236.
(3) Spirits brands excluding ready-to-drink and non-alcoholic variants.
(4) Organic equals reported volume movement, except for Guinness and Malta Guinness, which had reported volume movement of (9)% and (7)% respectively.
Spirits net sales grew 6%, with flat volume. Growth was across most categories, including double-digit performance in scotch, tequila and IMFL whisky.

Scotch net sales grew 12%, with 2% volume growth. Growth was led by Johnnie Walker, with strong growth of 15%, and scotch malts also grew strongly at 16%.

• Johnnie Walker Black Label grew 16%, with particularly strong growth in Asia Pacific, where it grew 30%.
• Johnnie Walker Red Label grew 16%, with double-digit growth in all regions except Africa.

Scotch malts grew 16%, primarily driven by strong double-digit growth in Asia Pacific and North America.

Tequila net sales grew 19%, reflecting strong performance of Don Julio and Casamigos which grew 20% and 16% respectively, driven by North America.

Vodka net sales grew 1% with a volume decline of 3%. Declines in North America and Africa were offset by double-digit growth across all other regions.

Rum net sales grew 2% driven by Captain Morgan growth across all regions except North America. Rum volume declined 7%.

Liqueurs net sales declined 1%, driven by Godiva.

Ready to drink net sales were flat, with growth in Europe and Africa offset by a decline in North America.
Summary income statement

<table>
<thead>
<tr>
<th>20 June 2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>£ million</td>
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<tr>
<td>Sales</td>
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<td>Excise duties</td>
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<tr>
<td>Gross profit</td>
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<tr>
<td>Non-operating items</td>
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<tr>
<td>Operating profit before exceptional items</td>
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<tr>
<td>Exceptional items</td>
<td>(310)</td>
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<tr>
<td>Operating profit</td>
<td>4,487</td>
</tr>
<tr>
<td>Net finance charges</td>
<td>(422)</td>
</tr>
<tr>
<td>Non-operating items</td>
<td>(17)</td>
</tr>
<tr>
<td>Net finance charges</td>
<td>(328)</td>
</tr>
<tr>
<td>Operating profit before taxation</td>
<td>4,161</td>
</tr>
<tr>
<td>Taxation</td>
<td>(1,110)</td>
</tr>
<tr>
<td>Profit for the year</td>
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</tr>
</tbody>
</table>

(a) Exchange
The impact of movements in exchange rates on reported figures for operating profit was principally in respect of the favourable exchange impact of the strengthening of the US dollar and Mexican peso against the sterling, partially offset by the weakening of the Nigerian naira, Ghanaian cedi and the Turkish lira.

(b) Acquisitions and disposals

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Year ended</th>
</tr>
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<tbody>
<tr>
<td>20 June 2023</td>
<td>20 June 2022</td>
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<td>Exchange rates</td>
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</tr>
<tr>
<td>Transaction E1</td>
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</tbody>
</table>

(c) Exceptional items
In the year ended 30 June 2023, exceptional operating items were a loss of £622 million (2022 – a loss of £388 million), mainly due to charges related to brand impairment (£438 million) and the supply chain agility programme (£100 million).

(d) Fair value remeasurement
The adjustments to marketing and other operating expenses were the elimination of fair value changes to contingent consideration liabilities on prior acquisitions in respect of prior year acquisitions of £13 million for the year ended 30 June 2023 and £65 million for the year ended 30 June 2022.

(e) Taxation
The reported tax rate for the year ended 30 June 2023 was 20.5% compared with 23.9% for the year ended 30 June 2022.

(f) Dividend
The group aims to increase the dividend each year. The decision in respect of the dividend is made with reference to the dividend cover, as well as current performance trends, including sales and profit after tax together with cash generation. Diageo targets dividend cover (the ratio of basic earnings per share before exceptional items to dividend per share) within the range of 1.8-2.2 times. For the year ended 30 June 2023, dividend cover is 2.0 times. The recommended final dividend for the year ended 30 June 2023, to be paid to the shareholders for approval at the Annual General Meeting is £0.82 per share, an increase of 5% on the prior year final dividend. This would bring the full year dividend to £0.93 per share, an increase of 5% on the prior year.

(g) Return of capital
Diageo completed a total of £14 billion return of capital for the year ended 30 June 2023, which included £9.9 billion related to the successful completion of Diageo’s previous share buyback programme in which £4.5 billion of capital was returned to shareholders, and returned an additional £0.5 billion of capital to shareholders which was announced as a new share buyback programme on 16 February 2023 and completed on 2 June 2023.

In the year ended 30 June 2023, the company purchased 17.8 million ordinary shares (2022 – 61.2 million) at a cost of £1,381 million (including transaction costs of £13 million (2022 – £2,284 million including transaction costs of £36 million)). All shares purchased under the share buyback programme were cancelled.

Movement in net borrowings and equity

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 June 2023</td>
<td>20 June 2022</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>Net borrowings at the beginning of the year</td>
<td>(14,137)</td>
</tr>
<tr>
<td>Free cash flow (1)</td>
<td>1,800</td>
</tr>
<tr>
<td>Acquisitions (2)</td>
<td>(143)</td>
</tr>
<tr>
<td>Investment in associates (2)</td>
<td>(19)</td>
</tr>
<tr>
<td>Share buyback programme (4)</td>
<td>(1,181)</td>
</tr>
<tr>
<td>Net sale of own shares for share schemes (5)</td>
<td>29</td>
</tr>
<tr>
<td>Purchase of treasury shares in respect of subsidiaries (5)</td>
<td>15</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>97</td>
</tr>
<tr>
<td>Net movements in other borrowings (8)</td>
<td>39</td>
</tr>
<tr>
<td>Equity dividend paid</td>
<td>(1,761)</td>
</tr>
<tr>
<td>Net decrease in cash and cash equivalents (8)</td>
<td>(681)</td>
</tr>
<tr>
<td>Net increase in bonds and other borrowings (9)</td>
<td>(850)</td>
</tr>
<tr>
<td>Other non-cash items (10)</td>
<td>159</td>
</tr>
<tr>
<td>Net borrowings at the end of the year (15)</td>
<td>(15,541)</td>
</tr>
</tbody>
</table>

(1) See page 39 for the analysis of free cash flow.
(2) In the year ended 30 June 2023, acquisitions included upfront payments of £266 million (2022 – £278 million) for Kornam Limited and Chot Noir Co. Inc. (the owner of Don Papa Rum) and $102 million (£89 million) for Balcones Distilling.
(3) In the year ended 30 June 2022, acquisitions included the final earn-out payment in respect of the Casamigos acquisition amounting to £313 million (£383 million) and upfront payment of £62 million for 21Sips.
(4) In the year ended 30 June 2022, sale of businesses and brands included the disposal of Guinness Cameroon S.A., bear’s business for a net cash consideration, net of disposal costs, of £38 million and the disposal of the brands of Diageo’s USL business, for a cash consideration, net of disposal costs, of £83 million.
(5) In the year ended 30 June 2023, sale of businesses and brands included the cash received on the disposal of Picon brand, net of transaction costs of £4.5 billion of capital was returned to shareholders, and returned an additional £0.5 billion of capital to shareholders which was announced as a new share buyback programme on 16 February 2023 and completed on 2 June 2023.
Movements in equity

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity at the beginning of the year</td>
<td>£9,514</td>
<td>£8,431</td>
</tr>
<tr>
<td>Adjusted in 2023 (see note below)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity at the end of the year</td>
<td>£9,292</td>
<td>£8,431</td>
</tr>
</tbody>
</table>

Adjustment to 2023 in line with IFRS in respect of:

- Hypothecation in Turkey [1]
- Adjustment to the current year's tax charge in relation to the non-controlling interest

Note:

[1] IFRS, which is the date at which the financial statements are prepared.

Post employment benefit plans

- The net surplus of £25 million at 30 June 2023 relates to the Diageo UK defined benefit plan.
- The net surplus has decreased from £51 million at 30 June 2022 to £25 million at 30 June 2023.
- The decrease in net surplus is attributable to the unfavourable change in the discount rate assumptions in the UK due to the increase in returns from 'AA' rated corporate bonds used to calculate the discount rates on the liabilities of the post-employment benefit plans (from 3.8% to 5.2%).
- The net operating profit charge before exceptional items increased by £36 million from £39 million for the year ended 30 June 2022 to £75 million for the year ended 30 June 2023.
- During the year ended 30 June 2023, following a remeasurement of the Diageo Lifestyle Plan, Diageo made a £16 million one-off deficit contribution to satisfy minimum funding requirements.
- Total cash contributions by the group to all post employment benefit plans in the year ending 30 June 2024 are estimated to be approximately £75 million (5% of assets).

'SOCIETY 2030: SPIRIT OF PROGRESS'

We are a successful global business, building and nurturing some of the world’s most recognised brands. A fundamental part of our success is being responsible. That is about making sure we are inclusive and sustainable, and acknowledging that our impact and influence extend beyond our own operations. It is also about being accountable and transparent – which is why we report our non-financial performance in this section.

Responding to the issues that matter

'Society 2030: Spirit of Progress' is our global programme addressing the most material issues facing our company, people, brands, suppliers and customers. Our ambition is embedded in our business strategy, and it aims to make a positive impact on people and the planet everywhere we live, work, source and sell.

The programme builds on our earlier progress on environmental, social and governance (ESG) issues. At the heart of ‘Society 2030: Spirit of Progress’ are three priorities:

- Promote positive drinking – changing the way the world drinks, for the better
- Champion inclusion and diversity – creating an inclusive and diverse culture for a better business
- Pioneer grain-to-glass sustainability – preserving the natural resources that are essential to our business, to the communities we work with, to society as a whole and to the planet

We have set 25 targets across a range of ESG issues that matter to our business, to the communities we work with, to society as a whole and to the planet. While we have made significant progress against many of our targets, there is still much more to do. In some cases, we set our targets with the expectation that we’d need innovation to reach them, and we still do. We also regularly review our material issues to make sure the 'Society 2030: Spirit of Progress' plan is still fit for purpose to address the issues most material to our business and our impact on people and the planet. While we made no changes to our plan or targets in fiscal 23, we will continue to assess them and expect to refine and possibly reframe our approach to material issues in fiscal 24.

This section of the Annual Report sets out our progress against our targets in fiscal 23, and our future plans. It contains reporting on other aspects of our non-financial performance, as part of our continued drive to be transparent and accountable. This includes reporting on how we are addressing climate change risk against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). It also includes information about our approach to human rights, business integrity, our people and health and safety, all of which are fundamental to our long-term success as a responsible business.

A better world, a better business

By working towards our goals, we are doing the right thing by contributing to a better society and a healthier planet. We believe we are also making ourselves a better, more competitive business, and one that is more resilient for the long term.

More specifically, 'Society 2030: Spirit of Progress' helps us to:

- Manage our risks from climate change, and spot opportunities to innovate
- Attract the best, most diverse talent
- Make our operations more resilient
- Enhance our reputation with our investors, consumers and other stakeholders
- Strengthen our brands

Goverance

Both the Board and the Executive Committee oversee our 'Society 2030: Spirit of Progress'. The Board conducts regular reviews of our most material issues, our strategy to address those issues and our targets used to measure our strategy in action. Our Chief Executive, Debora Corrain, is solely accountable for overall performance against ESG targets, while responsibility for the component parts of 'Society 2030: Spirit of Progress' is shared between members of our Executive Committee. At the local and market level, our regional presidents and general managers have frontline responsibility, supported by our Global Spirit of Progress Director and team. The marks are also supported by Executive Committee members representing global functions.

Linking performance to remuneration

Five of our targets are key performance indicators for our business as a whole, which is why they are also linked to our senior leaders’ long-term incentive plans. The goals in our long-term incentive plans include:

- Number of people who confirm changed attitudes to the dangers of underage drinking after participating in a Diageo-supported education programme
- Inclusion and diversity [one measure of the percentage of female leaders globally and another measure of the percentage of ethnically diverse leaders globally]
- Improvement in water efficiency
- Reduction in greenhouse gas emissions in our direct operations

This represents all three strategic priorities of our ‘Society 2030: Spirit of Progress’ ambition, and reflects our vision to make a positive impact on the environment and society.

Reporting transparently

We define our targets carefully, along with clear non-financial reporting boundaries and methodologies for each. For more details, see pages 242-243.

We report on non-financial information evolving quickly. We are committed to continuously evaluating and improving our approach as well as responding to changes in regulation.
**Promote positive drinking**

**As a responsible business, we want to change the way people drink – for the better.** This is why we promote moderate drinking and invest in education programmes to discourage the harmful use of alcohol.

Around the world, we reach audiences with messages that aim to change attitudes, whether it’s highlighting the harm of underage drinking or binge drinking, warning of the dangers of drink driving, or using our brands to highlight the importance of moderation.

We continue to look for ways to improve the way we engage more people through our work to promote positive drinking. This extends to how we measure and evaluate the impact of our work and its effect on changing peoples’ attitudes.

**How we promote positive drinking**

Our main tools are:

- **DRINKiQ** - our interactive online platform that gives users facts about alcohol and the effects of drinking on the body and mind, and the impact that harmful alcohol consumption has on people and society.

- **SMASHED** - an award-winning programme that educates young people on the dangers of underage drinking.

- **Wrong Side of the Road** - our interactive learning experience that aims to discourage drink driving.

- **Brand-led campaigns** - harnessing our marketing resources to promote moderation through our brands.

We stringently control our own marketing and advertising, in line with our Diageo Marketing Code (DMC) and Digital Code not only for our industry and with advertising organisations to help create a safe environment in media and online.

Our work is coordinated by our Positive Drinking Council, which has representatives from across the business.

**Increasing knowledge and awareness with DRINKiQ**

**Target by 2030**

Champion health literacy and tackle harm through DRINKiQ in every market where we live, work, source and sell

**Number of markets that have launched DRINKiQ**

21

**DRINKiQ** is our online responsible drinking tool. It champions health literacy by providing facts about alcohol, complementing resources offered by governments, charities and other stakeholders. The aim is to invite consumers to change their attitudes to alcohol and empower them to achieve a balanced lifestyle.

We have launched DRINKiQ in all the markets where it’s legally permissible. It is live in 21 markets, 56 countries and 23 languages, and we promote it through our product labels, social media channels and marketing to make sure as many people as possible use it. While we have reached our target by 2030 early, having reached more than 14 billion people in total with messages of moderation from fiscal 21 to the end of fiscal 23.

We have done this by delivering campaigns at scale in all the key regions where we operate.

Our fiscal 23 highlights include:

- In North America, reaching 88 million people with our Johnnie Walker Rewind the Night moderation campaign.

- In Latin America and Caribbean, continuing to expand the “Denibranca Mist” moderation campaign, now in its third year, to reach 51 million people across seven countries.

- In China, combining the power of the Baileys and Tanqueray No. TEN brands with a deep understanding of popular culture and a ‘digital first’ approach to promote moderation among young, urban adults, reaching 9.8 million people.

We remain committed to using our expertise in consumer insights and marketing to positively influence attitudes towards moderation across the world.

**Marketing in a responsible way**

Our Diageo Marketing Code (DMC) and Digital Code not only set minimum standards for our marketing, they also represent a cornerstone of our corporate culture and the way we do business. The DMC includes, among other principles, our commitment to make sure we depict and encourage only responsible and moderate drinking, and never target underage audiences. We are proud to have a proven track record of compliance, which is underpinned by mature business processes, and appropriate checks and balances in every market we operate in.

We publish the latest version of the DMC in January 2023, with enhanced rules governing the marketing of our non-alcoholic brands and reinforcing our commitment to advertise to adults only. Also, in China, we have launched a new version of our innovative education module on digital compliance for our brand teams worldwide, with guidance on topics including:

- Transparency – making sure that influencers’ social media posts promoting our brands tell consumers about the nature of the partnership with hashtags such as #Ad.

- Data privacy – further strengthening our approach to the use of consumer data in our digital marketing in line with GDPR (General Data Protection Regulation) principles.

We continue to play a leading role in shaping a vision for a safe, inclusive online ecosystem for our consumers and brands. This is why we have championed the updated version of the World Federation of Agencies where we operate, and emphasising our focus on marketing responsibly and making a positive societal impact.

We are pleased to report that all our DMC ads complied with a 2023 review by the WFA’s Responsible Marketing Pact and the European Advertising Standards Alliance, aimed at making sure alcoholic brand ads do not contain elements that appeal strongly to minors. We are also pleased that no complaints about Diageo marketing were upheld by key industry bodies this year (see next page).
Advertising complaints upheld by key industry bodies that report publicly

Across some of our markets, advertising regulators and industry bodies publicly report breaches of self-regulatory alcohol marketing codes. No breaches were upheld by any of these key bodies about Diageo’s advertising this year.

<table>
<thead>
<tr>
<th>Country</th>
<th>Industry complaints upheld</th>
<th>Complaints about Diageo brands upheld</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Distilled Spirits Council of the United States</td>
<td>0</td>
</tr>
<tr>
<td>Australia</td>
<td>ABAC Scheme</td>
<td>27</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Advertising Standards Authority</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Patreon Group</td>
<td>9</td>
</tr>
<tr>
<td>Republic of Ireland</td>
<td>Advertising Standards Authority for Ireland</td>
<td>3</td>
</tr>
</tbody>
</table>

Standing up for human rights

We want people who work for us or with us to feel they are treated fairly and with respect. This means working hard to make sure we don’t infringe their human rights, and that we are not complicit with anyone else who does. We seek to build credibility and trust by expecting everyone who works with us to adopt our standards. Our policies cover our responsibilities to protect the human rights of everyone working in our direct operations, our value chain, and communities. They are in line with internationally recognised laws, regulations and guidelines including the UN Guiding Principles on Business and Human Rights, and the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work.

Updating our human rights governance

We continue to enhance our policies, standards and disclosures and embed human rights in our enterprise risk management processes. In fiscal 23, our Global Audit and Risk team reviewed our human rights due diligence by risk area and risk setting to look for opportunities to strengthen our approach and better assess its effectiveness. As a result, we are strengthening our internal governance risk assessment process and committing to more frequent audits of our high-risk markets with:

- A strategic human rights review with the Board at least once a year
- An annual review of our list of high-risk markets for direct operations
- An annual review of human rights risks by direct operations against a self-assessment questionnaire
- A commitment to audit high-risk markets once every three years
- We have also developed training to build our teams’ capability in effectively managing human rights risks. This helps us to be alert to these risks and able to act effectively when we see them.


Focussing on salient human rights issues

Our Human Rights Impact Assessment (HRIA) programme from 2015 to 2021 highlighted three salient external business and supply chain risks: labour rights, including child labour risks; labour standards for contract workers; and sexual harassment in the hospitality sector. In response, we created awareness programmes on child labour and modern slavery, conducted an independent review of contract labour and developed standards and training to protect brand promotion teams.

To refresh and enhance our assessment of salient issues, we’re reviewing current and emerging laws and regulations, alongside our internal processes to assess our operational, commercial and reputational risk in priority jurisdictions. We are also assessing salient risks for third-party suppliers in priority supply chains.

We have also continued to address our global salient risks by:

- Launching a brand promoter training website in 18 languages to help us track training completions and agency compliance with our Brand Promoter Standard.

Brand promoter training website in 18 languages

- Refreshing our child labour training and making it part of our wider smallholder farmer programme from fiscal 24
- Participating in a pilot project in Africa to understand the gaps that exist within our supply chain to living wage benchmarks and how we can support our supply chain to bridge those gaps through time.

Strengthening our approach to responsible sourcing

To enhance our approach to responsible sourcing we have begun screening for human rights with higher-risk potential suppliers before onboarding. This helps us make more informed decisions on human rights risks and gives us the chance to assess and mitigate the salient issues before we contract with a supplier. We have also extended our supplier requirements on responsible sourcing to our licensed manufacturers globally.

Connecting climate risk with human rights

Climate change is already having a negative impact on people and communities, not least through water stress, but also by affecting working conditions. We’ve begun a project looking at how we can help workers in our sugarcane supply chain avoid serious health impacts from heat stress driven by climate change. We have partnered with NGOs, government agencies, customers and our suppliers to build awareness around the issues workers face in a changing climate, measure their metabolic data and implement plans to improve conditions. This includes providing workers with more water and mobile shade tents, as well as rest schedules designed around the conditions.
Managing third-party risks

Business integrity is also vital in our network of relationships with third parties. Our Know Your Business Partner (KYBP) programme helps us screen for potential risks and be certain about the true identity of third parties before we start a contractual relationship with them. Throughout fiscal 23, we continued to expand our third-party screening programme to incorporate the many new sanctions rules relating to Russia’s invasion of Ukraine. We also focused on streamlining the KYBP process by better integrating it into our customer and vendor onboarding to make ourselves more efficient, without making the process any less thorough.

Promoting our whistleblowing service

We encourage everyone to report potential breaches of our Code, policies or standards through our confidential whistleblowing service, SpeakUp. This is run by an independent third-party, is available around the clock and lets employees and external parties report concerns anonymously. This includes issues like bullying, harassment, discrimination and human rights concerns. The number of SpeakUp reports filed during fiscal 23 is now similar to pre-pandemic levels. In fiscal 23, we rolled out a global awareness campaign for SpeakUp, emphasising our zero tolerance of retaliation against anyone reporting a concern or helping with an investigation. The video-based campaign also showcased the SpeakUp Off code for easy access to the system.

Training our leaders

Treating each other with dignity and respect is an important part of doing business the right way. To reinforce this, we’ve created a training programme for our leaders called Leading with Integrity, designed to:

• Increase awareness of our Dignity at Work policy
• Give guidance on managing SpeakUp reports and resolving any conflicts
• Give leaders the tools they need to handle and resolve issues around Dignity at Work
• Build knowledge, shared understanding and skills on the importance of leading in line with our values and leadership standards.

Training completed by 97% of eligible employees

Highly engaged people and an inclusive culture

Our 30,237 people are our most valuable assets. Their sense of purpose and pride in what they do, and their commitment to our brands, customers and colleagues are the hallmarks of our culture. In December 2022, we celebrated our 25th anniversary with a global webinar and heard from employees on what they valued most about working for Diageo. The themes were consistent with those emerging from our employee listening sessions, namely the quality of our talent, our purpose, values and brands, and our uniquely diverse workforce and inclusive culture. The feedback also reinforces our core values: we are passionate about our customers and customers and always strive to be the best. We give each other freedom to succeed and value each other. We work hard so we can be proud of what we do, and this pride is a source of energy that fuels our performance.

Employee Engagement Index

84%(2)

Despite ongoing volatility in our markets, we continue to see strong employee engagement. In our Your Voice survey this year, our Employee Engagement Index increased from 82% in fiscal 22 to 84%, and our Employer Advocacy score—the proportion of people who would recommend Diageo as a great place to work—is 84%, which is 11 percentage points higher than our external benchmark(2). That is an improvement of two percentage points on last year. Similarly, the percentage of people who are proud to work for Diageo improved by one percentage point to 93%, which is 14 percentage points higher than our external benchmark. This strong advocacy and pride contributes to the strength of our external employer brand. In fiscal 23, we have seen a 31% increase in the number of external applicants for open roles, while engagement with our employer brand LinkedIn content has been above benchmark levels.

Diageo’s purpose is “celebrating life every day, everywhere”. Recognising the importance of celebration in engagement and performance, in fiscal 23 we began to roll out a global employee recognition programme, Celebrate. This programme empowers our people to formally acknowledge each other for the small and big moments. Building a culture of gratitude and appreciation is core to how we live our values and purpose every day. So far, employees have made 27,000 awards in North America, United Kingdom and Ireland through the programme. In markets where Celebrate is live, 85% of employees have received recognition through the Celebrate platform and we intend to roll the platform out across all our markets to further strengthen our culture.

Helping our people realise their potential

We believe that Diageo grows when our people grow. Our talent strategy is to empower our people with the developmental experiences to facilitate their growth and successful careers at Diageo. To support our people’s career progression, we aim to fill our vacancies internally where we can. In fiscal 23, we recorded 5,092 career moves which translates to an average of 14 people a day making career moves. We have increased internal appointments into leadership roles to 72.8%—up one percentage point on fiscal 22. Our general managers come from diverse functional and professional backgrounds, fuelling our strong performance with diversity of experience, and giving our people opportunities for cross-functional experiences. Also, international moves increased by 15.9% this year, and we continued to offer developmental webinars, workshops and networking to all employees through our Craft my Career programme.

To meet the demands of our growth strategy, we are putting extra investment into new and emerging capabilities in digital, ESG and broadcast. In fiscal 23, our people completed 11,538 digital training courses in different areas in partnership with our external partners. Through our Digital Now capability programme, we are equipping our people with the capability and mindset to accelerate digital transformation. Similarly, we partnered with Oxford Said Business School to upskill our leadership in ESG to support the delivery of our ‘Society 2020: Spirit of Progress’ goals.

We believe that an environment of openness, integrity and trust fosters greater collaboration, experimentation, and bold execution. Our Senior Leadership Team have focussed on how to enable bolder performance by creating a psychologically safe environment, helping their teams take risks, share their opinions and experiment with innovative ideas. We have seen a five percentage point increase in the proportion of employees who feel comfortable with raising concerns, ideas, and opinions without fear of consequences this year compared to fiscal 22.

Our people and culture:

the key to our success

Our talented and diverse workforce, together with our brands and inclusive culture, continue to be a competitive advantage for our business, enabling us to perform at our best.
Enabling a great employee experience

Putting our people at the heart of everything we do is critical to our success — if how we deliver our people strategy and performance ambition, and create the most inclusive and diverse culture. To achieve this, it’s imperative we take the needs and opinions of our people into account in designing and implementing effective people-centric solutions.

This year, we launched our employee experience champions network, providing a global, diverse voice of the employee network enabling us to co-create solutions with and for our people. About 200 employee experience champions have been involved in our HR transformation programmes, sharing feedback on our people processes and policies, brainstorming ideas to radically liberate our people from low-value, time consuming activities and validating HR technology prototypes and solutions.

Our commitment to creating a strong employee experience has reinforced our employer advocacy and employer brand position. Over the years, we have been recognised in many markets for great people practices. Recently, Diageo Turkey won a Jury special award for HR practices in Sales(2) while Diageo North America achieved a top 10 Best Companies’ ranking(3).

Supporting our people’s wellbeing

We remain committed to supporting our people’s wellbeing, offering guidance, and education in line with the four dimensions of our Global Wellbeing Philosophy. We make wellbeing part of our culture every day, everywhere so that our people are thriving physically and mentally, emotionally balanced, financially secure and socially connected.

In our 2023 employee survey, 79% of the respondents felt Diageo was ‘sufficiently supportive of their health and wellbeing’. With wellbeing support identified as a key engagement driver, this underlines the need for us to continue to focus on wellbeing and improve our support.

In fiscal 23, we increased our focus on mental health and financial wellbeing. This included launching the Unmind mental wellbeing app — making us the first fast-moving consumer goods (FMCG) company to make it available for all employees, globally. In response to the rising cost of living, we delivered regular financial wellbeing masterclasses and offered mental ‘wellath’ first aid training to help identify financial stress and signpost others to support. We also offered a global one-month ‘wellness week’, making it available for all employees, globally. In response to the rising cost of living, we delivered regular financial wellbeing masterclasses and offered mental ‘wellath’ first aid training to help identify financial stress and signpost others to support. We also offered a global one-month ‘wellness week’, making it available for all employees, globally.

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Understanding the risk of severe and fatal injuries

Our strategy aims to eliminate severe and fatal injuries. Alongside our risk assessment protocols, which let us spot and mitigate potential risks with change management procedures, in fiscal 23 we started a Severe and Fatal Incident Exposure (SIFE) engagement programme. SIFe considers both potential and actual incidents that could result in a life-threatening or life-altering injury. SIFe is part of our Global Health and Safety KPI scoreboard. We use a decision-tree approach, based on our Life Saving Rules, to identify any incident or safety-critical behaviour with a potentially life-threatening or life-altering outcome.

When an incident has been classified as having SIFe, it triggers a global safety alert to heighten vigilance. When an incident has been classified as having SIFe, it triggers a global safety alert to heighten vigilance. The framework includes a Process Safety Policy and risk calculator, and Process Safety Risk Management standards. All our sites can use the standard tools to help them assess their operations and create plans to fill any gaps. Sites can also document and share risk assessments on our digital platform as well as share best practice and training tools through our new process safety network.

The framework helps us reduce the risk of injury and environmental damage, as well as keep production quality high while controlling our costs.

Limiting risk from hazardous substances with a Global Process Safety Framework

How we handle hazardous substances is essential to safeguarding people and the environment. We are committed to protecting our employees, visitors and contractors, as well as protecting the local communities in which we operate. In fiscal 23, we’ve developed a global process safety framework to embed the right behaviour, systems and processes to manage or control incidents that could cause toxic effects, fires or explosions.

The framework includes a Process Safety Policy and risk calculator, and Process Safety Risk Management standards. All our sites can use the standard tools to help them assess their operations and create plans to fill any gaps. Sites can also document and share risk assessments on our digital platform as well as share best practice and training tools through our new process safety network. The framework helps us reduce the risk of injury and environmental damage, as well as keep production quality high while controlling our costs.

Not only is it the right thing to do, as it means we play a part in shaping a more equitable society, it also makes us a better business. We are proud of having an inclusive culture where everyone can be themselves, as it helps us attract and retain the best and most diverse talent, and allows us to be more innovative and perform better. We’ve set ourselves ambitious goals, inside our business and beyond.

Our inclusion and diversity index score in our 2023 Your Voice employee survey remains high at 83% positive sentiment. This shows our commitment to creating an environment where colleagues can belong and thrive.

Promoting diversity

We promote inclusion and diversity in every sense, from gender, ethnicity, age and disability, to sexual orientation, social background and education - and we’re proud of the progress we’re making.

Since 2020, driving diverse representation in our leadership cohort has been linked to our long-term incentive plan (LTIP), which means we incentivise every senior leader to make progress against this agenda.

Empowering women

Ambition by 2030

Champion gender diversity, with an ambition to achieve 50% representation of women in leadership roles by 2030.

Per centage of female leaders globally

In fiscal 23, representation of women in our leadership, including our Executive Committee, remained strong at 44%, maintaining our progress of 88% against our 2030 ambition to achieve 50% representation of women in leadership roles. We’re proud to have 73% female Board representation following the appointment of Debra Crew as CEO, and 50% female executive committee representation. In fiscal 23, 45% of external appointments and 46% of internal promotions to our leadership cohort were female. We’ve recognised for our gender equality work by the FTSE Women Leaders Review, Bloomberg Equality Index and others. In 2023, the Equileap Gender Equality Global Report ranked us second overall globally and first in the UK for gender equality. Our policies and practices help foster a truly gender-equal and inclusive environment. As well as our Family Leave policy, we have Thriving Through Menopause guidelines, Pregnancy Loss guidelines and Flexible Working and Wellbeing philosophies.

(1) Our leadership cohort reflects the top 2% of roles globally encompassing Executive Committee members and senior managers.

Championing ethnic diversity

Ambition by 2030

Champion ethnic diversity, with an ambition to increase representation of leaders from ethnically diverse backgrounds to 45% by 2030.

Percentage of ethnically diverse leaders globally

We employ 30,237 people of 115 nationalities in over 70 countries which means we have a workforce whose diversity reflects that of our consumers and markets. We want ethnic diversity at every level of our business, including in our leadership. The more progress we make, the more strongly we connect with our consumers and the more diverse our thinking becomes, fuelling our creativity and competitiveness.

Currently, 36% of our Board and 43% of our leadership (up from 47% in fiscal 22), including our Executive Committee, is made up of ethnically diverse talent, supported by 39% of external appointments and 46% of internal promotions to our leadership cohort across fiscal 23. Also, our former CEO Ivan Menzies, Chief HR Officer Louise Prashad and General Counsel & Company Secretary Tom Shropshire were recognised in the Involve Empower Role Model Lists, which highlights leaders championing inclusion in business.

To help us understand the makeup of our workforce and set meaningful goals, we invite all employees (where local laws allow) to share their ethnicity. By the end of fiscal 23, 75% of our global workforce and 97% of our leadership cohort had disclosed their ethnic background in our confidential HR system.

Each market and function have set stretching five-year diversity plans covering representation and development, supplier diversity and inclusive marketing.
Champion Inclusion and Diversity continued

Attracting ethnically diverse talent
In Brazil, our Programa Orgãos initiative attracts, hires and generates opportunities for Black and Indigenous people in higher education. Through professional development, including English language lessons, and mentoring opportunities, the programme has seen more than 40 people join to date.

Promoting ethnically diverse business
In North America, we became anchor investors in Porchorg, a 10-year initiative to diversify the spirits industry. It’s cultivating the next generation of diverse founders, executive leaders and entrepreneurs to generate $2.4 billion in economic value for the Black community by 2032. In fiscal 23, Porchorg has invested in 19 Black-owned spirits brands, supported founders with mentoring programmes, and worked with the industry and commercial partners to develop a talent pipeline of Black leaders.

Gender representation of our leadership(3,4)

<table>
<thead>
<tr>
<th>Role</th>
<th>Leadership population(3)</th>
<th>Men %</th>
<th>Women %</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>319</td>
<td>55%</td>
<td>45%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Ethnic representation of our leadership(3,4)

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<th>Rate</th>
<th>Leadership population(3)</th>
<th>Han %</th>
<th>Not Han %</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Total</td>
<td>249</td>
<td>43%</td>
<td>57%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Championing inclusion through Employee Resource Groups
Our network of Employee Resource Groups (ERGs) create connected communities of support, while helping the business better understand our diverse communities’ concerns. Our ERGs include AHEAD (African Heritage Employees at Diageo), Conectados (Diageo employees championing Latin culture), and PAN (Pan Asian Network), in the United States, We Are All Able and REACH (Race, Ethnicity and Cultural Heritage), in Europe; and our International Spirited Women and Rainbow Networks. Highlights from this year include:

• Conectados led Hispanic Future Month, recognising the contributions of Hispanic Americans to the history, culture and achievements of the United States. This included celebrating the Tequila Don Julio Fund, which in 2022 awarded a $20,000 grant to five Hispanic entrepreneurs who live their craft “Por Amor”.

• The Rainbow Network, including new chapters forming across India, South East Asia and South Africa, led our Pride celebrations with 78 Diageo offices and sites taking part in our annual Pride Day raising event championing greater LGBTQIA+ awareness and inclusion. In 2023, Johnnie Walker was a partner at Sydney World Pride while Johnnie Walker Princes Street was the lead sponsor at Edinburgh Pride.

• Throughout March 2023, championed by our Spirited Women Networks, we celebrated International Women’s Day with the theme of #RedefineEquity. This included the fashion show, designed by Louise Proshold, Chief HR Officer, where former CEO Ivan Menezes, Board member Karen Blackett and Porchorg co-founder Dua Simms talked about the importance of being curious, empathetic and proactive.

In January 2023, we launched inclusive design training that was created by design, brand and sensory experts. This promotes inclusivity across our products, advertising campaigns and physical brand experiences, working to remove unconscious bias from the design process and celebrate the individual and cultural differences of the consumers we design for. A recent example of inclusive design was making disabled accessibility a key feature at Diageo’s brand home, Johnnie Walker Princes Street, ensuring the highest standards of accessibility and inclusion for our guests.

Marketing in progressive ways
Ambition by 2030
Use our creative and media spend to support progressive voices, measuring and increasing spending year on year.

Measurement and evaluation framework under development
As one of the world’s largest advertisers, we’re committed to changing the industry from script to screen, so that everyone sees themselves represented. We use our Progressive Marketing to challenge stereotypes and commit investment to address underrepresentation of diverse voices in media, making mainstream media more inclusive. We are founding members of the United Nations Women Unstereotype Alliance and the World Federation of Advertisers Digital Task Force and work across the industry to foster inclusion and diversity in front of and behind the camera. For the past four years we have sponsored the Creative Equities ‘Creative Connector’ Programme that focuses on bringing more women, disabled and neurodiverse people into the creative industry.

In fiscal 23, we rehearsed our Progressive Marketing framework and training to include a new model focused on inclusive design, which allows us to be at the forefront of breaking stereotypes in advertising for gender, race, sexuality, age, disability and neurodiversity. Some 47% of our global marketing campaigns were shot by female directors or photographers.

Two powerful examples of progressive marketing and our commitment to authentic representation in action are the Guinness Brothers and Baileys ‘Delicious Descriptions’ campaigns. The Guinness ‘Brothers’ campaign in Africa, featuring Miracle, a blind actor, celebrates how football fans make the experience of watching the game accessible for everyone including members of the blind and visually impaired community. Members of this community were consulted to make the campaign reflected authentic experiences.

Baileys ‘Delicious Descriptions’ was launched on Global Accessibility Awareness Day in consultation with the Royal National Institute of Blind People (RNIB) and Meta. Baileys created a guide on how to write delicious image descriptions, helping ensure those who rely on screen readers experience the full deliciousness of Baileys treats. In Great Britain, the campaign achieved a reach of more than 12 million, with view-through rates up to 25.2%, five times higher than Meta regional and category benchmarks.

Celebrate diverse audience
Johnnie Walker emphasises progressive marketing to celebrate and appeal to a diverse audience. The result is that globally around 29% of Johnnie Walker drinkers are female, with that proportion growing in most markets this year. In the United States, Johnnie Walker drinkers are also more ethnically diverse than those of other whiskeys, at 44% compared to 35% for other whiskies.

In the United Kingdom, Johnnie Walker partnered with Bridgetown Standard and Simon Ashley and Instagram community Diet Pantha to champion the creative representation of the South Asian community only.

In the United States, Johnnie Walker’s First Smoke initiative debuted an alternative red carpet at the Oscars to spotlight seven film makers’ boundary-pushing contributions to culture. The brand delivered over 200 million paid media impressions that encouraged consumers to support female talent projects.

In 2023, Diageo’s Marketing in progressive ways Ambition will be measured against a baseline for spend and investment in diversity and inclusion. This will be the start of an annual cycle where we measure against our ambition to support diverse audiences.

Supporting diverse suppliers
Ambition by 2030
Increase spend with diverse-owned and disadvantaged businesses to 15% by 2023.

Percentage of spend with diverse-owned and disadvantaged businesses

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>11%</td>
</tr>
<tr>
<td>2021</td>
<td>12%</td>
</tr>
<tr>
<td>2022</td>
<td>13%</td>
</tr>
<tr>
<td>2023</td>
<td>14%</td>
</tr>
</tbody>
</table>

We believe a value chain built on inclusion and diversity can enhance representation, employment and resilience in marginalised communities, ultimately benefiting the wider economy and strengthening our business.

In fiscal 22, 8% of our global spend was with diverse-owned and disadvantaged businesses. We’ve since increased our number of diverse suppliers, as well as incorporated more disadvantaged groups like smallholder farmers in Africa, Turkey and Mexico. In fiscal 23, we’ve spent £620 million with 979 diverse-owned and disadvantaged suppliers.

To help us connect with diverse-owned businesses, we’ve worked with advocacy organisations, including WEConnect International, MSDKUK and others. For example, through Disability IN, we’ve matched Diageo employees with disabled-owned businesses to share feedback and industry insights to understand the challenges they face in working with global corporations. In Kenya and Colombia, we’re proud to be part of Sourcing2Equal, an initiative increasing access to corporate procurement opportunities for women-owned businesses.

We are proud that in 2023 we were awarded Platinum in the Top Global Champions for Supplier Diversity & Inclusion Awards by WEConnect International. This is the highest possible accolade in this category, recognising Diageo as leader in inclusive spend, policies and procedures.

Nurturing women-owned businesses
In Jalisco, Mexico, we worked with a woman-owned supplier to decorate bottles of Don Julio for 15 years. We recognised their potential, helping them to develop their quality and safety processes and grow alongside the Don Julio brand. Today the business has 150 employees, approximately 90% of them women, including single mothers and people with disabilities.

Building a thriving and inclusive hospitality industry
Ambition by 2030
Provide business and hospitality skills to 200,000 people, increasing employability and improving livelihoods through learning for Life and our other skills programmes.

Number of people reached through Learning for Life and other skills programmes in fiscal 23

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of People Reached</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>500,000</td>
</tr>
<tr>
<td>2021</td>
<td>520,000</td>
</tr>
<tr>
<td>2022</td>
<td>540,000</td>
</tr>
<tr>
<td>2023</td>
<td>560,000</td>
</tr>
</tbody>
</table>

We will reach 80% of our ambition by 2023.

(1) PHD and Meta (Brand Lift Study)
(2) Johnnie Walker Brand Guidance system 2023 Study
(3) This data is calculated on average across the four quarters of fiscal 22.
(4) Leadership population encompasses Executive Committee and senior managers.
(5) One percent of those listed under “disability” cannot be positively attributed to other group and therefore are not included.
(6) Additional information on pages 242-262 for more information on how data has been compiled, including standards and assumptions used.

Nurturing inclusivity
Our growing range of policies and guidelines help foster an inclusive environment that supports every employee.

Our Disability Inclusion guidelines, introduced in October 2022, were created by employees, with our We Are All Able employees resource group and our external partner Disability IN, and are available in 15 languages. They give everyone knowledge, tools and guidance to support people with disabilities, covering issues from digital and physical accessibility to appropriate language to enable positive conversations about disability. Through ‘disability disclosure’, we invite employees in more than 40 countries to share their disability confidentially, helping us to better understand our workforce.
CHAMPION INCLUSION AND DIVERSITY continued

Part of how we promote sustainable growth and a resilient supply chain is through inclusive programmes giving equal access to resources, skills and employment opportunities. This includes Learning for Life (L4L), our business and hospitality skills programme for people from under-represented groups.

In fiscal 23, we reached 36,600 people in 19 markets with Learning for Life, 59% of them women.

We also want L4L to tackle barriers faced by other under-represented groups including the ethnically diverse community and people with disabilities. In fiscal 23, we updated our inclusive by design principles to include recruitment practices, training content and venue accessibility, as well as modules on inclusion and diversity.

We ran a L4L impact assessment in Latin America, celebrating the programme’s 15th anniversary and its positive impact on communities. Insights from the assessment will shape the programme’s future, increasing its reach and impact globally.

Ambition by 2030

Through the Diageo Bar Academy (DBA) we will deliver 1.5 million training sessions, providing skills and resources to help build a thriving hospitality sector that works for all.

Number of participations in training sessions delivered through Diageo Bar Academy in fiscal 23

For more information on our WASH and smallholder farmer programmes see pages 80 and 83.

Helping under-represented communities overcome barriers to education

In fiscal 23, we gave $175 million in endowments to Historically Black Colleges and Universities (HBCUs) and Minority-Serving institutions in the United States. This followed the $30 million in endowments to 25 HBCUs in 2021. This is part of how we address educational barriers in under-represented communities, by funding students in need and development programmes that complement traditional learning.

We’re committed to addressing barriers women face in accessing the skills, resources and opportunities we provide. This includes making sure at least 50% of people benefitting from our community programmes are women, and that these programmes meet women’s needs throughout design, implementation and evaluation. In fiscal 23, 59% of people benefitting from L4L were women.

This year, we’ve started to work with WaterAid and CARE International UK to give women a voice in decision-making about water, sanitation and hygiene (WASH). In each community where we ran a WASH project, we set up a committee with equal representation from men and women. This includes facilitating community dialogue to tackle social norms that prevent women’s equal access to, and agency over WASH. This year 56% of WASH committee members were women across our programmes in nine countries.

We’ve also piloted a gender-inclusive approach to our work with smallholder farmers. This includes equal access to agricultural training and resources, and engaging with suppliers to increase women’s membership and leadership of farmer groups. We’ll roll this out as part of our programmes for smallholder farmers from fiscal 24.

Creating inclusive communities

Ambition by 2030

Ensure 50% of beneficiaries of our community programmes are women and that our community programmes are designed to enhance diversity and inclusion of under-represented groups.

Percentage of beneficiaries of our community programmes who are women

We are committed to improving access to clean water, sanitation and hygiene (WASH) in communities near our sites.

PIONEER GRAIN-TO-GLASS SUSTAINABILITY

Managing climate risks and opportunities by pioneering grain-to-glass sustainability

Our business depends on natural resources and we are directly affected by changes in climate and the related challenges of nature and biodiversity loss. While we already feel the effects of climate change in our global operations, there are also opportunities for companies that develop credible plans to adapt to changing circumstances.

A changing climate has implications across our end-to-end operations. It can affect crops like barley and wheat, and natural resources like water that we rely on to make our products. It can cause disruption to our manufacturing sites and supply chain through extreme weather. And it can affect the communities we work with by threatening their livelihoods. But there are also opportunities for companies that innovate to make their operations and the products they sell more sustainable.

These issues intersect and converge. A changing climate can threaten our key commodities and our communities, while production, agriculture and packaging produce carbon which can accelerate climate change. Just as these issues are connected, our response and actions are too. We are working hard to reduce carbon emissions from our sites, for example by introducing renewable energy in our operations. Preserving water and promoting sustainable farming protects our commodities. And by using waste co-products from production, we help sustain the agricultural system that underpins what we do.

We are committed to acting responsibly to mitigate our contribution to global warming and conserve the environment in which we operate, while simultaneously adapting to the effects of a changing climate to keep our business resilient. We look to achieve this through our strategic priority to ‘pioneer grain-to-glass sustainability’, which focuses on three areas: ‘preserve water for life’; ‘accelerate to a low-carbon world’ and ‘become sustainable by design’. Actions we take across these priorities are transforming our business to thrive in the longer term.

Focussing on grain-to-glass sustainability

Pioneering grain-to-glass sustainability is how we manage our environmental and climate challenges, and how we help preserve the scarce natural resources the world depends on. It is also how we adapt to climate change throughout our supply chain, and mitigate its effects. By managing our environmental impacts and the impact of the environment on us, we support our business and the communities we work alongside to be resilient for the long term. This is good for the planet and also good for our business. By investing in renewable energy, for instance, we lower carbon emissions by depending less on fossil fuels. We also manage risk and build resilience as the world moves towards a low-carbon economy.

Our action plan – ’Society 2030: Spirit of Progress’

Pioneering grain-to-glass sustainability includes ambitious targets, such as achieving net zero carbon emissions from our direct operations (Scopes 1 and 2) by 2050, and across our full value chain (Scope 3) by 2050 or earlier, using water more efficiently and taking action to replenish water in water-stressed areas. Our ‘Society 2030: Spirit of Progress’ targets reflect our most material ESG issues, and they align to the UN Sustainable Development Goals. We are also proud to be a signatory to the UN’s Race to Zero and Race to Resilience campaigns reflecting our commitment to climate change mitigation and adaptation.

The issues are complex, which makes progress against our ambitious targets challenging. As we become more sophisticated in understanding our impacts and taking action to address them, we will also evolve our practices and metrics to make sure we strive to focus on and communicate the right things effectively.

Making climate change part of our strategy

To understand, quantify and mitigate climate risks and adapt to their opportunities and their impact are part of decision-making.

Climate change and remuneration

Climate risk is generally divided into physical and transition risk. Both categories of risk are already materialising in everyday life, and are likely to increase as the world continues to warm while we intensify efforts to mitigate climate change. We need to assess and prepare for both physical and transition risks. Opportunities, meanwhile, could arise from our mitigating physical risks more effectively than our competitors, or creating competitive advantages, for instance by meeting consumer demand for more sustainable products.

Climate change resilience

Our experience in managing the impact of normal variations in climate conditions, water availability and agricultural yields has made us more resilient and adaptable. We adapt through careful planning in climatic conditions, water availability and agricultural yields has made us more resilient and adaptable. We adapt through careful planning in climatic conditions, water availability and agricultural yields has made us more resilient and adaptable. We adapt through careful planning in climatic conditions, water availability and agricultural yields has made us more resilient and adaptable.
We assessed more than 1,200 suppliers’ assets and found the most common risks were water stress and higher temperatures, with humidity and wildfire risks also interlinking in some locations. We use this information to work with suppliers on future adaptations and contingencies. We discuss this further in the Strategy section on page 78.

Our analysis of distribution routes included key ports, roads and rail networks identified in our supply chain in each of the markets we assessed. The analysis showed that, in general, the risks to ports come from water stress and changing temperatures, while the risks to road networks are broader, including chronic risks, like temperature increases and sea level rises, and acute risks, such as storms, floods or wildfires. We assessed both acute and chronic risks to be higher in warmer countries (e.g. India, Mexico and Turkey). These insights help us plan effectively for additional future contingencies we may require in our distribution routes.

Physical risks by region – Diageo

and key third-party supply sites

The most common physical hazards projected to intensify are water-related risks (water availability, water temperature and flooding) and high temperature. High temperatures might affect employees’ health and productivity, and processes such as fermentation and maturation, which are sensitive to temperature variations. There’s also increased cost associated with process and facility cooling. Cold temperature risks are projected to decline in all regions we assessed.

Water risk

Given the importance of water to our operations and producing our products, we focus particularly on understanding water-related risks so we can mitigate and adapt to them. As well as our physical climate risk assessments looking at the risks from water availability, water temperature, water quality and flooding, we conduct water stress analysis on our sites every two to three years, using site surveys and World Resources Institute (WRI) Aqueduct data. In fiscal 2023, we enhanced our water risk assessment by completing water source vulnerability assessments at 22 of our sites located in water-stressed areas, with the help of expert partners.

The water stress, climate risk and source vulnerability assessments give us comprehensive insights into how these profiles might change due to climate change. They also show the degree of vulnerability of our operations and supply chains to water stress, bearing in mind various contributing factors in these sites’ catchment areas. Climate risk assessment tells us the number of our current sites exposed to high water stress isn’t projected to increase significantly in the foreseeable future. But water stress is likely to become more severe at some sites, making the detailed understanding of source vulnerability particularly valuable. The figure on page 76 shows our water-stressed sites and those that have had source vulnerability assessments completed, as well as those that are in our priority water basins.

Quantitative impact of physical risk

Our assessment shows that generally our sites are likely to be exposed to more frequent acute weather events like floods and storms, but financial impacts are unlikely to be significant. We are more exposed to the acute risk of drought, and to chronic changes like water scarcity. Water scarcity is the biggest climate-related risk to our operations, since we have many sites in water-stressed areas that might face interruptions to operations if the warming temperature scenarios play out. Through our scenario analysis we have estimated the impact on our operations and financial condition to 2030, concluding that it is unlikely to be significant by that date. This is largely due to the adaptation actions we are taking (detailed below) and our contingencies to deal with short-term disruptions to our operations. This is reflected in our assessment of vulnerability and impairment (see page 94).

Water stress

Under the warming scenarios we modelled, the proportion of our sites exposed to ‘extremely high’ water stress is likely to increase by 2030 and again by 2050, with the sites most likely to be affected in Mexico, Turkey and North America. Under these warming scenarios, even though the number of sites affected may not change substantially, those that are affected are likely to suffer even greater shortages of water, under both timeframes, which could have an impact on our operations, and on the health and wellbeing of employees at those sites.

Drought

Drought is the only physical risk likely to affect our operations or financial condition in any material way, because we rely on water to make our products. Analysing the financial impact of drought is particularly difficult because there are many factors involved, including the probability of drought, how long operations would have to be suspended and the impact of any adaptation or contingency measures.

Even so, we have modelled what we can, using scenario analysis and our own assessment of vulnerability, and considering highly conservative assumptions (e.g. some downtime in all sites due to drought). We concluded that, by 2030, we don’t expect drought to have a significant impact on our operations or our financial condition. Beyond 2030 it is much harder to analyse, given the lengthy timeframe. But our models do show that if we don’t take mitigating action by 2050, drought could have the potential to interrupt operations and, as a result, potential lost sales. We discuss how we plan to deal with this risk in the Strategy section on page 76.

Commodity pricing

Commodity pricing is more difficult to estimate in these scenarios, with the models we used producing highly varied estimates. Prices were projected to increase for the majority of our commodities. The scenario analysis helps us build commodity pricing into our new raw material procurement strategies, particularly for crops with unique provenance (e.g. agave and vanilla) or high sensitivity to growing conditions (e.g. hops). Our modelling suggested the biggest risks of higher prices in 2050 were to agave, sorghum, rice, dairy and hops. There are significant differences between models, but the impacts in 2050 could be significant.
Focus on water stress

Because we rely so greatly on water, we have been assessing our wholly owned production sites for water stress regularly since 2008. The most recent assessment, in 2021, was updated in fiscal 23 to reflect changes in our operations due to disposals. The assessment - and our classification of a site as ‘water-stressed’ - is based on external (WRI Aqueduct databases for watersheds around the world) and internal site surveys covering physical, regulatory, social and reputational considerations. It will be updated again in fiscal 24. Shown below are the sites for which we have conducted source vulnerability assessments, and those countries in which we have identified priority water basins.

Diageo sites located in water-stressed areas, and priority water basins in 2023

Flooding and storms

Flooding and storms are the next most likely physical risks to affect our financial performance, since they might damage our sites or disrupt our supply of agricultural commodities, and the price of most of the commodities we analysed is set to increase under the scenarios developed. Although the risk to our sites from acute physical events will increase, it is unlikely to be significant in the scenarios and timeframes we analysed.

Identifying and assessing our transition risks and opportunities

To assess transition risks and opportunities, and to estimate their financial impact under a Paris-aligned emissions scenario, we worked with climate resilience experts. The work performed deepened our understanding of our risks and opportunities which led to refined financial assessment of the risks and opportunities along with further clarity on how to respond to them.

In fiscal 21 to 23 we analysed, as defined by TCFD, the risks and opportunities associated with transitioning to a low carbon economy. We identified the risks with the most potential impact by looking at our agricultural inputs, production and packaging, distribution and sales channels arriving at these most important transition risks and opportunities to monitor:

1. Decarbonisation costs: Changes to our production costs associated with moving to a low-carbon economy, including carbon taxes and related changes to input costs (risk and opportunity).

2. Consumer behaviour: Changes in consumer behaviour to become more sustainable, e.g. choosing circular (reusable) products or locally produced brands (risk and opportunity).

3. Regulatory changes: For example, restrictions on packaging, water use, agricultural materials or land that affect our ability to make our products (risk).

4. Technology changes: Shifting to low-carbon production of our products and packaging, and the associated risk of not doing this fast enough (risk and opportunity).

The next table on page 78 summarises the physical and transition risks and opportunities we consider most important to manage overall.

Quantitative impact of transition risks and opportunities

Transitioning to a low carbon economy creates both risks and opportunities for us. Through our scenario analysis we have estimated the impact on our operations and financial condition to 2030, concluding that it is unlikely to be significant by that date, even assuming that we bear all changes in production costs. We found the key driver of transition risk was glass and, to a lesser extent, aluminium packaging, which would contribute to an overall production cost increase. We also saw that lower transport and energy costs would partially mitigate this impact. The categories and markets most affected in this scenario were those where glass constitutes a relatively higher proportion of overall cost, particularly tequilas, cream liqueurs and the Indian market. Lower future transport costs meant that categories where transport costs were relatively higher as a proportion of total cost were less affected, relatively, by increased glass cost.

Extending the analysis to 2050 is subject to many variables and unknowns and therefore significant uncertainty. But it lets us estimate what a worst case scenario could look like based on our best available modelling of cost trajectories, and understand what’s driving risk so that we can develop plans to mitigate it. Based on this modelling we could make the estimated impact on our operations and financial condition not significant through pricing and/or our planned improvements in energy use, producing lightweight glass, reducing the carbon intensity of glass production, and using returnable or reusable packaging where possible.

The results of our scenario analysis of both physical and transition risks are reflected in our assessment of viability and impairment (see page 94).
Our strategy for grain-to-glass sustainability acknowledges the breadth of the environmental and social consequences of climate change. It also reflects how interconnected our value chain is and that our value chain is a series of interdependent parts. Our targets reflect the complexity of the risks and opportunities we face and are mapped to our most material issues: water, carbon and the sustainability of our packaging.

By setting challenging targets, ‘Society 2030: Spirit of Progress’ looks to drive improvements in environmental performance by 2030. By doing this, we will strengthen our business by delivering against those targets. We define our targets carefully, along with clear timeframes and targets, to ensure they are measurable and achievable. We set challenging targets in each of the five focus areas: climate, water and regenerative agriculture; local communities; biodiversity and ecosystems; and responsible supplier practices.

Our carbon and water roadmaps outline the projects needed to deliver against those targets. We also incorporate innovation opportunities or overcome project delivery challenges. Our carbon and water roadmaps are contextually specific and recognises variations in climate resilience across our operations.

Our ‘Preserve Water for Life’ strategy is context-based and recognises the importance of understanding how we use water and the impact on local ecosystems. We have identified 11 water-stressed areas and have completed 35 replenishment projects in 11 water-stressed areas in fiscal 23.

### Water replenishment

**Target by 2026**

- Reduce more water than we use for operation in water-stressed areas

**Percentage of water replenished in water-stressed areas**

<table>
<thead>
<tr>
<th>Water-stressed areas in fiscal 23</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target percentage</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Replenishment percentage</td>
<td></td>
<td>22%</td>
</tr>
</tbody>
</table>

In fiscal 23, we completed 35 replenishment projects in 11 water-stressed areas. This represents 22% of our target for 2026, and cumulatively (fiscal 16 to fiscal 23) we have replenished 71.5% of our estimated fiscal 26 volume. Our replenishment programme, an important contribution to supporting the climate resilience of our communities and supply chains, has helped us to achieve our long-term vision of replenishing water in all water-stressed areas by 2026.
An important part of our approach to water is providing access to clean water, sanitation and hygiene (WASH) in water-stressed communities near our sites and in water-stressed areas that supply our row materials. We reached our 2030 target in fiscal 23, launching a project in Mexico to harvest rainwater in 37 schools and provide drinking water in Jalisco, home of our tequila distilleries. This means all nine of the markets included in our target have invested in WASH projects since 2020. In fiscal 23, we invested in 17 WASH projects in seven countries bringing safe water and sanitation to 71,655 people.

In fiscal 23, we have also helped ensure more female representation in WASH programmes, which makes it more likely that everyone will benefit equally from access to water. For more about this, see the section on championing inclusion and diversity (page 70). In fiscal 24, we’ll consider how best to bring WASH projects to more communities in our supply chains.

Advocacy
Water is under pressure around the world, and the issues around preserving it are complex. So it will take multilateral action to address the challenge of responsible stewardship and scarcity. At the COP27 climate change conference, we were among businesses calling for more action on water and climate resilience. We also attended the UN Water Conference in New York in March 2023 and were among the first businesses to sign a declaration calling for accelerated action on water stewardship. Our partnerships with leading international organisations, such as Water Resilience Coalition, Alliance for Water Stewardship and WaterAid, are fundamental to our ambition to improve the water security of the whole basin, which leads Nairobi, home of our Tuker brewery.

We don’t tackle water stress alone. We launched the Diageo Collective Action Programme in 2020, recognising that we need to collaborate with multiple stakeholders to create solutions and interventions that improve the water security across entire water-stressed catchments. Through this, we are now active in six out of our 12 ‘priority water basins’ - strategically important areas suffering particular water stress in 10 countries. In fiscal 23, with support through our partnership with The Nature Conservancy, we began two initiatives - one with the International Union for Conservation of Nature in Uganda’s Victoria Nile basin where we source sugarum and barley for our brewery in Kampala, and another in the Godavari 3 basin in India. We have also agreed to be a basin champion for the Water Resilience Coalition in Kenya’s Upper Tana basin, partnering with the Upper Tana-Nairobi Water Fund, increasing the commitment and investment we have already made there to improving the water security of the whole basin, which leads Nairobi, home of our Tuker brewery.

Water collective action
Target by 2030
Engage in collective action in all priority water basins to improve water accessibility, availability and quality and contribute to net positive water impact
Percentage of priority water basins with collective action participation 50%
Emissions from our direct operations

Target by 2030
Become net zero carbon in our direct operations (Scopes 1 and 2)
Percentage reduction in absolute carbon emissions (direct and indirect) by weight (market/net based)
from the prior year

5.4%Δ

2020 2021 2022
17.7% 10.7% 8.6%
Target 30% 30% 30%

In fiscal 23, as part of our ambition to decouple our operations to decouple growth from emissions, we continued to reduce our absolute carbon emissions (direct and indirect) carbon emissions by weight (market/net based), achieving a further 5.4% reduction on last fiscal year and a cumulative 14.7% improvement from our fiscal 20 baseline.

The main factor in reducing our emissions in fiscal 23 was our continued investment in renewable energy. We commissioned biomass facilities at sites in Kenya and Uganda, bringing significant emissions reductions of approximately 42,000 tonnes CO2e over the course of the year. We increased on-site bioenergy use of facilities in Scotland and Turkey and also replaced fossil fuel with liquid biofuels at two of our whisky distilleries in Scotland. We have also implemented continuous improvement initiatives across a number of sites, and continued to use certificate-backed renewable natural gas facilities at the UK and Canada.

To reach our 2030 SBt-IP approved near-term target for direct operations, we must reduce our emissions by more than 95% from our 2020 baseline. We continue to invest in carbon-neutral facilities, in addition to our four carbon-neutral distilleries1 in Scotland and North America. We are designing new sites in Mexico, Canada, Ireland and China to be as efficient and low-emitting as possible.

Target by 2030
Use 100% renewable energy across all our direct operations by 2030
Change in percentage of renewable energy across our direct operations in fiscal 23

1.9%

2020 2021 2022
50% 54% 58%
Target 100% 100% 100%

This year, 45% of the energy consumed at our facilities came from renewable sources, an increase of 17% on last year. To achieve this, we have increased the use renewable electricity, fuel and heat. Our improved performance in fiscal 23 was driven largely by the electrification of our sites, our efforts to source renewable electricity and our investment in biomass technology.

As a signatory of the RE100 initiative, with a target to reach 100% renewable electricity from renewable sources by 2030, we are proud that we are ahead of our 2025 target of 50% renewable energy.

Emissions from across our value chain

Target by 2030
Reduce our value chain (Scope 3) carbon emissions by 50%
Percentage reduction in absolute greenhouse gas emissions (tCO2e) from the prior year

1.2%

2020 2021 2022
— 1% 1.2%
Target 50% 50% 50%

We continue to refine our understanding of our baseline and footprint, including our supplier network, as we continue to reduce the entire carbon footprint and associated emissions in fiscal 23. This year our Scope 3 CO2e emissions decreased by 1.2% but we remain behind our 2020 baseline by 20.7%

Our emissions derived from packaging decreased due to reductions in volumes, as well as decarbonisation activities including glass-lightweighting, carbon removing, and switching to lower-carbon materials. This was partly offset by increased emissions attributed to capital goods, including investments in plants that enable our low-carbon transition.

We are navigating the complexities of Scope 3 to ensure we reach our reduction targets, and enable impactful change up and down the value chain by working with our suppliers, our peers and the wider beverage industry.

As well as reducing Scope 3 emissions by 50% by 2030, we want to achieve a net zero carbon by 2050 or sooner. To achieve these targets, in common with many multinationals, we are working with global GHG accounting bodies and our suppliers to get more detailed Scope 3 data. As we build our value chain data, we can be more specific about our GHG footprint, including refined categories of upstream and downstream Scope 3 emissions.

Total direct and indirect carbon emissions by region by year

Target directly and indirect carbon emissions by weight (market/net based) (tonnes of CO2e)
Region

2020 2021 2022
2023
North America 127 125 100 83
Europe 192 121 164 114
Asia Pacific 32 10 9
Latin America and Caribbean 22 27 38 26
Africa 137 154 122 89
Diageo (total) 470 445 424 401

2020 baseline 2021 baseline 2022 baseline 2023

Diageo (total) 470 445 424 401

In Ireland, our programme looking for ways to lower-carbon emissions of barley production for Guinness is in its second year, with 45 farmers now participating. Data from 125 soil samples showed that three-quarters of the soil’s carbon footprint is from nitrogen fertiliser. This shows there’s potential to reduce emissions by at least 30% from the baseline year through regenerative practices and low-carbon fertilisers.

We also supplied barley farmers with cover crops, which fix nitrogen and carbon in soil, and quantified biomass they generate.

Moving towards regenerative agricultural sourcing

Our supply chain connects us to communities around the world. This gives us the chance to make a positive social and environmental impact by enhancing livelihoods and promoting regenerative agriculture.

One of the foundations of our regenerative agriculture strategy is our Sustainable Agriculture Guidelines (SAG), which set out the principles we expect our agricultural raw materials suppliers to adopt to make farming more regenerative. We work with suppliers and farmers across our supply chains to implement, assess and scale regenerative practices.

This work helps make our supply chain more resilient. Our assessments show the possible impacts of climate change on agricultural commodities, and that they are vulnerable to climate hazards including water stress, temperature increases and flooding, particularly where the commodities only grow in one country.

We work with communities to help them adapt and build resilience through our ‘Preserve Water for Life’ strategy, implementing regenerative agricultural practices and developing climate-resistant variants of agricultural crops. We are also exploring alternative crops to build diversity and enhance resilience in crop systems and across our raw materials portfolio. By working with farmers in this way, and by giving them skills and resources, we make them and their communities economic, environmental and socially stronger, as well as strengthening our own supply chain.

Guinness barley programme

Discovering the secret of farming’s footprint

In Ireland, our programme looking for ways to lower-carbon emissions of barley production for Guinness is in its second year, with 45 farmers now participating. Data from 125 soil samples showed that three-quarters of the soil’s carbon footprint is from nitrogen fertiliser. This shows there’s potential to reduce emissions by at least 30% from the baseline year through regenerative practices and low-carbon fertilisers.

We also supplied barley farmers with cover crops, which fix nitrogen and carbon in soil, and quantified biomass they generate.

Local sourcing

Target by 2030
Provide all local sourcing communities with agricultural skills and resources, building economic and environmental resilience (supporting 150,000 smallholders)
Number of smallholder farmers in our supply chain supported by our smallholder farmer programme in fiscal 23

12.9k

We are on course to reach our target of supporting 150,000 smallholder farmers in fiscal 23 with sustainable development.

(1) Four carbon-neutral facilities have been assessed and certified using PAS2050 + Carbon Neutrality Standard and Certification (Scope 162, Direct Operations boundary) as reducing emissions aligned on an equivalent net zero trajectory with +5% of residual emissions neutralised using purchase of carbon offsets.
(2) Within the scope of the PricewaterhouseCoopers LLP (PwC) independent limited assurance reported to the Directors, for further detail and the reporting methodologies, see pages 242-246.

[1]4 CO2e includes biomass, waste and emissions from certified renewable energy.

(Δ) Within the scope of PricewaterhouseCoopers LLP (PwC) independent limited assurance reported to the Directors. For further detail and the reporting methodologies, see pages 242-246.
We have worked mainly in Kenya to test and learn from our approach to support our smallholders before expanding to the network of smallholders we source from. The programme focuses on training and enabling knowledge transfer for the transition to more resilient agriculture production systems. We trained smallholders on improving soil health, working with technical and implementation partners on the ground. We have also supported our smallholders with essential resources such as high-quality, certified seeds, distributing more than 100 tonnes of input at a subsidised rate to smallholder farmers.

Last year, we partnered with an agricultural technology provider to digitise our smallholder value chains. Starting with our primary crop for smallholder farmers, sorghum, we have rolled the technology platform out across Ghana, Kenya and Uganda in fiscal 23. We aim to broaden this to Nigeria and Tanzania. The technology acts as a valuable data source. We aim to use it to tailor our offering to smallholders based on their needs, while monitoring changes to baseline data to make sure our interventions have an impact on the ground. To help accelerate change for smallholders, we launched challenges through Diageo Sustainable Solutions, encouraging innovators to pitch ideas relating to soil biodiversity, carbon (relating to soil health) and water.

To clarify farming communities’ needs, we have used the main communication method in our sourcing region: radio. Working with local agricultural radio shows and Farm Radio International, we are looking to understand farmers’ challenges to help us target our support. Together, we ran a six-week series on ‘Farming as a Business’, discussing challenges to women in agriculture and the support available to farmers. Listeners could telephone to submit views in their local dialect across eight radio stations in Ghana and Uganda.

**Reducing packaging weight and increasing recycled content**

**Target by 2030**

Continue our work to reduce total packaging and increase recycled content in our packaging (delivering a 50% reduction in packaging weight and increasing the percentage of recycled content in our packaging to 60%).

**Percentage reduction of total packaging (by weight) in fiscal 23**

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.4%</td>
</tr>
</tbody>
</table>

In fiscal 23, we reduced packaging weight by 4.4% compared to fiscal 22, but this was 14.9% above our 2020 baseline because we have increased production from fiscal 20 to fiscal 22. In fiscal 23, we removed 141 million cartons from some of our Johnnie Walker and scotch brands. We have reduced weight in our primary scotch portfolio by moving some of our bottles into standard, more lightweight formats, allowing us to take some heavier formats out of the portfolio. These changes have saved almost 4,000 tonnes of glass and 9,170 tonnes of board in fiscal 23. From fiscal 24, we will continue to embed our Design for Sustainability packaging guidelines, emphasising use of lightweight glass and recycled content. We also continue to encourage bars, restaurants and other off-trade outlets to support the reuse of packaging.

**Change in percentage of recycled content (by weight) in fiscal 23**

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12%</td>
</tr>
</tbody>
</table>

Recycled content now makes up 39% of our packaging, down 12% on fiscal 22. This is because of a shortage of cutler, a feedstock for recycled glass, in the United Kingdom and North America. We continue to face challenges in sourcing quality recycled glass and PET (polyethylene terephthalate), though we are working with suppliers and industry peers to strengthen recycling infrastructure.

Despite the challenges, we have made positive changes, moving Johnnie Walker Gold Label Reserve from 0% recycled content to 40% and trialling Johnnie Walker core sizes with increased recycled content. We also launched Talisker x Parley’s Wilder Seas in the brand’s first 100% recycled bottle.

**Pioneering a lighter bottle**

In 2021, we launched a challenge to develop lightweight bottles through Diageo Sustainable Solutions. This led to us working with glass industry consultants EXERGY, which has developed an innovative glass coating technology that could enable us to use lighter glass for bottles, without reducing their strength. We invited strategic supply chain partner Ardagh Group to collaborate, and they engaged manufacturing software specialist Dassault Systèmes to support with testing the EXERGY coating.

We have been testing the coating through industry-first lab-based and virtual trials. Virtual trials allow us to develop innovations using real-time digital representations of products and processes, which reduces time, cost, energy and raw materials. After the trials, we will test the thinner glass on our Johnnie Walker bottles. Through this collaboration, we hope to significantly reduce the raw materials needed to create a bottle, and the overall weight, so it takes less carbon to transport our bottles.

**Percentage of packaging recyclable (by weight)**

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>97.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

In fiscal 23, 97.9% of our packaging was technically recyclable, using the same fiscal 22 methodology. We have an ambition to adjust our recyclability metrics in line with market-differentiated recycling frameworks in the future.

**Examples of how we are reducing our packaging footprint include:**

- Pioneering net-zero glass bottles: In December 2022, we announced our partnership with Encirc, a leading glass manufacturer and co-packer, to create the world’s first net-zero glass bottles at scale by 2030. The new furnace at Encirc’s plant in Cheshire, United Kingdom, will reduce carbon emissions by 90% with an energy mix of green electricity and low-carbon hydrogen.
- We expect that carbon capture technology will capture the remaining carbon emissions by 2030. The furnaces are expected to be fully operational by 2027 and to produce up to 200 million Smirnoff, Captain Morgan, Gordon’s and Tanqueray bottles a year by 2030.
- Leading the way to sustainable aluminium: We have invested in a groundbreaking project to create a circular economy for aluminium in the United Kingdom. We are funding a new consortium (MACALL - British Aluminium Consortium for Advanced Alloys), which will build a plant to provide recycled aluminium for more than 400 million cans of Guinness and pre-mixed Gordon’s and tonic, significantly reducing our carbon emissions while also creating jobs in the United Kingdom.

By becoming sustainable by design in packaging, we reduce our raw materials needed to create a bottle, and the overall weight, so it takes less carbon to transport our bottles.

**Change in percentage of recycled content (by weight) in fiscal 23**

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1.2)%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0%</td>
</tr>
</tbody>
</table>

In fiscal 23, achieved 83.2% recyclability for plastics, on increase of 11.2% from last year. We continue to use the ‘technically recyclable’ definition. The remaining non-recyclable components are currently not replaceable, although we continue to explore alternatives.
PIONEER GRAIN-TO-GLASS SUSTAINABILITY continued

How we have reported consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

In preparing our disclosures, we have taken into consideration the TCFD all sector guidance.

TCFD recommendation Compliance

GOVERNANCE See page 72
a. Describe the board’s oversight of climate-related risks and opportunities. Yes. See page 72.
b. Describe management’s role in assessing and managing climate-related risks and opportunities.

RISK MANAGEMENT See pages 73-78
a. Describe the organisation’s processes for identifying and assessing climate-related risks.
b. Describe the organisation’s processes for managing climate-related risks.
c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.

STRATEGY See pages 79-86
a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.
b. Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.
c. Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

METRICS & TARGETS See pages 79-86
a. Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

We have described risks and opportunities for our business in >95% of our operating locations, as well as the impact of those risks and opportunities on our strategy. We have modelled the resilience of our strategy under three climate-related scenarios. See pages 263-265. As a next step we are exploring the further development of our scenario analysis capability and associated tools.

Yes. See pages 79-86.

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c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Yes. See pages 79-86.
Effective risk management

Our approach
We believe that effective risk management starts with the right conversations to drive better business decisions. Our primary focus is to identify and embed mitigating actions for material risks that could impact our current or future performance, and/or our reputation. Our risk management efforts aim to be holistic and integrated, bringing together risk management, internal controls and business integrity, ensuring that our activities across this agenda focus on the risks that could have the greatest impact. We have recently reviewed and refreshed our principal risks, our risk appetite, and our approach to risk management. Our approach is also structured to ensure that we take all reasonable steps to mitigate, but not necessarily eliminate, our principal risks in this context.

Accountability for managing risk is embedded into our management structures, an annual risk assessment establishes mitigation plans and monitors risk on a continual basis.

Our Executive Audit & Risk Committee (ARC) regularly assesses risk, and the Audit Committee, acting on behalf of the Board, independently reviews the assessment. The ARC meets quarterly and receives regular reports on the risks faced across the business and the effectiveness of the actions taken to mitigate these risks. We use internal and external data to monitor our risks and to make proactive interventions. We also establish cross-functional working groups and use expert advice where necessary to ensure significant risks are effectively managed and, where appropriate, escalated to the ARC and Audit Committee for consideration.

Further details about our risk management approach are described in the Corporate governance report on page 108 and in the Audit Committee report on pages 109-122.

Our principal risks
The Audit Committee considers principal risks to be the most significant risks faced by the group, including those that are the most material to our performance and that could threaten our business model or future long-term performance, solvency or liquidity. They do not comprise all the risks associated with our business and are not set out in priority order. Additional risks not known to management, or currently deemed to be less significant, may also have an adverse effect on the business.

Well-managed risk-taking lies at the heart of our Performance Ambition. Effective risk management drives better commercial decisions, protects our assets and supports a growing, resilient and sustainable business.

1. Climate change and sustainability
   - Physical and transition climate change risks, including water stress, extreme weather events, temperature rises and increased regulation, may result in increased volatility in the supply of raw materials, production costs, supply chain disruptions and higher costs of compliance.
   - The failure of the business to meet our sustainability goals could result in loss of licence to operate, financial loss and reputational damage amongst customers, investors, suppliers and other stakeholders.
   - The collective climate action failure to meet sustainability goals may result in severe warming of 4.5°C per IPCC RCP8.5 modelling.

2. Regulation, trade barriers and indirect tax
   - Post-pandemic, we see risks associated with geopolitical tensions, global inflation and debt crises which cause pressures on public finances, resulting in the need to raise new tax revenue.
   - In addition, public health concerns may lead regulators in major markets to ban or restrict the marketing or sale of alcohol, while increased trade tensions and/or fiscal policies may restrict the introduction of additional trade barriers and/or disproportionately tax increases, all of which may result in financial loss.

Core mitigation:
   - The cross-functional Climate Risk Steering Group sets our strategy for ongoing climate risk assessment, and manages associated opportunities and risks, while continuing to develop our approach to climate change risk reporting (see page 76). Resource-scarce issues have been identified and mitigated, especially within agricultural ingredient sourcing, and manufacturing, water and energy.
   - Physical risk exposures have been identified for sites assessed in North America and Scotland, Africa, Mexico, India and Turkey and being built into and category risk footprints.
   - Society 2030: Spirit of Progress’ ambition was launched and operationalised to deliver against key targets and longer-term commitments.
   - Water blueprint was defined and operationalised in water-stressed locations.
   - Communication programmes are in place to shape impact, strengthen reputation and support advocacy platform.
   - Carbon pricing is being assessed as an internal mechanism to drive deeper understanding of the impact of our energy choices.
   - Our TCFD modelling and mitigation plans incorporate the risk of a 4.5°C climate change scenario, which may arise as a result of collective climate action failure.

Developments in F23:
   - Progress against our ‘Society 2030: Spirit of Progress’ target (see pages 79 – 86).
   - Further multi-year climate change risk assessments and scenario analysis performed in Latin America and Caribbean, Asia Pacific, and Europe to evaluate short and long-term impacts from policy changes to alternative future scenarios.
   - We have further increased resource dedicated to the mitigation of climate impact within our sustainability, science, policy and finance teams.
   - Our response includes mitigations, (action to reduce our impact on climate change), and adaptations, (action to reduce the impact of climate change on our operations).

Core mitigation:
   - We run multi-year public policy campaigns to minimise risk and unlock tax, trade and regulatory opportunities.
   - We have active involvement with the United Kingdom, the European Union and the United States authorities to prevent escalation of tariff tensions and promote free new trade agreements.
   - Our positive drinking programmes are supported by a global industry platform to promote responsible drinking and tackle spilt discrimination.
   - We practice evidence-based engagement to build trust and reputation with governments, health ministries and other stakeholders.

Developments in F23:
   - We have continued to prioritise the execution of public policy campaigns in all markets, to minimise risks and unlock tax, trade and regulatory opportunities.

Core mitigation:
   - Pressure on public finances and public health concerns are increasing. This has resulted in an increasing likelihood of changes in regulations, trade barriers or indirect tax to mitigate increased inflation and debt crises.

This list does not include all of our risks, and the risks listed are not set out in order of priority.

Gross Risk Movement refers to the gross movement in the risk, before mitigations and controls, from the prior year.

Gross Risk Movement

<table>
<thead>
<tr>
<th>Risk impact</th>
<th>Mitigation plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing</td>
<td></td>
</tr>
<tr>
<td>Decreasing</td>
<td></td>
</tr>
<tr>
<td>Stable</td>
<td></td>
</tr>
</tbody>
</table>

Strategic outcomes

<table>
<thead>
<tr>
<th>Outcomes</th>
<th>Gross Risk Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficient growth</td>
<td>Increasing</td>
</tr>
<tr>
<td>Consistent value</td>
<td>Decreasing</td>
</tr>
<tr>
<td>Credibility and trust</td>
<td>Stable</td>
</tr>
<tr>
<td>Engaged people</td>
<td>Increasing</td>
</tr>
<tr>
<td>Risk included in stability</td>
<td>Decreasing</td>
</tr>
</tbody>
</table>
3. Geopolitical volatility and business interruption

Geopolitical crises, primarily driven by the Russian/Ukraine conflict (but also several other vectors globally), coupled with macro-economic stress, increase the likelihood of international and domestic tensions, disruptions, conflict, unrest, and crime. A significant interruption to our business due to external events or a global health emergency could restrict access to our products, negatively affect our operations and brands, or pose a threat to the safety of our employees; any of which could have a negative impact on our commercial and financial performance. Upcoming election cycles in key markets including the US, UK and Europe are likely to lead to increased volatility.

4. Macro-economic and financial volatility

Failure to react quickly enough to changing macro-economic conditions and financial volatility could erode consumer confidence and adversely impact financial performance. Macro-economic conditions include inflationary pressures, unemployment and global trade tensions. Financial volatility risk could arise from variability in financial markets, interest rate fluctuations and currency instability.

Core mitigations:
- We monitor locally and globally key business drivers and performance to prepare for rapid changes in the external environment.
- Central hedging and currency monitoring take place to manage volatility, which arises.
- Group-level strategic analysis and scenario planning is managed at both a global and a local level, to strengthen market strategies and risk management across the business.
- We have multi-country investment and local sourcing strategies.
- There are dedicated cross-functional steering groups to manage acute issues including inflation.

Developments in F23:
- Advanced analytics have been introduced to scenario plan volume ranges over a longer time period, allowing better mitigation against changes in the external landscape.
- Scenario planning has been embedded into Executive and Board meetings and integrated into the strategic planning cycle.
- Inflation has remained high and has reduced more slowly than expected in many countries. High levels of inflation are expected to continue in the short to medium term.
- Foreign exchange volatility has increased across several of our markets.

5. International direct tax

Changes in the international tax environment may lead to an increased cost of compliance, an increase in our effective tax rates and/or unexpected tax exposures and additional uncertainty, which could result in financial loss.

Core mitigations:
- We monitor and, where appropriate, express views on the formulation of tax laws either directly or through trade associations or similar bodies.
- We continuously monitor the international tax landscape for new taxes and tax legislation introduced and work on improving tax processes, data, and system capabilities to enable us to ensure compliance.
- We are continuing the implementation of our tax transformation programme, standardize, centralize and subordinate tax activities and controls where possible.
- We continue to review and adapt our global transfer pricing policies to ensure profits are taxed in line with business activities and economic substance.

Developments in F23:
- We continue to monitor tax laws, and progress the implementation of our tax transformation programme. The Organisation for Economic Co-operation and Development (OECO) work on digitalisation will likely impact how and where multinationals are taxed, for example, through the implementation of a global agreement on a minimum effective tax rate under the Pillar Two rules.
- The risk of unilateral tax measures [increased rates, new taxes, new extraterritorial measures] may increase if the OECD isn’t successful in generating the consensus required to implement its proposals at scale.

6. Supply chain disruption

Supply chain disruptions can arise from a range of reasons, including and not limited to, geopolitical tension, changes in commodity markets, increasing likelihood of severe weather events, cybersecurity threats across the end-to-end supply chain, macro-economic instability (such as inflation) impacting the responsiveness from our suppliers, regulatory changes and changes in customer and consumer behaviours. Supply chains are likely to be expected to operate in this ‘never normal’ for the near to mid-term.

Core mitigations:
- We have enhanced our digital infrastructure and capability through artificial intelligence and advanced automation roadmap.
- We have secured additional capacity on key packaging components and with our ports, carriers and third-party logistics providers.
- We have focused on segmentation and the implementation of differentiated supply strategies.
- In addition, we have secured additional ocean capacity, moving away from single supplier models.
- We have continued to review and adapt our global transfer pricing policies to ensure profits are taxed in line with business activities and economic substance.
- The number of packing operations and hubs that are closer to the markets has increased, creating more flexibility and responsiveness.

Developments in F23:
- We have focused on segmentation and the implementation of differentiated supply strategies.
- We have continued our digital infrastructure and capability through artificial intelligence and advanced automation roadmap.
- We have incorporated both upside and downside scenario planning for better risk mitigation.

\[ \text{Core mitigations:} \]
\[ \text{Developments in F23:} \]

Strategic outcomes
- Efficient growth
- Consistent value creation
- Credibility and trust
- Engaged people
- Risk included in strategy outcomes

Gross Risk Movement
- Increasing
- Decreasing
- Stable
7. Cyber and IT resilience

There is a risk in cyber attacks which impact supply chain operations and the manufacturing industry.

Sophisticated cyber and IT threats (both within our network and third parties), including those facilitated through breaches of internal policies and unauthorized access to legacy systems, remain prevalent, and could lead to data misappropriation of critical assets, such as personal and consumer data, and operations/production systems.

Inadequate IT resilience arrangements and integration with legacy systems and our increasing dependence on third-party IT services and solutions could cause disruption to core business operations, including manufacturing and supply, resulting in financial loss and reputational damage.

8. Business ethics and integrity

There are increased regulatory expectations with new legal regimes being imposed, and heightened enforcement being adopted across different markets.

Lack of an embedded integrity culture or any breach of our policies, relevant laws or regulations (including but not limited to corruption, money laundering, global competition, human rights, data protection and economic sanctions) could result in significant penalties, financial loss and reputational damage.

Core mitigations:
• Our Code of Business Conduct and supporting policies and standards set out compliance requirements which are then embedded throughout Diageo via regular training, communications, annual certification, and risk-based local and global engagement activities. Robust whistleblower mechanisms for complaints to be raised, properly investigated and remedial actions taken.
• Risk management process and assessment framework to identify risks, mitigate, and monitor business and compliance risks.
• Well-embedded risk insurance programme and centralised second line of defence.
• Third-party due diligence process supported by technology and central oversight.
• Utilisation of data and analytics tools to proactively support risk identification, assessment, and ongoing governance.

Developments in F23:
• Significant updates have been made to our third-party due diligence by shifting core aspects of the process to a centralised team, which will leverage expertise, centralise oversight, and shorten on-boarding time frames.
• We have updated our Code of Business Conduct and Countering Corruption policy to address anti-bribery more fully.
• Value-based training and engagement have been deployed across all levels, with a particular focus on anti-corruption, anti-bribery and leading with integrity.
• New guidance has been developed around screening of third parties to address growing Direct to Consumer business opportunities.
• We have continued to enhance our governance processes around global human rights to ensure human rights considerations are strengthened across all business operations and reflect emerging human rights regulations across the globe.

Increasing 🟢
Geopolitical tensions are growing, and there is an increased likelihood of a more sophisticated cyber threat which could affect any organisation.

9. Consumer demand disruption

Consumer demand is increasingly disrupted as a result of heightened macro-economic volatility, with inflation and cost-of-living crises across many countries adversely impacting prices and consumer spending power.

Consumer patterns are also becoming more fragmented, but not limited to, digital technology, health and wellness priorities, altered consumption behaviour, and new formats and technologies.

Inability to respond and adapt to these disruptive market forces could impact our ability to effectively service our customers and consumers with the required agility, and result in financial loss.

Core mitigations:
• We have a highly diversified portfolio of brands sold across the world, to ensure broad coverage of consumer occasions, geographies, trends and price points.
• We operate a rigorous process of strategy development and decision making at corporate and market level, using a suite of propriety and third-party data tools, including our Brand Performance System, Global Performance Suite and Consumer Choice Framework.
• We perform a systematic review of emerging consumer and route to consumer trends at market and brand level.
• We focus our innovation on our strategic priorities and the biggest consumer opportunities, through global brand understandings and new-to-world products.
• Our Demand Tracker system provides enhanced demand forecasting capability at market and category level, allowing us to optimise marketing investment.
• Using our Volatility Tracker tool, we can review changes in consumer attitudes and spending, both within our category and across the wider consumer economy.

Developments in F23:
• Consumer behaviour and drivers of choice are fragmented, as consumers increasingly make product choices reflecting their personal socio-political values.
• We are investing in our social listening capability to improve our understanding and semantic analysis of online consumer signals.

10. Product quality and counterfeiting

Accidental or malicious contamination of raw materials or finished product and/or ineffective brand protection and intervention to address counterfeiting of our products supplied to market, could cause harm to consumers, damage our corporate and brand reputation and pose potential threats to our people due to the direct nature of organisations involved in counterfeiting activities.

Core mitigations:
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Core mitigations:
• We have continued the roll-out of upgraded liquid authentication machines.
• We have strengthened our investigation capabilities, with a new vendor wholly focussed on counterfeiting activity, pursuing enforcement and prosecution where possible.
• We focus our innovation on our strategic priorities and the biggest consumer opportunities, through global brand understandings and new-to-world products.
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Core mitigations:
• We conduct digital and brand protection audits of our product portfolio.
• We operate a rigorous process of strategy development and decision making at corporate and market level, using a suite of propriety and third-party data tools, including our Brand Performance System, Global Performance Suite and Consumer Choice Framework.
• We perform a systematic review of emerging consumer and route to consumer trends at market and brand level.
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• Using our Volatility Tracker tool, we can review changes in consumer attitudes and spending, both within our category and across the wider consumer economy.
The Directors have reviewed the long-term prospects of the group in order to assess its viability. This review considered the activities and principal risks of the group, together with factors likely to affect the group’s future performance, financial position, cash flows, liquidity position and borrowing facilities, as described in this Annual Report.

Assessment
In order to report on the long-term viability of the group, the Directors reviewed the overall funding capacity and headroom available to withstand severe and plausible downside events, and carried out a robust assessment of the relevant principal risks facing the group, including those that would threaten its business model, future performance, solvency, or liquidity. This assessment also included the review and understanding of mitigating factors for each principal risk. The risks and mitigating factors are summarised in this Annual Report.

The viability assessment has three parts
First, the Directors considered the period over which they have a reasonable expectation that the group will continue to operate and meet its liabilities. A three-year period is considered appropriate for this viability assessment as this period is covered by the group’s strategic plan and carries a high level of confidence in assessing viability.

Second, they considered the potential impact of severe but plausible scenarios over this period, each of which contain a combination of principal risks. None of the scenarios individually or in aggregate would cause Diageo to cease to be viable. A combination of severe and plausible risks modelled, and the level of severity reviewed is included below.

Thirdly, they considered the group’s sources of liquidity to fund both the strategic plan and the impact of the severe scenarios over this period. Diageo has continuous access to the debt capital markets and committed facilities over the viability period, including the ability to refinance any maturing debt, or meet new funding requirements at commercially acceptable terms. The group’s liquidity is supported by a healthy balance of short-term and long-term debt programmes and £2.7 billion of committed credit facilities, if required. The group also has flexibility in reducing discretionary spending, including acquisitions and capital expenditure, as well as temporarily suspending/reducing its return of capital to shareholders (dividends or share buybacks).

Risk scenario modelled Description and severity Possible risks
Global economic downturn Prolonged global stagnation compounded by heightened geopolitical tensions and sharp economic challenges, including large interest rate hikes, sustained foreign exchange volatility and instability in the financial markets. This results in lost sales, through reduced consumer confidence, greater volatility amongst our customers and suppliers, and heightened price sensitivity. Cost of living increases lead to rating industrial unrest at supply sites and increases in interest rates result in financial institution and/or credit market related failures. Sales: Reduction in volumes across the three-year period, and consumer downturn, with reduced price increases.

Increased geopolitical tensions Increased geopolitical tensions result in a spike in cyber attacks, impacting supply operations across multiple Diageo sites and resulting in production downtime. Heightened tensions also result in disruptions to Diageo’s operational resilience and adversely impact on consumer demand for and/or availability of Diageos products, negatively impacting sales and profitability. Sales: Lost sales from adverse impact on consumer demand/availability, production downtime and route to market disruption.

Consumer choice and regulatory impact Consumer preferences move away from alcohol consumption driven by changing lifestyle priorities and social habits. Consumer demands reflect consumer personal values, as well as a perceived moral alignment with Diageo or its products, consumers do not purchase alcohol to the same extent as in the past, impacting our sales and profitability. In parallel, large public health campaigns, awareness raising and increased alcohol pressure leads governments in major markets to impose significant excise increases, restrictive trade measures or other excessive regulatory measures. Sales: Loss of sales to the non and low alcohol segment, and reduced sales growth due to the fragmentation of consumer demand.

Climate change and natural hazard
Increased global temperatures impact our ability to make products due to constrained water supply, leading to a rotational short-term shutdown occurring across some of our water-stressed sites. Climate change drives increasing costs of raw materials, increases vulnerability to extreme weather events and results in disruptions to Diageo’s operational resilience. Some weather events occur more frequently, impacting our supply facilities, causing production outages. The assumptions associated with this scenario are based upon our GFDI scenario modelling, and applied to a three-year period. Sales: Loss of sales due to operational outages as a result of disruption to production at water-stressed sites, and the impact of extreme weather events.

Combined scenarios
The highly unlikely event of the combination of all of the above scenarios occurring at the same time.

Management has prepared cash flow forecasts which have also been sensitised to reflect severe but plausible downside scenarios, taking into consideration the group’s principal risks. In the base case scenario, management has included assumptions for mid-single digit net sales growth, operating margin improvement and global TBA trade share growth. Even under the severe downside scenarios, the group’s cash position is still expected to remain strong. Mitigating actions, should they be required, are all within management’s control and could include reductions in discretionary spending, such as acquisitions and capital expenditure, as well as a temporary suspension of the share buyback programme and dividend payments in the next 12 months, or drawdowns on committed facilities. Having considered the outcome of these assessments, the Directors are comfortable that the company is a going concern at least 12 months from the date of signing the group’s consolidated financial statements.

Conclusion
On the basis described above, the Directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Annual Report Where we present our most material disclosures and describe how our strategy drives value for our business and other stakeholders. The performance of non-financial KPIs are integrated into the relevant focus area sections. The document also includes detailed non-financial reporting boundaries and methodologies.

Who are our stakeholders? Everyone who is affected by our business, and everyone who affects it, is a stakeholder. A detailed description of our stakeholder engagement process is on pages 110-113 of this Annual Report.

Non-financial and sustainability information statement

ESG Reporting Index Where we give additional disclosures in line with the GRI Standards and the UNGC advanced reporting criteria index, plus our response to the Sustainability Accounting Standards Board (SASB). This document also includes detailed non-financial reporting boundaries and methodologies.
Enabling our Ambition through Leadership

evolving to changing circumstances, as well as resilient and committed to our strategy, values and purpose. It is the responsibility of the Board to provide direction for management, setting the strategic aims and performance ambition of the company, centred on Diageo’s strong culture. The Board is also responsible for ensuring that the company has effective operational leadership to implement its strategy of investing for long-term sustainable growth. We were therefore very pleased to welcome Debra Crew back to the Board as Chief Executive in June.

A particular focus of the Board this past year has been on ensuring that Diageo is well-positioned for future growth. This includes managing appropriate allocation of capital such as investing in fast-growing categories, actively managing our footprint and brand portfolio through selective acquisitions and disposals, and investing in the capacity and environmental sustainability of our facilities and supply chain. It also includes ensuring that Diageo is resourced adequately, with performance enabled by highly engaged and motivated employees and a collaborative, value-based and inclusive culture.

We know that achieving this is dependent on the Board providing effective leadership, enabling swift execution of our clear strategy, and we look forward to working with Debra in guiding Diageo to move towards the next phase of delivering sustainable long-term value for our shareholders and other stakeholders.

Javier Ferrán [Chairman]
Leadership and experience

1. Javier Ferrán
   Chairman
   Nationality: Spanish
   Appointed: Chairman and Chairman of the Nomination Committee: January 2017 (Appointed Chairman Designate and Non-Executive Director: July 2016)
   Key strengths: Brings extensive board-level experience from the drinks and consumer products industry, including at chief executive level, and has a wealth of experience in consumer goods through his venture capital activities to draw from in his role as Chairman and leader of the Board.
   Current external appointments: Chairman, International Consolidated Airlines Group, S.A.; Senior Advisor and chairman of investee company board, BlackRock Long Term Private Capital.
   Previous relevant experience: Non-Executive Director and Senior Independent Director, Associated British Foods plc; Non-Executive Director, Coca-Cola European Partners plc; Member, Advisory Board of ESADE Business School; President and CEO, Bacardi Limited; Non-Executive Director, SABMiller plc.

2. Debra Crew
   Chief Executive
   Nationality: American
   Appointed: Chief Executive and Executive Director: June 2023
   Key strengths: Has broad experience in various consumer products sectors at board, chief executive and management leadership levels, as well as over four years’ experience in non-executive and executive roles at Diageo.
   Current external appointments: Non-Executive Director, Stanley, Black & Decker, Inc.
   Previous Diageo roles: Chief Operating Officer; President, North America; Non-Executive Director, Diageo plc.
   Previous relevant experience: Non-Executive Director, Newell Brands, Mondelēz International Inc.; President and CEO, Reynolds American, Inc.; President, PepsiCo North America Nutrition, PepsiCo Americas Beverages, Western Europe Region; various positions with Kraft Foods, Nestlé, S.A., and Mars.

3. Lavanya Chandrashekar
   Chief Financial Officer
   Nationality: American
   Appointed: Chief Financial Officer and Executive Director: July 2021
   Key strengths: Brings broad financial expertise, commercial skills and strong consumer goods experience to manage the group’s affairs relating to financial controls, accounting, tax, treasury and investor relations.
   Previous Diageo roles: Chief Financial Officer, Diageo North America and Global Head of Investor Relations
   Previous relevant experience: Vice President Finance, Global Cost Leadership and Supply Chain, Mondelēz International; VP Finance, North America, Mondelēz International; VP Finance, Eastern Europe, Middle East and Africa, Mondelēz International; various senior finance roles at Procter & Gamble.

4. Susan Kilsby
   Senior Independent Director
   Nationality: American/British
   Appointed: Senior Independent Director: October 2019 (Appointed Non-Executive Director: April 2018 and Chairman of the Remuneration Committee: January 2019)
   Key strengths: Brings wide-ranging corporate governance and board level experience across a number of industries, including a consumer goods sector focus, with particular expertise in mergers and acquisitions, corporate finance and transaction advisory work.
   Current external appointments: Non-Executive Chair, Fortune Brands Innovations, Inc.; Non-Executive Director, Unilever PLC, NHS England; Member, the Takeover Panel.
   Previous relevant experience: Senior Independent Director and Chair of Remuneration Committee, BHP Group Plc; BHP Group Limited; Senior Independent Director, IBA Aviation plc; Chairman, Shire plc; Chairman, Mergers and Acquisitions EMEA; Credit Suisse; Senior Advisor, Credit Suisse; Non-Executive Director, Goldman Sachs International, Feung Green Mountain, L’Occitane International, Coca-Cola HBC.

5. Melissa Bethell
   Non-Executive Director
   Nationality: American/British
   Appointed: Non-Executive Director: June 2020
   Key strengths: Has extensive international corporate and financial experience, including in relation to private equity, financial sectors, strategic consultancy and advisory services, as well as having strong non-executive experience at board and committee levels across a range of industries, including retail, consumer goods and financial services.
   Current external appointments: Non-Executive Director, Tesco PLC, Exor N.V.; Chair, Ocean Outdoor Limited; Senior Advisor, Ataros.
   Previous relevant experience: Managing Director and Senior Advisor, Private Equity, Bain Capital; Non-Executive Director, Atena S.A.; Workday plc, Samsunt S.A.

6. Karen Blackett
   Non-Executive Director
   Nationality: British
   Appointed: Non-Executive Director: June 2022
   Key strengths: Brings expertise in marketing, media and the creative industries, as well as broad experience in public policy and strategic initiatives through a number of different government, industry and public bodies.
   Current external appointments: UK President, WPP plc; Chancellor, University of Portsmouth; Founding Trustee, BEO (Black Equity Organisation); Non-Executive Director, Creative UK; Non-Executive Director, The Pipeline.
   Previous relevant experience: UK Race Equality Business Champion, HM Government; Business Ambassador, Department for International Trade, HM Government; Chairman, MediaCom UK & Ireland; Chief Executive Officer, GroupUK; Chief Executive Officer, MediaCom UK; Chief Operations Officer, MediaCom ENSEA; Marketing Director, MediaCom; UK Country Manager, WPP plc.
7. Valérie Chapoulaud-Floquet
Non-Executive Director
Nationality: French
Appointed: Non-Executive Director: January 2021
Key strengths: Brings strong experience and expertise in the luxury consumer goods sector, having spent her career in the industry working in a number of international markets, including developed and emerging markets, and as a former CEO in the premium drinks industry.
Current external appointments: Non-Executive Director, Lead Independent Director and Chair of Governance Committee, Danone S.A.; Non-Executive Director, Acne Studios A.B., Agnès B, Nestlé S.A., Jacobs Holding AG, Vice Chairman, Sofisport
Previous relevant experience: Chief Executive Officer, Rémy Cointreau S.A.; President and CEO of the Americas, Louis Vuitton, LVMH Group; President and CEO for North America, Louis Vuitton, LVMH Group; President and CEO, Louis Vuitton Taiwan, LVMH Group; President, Luxury Product Division for the USA, L’Oréal Group.

8. Sir John Manzoni
Non-Executive Director
Nationality: British
Appointed: Non-Executive Director: October 2020
Key strengths: Has strong commercial executive experience as a former CEO in the energy sector and non-executive board level experience, including in the alcoholic beverage industry, as well as more recent expertise in public policy and government affairs.
Current external appointments: Chairman, SSE plc; Chairman, Atomic Weapons Establishment; Non-Executive Director, KBR Inc.
Previous relevant experience: Chief Executive of the Civil Service and Permanent Secretary of the Cabinet Office, HM Government; President and Chief Executive Officer, Talisman Energy; Chief Executive, Refining & Marketing, BP p.l.c.; Chief Executive, Gas & Power, BP p.l.c.; Non-Executive Director, SABMiller plc.

9. Lady Mendelsohn
Non-Executive Director
Nationality: British
Appointed: Non-Executive Director: September 2014
Key strengths: Has specialist knowledge and understanding of consumer-facing emerging technologies, privacy and data issues, as well as wide experience of board and committee level appointments across diverse commercial, governmental and charitable institutions, as well as advisory roles in advertising and production of consumer goods.
Current external appointments: Head of the Global Business Group, Meta Platforms Inc.; Co-President, Norwood, Member, Mayor’s Business Advisory Board; Chair, Follicular Lymphoma Foundation
Previous relevant experience: Executive Chairman, Karmarama; Deputy Chairman, Grey London; Board Director, BBI, Fragrance Foundation; President, Institute of Practitioners in Advertising; Director, Women’s Prize for Fiction; Co-Chair, Creative Industries Council (Member, HMG Industrial Strategy Council); Board Member, CEF, Trustee, White Ribbon Alliance; Chair, Corporate Board, Women’s Aid.

10. Alan Stewart
Non-Executive Director
Nationality: British
Appointed: Non-Executive Director: September 2014 (Appointed Chairman of the Audit Committee: January 2007)
Key strengths: Has a strong background in financial, investment banking and commercial matters, with particular expertise in consumer retail industries, as well as board and committee level experience at industry institutions.
Current external appointments: Non-Executive Director and Chair of the Remuneration Committee, Reedst Bosklee Group PLC; Non-Executive Director and Chair of Audit Committee, Burberry Group plc
Previous relevant experience: Chief Financial Officer, Tesco PLC; Non-Executive Director, Tesco Bank; Chief Financial Officer, Marks & Spencer Group plc; AWAS; Non-Executive Director, Games Workshop plc; Group Finance Director, WH Smith PLC; Chief Executive, Thomas Cook UK

11. Ireena Vittal
Non-Executive Director
Nationality: Indian
Appointed: Non-Executive Director: October 2020
Key strengths: Brings a wealth of FMCG experience from a career in executive consulting with a focus on consumer sectors and emerging markets, including India, as well as broad experience in non-executive board roles in the UK and India.
Current external appointments: Non-Executive Director, Compass Group PLC; Non-Executive and Lead Independent Director, Godrej Consumer Products Limited; Non-Executive Director, Asian Paints Limited
Previous relevant experience: Head of Marketing and Sales, Hutchinson Max Telecom, Partner, McKinsey and Company; Non-Executive Director, Wipro Limited; Housing Development Finance Corporation Limited; Titan Company Limited, Tata Global Beverages Limited, Tata Industries, GlassSmithKline Consumer Healthcare
Expertise and diversity

1. Ewan Andrew
President, Global Supply Chain & Procurement and Chief Sustainability Officer
Nationality: British
Appointed: September 2019
Previous Diageo roles: Supply Director, International Supply Centre; Senior Vice President, Supply Chain & Procurement, Latin America and Caribbean; Senior Vice President Manufacturing & Distilling, North America; various supply chain, operational management and procurement roles.
Current external appointments: Member, Scotch Whisky Association Council, Scottish Business Climate Collaboration Board, One Planet Business for Biodiversity Board

2. Soraya Benchikh
President, Europe
Nationality: French
Appointed: January 2023
Previous Diageo roles: Managing Director, Northern Europe
Previous relevant experience: Brand CEO and Area Director, East and Southern Africa, President, France and Regional Finance Director, Europe, British American Tobacco

3. Alvaro Cardenas
President, Latin America and Caribbean
Nationality: Colombian
Appointed: January 2021
Previous Diageo roles: Managing Director, Andean Region; Director, End-to-End Global Commercial Processes; Finance Director, South East Asia Region, PUB (Paraguay, Uruguay and Brazil) Region, Andean Region, Colombia

4. Cristina Diezhandino
Chief Marketing Officer
Nationality: Spanish
Appointed: July 2020
Previous Diageo roles: Global Category Director, Scotch & Managing Director, Reserve Brands; Managing Director, Caribbean and Central America; Marketing & Innovation Director, Diageo Africa; Category Director, Scotch Portfolio & Gina, Global Brand Director, Johnnie Walker
Previous relevant experience: Corporate Marketing Director, Allied Domecq Spain; marketing roles, Unilever HPC US, UK and Spain

5. Daniel Mobley
Global Corporate Relations Director
Nationality: British
Appointed: June 2017
Previous Diageo roles: Corporate Relations Director, Europe
Previous relevant experience: Regional Head of Corporate Affairs, India & South Asia, Regional Head of Corporate Affairs, Africa, Group Head of Government Relations, Standard Chartered; extensive government experience including in HM Treasury and Foreign & Commonwealth Office

6. Hina Nagarajan
Managing Director and CEO of United Spirits Limited
Nationality: Indian
Appointed: July 2021
Previous Diageo roles: CEO-Designate, United Spirits Limited; Managing Director, Africa Regional Markets
Previous relevant experience: Managing Director, China & SVP North Asia, Reckitt Benckiser; General Manager, Malaysia & Singapore, Reckitt Benckiser; CEO & MD, Mary Kay India; senior marketing and general management roles, IC Paints India and Nestle India

7. Dayalan Nayager
President, Africa
Nationality: South Africans/British
Appointed: July 2022
Previous Diageo roles: Managing Director, Great Britain and Jutwenti & Brooks, Ireland and France, Global Travel; Regional Director, Global Travel Europe; Commercial Director, South Africa; Customer Marketing Director, South Africa; Key Account Director, South Africa
Previous relevant experience: Various positions, Heine, Mars and Pay Pay Retailers

8. John O’Keeffe
President, Asia Pacific & Global Travel
Nationality: Irish
Appointed: July 2015
Previous Diageo roles: President, Africa & Beer; CEO and Managing Director, Guinness Nigeria; Global Head, Innovation; Global Head, Beer and Baileys; Managing Director, Russia and Eastern Europe; various management and marketing positions

9. Louise Prashad
Chief HR Officer
Nationality: British
Appointed: January 2022
Previous Diageo roles: Global Talent Director; Talent Director, Africa; HR Director, Europe, West Latin America and Caribbean; Global Functions
Previous relevant experience: various HR roles, Stakis Group and Hilton Hotels

10. Claudia Schubert
President, North America
Nationality: American
Appointed: October 2022
Previous Diageo roles: President, US Spirits and Canada; General Manager, Continental Europe; President, US Controls States and Canada; President, Diageo Chateau & Estate Wines
Previous relevant experience: Boston Consulting Group

11. Tom Shropshire
General Counsel & Company Secretary
Nationality: American/British
Appointed: July 2021
Current external appointments: Member of the Court, (Non-Executive Director), The Bank of England; Trustee, New York University School of Law; Member of the Steering Committee, The Parker Review; Trustee, Charity Projects Limited (Comic Relief); Director, Comic Relief Limited
Previous relevant experience: Partner & Global US Practice Head, Linklaters LLP

Debra Crew and Lavanya Chandrashekar are also members of the Executive Committee. Their biographies can be found on page 101.
Enabling our ambition

Corporate governance structure and division of responsibilities

Non-Executive Directors
Malissa Bethell, Valerie Chompoung and John Morran, Lady Mandelson, Alan Stewart, Iworo Vital and Karen Blackburn

The Non-Executive Directors, all of whom the Board has determined are independent, experienced and influential individuals from a diverse range of industries, backgrounds and countries.

- Effectively challenge the Executive Directors.
- Develop a clear strategy.
- Scrutinise the performance of the Board.
- Satisfy themselves on the integrity of the financial information, controls and systems of risk management.
- Devote such time as is necessary to the proper performance of their duties.

A summary of the terms and conditions of appointment of the Non-Executive Directors is available at www.diageo.com/en/our-business/corporate-governance.

Senior Independent Director
Susan Klabi
- Chairs the Board.

Company Secretary
Tom Shapirie
- The Company Secretary ensures compliance with applicable laws, regulations and best practice.

Chief Executive
Debra Crew
- Chairs the Executive Committee.
- Chairs the Board.

Debates were held about the arrangements for Executive Directors and senior management.

- The Board is responsible for ensuring that Directors are fully informed as to the Board’s affairs.
- It is independent of the Executive Directors.

Composition of the Board

Debra Crew is an independent Director, effective 8 June 2023.

Inclusion and diversity

The Board sees championing inclusion and diversity as one of the key enablers for achieving Diageo’s purpose and as an important principle of the company’s global Human Rights Policy which applies to all employees, subsidiaries, third-party contractors, and which has been implemented as part of the Code programme. Our objective is to maintain and sustain an inclusive and diverse business, across all levels, functions and geography, in order to create a better working environment and a better performing business. As part of this, the Board has adopted a written Diversity Policy alongside Diageo’s Code of Business Conduct and associated global policies, which set out Diageo’s broader commitment to inclusion and diversity.

Diageo strongly supports diversity within its Board, including gender, ethnicity, professional diversity, as well as diversity of thought. The Board is comprised of individuals from a diverse range of skills, industries, business expertise, which enables a broad evaluation of all matters considered by the Board and contributes to a culture of collaborative and constructive discussion. The Board’s objective, as set out in its Diversity Policy, is that it shall include no less than 40% female representation (with the ultimate goal being parity between males and females on the Board) and at least one Director from a minority ethnic group. As at 26 June 2023, women make up 73% of the Board and there are four Directors (36%) who self-disclose as being from a minority ethnic group. Further information on diversity at Board and senior executive levels can be found on page 125 and in the ‘Our people and culture’ and ‘Champion inclusion and diversity’ sections of this report. As at 30 June 2023, women make up 38% of the Board.


Outside interests and conflicts

The Board has adopted guidelines for dealing with conflicts of interest, with Directors’ outside interests being regularly reviewed and responses to identified potential conflicts of interest reserved for the Board. In the case of a potential conflict, the Nomination Committee considers the circumstances, and the Board’s position is then discussed with the relevant Director.


Diageo has established the following three Committees:

- The Audit Committee.
- The Remuneration Committee.
- The Nomination Committee.

Chief Financial Officer
Lavanya Chidambaram
- Financial planning and financial strategy.

The Chairs of these Committees are:

- The Nomination Committee’s Chair is independent.
- The Remuneration Committee’s Chair is independent.
- The Audit Committee’s Chair should be independent.

The Code requires that at least half the Board (excluding the Chair) be independent. As such, currently nine of Diageo’s eleven Directors are independent, as defined by the Director’s responsibilities in the Code.

The composition of the Board is set out on page 108.

Duties of the Board

The Board manages overall control of the company’s affairs with reference to the formal schedule of matters reserved for the Board for decision. The schedule was last reviewed in July 2023 and is available at https://www.diageo.com/en/our-business/corporate-governance.

In order to fulfil their duties, procedures are in place for Directors to seek the views of the Executive Directors and other Directors, as appropriate, to inform their judgements.

Diageo’s standards for the appointment of independent Directors are set out in the Code,

Diageo’s corporate governance structure and division of responsibilities.
**Board committees:** Diageo has a number of Board committees that consist entirely of independent Non-Executive Directors. Under NYSE standards, companies are required to have a nominating/ corporate governance committee, which develops and recommends a set of corporate governance principles and is composed entirely of independent directors. The terms of reference for Diageo’s Nominations Committee, which comply with the Code, do not contain such a requirement. In accordance with the requirements of the Code, Diageo has disclosed on page 103 the results and means of its annual evaluation of the Board, its Committees and the Directors, and it provides extensive information regarding the Directors’ compensation in the Directors’ remuneration report on pages 102-103.

**Code of ethics:** NYSE rules require a Code of Business Conduct and Code of Ethics to be adopted for directors, officers and employees and disclosure of any waivers for executive directors or officers. Diageo has adopted a Code of Business Conduct for all Directors, officers and employees, as well as a Code of Ethics for Senior Financial Officers in accordance with the requirements of SOX. See page 121 for further details.

**Compliance certification:** NYSE rules require chief executives to certify to the NYSE their awareness of any NYSE corporate governance violations. Diageo is exempt from this as a foreign private issuer but is required to notify the NYSE if any executive officer becomes aware of any non-compliance with NYSE corporate governance standards. No such notification was necessary during the period covered by this report.

**Structure and division of responsibilities:** The Board is committed to the highest standards of corporate governance and risk management, which is demonstrated in its established corporate governance framework. Illustrated on page 106. This includes the three Board Committees (Audit Committee, nomination Committee and Remuneration Committee), as well as management committees which report to the Chief Executive or Chief Financial Officer (Executive Committee, Finance Committee, Audit & Risk Committee and Hillsborough Partnership). There is a clear separation of the roles of the Chairman, the Senior Independent Director and the Chair of each Committee as established, set out in writing and approved by the Board. A copy of this is available at https://www.diageo.com/en/our-business/corporate-governance. No individual or group dominates the Board’s decision-making processes.

Further details on the Board Committees can be found in the separate reports from each committee on pages 107-153, and details of the Executive Committee can be found on pages 104-105.

**Board skills and experience:** Having an appropriate breadth of experience, expertise, diversity and independence is essential for Diageo’s Board. Such diverse attributes enable the Board as a whole to provide informed opinions and advice on strategy and relevant topics, thereby discharging its duty of oversight. The Board skills matrix helps to identify the experience and expertise of existing Directors, required skills or competencies, and the critical skills of the company. Key strengths and relevant experience of each Director are set out on pages 101 and 103, and a matrix of the Board’s current skills and experience is set out below.

### Indepedence

The Code requires the Board to state its reasons for concluding that a director is independent notwithstanding the existence of certain relationships or circumstances which are likely to impair or appear to impair the director’s independence. A non-exhaustive list of such circumstances is set out in provision 10A of the Code and include, amongst other things, the fact that a director has acted as an executive or control director of the company for more than nine years. In September 2023, Alan Stewart has served for nine years on the Board’s Executive Committee, which has also served as Chairman of the Audit Committee since January 2017. The Board has requested and Alan has agreed to extend the term of his appointment to enable a smooth transition of the role of Chair of the Audit Committee at a time when the company is commencing a significant business change programme to upgrade its financial systems and technology in order to enhance the company’s reporting and controls environment, as further described on page 102. The Board believes that, given the critical role of the Audit Committee in supervising this programme, this additional period will help preserve the level of knowledge and experience on and help support a successful transition to a successor, who is expected to be appointed prior to the 2024 AGM. It was further considered to be in the best interests of the company that Alan continue in this role to provide further continuity in light of other changes to the Board and, in particular, the recent transition in Chief Executive. The Board has also considered the extension of Alan’s Independence in light of this extension and concluded that, notwithstanding his serving for more than nine years, he continues to maintain high-quality contributions to Board and committee meetings, providing effective and constructive challenge to management and demonstrating objective and independent judgment. In light of this decision, the Board has determined that Alan Stewart remains independent.

**Board and Committee attendance**

District attendance at the AGM, scheduled Board meetings and Board Committee meetings, for the year ended 30 June 2023 is set out in the table shown on page 99. Directors are expected to attend all meetings of the Board and its Committees and the AGM, but if unable to do so they are encouraged to give their views to the Chair of the meeting in advance. The 2023 AGM was held as a combined physical and electronic meeting via a live webcast with all Directors attending either physically or by video link. For Board and Board Committee meetings, attendance is expressed as the number of meetings attended of the number that each Director was eligible to attend.
Stakeholder engagement

We aim to maintain open and positive dialogue with all our stakeholders, considering their key interests in long-term planning and communicating with them on a regular basis. This dialogue helps us build trust and respect and make choices as a business that help shape the role we play in society.

The development of strong and positive relationships between Diageo and its external stakeholders is an intrinsic part of our purpose and culture. Our stakeholders include not only business partners such as suppliers and customers, our people and workforce, but also government, consumers and the wider communities in which we operate. As noted in the company’s statement on Section 172 of the Companies Act 2006 set out on page 9, in making their decisions and in discharging their duties to promote the success of the company, the Directors must have regard to the interests of its stakeholders. We have summarised below why our stakeholders are important to us, what we believe their principal interests are and how the Board and company seek to engage and respond.

Stakeholder and why we engage

What we believe matters most to them

• Planning of health, safety and well-being
• Learning and development opportunities
• Purpose, culture and benefits
• Contributing to the growth of our brands and performance
• Promotion of inclusion and diversity
• Sustainability and social credentials

How the Board seeks to engage

• Active dialogue maintained throughout the year as part of the Board’s ongoing workforce engagement programme
• Regular visits to larger businesses, production and supply chain sites during the year
• Indirect engagement through feedback from works councils, employee and workforce forums, community groups, Your Voice and engagement survey and town meetings

Reporting to the Board

• Regular reports from workforce engagement executive
• Feedback through employee surveys, market research and pulse surveys
• Employee and workforce engagement report at Board meeting

Upcoming priorities

• Maintaining focus on simplifying internal processes, including upgrading and transitioning business operations systems
• Exploring workforce engagement programme

Consumers

• Understanding what our consumers is critical for our long-term growth
• Consumer motivations, attitudes and behaviours form the basis of our business strategy, marketing and innovation
• We want consumers to enjoy our products
• We want to nurture mutually beneficial relationships to deliver joint value and great consumer experiences

What we believe matters most to them

• Variety of choices for different occasions, including no- or lower-alcohol
• Innovation in heritage brands and creation and nurturing of new brands
• Responsible marketing
• Great experiences
• Quality
• Price

How the Board seeks to engage

• Monitoring consumer behaviour, motivations and insights
• Engagement as part of strategy sessions, including the Annual Strategy Conference
• Regular review of business development opportunities, including active brand portfolio management
• Review of innovation pipeline as part of the Annual Strategy Conference

Reporting to the Board

• Regular performance updates by the Chief Executive Officer on key consumer trends
• Papers prepared by strategy team on an evolving consumer behaviour in advance of Annual Strategy Conference
• Regular updates by Business Development and Innovation teams on organic and programmatic growth drivers

Upcoming priorities

• Ongoing review of portfolio and category participation opportunities
• Developing pipeline of innovation informed by consumer insights
• Enhancing marketing effectiveness through thorough understanding of consumer motivation

Investors

• We want to enable equity and debt investors to have an in-depth understanding of our strategy, our operational, financial and holistic performance, so that they can more accurately assess the value of our business and the opportunities and risks of investing in it

What we believe matters most to them

• Strategic opportunities and risks
• Financial performance
• Leadership credentials, experience and succession

How the Board seeks to engage

• Engagement of investors in the advance of Annual Strategy
• Participation in investor conferences such as the Consumer Analyst Group of New York meeting in February 2023
• Attendance at the Annual General Meeting in October 2022, and investor events such as the Diageo Scotch day in June 2023
• Participation in investor conferences such as the Consumer Analyst Group of New York meeting in February 2023
• Attendance at the Annual General Meeting in October 2022, and investor events such as the Diageo Scotch day in June 2023

Governments and Regulators

The regulatory environment is critical to the success of our business

• We share information and perspectives with those who influence policy and regulation to enable them to understand our views on areas that can impact public health and our business

What we believe matters most to them

• Compliance with applicable laws and regulations
• Contribution to local, national and international economic development
• Building and maintaining relationships with key stakeholders
• Internal and external communications

How the Board seeks to engage

• Engagement on key regulatory issues from Chief Executive and Corporate Executive relations executives
• Review of regulatory and geopolitical developments as part of strategy sessions
• Updates on regulatory developments, including in relation to non-financial reporting, corporate governance and public policy

Reporting to the Board

• Quarterly reports provided to Board on progress made in relation to ‘Society 2030: Spirit of Progress’
• Reports on macro-economic and market developments provided to Board by management

Upcoming priorities

• Monitoring progress in relation to key regulatory requirements
• Engagement with governments in relation to key public policy matters including taxation, duties and excise, alcohol, smoking and e-cigarettes

Customers

• Our customers are a broad range of businesses, large and small, on-trade and off-trade, retailers, wholesalers and distributors, digital and e-commerce

What we believe matters most to them

• A portfolio of leading brands that meets evolving consumer preferences
• Identification of opportunities that offer profitable growth
• Insights into consumer behaviour and brand trends
• Trusted product quality
• Innovation, promotional support and marketing
• Availability and reliable supply and stocking
• Technical expertise
• Logo and confidence

How the Board seeks to engage

• Regular review of innovation pipeline and brand opportunities to ensure a broad portfolio at multiple price points
• Review of supply chain footprint to ensure efficient delivery of products to customers
• Direct engagement with key customers during market visits

Reporting to the Board

• Regular performance updates by the Chief Executive Officer on key consumer trends
• Papers prepared by strategy team on an evolving consumer behaviour in advance of Annual Strategy Conference
• Regular updates by Business Development and Innovation teams on organic and programmatic growth drivers

Upcoming priorities

• Championing inclusion and diversity, equal employment opportunities, skills development and the promotion of positive drinking, inclusion and diversity

What we believe matters most to them

• Impact of our operations on the local economy
• Access to skills development, employment and supplier opportunities
• Inclusion, diversity and tandem inequality in all forms
• Responsible use of natural resources, biodiversity and sustainability

How the Board seeks to engage

• Setting targets and monitoring progress on broader societal matters, including promoting positive drinking, inclusion and diversity
• Consistency and the environmental and social consequences for communities of its key decisions, including encouraging inclusion and diversity; equal employment opportunities, skills development and support and community relations

Reporting to the Board

• Quarterly reports provided to Board on progress made in relation to ‘Society 2030: Spirit of Progress’
• Reports on macro-economic and market developments provided to Board by management

Upcoming priorities

• Monitoring progress in relation to key regulatory requirements
• Engagement with governments in relation to key public policy matters including taxation, duties and excise, alcohol, smoking and e-cigarettes

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Principal board decision – Transforming our business processes and systems

In May 2022, the Board approved the commencement of a multi-year project with the aim of introducing new IT systems, processes and upgrading its financial systems and technology. This project is expected to be a significant business change programme introducing more intuitive business processes and technology, to provide better access to data and information in order to enable quicker and more informed decision making. The project is expected to be implemented over a five-year period, has been designed to enhance Diageo’s business resilience and controls environment through simplification and standardisation of ways of working across its functional domains. A key part of the project will be to transform a new cloud-based enterprise resource planning platform, SAP S/4 HANA, which will be implemented in line with day-to-day business activities, enabling the flow of data between the group’s business processes in a way which minimises duplication and provides data integrity. During the course of fiscal 23, the progress of the project has been monitored by both the Board and Audit Committee due to its importance to the company’s controls and reporting capabilities. For example, at its meetings in January 2023 and April 2023 the Audit Committee approved a change in the company’s presentation currency to US dollars, consistent with the company’s functional currency and minimising volatility associated with its underlying business.

• The improved capabilities in terms of accessibility and robustness of dollar as is currently the case.

The company’s annual cycle of visits to different Diageo stakeholders including regulators and authorities; and the benefits for investors and analysts in better understanding business performance by minimizing foreign exchange volatility through the presentation of results and dividends in US dollars, consistent with the company’s functional currency and minimising volatility associated with its underlying business.

• Ability to offer choice to shareholders as to which currency in which to receive payment of dividends; and the implications of the choice of dividend payments to Diageo’s structure third parties and customers, including customer and vendor lifecycle management processes, product sales reporting and returnable packaging management.

Wider stakeholder engagement

Diageo has ambitious goals across a variety of social and environmental targets and has a long track record of working with stakeholders to achieve these goals. These include the importance of simplification and streamlining of workforce processes in a way which minimises duplication and provides data integrity.

• The Board has continued its annual cycle of visits to Diageo stakeholders, including regulators and customers, in order to understand diverse views of workforce engagement and performance summaries. Customer feedback about market trends and consumer activity, as well as the performance of the company's key customers in North America, discussing their experience of Diageo's performance and the impact of the change in the company's functional currency and exchange rates on performance and the company's reputation. In particular the importance of simplification and streamlining of workforce processes in a way which minimises duplication and provides data integrity.

Main conclusions

Key actions for focus

General feedback

• Broad satisfaction with the composition, expertise and performance of the Board and its Committees
• Diversity, inclusivity and openness of the Board are strengths
• Performance of the Committees was felt to be strong and led well by the respective Chairs
• There remain opportunities for improvement in the interactions between management and Board members

Board composition

• Continued focus on Board and management succession planning and talent pipeline on these areas in particular

Strategic focus

• Strong focus on succession planning, particularly over the short to mid term
• The workforce engagement process has been effective and beneficial

Company secretarial support

• Re-design of the Board induction process has been very positive
• Broad recognition of an effective Company Secretarial function and the support and provision of information, and (iii) Committees’ effectiveness and performance. Responses to questions were sent to the Chair of the Board and relevant Committees. A summary of the Committee’s effectiveness and performance. Responses to questions were sent to the Chair of the Board and relevant Committees. A summary of the Committee’s engagement teams and used to shape our approach to people. Page 74 for this year’s workforce engagement statement which contains further details of the programme.

Engagement with investors and analysts has remained a focus during fiscal 23, with a programme of regular meetings, calls and other engagement activities coordinated by the Investor Relations team. Highlights include participation by Board members, including the former chief executive and current CEOs of the CFO, alongside other senior executives at the annual Investor Analyst Day in November.

• Continued focus on ensuring high-quality pre-read materials, action and ongoing feedback.

Performance evaluation

With the assistance of the Company Secretary, the evaluation of the Board's effectiveness, including the effectiveness of the Board's Committees, was conducted by the Committee in December 2022 to January 2023. The purpose of the evaluation was to review and evaluate how the Board and its Committees operate as measured against current best practice corporate governance principles framed by reference to Principle 1 and Provisions 21, 22 and 23 of the Code.

This year's evaluation was an internally managed process, comprising an online questionnaire for all Directors to complete, designed to gather an assessment of the level of satisfaction with specific areas and to enable evaluation of the Directors on their performance. The evaluation focused on Directors’ views on these areas, being (i) Board composition, balance and performance, (ii) Board and Committee topics, support and provision of information, and (iii) Committees’ effectiveness and performance. Responses to questions were sent to the Chair of the Board and relevant Committees. A summary of the Committee's effectiveness and performance. Responses to questions were sent to the Chair of the Board and relevant Committees.

• Continue to encourage culture of open discussion amongst Board members and Management Executive, supports her in discharging her responsibility for the company and the group. It consists of the individuals responsible for the key operational and functional components of the business: North America, Europe, Asia, Latin America and Caribbean, Asia Pacific, Supply Chain and Procurement and Corporate. The Executive Committee focuses its time and agenda to align with the Performance and Ambition and how to achieve Diageo’s financial and non-financial performance objectives. Performance metrics have been developed to measure progress, which are focused on operational performance and customer feedback, involving the managing directors of each market, focus on current performance. Committees options were also fed back to the company's engagement teams and used to shape our approach to people. Page 74 for this year’s workforce engagement statement which contains further details of the programme.

The Board and its members have engaged directly and indirectly with a number of the company’s key stakeholders during fiscal 23, which has seen continued volatility and uncertainty in many markets and has sought to understand and respond to its stakeholders’ views. For example, during the financial year under review, the Board and its committees have focused on determining the company’s strategy and goals. These include the following activities:

• During fiscal 23, the Board met and engaged with the company’s key customers in North America, discussing their experience of working with Diageo including over the period of the Covid-19 pandemic, how the company’s raising the Bar programme and other support measures assisted them during this period and the impact of inflation and cost-of-living pressures on current consumer trends and the company’s ability to meet market demands. This is also reported to the Board by the Chief Executive in her regular performance summaries. Customer feedback about market trends and consumer activity, as well as the performance of the company’s key customers in North America, discussing their experience of working with Diageo including over the period of the Covid-19 pandemic, how the company’s raising the Bar programme and other support measures assisted them during this period and the impact of inflation and cost-of-living pressures on current consumer trends and the company’s ability to meet market demands. This is also reported to the Board by the Chief Executive in her regular performance summaries. Customer feedback about market trends and consumer activity, as well as the performance of the company’s key customers in North America, discussing their experience of working with Diageo including over the period of the Covid-19 pandemic, how the company’s raising the Bar programme and other support measures assisted them during this period and the impact of inflation and cost-of-living pressures on current consumer trends and the company’s ability to meet market demands. This is also reported to the Board by the Chief Executive in her regular performance summaries. Customer feedback about market trends and consumer activity, as well as the performance of the company’s key customers in North America, discussing their experience of working with Diageo including over the period of the Covid-19 pandemic, how the company’s raising the Bar programme and other support measures assisted them during this period and the impact of inflation and cost-of-living pressures on current consumer trends and the company’s ability to meet market demands. This is also reported to the Board by the Chief Executive in her regular performance summaries. Customer feedback about market trends and consumer activity, as well as the performance of the company’s key customers in North America, discussing their experience of working with Diageo including over the period of the Covid-19 pandemic, how the company’s raising the Bar programme and other support measures assisted them during this period and the impact of inflation and cost-of-living pressures on current consumer trends and the company’s ability to meet market demands. This is also reported to the Board by the Chief Executive in her regular performance summaries.

• The Board has continued its annual cycle of visits to different Diageo stakeholders, including regulators and authorities; and the benefits for investors and analysts in better understanding business performance by minimizing foreign exchange volatility through the presentation of results and dividends in US dollars, consistent with the company’s functional currency and minimising volatility associated with its underlying business.

• Ability to offer choice to shareholders as to which currency in which to receive payment of dividends; and the implications of the choice of dividend payments to Diageo’s structure third parties and customers, including customer and vendor lifecycle management processes, product sales reporting and returnable packaging management.

Wider stakeholder engagement

Diageo has ambitious goals across a variety of social and environmental targets and has a long track record of working with stakeholders to achieve these goals. These include the importance of simplification and streamlining of workforce processes in a way which minimises duplication and provides data integrity.
Workforce Engagement statement

At Diageo, creating an inclusive culture and an environment where people can openly share their views and feel listened to is key to sustaining high levels of engagement and remaining a great place to work.

To help us understand colleagues’ experiences at Diageo, we listen to their views using formal and informal channels. Diageo’s Workforce Engagement programme is an important way for the Board to gather employee insights and feedback on key topics, including culture, strategy and ways of working. It is also a valuable opportunity for teams to have direct access to members of the Board.

Diageo’s Chairman has acted as Non-Executive Director designated to workforce engagement over the past four years. In fiscal 23, together with all Non-Executive Directors, twelve sessions were held with 948 colleagues across all regions, functions and organisational levels.

Sessions have been highly engaging, with the Chairman and Non-Executive Directors valuing open conversations. These have highlighted many positive aspects of Diageo’s culture, as well as areas of opportunity.

The themes emerging from these workforce engagement discussions are:

• Colleagues shared their pride in working for Diageo and attributed this to the company’s advantaged culture, which connects them with Diageo’s purpose and brand, as well as the quality of leadership and management’s focus on performance.

• Diageo’s ongoing commitment to diversity, equity and inclusion and of talent across the business is seen as a strength and valued highly by Executive Directors valuing open conversations. These have highlighted workforce engagement over the past four years. In fiscal 23, together with all Non-Executive Directors, twelve sessions were held with 948 colleagues across all regions, functions and organisational levels.

Purpose, values and culture

The Board is responsible for establishing Diageo’s purpose, values and culture and for monitoring how that culture is embedded in our business. Diageo has a long-standing culture which resonates strongly with our employees, as indicated by the Board’s workforce engagement sessions with Diageo employees over the past few years. The survey results highlight the following:

- Employees believe Diageo operates with the highest standards of governance, doing business the right way, from top to bottom. This principle is embodied in our Code of Business Conduct and global policies, aligned with our ‘Society 2030: Spirit of Progress’ goals.

- Employees are pleased that we have a strong reputation for inclusion and diversity which reflects our values, attracts the best talent and enables our people to succeed. In order to improve our pace, agility and resilience, we continue to look to simplify and streamline our internal processes including through the launch of a significant business process and systems transformation project which is implemented in phases over the next few years, further details of which are set out on page 112.

- There are a number of ways in which the Board monitors and assesses culture, including:

  - Site visits
  - Executive Directors’ visits to local management and workforce and to assess how Diageo’s safety and sustainability processes work in practice, to include our tequila operations in Mexico. At these locations, Directors met with the workforce to hear about their experiences and of their line managers (including net promoter scores), and any themes raised. The Board confirms that, through the activities of the Audit Committee described below, a robust assessment of the principal and emerging risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity, has been carried out. These risks and their mitigations are set out above in the section of the Annual Report dealing with principal and emerging risks on pages 88-93.

The Board acknowledges that it is responsible for the company’s systems of internal control and risk management and for reviewing their effectiveness. The Board confirms that, through the activities of the Audit Committee described in its report, it has reviewed the effectiveness of the company’s systems of internal control and risk management. During the year, the Audit Committee considered the nature and extent of the risks that the Board was willing to take to achieve its strategic goals and reviewed the existing internal statement of risk appetite, which had been updated this year by the Executive & Risk Committee, following which the Audit Committee made a recommendation to the Board which was then approved. The Audit & Risk Committee reviews the company’s principal risks regularly throughout the year in attendance of the Board or the Audit Committee, for example with management’s risk review on pages 111-112. The Board confirms that it is responsible for the company’s systems of internal control and risk management and for reviewing their effectiveness. The Board acknowledges that it is responsible for the company’s systems of internal control and risk management and for reviewing their effectiveness.

Workforce engagement programme

Insights drawn from the Board’s annual workforce engagement programme allow the Board to monitor and assess the culture of the company, with recommendations being fed back to management regularly with workforce engagement being discussed at Board level every year. Over the past few years, the engagement programme has expanded to enable all Non-Executive Directors to participate directly by engaging with employees from a variety of regions, functions and levels. From 1 July 2023, the role of Non-Executive Director with responsibility for workforce engagement transitioned from the Chairman to Karen Blackett. For more on workforce engagement, see pages 116.

Additional information

Internal control and risk management

An ongoing process has been established for identifying, evaluating and managing risks faced by the group. This process, which complies with the requirements of the Code, has been in place for the full financial year and up to the date the consolidated financial statements were approved and accords with the guidance issued by the FRC in September 2016, entitled ‘Guidance on Risk Management, Internal Control and Related Financial and Business Risks’.

The Board confirms that, through the activities of the Audit Committee described below, a robust assessment of the principal and emerging risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity, has been carried out. These risks and their mitigations are set out above in the section of the Annual Report dealing with principal and emerging risks on pages 88-93.

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Developments in internal controls

Management prepared cash flow forecasts which were also sensitised to reflect severe but plausible downside scenarios taking into consideration the group’s principal risks. In the base case scenario, management included assumptions for mid-single digit net sales growth, operating margin improvement and global TSB market share growth. In light of the ongoing geopolitical volatility, the base case outlook and severe but plausible downside scenarios incorporated considerations for a prolonged global recession, supply chain disruptions, higher inflation and further geopolitical deterioration. Even under these scenarios, the group’s liquidity is still expected to remain strong, as it was protected by issuing €500 million of fixed rate euro and $2 billion of fixed rate dollar-dominated bonds in the year ended 30 June 2023. Mitigating actions, should they be required, are all within management’s control and could include reductions in discretionary spending such as capital expenditure, as well as a temporary suspension of the share buyback programme and dividend payments in the next 12 months, or drawdowns on committed facilities. Having considered the outcome of these assessments, the Directors are comfortable that the company is a going concern for at least 12 months from the date of signing the group’s consolidated financial statements.

Political donations

The reporting of any money for political purposes in the United Kingdom and made no donations to EU political organisations and included no European political expenditure during the year. The group made contributions to two EU political parties and/or political candidates in the United Kingdom (£0.64 million during the year 2022 – £0.64 million). These contributions were made almost exclusively to liberal and liberal candidate committees, political parties and liberal leadership committees in North America (consistent with applicable law), where it is common practice to make political donations. These contributions were made almost exclusively to liberal and liberal candidate committees, political parties and liberal leadership committees in North America (consistent with applicable law), where it is common practice to make political donations. These contributions were made almost exclusively to liberal and liberal candidate committees, political parties and liberal leadership committees in North America (consistent with applicable law), where it is common practice to make political donations.
CORPORATE GOVERNANCE REPORT continued

Directors’ responsibilities in respect of the Annual Report, Form 20-F and financial statements

The Directors are responsible for preparing the Annual Report, the information filed with the SEC on Form 20-F and the group and parent company financial statements in accordance with applicable law and regulation. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the group consolidated financial statements in accordance with UK-adopted international accounting standards and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 ‘Reduced Disclosure Framework’, and applicable law). In preparing the group consolidated financial statements, the Directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

The Directors are responsible for preparing the Annual Report, the Form 20-F and financial statements in accordance with applicable law and regulation. In preparing the group consolidated financial statements, the Directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the group and parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the Directors are required to:

• select suitable accounting policies and then apply them consistently;
• state whether applicable UK-adopted international accounting standards, IFRSs issued by IASB have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 ‘Reduced Disclosure Framework’ and applicable law have been followed for the parent company financial statements, subject to any material departures disclosed and explained in the financial statements;
• make judgements and accounting estimates that are reasonable and prudent; and
• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The Directors are responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group’s and parent company’s transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements and the Directors’ Remuneration Report comply with the Companies Act 2006. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company’s websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors’ confirmations

The Directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group’s and parent company’s position and performance, business model and strategy. Each of the Directors, whose names and functions are listed on pages 101 and 103 confirm that, to the best of their knowledge:

• the group consolidated financial statements, which have been prepared in accordance with UK-adopted international accounting standards, IFRSs issued by IASB, give a true and fair view of the assets, liabilities, financial position and profit of the group;
• the parent company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101 ‘Reduced Disclosure Framework’ and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the parent company; and
• the Strategic Report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that it faces.

In accordance with section 418 of the Companies Act 2006, each of the Directors who held office at the date of the approval of the Directors’ report confirm that, as far as they are aware, there is no relevant audit information of which the group’s and parent company’s auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the group’s and parent company’s auditors are aware of that information.

The responsibility statement was approved by a duly appointed and authorised committee of the Board of Directors on 31 July 2023.

AUDIT COMMITTEE REPORT

Ensuring integrity across the business

Dear Shareholder

On behalf of the Audit Committee, I am delighted to present the Committee’s report for the year ended 30 June 2023.

The Audit Committee has discharged its responsibilities over the year by providing effective independent oversight, with the support of management and the external auditors. The Committee has continued to focus on risk by reviewing the integrity of the company’s financial statements and reporting, its internal control and risk management processes, its audit and risk activities, business conduct and integrity, whistleblowing and breach allegation investigations, and the appointment and performance of the external auditor. Regular reports on internal audit findings, business integrity and controls assurance work, breach allegation and investigation processes were given to and reviewed by the Committee. The Committee has also reviewed the company’s principal risks and emerging risks, its approach to risk appetite and mitigations and has reviewed deep dives into key areas of potential risk, including supply chain disruption, pension funding, cyber security and IT resilience, climate change, counterfactual and product quality, pandemics and business interruption, business ethics and integrity, and international taxation.

Role and composition of the Audit Committee

The role of the Audit Committee is fully described in its terms of reference, which are available at https://www.diageo.com/en/our-business/corporate-governance. The members of the Audit Committee are independent Non-Executive Directors being Alan Stewart (Committee Chairman), Ireena Vittal, Stephen Blacket, Susan Kilsby, Valérie Chappoulou-Florot, Sir John Manzoni, Lady Mandelson and Iwena Vital. The Chairman of the Board, the Chief Financial Officer, the General Counsel & Company Secretary, the Group Controller, the Head of Global Audit & Risk (GAR), the Chief Business Integrity Officer, the General Counsel Corporate, the Group Chief Accountant and the external auditor regularly attend meetings of the Committee. The Audit Committee met privately with the external auditor, the Chief Business Integrity Officer and the Head of GAR regularly during the year. During the course of the year, the Committee met five times and its duly appointed subcommittee met once. Details of attendance of all Board and Committee meetings by Directors are set out on page 99.

The Committee also has supervised progress in relation to a business transformation project which the company commenced this year and which, once implemented, will enhance the company’s internal reporting, systems and data management capabilities. Further details of this project are set out on page 102.

Over the past few years, we have been closely following proposed regulatory and reporting changes, including changes to the UK corporate governance and audit regimes, implications of future EU reporting requirements with regard to corporate sustainability and supply chain due diligence, and developments in US disclosure requirements including in relation to climate change. This year the Committee has supervised how the company is responding to and preparing for these changes, in particular focusing on its approach as to the development of internal processes and capabilities for the validation and assurance of externally reported information in anticipation of drafting an audit and assurance policy. The company has also taken further steps this year to integrate its financial and non-financial disclosure processes to improve consistency and robustness in reporting with oversight by the Committee. We have also commenced an audit services tender process during fiscal 23 which we expect to complete before the end of the current year.

The performance of the Audit Committee was again evaluated this year and I am pleased to note that feedback from Directors indicated very strong satisfaction with the Committee’s performance.

The Committee remains committed to continuing to discharge its duties effectively and diligently during fiscal 24.

Alan Stewart
Chairman of the Audit Committee

Reporting and financial statements

During the year, the Audit Committee reviewed the interim results announcement, including the interim financial statements, the Annual Report and associated preliminary results announcement and Form 20-F, focusing on key areas of judgement and complexity, critical accounting policies, disclosures (including those relating to contingent liabilities, climate change and principal risks), viability and going concern assessments, provisioning and any changes required in these areas or policies. The Audit Committee has also focused in particular on the company’s approach to assurance and internal approvals processes. The company has again looked to develop its non-financial reporting in a manner that enhances consistency with the financial reporting and throughout the Strategic Report, including in relation to company’s compliance with the recommendations of the Task Force on Climate-related Financial Disclosures.
This year the Committee has also had oversight of management’s transformation project to improve Diageo’s internal processes and upgrading its financial systems, with a particular focus on its impact on the company’s controls and reporting capabilities. The impact of the change in the company’s functional and presentation currency, which took place in January 2023, was also considered by the Committee. Further details of this project are set out on page 112.

The company has in place internal control and risk management systems in relation to the preparation of financial statements and non-financial reporting including the effectiveness of internal controls relating to financial and non-financial reporting and disclosures, legal compliance issues and determining whether the company’s disclosures are accurate and adequate. The FAC comprises senior executives such as the Chief Executive, the Chief Financial Officer, the General Counsel Corporate & Deputy Company Secretary, the Group Commercial Director, the Group Risk Director, the General Auditors, the Group Chief Auditor, the Relations of the Head of GAR and the Chief Business Integrity Officer. The company’s external auditor also attends meetings of the FAC. The Committee reviewed the work of the FAC and a report on the conclusions of the FAC process was provided to the Audit Committee by the Chief Financial Officer.

Diageo has carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive and Chief Financial Officer, of the effectiveness of the design and operation of Diageo’s internal controls on a regular basis. This evaluation was carried out in the 2022-2023 financial year and is described in the Governance Report. Diageo’s internal control and risk management processes, as of 30 June 2023, Diageo’s disclosure controls and procedures were effective. As part of its review of the company’s Annual Report and associated disclosures, the Audit Committee has considered whether the report is ‘fair, balanced and understandable’ and provides the information necessary for shareholders to assess the company’s performance, business model and strategy, and in the opinion of the Audit Committee, as required by Principle N of the Code. In doing so, the Committee has noted the guidance provided by the FRC in the Corporate Governance Code and in the Corporate Governance Guidance Note on Sustainability and Climate Change.

In its assessment of the ‘fair, balanced and understandable’ report, the Committee has considered whether the performance, business model and strategy are set out in the Annual Report, and whether the financial information is accurate and fair. The Committee has also considered whether the Board has fulfilled its responsibilities for the annual report in respect of the management and performance of the company and the annual financial report in its capacity as the Accounting Officer. The Annual Report, which has been prepared in accordance with the requirements of relevant legislation and the policies of the company, is considered to comply with the Code. The Committee has also considered the preparation and content of the Group’s Sustainability Report and other reports to stakeholders.

The Committee has also considered the presentation of GAAP and non-GAAP measures to ensure that best practice is given to GAAP measures and that non-GAAP measures are presented consistently and can be clearly reconciled. The Audit Committee has also considered the governance risks relating to the financial reporting process and internal controls. This includes oversight of the annual assurance engagement on the half-year and the annual assurance engagement on the full-year financial results. The Audit Committee has considered the effectiveness of the annual assurance engagement, including the independence of the external auditor and the quality of the report. The Audit Committee has also considered the effectiveness of the annual assurance engagement on the half-year financial results.

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FAC correspondence

The Committee reviewed a letter to the company from the FAC following their review of the company’s interim results announcement for the six months ended 31 December 2022. The Committee was pleased to note that the FAC had no questions or queries to raise following their review, although their letter did include some matters which the FAC believed could be improved for the benefit of users. In its reply to the FAC, the company noted those comments and confirmed that they would be taken into consideration in future reporting. The Committee notes that the FAC’s review does not provide assurance that the interim results were correct in all material respects as the FAC’s role is not to verify information but to consider compliance with reporting requirements.

External auditor

During the year, the Audit Committee reviewed the external audit strategy and the findings of the external auditor from its review of the interim results and its audit of the consolidated financial statements. The Audit Committee reviews annually the appointment of the auditor (taking into account the auditor’s effectiveness and independence and all appropriate guidelines) and makes a recommendation to the Board according to the Code framework. In 2022, Diageo commenced a new tender process at this time in order to prepare for an adequate transition. The Audit Committee considers that it is appropriate to initiate such a process, following the completion of this tender, in order to secure the integrity of the audit process for the company.

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The Committee has also considered the presentation of GAAP and non-GAAP measures to ensure that best practice is given to GAAP measures and that non-GAAP measures are presented consistently and can be clearly reconciled. The Audit Committee has also considered the governance risks relating to the financial reporting process and internal controls. This includes oversight of the annual assurance engagement on the half-year and the annual assurance engagement on the full-year financial results. The Audit Committee has considered the effectiveness of the annual assurance engagement, including the independence of the external auditor and the quality of the report. The Audit Committee has also considered the effectiveness of the annual assurance engagement on the half-year financial results.

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Diageo has carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive and Chief Financial Officer, of the effectiveness of the design and operation of Diageo’s internal controls on a regular basis. This evaluation was carried out in the 2022-2023 financial year and is described in the Governance Report. Diageo’s internal control and risk management processes, as of 30 June 2023, Diageo’s disclosure controls and procedures were effective. As part of its review of the company’s Annual Report and associated disclosures, the Audit Committee has considered whether the report is ‘fair, balanced and understandable’ and provides the information necessary for shareholders to assess the company’s performance, business model and strategy, and in the opinion of the Audit Committee, as required by Principle N of the Code. In doing so, the Committee has noted the guidance provided by the FRC in the Corporate Governance Code and in the Corporate Governance Guidance Note on Sustainability and Climate Change.

In its assessment of the ‘fair, balanced and understandable’ report, the Committee has considered whether the performance, business model and strategy are set out in the Annual Report, and whether the financial information is accurate and fair. The Committee has also considered whether the Board has fulfilled its responsibilities for the annual report in respect of the management and performance of the company and the annual financial report in its capacity as the Accounting Officer. The Annual Report, which has been prepared in accordance with the requirements of relevant legislation and the policies of the company, is considered to comply with the Code. The Committee has also considered the preparation and content of the Group’s Sustainability Report and other reports to stakeholders.

The Committee has also considered the presentation of GAAP and non-GAAP measures to ensure that best practice is given to GAAP measures and that non-GAAP measures are presented consistently and can be clearly reconciled. The Audit Committee has also considered the governance risks relating to the financial reporting process and internal controls. This includes oversight of the annual assurance engagement on the half-year and the annual assurance engagement on the full-year financial results. The Audit Committee recommended to the Board that it could make the required statement that the Annual Report is ‘fair, balanced and understandable’.


Senior financial officers’ code of ethics and dealing code

In accordance with the requirements of SOX and related SEC rules, Diageo has adopted a code of ethics covering its Chief Executive, Chief Financial Officer, and other senior financial officers. During the year, no waivers were granted in respect of, this code of ethics. The full text of the code of ethics is available at https://www.diageo.com/en/our-business/corporate-governance.

Third-party risk is also managed through our Know Your Business Partner programme, which is designed to help the company evaluate the risk of doing business with a third-party before entering into and during a contractual relationship. Business partners are assessed for potential risks including economic sanctions, bribery and corruption, money laundering, falsification of tax evasion, data privacy and other reputational issues. Employers and third-party business partners are encouraged to raise concerns about potential breaches of the Code of Business Conduct or policies, either to line managers, legal or HR colleagues, risk, compliance and Business Integrity teams, or to SpeakUp, a confidential whistleblowing mechanism. SpeakUp is a global service administered by an independent provider, accessible online or by telephone. Where legally permitted, it can be used anonymously and reports kept confidential. Allegations are investigated by independent Diageo teams, with progress being monitored by the Business Integrity Team. When allegations are substantiated, appropriate disciplinary and corrective actions are taken. The Audit Committee receives and reviews regular reports on allegations, including trends information, root cause analysis and investigation closure rates. Since all of Diageo’s Non-Executive Directors attend the Audit Committee, all Non-Executive Directors who make up the Board routinely review the findings of the company’s whistleblowing processes in accordance with the UK Corporate Governance Code.

The year’s annual audit plan. Having carried out this assessment, the Audit Committee has concluded that, as at 30 June 2023, internal control over financial reporting was effective. During the period covered by this report, there were no changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of internal control over financial reporting. The same independent registered public accounting firm which audits the group’s consolidated financial statements has also audited the effectiveness of the group’s internal control over financial reporting, and has issued an unqualified report thereon, which is included in the integrated audit report which is to be filed with the SEC.

Committee activities
Details of the main areas of focus of the Audit Committee during the year include those summarised below:

<table>
<thead>
<tr>
<th>Areas of focus</th>
<th>Strategic priority</th>
<th>Strategic outcome</th>
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</thead>
<tbody>
<tr>
<td>Internal controls</td>
<td>• GAR updates</td>
<td>• Interim and preliminary results review and approval</td>
</tr>
<tr>
<td></td>
<td>• Controls testing update and Section 404 assessment</td>
<td>• Annual report and consolidated financial statements, Form 20-F review and approval</td>
</tr>
<tr>
<td></td>
<td>• Implications on controls environment of systems and process changes</td>
<td>• Implications of group functional and presentation currency change on reporting</td>
</tr>
<tr>
<td>External audit and assurance</td>
<td>• Report on external audit at half and full year periods</td>
<td>• External audit and assurance review and assessment</td>
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<td></td>
<td>• Insights and observations on reporting review</td>
<td>• Commencement of auditor tender process</td>
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<td></td>
<td>• Auditor independence and non-audit work reviews</td>
<td>• Audit regime reform and approach to assurance, preparatory to drafting an audit and assurance policy</td>
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<td>• Auditor independence policy review</td>
<td>• Review of management representation letters</td>
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<td>• Review of auditor and review of terms of engagement and fees</td>
<td>• Agreement of auditor and review of terms of engagement and fees</td>
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<td></td>
<td>• Auditor performance and effectiveness review and assessment</td>
<td>• Review of management representation letters</td>
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<td>• Commissioning of auditor tender process</td>
<td>• Agreement of auditor and review of terms of engagement and fees</td>
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<td>• Audit regime reform and approach to assurance, preparatory to drafting an audit and assurance policy</td>
<td>• Agreement of auditor and review of terms of engagement and fees</td>
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Management’s report on internal control over financial reporting

Management, under the supervision of the Chief Executive and Chief Financial Officer, is responsible for establishing and maintaining adequate control over the group’s financial reporting. The Filings Assurance Committee supports the Chief Executive and Chief Financial Officer in ensuring the accuracy of the company’s financial reporting, filings and disclosures. As summarised on page 108, prior to interim reporting and preliminary reporting each year, the Filings Assurance Committee examines the company’s financial information and processes, the effectiveness of its controls in respect of financial reporting, and the contents of its disclosures. Management has assessed the effectiveness of Diageo’s internal control over financial reporting as defined in Rules 13a-15 and 15d-15 under the United States Securities Exchange Act of 1934, based on the framework in the document ‘Internal Control - Integrated Framework’, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management concluded that, as of 30 June 2023, internal control over financial reporting was effective. During the period covered by this report, there were no changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of internal control over financial reporting. The same independent registered public accounting firm which audits the group’s consolidated financial statements has also audited the effectiveness of the group’s internal control over financial reporting, and has issued an unqualified report thereon, which is included in the integrated audit report which is to be filed with the SEC.

Key

<table>
<thead>
<tr>
<th>Strategic priorities</th>
<th>Strategic outcomes</th>
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<tr>
<td>Sustain quality growth</td>
<td>Efficient growth</td>
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<tr>
<td>Invest strongly</td>
<td>Credibility and trust</td>
</tr>
<tr>
<td>Champion inclusion and diversity</td>
<td>Engaged people</td>
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<tr>
<td>Embedded everyday efficiency</td>
<td>Efficient growth</td>
</tr>
<tr>
<td>Promote positive drinking</td>
<td>Credibility and trust</td>
</tr>
<tr>
<td>Pioneer grain-to-glass sustainability</td>
<td>Engaged people</td>
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<tr>
<td>Consistent value creation</td>
<td>Efficient growth</td>
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AUDIT COMMITTEE REPORT continued

Significant issues and judgements

Significant issues and judgements that were considered in respect of the 2023 financial statements are set out below. Our consideration of issues included discussion of the key audit matters as outlined in the appendix to the independent auditors’ report.

Matter considered

The nature and type of any off items impacting the quality of the earnings and cash flows.

Items that were to be presented as exceptional.

Whether the carrying value of assets, in particular intangible assets, was supportable.

Significant issues and judgements

AUDIT COMMITTEE REPORT

The Audit Committee assessed the presentation and disclosure of those items in the financial statements were appropriate on management’s analysis, and concluded that they were.

The Audit Committee assessed whether the reporting of those items as exceptional, was in line with the group’s accounting policy, and that sufficient disclosure was provided in the financial statements, and concluded that they were.

The Audit Committee reviewed the methodology applied in conducting impairment assessments and result of management’s impairment assessments that were performed during the year. The Committee was provided with information about the carrying amounts and the key assumptions incorporated in management’s estimate of discounted cash flows of significant assets that are sensitive to key assumptions. The Committee reviewed the key assumptions used in the impairment testing, including management’s cash flow forecasts, growth rates and the discount rate used in value in use calculations and agreed they were appropriate.

The Committee agreed with management’s judgements and conclusions, whereby McLellan’s, some smaller other brands and investments in associates and certain fixed assets has been impaired by £349 million in the year ended 30 June 2023, out of which £0 million was reported as exceptional operating charge. The Committee agreed that the recoverable amount of the company’s other assets was in excess of their carrying value and that appropriate disclosure was provided with respect to assets impaired, and whose value is more sensitive to changes in assumptions.

The group’s more significant tax exposures and the appropriateness of any related provisions and financial statement disclosures.

The Audit Committee agreed that disclosure of tax risk appropriately addresses the significant change in the international tax environment, and that appropriate provisions and other disclosure with respect to uncertain tax positions were reflected in the financial statements.

The appropriateness of the valuation of post employment liabilities, and the recognition of any surplus.

The measurement of post employment liabilities is sensitive to changes in long term interest rates, inflation and mortality assumptions. Having reviewed management’s papers setting out key changes to actuarial assumptions, the Audit Committee agreed that the assumptions used in the valuation are appropriate.

The Committee agreed that management’s assessment of the economic benefit available as a refund of the surplus or as a reduction of contribution and the key judgements made in respect of the surplus restriction and concluded that those judgements were appropriate. The Committee reviewed and concluded that sufficient disclosures were provided in the financial statements.

Significant legal matters impacting the group.

The Audit Committee agreed that disclosure of tax risk appropriately addresses the significant change in the international tax environment, and that appropriate provisions and other disclosure with respect to uncertain tax positions were reflected in the financial statements.

Auditing for business combinations.

Diageo acquired Hamilton Limited and Chat Noir Co. Inc. on 10 March 2023 and completed a number of other smaller acquisitions during the year ended 30 June 2023, for an aggregate consideration of £307 million. As at the completion date of these acquisitions, Diageo performed valuations of the identifiable assets and liabilities and the resulting goodwill. The purchase price allocation exercises are subject to management’s judgement and estimate, including forecast cash flows, buyer specific synergies and the applicable discount rates used in valuations. The Committee reviewed management’s purchase price allocations and the disclosures provided in the Financial Statements and concluded they were appropriate.

Functional currency of Diageo plc and presentation currency of Diageo group.

The Audit Committee agreed that in line with reporting requirements the functional currency of Diageo plc has changed from sterling to US dollar which is applied prospectively from fiscal 24. This is because the group’s net sales and expenses in the US and other countries when measured in US dollar are more closely correlated with the US dollar than the Sterling. The Group’s financial results for the year ended 30 June 2023 have been restated to the US dollar.

The Committee agreed with management’s judgements and conclusions, whereby McDowell’s, some smaller other brands and investments in associates and certain fixed assets has been impaired by £349 million in the year ended 30 June 2023, out of which £0 million was reported as exceptional operating charge. The Committee agreed that the recoverable amount of the company’s other assets was in excess of their carrying value and that appropriate disclosure was provided with respect to assets impaired, and whose value is more sensitive to changes in assumptions.

The impact of climate change on the group’s financial reporting and financial statements.

The Audit Committee concluded that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s performance, business model and strategy and that there is no inappropriate bias or other balance that materially affects the judgment of a reasonable reader (GAAP) and adjusted (non-GAAP) measures ensuring equal prominence.

GROWTH AND SUSTAINABILITY

The impact of climate change on the group’s financial reporting and financial statements.

The Audit Committee concluded that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s performance, business model and strategy and that there is no inappropriate bias or other balance that materially affects the judgment of a reasonable reader (GAAP) and adjusted (non-GAAP) measures ensuring equal prominence.

The Audit Committee agreed that the Task Force on Climate-related Financial Disclosures are appropriate and that the assumptions used in the financial statements are consistent with these disclosures.

We welcome Debra back to the Board and congratulate her on her appointment. The Committee was unanimous in deciding that Debra is the right person to lead Diageo into the next phase of growth, with her deep understanding of the company and its stakeholders, and her broad experience in other consumer goods industries.

This year the Committee also managed the evaluation of the effectiveness of the Board, its Committees, and members processes.

Further details, including the review’s conclusions, recommendations and actions as presented to the Board in January 2023, are set out on page 73.

The Committee has also been involved in reviewing talent planning and succession of Executive Committee membership, with two changes being implemented or approved during the year: Claudia Schulte was appointed as President, North America in October 2022 and Sonara Benchkk has assumed the role of President, Europe in January 2023. I congratulate Claudia and Sonara on their appointments and look forward to working with them.

Dear Shareholder

I am pleased to provide the report of the Nomination Committee for the year ended 30 June 2023.

A key responsibility for the Committee is to ensure adequate succession planning for Board appointments, maintenance of a pipeline of strong candidates for potential nomination as directors, and running transitions for new appointments.

During the year, the Committee had oversight of the transition of Chief Executives with Debra Crew succeeding Sir Ivan Menezes after ten years of dedicated leadership of the company. This transition was well underway when Ivan sadly passed away following a brief illness, with Debra taking over earlier than expected.

Role and composition of the Nomination Committee

The Nomination Committee is responsible for keeping under review the composition of the Board and succession to, reviewing succession planning for key Executive Committee roles, and succession planning and overall talent strategy for senior leadership positions, including in relation to ensuring and encouraging diversity in leadership positions.

It makes recommendations to the Board concerning appointments to the Board. More details on the role of the Nomination Committee are set out in its terms of reference which are available at https://www.diageo.com/en/our-business/corporate-governance/.

The Nomination Committee comprises Javier Ferrán (Committee Chairman), Melissa Bethel, Karen Blackout, Susan Kisbey, Valérie Chapoulaud-Floquet, Sir John Manzoni, Lady Mendelsohn, Alan Stewart and Iwona Wysocka.

Recruitment and election procedures

The recruitment process for Non-Executive Directors includes the development of a candidate profile and the engagement of a professional search agency specializing in the recruitment of high-calibre candidates. We have engaged executive search companies Egon Zehnder and Russell Reynolds Associates (neither of which have any connection with the company other than acting as an executive search agency) to assist with our current recruitment and pipeline requirements.

In the case of Executive Director or Executive Committee appointments, an executive search firm may be considered for an external professional agency. Reports on potential appointees are provided to the Committee, which, after careful consideration, makes a recommendation to the Board. In determining its recommendations, the Committee has regard to a broad range of factors including the candidate’s background, skillset and experience, their ability to express independent judgement and participate across a broad range of topics, including on sustainability and societal matters, their ability to devote sufficient time to the company and whether their appointment would contribute towards the Board’s diversity objectives which are set out in the Board Diversity Policy. This policy, which applies to the Board and its Committees, reflects the Board’s belief that it is critical that Board membership includes a diverse range of skills, professional and industry backgrounds, geographical experience and expertise, gender, tenure, ethnicity and diversity of thought.

Any new Directors are appointed by the Board and, in accordance with the company’s articles of association, they must be elected at the next AGM to continue in office. All existing Directors retire by rotation and stand for re-election every year.

The company’s policy is for all Directors to attend the AGM, either physically or by video conference as permitted by the company’s Articles of Association. Details of attendance of all Board and Committee meetings by Directors are set out on page 99.
The Nomination Committee reviewed the results of an external talent benchmarking exercise conducted by an executive search firm, among candidates for the key leadership roles on Diageo’s internal succession plan.

Commencing during fiscal 21 and subject to ongoing review thereafter:
- A focused talent pipeline of external candidates was reviewed by the Nomination Committee, together with internal candidates.
- Internal candidates were invited to take part in a formal assessment process overseen by the Chairman supported by the Chief HR Officer.
- A panel of Nomination Committee members met shortlisted candidates for formal panel interviews with the Chairman and the Non-Executive Directors.
- Development plans were drawn up for internal candidates to enable the Nomination Committee to review progress on a periodic basis.

During fiscal 23:
- Periodic review in relation to the development progress of internal candidates was undertaken by the Nomination Committee.
- The role specification was kept under review in order to ensure that reflected developments in Diageo’s business context and any emerging requirements.

During fiscal 23:
- Proposed remuneration arrangements for the incoming Chief Executive and out-going Chief Executives were reviewed and approved by the Remuneration Committee.
- The Nomination Committee recommended that the Board approve the appointment of Debra Crew as Diageo’s new Chief Executive.
- The Remuneration Committee approved the remuneration arrangements for the appointment of Debra Crew and the retirement of Sir Ivan Menezes.
- The Board unanimously approved the appointment and a regulatory announcement was released on 28 March 2023.

Activities of the Nomination Committee:
- The principal activities of the Nomination Committee during the year were:
  - the consideration, selection and recommendation as to the appointment of the incoming Chief Executive, Sir Ivan Menezes;
  - the consideration of the talent pipeline for potential new Non-Executive Directors and other senior appointments to the Board;
  - the design and conduct of the annual review of Board, Committee and individual Director effectiveness and performance and a review of the performance of the Nomination Committee;
  - consideration and approval of the report of the Committee in the company’s Annual Report and consolidated financial statements for the year ended 30 June 2023;
  - consideration and recommendation to the Board of proposed changes in Directors’ outside interests and any potential conflicts of interest; and
  - a review of the succession plans for Executive Committee roles, including potential candidates for such roles, their backgrounds and experience, and how such candidates would contribute towards the company’s diversity objectives.

Evaluation:
As part of the annual Board evaluation, all members of the Nomination Committee participated in an evaluation of the Committee. Feedback indicated that the Committee was effective and that Directors were highly valued members of the Executive Committee with an impressive record.

The Remuneration Committee approved remuneration arrangements for the incoming and outgoing Chief Executives and other under-represented groups. As at 30 June 2023, the percentage of women on the Executive Committee and their direct reports is 43%.

Board and Executive Committee reporting on gender identity or sex:

<table>
<thead>
<tr>
<th>Number of Board members</th>
<th>Percentage of the Board</th>
<th>Number of women in the Board (CEO, COO, SID, and Chair)</th>
<th>Number in executive management</th>
<th>Percentage of executive management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>3</td>
<td>27.3 %</td>
<td>1</td>
<td>50.0 %</td>
</tr>
<tr>
<td>Women</td>
<td>8</td>
<td>72.7 %</td>
<td>7</td>
<td>50.0 %</td>
</tr>
<tr>
<td>Not specified/prefer not to say</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Board and Executive Committee reporting on ethnic background:

<table>
<thead>
<tr>
<th>Number of Board members</th>
<th>Percentage of the Board</th>
<th>Number of women in the Board (CEO, COO, SID, and Chair)</th>
<th>Number in executive management</th>
<th>Percentage of executive management</th>
</tr>
</thead>
<tbody>
<tr>
<td>White British or other White (including minority-white groups)</td>
<td>7</td>
<td>63.6 %</td>
<td>3</td>
<td>57.1 %</td>
</tr>
<tr>
<td>Indian</td>
<td>2</td>
<td>18.2 %</td>
<td>1</td>
<td>18.2 %</td>
</tr>
<tr>
<td>Asian/Asian British</td>
<td>3</td>
<td>27.3 %</td>
<td>1</td>
<td>27.3 %</td>
</tr>
<tr>
<td>Black/African/Caribbean/Black British</td>
<td>1</td>
<td>9.1 %</td>
<td>1</td>
<td>9.1 %</td>
</tr>
<tr>
<td>Other ethnic groups, including Arab</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Not specified/prefer not to say</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Board composition:
Board gender diversity:

<table>
<thead>
<tr>
<th>Number in executive management</th>
<th>Percentage of executive management</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>100.0 %</td>
</tr>
<tr>
<td>COO</td>
<td>100.0 %</td>
</tr>
<tr>
<td>SID</td>
<td>100.0 %</td>
</tr>
<tr>
<td>Other executive directors</td>
<td>100.0 %</td>
</tr>
<tr>
<td>Female</td>
<td>56.3 %</td>
</tr>
<tr>
<td>Male</td>
<td>43.7 %</td>
</tr>
<tr>
<td>Directors of colour White European</td>
<td>—</td>
</tr>
</tbody>
</table>

Executive committee nationality:

<table>
<thead>
<tr>
<th>Number of Board members</th>
<th>Percentage of the Board</th>
<th>Number of women in the Board (CEO, COO, SID, and Chair)</th>
<th>Number in executive management</th>
<th>Percentage of executive management</th>
</tr>
</thead>
<tbody>
<tr>
<td>British</td>
<td>22%</td>
<td>22%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>American</td>
<td>22%</td>
<td>22%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Irish</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>American/British</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>South African/International</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Colombian</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Spanish</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Board diversity data:
- Directors are defined as all Non-Executive and Executive Directors appointed to the Board.
- Board diversity related data are collated directly from each Director annually using a questionnaire and are given on a self-identifying basis.
- Directors of colour are defined in accordance with the Parker Review on ethnic diversity and the Parker Review on gender diversity. The Board Policy sets out specific objectives with parity between male and female members of the Board and ensuring the ultimate goal is to achieve gender diversity, with a commitment to have no less than 40% female representation on the Board, and having at least one Director reflecting ethnic diversity as defined in accordance with the Parker Review.
- The Board is committed to having at least one Director from under-represented groups as defined in accordance with the Parker Review.
- The Board Policy also sets out the Board’s support and management’s actions to increase the proportion of senior leadership roles held by women and by people from minority backgrounds and other under-represented groups. As at 30 June 2023, the percentage of women on the Executive Committee and their direct reports is 43%.
Annual statement by the Chairman of the Remuneration Committee

On behalf of the Committee, I engaged with our largest shareholders and their representatives on the new policy and considered the feedback received, which was positive. We also reviewed market practice trends in the FTSE 30 (excluding financial services) and our global consumer goods peer group. Further, in line with our remuneration principles, the Committee considered the remuneration arrangements for the workforce globally when reviewing the policy for Executive Directors.

We value the views we have received from our shareholders and the strong support we have had in recent years. Maintaining both the dialogue and the support continue to be important to the Committee.

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CEO transition
On 29 March 2023, we announced that Sir Ivan Menezes would retire on 30 June 2023 and Debra Crew would be appointed as the next CEO from the start of fiscal 24. Following the announcement on 7 June 2022 that Sir Ivan had sadly passed away, Debra Crew was appointed to the Board as CEO and Executive Director on 8 June 2023, having taken over as interim CEO on 5 June due to Sir Ivan’s deteriorating health.

We set the salary for Debra Crew at $1,710,000, slightly below Sir Ivan’s salary. The Committee determined that this salary level reflects Debra’s significant relevant experience, which includes a prior CEO position in the United States and four years with Diageo, including time on the Diageo Board as a Non-Executive Director. The Committee considered both the FTSE 30 pay practices, as well as those of our global peer group when determining the appropriate level of pay for our Chief Executive.

The remuneration arrangements for Sir Ivan were approved within the terms of the Directors’ remuneration policy and application of the plan rules on death in service. Further details, including exercises of discretion by the Committee, can be found on page 150.

Business performance and employees
As mentioned elsewhere in the Annual Report, Diageo delivered a strong set of 2023 results during a period of economic volatility and continued inflationary pressures. Both organic net sales and organic operating profit growth were within our medium-term guidance and follow two consecutive years of double-digit growth and are reflected in lower annual incentive outcomes this year relative to the prior two years. Over the year, we gained or held market share in markets that total 70% of our net sales value, delivered further expansion of organic operating profit growth through productivity savings and return on invested capital was 16.3%.

Colleagues across the business have continued to show resilience, agility and commitment during this period of sustained uncertainty. Diageo continues to focus on being market competitive and proactive in the ways it supports the wellbeing of employees. Employee engagement has remained high again this year at 84%, two point higher than in 2022. Early in Fiscal 2023, Diageo made a one-time payment of $1,000,000 (capped at 15% of local equivalent annual salary) to all employees before Executive Committee level to recognize their commitment through challenging times. In addition, ongoing monitoring of the cost-of-living in all our geographies has resulted in offers to provide salary increases in countries experiencing the highest inflation. Other measures, such as financial education and progressive benefit policies have been implemented and more detail can be found on page 148.

Incentive outcomes
In determining annual and long-term incentive outcomes, the Remuneration Committee reviews not only the financial outcomes against targets set but also considers Diageo’s wider business performance. It takes market share gains, financial returns relative to our Alcoholic Beverages and TSR peer groups, progress made towards our ‘Society 2030: Spirit of Progress’ goals and employee engagement, among other factors. It also considers the experience of shareholders over the applicable performance period, in particular the company’s TSR performance relative to our peer group.

Annual incentive
For the annual incentive, outcomes under the Net Sales (NSV) and Operating Profit (OP) measures were at and just under target respectively and Operating Cash Conversion (OCC) performance fell short of the minimum threshold required. Further detail is provided on page 140. Following a holistic review of business performance in the year, the Committee concluded that the outcome was fair and did not require any adjustment. Our annual incentive also includes Individual Business Objectives (IBOs) and the outcomes are described on page 140.

Long-term incentives
Strong financial performance over the three-year period, particularly in respect of growth in organic net sales and profit before exceptional items and tax (PBIT), free cash flow (FCF) and share price growth of 26% resulted in a vesting outcome of 99% of maximum for the 2020 performance share awards for the prior CEO, the CFO and 78% of maximum for the 2020 share options granted to the prior CEO and the CFO. The 2020 performance share awards were the first Diageo awards which included an Environmental, Social and Governance (ESG) component and the outcomes against these measures show solid progress towards Diageo’s ‘Society 2030: Spirit of Progress’ ambition over this first three-year period.

Prior to confirming the vesting of DLTP awards, the Committee considered whether there was a compelling case to change the formulaic outcome by reviewing overall business performance and the targets set for these awards. For the 2020 DLTP awards, the Committee was especially cognisant of investor concerns around the potential for windfall gains given the timing of the grant during the Covid-19 pandemic. The Committee considered various factors, including the share price used to calculate the 2020 awards relative to the prior year’s price, the stretch of the targets and the performance relative to peers (see page 142 for more detail).

The Committee determined that the outcomes were appropriate and aligned to the assessment of Diageo’s underlying business performance over the three-year period and made no adjustment to the vesting levels.

The Committee believes that the incentive plans continue to drive the desired behaviours to support the company’s values and strategy and that the Directors’ remuneration policy has operated as intended in 2023.

The year ahead and alignment of incentives with strategy
The Committee approved a base salary increase of 4% for the CFO, effective 1 October 2023, having reviewed market practice in the FTSE 30 and our global consumer goods peer group. This increase is below the 2023 salary increase budget for employees in the UK, which was designed in line with the target to increase for the CEO, whose next review will be in October 2024.

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Remuneration principles
The approach to setting executive remuneration continues to be guided by the remuneration principles set out below. The Committee considers these principles carefully when making decisions on executive remuneration in order to strike the right balance between risk and reward, cost and sustainability, and competitiveness and fairness.

The Committee considers that the strategy and growth and leverage to leaders globally given the international nature of the business. We also need to have the right tools in place to source talent globally and the increasingly reactive corporate governance environment in the United Kingdom presents some challenges when considered against the significantly higher pay norms in the United States and other parts of the world, particularly given the increasing international mobility of the senior talent pool.

Long-term value creation for shareholders and pay for performance remains at the heart of our remuneration policy and practices. Attracting and nurturing a vibrant mix of international talent with a range of backgrounds, skills and capabilities enables Diageo to grow and thrive, and ultimately to deliver our Performance Ambition. Remuneration remains a key part of attracting and retaining the best people to lead our global business, balanced against the need to ensure our packages are appropriate and fair in the business and wider employee context, delivering market competitive pay in return for high performance against the company’s strategic objectives.

Delivery of business strategy
Short and long-term incentive plans reward the delivery of our business strategy and Performance Ambition. Performance measures are reviewed regularly and stretching targets are set relative to the company’s growth plans and peer group forecasted performance. The Committee seeks to embed simplicity and transparency in the design and delivery of our remuneration policies.

Creating sustainable, long-term performance
A significant proportion of remuneration is delivered in variable pay linked to business and individual performance, focused on consistent and responsible drivers of long-term growth. Performance targets is assessed in the context of underlying business performance and the ‘quality of earnings’.

Winning best talent
Well designed and market competitive total remuneration, with an appropriate balance of fixed reward and upside opportunity, allows us to attract and retain the best talent from all over the world in a competitive talent market, which is critical to our continued business success.

Consideration of stakeholder interests
Executives are focused on creating sustainable share price growth. The requirement to build significant personal shareholdings in Diageo, and to hold shares accumulated from long-term incentive awards for two years post vesting aligns executives and shareholders. Decisions on executive remuneration are made with consideration of the interests of the wider workforce and other stakeholders, as well as the external climate.
Remuneration Committee Governance

Remuneration Committee
The Remuneration Committee consists of the following independent Non-Executive Directors: Susan Klisby, Melissa Bethell, Valerie Chapoulaud-Henry, Sir John Manzoni, Lady Mendesklaph, Alan Stewart, Iwona Vital and Karen Blackett. Susan Klisby is the Chair of the Remuneration Committee and also the Senior Independent Director. The Chairman of the Board and the Chief Executive are invited to attend Remuneration Committee meetings, except when their own remuneration is being discussed. The Chief Human Resources Officer and Global Performance and Reward Director are also invited by the Remuneration Committee to provide their views and advice. The Chief Financial Officer may also attend to provide performance context to the Committee during its discussions about target setting and incentive outcomes. The Remuneration Committee’s terms of reference are available in the corporate governance section of the company’s website and on request from the Company Secretary.

The Remuneration Committee is responsible for all executive remuneration decisions throughout the year, which includes setting financial targets for the annual and long-term incentive plans and the outcomes under these plans. During fiscal 23, the Remuneration Committee also reviewed the Directors’ remuneration policy and consulted with Diageo’s largest investors in preparation for seeking shareholder approval at the 2023 AGM, as well as the CEO transition arrangements and the death-in-service remuneration arrangements following the sad passing of Sir Ivan Menezes. The Committee considered the remuneration policy and practices in the context of the principles of the Corporate Governance Code, as follows:

Clarity - the Committee engages regularly with executives, shareholders and their representative bodies in order to explain the approach to executive pay;

Simplicity - the purpose, structure and strategic alignment of each element of pay has been laid out in the remuneration policy;

Risk - there is an appropriate mix of fixed and variable pay, and financial and non-financial objectives, and there are robust measures in place to ensure alignment with long-term shareholder interests, including the DLTP post-vesting retention period, shareholding requirement, bonus deferral into shares and malus and clawback provisions. The Committee also considers the impact on behaviour of both the measures and targets set;

Predictability - the pay opportunity under different performance scenarios is set out on page 136 of this report.

Propriety - executives are incentivised to achieve stretching targets over annual and three-year performance periods, and the Committee assesses performance holistically at the end of each period, taking into account underlying business performance and the internal and external context. The Committee may exercise discretion to ensure that payouts are appropriate; and

Alignment with culture - non-financial objectives may be incentivised under the individual business objective element of the annual incentive plan and ‘Society 2030: Spirit of Progress’ (ESG) priorities are incentivised under the long-term incentive plan, which reinforces the company’s purpose and values. The design of remuneration and the measures used, reflect Diageo’s culture.

External advisors
During the year ended 30 June 2023, the Remuneration Committee received advice on Directors’ remuneration from both Deloitte and FIT. FIT was appointed as the Committee’s new external advisor in October 2022. The fees paid to Deloitte in fiscal 23 [until the end of their appointment] for advice on executive remuneration to the Committee were £331,900. The fees paid to FIT in fiscal 23 since their date of appointment were £174,265. All fees were determined on a time and expenses basis.

The Committee is satisfied that FIT’s [and previously Deloitte’s] engagement partners, and the teams that provide remuneration advice to the Committee, have no connections with Diageo that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts. Deloitte provided and continues to provide unrelated services to the company in the areas of immigration and management consultancy. FIT does not provide Diageo with any other services. Deloitte and FIT are founder members of the Remuneration Consultants Group (RCG) which is responsible for developing and maintaining the Code of Conduct for Consultants to Remuneration Committees of UK listed companies. FIT attended Remuneration Committee meetings during the year following their appointment and the Committee is satisfied that the advice it has received has been objective and independent.

Statement of voting
The following table summarises the details of votes cast in respect of the resolutions on the Directors’ remuneration policy at the 2020 AGM and the Directors’ remuneration report (excluding the policy) at the 2022 AGM.

<table>
<thead>
<tr>
<th>Resolution</th>
<th>For</th>
<th>Against</th>
<th>Total votes cast</th>
<th>Percentage of votes cast</th>
<th>Abstentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors’ remuneration policy(1)</td>
<td>1,444,441,267</td>
<td>131,588,951</td>
<td>1,576,030,218</td>
<td>92.90%</td>
<td>6.88%</td>
</tr>
<tr>
<td>Directors’ remuneration report (excluding the policy)(2)</td>
<td>1,612,245,424</td>
<td>88,630,690</td>
<td>1,700,876,114</td>
<td>94.79%</td>
<td>5.21%</td>
</tr>
</tbody>
</table>

(1) As shown on pages 89–94 of the 2020 Annual Report
(2) As shown on pages 96–102 and 109–10 of the 2022 Annual Report.

GOVERNANCE REPORT
Diageo’s Remuneration policy

This section of the report sets out the 2023 Directors’ remuneration policy which will be put to the shareholders at the AGM on 28 September 2023 and, if approved, will apply with effect from 1 July 2023.

The current policy, which was approved by shareholders in September 2020, can be found on the company’s website at https://www.diageo.com/en/our-business/corporate-governance/remuneration-at-diageo.

The Remuneration Committee discussed the details of the policy over a series of meetings, taking into consideration the strategic priorities of the business and evolving market practice. An external perspective was provided by the Remuneration Committee’s advisor and the Remuneration Committee Chair engaged with the company’s 20 largest shareholders and their representatives regarding the policy proposals. As referenced in the Remuneration Committee Chair’s letter, the Committee believes the current policy continues to support the business strategy, which sets out the new policy being put forward for shareholder approval remains largely the same. The key change from the current policy relates to the increase in post-cessation shareholding requirement which requires 100% of the in-service shareholding requirement (or, if lower, their actual shareholding on cessation) to be held for two years after leaving (from 100% in the first year and 50% in the second year under the current policy). We have improved disclosures by providing more detail on our malus and clawback policy, the shareholding requirements and the enforcement mechanism for the post-cessation shareholding requirements. Some minor editorial changes have also been made.

Base salary

Supports the attraction and retention of the best global talent with the capability to deliver Diageo’s strategy and performance goals.

Operation

• Normally reviewed annually or following a change in responsibilities with any increases usually taking effect from 1 October.
• The Remuneration Committee considers the following parameters when reviewing base salary levels:
  • Pay increases for other employees across the group.
  • Economic conditions and governance trends.
  • The individual’s performance, skills and responsibilities.
• Base salaries (and total remuneration) at companies of similar size and international scope to Diageo, with roles typically benchmarked against the FTSE 30 excluding financial services companies, or against similar comparator groups in other locations dependent on the Executive Director’s home market as well as global consumer goods companies.

Opportunity

Salary increases will be made in the context of the broader employee pay environment, and will normally be in line with those made to other employees in the relevant markets in which Diageo operates, typically the United Kingdom and the United States, unless there is a change in role or responsibility or other exceptional circumstances.

Benefits

Purpose and link to strategy

Provides market-competitive and cost-effective benefits as part of remuneration packages designed to attract and retain the best global talent.

Operation

• The provision of benefits typically depends on the country of residence of the Executive Director and may include but is not limited to a company car or travel allowance, car or travel allowance insurance, accident or health insurance, medical and dental cover, tax support and tax return preparation costs.
• The Remuneration Committee has discretion to offer additional allowances, or benefits, to Executive Directors, if considered appropriate and reasonable. These may include, but are not limited to, relocation expenses, housing allowance and school fees where a Director is asked to relocate from his/her home location as part of their appointment. Where appropriate, for example in relation to relocation benefits, the company may also meet the tax costs associated with the benefit provision.

Opportunity

• The benefits package is set at a level which the Remuneration Committee considers:
  • provides an appropriate level of benefits depending on the role and individual circumstances;
  • is appropriate in the context of the benefits offered to the wider workforce in the relevant market; and
  • is in line with comparable roles in companies of a similar size and complexity in the relevant market.

Post-retirement provision

Purpose and link to strategy

Provides competitive post-retirement benefits which are part of remuneration packages designed to attract and retain the best global talent.

Operation

• Provision of market-competitive pension arrangements or a cash alternative based on a percentage of base salary.

Opportunity

• The maximum pension contribution, or cash alternative allowance, for Executive Directors is 14% of salary. The current CEO and CFO receive a pension contribution of 14% of salary, in line with the UK workforce.

Diageo Long-Term Incentive Plan (DLTIP)

The DLTIP is designed to provide an appropriate level of long-term incentives to drive the achievement of the Group’s strategy and performance goals.

Purpose and link to strategy

Provides a long-term incentive to achieve key performance measures which support the company’s strategy, and to align interests with shareholders.

Operation

• Awards vest at 20% of maximum for threshold performance and 100% of maximum if the performance conditions are met in full. The vesting schedule related to the levels of performance between threshold and maximum, including whether or not this will include an interim stretch performance level, will be determined by the Remuneration Committee on an annual basis and disclosed in the relevant remuneration report for that year. There is a ranking profile for the vesting of the post of the award based on relative total shareholder return, starting at 20% for maximum for achieving the threshold.

Annual Incentive Plan (AIP)

Purpose and link to strategy

Incentivises delivery of Diageo’s annual financial targets and the achievement of key individual objectives which are chosen to align with the business strategy and create a platform for sustainable long-term performance. Compulsory deferral of a minimum of one-third of any annual incentive vested into shares for three years promotes longer-term alignment of Executive Directors’ interests with shareholders’ interests.

Operation

• Performance measures, weightings and targets are set by the Remuneration Committee. Appropriately stretching targets are set by reference to the Diageo operating plan and historical performance for the company and its peer group.
• The level of award is determined with reference to Diageo’s overall financial and strategic performance and individual performance.
• A minimum of one-third of the actual earned bonus payment is normally deferred into a share award (pre-tax deferred) or owned shares (post-tax deferred) under the Deferred Bonus Share Plan, to be held for a minimum period of three years, other than in exceptional circumstances. The remainder of the bonus payment is paid out in cash after the end of the financial year.
• The Remuneration Committee has discretion to adjust the level of payment if it is not deemed to reflect appropriately the individual’s contribution or the overall business performance. Any discretionary adjustments will be detailed in the following year’s annual report on remuneration.
• The Remuneration Committee has discretion to apply malus or clawback to bonus as detailed in the ‘Malus and Clawback’ section below.
• In the case of pre-tax deferral, notional dividends accrue on deferred bonus share awards, delivered as shares or cash at the discretion of the Remuneration Committee at the end of the vesting period (on post-tax deferral into owned shares, actual dividends are payable).

Performance conditions

Annual incentive plan awards are normally based 70% on financial measures which may include, but are not limited to, measures of sales, profit and cash, and 30% on broader objectives based on strategic goals and/or individual contribution. The Remuneration Committee has discretion to amend the performance measures in exceptional circumstances if it considers it appropriate to do so, e.g. in cases of accounting policy changes, merger and acquisition activities or disposals. Any such amendments would be fully disclosed and explained in the following year’s annual report on remuneration.

Opportunity

For threshold performance, up to 50% of salary may be earned, with up to 100% of salary earned for on-target performance and a maximum of 200% of salary payable for outstanding performance. The maximum includes the deferred share element but excludes dividend equivalents payable in respect of deferred share awards.

Annual Remuneration Report 2023

The Committee reserves the right to make minor changes to the policy, where required for regulatory, tax or administrative reasons.
Diageo Long-Term Incentive Plan (DLTIP) continued

Performance conditions
The vesting of awards is linked to a range of measures which may include, but are not limited to:
- A growth measure (e.g. net sales growth, operating profit growth);
- A measure of efficiency (e.g. operating margin, cumulative free cash flow, return on invested capital);
- A measure of Diageo's performance in relation to its peers (e.g. relative total shareholder return); and
- A measure relating to our 'Society 2030: Spirit of Progress' (environmental, social or governance) priorities.

Measures that apply to performance shares and market price options may differ, as is the case for current awards. Weightings of these measures may also vary on an year by year basis.

The Remuneration Committee has discretion to amend the performance conditions in exceptional circumstances if it considers it appropriate to do so, e.g. in cases of accounting policy changes, merger and acquisition activities or disposals. Any such amendments would be fully disclosed and explained in the following year’s annual report on remuneration.

Malus and Clawback
Under the AIP and DLTIP, the Remuneration Committee has discretion to apply malus and clawback in the circumstances specified in the applicable malus and clawback policy from time to time in place, for example:
- Material misstatement of results or an error resulting in overpayment.
- Risk failure resulting in material financial loss or any business area being the subject of a regulatory investigation or in breach of regulation.
- Employee misconduct/disciplinary action.
- Employee accountability for material reputational damage to the group which could have been avoided.
- Risk failure resulting in material financial loss or any business area being the subject of a regulatory investigation or in breach of regulation.
- Any other matter which, in the reasonable opinion of the Remuneration Committee, is required to be considered to comply with prevailing legal and/or regulatory requirements.

The malus and clawback provisions may be invoked for one year following an AIP cash payment and two years following a DLTIP vesting. Where the Remuneration Committee determines that malus and/or clawback will apply, the Remuneration Committee has discretion to determine the basis of application and the means by which malus and/or clawback will be implemented.

All-employee share plans
Purpose and link to strategy
To encourage broader employee share ownership through locally approved plans.

Operation
- The company operates tarsificfiant all-employee share acquisition plans in various jurisdictions.
- Executive Directors’ eligibility may depend on their country of residence, tax status and employment company.

Opportunity
- Limits for all-employee share plans are set by the tax authorities. The company may choose to set its own lower limits.

Performance conditions
- Under the UK Share Incentive Plan, the annual award of Freeshares may be based on Diageo plc financial measures which may include, but are not limited to, measures of sales, profit and cash.

Shareholding requirement
Purpose and link to strategy
- Ensures alignment between the interests of Executive Directors and shareholders.

Operation
- The minimum inemployment shareholding requirement is 500% of base salary for the Chief Executive and 400% of base salary for any other Executive Directors.
- Executive Directors are normally expected to build up their inemployment shareholding within five years of their appointment to the Board.
- Shares that count towards these minimum shareholding requirements are shares beneficially held by the Executive Director and their connected persons, including Deferred Bonus Share Plan (DBSP) shares within the three-year deferral period on a net (if post-tax deferral) or notional net (if pre-tax deferral) of tax basis.
- Executive Directors are restricted from selling more than 50% of shares which vest under the long-term incentive plan or deferred bonus share plan (excluding the sale of shares to cover tax on vesting and other exceptional circumstances to be specifically approved by the Chief Executive and/or Chairman), until the shareholding requirement is met.
- In order to provide further long-term alignment with shareholders, Executive Directors will normally be expected to maintain a Diageo shareholding of 100% of the inemployment shareholding requirement (or, if lower, their actual shareholding on cessation) for two years after leaving the company.
- The Executive Directors enter into a deed undertaking to comply with the requirement and committing to hold the required number of shares in a specified nominee account.

Chairman of the Board and Non-Executive Directors’ fees
Purpose and link to strategy
- Supports the attraction and retention of world-class talent and reflects the value of the individual, their skills and experience.

Operation
- Fees for the Chairman and Non-Executive Directors are normally reviewed every year.
- A proportion of the Chairman’s annual fee may be used for the monthly purchase of Diageo ordinary shares, which have to be retained until the Chairman retires from the company or ceases to be a Director.
- Fees are reviewed in light of market practice in the FTSE 30, excluding financial services companies, and anticipated workload, tasks and potential liabilities.
- The Chairman and Non-Executive Directors do not participate in any of the company’s incentive plans nor do they receive pension contributions or benefits. Their travel and accommodation expenses in connection with attendance at Board meetings (and any tax thereon) are paid by the company.
- The Chairman and the Non-Executive Directors are eligible to receive a product allowance or cash equivalent at the same level as the Executive Directors.
- All Non-Executive Directors have letters of appointment. A summary of their terms and conditions of appointment is available at www.diageo.com. The Chairman of the Board, Javier Ferrán, was re-appointed on 6 October 2022 for a three-year term, terminable on three months’ notice by either party or, if terminated by the company, by payment of three months’ fees in lieu of notice.

Opportunity
- Fees for Non-Executive Directors are within the limits set by the shareholders from time to time, with an aggregate limit of £1,750,000, excluding the Chairman’s fees.
Policy considerations

Performance measures
Further details of the performance measures under the fiscal 2024 annual incentive plan and measures and targets for DTIP awards to be made in September 2023 and set out in the annual report on remuneration on page 153. Annual incentive targets will be disclosed prospectively in next year’s annual report on remuneration as they are determined by the Board to be commercially sensitive until after the end of the fiscal year.

Performance targets are set to be stretching yet achievable, and take into account the company’s strategic priorities and business environment. The Remuneration Committee sets targets based on a range of reference points, including the corporate strategy and broker forecasts for both Diageo and its peers.

Projected total remuneration scenarios
The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at four different levels of performance for the year ending 30 June 2024. These charts reflect projected remuneration for the year ending 30 June 2024.

Lavanya Chandrashekar

<table>
<thead>
<tr>
<th>Level</th>
<th>Salary</th>
<th>Benefits and Pension</th>
<th>Annual Incentive</th>
<th>Long-term Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>$1,000</td>
<td>$2,000</td>
<td>$3,000</td>
<td>$4,000</td>
</tr>
<tr>
<td>Target</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$15,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Maximum</td>
<td>$10,000</td>
<td>$20,000</td>
<td>$30,000</td>
<td>$40,000</td>
</tr>
</tbody>
</table>

The ‘Minimum’ scenario is based on base salary, benefits and pension only. The ‘Target’ scenario takes into account the performance-related annual and long-term incentive awards.

The ‘Maximum’ scenario reflects full performance-related annual and long-term incentives.

The ‘Maximum plus share price growth’ scenario reflects full remuneration, plus full payout of annual and long-term incentives.

For long-term incentives, the awards are treated as though they were granted entirely as performance share awards.

The amounts shown in sterling are converted using the cumulative weighted average exchange rate for the year ended 30 June 2023 of £1 = $1.20.

Approach to recruitment remuneration
Diageo is a global organisation selling its products in more than 180 countries around the world. The ability to recruit and retain the best talent from all over the world is critical to the future success of the business. People diversity in all its forms is a core element of Diageo’s global talent strategy and, managed effectively, is a key driver in delivering Diageo’s Performance Ambition.

The Remuneration Committee’s overarching principle for recruitment remuneration is to pay no more than is necessary to attract an Executive Director of the calibre required to shape and deliver Diageo’s business strategy, recognising that Diageo competes for talent in a global marketplace. The Committee will seek to align any remuneration package with Diageo’s remuneration policy, but retains the discretion to offer a remuneration package which is necessary to meet the individual circumstances of the recruited Executive Director and to enable the hiring of an individual with the necessary skills and expertise. However, the maximum short-term and long-term incentive opportunity will follow the policy, although awards may be granted with different performance measures and targets in the first year. On appointment of an external Executive Director, the Committee may decide to compensate for variable remuneration elements the individual forsook when leaving their current employer. In doing so, the Committee will ensure that any such compensation is no value no higher than that of the awards forfeited, and would generally be determined on a comparable basis taking into account factors including the form in which the awards were delivered in the prior role and the performance conditions attached, the probability of the awards vesting (e.g. past, current and likely future performance), as well as the vesting schedules. Depending on individual circumstances at the time, the Committee has the discretion to determine the type of award (i.e. cash, shares or options), holding period and whether or not performance conditions would apply.

Any such award would be fully disclosed and explained in the following year’s annual report on remuneration. When recruiting its discretion in establishing the reward package for a new Executive Director, the Committee will carefully consider the balance between the need to secure an individual in the best interests of the company against the concerns of investors about the quantum of remuneration and, if considered appropriate at the time, will consult with the company’s biggest shareholders. The Remuneration Committee will provide timely disclosure of the reward package of any new Executive Director.

The ‘Target’ scenario shows fixed remuneration as described above, plus a target payout of 50% of the maximum annual incentive and a midpoint payout of 50% of the maximum long-term incentive awards.

The ‘Maximum’ scenario reflects fixed remuneration, plus full payout of annual and long-term incentives.

The ‘Maximum plus share price growth’ scenario reflects fixed remuneration, plus full payout of annual and long-term incentives, including, for the latter, an assumed 50% share price appreciation over the performance period.

For long-term incentive awards, the amounts are treated as though they were granted entirely as performance share awards.

The amounts shown in sterling are converted using the cumulative weighted average exchange rate for the year ended 30 June 2023 of £1 = $1.20.

2020 Deferred Bonus Share Plan (DBSP)
Where the Executive Director leaves for any reason other than dismissal, they are entitled to retain any deferred bonus shares, which vest in full on departure, subject to any holding requirements under the post-employment shareholding policy. It is not considered necessary for the bonus deferred to continue to apply after leaving, since the bonus has already earned based on performance, and there is a post-employment shareholding requirement that ensures the Executive Director continues to be invested in the company’s longer-term interests. On a takeover, awards vest in full. On other corporate events, the Remuneration Committee may allow awards to vest in full.

Diageo Long-term Incentive Plan (LTIP)
Where the Executive Director leaves for reasons including retirement, death in service, disability, health, injury, redundancy, transfer out of the group and other circumstances at the Remuneration Committee’s discretion during the fiscal year, the Executive Director will be entitled to a cash settlement of 100% of the annual incentivised bonus payment (including any accrued but untaken holiday entitlement) and 100% of the maximum long-term incentive award. If, on the termination date, the Executive Director has exceeded their accrued holiday entitlement, the value of such extra holiday will be paid out in lieu, provided that if the employment is terminated for cause then the Executive Director will not be entitled to any such payment.

Mitigation
The Remuneration Committee requires (or may exercise its discretion to require) a proportion of the termination payment to be paid in instalments and, upon the Executive Director commencing new employment, to be subject to mitigation.

Annual Incentive Plan (AIP)
Where the Executive Director leaves for reasons including retirement, death in service, disability, health, injury, redundancy, transfer out of the group and other circumstances at the Remuneration Committee’s discretion during the fiscal year, the Executive Director will be entitled to an incentive payment proportionate for the period of service during the performance period, which is typically payable at the usual payment date unless the Committee decides otherwise. Where the Executive Director leaves for any other reason, no payment or bonus deferred will be made. The amount is subject to performance measures being met and is at the discretion of the Committee. The Committee has discretion to determine an earlier payment date, for example, on death in service. The bonus may, if the Committee decides, be paid wholly in cash.

Repayment/other
In cases where an Executive Director was recruited from outside the United Kingdom and has been relocated to another country, the Remuneration Committee may allow the Executive Director to take such unused holiday during any notice period or make a payment to them in lieu of it, provided that if the employment is terminated for cause then the Executive Director will not be entitled to any such payment.

GOVERNANCE REPORT
Employee engagement on executive remuneration

The Board of the Company held wide-ranging engagement sessions throughout the year and there were focus group sessions led by some of the Non-Executive Directors (more information can be found in the corporate governance section on page 170). As part of this engagement, there was a session where the Chairman shared information with employees about executive remuneration, including the Directors’ remuneration policy, the role of the Remuneration Committee, executive remuneration principles and structure and how executive pay aligns with pay for the wider workforce. Diageo also runs annual employee engagement surveys, which give employees the opportunity to give feedback and express their views on a variety of topics, including remuneration. Any comments relating to Executive Directors’ remuneration are fed back to the Remuneration Committee.

These activities ensure that shareholder views and interests, as well as the employees’ feedback at Diageo, are considered when making executive remuneration decisions.

Consideration of wider workforce remuneration

When reviewing Executive Directors’ salaries, the Committee takes into account the Company’s salary budget for the year and, each year, the Committee has a session reviewing various aspects of workforce remuneration to deepen its understanding of employee arrangements. There is clear alignment in the approach to pay for executives and the wider workforce in the way that remuneration principles are followed, as well as the mechanics of the salary review process and incentive plan design, which are broadly consistent throughout the organisation. The performance measures under the annual incentive plan and long-term incentive plan are aligned to the same for executives and other eligible employees. The key differences are that a larger percentage of Executive Directors’ remuneration is performance related than that of other employees and salary, benefits and incentive participation levels vary according to role, seniority and business priorities.

When reviewing the Directors’ remuneration policy, the Committee considers the remuneration arrangements for the workforce globally, as well as market practice in the FTSE 30 (excluding financial services) and Diageo’s global consumer peer group. The Chairman also explains the Directors’ remuneration policy to employees and seeks their feedback as part of the workforce engagement sessions, as described above. Given the minimal changes proposed for the Directors’ remuneration policy, employees were not specifically consulted on this.

Annual report on remuneration

The following section provides details of how the Company’s 2020 remuneration policy was implemented during the year ended 30 June 2023, and how the Remuneration Committee intends to implement the proposed remuneration policy in the year ending 30 June 2024.

Single figure of remuneration for Executive Directors (audited)

The table below details the Executive Directors’ remuneration for the year ended 30 June 2023.

<table>
<thead>
<tr>
<th>Name</th>
<th>Fixed pay</th>
<th>Salary</th>
<th>Long-term incentivisation</th>
<th>Pension</th>
<th>Total fixed pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ivan Menezes(1)</td>
<td>£4,603</td>
<td>£1,233</td>
<td>£1,440</td>
<td>£79</td>
<td>£6,219</td>
</tr>
<tr>
<td>Debra Crew(1)</td>
<td>£1,249</td>
<td>£133</td>
<td>£79</td>
<td>£5</td>
<td>£1,537</td>
</tr>
<tr>
<td>Lavanya Chandrashekar(1)</td>
<td>£67</td>
<td>£5</td>
<td>£10</td>
<td>£4</td>
<td>£97</td>
</tr>
</tbody>
</table>

Notes

(1) The amounts shown in US dollars are converted to sterling using the average exchange rate for the respective financial year for the year ended 30 June 2023, the exchange rate was £1 = $1.20 and for the year ended 30 June 2022, the exchange rate was £1 = $1.33. Ivan Menezes, Debra Crew and Lavanya Chandrashekar are paid in US dollars.

(2) The long-term incentivisation amounts shown in the table above are the gross amounts vested in the Diageo Performance Share Plan (DPP) for 2020 and 2021. Payments will be made in shares that will be held in a nominee account for the Company’s benefit. All payments will be made in shares that will be allotted to the directors on vesting.

(3) Executive Directors’ unexpired terms of office are expected to be for three years. The unexpired terms of office for Non-Executive Directors are detailed below.

<table>
<thead>
<tr>
<th>Non-Executive Director</th>
<th>Date of appointment</th>
<th>Current letter of appointment expiry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Susan Kilsby</td>
<td>4 April 2018</td>
<td>30 June 2023</td>
</tr>
<tr>
<td>Karen Blackett</td>
<td>1 June 2022</td>
<td>30 June 2023</td>
</tr>
<tr>
<td>Lady Mendelsohn</td>
<td>1 September 2014</td>
<td>30 June 2023</td>
</tr>
<tr>
<td>Allen Stewart</td>
<td>1 September 2014</td>
<td>30 June 2023</td>
</tr>
<tr>
<td>Ineke Vitto</td>
<td>2 October 2020</td>
<td>30 June 2023</td>
</tr>
<tr>
<td>Karen Blackett</td>
<td>6 June 2022</td>
<td>30 June 2023</td>
</tr>
</tbody>
</table>

Payments under previous policies

The Committee reserves the right to amend remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out above, where the terms of the payment were agreed by a previous policy, in which case the provision of that policy shall continue to apply until such payments have been made, before the policy or the relevant legislation came into effect, or (iii) at a time when the relevant individual was not a director of the company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the company.

Approach to stakeholder engagement

Shareholder engagement

The Committee is interested in the views of investors and maintains an ongoing dialogue with a broad group of shareholders and institutional advisors on remuneration matters. In advance of finalising our proposed changes, we consulted with the company’s largest shareholders and their representatives about the policy and the implementation plan for fiscal 24. The responses received from shareholders were supportive of the proposed change to enhance the Remuneration Committee’s ability to implement a meaningful remuneration framework, as well as the planned implementation for fiscal 24.

Other incentives (2)

(2) Long-term incentivisation amounts shown in the table above are the gross amounts vested in the Diageo Performance Share Plan (DPP) for 2020 and 2021. Payments will be made in shares that will be held in a nominee account for the Company’s benefit. All payments will be made in shares that will be allotted to the directors on vesting.

(3) Executive Directors’ unexpired terms of office are expected to be for three years. The unexpired terms of office for Non-Executive Directors are detailed below.

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</tr>
<tr>
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<td>6 June 2022</td>
<td>30 June 2023</td>
</tr>
</tbody>
</table>

Go to Remuneration Report
Looking back on 2023

Annual incentive plan (AIP) payouts for 2023 (audited)

AIP payouts for the year ended 30 June 2023

AIP payouts for all of the Executive Directors serving during the year are based 80% on performance against the group financial measures and 20% on performance against Individual Business Objectives (IBOs), as assessed by the Remuneration Committee and summarised in the table below:

<table>
<thead>
<tr>
<th>Group financial measures(1)</th>
<th>Measure</th>
<th>Weighting</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
<th>Payout (weighted AIP opportunity)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (% growth)(2)</td>
<td>26.67%</td>
<td>3.5%</td>
<td>6.5%</td>
<td>9.0%</td>
<td>9.5%</td>
<td>8.5%</td>
<td>12.34%</td>
</tr>
<tr>
<td>Operating profit (% growth)(2)</td>
<td>26.67%</td>
<td>2.5%</td>
<td>7.5%</td>
<td>12.5%</td>
<td>13.5%</td>
<td>7.0%</td>
<td>12.67%</td>
</tr>
<tr>
<td>Operating cash conversion(3)</td>
<td>26.67%</td>
<td>95.0%</td>
<td>100.0%</td>
<td>105.0%</td>
<td>107.6%</td>
<td>93.3%</td>
<td>–</td>
</tr>
<tr>
<td>Full year performance for 1 July 2022 - 30 June 2023</td>
<td>80.00%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>20.00%</td>
<td>–</td>
</tr>
</tbody>
</table>

Notes

The AIP payout for Debra Crew is based 80% on performance against the group financial measures as noted in the table at the top of this page and 20% on performance against IBOs. Debra Crew’s IBOs for fiscal 23 related to her role as Chief Operating Officer (COO), prior to appointment as CEO late in the financial year following the death in service of Ivan Menezes. The first of two equally weighted IBOs for the COO role (growing or holding total trade market share in 2/3rds of total net shares in measured markets) was aligned to Ivan Menezes’s goal and was achieved. Ms Crew’s second IBO for the COO role was to grow market share in North America Total Beverage Alcohol, while driving operating margin in line with Annual Operating Plan (AOP) targets and there was satisfactory delivery under this IBO. The resulting overall IBO outcome was 9.38% out of a total of 20%.

1. Performance against the AIP measures is calculated using 2023 budgeted exchange rates. Adjustments are made for changes in central bank interest rates.
2. For AIP purposes, Net Sales Value (NSV) growth and Operating Cash Conversion (OCC) growth are calculated on budgeted currency exchange rates, after adjustments for acquisitions and disposals and incorporate the organic treatment of hyperinflationary economies.
3. For AIP purposes, Operating Cash Conversion (OCC) is calculated by dividing cash generated from operations excluding cash inflows/outflows in respect of exceptional items, dividends, insurance and post-employment payments in excess of the amount charged to operating profit by operating profit before depreciation, amortisation, impairment and exceptional items. The measure incorporates the organic treatment of hyperinflationary economies. The rate is set at the budgeted exchange rate for the year.
4. AIP payments are calculated using base salary as at 30 June 2023, in line with the global policy that applies to other employees across the company. For Ivan Menezes, the payments reflect time employed in fiscal 23 up to and including 6 June 2023. For Debra Crew, the payment disclosed reflects the period 5 to 30 June, covering the period from appointment as interim CEO on 5 June 2023 to the end of the fiscal year’s time to his CEO salary which applied from 5 June 2023.
5. In accordance with the 2020 remuneration policy and their individual elections to defer pay, one-third of Debra Crew’s and Lavanya Chandrashekar’s other tax AIP payout disclosed in the table above will be deferred into Diageo shares, which will be held for three years as a core account. These shares will be acquired in September 2023 and the number of shares will be disclosed in the 2023 remuneration report. The Committee waived the deferral requirement in respect of Ivan Menezes.
6. Market share reflects external estimates incorporating Nielsen, Association of Canadian Distillers, COSA, Distillers and Heineken, Frontline, Ingot, ISS, IScarc, Nacara, Senova, State Monopolies, TRAC, Icado and other third party providers.
7. No discretion was exercised by the Remuneration Committee in determining the AIP outcome.

Long-term incentive plans (LTIP) vesting in 2023 (audited)

Long-term incentive awards are made under the Diageo Long-Term Incentive Plan (LTIP), which was approved by shareholders at the AGM in September 2014, which will be presented for shareholder renewal at the AGM in September 2023. Awards are designed to incentivise Executive Directors and senior managers to deliver long-term sustainable performance and are subject to performance conditions measured over a three-year period. Awards are granted on an annual basis in both performance share and share option. Awards granted to Executive Directors vest at 20% of maximum for threshold performance, and 100% of the award will vest if the performance conditions are met in full, with a straight-line payout between threshold and maximum.

Share options – granted in September 2020, vesting in September 2023 (audited)

In September 2020, Ivan Menezes and Debra Crew (although not an Executive Director at the time of grant) received option awards over shares in ADRs under the DTLP with an exercise price of $133.88. The award was subject to a performance condition assessed over a three-year period based on the achievement of the following equally weighted performance measures:

- Relative total shareholder return (TSR) ranked against the TSR of a peer group of international drinks and consumer goods companies; and
- Cumulative free cash flow (FCF)

The vesting profile for grants to Executive Directors for relative TSR is shown below:

<table>
<thead>
<tr>
<th>TSR ranking (out of 17)</th>
<th>Vesting (% max)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st 65%</td>
<td>100%</td>
</tr>
<tr>
<td>2nd to 3rd 55%</td>
<td>100%</td>
</tr>
<tr>
<td>4th-6th 45%</td>
<td>65%</td>
</tr>
<tr>
<td>7th-9th 20%</td>
<td>5%</td>
</tr>
<tr>
<td>10th or below 0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Risk weighting for grants to Executive Directors for relative TSR is shown below:

<table>
<thead>
<tr>
<th>TSR weighting (out of 17)</th>
<th>Weighting (% max)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st 65%</td>
<td>100%</td>
</tr>
<tr>
<td>2nd to 3rd 55%</td>
<td>85%</td>
</tr>
<tr>
<td>4th-6th 45%</td>
<td>65%</td>
</tr>
<tr>
<td>7th-9th 20%</td>
<td>5%</td>
</tr>
<tr>
<td>10th or below 0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Performance shares – awarded in September 2020, vesting in September 2023 (audited)

In September 2020, Ivan Menezes, Debra Crew and Lavanya Chandrashekar (Ms Crew and Ms Chandrashekar were not Executive Directors at the time of grant) received performance share awards under the DTLP. Awards vest after a three-year period subject to the achievement of the following equally weighted performance measures:

- Organic Net Sales Value (NSV) growth (weighted 40%)
- Profit Before Exceptional items and Tax (PBT) growth (weighted 40%)
- ESG measures (water efficiency, carbon reduction, positive drinking & diversity & inclusion) (weighted 20%)

Notional dividends accrue on awards and are paid out either in cash or shares on the number of shares which vest.
Summary of performance share awards and options vested (audited)

<table>
<thead>
<tr>
<th>Award</th>
<th>Performance shares</th>
<th>Share options</th>
<th>Debra Crew Performance shares</th>
<th>Lavanya Chandrashekar Performance shares</th>
<th>Option price</th>
<th>Award price</th>
<th>Divested shares</th>
<th>Estimated value (2023)</th>
<th>Estimated value (2024)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award Date</td>
<td>03/09/2020</td>
<td>03/09/2020</td>
<td>03/09/2020</td>
<td>03/09/2020</td>
<td>$178.52</td>
<td>$133.88</td>
<td>$178.52</td>
<td>$133.88</td>
<td>$133.88</td>
</tr>
<tr>
<td>Awarded (000)</td>
<td>43,377</td>
<td>43,377</td>
<td>43,377</td>
<td>43,377</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Vested (%)</td>
<td>98.7%</td>
<td>98.9%</td>
<td>98.9%</td>
<td>98.9%</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Divested shares</td>
<td>27,911</td>
<td>27,911</td>
<td>27,911</td>
<td>27,911</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Estimated value (2023)</td>
<td>$10,011</td>
<td>$10,011</td>
<td>$10,011</td>
<td>$10,011</td>
<td>$7,614</td>
<td>$7,614</td>
<td>$7,614</td>
<td>$7,614</td>
<td>$7,614</td>
</tr>
<tr>
<td>Estimated value (2024)</td>
<td>$10,011</td>
<td>$10,011</td>
<td>$10,011</td>
<td>$10,011</td>
<td>$7,614</td>
<td>$7,614</td>
<td>$7,614</td>
<td>$7,614</td>
<td>$7,614</td>
</tr>
</tbody>
</table>

(1) The total long-term incentives value shown in the single figure of remuneration on page 139 is split between performance share and share options in the table above and is based on an average ADR price for the last three months of the fiscal year ($178.52).
(2) The value of performance share awards and options awarded and vested included in the table above for Debra Crew are pro-rate amounts reflecting the period from 30 June to 30 June as a proportion of the three-year performance period, as shown in the single figure of remuneration on page 139. The options performance share awards carried 70% performance shares granted under the DLTIP (total award of 20,076 ADRs) and 30% performance shares granted under the Diageo (total award of 19,644 ADRs), which was granted in recognition of equity which was forfeited as joining Diageo. The share options number reflects 70% share options granted under the DLTIP (total award of 20,076 ADRs).
On 3 September 2022, Ivan Menezes, Debra Crew and Lavanya Chandrashekar received awards of performance shares and market-priced share options under the DLTIP based on a percentage of base salary as outlined below. Ms Crew was not an Executive Director at the time of grant. The three-year period over which performance will be measured is 1 July 2022 to 30 June 2025.

The performance measures and targets for awards made in September 2022 are outlined below. Net sales and profit before exceptional items and tax are key levers for driving top and bottom line growth. The free cash flow measure was selected because it represents a robust measure of cash performance consistent with typical external practice and is a key strategic priority. Total shareholder return, the only relative performance measure under the plan, provides good alignment with shareholder interests and increases the leverage based on share price growth. Finally, the environmental, social and governance (ESG) measure (20% of total performance share award), which was introduced in 2020, reinforces the stretching and strategically important goals under the ‘Society 2030: Spirit of Progress’ ambition, Diageo’s 10-year action plan to help create an inclusive and sustainable world. The definition of the ESG measures was set out on page 130 of the annual remuneration report for fiscal 22.

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>Date of grant</th>
<th>Plan</th>
<th>Performance shares</th>
<th>Options</th>
<th>Shares subject to performance</th>
<th>Share price</th>
<th>Vested</th>
<th>Dividend released</th>
<th>Lapsed</th>
<th>Total unvested share options</th>
<th>Share price</th>
<th>Shares subject to performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ivan Menezes</td>
<td>02/09/2022</td>
<td>DLTIP - share options</td>
<td>33,845</td>
<td>$176.95</td>
<td>8,930</td>
<td>ADR</td>
<td>33,845</td>
<td>$176.95</td>
<td>8,930</td>
<td>8,930</td>
<td>ADR</td>
<td>33,845</td>
</tr>
<tr>
<td>Debra Crew</td>
<td>02/09/2022</td>
<td>DLTIP - performance shares</td>
<td>26,629</td>
<td>$175.95</td>
<td>5,500</td>
<td>ADR</td>
<td>26,629</td>
<td>$175.95</td>
<td>5,500</td>
<td>5,500</td>
<td>ADR</td>
<td>26,629</td>
</tr>
<tr>
<td>Lavanya Chandrashekar</td>
<td>02/09/2022</td>
<td>DLTIP - performance shares</td>
<td>18,512</td>
<td>$176.95</td>
<td>3,615</td>
<td>ADR</td>
<td>18,512</td>
<td>$176.95</td>
<td>3,615</td>
<td>3,615</td>
<td>ADR</td>
<td>18,512</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The proportion of the awards outlined above that will vest will be dependent on the achievement of performance conditions and continued employment, and the actual value received may be nil. The vesting outcomes will be disclosed in the 2025 annual remuneration report.

In accordance with the plan rules, the number of performance shares and share options granted under the DLTIP was calculated by using the average closing ADR price for the last six months of the preceding financial year ($195.29). This price is used to determine the face value in the table above. In accordance with the plan rules, the exercise price was calculated using the average closing ADR price of the three days preceding the grant date ($176.95).
For unwind awards, this is the number of shares/options initially awarded. For exercisable share options, this is the number of outstanding options. All share options have an expiry date of 10 years after the date of grant.

(2) ADSs have been converted to CHDs (one CHD is equivalent to four ordinary shares) for the purpose of calculating the total number of vested and unwind shares and options.

(3) The total number of share options granted under the DLTIP in September 2017, 2018 and 2019 showing as outstanding as at 30 June 2023 are vested but unwound share options.

(4) Performance shares and share options granted under the DLTIP in September 2020 and due to vest in September 2023 are included here as unvested share awards subject to performance conditions, although the awards have also been included in the single figure of remuneration table on page 139, since the performance period ended during the year ended 30 June 2023.

(5) Details of the performance conditions attached to DLTIP and DESAP awards of performance shares and share options granted in 2020 are organic net sales growth (4%-8%), organic growth in profit before exceptional items and tax (4.5%-12%), reduction in greenhouse gas emissions (19.1%-27%), improvement in water efficiency (5.0%-7.1%), changing attitudes on dangers of underage drinking (2.6m-4.0m), % of female leaders (45%-47%), % of ethnically diverse leaders (39%-41%), cumulative free cash flow (£5,093m-$5,288m) and relative total shareholder return (median+upper quartile).

(6) Details of the performance conditions attached to DLTIP awards of performance shares and share options granted in 2021 are organic net sales growth (5.5%-8.5%), organic growth in profit before exceptional items and tax (5.0%-9.0%), reduction in greenhouse gas emissions (5.0%-7.1%), improvement in water efficiency (6.3%-9.2%), changing attitudes on dangers of underage drinking (3.3m-7.9m), % of female leaders (36%-46%), % of ethnically diverse leaders (39%-41%), cumulative free cash flow ($6,020m-$9,238m) and relative total shareholder return (median upper quartile).

(7) The performance shares awarded to Debra Crew in 2020 under the Diageo Exceptional Stock Award Plan (DESAP) were granted in recognition of equity which was forfeited on joining Diageo in 2020 and have the same performance measures and targets as the 2020 DLTIP performance shares (see footnote 5). Debra Crew was granted a number of restricted stock units under the DESAP in March 2022 for incentive and retention purposes. The DESAP performance shares will vest based on a performance hurdle of winning at least 15% of total F26 for awards due to vest in September 2027 and F25-F27 for awards due to vest in September 2028. The DESAP restricted stock units vest subject to continued employment up to the vesting date.

(8) In accordance with the policy and plan rules treatment on death-in-service, the 2020, 2021 and 2022 awards for Ivan Menezes vested early on 2 August 2023 based on an assessment of performance as at 30 June 2023. Further information can be found on page 150.

(9) The Free Cash Flow (FCF) performance targets for both the 2021 and 2022 DLTIP awards have been restated in USD following the change in functional currency. More details can be found on page 36.

Notes
(1) Each person listed beneficially owns less than 1% of Diageo’s ordinary shares. Ordinary shares held by Directors have the same voting rights as all other ordinary shares.

(2) Any change in shareholding between the end of the financial year on 30 June 2023 and the last practicable date before publication of this report, being 26 July 2023, is outlined in the table above.

(3) Both the shareholding requirement and shareholding at 26 July 2023 are expressed as a percentage of base salary on 30 June 2023 and calculated using a threemonth average share price for period ending 30 June 2023 of £22.5. The table above shows the number of shares then held, times the average share price for period ending 30 June 2023 of £22.5.

(4) In addition to the number of shares reported in the table above, Ivan Menezes’s estate holds 109,240 vested but unwound share options.

(5) Lavanya Chandrashekar’s 2022 Deferred Bonus Plan Shares (1,698 CHDs) are included in the share interest shown above.

(6) In addition to the number of shares reported in the table above, Lavanya Chandrashekar holds 13,585 vested but unwound share options.

(7) Javier Ferrán, Ivan Menezes, Debra Crew, Lavanya Chandrashekar and Susan Kilsby have share interests in ADRs (one ADR is equivalent to four ordinary shares). The share interests in ADRs (one ADR is equivalent to four ordinary shares) of the company are shown in the table below.

(8) Debra Crew joined Diageo in 2020 and her first tranche of Diageo share awards will vest in September 2022.
The graph below shows the total shareholder return for Diageo plc and the FTSE 100 Index since 30 June 2013 and demonstrates the relationship between pay and performance for the Chief Executive, using current and previously published single total remuneration figures. The FTSE 100 Index has been chosen because it is a widely recognised performance benchmark for large companies in the United Kingdom.

Remuneration for the wider workforce and CEO pay ratio

Alignment of Executive pay with the wider workforce

There is clear alignment in the approach to pay for executives and the wider workforce in the way that remuneration principles are followed, as well as the mechanics of the salary review process and incentive plan design, which are broadly consistent throughout the organisation. There is a strong focus on performance-related pay, and the performance measures under the annual incentive plan and long-term incentive plan are the same for executives and other eligible employees. The reward packages for Executive Directors is consistent with that of the senior management population, however, a much higher proportion of total remuneration for the Executive Directors is linked to business performance, compared to the rest of the workforce.

Methodology

Consistent with the approach for Diageo’s disclosure in previous years, the methodology used to identify the employees at each quintile for 2023 is Option A, as defined in the regulations. We believe this is the most robust and accurate approach, and is in line with shareholder expectations.

Total full-time equivalent remuneration for employees reflects all pay and benefits received by an individual in respect of the relevant year and has, other than where noted below, been calculated in line with the methodology for the ‘single figure of remuneration’ for the Chief Executive (shown on page 139 of this report). The total remuneration calculations were based on data as at 30 June 2023. Actual remuneration was converted into the full-time equivalent for the role and by prorating earnings to reflect full-time contractual working hours and these figures were then ranked to identify the employees sitting at the percentiles. To ensure that the total remuneration for the selected median, 25th and 75th percentile employee is as close to the publication of the Annual Report, the Diageo Group business multiple, which is applicable to the majority of UK employees, has been used to estimate a year-end valuing date.

Inclusion of employees outside of this group would require a complex simulation of full-time annual remuneration based on a number of assumptions and would not have a meaningful impact on the results.

Point to note for the year ended 30 June 2023

Diageo has delivered a strong set of results for fiscal 23 during a period of volatility, however, it has been due to market sentiment, investor sentiment, and the performance of our employees. In the last 2020 fiscal year, the company had a strong performance, and the company has shown a strong performance in the current fiscal year.

CEO total remuneration and TSR performance

The graph below shows the total shareholder return for Diageo plc and the FTSE 100 Index since 30 June 2013 and demonstrates the relationship between pay and performance for the Chief Executive, using current and previously published single total remuneration figures. The FTSE 100 Index has been chosen because it is a widely recognised performance benchmark for large companies in the United Kingdom.
which year last year was which made up for the lower bonus outcome this year and resulted in a higher value used for the Chief Executive's remuneration. However, total remuneration for employees is reduced by the lower bonus outcome for fiscal 21 relative to fiscal 22.

Change in pay for Directors compared to wider workforce

The table below shows the percentage change in Directors' remuneration and average remuneration of employees on an annual basis. Given the smaller size of Diageo plc’s workforce, data for all employees of the group has also been included.

Non-Executive Directors

1. Taxable benefits include a product allowance and expense reimbursements relating to travel, accommodation and subsistence in connection with attendance at Board meetings during the year.
2. Calculated by dividing dollar cost related to salaries, bonuses and benefits by the average number of employees on a full-time equivalent basis, as disclosed in note 3 to the financial statements under staff costs and average number of employees on page 119, but reduced to exclude the inclusion of Executive Directors in reported figures. The salary, bonus and benefits costs used for this calculation reflect the seniority of the roles and salaries/salary disclosures in the note. The salary data used for the calculation reflect the benefits earned in relation to performance during the financial year.
3. Includes tax-allowable shares but excludes the market value of unvested long-term incentive awards for fiscal 21.
4. Figures are as of the date of death (already vested options) or the date of vesting (options vesting early on 2 August 2023), the awards, measured over the shortened period, on the basis that the information is regarded as commercially sensitive. SESOP options will be respectively, calculated based on the average Diageo ADR share price over the three months from 1 April 2023 to 30 June 2023 of $178.52. The calculations are as of the date of the board meeting on 6 June 2023.
5. Figures have been restated to account for the inclusion of Executive Directors in reported figures. The salary, bonus and benefits costs used for this calculation reflect the seniority of the roles and salaries/salary disclosures in the note. The salary data used for the calculation reflect the benefits earned in relation to performance during the financial year.
6. The increase in benefits value in fiscal 23 relates to an increase in travel expenses due to more in-person meetings taking place in fiscal 23.
7. The year-on-year percentage change for Ivan Menezes for 2023 is not included as we are not reporting full year values for 2023.
8. The year-on-year percentage change for Ivan Menezes for 2023 is not included as we are not reporting full year values for 2023.
9. The year-on-year percentage change for Ivan Menezes for 2023 is not included as we are not reporting full year values for 2023.
10. The year-on-year percentage change for Ivan Menezes for 2023 is not included as we are not reporting full year values for 2023.
11. The year-on-year percentage change for Ivan Menezes for 2023 is not included as we are not reporting full year values for 2023.

Single total figure of remuneration for Non-Executive Directors’ (audited)

<table>
<thead>
<tr>
<th>Non-Executive Directors</th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir Ivan Menezes</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Karen Blackett</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Valentine Choppaloupo</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Sir John Manzoni</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Lady Mendelowon</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Alan Stewart</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Iwens Vitali</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

(1) Includes all UK-based employees employed by Diageo plc. Their remuneration has been calculated in line with the approach used for the CEO pay ratio calculation and the average year-on-year change has been reported. Only those employees employed for the full financial year have been included in calculations.
(2) Calculated by dividing dollar cost related to salaries, bonuses and benefits by the average number of employees on a full-time equivalent basis, as disclosed in note 3 to the financial statements under staff costs and average number of employees on page 119, but reduced to exclude the inclusion of Executive Directors in reported figures. The salary, bonus and benefits costs used for this calculation reflect the seniority of the roles and salaries/salary disclosures in the note. The salary data used for the calculation reflect the benefits earned in relation to performance during the financial year.
(3) Includes tax-allowable shares but excludes the market value of unvested long-term incentive awards for fiscal 21.
(4) Includes tax-allowable shares but excludes the market value of unvested long-term incentive awards for fiscal 21.
(5) Some figures add up to slightly different totals due to rounding.
(6) The year-on-year percentage change for Ivan Menezes for 2023 is not included as we are not reporting full year values for 2023.
(7) The year-on-year percentage change for Ivan Menezes for 2023 is not included as we are not reporting full year values for 2023.

Payments to former Directors (audited)

There were no payments to former Directors in the year ended 30 June 2023.

For the year ended 30 June 2023

Details of Sir Ivan Menezes’ salary, benefits and bonus payable up to and including the date of his death, which was also his last day of employment (6 June 2023) are set out in the single total figure table on page 119.

Sir Ivan’s unvested long-term incentive awards granted in 2020, 2021 and 2022 vested early on 2 August 2023 in accordance with the treatment provided by the company on behalf of the Directors. Non-taxable expense reimbursements have not been included in the single figure of remuneration table above.

The Chairman also approved an increase in the base fee for Non-Executive Directors of 3% (from £101,000 to £104,000), effective 1 October 2022.

The company will provide tax support up to a maximum annual amount of £28,000 (excl. VAT) for fees incurred in connection with UK and US tax return submissions up to and including the 2023 US tax return and the 2023/24 UK tax return, which are the final returns required to be submitted on behalf of Sir Ivan before tax filings become a matter for his estate. Upon death in-service, a life assurance benefit of $3 million becomes payable by the insurance provider and Sir Ivan’s pension benefits will be treated in accordance with the terms of the relevant pension scheme.
Looking ahead to 2024

Salary increases for the year ending 30 June 2024

The Remuneration Committee reviewed base salaries for Executive Committee members and agreed the following increase for the Chief Financial Officer, effective 1 October 2023.

Debra Crew’s salary for the CEO role became effective when she was appointed as interim CEO on 5 June 2023. Her next salary review will be in October 2024.

Annual incentive design for the year ending 30 June 2024

The measures and targets for the annual incentive plan are reviewed annually by the Remuneration Committee and are carefully chosen to drive financial and individual business performance goals related to the company’s short-term strategic operational objectives. The plan design for Executive Directors for the year ending 30 June 2024 will comprise the following performance measures and weightings (no change from last year), with targets set for the full financial year:

- net sales (% growth) (26.6% weighting): a key performance measure of year-on-year growth to target to deliver to shareholders through increases in share price and dividend income not including exceptional items or extraordinary transactions
- operating profit (% growth) (26.6% weighting): stretching profit targets drive operational efficiency and influence the level of returns that can be delivered to shareholders through increases in share price and dividend income not including exceptional items or extraordinary transactions
- operating cash conversion (26.6% weighting): ensures focus on efficient cash delivery at the end of the year and individual business objectives (20% weighting): measurable deliverables that are specific to the individual and are focused on supporting the delivery of key strategic objectives.

The Committee has discretion to adjust the payout to reflect underlying business performance and any other relevant factors.

Details of the targets for the year ending 30 June 2024 will be disclosed retrospectively in next year’s annual report on remuneration, by which time they will no longer be deemed commercially sensitive by the Board.

The annual incentive opportunity for Executive Directors will remain the same as last year, with increases to all of their individual business objectives.

Long-term incentive awards to be made in the year ending 30 June 2024

The long-term incentive plan measures are reviewed annually by the Remuneration Committee and are selected to reward long-term performance share (60% weighting) and share options (40% weighting) in performance-based share options. It is intended that a DLTIP award to the equivalent of 50% of base salary will be made to Debra Crew in September 2023, comprising 375% of salary in performance shares and the equivalent of 125% of salary in market price performance-based share options. It is intended that a DLTIP award to the equivalent of 40% of salary will be made to Lavanya Chandrashekar in September 2023, comprising 340% of salary in performance shares and the equivalent of 120% of salary in market price share options. Performance share equivalents, one market price option is valued at one-third of a performance share.

The table below summarises the annual DLTIP awards to Debra Crew and Lavanya Chandrashekar to be made in September 2023. Based on stretching targets against the key performance measures as outlined in the table on page 153, assessed over a three-year performance period. The total relative shareholder return measure is based on the same constituent group and vesting schedule as outlined on page 141.

The performance share element of the DLTIP applies to the Executive Committee and the top level of senior leaders across the organization worldwide, whilst the share option element is applicable to a much smaller population comprising only members of the Executive Committee. One market price performance-based option is valued at one-third of a performance share.

The ESG measures in the DLTIP comprise four goals reflecting the Society 2020: Spirit of Progress strategy, to make a positive impact on the environment and society. Each goal is weighted equally:

- reduction in greenhouse gas emissions in our direct operations (scope 1&2);
- improvement in the water efficiency index;
- number of people who confirm changed attitudes to the dangers of underage drinking after participating in a Diageo-supported education programme; and
- inclusion and diversity (percentage of female leaders globally and percentage of ethnically diverse leaders globally).

From fiscal 24, the water efficiency KPI under the ‘Society 2023: Progress of Progress’ goals will use an index approach which links directly to the underlying water efficiency of the two production pillars of distillation and brewing & packaging. This methodology is described further on page 79 and the water efficiency component of the 2023 DLTIP awards reflects the updated Society 2030: Spirit of Progress KPI.

Share options

<table>
<thead>
<tr>
<th>Grant value (% salary)</th>
<th>Long-term incentive award to Debra Crew</th>
<th>Long-term incentive award to Lavanya Chandrashekar</th>
</tr>
</thead>
<tbody>
<tr>
<td>150%</td>
<td>$1,044</td>
<td>$1,004</td>
</tr>
<tr>
<td>125%</td>
<td>$990</td>
<td>$960</td>
</tr>
<tr>
<td>100%</td>
<td>$825</td>
<td>$800</td>
</tr>
<tr>
<td>75%</td>
<td>$555</td>
<td>$530</td>
</tr>
</tbody>
</table>

Performance conditions for long-term incentive awards to be made in the year ending 30 June 2024

Performance targets drive operational efficiency and influence the level of returns which may incur in the course of acting as Directors or Company Secretary (as applicable) of Diageo plc or of one or more of its subsidiaries. These indemnities continue to be in place at 30 June 2023.

Additional information

Key management personnel related party transactions (audited)

Key management personnel of the group comprises the Executive and Non-Executive Directors, the members of the Executive Committee and the Company Secretary.

Diageo plc has granted rolling indemnities to the Directors and the Company Secretary, uncapped in amount, in relation to certain losses and liabilities which they may incur in the course of acting as Directors or Company Secretary (as applicable) of Diageo plc or of one or more of its subsidiaries. These indemnities continue to be in place at 30 June 2023.

Statutory and audit requirements

This report was approved by a duly authorised Committee of the Board of Directors and was signed on its behalf on 31 July 2023 by Susan Kilsby who is Chair of the Remuneration Committee.

The Board has followed the principles of good governance as set out in the UK Corporate Governance Code and complied with the regulations contained in the Schedule B of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules of the Financial Conduct Authority and the relevant schedules of the Companies Act 2006.

PwC has audited the report to the extent required by the regulations, being the sections headed Single total figure of remuneration for Executive Directors [and noted], Payments to former Directors, Payments for loss of office, Annual incentive plan [AIP] pays out for 2023, Long-term incentive plans (DLTIP) vesting in 2023, Pensions and benefits, Directors’ shareholding requirement and share interests, Outstanding share plan interests, Non-Executive Directors’ remuneration and Key management personnel related party transactions.

The annual remuneration report is subject to an advisory vote by shareholders at the AGM on 28 September 2023. The Directors’ remuneration policy is subject to a binding vote by shareholders at the AGM on 28 September 2023. Terms defined in this Directors’ remuneration report are used solely herein.
**Directors’ report**

The Directors present the Directors’ report for the year ended 30 June 2023.

**Company status**

Diageo plc is a public limited liability company incorporated in England and Wales with registered office and principal place of business at 1 Great Maritime Street, London W1F 7HS, United Kingdom. The company’s telephone number is +44 (0) 20 3977 4000. The Company’s agent in the United States is General Counsel, Diageo North America Inc., 175 Greenwich Street, 3 World Trade Center, New York, NY 10007, United States. The company was incorporated on 27 October 1886. It is the ultimate holding company of the group, a full list of whose subsidiaries, partnerships, associates, joint ventures and business arrangements is set out in note 10 to the financial statements set out on pages 224–229.

**Directors**

The Directors of the company who currently serve are shown in the section ‘Board of Directors’ on page 101 and in accordance with the UK Corporate Governance Code, all the Directors will retire by rotation at the AGM and offer themselves for re-election. Further details of Directors’ contracts, remuneration and their interests in the shares of the company at 30 June 2023 are given in the Directors’ remuneration report. The Directors’ powers are determined by UK legislation and Diageo’s articles of association. The Directors may exercise all the company’s powers provided that Diageo’s articles of association or applicable legislation do not stipulate that any powers must be exercised by the members.

**Auditor**

The auditor, PricewaterhouseCoopers LLP, is willing to continue in office and to be re-appointed as auditor of the company by the AGM and will be submitted to the AGM.

**Disclosure of information to the auditor**

In accordance with Section 418 of the Companies Act 2006, the Directors who held office at the date of approval of this Directors’ report confirm that, so far as they are each aware, there is no relevant audit information of which the Directors are each aware and which Diageo plc, its subsidiaries or any other person or entity (or group of affiliated persons or entities) holds directly or indirectly more than 3% of the voting rights in the company.

**Corporate governance statement**


**Significant agreements – change of control**

The following table sets out (1) the major agreements (Indirect holding) and (2) the provisions of the Master Agreement (direct holding) governing the control of a change of control (as defined in the ADR Agreement) in respect of the company.

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of ordinary shares [including treasury shares]</th>
<th>Percentage</th>
<th>Date of institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlackRock Investment Management (UK) Limited</td>
<td>147,296,928</td>
<td>5.89%</td>
<td>3 December 2009</td>
</tr>
<tr>
<td>Capital &amp; Management Company (Indirect holding)</td>
<td>134,653,076</td>
<td>4.99%</td>
<td>28 April 2009</td>
</tr>
<tr>
<td>Massachusetts Financial Services Company (Indirect holding)</td>
<td>194,036,646</td>
<td>4.95%</td>
<td>1 June 2022</td>
</tr>
</tbody>
</table>

**Related party transactions**

Transactions with related parties are disclosed in note 20 to the consolidated financial statements.

**Major shareholdings**

At 30 June 2023, the following substantial interests (3% or more) in the company’s ordinary share capital (voting securities) had been notified to the company:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of ordinary shares [including treasury shares]</th>
<th>Percentage</th>
<th>Date of institution</th>
</tr>
</thead>
<tbody>
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<tr>
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<td>194,036,646</td>
<td>4.95%</td>
<td>1 June 2022</td>
</tr>
</tbody>
</table>

**Employment policies**

A key strategic imperative of the company is to attract, retain and grow a pool of diverse, talented employees. Diageo recognises that a diverse and inclusive workforce in its workplace and communities will provide a competitive advantage. To enable this, the company has various initiatives to encourage gender, cultural and ethnic diversity, focusing on practices and policies to improve gender, cultural and ethnic diversity, focusing on practices and policies to improve employee engagement and effectiveness of the company.

**Direct and indirect payments by the Depositary**

The Depositary reimburses Diageo for certain expenses it incurs in connection with the ADR programme, subject to a ceiling set out in the Deposit Agreement pursuant to which the Depositary provides services to Diageo. The Depositary has also agreed to waive standard fees associated with the administration of the programme. Under the contractual arrangements with the Depositary, Diageo has received approximately $2.6 million arising out of fees charged in respect of dividends paid during the year and a fixed contribution to the company’s ADR programme costs. These payments are received for expenses relating to (i) custodianship fees and expenses, third-party service fees and expenses, relations consultant fees and expenses, Diageo’s cost for administration of the ADR programme costs (including, without limitation, fees and expenses related to the issuance of ADSs; delivery of cash dividends or other cash distributions (i.e. sale of rights and other entitlements); distribution of ADSs pursuant to stock dividends or other stock distributions, or even stock rights to purchase additional ADSs; distribution of securities other than ADSs or rights to purchase additional ADSs (i.e. spin off shares); and depositary services). Citibank N.A. is located at 388 Greenwich Street, New York, New York, 10013, United States. In addition, ADR holders may be required under the terms of the Deposit Agreement to make payments for the costs of: (i) the issuance of ADSs; (ii) any taxes, duties or other governmental charges on account of the receipt or delivery of ADSs; (iii) the deposit of ADSs; (iv) the delivery of cash dividends or other cash distributions; and (v) any other cash distribution the applicable fees and charges of, and expenses incurred by, the Depositary and any taxes, duties or other governmental charges on account of.

**Articles of association**

The company is incorporated under the name Diageo plc, and is registered in England and Wales under registered number 23307.

**Directors**

Diageo’s Articles of association provide for a board of directors, consisting (unless otherwise determined by an ordinary resolution of shareholders) of not fewer than three directors and not more than 25 members, each of whom shall be personally liable in respect of the affairs of all. Diageo are vested. Directors may be elected by the members in a general meeting by the Board or, at each annual general meeting, all the directors shall retire from office and may offer themselves for re-election by members. There is no age limit.
A shareholder is not entitled to vote at any general meeting or class meeting in respect of any share held by them if they have been served with a restriction notice (as defined in Diageo’s articles of association) after failure to provide Diageo with information concerning interests in those shares required to be provided under the Companies Acts.

Pre-emption rights and new issues of shares

While holders of ordinary shares have no pre-emptive rights under Diageo’s articles of association, the ability of the Directors to cause Diageo to issue shares, securities convertible into shares or rights to shares, otherwise than pursuant to an employee share scheme, is restricted. Under the Companies Acts, the directors of a company are, with certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company’s articles of association or given by its shareholders in a general meeting, but which in either event cannot last for more than five years. Under the Companies Acts, Diageo may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

Repurchase of shares

Subject to authorisation by special resolution, Diageo may purchase its own shares in accordance with the Companies Acts. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of Diageo’s issued share capital.

Restrictions on transfers of shares

The Board may decline to register a transfer of a certificated Diageo share unless the instrument of transfer (a) is duly stamped or certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty, and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board reasonably require, (b) is in respect of only one class of share and (c) if it relates to a joint transfer, is in favour of not more than four such transferees. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in Diageo’s articles of association) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncirculated share is to be transferred exceeds four.

The Board may decline to register a transfer of any Diageo’s certificated shares by a person with a 0.25% interest (as defined in Diageo’s articles of association) if such a person has been served with a restriction notice (as defined in Diageo’s articles of association) after failure to provide Diageo with information concerning interests in those shares required to be provided under the Companies Acts, unless the transfer is shown to the Board to be pursuant to an arm’s-length sale (as defined in Diageo’s articles of association).

A shareholder is not entitled to vote at any general meeting or class meeting in respect of any share held by them if they have been served with a restriction notice (as defined in Diageo’s articles of association) after failure to provide Diageo with information concerning interests in those shares required to be provided under the Companies Acts.

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The Board may decline to register a transfer of any Diageo’s certificated shares by a person with a 0.25% interest (as defined in Diageo’s articles of association) if such a person has been served with a restriction notice (as defined in Diageo’s articles of association) after failure to provide Diageo with information concerning interests in those shares required to be provided under the Companies Acts, unless the transfer is shown to the Board to be pursuant to an arm’s-length sale (as defined in Diageo’s articles of association).

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The Board may decline to register a transfer of any Diageo’s certificated shares by a person with a 0.25% interest (as defined in Diageo’s articles of association) if such a person has been served with a restriction notice (as defined in Diageo’s articles of association) after failure to provide Diageo with information concerning interests in those shares required to be provided under the Companies Acts, unless the transfer is shown to the Board to be pursuant to an arm’s-length sale (as defined in Diageo’s articles of association).
Financial statements

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Introduction
The group’s consolidated financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS) adopted by the UK (UK-adopted International Accounting Standards) and IFRSs as issued by the International Accounting Standards Board (IASB), give a true and fair view of the assets, liabilities, financial position and profit of the group.

The financial statements of Diageo plc (the company) are prepared in accordance with the Companies Act 2006 and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).
1. Our unmodified opinion

In our opinion:

• Diageo plc’s (“Diageo”) group financial statements and company financial statements (the “financial statements”) give a true and fair view of the state of the group’s and of the company’s affairs as at 30 June 2023 and of the group’s profit and the group’s cash flows for the year then ended;

• the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;

• the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board; and

• the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 “Reduced Disclosure Framework”, and applicable law), and

• the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Our opinion is consistent with our report to the Audit Committee.

What we audited

We have audited the financial statements, included within the Annual Report 2023 (the “Annual Report”), which comprise the consolidated and company balance sheets as at 30 June 2023, the consolidated income statement and consolidated statement of changes in comprehensive income, the consolidated statement of cash flows, and the consolidated and company statement of changes in equity for the year then ended; and the notes to the financial statements, which include an explanation of the significant accounting policies.

Basis for our opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in “The scope of an audit and our responsibility” section of this report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our independence

We remained independent of Diageo in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK which includes the Financial Reporting Council’s (“FRC”) Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided.

Other than those disclosed in note 3(b) to the group financial statements, we have provided no non-audit services to Diageo or its controlled undertakings in the period under audit.

Our independence, including the nature and size of non-audit services provided, was reviewed during the year by the Audit Committee.

2. Our audit

The scope of an audit and our responsibility

An audit has an important role in providing assurance in the financial statements that are provided by companies to their members. The scope of an audit is not fully understood. We believe it is important that you understand the scope of the audit and the concept of materiality in order to understand the assurance that this opinion provides. A description of the scope of an audit is provided on the FRC’s website at www.frc.org.uk/auditorresponsibilities; we recommend that you read this description carefully. It is also important that you understand the inherent limitations of the audit, for example:

• the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve concealment or manipulation by, for example, forgery or intimidation misrepresentations, or through collusion, and

• our audit testing includes, in a limited number of cases, testing of complete populations of certain transactions and balances, predominantly using audit data testing techniques, e.g. the testing of manual journals and the deactivation of leader accounts on key applications. However, in most cases it involves selecting a limited number of items for testing. In some situations, we target particular items for testing based on their size or other characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected. An approach based upon sampling may not identify all issues.

Our objectives are to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report to you that includes our opinion. This opinion is not over any particular number or disclosure. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions you take on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We designed procedures in line with our responsibilities, capable of detecting material misstatements caused by such irregularities, albeit these are subject to the inherent limitations discussed above. We focused on any known and potential instances of non-compliance with laws and regulations that could give rise to a material misstatement and to the risks from significant accounting estimates, but not limited to, the Companies Act 2006, the Listing Rules, internal tax legislation and anti-bribery legislation. Examples of the procedures which we performed included:

• gaining an understanding of the legal and regulatory framework applicable to Diageo and the alcoholic beverage industry, and considering the risk of acts by Diageo which are contrary to applicable laws and regulations, including fraud;

• performing inquiries of senior management, including but not limited to members of the Group Executive and regional and market chief financial officers, to identify areas of possible breaches of laws and regulations;

• reviewing correspondence with regulators, including the FRC, Security and Exchange Commission and the tax authorities in Diageo’s key markets;

• assessing matters reported through the group’s whistleblowing programme and the results of management’s investigation in so far as they related to the financial statements;

• challenging assumptions and judgements made by management in its significant accounting estimates, in particular in relation to key audit matters;

• agreeing the financial statement disclosures to underlying supporting documentation; and

• inspecting correspondence with legal advisors and internal audit reports in so far as they related to the financial statements.

We also assessed, with the involvement of members of the Audit Committee, the matters reported through the group’s whistleblowing programme, assessing the risk of management override of internal controls. We determined that the principal risks were related to posting inappropriate journal entries to, for example, suspense expenses such as trade spend to improve financial performance, and management bias in accounting estimates. We did not identify any key audit matters specific to irregularities, including fraud.

How we structured the audit scope

Partners and staff from 12 countries across the PwC network have spent more than 85,000 hours supporting this report, which in addition to the opinion provides other important information, on how we approached the audit and how it changed from the previous year.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the alcoholic beverage industry.

There were three important aspects of our work, in which they operate.

1) Audit work performed on individual business units

We received opinions from nine PwC member firms which had been appointed as the auditors of twenty-two group business units, either in relation to all of the financial information or specific accounts and balances. This included eighteen operating business units and four treasury business units. We also obtained reporting from a non-PwC member firm over the financial information of Mold Hennessy, the group’s principal associate.

In September 2022, we hosted in London an in-person meeting for senior staff from PwC member firms involved in the audit. At this meeting we considered developments specific to Diageo, key audit matters and changes to the audit necessitated by the macro-economic instability experienced during the financial year. We heard from key members of management and the Chair of the Audit Committee.

We issued formal, written instructions to each business unit audit team setting out the work to be performed by each of them. We were in active dialogue with the teams in relation to these audit instructions and were responsible for these audit instructions. We also performed work on some business units. Senior team members visited the business unit audit teams in Great Britain, Hungary, Ireland, India, Mexico, Turkey and the United States. We also visited the audit team in China to further our understanding of the group’s businesses. These gave us an opportunity to discuss the audit team’s understanding of the market and Diageo and opportunities and challenges. Senior team members also attended via video conference the final audit meetings for certain business units, including Great Britain, Turkey, and the United States. During these meetings, the financial report by the business units was discussed. We evaluated the sufficiency of the audit evidence obtained through discussions with each team and a review of the audit working papers.

2) Audit work performed at shared service centres

A significant number of operational processes which are critical to financial reporting are undertaken in the GBO captive shared service centres in Colombia, India, China, the Philippines, PwC teams in these locations tested controls and transactions which supported the financial information for many of the twenty-one business units in scope, to ensure that adequate audit evidence was obtained.

3) Audit procedures undertaken at a group level and on the company

We also performed group level work at a group level and for the company. This included auditing, for example, the consolidation of the group’s results, the preparation of the financial statements, certain disclosures within the Directors’ Remuneration Report, legislation provisions and exposures and management’s entity level and oversight controls relevant to financial reporting. We also performed work centrally for the audit of technology and IT general controls, goodwill and intangible assets, taxation, and overall integrations, including acquisitions, disposals, undertaken during the year. This work was supported by team members who are based in Budapest and Bangalore.

Collectively, these areas of work covered 73% of group net sales, 82% of group total assets, and 71% of group profit before exceptional items and tax (as defined in note 4).

In planning our audit, we continued to embrace technology and innovation in the audit process to drive quality and efficiency. We continued to examine and optimise the use of our audit tools and at first time relied on data auditing of revenue for Diageo Great Britain, testing the full population by tracing sales orders through to delivery note, invoice and ultimately the general ledger and cash. We also used artificial intelligence in the testing of some cash balances, and continued using our technology tools to enhance our scoping and risk assessment, with more targeted scoping and real time reporting by our global teams.

Changes to the audit in 2023

The audit approach remained broadly unchanged.

We considered the changing relative contribution of individual business units in determining which ones should be included within the audit scope, with the scope being determined by the nature of the group’s business in Kenya.

As required by auditing standards, our team undertook procedures which were deliberately unexpected and could not have reasonably been foreseen during our planning phase. For example, because the group had not been subject to audit procedures due to their size such as the group’s acquisition of Balkonez Distilling and rotating the inventory count locations and approach year on year. The results of these procedures were consistent with our expectations.

In executing our audit, we were particularly mindful of the changing economic and political conditions. Whilst the group delivered continued growth during the year benefiting from price increases and productivity savings, this growth has not been consistent across all business units or
achieved evenly over the year. We considered how these factors were included in future cash flows in management’s models supporting key audit areas and management's assessment of going concern.

Materiality

We considered the impact of our audit was influenced by our application of the concept of materiality. We set certain quantitative thresholds for materiality. These together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items (“TSUs”) and disclosures and in evaluating the effect of misstatements.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<table>
<thead>
<tr>
<th>Group</th>
<th>Overall materiality</th>
<th>Company materiality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£250m (2022: £239m)</td>
<td>£273m (2022: £272m)</td>
</tr>
</tbody>
</table>

For the purposes of the group audit, we increased materiality to £40m (2022: £20m), other than for those balances which were eliminated on consolidation.

We determined that the highest risk to the audit (the key audit matters) and other information on our audit approach such as our approach to specific assumptions used in the group’s impairment assessment over goodwill and brand intangibles assets, and observations on controls over financial information were included in the Annual Report 2023 on page 263. Limited assurance varies significantly and is substantially less in scope than that of our financial audit, which provides reasonable conclusions regarding going concern.

3. Our conclusions relating to going concern

Based on the work we have performed, which included understanding and evaluating the group’s financial forecasts and the stress testing of liquidity, assessing and testing risk factors that could impact the going concern basis of accounting such as the impact of an inflationary environment and testing the amounts of debt maturing during the assessment period, we have not identified any material misstatements relating to events or conditions that, individually or collectively, may cast significant doubt on the group’s and the company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

In relation to the directors’ reporting on how they have applied the UK Corporate Governance Code (“the Code”), we have nothing material to add or draw attention to in relation to the directors’ statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

4. Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The directors are responsible for the other information, which includes reporting based on the TCFD recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated, a review opinion.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is consistent with the financial statements or our knowledge obtained in the audit, or appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report on these responsibilities.

With respect to the Strategic report and directors’ report, we also considered whether the disclosures required by the UK Companies Act 2006 have been provided.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors’ report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors’ report for the year ended 30 June 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In relation to the directors’ reporting on how they have applied the UK Corporate Governance Code (“the Code”), we have nothing material to report on these responsibilities.

Corporate governance statement

The Listing Rules require us to review the directors’ statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company’s compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors’ confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an assessment of the adequacy of the company’s governance statement relating to the company’s compliance with the provisions of the UK Corporate Governance Code.

In particular, we have reviewed the company’s progress against its ‘Society 2030: Spirit of Progress’ metrics and the group’s sustainability achievements to 30 June 2023 and have identified that: 

The accuracy of Diageo’s progress against its ‘Society 2030: Spirit of Progress’ metrics set out on pages 57 - 87 is not included within the scope of this audit. We were engaged separately to provide independent limited assurance to the Directors over some of these metrics marked with the symbol ** in the Independent limited assurance report, which explains the scope of our work and the limited procedural procedures included in the Annual Report 2023 on page 263. Limited assurance varies significantly and is substantially less in scope than that of our financial audit, which provides reasonable conclusions regarding going concern.
INDEPENDENT AUDITORS’ REPORT TO THE MEMBERS OF DIAGEO PLC

The directors’ statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group’s and company’s ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

The directors’ explanation as to their assessment of the group’s and company’s prospects, the period this assessment covers and why the period was selected;

The directors’ statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors’ statement regarding the long-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors’ process supporting their statement, checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

• The directors’ statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group’s and company’s position, performance, business model and strategy;

• The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and

• The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors’ statement relating to the company’s compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

5. Exception reporting required by the Companies Act 2006

Under the Companies Act 2006 we are required to report to you if, in our opinion:

• we have not obtained all the information and explanations we require for our audit;

• adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us;

• certain disclosures of directors’ remuneration specified by law are not made; or

• the company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

6. Responsibilities of the directors for the financial statements

As explained more fully in the Directors’ responsibilities in respect of the Annual Report, Form 2DF and financial statements set out on page 116, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group’s and company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either:

• the company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

7. Use of this report

This report, including the opinions, has been prepared for and only for the company’s members as a body in accordance with Chapter 3 of Part 16 intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either

financial statements that are free from material misstatement, whether due to fraud or error.

• adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us;

• certain disclosures of directors’ remuneration specified by law are not made; or

• the company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

6. Responsibilities of the directors for the financial statements

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In preparing the financial statements, the directors are responsible for assessing the group’s and company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either:

• the company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

7. Use of this report

This report, including the opinions, has been prepared for and only for the company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Richard Oldfield (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 July 2023

Appendix: Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of potential material misstatement (whether or not due to fraud) identified by us. They include those which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the audit team. These matters, and any comments we make on the results of our procedures, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Valuation of goodwill and brand intangible assets

Nature of the Key Audit Matter

Impacted FIIS

<table>
<thead>
<tr>
<th>Year</th>
<th>Goodwill</th>
<th>Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>£2,277m</td>
<td>£2,287m</td>
</tr>
<tr>
<td>2021</td>
<td>£7,520m</td>
<td>£7,896m</td>
</tr>
</tbody>
</table>

Goodwill and brand assets have been recognised as a result of acquisitions, in the current and prior years. Diageo is required to perform testing of the recoverable amounts of these assets at least annually because they are deemed to have an indefinite life and are therefore not amortised.

Testing was primarily performed by Diageo over goodwill on a number of cash generating units (CGUs) and brands in May and impairment triggers considered up to the balance sheet date. The testing, with supporting sensitivity analyses, calculated that the unconsolidated VIU and fair values less cost of disposal and compared this amount to the carrying value. VIU was predominantly used, unless management believed that fair value less cost of disposal would result in a higher recoverable amount for any CGU or brand.

Certain CGUs and brands were identified as being sensitive to reasonable changes in significant assumptions in significant amounts and are required to be disclosed in the Annual Report.

The information in the models is dependent on various assumptions, both short term and long term in nature. These assumptions, which are subject to estimation uncertainty, are derived from a combination of management’s judgement, experts engaged by management and market data. The significant assumptions that we focused our audit on were those with greater levels of management judgement and for which variations had the most significant impact on the recoverable amounts. Specifically, these included Diageo’s strategic plans for fiscal years 2004 to 2006 including long-term growth rates, discount rates, and forecasts for volume, revenue and operating profit growth.

The discussion with the Audit Committee

We discussed with the Audit Committee the methodologies and significant assumptions used to determine the recoverable values of the goodwill in India and Turkey, the Yemeni Rials brand, and the portfolio of US (India) brands.

These discussions covered:

• the macroeconomic environment;

• the consistency of assumptions of the impact of climate change with the impacts discussed in the unaudited disclosures on pages 71-87 in response to the recommendations of the Task Force for Climate related Financial Disclosures;

• reasonably possible alternative assumptions for significant assumptions, for example, the appropriateness of discount rates relative to our independently calculated ranges; and

• the disclosures made in relation to goodwill and brand intangibles, including the use of sensitivity analysis to explain estimation uncertainty and the conditions that would result in an impairment being recognised.

How our audit addressed the Key Audit Matter

We validated the appropriateness of the CGUs selected.

We evaluated the design and operation of controls in place over the methodologies and calculation of fair value less cost of disposal and VIU for each CGU and selected the significant assumptions used.

We agreed the mathematical accuracy of the calculations, to estimate the VIU.

We evaluated the sensitivity of the significant assumptions; our testing included the following:

• challenging the achievability of management’s strategic plan and the prospects for Diageo’s businesses for the specific CGUs and brands.

• the macroeconomic environment;

• the consistency of assumptions of the impact of climate change with the impacts discussed in the unaudited disclosures on pages 71-87 in response to the recommendations of the Task Force for Climate related Financial Disclosures;

• reasonably possible alternative assumptions for significant assumptions, for example, the appropriateness of discount rates relative to our independently calculated ranges; and

• the disclosures made in relation to goodwill and brand intangibles, including the use of sensitivity analysis to explain estimation uncertainty and the conditions that would result in an impairment being recognised.

We evaluated and tested the disclosures made in the Annual Report in relation to goodwill and indefinite-lived intangibles, and considered them to be reasonable.

Relevant references in Annual Report

Note 11 - Critical accounting estimates and judgements

Note 4 - Exceptional items

Note 9 - Intangible assets

FINANCIAL STATEMENTS
Uncertain tax positions in respect of direct and indirect taxes in India and Brazil

Nature of the Key Audit Matter

<table>
<thead>
<tr>
<th>Impacted FSLIs</th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax assets</td>
<td>£222m</td>
<td>£149m</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>£135m</td>
<td>£253m</td>
</tr>
<tr>
<td>Provision for tax uncertainties</td>
<td>£173m</td>
<td>£156m</td>
</tr>
</tbody>
</table>

The group operates across a large number of jurisdictions and in the normal course of business is subject to periodic challenges by tax authorities on a range of matters, including transfer pricing, direct and indirect taxes, and transaction related matters. In common with all global companies, taxation is particularly challenging because of specific alcohol duties and the international distribution of certain brands.

Diageo makes judgements in assessing the likelihood of potentially material exposures, develops estimates to determine provisions where required, and considers whether contingent liability disclosures should be made. Of particular significance are direct and indirect tax assessments in developing markets and assessments relating to financing and transfer pricing arrangements. The impact of a more aggressive tax stance by tax authorities to deal with government financing requirements following the Covid pandemic, and, in certain instances, changes in local tax regulations together with ongoing inspections by local tax authorities could materially impact the amounts recorded in the group’s financial statements.

The discussion with the Audit Committee

We discussed with the Audit Committee the judgements taken by management in assessing the risk of a potentially material exposure, and the significant assumptions used by management in determining the level of direct and indirect tax provisioning. Our discussions specifically covered matters in Brazil and India. We also discussed the disclosures, including those made in note 7 and note 19 to the Annual Report.

How we addressed the Key Audit Matter

We evaluated the design and implementation of controls to identify uncertain tax positions related to direct and indirect taxes, and the related accounting policy for providing for and disclosing tax exposures.

PwC tax specialists gained an understanding of the current status of tax assessments and investigations and monitored developments in ongoing disputes. We read recent rulings and correspondence with tax authorities, as well as external advice provided by the group’s tax experts and legal advisors to satisfy ourselves that the tax provisions had been appropriately recorded or adjusted to reflect the latest developments.

Where the basis for the conclusion reached was less clear, we challenged the advice from legal advisors and tax experts on how their view was reached. We also challenged management’s key assumptions.

Relevant references in Annual Report

Note 1(a) - Critical accounting estimates and judgements
Note 7 - Taxation
Note 4 - Exceptional items
Note 15 - Working capital
Note 5 - Finance income and charges
Note 19 - Contingent liabilities and legal proceedings

Impacted FSLIs

Post-employment benefit plan: assets (Group) £6,846m
Post-employment benefit plan: assets (Company) £8,399m
Post-employment benefit plan: liabilities (Group) £4,041m
Provision for tax uncertainties £6,252m
Post-employment benefit plan: liabilities (Company) £4,041m

The most significant post-employment schemes are within the United Kingdom, Ireland and the United States; all of which are in a net surplus position as at 30 June 2023.

Within the UK and Ireland pension schemes, the group invests in pension investment vehicles (PIVs) which are increasingly complex to value and in the current environment are experiencing a significant amount of volatility.

The valuation of pension plan liabilities is dependent on a number of actuarial assumptions. Management uses external actuaries to assist in determining these assumptions, and to determine the valuation of the defined benefit obligation. The experts use valuation methodologies that require a number of market-based inputs and other financial and demographic assumptions, including salary increases, mortality rates, discount rates, inflation levels and the impact of any changes in individual pension plans. The significant assumptions that we focused on were those with greater levels of management judgement, and for which variations had the most significant impact on the liabilities.

Specifically, these included the discount rates, inflation rates and mortality rates.

The discussion with the Audit Committee

We discussed with the Audit Committee the methodologies and significant assumptions used by management to determine the value of the defined benefit assets and liabilities for the significant plans. We have performed our procedures over the following:

- the valuation of pension investment vehicles by sending confirmation requests to investment managers and custodians and reperforming the valuation calculations; and
- the methodology used by management’s experts to update key assumptions used in calculating the defined benefit obligations, including changes to discount rates reflecting inflationary pressure in the year and updates to mortality assumptions for the UK and Irish schemes in line with the Continuous Mortality Investigation (“CMI”) model published at the year end.

How our audit addressed the Key Audit Matter

We evaluated the design and implementation of controls in place over both the pension investments and defined benefit pension obligations. We also evaluated the objectivity and competence of Diageo’s experts involved in the valuation of the defined benefit obligations.

We have confirmed the year end valuation of pension assets, including investments in pension investment vehicles, with both investment managers and custodians, and reperformed the year end valuation calculations of these assets. In addition, we have reviewed the latest service organisation reports for the pension managers in order to determine the effectiveness of controls they operate related to investment valuation.

Our actuarial experts assessed the appropriateness of the methodology used to estimate the liabilities, and to review the calculations prepared by Diageo’s actuarial experts. They also understood the judgments made by Diageo and their actuarial experts in determining the significant assumptions, and compared these assumptions to our independently compiled expected ranges based on market observable indices, relevant national and industry benchmarks, and our market experience, for the significant plans.

Based on our procedures, we considered management’s significant assumptions to be within reasonable ranges. We evaluated and tested the related disclosures in relation to the defined benefit obligation, and considered them to be reasonable.

Relevant references in Annual Report

Note 1(a) - Critical accounting estimates and judgements
Note 14 - Post-employment benefits (Group)
Note 6 - Post-employment benefits (Company)
## Consolidated income statement

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 30 June 2023</th>
<th>Year ended 30 June 2022</th>
<th>Year ended 30 June 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>23,515</td>
<td>22,448</td>
<td>19,153</td>
</tr>
<tr>
<td>Excise duties</td>
<td>(6,402)</td>
<td>(6,996)</td>
<td>(6,420)</td>
</tr>
<tr>
<td>Net sales</td>
<td>17,113</td>
<td>15,452</td>
<td>12,733</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(6,899)</td>
<td>(5,973)</td>
<td>(5,038)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>10,214</td>
<td>9,479</td>
<td>7,695</td>
</tr>
<tr>
<td>Marketing</td>
<td>(3,051)</td>
<td>(2,721)</td>
<td>(2,163)</td>
</tr>
<tr>
<td>Other operating items</td>
<td>(2,531)</td>
<td>(2,349)</td>
<td>(1,801)</td>
</tr>
<tr>
<td>Operating profit</td>
<td>4,632</td>
<td>4,409</td>
<td>3,731</td>
</tr>
<tr>
<td>Non-operating items</td>
<td>4</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>Finance income</td>
<td>340</td>
<td>497</td>
<td>278</td>
</tr>
<tr>
<td>Finance charges</td>
<td>(934)</td>
<td>(919)</td>
<td>(651)</td>
</tr>
<tr>
<td>Share of after tax results of associates and joint ventures</td>
<td>370</td>
<td>417</td>
<td>334</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>4,736</td>
<td>4,387</td>
<td>3,706</td>
</tr>
<tr>
<td>Taxation</td>
<td>(970)</td>
<td>(1,049)</td>
<td>(907)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>3,766</td>
<td>3,338</td>
<td>2,799</td>
</tr>
<tr>
<td>Weighted average number of shares</td>
<td>2,271</td>
<td>2,305</td>
<td>2,345</td>
</tr>
<tr>
<td>Shares in issue excluding own shares</td>
<td>2,264</td>
<td>2,318</td>
<td>2,337</td>
</tr>
<tr>
<td>Dilutive potential ordinary shares</td>
<td>7</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>164.9</td>
<td>142.2</td>
<td>113.8</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>164.4</td>
<td>139.7</td>
<td>113.4</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 30 June 2023</th>
<th>Year ended 30 June 2022</th>
<th>Year ended 30 June 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that will not be recycled subsequently to the income statement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net remeasurement of post employment benefit plans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>(643)</td>
<td>616</td>
<td>16</td>
</tr>
<tr>
<td>Associates and joint ventures</td>
<td>13</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax on post employment benefit plans</td>
<td>(123)</td>
<td>(132)</td>
<td>(46)</td>
</tr>
<tr>
<td>Changes in the fair value of equity investments at fair value through other comprehensive income</td>
<td>(4)</td>
<td>(12)</td>
<td></td>
</tr>
<tr>
<td>Items that may be recycled subsequently to the income statement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange differences on translation of foreign operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>1,128</td>
<td>(1,233)</td>
<td></td>
</tr>
<tr>
<td>Associates and joint ventures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment hedges</td>
<td>(41)</td>
<td>810</td>
<td></td>
</tr>
<tr>
<td>Exchange (gain)/loss recycled to the income statement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On disposal of foreign operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On step acquisitions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax on exchange differences – group</td>
<td>(6)</td>
<td>(9)</td>
<td></td>
</tr>
<tr>
<td>Tax on exchange differences – non-controlling interests</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective portion of changes in fair value of cash flow hedges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge of foreign currency debt of the group</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>233</td>
<td>(319)</td>
<td></td>
</tr>
<tr>
<td>Hedges by associates and joint ventures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity price risk hedging of the group</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recycled to income statement – hedge of foreign currency debt of the group</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recycled to income statement – transaction exposure hedging of the group</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recycled to income statement – commodity price risk hedging of the group</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax on effective portion of changes in fair value of cash flow hedges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hyperinflation adjustments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax on hyperinflation adjustments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive (loss)/income, net of tax, for the year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>2,964</td>
<td>4,820</td>
<td>1,934</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>2,964</td>
<td>4,820</td>
<td>1,934</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
FINANCIAL STATEMENTS continued

**Consolidated balance sheet**

<table>
<thead>
<tr>
<th>30 June 2023</th>
<th>30 June 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>£ million</td>
<td>£ million</td>
</tr>
</tbody>
</table>

**Non-current assets**

- Intangible assets 9
- Property, plant and equipment 10
- Biological assets 11
- Investments in associates and joint ventures 6
- Other investments 13
- Other receivables 15
- Other financial assets 16
- Deferred tax assets 7
- Post employment benefit assets 14

**Current assets**

- Inventories 15
- Trade and other receivables 15
- Corporate tax receivables 7
- Assets held for sale 8
- Other financial assets 16
- Cash and cash equivalents 17

**Intangible assets** 9

**Non-current assets**

- Biological assets 11
- Investments in associates and joint ventures 6
- Other investments 13
- Other receivables 15
- Other financial assets 16
- Deferred tax assets 7
- Post employment benefit assets 14

**Post employment benefit assets** 14

- **Total assets** 9,292
- **Net assets** 9,292

**Equity**

- **Share capital** 18
- **Share premium** 18
- **Other reserves** 1,861
- **Retained earnings** 3,958
- **Equity attributable to equity shareholders of the parent company**

**Non-controlling interests** 18

- **Total equity** 9,292

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity**

<table>
<thead>
<tr>
<th>30 June 2023</th>
<th>30 June 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>£ million</td>
<td>£ million</td>
</tr>
</tbody>
</table>

**Equity**

- **Share capital** 18
- **Share premium** 18
- **Other reserves** 1,861
- **Retained earnings** 3,958

**Equity attributable to equity shareholders of the parent company**

- **Non-controlling interests** 18

- **Total equity** 9,292

The accompanying notes are an integral part of these consolidated financial statements.
FINANCIAL STATEMENTS continued

Consolidated statement of cash flows

<table>
<thead>
<tr>
<th>Year ended 30 June 2023</th>
<th>Year ended 30 June 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>£ million</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>7,764</td>
</tr>
<tr>
<td>Taxation</td>
<td>1,069</td>
</tr>
<tr>
<td>Share of other tax results of associate and joint ventures</td>
<td>(370)</td>
</tr>
<tr>
<td>Net finance charges</td>
<td>354</td>
</tr>
<tr>
<td>Non-operating items</td>
<td>373</td>
</tr>
<tr>
<td>Operating profit</td>
<td>6,392</td>
</tr>
<tr>
<td>Decrease/(increase) in working capital</td>
<td>4,323</td>
</tr>
<tr>
<td>Net cash outflow from investing activities</td>
<td>(1,197)</td>
</tr>
<tr>
<td>Decrease/(increase) in trade and other receivables</td>
<td>121</td>
</tr>
<tr>
<td>Post-employment payments less amounts included in operating profit</td>
<td>23</td>
</tr>
<tr>
<td>Other items</td>
<td>62</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>4,779</td>
</tr>
<tr>
<td>Interest received</td>
<td>131</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(653)</td>
</tr>
<tr>
<td>Taxation paid</td>
<td>(1,201)</td>
</tr>
<tr>
<td>Net cash outflow from investing activities</td>
<td>(1,197)</td>
</tr>
<tr>
<td>Net cash outflow from operating activities</td>
<td>3,024</td>
</tr>
<tr>
<td>Net cash inflow from financing activities</td>
<td>2,621</td>
</tr>
<tr>
<td>Net increase in net cash and cash equivalents</td>
<td>5,645</td>
</tr>
</tbody>
</table>

Notes

(1) Weighted average rates

Introduction

This section describes the basis of preparation of the consolidated financial statements and the group’s accounting policies that are applicable to the financial statements as a whole. Accounting policies, critical accounting estimates and judgements specific to a note are included in the note to which they relate. Furthermore, the section details new accounting standards, amendments and interpretations, that the group has adopted in the current financial year or will adopt in subsequent years.

1. Accounting information and policies

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted by the UK (UK-adopted International Accounting Standards) and IFRSs, as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee. IFRSs adopted by the UK differs in certain respects from IFRS as issued by the IASB. The differences have no impact on the group’s consolidated financial statements for the years presented. The consolidated financial statements are prepared on a going concern basis under the historical cost convention, unless stated otherwise in the relevant accounting policy.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(b) Going concern

Management prepared cash flow forecasts which were also assessed to reflect reasonable but plausible downside scenarios taking into consideration the group’s principal risks. In the base case scenario, management included assumptions for mid-single digit net sales growth, operating margin improvement and global TBA market share growth. In light of the ongoing geopolitical volatility, the base case outlook and severe but plausible downside scenarios (incorporated combinations for a prolonged global recession, supply chain disruptions, higher inflation and further geopolitical deterioration. Even under these scenarios, the group’s liquidity is still expected to remain strong, as it is supported by an expected increase in cash and short-term deposits of £350 million in fixed-rate and £2 billion of fixed rate dollar-denominated bonds in the year ended 30 June 2023. Mitigating actions, should they be required, are all within management’s control and could include reductions in discretionary spending such as acquisitions and capital expenditure, as well as a temporary suspension of the share buyback programme and dividends and payments in the next 12 months, or drawdowns on committed facilities. Having considered the outcome of these assessments, the Directors are confident that the group is capable of meeting its obligations for at least 12 months from the date of signing the group’s consolidated financial statements.

(c) Consolidation

The consolidated financial statements include the results of the company and its subsidiaries together with the group’s attributable share of the results of associates and joint ventures. A subsidiary is an entity controlled by Diageo plc. The group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where the group has the ability to exercise joint control over an entity but does not have specified assets and obligations for liabilities of the entity, the entity is included in the basis of the group’s rights over those assets and liabilities.

(d) Foreign currencies

Items included in the financial statements of the group’s subsidiaries, associates and joint ventures are measured using the currency of the primary economic environment in which each entity operates (its functional currency). The consolidated financial statements are presented in sterling, which is the functional currency of the parent company, Diageo plc. The functional currency of Diageo plc is determined by using management judgement that considers the parent company as an extension of its subsidiar.
Sterling amounts presented at the official reference exchange rate are results of mathematical conversion.

The impact of hyperinflationary accounting for Lebanon was immaterial both in the current and comparative periods.

The following standard and amendments issued by the IASB have been endorsed by the UK and have not been adopted by the group:

- IFRS 17 – Insurance contracts (effective from the year ending 30 June 2024) requires an entity to recognise deferred tax on initial recognition of particular transactions to the extent that the transaction is not restored and the amount of deferred tax assets and liabilities. The proposed amendments would apply to transactions such as leases and decommissioning obligations for which an entity recognises both an asset and a liability. The group believes that the adoption of these amendments will have a significant impact on its consolidated results or financial position.

- Amendments to IAS 12 - Income taxes (effective from the year ending 30 June 2024) requires an entity to recognise deferred tax on initial recognition of particular transactions to the extent that the transaction is not restored and the amount of deferred tax assets and liabilities. The proposed amendments would apply to transactions such as leases and decommissioning obligations for which an entity recognises both an asset and a liability. The group believes that the adoption of these amendments will have a significant impact on its consolidated results or financial position.

There are a number of other amendments and clarifications to IFRSs, effective in future years, which are not expected to significantly impact the group’s consolidated results or financial position.

Venezuela is a hyperinflationary economy where the government maintains a regime of strict currency controls with multiple foreign currency rate systems. The exchange rate used to translate the results of the group’s Venezuelan operations was VES/£ 3,807 for the year ended 30 June 2023 (2022 - VES/£ 7,595). This rate reflects management’s currency rate system used to measure the reporting unit currency at the end of each period, with hyperinflationary gains and losses in respect of monetary items that are measured in financial income and charges.

Comparative amounts presented in the consolidated financial statements were not restated. Hyperinflationary accounting needs to be applied if, as Venezuela has always been a hyperinflationary economy, hence, as per Diageo’s accounting policy choice, the differences between equity at 30 June 2023 as reported and the equity after the restatement of the non-monetary items to the measuring unit current at 30 June 2023 were recognised in retained earnings. Such restatement includes impairment of TL 3,233 million (TL777 million) recognised on the goodwill in the Turkey cash-generating unit and TL 1,627 million (TL315 million) in respect of the Yeni Raki brand, as a result of the increased carrying values for those due to hyperinflationary adjustments. When applying IAS 29 on an ongoing basis, comparability in currency are not restored and the amount of deferred tax assets and liabilities. The proposed amendments would apply to transactions such as leases and decommissioning obligations for which an entity recognises both an asset and a liability. The group believes that the adoption of these amendments will have a significant impact on its consolidated results or financial position.

The following standard and amendments issued by the IASB have been endorsed by the UK and have not been adopted by the group:

- IFRS 17 – Insurance contracts (effective from the year ending 30 June 2024) requires an entity to recognise deferred tax on initial recognition of particular transactions to the extent that the transaction is not restored and the amount of deferred tax assets and liabilities. The proposed amendments would apply to transactions such as leases and decommissioning obligations for which an entity recognises both an asset and a liability. The group believes that the adoption of these amendments will have a significant impact on its consolidated results or financial position.

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There are a number of other amendments and clarifications to IFRSs, effective in future years, which are not expected to significantly impact the group’s consolidated results or financial position.

The climate change scenario analyses performed in 2022 – conducted in line with TCFD recommendations (‘Scenario 2’, a ‘Moderate Warming’ Scenario (RCP 4.5) and a ‘Severe Warming Scenario’ (RCP 8.5)) - identified no material financial impact to these financial statements.

The following considerations were made in respect of the financial statements:

- The impact of climate change on factors (like residual values, useful lives and depreciation methods) that determine the carrying value of non-current assets.
- The impact of climate change on forecasts of cash flows used for Diageo’s direct operations (‘Scenario 3’ and ‘Scenario 4’) - for forecast have been considered as part of the assessment of estimates and judgements in preparing the group’s consolidated financial statements. The climate change scenarios are not expected to significantly impact the group’s consolidated results or financial position.

- The impact of climate change on factors (like residual values, useful lives and depreciation methods) that determine the carrying value of non-current assets.
- The impact of climate change on forecasts of cash flows used for Diageo’s direct operations (‘Scenario 3’ and ‘Scenario 4’).

For analysis and management reporting purposes, Diageo uses budgeted exchange rate that are set at the prior year’s weighted average exchange rate. In order to ensure a consistent basis on which performance is measured through the year, prior period results are also restated to the budgeted exchange rate. Segmental information for net sales and operating profit before exceptional items are reported on a consistent basis. The adjustments required to restate the segmental information to actual exchange rates and to reconcile it to the group’s reporting currency. The group’s operating results are shown in the tables below before and after revaluation, to which the comparative segmental information, prior to revaluation, has not been restated at the current year’s budgeted exchange rates but is presented at the budgeted rates for the respective year.

In addition, for management reporting purposes, Diageo presents the result of acquisitions and disposals completed in the current and prior year separately. In the results of the geographical segments, the impact of acquisitions and disposals completed in the current and prior year are included. The impact of acquisitions and disposals on net sales and operating profit is disclosed under the appropriate geographical segments in the tables below at budgeted exchange rates.

Net sales 125 165
Operating profit (loss) (212) (31)
Other finance charges 6 4.6
Net cash flow from operating activities 8 4.6
Net assets 6 4.6

FINANCIAL STATEMENTS

30 June 2023 (2022 – VES/£ 759). This rate reflects management’s currency rate systems. The exchange rate used to translate the results of

ACCOUNTING POLICIES

Sales comprise revenue from contracts with customers from the sale of goods, royalties and rents receivable. Revenue from the sale of goods includes excise and other duties which the group pays as principal but excludes duties and taxes collected on behalf of third parties, such as added value tax. Sales are recognised as and when performance obligations are satisfied by transferring control of a good or service to the customer, which is determined by considering, among other factors, the delivery terms agreed with customers. The transfer of control of goods occurs at the time of dispatch for the majority of sales. For sales that are transferred via a third party, such as shipping agents, the transfer of control occurs when the significant risks and rewards of ownership are passed to the customer. Based on the shipping terms agreed with customers, the transfer of control of goods occurs at the time of dispatch for the majority of sales. For sales that are transferred via a third party, such as shipping agents, the transfer of control occurs when the significant risks and rewards of ownership are passed to the customer.

Net sales are sales less excise duties. Diageo incurs excise duties throughout the world. In the majority of countries, excise duties are effectively a production tax which becomes payable when the product is removed from bonded premises and is not directly related to the value of sales. It is generally not included as a separate item on external invoices; increases in excise duty are not always passed on to the customer and where a customer fails to pay for products received the group cannot reclaim the excise duty. The group therefore recognises excise duty, unless it regards itself as an agent of the regulatory authorities, as a cost to the group.
These items represent the IFRS 8 performance measures for the geographical and SC&P segments.

(a) Segmental information for the consolidated income statement

<table>
<thead>
<tr>
<th>SC&amp;P allocation</th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>At budgeted exchange rates</td>
<td>2,454</td>
<td>1,017</td>
<td>711</td>
</tr>
<tr>
<td>Hyperinflation</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exceptional operating items</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>At budgeted exchange rates(1)</td>
<td>2,388</td>
<td>1,086</td>
<td>703</td>
</tr>
<tr>
<td>Hyperinflation</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exceptional operating items</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>At budgeted exchange rates</td>
<td>2,388</td>
<td>1,086</td>
<td>703</td>
</tr>
<tr>
<td>Hyperinflation</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exceptional operating items</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>At budgeted exchange rates</td>
<td>2,388</td>
<td>1,086</td>
<td>703</td>
</tr>
<tr>
<td>Hyperinflation</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exceptional operating items</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

[1] These items represent the IFRS 8 performance measures for the geographical and SC&P segments.

[2] The net sales figures for the SC&P reported to the Executive Committee primarily comprise inter-segment sales and these are eliminated in a separate column in the above segmental analysis. Apart from sales by the SC&P segment to the other operating segments, inter-segmental sales are not material.

[3] The group’s net finance charges are managed centrally and are not allocable to individual operating segments.

[4] Approximately 38% of annual net sales occurred in the last four months of calendar year 2022.

(b) Other segmental information

<table>
<thead>
<tr>
<th>SC&amp;P allocation</th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>At budgeted exchange rates</td>
<td>2,454</td>
<td>1,017</td>
<td>711</td>
</tr>
<tr>
<td>Hyperinflation</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exceptional operating items</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>At budgeted exchange rates(1)</td>
<td>2,388</td>
<td>1,086</td>
<td>703</td>
</tr>
<tr>
<td>Hyperinflation</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exceptional operating items</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>At budgeted exchange rates</td>
<td>2,388</td>
<td>1,086</td>
<td>703</td>
</tr>
<tr>
<td>Hyperinflation</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exceptional operating items</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>At budgeted exchange rates</td>
<td>2,388</td>
<td>1,086</td>
<td>703</td>
</tr>
<tr>
<td>Hyperinflation</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exceptional operating items</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

[1] These items represent the IFRS 8 performance measures for the geographical and SC&P segments.

[2] The net sales figures for the SC&P reported to the Executive Committee primarily comprise inter-segment sales and these are eliminated in a separate column in the above segmental analysis. Apart from sales by the SC&P segment to the other operating segments, inter-segmental sales are not material.

[3] The group’s net finance charges are managed centrally and are not allocable to individual operating segments.

[4] Approximately 38% of annual net sales occurred in the last four months of calendar year 2022.
## 3. Operating costs

<table>
<thead>
<tr>
<th>Description</th>
<th>2023 £ million</th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excise duties</td>
<td>6,402</td>
<td>6,996</td>
<td>6,420</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>6,899</td>
<td>5,973</td>
<td>5,038</td>
</tr>
<tr>
<td>Marketing</td>
<td>3,001</td>
<td>2,721</td>
<td>2,163</td>
</tr>
<tr>
<td>Other operating items</td>
<td>2,531</td>
<td>2,349</td>
<td>1,801</td>
</tr>
<tr>
<td>Comprising:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excise duties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>1,625</td>
<td>2,182</td>
<td>1,237</td>
</tr>
<tr>
<td>Great Britain</td>
<td>1,095</td>
<td>1,172</td>
<td>1,078</td>
</tr>
<tr>
<td>United States</td>
<td>687</td>
<td>616</td>
<td>569</td>
</tr>
<tr>
<td>Other</td>
<td>2,995</td>
<td>3,028</td>
<td>2,686</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>(513)</td>
<td>(909)</td>
<td>(206)</td>
</tr>
<tr>
<td>Raw materials and consumables</td>
<td>4,228</td>
<td>4,017</td>
<td>3,016</td>
</tr>
<tr>
<td>Marketing</td>
<td>3,001</td>
<td>2,721</td>
<td>2,163</td>
</tr>
<tr>
<td>Other external charges</td>
<td>2,747</td>
<td>2,597</td>
<td>1,978</td>
</tr>
<tr>
<td>Staff costs</td>
<td>1,830</td>
<td>1,795</td>
<td>1,586</td>
</tr>
<tr>
<td>Depreciation, amortisation and impairment</td>
<td>1,066</td>
<td>828</td>
<td>447</td>
</tr>
<tr>
<td>Gains on disposal of properties</td>
<td>(4)</td>
<td>(2)</td>
<td>(11)</td>
</tr>
<tr>
<td>Net foreign exchange losses</td>
<td>10</td>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td>Other operating income</td>
<td>(24)</td>
<td>(26)</td>
<td>(26)</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>18,883</td>
<td>18,039</td>
<td>15,422</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>2023 £ million</th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit fees</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit of financial statements</td>
<td>5.2</td>
<td>4.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Audit of financial statements of subsidiaries</td>
<td>5.7</td>
<td>6.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Audit related assurance services</td>
<td>2.7</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>Total audit fees (Audit fees)</strong></td>
<td>13.6</td>
<td>12.8</td>
<td>10.8</td>
</tr>
<tr>
<td>Other assurance services (Audit related fees)</td>
<td>1.2</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>14.8</td>
<td>13.5</td>
<td>11.6</td>
</tr>
</tbody>
</table>

### 3. Auditors fees

External charges include the fees of the principal auditors of the group, PricewaterhouseCoopers LLP and its affiliates (PwC) and are analysed below:

<table>
<thead>
<tr>
<th>Description</th>
<th>2023 £ million</th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit fees</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>5.7</td>
<td>6.1</td>
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</tr>
<tr>
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<td>13.6</td>
<td>12.8</td>
<td>10.8</td>
</tr>
<tr>
<td>Other assurance services (Audit related fees)</td>
<td>1.2</td>
<td>0.7</td>
<td>0.8</td>
</tr>
</tbody>
</table>

### (a) Other external charges

Other external charges include research and development expenditure in respect of new drink products and packaging design of £53 million (2022 - £43 million; 2021 - £42 million) and maintenance and repairs of £313 million (2022 - £136 million; 2021 - £137 million).

### (b) Auditors fees

Other external charges include the fees of the principal auditors of the group, PricewaterhouseCoopers LLP and its affiliates (PwC) and are analysed below:

<table>
<thead>
<tr>
<th>Description</th>
<th>2023 £ million</th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
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<tbody>
<tr>
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<td></td>
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</tr>
<tr>
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<tr>
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</tr>
<tr>
<td>Audit related assurance services</td>
<td>2.7</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>Total audit fees (Audit fees)</strong></td>
<td>13.6</td>
<td>12.8</td>
<td>10.8</td>
</tr>
<tr>
<td>Other assurance services (Audit related fees)</td>
<td>1.2</td>
<td>0.7</td>
<td>0.8</td>
</tr>
</tbody>
</table>

### (c) Staff costs and average number of employees

<table>
<thead>
<tr>
<th>Description</th>
<th>2023 £ million</th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate remuneration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>1,548</td>
<td>1,557</td>
<td>1,336</td>
</tr>
<tr>
<td>Share-based incentive plans</td>
<td>48</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Employer’s social security</td>
<td>115</td>
<td>107</td>
<td>83</td>
</tr>
<tr>
<td>Employer’s pension</td>
<td>67</td>
<td>66</td>
<td>82</td>
</tr>
<tr>
<td>Defined benefit plans</td>
<td>44</td>
<td>33</td>
<td>25</td>
</tr>
<tr>
<td>Defined contribution plans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other post employment plans</td>
<td>8</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,830</strong></td>
<td><strong>1,795</strong></td>
<td><strong>1,586</strong></td>
</tr>
</tbody>
</table>
In the year ended 30 June 2022, Diageo released unrealised provisions of £20 million from the £50 million exceptional charge taken in the year ended 30 June 2022, in respect of winding down its operations in Russia.

[4]

[5] Other exceptional operating items include subsequent gains and charges of items that were originally recognised as exceptional at inception. In the year ended 30 June 2022, other exceptional operating items resulted in a loss of £2 million driven by the reinvestment of ‘Training the Bar’ corporate tax benefits. In the year ended 30 June 2021, other exceptional operating items were a loss of £15 million mainly driven by the charge of the ongoing litigation in Turkey.

[6] On 26 May 2023, Diageo announced the completion of the sale of its wholly owned subsidiary in Cameroon, Guinness Cameroon S.A., to the Castel Group for an aggregate consideration of £384 million resulting in an exceptional gain of £30 million, including cumulative translation gain in the amount of £17 million recycled to the income statement.

[7] On 26 October 2022, Diageo completed the sale of its Archers brand. The transaction resulted in an exceptional gain of £20 million.

[8] On 30 September 2022, Diageo announced the completion of the sale of the Popular brands of its United Spirits Limited (USL) business. The transaction resulted in an exceptional gain of £4 million.

[9] Certain subsidiaries of USL were sold in the year ended 30 June 2023. The sale of these subsidiaries resulted in an exceptional gain of £1 million (2022 - nil; 2021 - £3 million).

[10] In the year ended 30 June 2023, Diageo sold its Tyku brand. The transaction resulted in an exceptional loss of £3 million.


[12] In the year ended 30 June 2022, a loss of £95 million was recognised as a non-operating loss attributable to the sale of Metaxa Aber Brewery Share Company in Ethiopia.

[13] On 25 March 2022, Diageo agreed to the sale of its Windsor business in Korea at 30 June 2022. Assets and liabilities attributable to Windsor business were classified as held for sale and were measured at the lower of their cost and fair value less cost of disposal. In the year ended 30 June 2022, a loss of £19 million was recognised as a non-operating item, mainly in relation to transaction and other costs directly attributable to the prospective sale of the business. The conditional agreement was terminated in the year ended 30 June 2023 as the buyer was unable to meet certain conditions to completion.

[14] On 29 September 2022, the group acquired the port of the entire issued share capital of Mr. Black Spirits Pty Ltd, owner of Mr. Black, the Australian premium cold brew coffee liqueur, that it did not already own. As a result of Mr. Black becoming a subsidiary of the group in the year ended 30 June 2023, a loss of £8 million arose, being the difference between the book value of the asset prior to the transaction and its fair value plus transaction costs.

[15] Other exceptional non-operating items include subsequent gains and charges of items that were originally recognised as exceptional at inception. In the year ended 30 June 2023, other exceptional non-operating items resulted in a gain of £4 million (2022 - £6 million; 2021 - £1 million), mainly driven by the deferred consideration received in respect of the sale of United National Breweries.

For further information on acquisition and sale of businesses and brands, see notes 8 (a) and 8 (b).

5. Finance income and charges

Accounting policies

Net interest includes interest income and charges in respect of financial instruments and the results of hedging transactions used to manage interest rate risk.

Finance charges directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are added to the cost of that asset. Borrowing costs which are not capitalised are recognised in the income statement using the effective interest method. All other finance charges are recognised primarily in the income statement in the year in which they are incurred.

Net other finance charges include items in respect of post employment plans, the discount unwind of long-term obligations and hyperinflation charges. The results of operations in hyperinflationary economies are adjusted to reflect the changes in the purchasing power of the local currency of the entity before being translated to sterling.

The impact of derivatives, excluding cash flow hedges that are in respect of commodity price risk management or those that are used to hedge the currency risk of highly probable future currency cash flows, is included in interest income or interest charge.

Cash payments and receipts included in net cash inflow from operating activities in respect of exceptional items were as follows:

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>2022</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
</tr>
</tbody>
</table>

5. Finance income and charges

Accounting policies

Net interest includes interest income and charges in respect of financial instruments and the results of hedging transactions used to manage interest rate risk.

Finance charges directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are added to the cost of that asset. Borrowing costs which are not capitalised are recognised in the income statement using the effective interest method. All other finance charges are recognised primarily in the income statement in the year in which they are incurred.

Net other finance charges include items in respect of post employment plans, the discount unwind of long-term obligations and hyperinflation charges. The results of operations in hyperinflationary economies are adjusted to reflect the changes in the purchasing power of the local currency of the entity before being translated to sterling.

The impact of derivatives, excluding cash flow hedges that are in respect of commodity price risk management or those that are used to hedge the currency risk of highly probable future currency cash flows, is included in interest income or interest charge.

Cash payments and receipts included in net cash inflow from operating activities in respect of exceptional items were as follows:

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>2022</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
</tr>
</tbody>
</table>

5. Finance income and charges

Accounting policies

Net interest includes interest income and charges in respect of financial instruments and the results of hedging transactions used to manage interest rate risk.

Finance charges directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are added to the cost of that asset. Borrowing costs which are not capitalised are recognised in the income statement using the effective interest method. All other finance charges are recognised primarily in the income statement in the year in which they are incurred.

Net other finance charges include items in respect of post employment plans, the discount unwind of long-term obligations and hyperinflation charges. The results of operations in hyperinflationary economies are adjusted to reflect the changes in the purchasing power of the local currency of the entity before being translated to sterling.

The impact of derivatives, excluding cash flow hedges that are in respect of commodity price risk management or those that are used to hedge the currency risk of highly probable future currency cash flows, is included in interest income or interest charge.

Cash payments and receipts included in net cash inflow from operating activities in respect of exceptional items were as follows:

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>2022</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
</tr>
</tbody>
</table>

5. Finance income and charges

Accounting policies

Net interest includes interest income and charges in respect of financial instruments and the results of hedging transactions used to manage interest rate risk.

Finance charges directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are added to the cost of that asset. Borrowing costs which are not capitalised are recognised in the income statement using the effective interest method. All other finance charges are recognised primarily in the income statement in the year in which they are incurred.

Net other finance charges include items in respect of post employment plans, the discount unwind of long-term obligations and hyperinflation charges. The results of operations in hyperinflationary economies are adjusted to reflect the changes in the purchasing power of the local currency of the entity before being translated to sterling.

The impact of derivatives, excluding cash flow hedges that are in respect of commodity price risk management or those that are used to hedge the currency risk of highly probable future currency cash flows, is included in interest income or interest charge.

Cash payments and receipts included in net cash inflow from operating activities in respect of exceptional items were as follows:
6. Investments in associates and joint ventures

**Accounting policies**

An associate is an undertaking in which the group has a long-term equity interest and over which it has the power to exercise significant influence. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The group’s interest in the net assets of associates and joint ventures is reported in investments in the consolidated balance sheet and its interest in their results (net of tax) is included in the consolidated income statement below the group’s operating profit. Associates and joint ventures are initially recorded at cost including transaction costs. Investments in associates and joint ventures are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The impairment review compares the net carrying value with the recoverable amount, where the recoverable amount is the higher of the value in use calculated as the present value of the group’s share of the associate’s future cash flows and its fair value less costs of disposal.

Diageo’s principal associate is Moët Hennessy of which Diageo owns 34%. Moët Hennessy is the wines and spirits division of LVMH Moët Hennessy Louis Vuitton SA (LVMH). LVMH is based in France and is listed on the Paris Stock Exchange. Moët Hennessy is also based in France and is a producer and exporter of champagne and cognac brands.

A number of joint distribution arrangements have been established with LVMH in Asia Pacific and France, principally covering distribution of Diageo’s Scotch whisky and gin premium brands and Moët Hennessy’s champagne and cognac premium brands. Diageo and LVMH have each undertaken not to engage in any champagne or cognac activities competing with those of Moët Hennessy. The arrangements also contain certain provisions for the protection of Diageo as a non-controlling shareholder in Moët Hennessy.

(a) An analysis of the movement in the group’s investments in associates and joint ventures is as follows:

**Cost less provisions**

<table>
<thead>
<tr>
<th>Cost less provisions</th>
<th>At 30 June 2021</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diageo</td>
<td>3,128</td>
<td>180</td>
<td>3,308</td>
<td></td>
</tr>
<tr>
<td>Exchange differences</td>
<td>48</td>
<td>12</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>–</td>
<td>65</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Share of profit/(loss) after tax</td>
<td>425</td>
<td>(4)</td>
<td>421</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>(186)</td>
<td>(4)</td>
<td>(190)</td>
<td></td>
</tr>
<tr>
<td>Share of movements in other comprehensive income and equity</td>
<td>(6)</td>
<td>(6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment charged during the year</td>
<td>(2)</td>
<td>(2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 30 June 2022</td>
<td>3,409</td>
<td>243</td>
<td>3,652</td>
<td></td>
</tr>
<tr>
<td>Exchange differences</td>
<td>(51)</td>
<td>(8)</td>
<td>(59)</td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>–</td>
<td>93</td>
<td>93</td>
<td></td>
</tr>
<tr>
<td>Share of profit/(loss) after tax</td>
<td>379</td>
<td>(9)</td>
<td>370</td>
<td></td>
</tr>
<tr>
<td>Step acquisition</td>
<td>–</td>
<td>(17)</td>
<td>(17)</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>(214)</td>
<td>(3)</td>
<td>(217)</td>
<td></td>
</tr>
<tr>
<td>Share of movements in other comprehensive income and equity</td>
<td>36</td>
<td>–</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Transfer</td>
<td>–</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Impairment charged during the year</td>
<td>(28)</td>
<td>(28)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 30 June 2023</td>
<td>3,559</td>
<td>270</td>
<td>3,829</td>
<td></td>
</tr>
</tbody>
</table>

(b) Moët Hennessy prepares its financial statements under IFRS as endorsed by the EU in euros to 31 December each year. The results were also adjusted for alignment with Diageo accounting policies and were translated at €1 = £1.15 (2022 - €1 = £1.13) and translated at €1 = £1.15 (2022 - €1 = £1.13) and translated at €1 = £1.15 (2022 - €1 = £1.13) and translated at €1 = £1.15 (2022 - €1 = £1.13). Income statement information for the three years ended 30 June 2023 and balance sheet information as at 30 June 2023 and 30 June 2022 of Moët Hennessy are as follows:

---

**7. Taxation**

**Accounting policies**

Current tax is based on taxable profit for the year. Taxable profit is different from accounting profit due to temporary differences between accounting and tax treatments, and due to items that are never taxable or tax deductible. Tax treatments are not recognised unless it is probable that a tax authority will accept the treatment. Once considered to be probable, tax treatments are reviewed each year to assess whether a provision should be taken against full recognition of the treatment on the basis of potential settlement through negotiation and/or litigation with the relevant tax authorities. Tax provisions are included in current liabilities. Penalties and interest on tax liabilities are included in operating profit and finance charges, respectively.

Full provision for deferred tax is made for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their tax value, except for deferred tax provision arising on goodwill from business combinations. The amount of deferred tax reflects the expected recoverable amount and is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using the basis of tax rates enacted or substantively enacted by the balance sheet date. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. No deferred tax liability is provided in respect of any future remittance of earnings of foreign subsidiaries where the group is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future, or where no liability would arise on the remittance.

**Critical accounting estimates and judgements**

The group is required to estimate the corporate tax in each of the jurisdictions in which it operates. Management is required to estimate the amount that should be recognised as a tax liability or tax asset in many countries which are subject to tax audits which by their nature are often complex and can take several years to resolve, current tax balances are based on such estimations. Tax provisions are based on management’s judgement and interpretation of country specific tax law and the likelihood of settlement. However, the actual tax liabilities could differ from the provision and in such event the group would be required to make an adjustment in a subsequent period which could have a material impact on the group’s profit for the year.

The evaluation of deferred tax asset recoverability requires estimates to be made regarding the availability of future taxable income. For brands with an indefinite life, management’s intention is to recover the book value through a potential sale in the future, and therefore the deferred tax on the brand value is generally recognised using the appropriate country capital gains tax rate. To the extent brands with an indefinite life have been impaired, management considers this to be an indication of recovery through use and in such a case deferred tax on the brand value is recognised using the appropriate country corporate income tax rate.

---

(a) Analysis of taxation charge for the year

**United Kingdom**

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current year</td>
<td>160</td>
<td>174</td>
<td>100</td>
<td>879</td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td>33</td>
<td>10</td>
<td>1 (99)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>193</td>
<td>184</td>
<td>101</td>
<td>940</td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current year</td>
<td>1,041</td>
<td>784</td>
<td>1,039</td>
<td>1,019</td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td>21</td>
<td>31</td>
<td></td>
<td>52</td>
</tr>
<tr>
<td>Total</td>
<td>1,062</td>
<td>837</td>
<td>1,091</td>
<td>1,067</td>
</tr>
</tbody>
</table>

**Deferred tax**

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origination and reversal of temporary differences</td>
<td>25</td>
<td>–</td>
<td>13</td>
<td>(70)</td>
</tr>
<tr>
<td>Changes in tax rates</td>
<td>–</td>
<td>2</td>
<td>46</td>
<td>11</td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td>6</td>
<td>–</td>
<td>8 (26)</td>
<td>(23)</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>2</td>
<td>67 (94)</td>
<td>(10)</td>
</tr>
</tbody>
</table>

**Taxation on profit**

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current year</td>
<td>224</td>
<td>166</td>
<td>178</td>
<td>746</td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td>11</td>
<td>970</td>
<td></td>
<td>970</td>
</tr>
<tr>
<td>Total</td>
<td>235</td>
<td>175</td>
<td>178</td>
<td>746</td>
</tr>
</tbody>
</table>

---

**Notes**

1. Including acquisition tax adjustments principally in respect of Moët Hennessy’s brands and translated at €1 = £1.17 (2022 - €1 = £1.16).
2. Information on transactions between the group and its associates and joint ventures is disclosed in note 21.
3. Investments in associates and joint ventures comprise the cost of shares less goodwill written off on acquisitions prior to 1 July 1998 of £1.384 million (2022 - £1.340 million), plus the group’s share of post acquisition reserves of £2,445 million (2022 - £2,312 million).
4. The associates and joint ventures have not reported any material contingent liabilities in their latest financial statements.
(b) Exceptional tax (credit)/charges

The taxation charge includes the following exceptional items:

- Exceptional tax credit of £57 million in respect of the deductibility of fees paid to Diageo plc for guaranteeing externally issued debt of its US group entities.
- Exceptional tax credit of £42 million in respect of the change in the corporate tax rate to 21.7% from 2021.

In the year ended 30 June 2022, the Dutch Senate enacted an increased tax rate of 25.8%. The remeasurement of deferred tax liabilities was recognised as an underlying tax charge.

The taxation charge includes the following exceptional items:

- Exceptional tax credit of £57 million in respect of the deductibility of fees paid to Diageo plc for guaranteeing externally issued debt of its US group entities.
- Exceptional tax credit of £42 million in respect of the change in the corporate tax rate to 21.7% from 2021.

(2) In the year ended 30 June 2022, the Dutch Senate enacted an increased tax rate of 25.8%. The remeasurement of deferred tax liabilities was recognised as an underlying tax charge.

(c) Taxation rate reconciliation and factors that may affect future tax charges

The table above reconciles the notional taxation charge calculated at the UK tax rate, to the actual total tax charge. As a group operating in multiple countries, the tax rates applicable to profits in those countries are different from the UK tax rate. The impact is shown in the table above as differences in overseas tax rates.

The group’s worldwide business leads to the consideration of a number of important factors which may affect future tax charges, such as the levels and mix of profitability in different jurisdictions, transfer pricing regulations, tax rates imposed and tax regime reforms, acquisitions, disposals, restructuring activities, and settlements or agreements with authorities.

Significant changes ongoing in the international tax environment and an increase in global tax audit activity means that tax uncertainties and associated risks have been gradually increasing. In the medium term, these risks could result in an increase in tax liabilities or adjustments to the carrying value of deferred tax assets and liabilities. See note 19 (f).

The group has a number of ongoing tax audits worldwide for which provisions are recognised in line with the relevant accounting standard, taking into account best estimates and management’s judgements concerning the ultimate outcome of the tax audits. For the year ended 30 June 2023, ongoing audits that are provided for individually are not expected to result in a material tax liability. The current tax asset of £232 million (30 June 2022 – £494 million) and tax liability of £135 million (30 June 2022 – £252 million) include £173 million (30 June 2022 – £185 million) of provisions for tax uncertainties.

The tax cash paid in the year ended 30 June 2023 amounts to £1,201 million (30 June 2022 – £494 million) and is £231 million higher than the current tax charge (30 June 2022 – £1,060 million). This arises as a result of timing differences between the accrual of income taxes, the movement in the provision for uncertain tax positions and the actual payment of cash.

In December 2021, the OECD released a framework for Pillar Two Model Rules which will introduce a global minimum corporate tax rate of 15% applicable to multinational enterprise groups with global revenue over €750 million. The legislation implementing the rules in the UK was substantively enacted on 30 June 2023 and will apply to Diageo from the financial year ending 30 June 2024 onwards. Diageo is reviewing this legislation and also monitoring the status of implementation of the model rules outside of the UK to understand the potential impact on the group.

Diageo has applied the temporary exception under IAS 12 in relation to the accounting for deferred taxes arising from the implementation of the Pillar Two rules.

(d) Deferred tax assets and liabilities

Deferred tax recognised in the consolidated balance sheet comprise the following net deferred tax liabilities/assets:

- Deferred tax assets and liabilities: £149 million net liability (30 June 2022 – £252 million).
- Total deferred tax: £48 million to other comprehensive income and equity, mainly in respect of the remeasurement of the deferred tax liabilities on the post employment assets.
Operating assets and liabilities

Introduction

This section describes the assets used in the group's operations and the liabilities incurred. Liabilities relating to the group’s financing activities are included in section ‘Risk management and capital structure’ and balance sheet information in respect of associates, joint ventures and taxation are covered in section ‘Results for the year’. This section also provides detailed disclosures on the group’s recent acquisitions and disposals, performance and financial position of its defined benefit post employment plans.

8. Acquisition and sale of businesses and brands and purchase of non-controlling interests

Accounting policies

The consolidated financial statements include the results of the company and its subsidiaries together with the group’s attributable share of the results of associates and joint ventures. The results of subsidiaries acquired or sold are included in the income statement from, or up to, the date that control passes.

Business combinations are accounted for using the acquisition method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. The consideration payable is measured at fair value and includes the fair value of any contingent consideration. Among other factors, the group considers the nature of, and compensation for the selling shareholders’ continuing employment to determine if any contingent payments are for post-completion employee services, which are excluded from consideration.

On the acquisition of a business, or of an interest in an associate or joint venture, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets, including identifiable intangible assets and contingent liabilities acquired. Directly attributable acquisition costs in respect of subsidiary companies acquired are recognised in other external charges as incurred. The non-controlling interests on the date of acquisition can be measured either at the fair value or at the non-controlling shareholder’s proportion of the net fair value of the identifiable assets assumed. This choice is made separately for each acquisition.

Where the group has issued a put option over shares held by a non-controlling interest, the group derecognises the non-controlling interests and instead recognises a contingent deferred consideration liability for the estimated amount likely to be paid to the non-controlling interest on the exercise of those options. Movements in the estimated liability in respect of put options are recognised in retained earnings.

Transactions with non-controlling interests are recorded directly in retained earnings.

For all entities in which the company directly or indirectly owns equity, a judgement is made to determine whether it controls and therefore should fully consolidate the investee. An assessment is carried out to determine whether the group has the exposure or rights to the variable returns of the investee and has the ability to affect those returns through its power over the investee. To establish control, an analysis is carried out of the substantive and protective rights that the group and the other investors hold. This assessment is dependant on the activities and purpose of the investee and the rights of the other shareholders, such as which party controls the board, executive committee and material policies of the investee. Determining whether the rights that the group holds are substantive, requires management judgement.

Where less than 50% of the equity of an investee is held, and the group holds significantly more voting rights than any other vote holder or organised group of vote holders, this may be an indicator of de facto control. An assessment is needed to determine all the factors relevant to the relationship with the investee to ascertain whether control has been established and whether the investee should be consolidated as a subsidiary. Where voting power and returns from an investment are split equally between two entities then the arrangement is accounted for as a joint venture.

On an acquisition, fair values are attributed to the assets and liabilities acquired. This may involve material judgement to determine these values.

Cash consideration paid in respect of the acquisition of businesses and purchase of shares of non-controlling interests in the three years ended 30 June 2023 were as follows:

<table>
<thead>
<tr>
<th>Consideration</th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash consideration paid</td>
<td>£34</td>
<td>£12</td>
<td>£16</td>
</tr>
<tr>
<td>Contingent consideration payable</td>
<td>£16</td>
<td>£6</td>
<td>£10</td>
</tr>
<tr>
<td>Deferred consideration payable</td>
<td>£16</td>
<td>£5</td>
<td>£5</td>
</tr>
<tr>
<td>Total consideration payable</td>
<td>£66</td>
<td>£23</td>
<td>£31</td>
</tr>
</tbody>
</table>

(a) Acquisition of businesses

Fair value of net assets acquired and cash consideration paid in respect of the acquisition of subsidiaries in the three years ended 30 June 2023 were as follows:

<table>
<thead>
<tr>
<th>Net assets acquired and consideration</th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brands and other intangibles</td>
<td>£293</td>
<td>£45</td>
<td>£338</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>£1</td>
<td>£24</td>
<td>£25</td>
</tr>
<tr>
<td>Inventories</td>
<td>£6</td>
<td>£21</td>
<td>£27</td>
</tr>
<tr>
<td>Other working capital</td>
<td>£(21)</td>
<td>£(1)</td>
<td>£3</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>£67</td>
<td>£(4)</td>
<td>£71</td>
</tr>
<tr>
<td>Borrowings</td>
<td>£(4)</td>
<td>£(4)</td>
<td>£(6)</td>
</tr>
<tr>
<td>Other</td>
<td>£6</td>
<td>£1</td>
<td>£1</td>
</tr>
<tr>
<td>Total fair value of assets and liabilities</td>
<td>£330</td>
<td>£86</td>
<td>£316</td>
</tr>
<tr>
<td>Goodwill arising on acquisition</td>
<td>£64</td>
<td>£28</td>
<td>£92</td>
</tr>
<tr>
<td>Settlement of pre-existing relationship</td>
<td>£(7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Step acquisitions</td>
<td>£(15)</td>
<td>£(11)</td>
<td>£(4)</td>
</tr>
<tr>
<td>Consideration payable</td>
<td>£294</td>
<td>£103</td>
<td>£397</td>
</tr>
<tr>
<td>Cash consideration paid</td>
<td>2023: (i) on 29 September 2022, the acquisition of the remaining issued share capital of Mt Black Spirits Pty Ltd, owner of Mt Black, the Australian premium cold brew coffee liqueur, that it did not already own; and (ii) on 2 November 2022, the acquisition of the entire issued share capital of Balcones Distilling, a Texas craft distiller and one of the leading producers of American single malt whiskies in the United States. The aggregate up-front cash consideration paid on completion of these transactions in the year ended 30 June 2023 was £19 million.</td>
<td>£62</td>
<td>£60</td>
</tr>
<tr>
<td>Contingent consideration payable</td>
<td>£23</td>
<td>£6</td>
<td>£30</td>
</tr>
<tr>
<td>Deferred consideration payable</td>
<td>£31</td>
<td>£6</td>
<td>£36</td>
</tr>
<tr>
<td>Total fair value of consideration</td>
<td>£98</td>
<td>£74</td>
<td>£138</td>
</tr>
<tr>
<td>Consideration satisfied by:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash consideration paid</td>
<td>£34</td>
<td>£16</td>
<td>£21</td>
</tr>
<tr>
<td>Contingent consideration payable</td>
<td>£16</td>
<td>£6</td>
<td>£10</td>
</tr>
<tr>
<td>Deferred consideration payable</td>
<td>£16</td>
<td>£5</td>
<td>£5</td>
</tr>
<tr>
<td>Total consideration satisfied</td>
<td>£66</td>
<td>£27</td>
<td>£36</td>
</tr>
<tr>
<td>Prior year acquisitions - subsidiaries</td>
<td>£435</td>
<td>£270</td>
<td>£468</td>
</tr>
<tr>
<td>Purchase of shares of non-controlling interests</td>
<td>£16</td>
<td>£3</td>
<td></td>
</tr>
<tr>
<td>Total net cash outflow</td>
<td>£451</td>
<td>£273</td>
<td>£501</td>
</tr>
</tbody>
</table>

Cash consideration paid in respect of the acquisition of businesses and purchase of shares of non-controlling interests in the three years ended 30 June 2023 were as follows:

- **Acquisition of businesses**
  - On 31 March 2023, Diageo acquired 100% equity interest in 21Seeds, to support Diageo’s participation in the super premium dark rum segment, for a total consideration of £62 million upfront in cash and a contingent consideration of up to £6 million linked to performance targets.
  - Diageo completed further acquisitions in the year ended 30 June 2023, including (i) on 29 September 2022, the acquisition of the remaining issued share capital of Mt Black Spirits Pty Ltd, owner of Mt Black, the Australian premium cold brew coffee liqueur, that it did not already own; and (ii) on 2 November 2022, the acquisition of the entire issued share capital of Balcones Distilling, a Texas craft distiller and one of the leading producers of American single malt whiskies in the United States. The aggregate up-front cash consideration paid on completion of these transactions in the year ended 30 June 2023 was £19 million. Prior year acquisitions - subsidiaries | £435 | £270 | £468 |
| Cash consideration paid | £16 | £3 |
| Total net cash outflow | £451 | £273 | £501 |}

<table>
<thead>
<tr>
<th>Net assets acquired and consideration</th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brands and other intangibles</td>
<td>£293</td>
<td>£45</td>
<td>£338</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>£1</td>
<td>£24</td>
<td>£25</td>
</tr>
<tr>
<td>Inventories</td>
<td>£6</td>
<td>£21</td>
<td>£27</td>
</tr>
<tr>
<td>Other working capital</td>
<td>£(21)</td>
<td>£(1)</td>
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<td>Deferred tax</td>
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<td>Borrowings</td>
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<td>£(4)</td>
<td>£(6)</td>
</tr>
<tr>
<td>Other</td>
<td>£6</td>
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<td>£103</td>
<td>£397</td>
</tr>
<tr>
<td>Cash consideration paid</td>
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<td></td>
<td></td>
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<td>£27</td>
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<td>£3</td>
<td></td>
</tr>
<tr>
<td>Total net cash outflow</td>
<td>£451</td>
<td>£273</td>
<td>£501</td>
</tr>
</tbody>
</table>
On 30 September 2023, Diageo completed the sale of its Ethiopian subsidiary, Meta Abo Brewery Share Company. A loss of £95 million was recognised as a non-operating item attributable to the sale, including cumulative translation losses in the amount of £63 million recycled to the income statement.

On 10 May 2022, Diageo completed the sale of the Picon brand for an upfront consideration of €117 million (£100 million). The gain of £16 million in the form of shareholder loan from two Diageo subsidiaries in 2021, increasing Diageo’s effective economic interest from 40.2% to 47%. All transactions were recognised in retained earnings.

On 24 March 2023, Diageo completed the purchase of 14.97% of the share capital of EABL for an aggregate consideration of KES 22,732 million (£142 million) in cash and transaction costs of £4 million. This took Diageo’s shareholding in EABL from 50.03% to 55%. EABL was already controlled and therefore consolidated prior to this transaction.

On 25 April 2022, Diageo sold its Ethiopian subsidiary, Meta Abo Brewery Share Company. A loss of £95 million was recognised as a non-operating item attributable to the sale, including cumulative translation losses in the amount of £63 million recycled to the income statement.

On 30 September 2023, Diageo completed the sale of the Popular brands of its USL business. The aggregate consideration for the disposal was £87 million, the disposed net assets included net working capital of £31 million and brands of £22 million, and £16 million goodwill was already controlled and therefore consolidated prior to this transaction.

In the year ended 30 June 2021, EABL, a Diageo subsidiary completed the acquisition of 30% of shares in Sengrew Spirits Limited for a consideration of £55 million (£42 million) in cash and £16 million in the form of shareholder loan from two Diageo subsidiaries in 2021, increasing Diageo’s effective economic interest from 40.2% to 47%. All transactions were recognised in retained earnings.

On 27 May 2022, USL reached agreement with Inbreve Beverages Pvt Limited for the sale of Popular brands. On 30 September 2022, Diageo announced the completion of the sale of the selected Popular brands, according the assets and liabilities attributable to the business were disposed from held for sale.

9. Intangible assets

Accounting policies

Acquired intangible assets are held on the consolidated balance sheet at cost less accumulated amortisation and impairment losses. Acquired intangible assets are initially recognised at fair value if they are controlled through contractual or other legal rights, or are separable from the rest of the business, and the fair value can be reliably measured. Where these assets are regarded as having indefinite useful economic lives, they are not amortised. Goodwill represents the excess of the aggregate of the consideration transferred, the value of any non-controlling interests and the fair value of any previously held equity interest in the subsidiary acquired over the fair value of the identifiable net assets. Goodwill arising on acquisitions prior to 1 July 1999 is not amortised.

Amortisation and impairment of intangible assets is based on their useful economic lives and they are amortised on a straight-line basis and reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Goodwill and intangible assets that are regarded as having indefinite useful economic lives are not reviewed for impairment annually but whenever there is an indication that the assets may be impaired. Impairment reviews compare the net carrying value with the recoverable amount (where recoverable amount is the higher of fair value less costs of disposal and value in use) and in case the net carrying value exceeds the recoverable amount an impairment charge is recognised. Amortisation and any impairment write downs are charged to other operating expenses in the income statement.

Software assets are amortised on a straight-line basis to estimated residual value over its expected useful life. Residual values and useful lives are reviewed each year. Subject to these reviews, the estimated useful lives are up to eight years.

Critical accounting estimates and judgements

Assessment of the recoverable amount of an intangible asset and the useful economic life of an asset are based on management’s estimates. Impairment reviews are carried out to ensure that intangible assets, including brands, are not carried at above their recoverable amounts. Value in use and fair value less costs of disposal are both considered for these reviews and any impairment charge is based on these. The tests are dependent on management’s estimates in respect of the forecasting of future cash flows, the discount rates applicable to the future cash flows and what expected growth rates are reasonable. Judgement is required in determining the cash generation assumptions. Such estimates and judgements are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts.

The below additional considerations have been applied by management regarding the potential financial impacts of increasing inflationary pressures, recently observable worldwide:

- changes in the interest rate environment are taken into consideration when determining the discount rates;
- terminal growth rates do not exceed the long-term annual inflation rate of the country or region where the asset is held;
- the forecasts detailed above reflect the expected long-term rate and the rate of change of inflation.

The impact of climate risk on the future cash flows has also been considered for scenarios analysed in line with the climate change risk assessment. The climate change scenario analyses performed in 2023 – conducted in line with TCFD recommendations (‘Transition Scenarios’ (RCP 2.6), ‘Moderate Warming’ Scenarios (RCP 4.5) and a ‘Severe Warming Scenarios (RCP 8.5)’ – identified no material financial impact to the current year impairment assessments.

Consideration of climate risk impact

The impact of climate risk on the future cash flows has also been considered for scenarios analysed in line with the climate change risk assessment. The climate change scenario analyses performed in 2023 – conducted in line with TCFD recommendations (‘Transition Scenarios’ (RCP 2.6), a ‘Moderate Warming’ Scenario (RCP 4.5) and a ‘Severe Warming Scenario (RCP 8.5)’ – identified no material financial impact to the current year impairment assessments.

On 30 June 2022, ZAR 513 million (€73 million) of deferred consideration was paid to Diageo in respect of the sale of United National Breweries. The disposal was completed on 1 April 2020 for an aggregate consideration of ZAR 600 million (£72 million) from which ZAR 376 million (£47 million) was received.

Prior year disposals further included the sale of certain USL subsidiaries in the year ended 30 June 2021 for an aggregate consideration of £3 million, which resulted in an exceptional gain of £3 million.
The principal acquired brands, all of which are regarded as having indefinite useful economic lives, are as follows:

### Brands

<table>
<thead>
<tr>
<th>Principal markets</th>
<th>2022 £ million</th>
<th>2023 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crown Royal whisky</td>
<td>1,162</td>
<td>1,250</td>
</tr>
<tr>
<td>Captain Morgan rum</td>
<td>954</td>
<td>993</td>
</tr>
<tr>
<td>Smirnoff vodka</td>
<td>654</td>
<td>681</td>
</tr>
<tr>
<td>Johnnie Walker whisky</td>
<td>625</td>
<td>625</td>
</tr>
<tr>
<td>Casamigos tequila</td>
<td>479</td>
<td>499</td>
</tr>
<tr>
<td>Don Papa rum</td>
<td>358</td>
<td>378</td>
</tr>
<tr>
<td>Yeni raki</td>
<td>269</td>
<td>294</td>
</tr>
<tr>
<td>Shi Jia Fang Chinese white spirit</td>
<td>246</td>
<td>279</td>
</tr>
<tr>
<td>Don Julio tequila</td>
<td>235</td>
<td>257</td>
</tr>
<tr>
<td>Aviation American gin</td>
<td>209</td>
<td>218</td>
</tr>
<tr>
<td>Seagram's 7 Crown whisky</td>
<td>177</td>
<td>184</td>
</tr>
<tr>
<td>Signature whisky</td>
<td>176</td>
<td>191</td>
</tr>
<tr>
<td>Zacapa rum</td>
<td>152</td>
<td>158</td>
</tr>
<tr>
<td>Black Dog whisky</td>
<td>149</td>
<td>162</td>
</tr>
<tr>
<td>Antiquity whisky</td>
<td>145</td>
<td>158</td>
</tr>
<tr>
<td>Windsor Premier whisky</td>
<td>137</td>
<td>144</td>
</tr>
<tr>
<td>Gordon's gin</td>
<td>119</td>
<td>119</td>
</tr>
<tr>
<td>Ball's whisky</td>
<td>102</td>
<td>102</td>
</tr>
<tr>
<td>Other brands</td>
<td>960</td>
<td>1,038</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,320</td>
<td>7,816</td>
</tr>
</tbody>
</table>

Goodwill has arisen on the acquisitions of businesses and includes synergies arising from cost savings, the opportunity to utilise Diageo's distribution network to leverage marketing of the acquired products and the extension of the group's portfolio of brands in new markets around the world.

### Impairment testing

Impairment tests are performed annually, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable. Recoverable amounts are calculated based on the value in use approach, also considering fair value less costs of disposal. The value in use calculations are based on discounted forecast cash flows using the assumption that cash flows continue in perpetuity at the terminal growth rate of each country or region. The individual brands, other intangibles with indefinite useful lives and the associated property, plant and equipment are aggregated as separate cash-generating units. Separate tests are carried out for each cash-generating unit and for each of the markets. Goodwill is attributed to each of the markets.

The key assumptions used for the value in use calculations are as follows:

- **Cash flows**: Cash flows are projected based on the actual operating results and years based on management's approved plans and reflect the following assumptions:
  - Cash flows are extrapolated up to five years using expected growth rates in line with management’s best estimates. Growth rates reflect expectations of sales growth, operating costs and margin, based on past experience and external sources of information. A simple average of these projections serves as the estimation of the recoverable amount of the cash-generating units. Management has no information which would indicate that any of the scenarios are more likely than others;
  - The five-year forecast period is extended by up to an additional ten years at acquisition date for some intangible assets and goodwill when management believes that this period is justified by the maturity of the market and expects to achieve growth in excess of the terminal growth rate driven by Diageo’s sales, marketing and distribution expertise. These cash flows beyond the five-year period are projected using steadily or progressively declining growth rates.

### Other intangibles

- Other intangibles principally comprise distribution rights. Diageo owns the global distribution rights for Ketel One vodka products in perpetuity, and the Directors believe that it is appropriate to treat these rights as having an indefinite life for accounting purposes. The carrying value at 30 June 2023 was £1,428 million (2022 – £1,488 million).

<table>
<thead>
<tr>
<th>Principal markets</th>
<th>2022 £ million</th>
<th>2023 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>767</td>
<td>773</td>
</tr>
<tr>
<td>Turkey</td>
<td>216</td>
<td>255</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>124</td>
<td>141</td>
</tr>
<tr>
<td>Greater China</td>
<td>673</td>
<td>747</td>
</tr>
<tr>
<td>India</td>
<td>161</td>
<td>142</td>
</tr>
<tr>
<td>Latin America and Caribbean - Mexico</td>
<td>286</td>
<td>229</td>
</tr>
<tr>
<td>Other cash-generating units</td>
<td>2,237</td>
<td>2,297</td>
</tr>
</tbody>
</table>

Goodwill and intangible assets are reviewed annually, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable.
The main exception is India and the US brands, where the forecast period is extended by an additional one year of detailed forecasts. Cash flows for the subsequent years after the forecast period are extrapolated based on a terminal growth rate which does not exceed the long-term annual inflation rate of the country or region. Discount rates. The discount rates used are weighted average cost of capital which is based on a weighted average taking into account the country or countries where sales are made.

For goodwill, these assumptions are based on the cash-generating unit or group of units to which the goodwill is attributable. For brands, they are based on a weighted average taking into account the country or countries where sales are made.

The pre-tax discount rates, terminal and long-term growth rates used for impairment testing are as follows:

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Part of the Discount Rate</th>
<th>Terminal Growth Rate</th>
<th>Long-term Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America - United States</td>
<td>95%</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>Europe</td>
<td>9%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>12%</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Turkey</td>
<td>18%</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>10%</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>Australia</td>
<td>10%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Korea</td>
<td>11%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>India</td>
<td>16%</td>
<td>15%</td>
<td>4%</td>
</tr>
<tr>
<td>Greater China</td>
<td>11%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>16%</td>
<td>3%</td>
<td>12%</td>
</tr>
<tr>
<td>Brazil</td>
<td>13%</td>
<td>3%</td>
<td>6%</td>
</tr>
</tbody>
</table>

As a result of the impairment review, in the year ended 30 June 2023, an impairment charge of £135 million in respect of the McDowell’s brand and £7 million in respect of the Director’s Special brand was recognised in exceptional operating items. Value in use and fair value less costs of disposal methodologies were both considered to assess the recoverable amount. The value in use that was calculated exceeded the fair value less costs of disposal. The charge is mainly driven by strategic change costs of disposal.

In the year ended 30 June 2022, Diageo decided to wind down its operations in Russia. As a result, an impairment charge of £238 million was recognised in exceptional operating items in respect of some brands where book value was not recoverable. The charge is mainly driven by the adverse inflationary environment and the reduction in forecast cash flow assumptions in Lower Prestige and Popular segments in India. The brand impairment reduced the deferred tax liability by £11 million.

The net book value of land and buildings comprises freeholds of £1,481 million (2022 – £1,444 million), long leaseholds of £3 million (2022 – £3 million) and short leaseholds of £89 million (2022 – £40 million). Depreciation was not charged on £141 million (2022 – £114 million) of land.

Property, plant and equipment - continues

<table>
<thead>
<tr>
<th>Land and buildings £ million</th>
<th>Plant and equipment £ million</th>
<th>Future cash inflows £ million</th>
<th>Future cash outflows £ million</th>
<th>terminal value £ million</th>
<th>Under construction £ million</th>
<th>Total £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>2022</td>
<td>2023</td>
<td>2022</td>
<td>2023</td>
<td>2022</td>
<td>2023</td>
</tr>
<tr>
<td>2,660</td>
<td>5,118</td>
<td>2,780</td>
<td>5,261</td>
<td>130</td>
<td>542</td>
<td>9,569</td>
</tr>
<tr>
<td>(64)</td>
<td>(141)</td>
<td>(12)</td>
<td>(542)</td>
<td>(2)</td>
<td>(324)</td>
<td></td>
</tr>
<tr>
<td>Sales of businesses</td>
<td></td>
<td>31</td>
<td>41</td>
<td>—</td>
<td>—</td>
<td>72</td>
</tr>
<tr>
<td>Exceptional accelerated depreciation</td>
<td></td>
<td>177</td>
<td>249</td>
<td>10</td>
<td>13</td>
<td>324</td>
</tr>
</tbody>
</table>

The discount rates used are weighted average cost of capital which

The brand impairment reduced the deferred tax liability by £13 million.

Further, in the year ended 30 June 2022, an impairment charge of £238 million was recognised in exceptional operating items in respect of some brands where book value was not recoverable. The charge is mainly driven by strategic change costs of disposal.

As a result of the impairment review, in the year ended 30 June 2023, an additional impairment charge of £54 million was recognised in exceptional operating items in respect of some brands where book value was not recoverable. The charge is mainly driven by strategic change costs of disposal. Value in use and fair value less costs of disposal methodologies were both considered to assess the recoverable amount. The value in use that was calculated exceeded the fair value less costs of disposal. The brand impairment reduced the deferred tax liability by £3 million.

The net book value of land and buildings comprises freeholds of £1,481 million (2022 – £1,444 million), long leaseholds of £3 million (2022 – £3 million) and short leaseholds of £89 million (2022 – £40 million). Depreciation was not charged on £141 million (2022 – £114 million) of land.
Biological assets held by the group consist of agave (Agave Azul Tequilana Weber) plants. The harvested plants are used during the production of tequila. Biological assets are measured at fair value less costs to sell on initial recognition and at the end of each reporting period based on the present value of future cash flows discounted at an appropriate rate for Mexico. Agricultural produce is measured at fair value less costs to sell at the point of harvest which is used as the cost of inventory when the harvested agave is transferred.

### Changes in biological assets were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Biological assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>£ million</td>
</tr>
<tr>
<td>At 30 June 2022</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>Exchange differences</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Transferred to inventories</td>
<td>(8)</td>
<td></td>
</tr>
<tr>
<td>Fair value change</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Farming cost capitalised</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>At 30 June 2023</td>
<td>156</td>
<td></td>
</tr>
</tbody>
</table>

At 30 June 2023, the number of agave plants was approximately 37 million (£22 – 33 million), ranging from new plantations up to seven-year-old plants.

### 12. Leases

#### Accounting policies

Where the group is the lessee, all leases are recognised on the balance sheet as right-of-use assets and depreciated on a straight-line basis with the charge recognised in cost of sales or in other operating items depending on the nature of the costs. The liability, recognised as part of net borrowings, is measured at a discounted value and any interest is charged to finance charges.

The group recognises services associated with a lease as other operating expenses. Payments associated with leases where the value of the asset at the time it is lower than £5,000 (leases of low value assets) and leases with a lease term of 12 months or less (short-term leases) are recognised as operating expenses. A judgement is made on the lease liability at initial recognition includes determining the lease term where extension or termination options exist. In such instances, any economic incentive to retain or end a lease are considered and extension periods are only included when it is considered reasonably certain that an option to extend a lease will be exercised.

### 13. Other investments

#### Accounting policies

Other investments are equity investments that are not classified as investments in associates or joint arrangements nor investments in subsidiaries. They are included in non-current assets. Subsequent to initial measurement, other investments are stated at fair value. Gains and losses arising from the changes in fair value are recognised in the income statement or in other comprehensive income on a case by case basis. Accumulated gains and losses included in other comprehensive income are not recycled to the income statement. Dividends from other investments are recognised in the consolidated income statement.

Loans receivable are non-derivative financial assets that are not classified as equity investments. They are subsequently measured either at amortised cost using the effective interest method less allowance for impairment or at fair value with gains and losses arising from changes in fair value recognised in the income statement or in other comprehensive income that are recycled to the income statement on the derecognition of the asset. Allowances for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward-looking data. Such allowances are measured as either 12 months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

### 14. Post employment benefits

#### Accounting policies

The group’s principal post employment funds are defined benefit plans. In addition, the group has defined contribution plans, unfunded post employment medical benefit liabilities and other unfunded defined benefit post employment liabilities. For post employment plans other than defined contribution plans, the amount charged to operating profit is the cost of accruing pension benefits promised to employees over the year, plus any changes arising on benefits granted to members by the group during the year. Net finance charges comprise the net deficit/surplus on the plans at the beginning of the year, adjusted for cash flows in the year, multiplied by the discount rate for plan liabilities. The differences between the fair value of the plans’ assets and the present value of the plans’ liabilities are disclosed as an asset or liability on the consolidated balance sheet. Any differences due to changes in assumptions or experience are recognised in other comprehensive income. The amount of any pension fund asset recognised on the balance sheet is limited to any future refunds from the plan or the present value of reductions in future contributions to the plan.

Contributions paid by the group in respect of defined contribution plans are charged to operating profit as incurred.

#### Critical accounting estimates and judgements

Application of IAS 19 requires the exercise of estimate and judgement in relation to various assumptions.

Diageo determines the assumptions on a country by country basis in conjunction with its actuaries. Estimates are required in respect of uncertain future events, including the life expectancy of members of the funds, salary and pension increases, future inflation rates, discount rates and employee and pensioner demographics. The application of different assumptions could have a significant effect on the amounts reflected in the income statement, other comprehensive income and the balance sheet. There may be interdependencies between the assumptions.

Where there is an accounting surplus on a defined benefit plan, management judgement is necessary to determine whether the group can obtain economic benefits through a refund of the surplus or by reducing future contributions to the plan.

#### (a) Post employment benefit plans

The group operates a number of pension plans throughout the world designed in accordance with local conditions and practices. Diageo’s most significant plans are defined benefit plans and are funded by payments to separately administered trusts or insurance companies. The group also operates a number of plans that are generally unfunded, primarily in the United States, which provide to employees post employment medical benefits.

The principal plans are in the United Kingdom, Ireland, the United States where benefits are based on employees’ length of service and salary at retirement. All valuations were performed by independent actuaries using the projected unit credit method to determine pension costs.
The Diageo Pension Scheme (DPS, the UK Scheme) closed to new members in 196 Diageo and the active member community. For the Irish Scheme, Diageo are nominated by the members of the DPS, member nominated the plans’ beneficiaries. For DPS, the trustee is Diageo Pension Trust administered by trustees who are required to act in the best interests of

**FINANCIAL STATEMENTS**

### Gains on curtailments and settlements

<table>
<thead>
<tr>
<th>Plan</th>
<th>2021 £ million</th>
<th>2020 £ million</th>
<th>2019 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>9,892</td>
<td>9,445</td>
<td>447</td>
</tr>
<tr>
<td>Ireland</td>
<td>8,399</td>
<td>(7,234)</td>
<td>1,165</td>
</tr>
<tr>
<td>Other</td>
<td>(1,435)</td>
<td>785</td>
<td>(650)</td>
</tr>
<tr>
<td>Total</td>
<td>6,846</td>
<td>(6,252)</td>
<td>594</td>
</tr>
</tbody>
</table>

### Experience (losses)/gains

- Actual returns less amounts included in
- Other comprehensive (loss)/income(1)
  - Contributions by the group 128
  - Settlements paid(2) 52
  - Employee contributions 5
  - Benefits paid 472
  - Total 6,846

In addition to the change in respect of defined benefit post employment plans, contributions to the group’s defined contribution plans were £44 million (2022 – £33 million; 2019 – £255 million). The movements in the net surplus for the two years ended 30 June 2023 is set out below:

<table>
<thead>
<tr>
<th>Plan</th>
<th>2021 £ million</th>
<th>2020 £ million</th>
<th>2019 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>4,578</td>
<td>4,045</td>
<td>5,041</td>
</tr>
<tr>
<td>Ireland</td>
<td>1,588</td>
<td>(1,310)</td>
<td>1,645</td>
</tr>
<tr>
<td>Other</td>
<td>443</td>
<td>410</td>
<td>408</td>
</tr>
<tr>
<td>Total</td>
<td>6,580</td>
<td>(1,255)</td>
<td>3,094</td>
</tr>
</tbody>
</table>

### Other comprehensive (loss)/income(1)

- Contributions by the group 1,435
  - Other comprehensive (loss)/income(1) 1,435
  - Total 7,018

The disclosures have been prepared in accordance with IFRIC 14. In particular, where the calculation for a plan results in a surplus, the restriction is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan, and any additional liabilities are recognised as required. At 30 June 2022, the DFS had a net surplus of £889 million (2022 – £1,174 million) and the GIGPS had a net surplus of £260 million (2022 – a surplus of £221 million; 2021 a deficit of £77 million) and other schemes in a surplus totalled of £11 million (2022 – £185 million; 2021 – £178 million). Both of these surpluses have been recognised, with no provision made against them, as they are expected to be recoverable through a combination of a reduction in future cash contributions or ultimately via a cash refund when the last member’s obligations have been met.

**(b) Principal risks and assumptions**

The material post employment plans are not exposed to any unusual, entity-specific or scheme-specific risks but there are general risks.

- Inflation - The majority of the plans’ obligations are linked to inflation. Higher inflation will lead to increased liabilities which is partially offset by the plans holding inflation linked gilts, swaps and caps against the level of inflationary increases.

**Interest rate** - The plan liabilities are determined using discount rates derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities though this might be partially offset by an increase in the value of the bonds held by the post employment plans.

- Mortality - The majority of the obligations are to provide benefits for the life of the members and their partners, so any increase in the expectancy will result in an increase in the plans’ liabilities.

**Asset returns** - Assets held by the pension plans are invested in a diversified portfolio of equities, bonds and other assets. Volatility in asset values will lead to movements in the net deficit/surplus reported in the consolidated balance sheet for post employment plans which in addition will also impact the post employment expense in the consolidated income statement.

The following weighted average assumptions were used to determine the group’s deficit/surplus in the main post employment plans at 30 June in the relevant year. The assumptions used to calculate the charge/credit in the consolidated income statement for the year ending 30 June are based on the assumptions disclosed at the previous 30 June.

**(1)** The salary increase assumption in the United States is not a significant assumption as only a minimal amount of members’ pension entitlement is dependent on a member’s projected final salary.

**(2)** The salary increase assumptions include an allowance for age-related promotional salary increases.

For the principal UK and Irish pension funds, the table below illustrates the expected age at death of an average worker who retires currently at the age of 65, and one who is currently aged 45 and subsequently retires at the age of 65:

### Age at death

<table>
<thead>
<tr>
<th>United Kingdom(2)</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>86.8</td>
<td>87.1</td>
<td>87.2</td>
<td>87.7</td>
</tr>
<tr>
<td>Female</td>
<td>88.4</td>
<td>88.7</td>
<td>88.6</td>
<td>89.1</td>
</tr>
</tbody>
</table>

**(1)** Based on the CMI’s # mortality tables with scaling factors based on the experience of the plan and where people live, with suitable future improvements. **(2)** Based on the CMI’s # mortality tables with scaling factors based on the experience of the plan, with suitable future improvements.

For the significant assumptions, the following sensitivity analyses estimate the potential impacts on the consolidated income statement for the year ending 30 June 2024 and on the plans liabilities at 30 June 2023:

### Summary of sensitivity analyses

<table>
<thead>
<tr>
<th>Plan</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>259</td>
<td>255</td>
</tr>
<tr>
<td>Ireland</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Other</td>
<td>32</td>
<td>31</td>
</tr>
</tbody>
</table>

The table year ended 30 June 2022 includes settlement gains of £17 million in respect of the Enhanced Transfer Values (ETV) exercise carried out in the Irish Schemes and post service gains of £28 million as a result of the changes of the benefits in the Irish Scheme. In the year ended 30 June 2021, the settlement gains of £48 million is in respect of the equalisation of Guaranteed Minimum Pensions (GMP) benefits for men and women.

**(1)** The (change) in benefits is the present value of the following countries:

<table>
<thead>
<tr>
<th>Plan</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>Ireland</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>United States</td>
<td>32</td>
<td>31</td>
</tr>
<tr>
<td>Other</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

Benefit risk

- Effect of 0.15% increase in discount rate £2
- Effect of 0.5% increase in discount rate £2

The sensitivity analyses above have been determined based on reasonable possible changes of the respective assumptions and may not be representative of the actual change. Sensitivity is calculated on a change in the key assumption while holding all other assumptions constant. The sensitivity to inflation includes the impact on all inflation linked assumptions (e.g. pension increases and salary increases where appropriate).

**Notes to financial statements**

**(1)** The mandatory and additional minimum funding contributions and liquidity available for members are calculated using the earlier assumptions of service gain related to the plan years ended 30 June 2023.

**(2)** The calculations have been determined based on reasonable possible changes to the respective assumptions and may not be representative of the actual change.
The asset classes include some cash holdings that are temporary. This cash is likely to be invested imminently and so has been included in the asset class where it is anticipated to be invested in the long term.

Total cash contributions by the group to all post employment plans in the year ending 30 June 2024 are estimated to be approximately £75 million ($95 million).

The discount rates used are based on the yields of high-quality fixed income investments. For the UK plans, which represent approximately 65% of total plan liabilities, the discount rate is determined by reference to the yields seen on AA-rated corporate bonds for which the timing and amount of cash flows are similar.

An analysis of the fair value of the plan assets is as follows:

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th>Ireland</th>
<th>United States and other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quoted</td>
<td>Quoted</td>
<td>Quoted</td>
<td>Quoted and unquoted</td>
<td></td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
<td>£ million and up to £ million</td>
<td>£ million</td>
</tr>
<tr>
<td>Equities</td>
<td>12,916</td>
<td>291</td>
<td>54</td>
<td>1,305</td>
</tr>
<tr>
<td>Bonds</td>
<td>18,486</td>
<td>6</td>
<td>8</td>
<td>104</td>
</tr>
<tr>
<td>Loan securities</td>
<td>13</td>
<td>526</td>
<td>84</td>
<td>623</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>2,351</td>
<td>826</td>
<td>81</td>
<td>3,077</td>
</tr>
<tr>
<td>Liability Driven Investment (LDI)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Property</td>
<td>29,462</td>
<td>62</td>
<td>1</td>
<td>554</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest rate and inflation swaps</td>
<td>–</td>
<td>(77)</td>
<td>(11)</td>
<td>(88)</td>
</tr>
<tr>
<td>Cash and other</td>
<td>46</td>
<td>547</td>
<td>69</td>
<td>453</td>
</tr>
<tr>
<td>Total bid value of assets</td>
<td>2,491</td>
<td>2,087</td>
<td>1,173</td>
<td>8,946</td>
</tr>
</tbody>
</table>

The discount rates used are based on the yields of high-quality fixed income investments. For the UK plans, which represent approximately 65% of total plan liabilities, the discount rate is determined by reference to the yields seen on AA-rated corporate bonds for which the timing and amount of cash flows are similar.

An analysis of the fair value of the plan assets is as follows:

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th>Ireland</th>
<th>United States and other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quoted</td>
<td>Quoted</td>
<td></td>
<td>Quoted and unquoted</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
<td></td>
<td>£ million and up to £ million</td>
</tr>
<tr>
<td>Equities</td>
<td>23,108</td>
<td>319</td>
<td>70</td>
</tr>
<tr>
<td>Bonds</td>
<td>2,860</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loan securities</td>
<td>11</td>
<td>1,271</td>
<td>98</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>2,400</td>
<td>(210)</td>
<td>–</td>
</tr>
<tr>
<td>Liability Driven Investment (LDI)</td>
<td>–</td>
<td>199</td>
<td>–</td>
</tr>
<tr>
<td>Property</td>
<td>28,716</td>
<td>74</td>
<td>1</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>107</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest rate and inflation swaps</td>
<td>–</td>
<td>(900)</td>
<td>–</td>
</tr>
<tr>
<td>Cash and other</td>
<td>24</td>
<td>481</td>
<td>7</td>
</tr>
<tr>
<td>Total bid value of assets</td>
<td>2,532</td>
<td>3,508</td>
<td>9</td>
</tr>
</tbody>
</table>

The projected benefit payments are based on the assumptions underlying the assessment of the obligations, including inflation. They are disclosed undiscounted and therefore appear large relative to the discounted value of the plan liabilities recognised on the consolidated balance sheet. They are in respect of benefits that have accrued at the balance sheet date and make no allowance for any benefits to be accrued subsequently.

Information on transactions between the group and its pension plans is given in note 21.

The discount rates used are based on the yields of high-quality fixed income investments. For the UK plans, which represent approximately 65% of total plan liabilities, the discount rate is determined by reference to the yields seen on AA-rated corporate bonds for which the timing and amount of cash flows are similar.

An analysis of the fair value of the plan assets is as follows:

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th>Ireland</th>
<th>United States and other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quoted</td>
<td>Quoted</td>
<td></td>
<td>Quoted and unquoted</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
<td></td>
<td>£ million and up to £ million</td>
</tr>
<tr>
<td>Equities</td>
<td>102,252</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Bonds</td>
<td>18,436</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loan securities</td>
<td>5,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest rate and inflation swaps</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Cash and other</td>
<td>241</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total bid value of assets</td>
<td>117,732</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

The discount rates used are based on the yields of high-quality fixed income investments. For the UK plans, which represent approximately 65% of total plan liabilities, the discount rate is determined by reference to the yields seen on AA-rated corporate bonds for which the timing and amount of cash flows are similar.

An analysis of the fair value of the plan assets is as follows:

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th>Ireland</th>
<th>United States and other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quoted</td>
<td>Quoted</td>
<td></td>
<td>Quoted and unquoted</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
<td></td>
<td>£ million and up to £ million</td>
</tr>
<tr>
<td>Equities</td>
<td>15,656</td>
<td>491</td>
<td>30</td>
</tr>
<tr>
<td>Bonds</td>
<td>8,910</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loan securities</td>
<td>11</td>
<td>1,271</td>
<td>98</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>1,382</td>
<td>(210)</td>
<td>–</td>
</tr>
<tr>
<td>Liability Driven Investment (LDI)</td>
<td>–</td>
<td>199</td>
<td>–</td>
</tr>
<tr>
<td>Property</td>
<td>21,716</td>
<td>74</td>
<td>1</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>107</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest rate and inflation swaps</td>
<td>–</td>
<td>(900)</td>
<td>–</td>
</tr>
<tr>
<td>Cash and other</td>
<td>24</td>
<td>481</td>
<td>7</td>
</tr>
<tr>
<td>Total bid value of assets</td>
<td>2,532</td>
<td>3,508</td>
<td>9</td>
</tr>
</tbody>
</table>

Maturity analysis of benefits expected to be paid

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th>Ireland</th>
<th>United States and other</th>
</tr>
</thead>
<tbody>
<tr>
<td>£ million</td>
<td>£ million</td>
<td></td>
<td>£ million and up to £ million</td>
</tr>
<tr>
<td>Within one year</td>
<td>302</td>
<td>295</td>
<td>73</td>
</tr>
<tr>
<td>Between 1 to 5 years</td>
<td>1,010</td>
<td>1,082</td>
<td>367</td>
</tr>
<tr>
<td>Between 6 to 15 years</td>
<td>2,439</td>
<td>2,556</td>
<td>727</td>
</tr>
<tr>
<td>Beyond 15 years</td>
<td>2,944</td>
<td>2,252</td>
<td>645</td>
</tr>
<tr>
<td>Total</td>
<td>8,740</td>
<td>8,972</td>
<td>2,519</td>
</tr>
</tbody>
</table>

Average duration of the defined benefit obligation

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th>Ireland</th>
<th>United States and other</th>
</tr>
</thead>
<tbody>
<tr>
<td>years</td>
<td>years</td>
<td>years</td>
<td>years</td>
</tr>
<tr>
<td>14.5</td>
<td>14</td>
<td>9</td>
<td>9</td>
</tr>
</tbody>
</table>

The projected benefit payments are based on the assumptions underlying the assessment of the obligations, including inflation. They are disclosed undiscounted and therefore appear large relative to the discounted value of the plan liabilities recognised on the consolidated balance sheet. They are in respect of benefits that have accrued at the balance sheet date and make no allowance for any benefits to be accrued subsequently.

Information on transactions between the group and its pension plans is given in note 21.

The discount rates used are based on the yields of high-quality fixed income investments. For the UK plans, which represent approximately 65% of total plan liabilities, the discount rate is determined by reference to the yields seen on AA-rated corporate bonds for which the timing and amount of cash flows are similar.

An analysis of the fair value of the plan assets is as follows:

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th>Ireland</th>
<th>United States and other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quoted</td>
<td>Quoted</td>
<td></td>
<td>Quoted and unquoted</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
<td></td>
<td>£ million and up to £ million</td>
</tr>
<tr>
<td>Equities</td>
<td>15,656</td>
<td>491</td>
<td>30</td>
</tr>
<tr>
<td>Bonds</td>
<td>8,910</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loan securities</td>
<td>11</td>
<td>1,271</td>
<td>98</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>1,382</td>
<td>(210)</td>
<td>–</td>
</tr>
<tr>
<td>Liability Driven Investment (LDI)</td>
<td>–</td>
<td>199</td>
<td>–</td>
</tr>
<tr>
<td>Property</td>
<td>21,716</td>
<td>74</td>
<td>1</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>107</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest rate and inflation swaps</td>
<td>–</td>
<td>(900)</td>
<td>–</td>
</tr>
<tr>
<td>Cash and other</td>
<td>24</td>
<td>481</td>
<td>7</td>
</tr>
<tr>
<td>Total bid value of assets</td>
<td>2,532</td>
<td>3,508</td>
<td>9</td>
</tr>
</tbody>
</table>
### 15. Working capital

#### Accounting policies

**Inventories** are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, an appropriate proportion of production and other overheads, but not borrowing costs. Cost is calculated at the weighted average cost incurred in acquiring inventories. Maturing inventories and raw materials which are retained for more than one year are classified as current assets, as they are expected to be realised in the normal operating cycle.

**Trade and other receivables** are initially recognised at fair value less transaction costs and subsequently carried at amortised cost less any allowance for discounts and doubtful debts. Trade receivables arise from contracts with customers, and are recognised when performance obligations are satisfied, and the consideration due is unconditional as only the passage of time is required before the payment is received. Allowance losses are calculated by reviewing lifetime expected credit losses using historic and forward-looking data on credit risk.

**Trade and other payables** are initially recognised at fair value including transaction costs and subsequently carried at amortised costs. Contingent considerations recognised in business combinations are subsequently measured at fair value through income statement. The group evaluates supplier arrangements against a number of indicators to assess if the liability has the characteristics of a trade payable or should be classified as borrowings. This assessment considers the commercial purpose of the facility, whether payment terms are similar to customary payment terms, whether the group is legally discharged from its obligation towards suppliers before the end of the original payment term, and the group’s involvement in agreeing terms between banks and suppliers.

**Provisions** are liabilities of uncertain timing or amount. A provision is recognised if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis. The carrying amounts of provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

#### (a) Inventories

<table>
<thead>
<tr>
<th></th>
<th>2023 £ million</th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of the year</td>
<td>94</td>
<td>96</td>
<td>98</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>55</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Utilised</td>
<td>19</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>Sale of businesses</td>
<td>103</td>
<td>94</td>
<td>96</td>
</tr>
</tbody>
</table>

Inventories are disclosed net of provisions for obsolescence, on analysis of which is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work in progress</td>
<td>49</td>
<td>46</td>
</tr>
<tr>
<td>Maturing inventories</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Finished goods and goods for resale</td>
<td>1,088</td>
<td>1,100</td>
</tr>
</tbody>
</table>

Maturing inventories include whisk(e)y, rum, tequilas and Chinese white spirits. The following amounts of inventories are expected to be utilised after more than one year:

<table>
<thead>
<tr>
<th></th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work in progress</td>
<td>53</td>
</tr>
<tr>
<td>Maturing inventories</td>
<td>37</td>
</tr>
</tbody>
</table>

#### (b) Trade and other receivables

<table>
<thead>
<tr>
<th></th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>2,011</td>
<td>2,155</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>VAT recoverable and other prepaid taxes</td>
<td>271</td>
<td>15</td>
</tr>
<tr>
<td>Other receivables</td>
<td>143</td>
<td>116</td>
</tr>
<tr>
<td>Prepayments</td>
<td>229</td>
<td>3</td>
</tr>
<tr>
<td>Accrued income</td>
<td>34</td>
<td>22</td>
</tr>
</tbody>
</table>

At 30 June 2023, approximately 26%, 14% and 11% of the group’s trade receivables of £2,011 million are due from counterparties based in the United States, United Kingdom and India, respectively. Accrued income primarily represents amounts receivable from customers in respect of performance obligations satisfied but not yet invoiced.

The aged analysis of trade receivables, net of expected credit loss allowance, is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not overdue</td>
<td>1,947</td>
<td>2,194</td>
</tr>
<tr>
<td>Overdue 1 - 30 days</td>
<td>25</td>
<td>19</td>
</tr>
<tr>
<td>Overdue 31 - 60 days</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Overdue 61 - 90 days</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Overdue 91 - 180 days</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Overdue more than 180 days</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

#### (c) Trade and other payables

<table>
<thead>
<tr>
<th></th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>2,159</td>
<td>2,705</td>
</tr>
<tr>
<td>Interest payable</td>
<td>237</td>
<td>143</td>
</tr>
<tr>
<td>Tax and social security excluding income tax</td>
<td>632</td>
<td>696</td>
</tr>
<tr>
<td>Other payables</td>
<td>432</td>
<td>600</td>
</tr>
<tr>
<td>Accounts</td>
<td>1,229</td>
<td>1,635</td>
</tr>
<tr>
<td>Deferred income</td>
<td>73</td>
<td>90</td>
</tr>
<tr>
<td>Dividend payable to non-controlling interests</td>
<td>38</td>
<td>18</td>
</tr>
</tbody>
</table>

Interest payable at 30 June 2023 includes interest on non-derivative financial instruments of £27 million (2022 – £41 million). Accruals at 30 June 2023 include £561 million (2022 – £63 million) accrued discounts attributed to sales recognised. Deferred income represents amounts paid by customers in respect of performance obligations not yet satisfied. The amount of contract liabilities recognised as revenue in the current year is £95 million (2022 – £72 million). Non-current liabilities include the net present value of contingent consideration in respect of prior acquisitions of £293 million (2022 – £353 million). For further information on contingent consideration, please refer to note 16 (g).

Together with the group’s partner banks, supply chain financing (SCF) facilities are provided to suppliers in certain countries. These arrangements enable suppliers to receive funding earlier than the invoice due date at their discretion and at their own cost. Payment terms continue to be agreed directly between the group and suppliers, independently from the availability of SCF facilities. Liabilities are settled in accordance with the original due date of invoices. The group does not incur any fees or receive any rebates where the suppliers choose to utilise these facilities. The group has determined that it is appropriate to present amounts outstanding subject to SCF arrangements as trade payables. Consistent with this classification, cash flows are presented either as operating cash flows or cash flows from investing activities, when related to the acquisition of non-current assets. At 30 June 2023, the amount that has been subject to SCF and accounted for as trade payables was £727 million (2022 – £789 million).

#### (d) Provisions

<table>
<thead>
<tr>
<th></th>
<th>2022 £ million</th>
<th>2021 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange differences</td>
<td>380</td>
<td>31</td>
</tr>
<tr>
<td>Disposal of businesses</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>Provisions charged during the year</td>
<td>35</td>
<td>31</td>
</tr>
<tr>
<td>Provisions utilised during the year</td>
<td>35</td>
<td>31</td>
</tr>
<tr>
<td>Transfers from other payables</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Unwinding of discounts</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

At 30 June 2023, £155 million (2022 – £243 million) of current liabilities are non-current liabilities. Provisions have been established in respect of the discounted value of the group’s commitment to the UK and Australian Thalidomide Trusts. These provisions will be utilised over the period of the commitments up to 2037. The largest item in other provisions at 30 June 2023 is £55 million (2022 – £49 million) in respect of employee deferred compensation plans which will be utilised when employees leave the group.
Financial instruments and risk management

16. Financial instruments and risk management

Accounting policies

Financial assets and liabilities are initially recorded at fair value including, where permitted by IFRS 9, directly attributable transaction costs. For those financial assets that are not subsequently held at fair value, the group assesses whether there is evidence of impairment at each balance sheet date.

The group classifies its financial assets and liabilities into the following categories: financial assets and liabilities at amortised cost, financial assets and liabilities at fair value through income statement and financial assets at fair value through other comprehensive income.

The accounting policies for other investments and loans are described in note 12, for trade and other receivables and payables in note 15 and for cash and cash equivalents in note 17.

Financial assets and liabilities at fair value through income statement include derivative assets and liabilities. Where financial assets or liabilities are measured at current cost or fair value through other comprehensive income, the group does not apply the fair value option.

Derivative financial instruments are carried at fair value using a discounted cash flow model based on market data applied consistently for similar types of instruments. Gains and losses on derivatives that do not qualify for hedge accounting treatment are taken to the income statement as they arise.

Other financial liabilities are carried at amortised cost unless they are part of a fair value hedge relationship. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest rate method. Financial liabilities in respect of the Zacapa acquisition are recognised at fair value.

Hedge accounting

The group designates and documents certain derivatives as hedging instruments against changes in fair value of recognised assets and liabilities (fair value hedges), commodity price risk of highly probable forecasted transactions, as well as the cash flow risk from a change in exchange or interest rates (cash flow hedges) and hedges of net investments in foreign operations (net investment hedges). The designated portion of the hedging instruments is included in other financial assets and liabilities on the consolidated balance sheet. The effectiveness of such hedges is assessed at inception and on a quarterly basis, using prospective testing. Methods used for testing effectiveness include dollar offset, critical terms, regression analysis and hypothetical models.

Fair value hedges are used to manage the currency and/or interest rate risks to which the fair value of certain assets and liabilities are exposed. Changes in the fair value of the derivatives are recognised in the income statement, along with any changes in the relevant fair value of the underlying hedged asset or liability. If such a hedge relationship no longer meets hedge accounting criteria, fair value reclassification accounts will continue to be taken to the income statement while any fair value adjustments made to the underlying hedged item to that date are amortised through the income statement over its remaining life using the effective interest rate method.

Cash flow hedges are used to hedge the foreign currency risk of highly probable future foreign currency cash flows, the commodity price risk of highly probable future transactions, as well as the cash flow risk from changes in exchange or interest rates. The effective portion of the gain or loss on the derivative is recognised in other comprehensive income, while any ineffective part is recognised in the income statement.

Amounts recorded in other comprehensive income are recycled to the income statement in the same period in which the underlying foreign currency, commodity or interest exposure affects the income statement.

Net investment hedges take the form of either foreign currency borrowings or derivatives. Foreign exchange differences arising on translation of net investments are recorded in other comprehensive income and included in the reserve. Liabilities used as hedging instruments are revalued at closing exchange rates and the resulting gains or losses are also recognised in other comprehensive income, with any ineffectiveness taken to the income statement.

The group’s funding, liquidity and exposure to foreign currency and interest rate risks are managed by the group’s treasury department. The treasury department uses a range of financial instruments to manage these underlying risks.

Treasury operations are conducted within a framework of Board-approved policies and guidelines, which are recommended and monitored by the Finance Committee, chaired by the Chief Financial Officer. The policies and guidelines include benchmark exposure and/or hedging cover levels for key areas of treasury risk which are periodically reviewed by the Board following, for example, significant business, strategic or accounting changes. The framework provides for limited defined levels of flexibility in execution to allow for the optimal application of the Board-approved strategies. Transactions arising from the application of this flexibility are carried at fair-value, gains or losses are taken to the income statement as they arise and are separately monitored on a daily basis using Value at Risk analysis. In the years ended 30 June 2023 and 30 June 2022, gains and losses on these transactions were not material. The group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are initially undertaken to manage the risks arising from underlying business activities.

The group purchases insurance for commercial or, where required, for legal or contractual reasons. In addition, the group retains insurable risk where external insurance is not considered an economic means of mitigating these risks.

The Finance Committee receives a quarterly report on the key activities of the treasury department, however any exposures which differ from the defined benchmarks are reported as they arise.

(a) Currency risk

The group presents its consolidated financial statements in sterling and conducts business in many currencies. As a result, it is subject to foreign currency risk due to exchange rate movements, which will affect the group’s transactions and the translation of the results and underlying net assets of its operations. To manage the currency risk, the group uses certain financial instruments. Where hedge accounting is applied, hedges are documented and tested for effectiveness on an ongoing basis.

Hedge of net investment in foreign operations

The group hedges a certain portion of its exposure to fluctuations in the Sterling value of its foreign operations by designating borrowings held in foreign currencies and using and foreign currency forward points, forwards, swaps and other derivative financial instruments. For the year ended 30 June 2023, the group’s intention was to maintain total net investment Value at Risk to total net asset value below 20%, where Value at Risk is defined as the maximum amount of loss over a one-year period with a 95% probability confidence level.

At 30 June 2023, foreign currency borrowings designated in net investment hedge relationships amounted to £10,672 million (2022: £8,742 million), including financial derivatives.

Hedge of foreign currency debt

The group uses cross currency interest rate swaps to hedge the foreign currency risk associated with certain foreign currency denominated borrowings.

Transaction exposure hedging

The group’s policy is to hedge forecast transactions and all major currency pairs exposures up to 24 months, targeting 75% coverage for the current financial year, and on other currency exposure over the short term. The group’s exposure to foreign currency risk arising primarily on forecasted sales transactions is managed using forward agreements and options.

(b) Interest rate risk

The group has exposures to interest rate risk, arising principally on changes in US dollar, euro and sterling interest rates. To manage interest rate risk, the group manages its proportion of fixed to floating rate borrowings within limits imposed by the Board, primarily through issuing fixed and floating rate borrowings, and by utilising interest rate swaps. The Board instructs the management to aim to minimise the group’s net financial risk changes with acceptable year-on-year volatility. To facilitate operational effectiveness, interest rate swap agreements detailed for the year ended 30 June 2023 the group’s policy was to maintain fixed rate borrowings within a band of 40% to 95% of forecast net borrowings. For these calculations, net borrowings exclude interest rate related fair value adjustments.

The majority of the group’s existing interest rate derivatives are designated as hedges and are expected to be effective. Fair value of these derivatives is recognised in the income statement, along with any changes in the relevant fair value of the underlying hedged asset or liability.

The interest rate profile of the group’s net borrowings is as follows:

<table>
<thead>
<tr>
<th>Interest rate</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>15,244</td>
<td>12,692</td>
<td>12,702</td>
<td>3.9</td>
</tr>
<tr>
<td>2022</td>
<td>15,006</td>
<td>12,893</td>
<td>12,893</td>
<td>2.7</td>
</tr>
</tbody>
</table>

For the year ended 30 June 2023, the group’s policy was to maintain fixed rate borrowings within a band of 40% to 95% of forecast net borrowings. For these calculations, net borrowings exclude interest rate related fair value adjustments.

IBOR reform

In accordance with the UK Financial Conduct Authority’s announcement on 5 March 2022, LIBOR benchmark rates were discontinued after 31 December 2023, except for the majority of the US dollar settings which are discontinued from 30 June 2023. There have been amendments to the contractual terms of IBOR referenced interest rates and the corresponding update of the hedge designations. By 30 June 2022, changes required to systems and processes in relation to the fair valuation of financial instruments were implemented and the transition had no material tax or accounting implications. The group also evaluated the implications of the reference rates changes in relation to other valuation models and credit risk, and concluded that they were not material.

In line with the help provided by the amendment, the group assumes that the interest rate benchmark on which the cash flows of the hedged item, the hedging instrument or the hedged risk are based are not altered by the transition. The derivatives transferred from IBOR to alternative rates will provide a close approximation to the extent and nature of the risk exposure in the group and therefore will not be materially different.

Included in floating rate net borrowings are interest rate swap derivatives designated in fair value hedges, with a notional amount of £2,063 million (2022: £2,893 million) whose interest rate benchmarks are based on USD LIBOR. In preparation for the discontinuation of USD LIBOR, the group have amended these agreements to reference the Secured Overnight Financing Rate (SOFR) resulting in economically equivalent trades upon transition. The floating legs of the transitioned trades will become SOFR based subsequent to the last USD LIBOR based interest payments.

(c) Commodity price risk

Commodity price risk is managed in line with the principles approved by the Board, including through long-term purchase contracts with suppliers or, where appropriate, derivative contracts. The group’s policy is to maintain the Value at Risk of commodity price risk arising from commodity exposures below 75 tbps of forecast gross profit in any given financial year. Where derivative contracts are used, the commodity price risk exposure is hedged up to 24 months of forecast volume through exchange traded and over-the-counter contracts (futures, forwards and swaps) and cash flow hedge accounting is applied.
(d) Market risk sensitivity analysis

The group uses a sensitivity analysis that estimates the impact on the consolidated statement of income of the most sensitive income or expense line items. The analysis is based on the assumption that there is either an instantaneous increase or decrease of 5% in market interest rates or 10% strengthening or weakening in sterling against all other currencies, from the rates applicable for each class of financial instruments on the consolidated balance sheet at these dates with all other variables remaining constant. The sensitivity analysis excludes the impact of market risk on the net post employment benefit liabilities and assets, and corporate tax payable. This analysis is for illustrative purposes only, as in practice interest and foreign exchange rates rarely change in isolation.

The sensitivity analysis estimates the impact of changes in interest and foreign exchange rates. All hedges are expected to be highly effective for this analysis and it considers the impact of all financial instruments including derivative financial assets, cash and cash equivalents, borrowings and other financial assets and liabilities. The results of the sensitivity analysis should not be considered as projections of likely future events, gains or losses as actual results in the future may differ materially due to developments in the global financial markets which may cause fluctuations in interest and exchange rates to vary from the hypothetical amounts disclosed in the table below:

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. Credit risk arises on cash balances (including bank deposits and cash and cash equivalents), derivative financial instruments, and credit exposures to customers, including outstanding loans, trade and other receivables, financial guarantees and commercial paper arrangements. The carrying amount of financial assets of £4,637 million (2022 – £5,445 million) represents the group’s exposure to credit risk at the balance sheet date as disclosed in note (l), excluding the impact of any collateral held or other credit enhancements. A financial asset is in default when the group is not able to pay its contractual obligations. Financial assets are written off when there is no reasonable expectation of recovery.

Credit risk is managed separately for financial and business related credit exposures.

The group has available undrawn committed bank facilities as follows:

<table>
<thead>
<tr>
<th>Facility Type</th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total available</td>
<td>£218 million</td>
<td>£218 million</td>
</tr>
</tbody>
</table>

(f) Liquidity risk

Liquidity risk is the risk of Diageo encountering difficulties in meeting its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The group uses short-term commercial paper to finance its day-to-day operations. The group’s policy with regard to the expected maturity profile of borrowings is to limit the amount of such borrowings maturing within 12 months to 50% of gross borrowings less money market demand deposits, and the level of commercial paper to 30% of gross borrowings less money market deposits. In addition, the group’s policy is to maintain backup facilities with relevant banks to support commercial paper obligations.

The following tables provide an analysis of the anticipated contractual cash flows including interest payable for the group’s financial liabilities and derivative instruments on an undiscounted basis. Where interest payments are calculated at a floating rate, rates of each cash flow until maturity of the instruments are calculated based on the forward curve prevailing at the respective year end. The gross cash flows of cross currency swaps are presented for the purposes of this table. All other derivative contracts are presented on a net basis. Financial assets and liabilities are presented in the consolidated balance sheet although, in practice, the group uses netting arrangements to reduce its liquidity requirements on these instruments.

<table>
<thead>
<tr>
<th>Facility Type</th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total available</td>
<td>£218 million</td>
<td>£218 million</td>
</tr>
</tbody>
</table>

(g) Fair value measurements

Fair value measurements of financial instruments are presented through the use of a three-level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.

The following table sets out the financial instruments to which fair value measurements are applied and the relevant hierarchy levels used in the discounted cash flow calculation incorporating the instrument’s term, notional amount and discount rate, and taking credit risk into account. Significant inputs to the valuation of these instruments are categorised as level 2 in the hierarchy.

The financial liabilities include a put option, which does not have an expiry date, held by Industrias Licoreras de Guatemala (ILG) to sell an expired forward on threerand to Diageo. The liability is fair valued using the discounted cash flow method and at 30 June 2023, an aggregate amount of €218 million (2022 – €218 million) is recognised as a liability with the put option included in retained earnings. As the valuation of this option uses assumptions not observable in the market, it has been categorised as level 3 in the hierarchy. As at 30 June 2023, because it is unknown when or if ILG will exercise the option, the liability is measured as if the exercise date is on the last day of the next financial year considering future performance. The
option is sensitive to reasonably possible changes in assumptions; if the option were to be exercised as at 30 June 2025, the fair value of the liability would increase by approximately £30 million.

Included in other financial liabilities, the contingent consideration on acquisition of businesses represents the present value of payments up to £422 million, which are expected to be paid over the next eight years. Contingent considerations linked to certain volume targets at 30 June 2023 included £113 million in respect of the acquisition of Aviation Gin and Davos Brands (2022 – £57 million), £59 million in respect of the acquisition of 21Seeds (2022 – £59 million) and £18 million in respect of acquisition of Lone River Ranch Water (2022 – £57 million). Contingent consideration of £70 million in respect of the acquisition of Pan Pago Rum (2022 – £nil) is linked to certain financial performance targets. Contingent considerations are fair valued based on discounted cash flow method using assumptions not observable in the market. Contingent considerations are sensitive to possible changes in assumptions; a 10% increase or decrease in volume would increase or decrease the fair value of contingent considerations linked to certain volume targets by approximately £30 million and £50 million, respectively, and a 10% increase or decrease in cash flows would increase or decrease the fair value of contingent considerations linked to certain financial performance targets by approximately £25 million. There were no significant changes in the measurement and valuation techniques, or significant transfers between the levels of the financial assets and liabilities in the year ended 30 June 2023. The group’s financial assets and liabilities measured at fair value are categorised as follows:

<table>
<thead>
<tr>
<th>2023 £ million</th>
<th>2022 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative assets</td>
<td>594</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>(440)</td>
</tr>
<tr>
<td>Valuation techniques based on observable market input (Level 2)</td>
<td>154</td>
</tr>
<tr>
<td>Financial assets - other</td>
<td>192</td>
</tr>
<tr>
<td>Financial liabilities - other</td>
<td>(529)</td>
</tr>
<tr>
<td>Valuation techniques based on unobservable market input (Level 3)</td>
<td>(353)</td>
</tr>
</tbody>
</table>

In the years ended 30 June 2023 and 30 June 2022, the increase in financial assets - other of £8 million (2022 – £46 million) is principally in respect of acquisitions. The movements in level 3 instruments, measured on a recurring basis, are as follows:

[b] Results of hedge relationships

The group targets one or one hedge ratio. The strength of the economic relationship between the hedged items and the hedging instruments is analysed on an ongoing basis. Ineffectiveness can arise from subsequent change in the forecast transactions as a result of differences in timing, cash flows or value except when the critical terms of the hedging instrument and hedged item are closely aligned. The change in the credit risk of the hedging instruments or the hedged items is not expected to be the primary factor in the economic relationship.

F I N A N C I A L  S T A T E M E N T S
FINANCIAL STATEMENTS continued

The following table sets out information regarding the effectiveness of hedging relationships designated by the group, as well as the impacts on the income statement and other comprehensive income:

<table>
<thead>
<tr>
<th>Year</th>
<th>Derivatives in net investment hedges of foreign operations</th>
<th>Fair value hedge hedged item</th>
<th>Derivatives in cash flow hedge (foreign currency debt)</th>
<th>Derivatives in cash flow hedge (commodity price risk)</th>
<th>Other instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Derivatives in fair value hedge relationship</td>
<td>Fair value hedge hedged item</td>
<td>Derivatives in cash flow hedge (commodity price risk)</td>
<td>Derivatives in cash flow hedge (commodity price risk)</td>
<td>Other instruments</td>
</tr>
<tr>
<td></td>
<td>Instruments in fair value hedge relationship</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

At the beginning of the year £ million: Borrowings (283) — 449 (1,502) — 1,701 (1,401) 200
Total financial liabilities 4,858 — 1,306 (1,399) 747

Total net financial liabilities 949 — 21,422 (885) 2,276 7,360 15,916

Total net financial liabilities/assets 375 — 17,717 (366) 18,120 2,854 15,266

2023

Other investments and loans (27) 192 — 31 2 225 225
Trade and other receivables — 2,234 517 2,731 2,750 31
Cash and cash equivalents — 1,439 1,439 — — —
Derivatives in cash flow hedge (foreign currency debt) 348 — — — 348 348
Derivatives in cash flow hedge (foreign currency risk) 192 — — — 192 147 45
Derivatives in cash flow hedge (commodity price risk) 2 — — — 2 2 —
Other instruments 198 — — 198 198 —
Leases 740 — 1 741 347 394
Total other financial assets 912 — 3,715 519 5,156 4,506 650

2022

Other investments and loans (27) 180 4 15 1 200 200
Trade and other receivables — 2,365 625 2,970 2,933 37
Cash and cash equivalents — 2,285 — 2,285 — —
Derivatives in fair value hedge (interest rate risk) — 1 — 1 —
Derivatives in cash flow hedge (foreign currency debt) 367 — — 367 43 324
Derivatives in cash flow hedge (foreign currency risk) 32 — — 32 15 17
Derivatives in cash flow hedge (commodity price risk) 57 — — 57 57 —
Other instruments 136 — — 136 136 —
Leases — — 3 3 3 —
Total other financial assets 593 — 3 596 258 345

Total financial assets 773 4 6,648 636 6,203 5,449 582

2023

Other investments and loans (27) 136 — 57 136 57 57 —
Trade and other receivables 593 — 3 596 258 345
Cash and cash equivalents 773 — 6,648 636 6,203 5,449 582
Borrowings (27) — — (16,020) — (16,020) (1,522) (14,498)
Trade and other payables 192 — (4,774) (1,122) (6,216) (5,887) (380)
Derivatives in fair value hedge (interest rate risk) (384) — — — (384) (1) (383)
Derivatives in cash flow hedge (foreign currency risk) (109) — — — (109) (88) (21)
Derivatives in cash flow hedge (commodity price risk) (7) — — — (7) (5) (2)
Derivatives in net investment hedge 1 — — 1 — —
Other instruments (127) — — (117) — (388) (388)
Leases 198 — — 198 198 —
Total other financial liabilities (15) — 1 156 156 156 156

Total other financial liabilities 458 — 1,306 (1,399) 747

Total net financial liabilities/assets 375 — 21,422 (885) 2,276 7,360 15,916

(1) Other investments and loans are included in those in respect of associates.
(2) Borrowings are defined as gross borrowings excluding lease liabilities and the fair value of derivative instruments.

At 30 June 2023 and 30 June 2022, the carrying values of cash and cash equivalents, other financial assets and liabilities approximate fair values.

At 30 June 2023, the fair value of borrowings, based on unadjusted quoted market data, was £15,641 million (2022 – £15,628 million).
To achieve capital efficiency, provide flexibility to invest through managing the capital structure. Diageo manages its capital structure in the long-term, both by investing in the business and brands so as to achieve capital efficiency, provide flexibility to invest through managing the capital structure. Diageo manages its capital structure in the long-term, both by investing in the business and brands so as to

**17. Net borrowings**

Accounting policies

Borrowings are initially recognised at fair value net of transaction costs and are subsequently reported at amortised cost. Certain bonds are designated in fair value hedge relationships. In these cases, the amortised cost is adjusted for the fair value of the risk being hedged, with changes in value recognised in the income statement. The fair value adjustment is calculated using a discounted cash flow technique based on unadjudged market data.

Bank overdrafts form an integral part of the group’s cash management and are included as a component of net cash and cash equivalents in the consolidated statement of cash flows.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less, including money market deposits, commercial paper and investments.

Net borrowings are defined as gross borrowings (short-term borrowings and long-term borrowings plus lease liabilities plus interest rate hedging instruments, currency interest rate swaps and foreign currency forwards and swaps used to manage borrowings) less cash and cash equivalents.

**Reconciliation of movement in net borrowings**

At beginning of the year 14,137 12,109

Net decrease in cash and cash equivalents before exchange 581 665

Net increase in bonds and other borrowings(1) 950 825

Increase in net borrowings from cash flows 1,531 1,497

Exchange differences on net borrowings (109) 334

Other non-cash items(2) 32 204

Net borrowings at end of the year 15,541 14,137

---

(1) In the year ended 30 June 2023, the increase in bonds and other borrowings includes £1 million cash outflow on derivative designated in foreign point hedge (2022 – £4 million).

(2) In the year ended 30 June 2022, where non-cash items are principally in respect of fair value changes of cross currency interest rate swaps and interest rate swaps of £424 million and lease liabilities of £62 million, partially offset by the £64 million fair value change of borrowings. In the year ended 30 June 2023, net non-cash items are principally in respect of fair value changes of cross currency interest rate swaps and interest rate swaps of £424 million and lease liabilities of £62 million, partially offset by the £38 million fair value change of borrowings.
Currency basis spreads included in the hedging reserve represent the cost of hedging arising as a result of imperfections of foreign exchange markets. Exclusion of currency basis spreads would result in a £20 million credit (2022 – £24 million credit, 2021 – £22 million credit) to the hedging reserve.

(c) Own shares

Movements in own shares

<table>
<thead>
<tr>
<th>Number of own shares traded in ordinary shares (£ million)</th>
<th>September 2022</th>
<th>March 2023</th>
<th>June 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share trust arrangements</td>
<td>227</td>
<td>236</td>
<td>256</td>
</tr>
<tr>
<td>Shares purchased - share buyback programme</td>
<td>39</td>
<td>55</td>
<td>89</td>
</tr>
<tr>
<td>Shares used to satisfy options</td>
<td>(2)</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>Shares purchased - share buyback programme</td>
<td>31</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Shares cancelled</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Share trust arrangements</td>
<td>223</td>
<td>219</td>
<td>216</td>
</tr>
<tr>
<td>Shares purchased - share buyback programme</td>
<td>219</td>
<td>183</td>
<td>184</td>
</tr>
<tr>
<td>Shares used to satisfy options</td>
<td>(2)</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>Shares purchased - share buyback programme</td>
<td>61</td>
<td>299</td>
<td>38</td>
</tr>
<tr>
<td>Shares cancelled</td>
<td>(6)</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>Share trust arrangements</td>
<td>219</td>
<td>183</td>
<td>184</td>
</tr>
<tr>
<td>Shares purchased - share buyback programme</td>
<td>61</td>
<td>299</td>
<td>38</td>
</tr>
<tr>
<td>Shares cancelled</td>
<td>(6)</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>Share trust arrangements</td>
<td>219</td>
<td>183</td>
<td>184</td>
</tr>
<tr>
<td>Shares purchased - share buyback programme</td>
<td>61</td>
<td>299</td>
<td>38</td>
</tr>
<tr>
<td>Shares cancelled</td>
<td>(6)</td>
<td>(2)</td>
<td>(2)</td>
</tr>
</tbody>
</table>

Share trust arrangements

At 30 June 2023, 113 million ordinary shares are under share trust arrangements. The employee share trusts own 3 million of ordinary shares at a price paid of 3,855 pence per share, and an aggregate cost of £13 million, including £1 million of transaction costs. The shares purchased under the share buyback programmes were cancelled. The monthly breakdown of all shares purchased and the average price paid per share (excluding expenses) for the year ended 30 June 2023 were as follows:

- **July 2022:** 1,650,507 shares at 4,650 pence per share, and an aggregate cost of £7,776 million
- **August 2022:** 1,646,883 shares at 3,177 pence per share, and an aggregate cost of £5,233 million
- **September 2022:** 2,273,236 shares at 1,074 pence per share, and an aggregate cost of £2,388 million
- **October 2022:** 1,316,844 shares at 898 pence per share, and an aggregate cost of £1,170 million
- **November 2022:** 2,607,614 shares at 1,074 pence per share, and an aggregate cost of £2,777 million
- **December 2022:** 4,577,923 shares at 708 pence per share, and an aggregate cost of £3,208 million
- **January 2023:** 7,989,195 shares at 958 pence per share, and an aggregate cost of £7,501 million
- **February 2023:** 1,767,887 shares at 1,074 pence per share, and an aggregate cost of £1,892 million
- **March 2023:** 4,333,777 shares at 958 pence per share, and an aggregate cost of £4,208 million
- **April 2023:** 2,883,950 shares at 958 pence per share, and an aggregate cost of £2,764 million
- **May 2023:** 5,196,518 shares at 958 pence per share, and an aggregate cost of £4,960 million
- **June 2023:** 10,152,639 shares at 958 pence per share, and an aggregate cost of £9,655 million

Total 37,336,456 shares at 958 pence per share, and an aggregate cost of £3,674 million.

Dividends

The proposed final dividend of £1,133 million (493 pence per share) for the year ended 30 June 2023 was approved by a duly authorised committee of the Board of Directors on 31 July 2023. This was the balance sheet date and the dividend is subject to approval by shareholders at the Annual General Meeting held on 6 October 2023.

Amounts recognised as distributions to equity shareholders in the year

- **First dividend for the year ended 30 June 2023:** 2022 – 42 pence per share; 2021 – 42 pence per share

The dividend was payable on 16 September 2023, with shares being delivered on 16 October 2023.

Employee share compensation

The group uses a number of share award and option plans to grant to its directors and employees.

The annual fair value charge in respect of the equity settled plans for the three years ended 30 June 2023 is as follows:

<table>
<thead>
<tr>
<th>Plan</th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLTIP</td>
<td>72</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>DACSIP</td>
<td>52</td>
<td>153</td>
<td>197</td>
</tr>
<tr>
<td>DLTP</td>
<td>79</td>
<td>119</td>
<td>146</td>
</tr>
<tr>
<td>DLTP</td>
<td>5</td>
<td>13</td>
<td>22</td>
</tr>
</tbody>
</table>

Total 520 | 492 | 540 |

The annual charge of approximately $2 million relates to the annual grant of the Employee Share Options (ESOs) from the DLTIP.

Executive share award plans

Executive share award plans

Executive share option plans

Savings plans

Executive share award plans

Executive share option plans

Savings plans

Executive share award plans

Executive share option plans

Savings plans

Executive share award plans

Executive share option plans

Savings plans

Executive share award plans

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Executive share option plans

Savings plans

Executive share award plans

Executive share option plans

Savings plans

Executive share award plans

Executive share option plans

Savings plans
For the three years ended 30 June 2023, the calculation of the fair value of each share award used the Monte Carlo and Black Scholes pricing model and the following assumptions:

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free interest rate</td>
<td>3.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Expected life of the awards</td>
<td>35 months</td>
<td>40 months</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>0.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Weighted average share price</td>
<td>3738.3 p</td>
<td>3541.8 p</td>
</tr>
<tr>
<td>Weighted average fair value of awards granted in the year</td>
<td>1992.7 p</td>
<td>2709 p</td>
</tr>
<tr>
<td>Number of awards granted in the year</td>
<td>1.7 million</td>
<td>2.1 million</td>
</tr>
<tr>
<td>Fair value of all awards granted in the year</td>
<td>£34 million</td>
<td>£57 million</td>
</tr>
</tbody>
</table>

Transactions on schemes
Transactions on the executive share award plans for the three years ended 30 June 2023 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of awards outstanding at 1 January</td>
<td>5.2 million</td>
<td>5.3 million</td>
<td>5.6 million</td>
</tr>
<tr>
<td>Granted</td>
<td>1.7 million</td>
<td>2.1 million</td>
<td>2.1 million</td>
</tr>
<tr>
<td>Forfeited</td>
<td>(0.1) million</td>
<td>0 million</td>
<td>(0.2) million</td>
</tr>
<tr>
<td>Number of awards outstanding at 30 June</td>
<td>4.9 million</td>
<td>5.2 million</td>
<td>5.3 million</td>
</tr>
</tbody>
</table>

The exercise price of share options outstanding at 30 June 2023 was in the range of 1709 pence - 3864.4 pence (2022 - 2704.3 pence, 2021 - 1320.3 pence - 3430.3 pence). At 30 June 2023, 2.5 million share options were exercisable at a weighted average exercise price of 2443.7 pence. Weighted average remaining contractual life of share options was five years at 30 June 2023.

19. Contingent liabilities and legal proceedings

Accounting policies

Provisions are used to account for the anticipated settlement costs of legal or other disputes against the group. It is considered to be probable that a liability exists and a reliable estimate can be made of the likely outcome. Where it is possible that a settlement may be reached or it is not possible to make a reliable estimate of the estimated financial effect, appropriate disclosure is made but no provision created.

Critical accounting judgements and estimates

Judgement is necessary in assessing the likelihood that a claim will succeed, or a liability will arise, and an estimate to quantify the possible range of any settlement. Due to the inherent uncertainty in this evaluation process, actual losses may be different from the liability originally estimated. The group may be involved in legal proceedings in respect of which it is not possible to make a reliable estimate of any expected settlement. In such cases, appropriate disclosure is provided but no provision is made and no contingent liability is quantified.

(a) Guaranteed and related matters

As of 30 June 2023, the group has no material unpromised guarantees or indemnities in respect of liabilities of third parties.

(b) Acquisition of USL shares from UBHL and related proceedings in relation to the USL transaction

On 4 July 2013, Diageo completed its acquisition, under a share purchase agreement with United Breweries (Holdings) Limited (UBHL) and various other sellers (the SPA), of shares representing 66.8% in UBHL, including shares representing 6.98% from UBHL. The SPA was signed on 9 November 2012 as part of the transaction announced by Diageo in relation to USL on that day (the Original USL Transaction).

Following a series of further transactions, as of 30 June 2023, Diageo has a 55.88% investment in USL (excluding 2.38% owned by the USL Beneficial Trust).

Prior to the acquisition from UBHL on 4 July 2013, the High Court of Karnataka (High Court) had granted leave to UBHL under the Indian Companies Act 1956 (the Leave Order) to enable the sale by UBHL to Diageo to take place (the UBHL Share Sale) notwithstanding the continued existence of certain winding-up petitions that were pending against UBHL on the date of the SPA. At the time of the completion of the UBHL Share Sale, the Leave Order remained subject to appeal. However, as stated by Diageo at the time of closing, it was not considered unlikely that any appeal process in respect of the Leave Order would ultimately conclude on a timely basis and, accordingly, Diageo waived the conditionality under the SPA relating to the absence of insolvency proceedings in relation to UBHL and acquired the 6.98% stake in UBHL at that time.

Following appeal and counter-appeal in respect of the Leave Order, this matter is now before the Supreme Court of India which has issued an order that the status quo be maintained with regard to the UBHL Share Sale pending a hearing on the matter before it. Following a number of adjournments, the next date for a substantive hearing is yet to be fixed.

For US employees, the awards are made under the Diageo plc 2017 Savings plan (for options granted up to 2017) and the Diageo 2020 Sharesave plan (for options granted from 2021).

For UK employees, awards were made under the Diageo 2009 Irish Sharesave Scheme (for options granted up to 2019) and the Diageo 2019 Irish Sharesave Scheme (for options granted in 2020). These are HMRC and Irish Revenue approved all-employee savings plans.

For ROI employees, grants from 2021 and 2022 were made under the Diageo 2020 Sharesave plan which is not an approved plan in the Republic of Ireland. These plans are made available to UK and ROI employees who are employed on the annual results announcement date. Participants can save monthly, with deductions taken directly from net pay, for a period of 3 or 5 years. In the event of termination of employment, the option to buy Diageo shares using the savings accrued at the end of the relevant savings period is set at the time of grant. Provided participants fulfil the terms set out within the relevant UK or ROI tax approved scheme rules, any gains arising from the option exercise are free from UK or ROI income tax. For the ROI Sharesave awards granted in 2021 and 2022, as these are not made under a Revenue tax approved plan, the gains from the option exercise are subject to UK income tax.

For US employees, the awards are made under the Diageo plc 2017 United States Employee Stock Purchase Plan. Employees agree to make regular monthly savings for a period of one year and acquire American Depositary Receipts (ADRs) at 15% discounted price (which is set at the time of grant) using their contributions at the end of the plan cycle. They receive the benefit of tax relief if certain conditions are satisfied.

In separate proceedings, the High Court passed a winding-up order against UBHL on 7 February 2017, and appeals filed by UBHL against that order have since been dismissed, initially by a division bench of the High Court and subsequently by the Supreme Court of India. Diageo believes the acquisition price of INR 1440 per share paid to UBHL, for the USL shares is fair and reasonable as regards UBHL, UBHL’s shareholders and UBHL’s secured and unsecured creditors. However, as the winding-up order referred to above could, absent leave or relief in other proceedings, ultimately result in Diageo losing title to the 6.98% stake in UBHL acquired from UBHL, Diageo believes, including on the basis of its rights under UBHL’s articles of association to nominate UBHL’s CEO and CFO and the right to appoint, through USL, a majority of the directors on the boards of UBHL’s subsidiaries as well as its ability to promote to nomination for up to two-thirds of UBHL’s directors for as long as the shareholding of Dr Mallya (or persons connected with him) would remain in control of UBHL and would continue to be able to consolidate USL as a subsidiary for accounting purposes regardless of the outcome of this litigation. There can be no certainty as to the outcome of the existing or any further related legal proceedings or the time frame within which they would be concluded.

(c) Continuing matters relating to Dr Vijay Mallya and affiliates

On 25 February 2016, Diageo and USL each announced that they had entered into arrangements with Dr Mallya under which he had agreed to resign from his position as a director and as chairman of USL and from his positions in USL’s subsidiaries. Diageo’s agreement with Dr Mallya (the February 2016 Agreement) provided for a payment of £51 million (£60 million) to Dr Mallya over a five-year period of which £40 million (£32 million) was paid on signing of the February 2016 Agreement with the balance being payable in equal installments of £5.7 million (£6 million) a year over five years (2017-2021). All payments were subject to and conditional on Dr Mallya’s compliance with the agreement. The February 2016 Agreement also provided for the release of Dr Mallya’s personal obligations to indemnify Diageo Holdings Netherlands B.V. (DHN) in respect of its earlier liability (£141 million (£121 million)) under a backstop guarantee of certain borrowings of Watson Limited (Watson) (a company affiliated with Dr Mallya).

On account of various breaches and other provisions of agreements between Dr Mallya and persons connected with him and Diageo and/ or USL, Diageo did not make the five instalment payments due during the winding-up period between 2017 and 2021. In addition, Diageo has also demanded that Dr Mallya repay the £40 million (£32 million) paid by Diageo in February 2016 and sought compensation for various losses incurred by the relevant members of the Diageo group.

On 16 November 2017, Diageo and other relevant members of the Diageo Group commenced claims in the High Court of Justice in England and Wales (the English High Court) against Dr Mallya in relation to various matters. At the same time DHN also commenced claims in the English High Court against Dr Mallya, his son Siddhartha Mallya, Watson and Continental Administration Services Limited (CASL) for compensation and damages relating to alleged breaches by Dr Mallya of the issues of Watson’s shares in DHN in respect of its borrowings referred to above and the breach of associated security documents. Dr Mallya, Siddhartha Mallya and the
Until completion of an initial inquiry in April 2015 into past improper transactions which identified references to certain additional parties and matters, the group carried forward full inquiry into these transactions (Additional Inquiry) which was completed in July 2016. The Additional Inquiry was initially related to take place in February 2016. However, Dr Mallya’s dispute against his banks’ cross appeal will not now be heard until April 2024, and the trial of Diageo’s appeal has been delayed from February 2024 until after these appeals have been determined.

At the stage, it is not possible to assess the extent to which the various ongoing proceedings to which USL’s equity will affect the remaining elements of the claims by Diageo and the relevant members of its group.

In the context of Diageo’s continuing efforts to resolve the matters identified in the Additional Inquiry, it will continue to pursue indications of possible recoveries from USL, which will be given due consideration in the relevant financial statements (and in audit qualifications). The company continues to manage the matters in an appropriate manner and to consider disclosure of such matters taking into account their size and the group’s ability to determine the likelihood of their possible outcomes.

The future minimum lease rentals payable in the year ended 30 June 2023, are estimated at £479 million (2022 – £11 million; 2021 – £132 million). The future minimum lease rentals at 30 June 2023, are estimated at £11 million (2022 – £11 million; 2021 – £132 million). The future cash outflows for leases that had not yet commenced, and not recognised as lease liabilities at 30 June 2023, are estimated at £11 million (2022 – £11 million; 2021 – £132 million).

The group operates in a large number of markets with complex tax and legislative regimes that are open to subjective interpretation, and for which tax authorities have the right to change tax laws over several years. As a result of these operations, and by the nature of tax laws and their interpretation, the group believes that the likelihood that the tax authorities will ultimately prevail is lower than probable but higher than remote. Due to the fiscal environment in Brazil and the possibility of further tax assessments related to the case, it cannot be ruled out that the tax authorities will ultimately prevail in challenging a small number of the matters identified in the Additional Inquiry.

The group considers disclosure of such matters taking into account their size and the group’s ability to determine the likelihood of their possible outcomes.
22. Principal group companies

The companies listed below include those which principally affect the profits and assets of the group. The operating companies listed below may carry on the business described in the countries listed in conjunction with their subsidiaries and other group companies.

<table>
<thead>
<tr>
<th>Subsidiaries</th>
<th>Country of incorporation</th>
<th>Country of operation</th>
<th>Percentage of ordinary share capital(1)</th>
<th>Business description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diageo Ireland Unlimited Company</td>
<td>Ireland</td>
<td>Worldwide</td>
<td>100%</td>
<td>Production, marketing and distribution of premium drinks</td>
</tr>
<tr>
<td>Diageo Great Britain Limited</td>
<td>England</td>
<td>Great Britain</td>
<td>100%</td>
<td>Marketing and distribution of premium drinks</td>
</tr>
<tr>
<td>Diageo Scotland Limited</td>
<td>Scotland</td>
<td>Worldwide</td>
<td>100%</td>
<td>Production, marketing and distribution of premium drinks</td>
</tr>
<tr>
<td>Diageo Brands B.V.</td>
<td>Netherlands</td>
<td>Worldwide</td>
<td>100%</td>
<td>Marketing and distribution of premium drinks</td>
</tr>
<tr>
<td>Diageo North America, Inc.</td>
<td>United States</td>
<td>Worldwide</td>
<td>100%</td>
<td>Production, importing, marketing and distribution of premium drinks</td>
</tr>
<tr>
<td>Diageo Capital plc</td>
<td>India</td>
<td>India</td>
<td>55.88%</td>
<td>Production, importing, marketing and distribution of premium drinks</td>
</tr>
<tr>
<td>Diageo Capital &amp; V.H</td>
<td>Singapore</td>
<td>Singapore</td>
<td>100%</td>
<td>Financing company for the group</td>
</tr>
<tr>
<td>Diageo Finance plc</td>
<td>Netherlands</td>
<td>Netherlands</td>
<td>100%</td>
<td>Financing company for the group</td>
</tr>
<tr>
<td>Diageo Investment Corporation</td>
<td>Singapore</td>
<td>Singapore</td>
<td>100%</td>
<td>Financing company for the group</td>
</tr>
<tr>
<td>Merry Lands S.A.</td>
<td>France</td>
<td>France</td>
<td>34%</td>
<td>Production, marketing and distribution of premium drinks</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Associates</th>
<th>Country of incorporation</th>
<th>Business description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moët Hennessy, S.A.(3)</td>
<td>France</td>
<td>France</td>
</tr>
</tbody>
</table>

(1) All percentages, unless otherwise stated, are in respect of holdings of ordinary share capital and are equivalent to the percentage of voting rights held by the group.

(2) Percentage ownership excludes 2.38% owned by the USL Benefit Trust.

(3) Directly owned by Diageo plc.

(4) French limited liability company.

23. Post balance sheet events

Starting 1 July 2023, in line with reporting requirements the functional currency of Diageo plc has changed from sterling to US dollar which is applied prospectively. This is because the group’s report of net sales and expenses in the US and other countries whose currencies correlate closely with the US dollar has been increasing over the years, and that trend is expected to continue in line with the group’s strategic focus. Diageo has also decided to change its presentation currency to US dollar with effect from 1 July 2023, applied retrospectively, as it believes that this change will provide better alignment of the reporting of performance with its business exposures.

Diageo will propose adopting new Articles of Association (New Articles) at the AGM to be held on 28 September 2023 which reflects the change in the functional currency of Diageo plc: presentation currency of the group from sterling to US dollar. The New Articles shall, among other things, empower the Board to declare and/or pay dividends in any currency or currencies and enable the Board to make provisions for shareholders to receive dividends in a different currency to the currency in which dividends were declared. Subject to the approval of the New Articles by shareholders at the AGM and commencing with the interim dividend that is expected to be declared in January 2024, Diageo’s future dividends will be declared in US dollar. Holders of ordinary shares will continue to receive their dividends in sterling but will have the option to elect to receive it in US dollar. Holders of ADSs will continue to receive dividends in US dollar.

On 31 July 2023, the Board approved plans for a further return of capital programme of $1.0 billion to shareholders.

FINANCIAL STATEMENTS

Non-Executive Directors do not receive share-based payments or post employment benefits.

There were no transactions with these related parties during the year ended 30 June 2023 on terms other than those that prevail in arm’s length transactions.

[d] Pension plans

In October 2022, Diageo plc provided an interim credit facility to Diagio Pension Scheme Limited, consisting of £850 million for the Diagio Pension Scheme, to support temporary funding challenges until 29 December 2022. In December 2022, the maturity date was extended to 29 June 2023. The facility amount was reduced on 22 May 2023 to £350 million and on 14 June 2023 the maturity date was extended to 11 October 2023. The facility was subsequently cancelled on 25 July 2023. The Diagio pension plans are recharged with the cost of administration services provided by the group to the pension plans and with professional fees paid by the group on behalf of the pension plans. The total amount recharged for the year was £0.1 million (2022 – £0.1 million, 2021 – £0.1 million).

Company balance sheet of Diageo plc

<table>
<thead>
<tr>
<th>Notes</th>
<th>30 June 2023</th>
<th>30 June 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>Non-current assets</td>
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<tr>
<td>Investments in subsidiary undertakings</td>
<td>3</td>
<td>61,564</td>
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<tr>
<td>Other financial assets</td>
<td>4</td>
<td>670</td>
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<tr>
<td>Post employment benefit assets</td>
<td>6</td>
<td>591</td>
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<tr>
<td>Current assets</td>
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<tr>
<td>Amounts owed by group undertakings</td>
<td>4</td>
<td>1,130</td>
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<tr>
<td>Trade and other receivables</td>
<td>4</td>
<td>28</td>
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<tr>
<td>Other financial assets</td>
<td>4</td>
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<tr>
<td>Cash and cash equivalents</td>
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<td>Total assets</td>
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<tr>
<td>63,986</td>
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Current liabilities

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<tr>
<th>Notes</th>
<th>30 June 2023</th>
<th>30 June 2022</th>
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<tbody>
<tr>
<td></td>
<td>£ million</td>
<td>£ million</td>
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<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts owed to group undertakings</td>
<td>4</td>
<td>(96)</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>4</td>
<td>(612)</td>
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<td>Provisions</td>
<td>7</td>
<td>(66)</td>
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<tr>
<td>Deferred tax liabilities</td>
<td>5</td>
<td>(243)</td>
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<tr>
<td>Post employment benefit liabilities</td>
<td>6</td>
<td>(66)</td>
</tr>
<tr>
<td>Total liabilities</td>
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<tr>
<td>(1,075)</td>
<td>(1,088)</td>
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FINANCIAL STATEMENTS continued
Statement of changes in equity for Diageo plc

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Share premium</th>
<th>Merger reserve</th>
<th>Capital redemption reserve</th>
<th>Own shares</th>
<th>Other reserve</th>
<th>Total</th>
<th>Total equity</th>
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<tr>
<td>£ million</td>
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<td><strong>At 30 June 2021</strong></td>
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<tr>
<td>712</td>
<td>1,351</td>
<td>9,161</td>
<td>3,202</td>
<td>(1,677)</td>
<td>45,637</td>
<td>43,780</td>
<td>58,235</td>
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<tr>
<td><strong>Profit for the year</strong></td>
<td></td>
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<td>—</td>
<td>1,026</td>
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<td><strong>Other comprehensive income</strong></td>
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<td>—</td>
<td>275</td>
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<tr>
<td><strong>Total comprehensive income for the year</strong></td>
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<td>1,301</td>
<td>1,301</td>
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<tr>
<td><strong>Share-based employee shares</strong></td>
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<td>—</td>
<td>39</td>
<td>89,89</td>
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<tr>
<td><strong>Share buyback programme</strong></td>
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<tr>
<td><strong>Dividend declared for the year</strong></td>
<td></td>
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<tr>
<td>(11)</td>
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<td>11</td>
<td>—</td>
<td>(1,265)</td>
<td>(1,265)</td>
<td>(1,265)</td>
</tr>
<tr>
<td><strong>Share-based incentive plans</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Tax on share-based incentive plans</strong></td>
<td></td>
<td></td>
<td></td>
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<td>—</td>
<td>—</td>
<td>1</td>
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<tr>
<td><strong>Unclaimed dividends</strong></td>
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<td>—</td>
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<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Share buyback programme</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(18)</td>
<td>—</td>
<td>—</td>
<td>18</td>
<td>—</td>
<td>(2,310)</td>
<td>(2,310)</td>
<td>(2,310)</td>
</tr>
<tr>
<td><strong>Dividend declared for the year</strong></td>
<td></td>
<td></td>
<td></td>
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<td>—</td>
<td>—</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>—</td>
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<td>—</td>
<td>—</td>
<td>—</td>
<td>1,026</td>
<td>1,026</td>
<td>1,026</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these parent company financial statements.

Notes to the company financial statements of Diageo plc

1. Accounting policies of the company

**Basis of preparation**
The financial statements of Diageo plc (the company) are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

In preparing these financial statements, the company applies the recognition, measurement, and disclosure requirements of International Financial Reporting Standards as adopted by the UK (IFRS), but makes amendments where necessary in order to comply with the Companies Act 2006 and has excluded certain information as permitted by FRS 101.

The financial statements are prepared on a going concern basis under the historical cost convention, except for certain financial instruments and post employment benefits which are measured and stated at their fair value.

By virtue of section 408 of the Companies Act 2006, the company is exempt from presenting an income statement and disclosing employee numbers and staff costs. The company has taken advantage of the exemption under FRS 101 from preparing a cash flow statement and related notes, disclosures in respect of transactions and the capital management of wholly owned subsidiaries, the effects of new but not yet effective IFRS and disclosures in respect of the compensation of key management personnel. As the consolidated financial statements of Diageo plc include equivalent disclosures, the company has also utilised exemptions available under FRS 101 from disclosing IFRS 2 Share-based Payment in respect of group settled share-based payments, disclosures required by IFRS 7 Financial Instruments Disclosures and by IFRS 13 Fair Value Measurement.

**Investments in subsidiaries**
Investments in subsidiaries are stated at historical cost less impairment provisions for any permanent decrease in value. The carrying amounts of the company’s investments are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the asset’s recoverable amount is estimated. Losses are recognised in the statement of comprehensive income and reflected in an allowance against the carrying value. Where an event results in the asset’s recoverable amount being higher than the previously impaired carrying value, the original impairment may be reversed through the statement of comprehensive income in subsequent periods.

**Dividends**
Dividends payable and dividends receivable are recognised in the financial statements in the year in which they are approved.

**Share-based payments – employee benefits**
The company’s accounting policy for share-based payments is the same as set out in note 14 to the consolidated financial statements. The company acts as sponsor of all UK post employment plans for the benefit of employees and former employees throughout the group. There is no contractual agreement or stated policy for charging the net defined benefit costs for the plan measured in accordance with FRS 101, to other group companies whose employees participate in these group wide plans. However, recharges to other group companies are made on a funding basis and are credited against post employment service costs to the extent they are in respect of current service. The fair value of the plans’ assets less the present value of the plans’ liabilities are disclosed as a net asset or net liability on the company’s balance sheet as it is deemed to be the legal sponsor of these plans. The net income charge/credit reflects the change in the defined benefit obligation, resulting from service in the current year, benefit changes, curtailments and settlements. Post service costs are recognised in income. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets and is included in the income statement. Any differences due to changes in assumptions or experience are recognised in other comprehensive income.

**Pensions and other post employment benefits**
The company’s accounting policy for post employment benefits is the same as set out in note 14 to the consolidated financial statements. The company acts as sponsor of all UK post employment plans for the benefit of employees and former employees throughout the group. There is no contractual agreement or stated policy for charging the net defined benefit costs for the plan measured in accordance with FRS 101, to other group companies whose employees participate in these group wide plans. However, recharges to other group companies are made on a funding basis and are credited against post employment service costs to the extent they are in respect of current service. The fair value of the plans’ assets less the present value of the plans’ liabilities are disclosed as a net asset or net liability on the company’s balance sheet as it is deemed to be the legal sponsor of these plans. The net income charge/credit reflects the change in the defined benefit obligation, resulting from service in the current year, benefit changes, curtailments and settlements. Post service costs are recognised in income. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets and is included in the income statement. Any differences due to changes in assumptions or experience are recognised in other comprehensive income.

**Provisions**
The company’s accounting policy for provisions is the same as set out in note 15 to the consolidated financial statements.

**Taxation**
The company’s accounting policy for taxation is the same as set out in note 7 to the consolidated financial statements.

**Financial assets and liabilities**
Financial assets and liabilities are initially recorded at fair value including, where permitted by IFRS 9, any directly attributable transaction costs. For those financial assets that are not subsequently held at fair value, the company assesses whether there is evidence of impairment at each balance sheet date. The company classifies its financial assets and liabilities into the following categories: financial assets and liabilities at amortised cost, financial assets and liabilities at fair value through income statement and financial assets at fair value through other comprehensive income. Where financial assets or liabilities are eligible to be carried at either amortised cost or fair value, the company does not apply the fair value option.

**Amounts owed by group undertakings** are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade receivables are stated at their nominal value as they are due on demand. Allowances for expected credit losses are made based on the risk of non-payment, taking into account ageing, previous experience, economic conditions and forward-looking data. Such allowances are measured as either 12-month expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparties. Expected credit loss is immaterial for amounts owed by group undertakings.

**Amounts owed by group undertakings** are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade receivables are stated at their nominal value as they are due on demand. For a number of loans owed to other group companies, the company has a contractual right to defer payment by one year and therefore these amounts are disclosed as non-current liabilities.
4. Financial assets and liabilities

Other financial assets and liabilities are recorded at fair value through income statement and comprise the fair value of interest rate swaps and cross currency interest rate swaps with subsidiary undertakings, where the company acts as an intermediary between group companies, therefore it is not expected that there will be net impact on future cash flows.

Amounts owed by and to group undertakings, trade and other receivables and trade and other payables are measured at amortised cost.

Amounts owed by and to group undertakings are interest bearing and unsecured. For a majority of the loans owed to other group companies, the company has a contractual right to defer payment by one year and one day and they are therefore classified as non-current liabilities. Other amounts owed by and to group undertakings are repayable on demand.

5. Deferred tax assets and liabilities

Deferred tax on other temporary differences includes assets in respect of trade and other payables and includes provisions utilised during the year of £15 million (2022 – £20 million).

Deferred tax on other temporary differences includes assets in respect of investments in subsidiaries which were not recharged to the subsidiaries. The additions comprise £3 million not recharged and capitalised as a cost of investment during the year ended 30 June 2023 (2022 – £1 million).

Deferred tax on other temporary differences includes assets in respect of the UK Thalidomide Trust liability of £40 million (2022 – £42 million) and share-based payment liabilities of £2 million (2022 – £1 million).

6. Post employment benefits

The movement in the net surplus for the two years ended 30 June 2023, for all UK post employment plans for which the company is the sponsor, is as follows:


The company’s commitment to the UK Thalidomide Trust is discounted and will be utilised over the period of the commitment up to 2037. At 30 June 2023, £12 million (2022 – £11 million) of provision is current and £164 million (2022 – £168 million) is non-current.

8. Financial guarantees and letters of comfort

The company has guaranteed certain external borrowings of subsidiaries which at 30 June 2023 amounted to £16,508 million (2022 – £16,090 million).

The company has also provided irrevocable guarantees relating to the liabilities of certain of its Dutch subsidiaries. The company has assessed that the likelihood of these guarantees being called is remote. The Directors do not expect the company to be liable for any legal obligation in respect of these financial guarantee agreements, and they have been recognised at nil fair value.

The company issues letter of comfort to provide sufficient funds to directly owned subsidiary undertakings as and when required.

9. Shareholders’ funds

(a) Merger reserve

On the acquisition of a business, or of an interest in an associate, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets acquired. Where merger relief is applicable under the UK Companies Acts, the difference between the fair value of the business acquired and the nominal value of shares issued as part of consideration is treated as a merger reserve.

(b) Own shares

At 30 June 2023, own shares comprised 3 million ordinary shares held by employee share trusts (2022 – 2 million; 2021 – 2 million) and 213 million ordinary shares re-acquired and held as treasury shares (2022 – 217 million; 2021 – 221 million).

During the year ended 30 June 2023, the group purchased 38 million ordinary shares (2022 – 61 million; 2021 – 3 million), representing approximately 1.5% of the issued ordinary share capital (2022 – 2.4%; 2021 – 0.1%) at an average price of 361p per share, and an aggregate cost of £37 million (including £13 million of transaction costs) (2022 – 370p per share, and an aggregate cost of £2.286 million, including £14 million of transaction costs, 2021 – 3407p per share, and an aggregate cost of £109 million, including £1 million of transaction costs) under the share buyback programme. The shares purchased under the share buyback programmes were cancelled.

Information on movements in own shares is provided in note 18(b) to the consolidated financial statements.

(c) Retained earnings

£7,236 million (2022 – £7,672 million) of retained earnings is available for the payment of dividends or purchase of own shares. Determining the company’s reserves available for distribution is complex and requires, in some instances, the application of judgement. The company has determined what is realised and unrealised profits in accordance with the Companies Act 2006 and the guidance included in ICAEW Technical Release TECH 52 1751 ‘Guidance on realised and distributable profits under the Companies Act 2006’. The company’s reserves available for distribution include adjustments to retained earnings in respect of the unrealised portion of the dividend in specie received by the company, post employment benefit surpluses and share-based payment charges capitalised to investments.
currency is not expected to significantly impact Diageo plc’s retained earnings that are available for the payment of dividends or purchases of own shares. Diageo has also decided to change its presentation currency to US dollar with effect from 1 July 2023, retrospectively as it believes that this change will provide better alignment of the reporting of performance with its business expenses.

11. Post balance sheet events

Starting 1 July 2023, in line with reporting requirements the functional currency of Diageo plc has changed from sterling to US dollar which is applied prospectively. This is because the group’s share of net sales and expenses in the US and other countries whose currencies correlate closely with the US dollar has been increasing over the years, and that trend is expected to continue in line with the group’s strategic focus. The change in functional currency is not expected to significantly impact Diageo plc’s retained earnings that are available for the payment of dividends or purchases of own shares. Diageo has also decided to change its presentation currency to US dollar with effect from 1 July 2023, retrospectively as it believes that this change will provide better alignment of the reporting of performance with its business expenses.
Additional information

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- Non-financial reporting boundaries and methodologies 262
- Independent Limited Assurance Report to the Directors of Diageo plc on selected subject matter 263
- Other additional information 267
Unaudited financial information

1. Definitions and reconciliation of non-GAAP measures to GAAP measures

Diageo’s strategic planning process is based on certain non-GAAP measures, including organic measures. These non-GAAP measures are chosen for planning and reporting, and some of them are used for incentive purposes. The group’s management believes that 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.

It is not possible to reconcile the forecast tax rate before exceptional items, forecast organic net sales growth and forecast organic operating profit growth to the most comparable GAAP measure as it is not possible to predict, without unreasonable effort, with reasonable certainty, the future impact of changes in exchange rates, acquisitions and disposals and potential exceptional items.

Volume

Volume is a performance indicator that is measured on an equivalent units basis to nine-litre cases of spirits. An equivalent unit represents one litre in the case of spirits, which is approximately 227 liters. A serving comprises 33ml of spirits, 160ml 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 and certain pre-mixed products that are classified as ready to drink in nine-litre cases, divide by ten.

Organic movements

Organic information is presented using sterling amounts on a constant currency basis excluding the impact of exceptional items, certain fair value remeasurement, hyperinflation 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 titled ‘Organic movement’ in the tables below, expressed as a percentage of the relevant absolute amount in the row titled ‘Organic movement’. In the tables below, expressed as a percentage of the relevant absolute amount in the row titled ‘Organic movement’ calculated by adding up the respective periods’ organic movement in the row titled ‘Organic movement’ in the tables below, expressed as a percentage of the relevant absolute amount in the row titled ‘Organic movement’. The most comparable GAAP financial measure is 2019 to 2023 reported movement.”

Exceptional items

Exceptional items are those that in management’s judgement need to be disclosed separately. Such items are included within the income statement caption to which they relate, and are excluded from the organic movement calculations. Management believes that these separate disclosure of exceptional items and the classification between operating and non-operating items further helps investors to understand the performance of the group. Changes in estimates and reversals in relation to items previously recognised as exceptional are presented consistently as exceptional in the current year. Exceptional operating items are those that are considered to be material and unusual or non-recurring in nature and are part of the operating activities of the group, such as one-off global restructuring programmes which can be multi-year, impairment of intangible assets and fixed assets, indirect tax settlements, property disposals and changes in post employment plans.

Gain or losses on the sale or direct attribution to a prospective sale of businesses, brands or distribution rights, step-up gains and losses that arise when an investment becomes an associate or an associate becomes a subsidiary and other material, unusual non-recurring items that are not in respect of the production, marketing and distribution of premium drinks, are disclosed as exceptional non-operating items below operating profit in the income statement.

Exceptional current and deferred tax items comprise material and unusual or non-recurring items that impact taxation. Examples include direct tax provisions and settlements in respect of prior years and the remeasurement of deferred tax assets and liabilities following tax rate changes.

FAVOURABLE

(b) Acquisitions and disposals

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

Where a business, brand, brand distribution right or agency agreement was disposed of or terminated in the reporting period, the group, in the organic movement calculations, excludes the results for that business from the current and prior period. In the calculation of operating profit, the overheads included in disposals are only those directly attributable to the business disposed of, and do not result from subjective judgements of management.

(c) Exceptional items

Exceptional items are those that in management’s judgement need to be disclosed separately. Such items are included within the income statement caption to which they relate, and are excluded from the organic movement calculations. Management believes that these separate disclosure of exceptional items and the classification between operating and non-operating items further helps investors to understand the performance of the group. Changes in estimates and reversals in relation to items previously recognised as exceptional are presented consistently as exceptional in the current year.

Exceptional operating items are those that are considered to be material and unusual or non-recurring in nature and are part of the operating activities of the group, such as one-off global restructuring programmes which can be multi-year, impairment of intangible assets and fixed assets, indirect tax settlements, property disposals and changes in post employment plans.

Gains and losses on the sale or direct attribution to a prospective sale of businesses, brands or distribution rights, step-up gains and losses that arise when an investment becomes an associate or an associate becomes a subsidiary and other material, unusual non-recurring items that are not in respect of the production, marketing and distribution of premium drinks, are disclosed as exceptional non-operating items below operating profit in the income statement.

Exceptional current and deferred tax items comprise material and unusual or non-recurring items that impact taxation. Examples include direct tax provisions and settlements in respect of prior years and the remeasurement of deferred tax assets and liabilities following tax rate changes.

FAVOURABLE

(c) Exchange rates

The organic movement calculation reflects the adjustment to recalculate the reported sales as if they had been generated at the prior period weighted average exchange rates.

Impact reflects in respect of the external hedging of intergroup sales in the markets by a currency other than their functional currency and the intergroup recharging of services are also translated at prior period weighted average exchange rates and are allocated to the geographical segment to which sales relate. Residual exchange rate impacts are reported as part of the Corporate segment. Results from hyperinflationary economies are translated at forward-looking rates.

(c) Fair value remeasurement

Fair value remeasurement in the organic movement calculation reflects an adjustment to eliminate the impact of fair value changes in biological assets, earn-out arrangements that are occurred for its remeasurement and fair value changes relating to contingent consideration liabilities and equity options that arose on acquisitions recognised in the income statement.

Growth on a constant basis

Growth on a constant basis is a measure used by the group to understand the trends of the business and its recovery towards Covid-19 performance.

2019 to 2023 growth on a constant basis for volume, sales, net sales and operating profit before exceptional items is calculated by adding up the respective periods’ organic movement in the row titled ‘Organic movement’ in the tables below, expressed as a percentage of the relevant absolute amount in the row titled ‘Organic movement’. The most comparable GAAP measure is 2019 to 2023 reported movement as presented in the tables below which is calculated by combining the reported movements for the respective periods, expressed as a percentage of the 2019 reported amount.

Adjustment in respect of hyperinflation

The group’s experience is that hyperinflationary conditions result in price increases that include both normal pricing actions reflecting changes in demand, commodity and other input costs or

Organic movement calculations for the year ended 30 June 2023 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Africa</th>
<th>Corporate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>2022 reported</td>
<td>6,682</td>
<td>5,740</td>
<td>5,624</td>
<td>1,945</td>
<td>2,403</td>
<td>54</td>
</tr>
<tr>
<td>Disposals(1)</td>
<td>[5]</td>
<td>[149]</td>
<td>[10]</td>
<td>[1]</td>
<td>[224]</td>
<td></td>
</tr>
<tr>
<td>Exchange</td>
<td>(36)</td>
<td>(886)</td>
<td>(19)</td>
<td>(955)</td>
<td>(1,010)</td>
<td></td>
</tr>
<tr>
<td>Hyperinflation</td>
<td>–</td>
<td>[231]</td>
<td></td>
<td></td>
<td></td>
<td>(278)</td>
</tr>
<tr>
<td>2022 adjusted</td>
<td>6,638</td>
<td>5,342</td>
<td>4,736</td>
<td>1,926</td>
<td>2,207</td>
<td>54</td>
</tr>
<tr>
<td>Organic movement</td>
<td>51.9</td>
<td>2.9</td>
<td>7.0</td>
<td>4.1</td>
<td>4.8</td>
<td>23.9</td>
</tr>
<tr>
<td>(2019 to 2023 reported growth %)</td>
<td>9</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>(2019 to 2023 growth on a constant basis %)</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

considerations to drive commercial competitiveness, as well as hyperinflationary elements and that for the calculation of organic movements, all disruptions from hyperinflationary elements should be excluded.

Cumulative inflation over 100% (2% per month compounded) over three years is one of the key indicators within IAS 29 to assess whether an economy is deemed to be hyperinflationary. As a result, the definition of ‘Organic movements’ includes price growth in markets deemed to be hyperinflationary economies, up to a maximum of 2% per month while also being on a constant currency basis. Corresponding adjusted hyperinflationary elements are also treated as a reconciling item between presented and organic movements and that also includes the relevant IAS 29 adjustments.

UNAUDITED FINANCIAL INFORMATION

ADDITIONAL INFORMATION
### Net sales

#### North America
- **2019 reported**: £4,450
- **2020, 2021 and 2022 movement on a constant basis**: £1,033

#### Europe
- **2020 reported**: £2,935
- **2019 adjusted**: £2,685

#### Asia
- **2022 adjusted**: £764

#### Pacific
- **2021 reported**: £1,105

#### Africa
- **2021 adjusted**: £1,017

#### Corporate
- **2019 to 2023 growth on a constant basis %**: 33

### Operating profit before exceptional items

#### 2022 reported
- **Organic**: £2,397
- **Exchange**: £949
- **Hyperinflation**: £680

#### 2021 adjusted
- **Organic**: £2,454
- **Exchange**: £1,017
- **Hyperinflation**: £711

#### 2020, 2021 and 2022 movement on a constant basis
- **Organic**: £1,033

### Marketing

#### 2022 reported
- **Organic**: £3,868
- **Equity option and earn out arrangements**: £28

#### 2021 adjusted
- **Organic**: £3,915
- **Equity option**: £30.8

#### 2020, 2021 and 2022 movement on a constant basis
- **Organic**: £28

### Equity option and earn out arrangements

#### 2021 adjusted
- **Organic**: £30.8
- **Equity option**: £30.8

### Additional information

- **2022 reported**: £2,454
- **2019 adjusted**: £2,607
- **2019 to 2023 growth on a constant basis %**: 33

---

*Notes: Information in respect of the organic movement calculations*

- (i) For the reconciliation of sales to net sales, see page 54.
- (ii) Percentages and margin movements are calculated on rounded figures.
- (iii) Percentages and margin movements are calculated on rounded figures.
- (iv) Margin movement (bps) are calculated as rounded figures.

---

*Information is subject to the organic movement calculations:

- (1) The impact of movements in exchange rates on operating profit was principally in respect of the favourable exchange impact of the strengthening of the US dollar and Mexican peso against the sterling, partially offset by the weakening of the Nigerian naira, Ghanaian cedi and the Turkish lira.
- (2) Organic operating margin calculated by dividing Operating profit before exceptional items by net sales.
Free cash flow

Free cash flow comprises the net cash flow from operating activities aggregated with the net cash received/paid for working capital loans receivable, cash paid or received for investments and the net cash expenditure paid for 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 and non-working capital loans to and from associates.

The group’s management regards a portion of 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 acquisition and sale of businesses are discretionary.

Where appropriate, separate explanations are given for the impacts of acquisition 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 2023 and 30 June 2022 are set out in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>2022</td>
<td>2023</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>1,830</td>
<td>2,783</td>
</tr>
</tbody>
</table>

Operating cash conversion

Operating cash conversion is calculated by dividing cash generated from operations excluding cash inflows and outflows in respect of exceptional items, dividends received from associates, maturing inventories, provisions, other items and post employment payments in excess of the amount charged to operating profit by operating profit before depreciation, amortisation, impairment and exceptional operating items.

The measure is excluding any hyperinflation adjustment above the organic treatment of hyperinflationary economies. The ratio is stated at the budgeted exchange rates for the respective year and is expressed as a percentage.

Operating cash conversion for the years ended 30 June 2023 and 30 June 2022 were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash conversion</td>
<td>93.3%</td>
<td>105.1%</td>
</tr>
</tbody>
</table>

ADDITIONAL INFORMATION
Return on average invested capital

Return on average 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 invested capital reflects operating profit before exceptional items attributable to equity shareholders of the parent company plus share of after tax results of associates and joint ventures after applying the tax rate before exceptional items for the fiscal year. Average 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 attributable to equity shareholders of the parent company for the year, excluding net post employment benefit assets/ 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 invested capital for the years ended 30 June 2023 and 30 June 2022 are set out in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>2,6</td>
<td>2,5</td>
</tr>
</tbody>
</table>

Other definitions

Volume share is a brand’s retail volume expressed as a percentage of the retail volume of all brands in its segment. Value share is a brand’s retail sales value expressed as a percentage of the retail sales value of all brands in its segment. Unless otherwise stated, share refers to value share.

Net sales are sales less excise duties. Diageo incurs excise duties throughout the world. In the majority of countries, excise duties are effectively a production tax which becomes payable when the product is removed from bonded premises and is not directly related to the value of sales. It is generally not included as a separate item on external invoices; increases in excise duties are not always passed on to the customer and where a customer fails to pay for a product received, the group cannot reclaim the excise duty. The group therefore recognises excise duty as a cost to the group.

Price/mix is the number of percentage points difference between the organic movement in net sales and the organic movement in volume. The difference arises because of changes in the composition of sales between higher and lower priced variants/markets or price changes are implemented.

Invoices; increases in excise duties are not always passed on to the customer and where a customer fails to pay for a product received, the group cannot reclaim the excise duty. The group therefore recognises excise duty as a cost to the group.

References to ready to drink also include ready to serve products, such as premixed cans in some markets.

References to bear include cider, flavoured malt beverages and some non-alcoholic products such as Malta Guinness. The results of Hop House 13 Lager are included in the Guinness figures.

There is no industry-agreed definition for price tiers and for data providers such as IWSR definitions can vary by market. Diageo bases price tier definitions on a methodology that uses external metrics (including market pricing data from Nielsen, IR, etc.) as well as the IWSR segmentation for benchmarking and internal pricing metrics for a consistent segmentation.

References to the disposal of the USL Popular brands include non-exhaustively the Haywards, Old Town, White Mischief, Honey Bee, Green Label and Tanqueray brands.

References to the group Diageo plc and its consolidated subsidiaries.
2. Contractual obligations and other commitments

Long-term obligations comprise the principal amount of borrowings (excluding foreign currency swaps) with an original maturity of greater than one year. Interest obligations comprise interest payable on these borrowings and are calculated based on the fixed amounts payable and where the interest rate is variable on an estimate of what the variable rates will be in the future. Credit support obligations represent liabilities to counterparties in respect of received collateral under credit support agreements. Purchase obligations include various long-term contracts entered into for the supply of raw materials, principally bulk whisk(e)y, cereals, cans and glass bottles. Contracts are used to secure the supply of raw materials over the long term and to enable a more accurate prediction of costs of raw materials in the future. For certain provisions, discounted numbers are disclosed.

Purchase obligations

<table>
<thead>
<tr>
<th>Less than 1 year (£ million)</th>
<th>1-3 years (£ million)</th>
<th>3-5 years (£ million)</th>
<th>More than 5 years (£ million)</th>
<th>Total (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 30 June 2023</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital commitments</td>
<td>1,904</td>
<td>736</td>
<td>291</td>
<td>3,932</td>
</tr>
<tr>
<td>Commitments for short-term leases and lease of low-value assets</td>
<td>32</td>
<td>3</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td>Provisions and other non-current payables</td>
<td>125</td>
<td>240</td>
<td>157</td>
<td>522</td>
</tr>
<tr>
<td>Leases obligations</td>
<td>93</td>
<td>121</td>
<td>58</td>
<td>272</td>
</tr>
<tr>
<td>Capital commitments</td>
<td>596</td>
<td>3</td>
<td></td>
<td>599</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>218</td>
<td></td>
<td></td>
<td>218</td>
</tr>
<tr>
<td>Total</td>
<td>4,983</td>
<td>5,477</td>
<td>4,142</td>
<td>10,677</td>
</tr>
</tbody>
</table>

UNAUDITED FINANCIAL INFORMATION continued

This document contains “forward-looking” statements. These statements can be identified by the fact that they do not relate only to historical or current facts and may generally, but not always, be identified by the use of words such as “will,” “anticipate,” “should,” “could,” “would,” “targets,” “aims,” “may,” “expects,” “intends” or similar expressions. Statements in this document that express or imply forecasts, expectations, plans, outlook, objectives and projections with respect to future matters, including information related to Diageo’s fiscal 24 outlook, its medium-term guidance for fiscal 23 to fiscal 25, Diageo’s supply chain agility programme, future Total Beverage Alcohol market share ambitions and any other statements relating to Diageo’s performance for the year ending 30 June 2024 or thereafter, are forward-looking statements. Forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There is a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo’s control, which include (but are not limited to): (i) economic, political, social or other developments in countries and markets in which Diageo operates, including macroeconomic or infrastructure factors, that may affect Diageo’s customers, suppliers and/or financial counterparties; (ii) the effects of climate change, or legal, regulatory or market measures intended to address climate change; (iii) changes in consumer preferences and tastes, including as a result of disruptive demographic changes and evolving social trends; (iv) shifts in consumer tastes towards at-home occasions, premiumisation, smallbatch craft alcohol, or low or nonalcoholic products and/or developments in e-commerce; (v) changes in the domestic and international tax environment that could lead to uncertainty around the application of existing and new tax laws and unexpected tax exposures; (vi) changes in the cost of production, including as a result of increases in the cost of commodities, labour and/or energy due to inflation and/or supply chain disruptions; (vii) any litigation or other similar proceedings (including with tax, customs, competition, environmental, anti-corruption or other regulatory authorities); (viii) legal and regulatory developments, including changes in regulations relating to environmental issues and/or e-commerce; (ix) the consequences of any failure of internal controls; (x) the consequences of any failure by Diageo or its associates to comply with corruption, sanctions, trade restrictions or similar laws and/or regulations, or any failure of Diageo’s related internal policies and procedures to comply with applicable law or regulation; (xi) Diageo’s ability to make sufficient progress against or achieve its ESG ambitions; (xii) cyber-attacks and IT threats or any other disruptions to core business operations; (xiii) contamination, counterfeiting or other circumstances which could harm the level of customer support offered for Diageo’s brands and adversely impact its sales; (xiv) Diageo’s ability to maintain its brand image and corporate reputation or to adapt to a changing media environment; (xv) fluctuations in exchange rates and/or interest rates; (xvi) Diageo’s ability to derive the expected benefits from its business strategies, including the success of Diageo’s investments in e-commerce and its luxury portfolio; (xvii) increased competitive product and pricing pressures, including as a result of introductions of new products or categories that are competitive with Diageo’s products and consolidations by competitors and retailers; (xviii) increased costs for, or shortages of, talent, as well as labour strikes or disputes; (xix) movements in the value of the assets and liabilities related to Diageo’s pension plans; (xx) Diageo’s ability to renew supply, distribution, manufacturing or licence agreements (or related rights) and licences on favourable terms, or at all, when they expire; or (xxi) any failure by Diageo to protect its intellectual property rights.

CAUTIONARY STATEMENT

In preparing the ESG-related information contained in this document, Diageo has made a number of key judgements, estimations and assumptions and the processes and issues involved are complex. The ESG-related forward looking statements should be treated with special caution, as ESG and climate data, models and methodologies are often relatively new, are rapidly evolving and are not of the same standard as those available in the context of other financial information, nor are they subject to the same or equivalent disclosure standards. Further details of potential risks and uncertainties affecting Diageo are described in our filings with the London Stock Exchange and the US Securities and Exchange Commission (SEC), including in our Annual Report on Form 20F for the year ended 30 June 2023. Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made. Diageo expressly disclaims any obligation or undertaking to publicly update or revise these forward-looking statements other than as required by applicable law. The reader should, however, consult any additional disclosures that Diageo may make in any documents which it publishes and/or files with the SEC. All readers, wherever located, should take note of these disclosures. This document includes names of Diageo’s products, which constitute trademarks or trade names which Diageo owns, or which others own and license to Diageo for use. All rights reserved © Diageo plc 2023.

ADDITIONAL INFORMATION

References in this document to information on websites are included and does not form part of, this document unless otherwise noted.
Non-financial reporting and methodologies

The non-financial reporting boundaries and methodologies outlined here relate to the social and environmental performance disclosures set out in the Annual Report and the ESG Reporting Index. We disclose the general reporting methodologies and boundaries related to both non-environmental and environmental reporting. Where there are exceptions to these general reporting methodologies and boundaries, these have been included with the specific metric in the tables that follow.

General reporting methodology and boundaries, covering both non-environmental and environmental metric reporting

I. Reporting period

Our reporting covers the financial year ended 30 June 2023 unless otherwise stated.

Scope

Unless otherwise stated(1), the boundaries for all non-financial information disclosed in the Annual Report and the ESG Reporting Index include the performance of the global operations of Diageo plc and its subsidiaries, together with the attributable share of the results of significant joint ventures and joint operations.

The reporting boundaries are based on the principles outlined by the non-financial reporting strategy of our management, the nature of each indicator and, in the case of greenhouse gas (GHG) emissions metrics, the Greenhouse Gas Protocol.

Environmental data and health and safety data is collected and reported for all operational sites and office sites with more than 50 employees where we have operational control. The environmental impacts associated with leased facilities that do not meet the criteria for inclusion in the Greenhouse Gas Protocol are not included. In case of disposals, data associated with the divestment is removed from the baseline, intervening years and current year unless otherwise stated in the following pages of this document.

IV. Acquisitions and disposals

New acquisitions are included in the consolidated reporting for non-financial disclosure from the date when control passes or as soon as practically feasible, and no later than one year after assuming operational control.(2) This duration varies as each new acquisition has unique systems and processes that must be integrated. In case of disposals, data associated with the divestment is removed from the baseline, intervening years and current year unless otherwise stated in the following pages of this document.

V. Restatements

We may have to restate historical data due to structural changes in our operations, including from acquisitions and divestments; improvements in data accuracy and calculation methodologies; material changes to relevant policies, and material change in financial reporting.

To determine whether we need to restate historical data, we examine whether the qualitative or quantitative impacts of the changes to our non-financial reporting are material enough to compromise the accuracy, consistency and relevance of the reported information. In case a restatement for environmental data is necessary, we restate the data for the baseline year and intervening years.

In case of our environmental data, we may need to adjust data to reflect updates to estimation factors, in line with the Greenhouse Protocol recommendations; and any changes in reporting policy that result in a material change to the baseline of more than 5%.(3) We also restate data where we can show that structural changes affecting accuracy and insourcing have an impact of more than 5%. In certain cases, where historical data is unavailable, the environmental impacts for the baseline year and intervening years are extrapolated from current environmental impact data, based on production patterns.

In fiscal 203, the baseline year GHG emissions impacts were restated to reflect changes to CO2e emission factors and updated calorific values.

VI. Reliability and accuracy of data

We have processes that govern the collection, review and validation of non-financial data included in this report, at market, regional and global levels. We have clear reporting lines and documentation of our processes; this provides more detail about our reporting methodologies and calculation processes. Reporting methodologies are reviewed and updated each year by leadership teams. While we make every effort to capture all information as accurately as possible, it is neither feasible nor practical to measure all data with absolute accuracy. Where we have made estimates or exercised judgment, this is highlighted within the reporting methodologies.

The metrics with the △ symbol are within the scope of PwC’s independent assurance report to the Directors – see pages 263-266 of this document. Some of our latest subsidiaries also publish sustainability information either as stand-alone reports or as part of their annual report. Examples of sustainable information reporting are linked below:


VII. Reporting systems

We use four systems to collect, validate and analyse reported data.

- Human Resources data is reported at site level using Workday, our global information management systems. HR data is collected on a monthly basis, and is published for the relevant markets.
- Non-Workday markets(4) data is manually captured offline via HR Directors and the points of contact only for annual reports. Both Workday and non-Workday markets data are then consolidated.
- Health and Safety information for performance measures is collected locally, on a monthly basis, using site held incident reports. This is collated and analysed using a web-based information management system and reported externally on an annual basis.
- Environmental data is collected on an annual basis using our bespoke data collection system.
- Market level: ‘Society 2030: Spirit of Progress’ data: Where ‘Society 2030: Spirit of Progress’ programmes are managed at a local level, data is collected every quarter. The data is compiled at market, regional and global levels, alongside our ‘Society 2030: Spirit of Progress’ targets, and is reviewed by general managers, functional leadership teams, the 2030 grain to glass Strategic Business Review (SBR) and the Global Executive Committee during quarterly meetings.

This regular assessment of performance enables us to manage programme risks and opportunities and helps us ensure that we have the right level of resources to deliver on our commitments.

Scope and methodology of physical and transition climate risk scenario analysis reported on pages 72-78

Scenario analysis of physical risks

Innovative note on scenario analysis

Climate risk scenario analysis has limitations: it is not a predictor of the future, and is limited by the assumptions used, which themselves are subject to uncertainty. No single scenario is likely to materialize in the coming decades, and we are all likely to be exposed to both physical and transition risks as the world continues to warm as a consequence of emissions already in the atmosphere. The pathway to reducing emissions is also highly variable, as governments and industry pursue a variety of means, such as introducing regulation and developing new technologies. Nevertheless, scenario analysis is a powerful tool to understand how our business could be impacted under certain plausible but severe future conditions, and to allow us to understand where risks and opportunities are most likely to materialize, to understand trends and to integrate these into our strategy.

Following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we conducted scenario analysis to determine the likely financial impact of the most important physical risks on our assets and operations. The physical risks we identified as most important were:

1. Water supply: Inability to produce brands due to constrained water supply as a result of drought caused by chronic climate change.
2. Agricultural material supply: Increased cost of raw materials due to scarcity caused by changes in growing conditions caused by chronic climate change.
3. Site integrity: Inability to produce products, or damage to stored products due to acute weather events (floods or storms).
4. Disruption to agricultural material supply: Inability to receive agricultural materials due to acute weather events (floods or storms).

Using the best available climate data and natural catastrophe modelling techniques, our climate resilience partners calculated projected Estimated Annual Losses (EALs) and Value at Risk (VaR) for the present day and two future time periods (the 2030s and 2050s) under two climate scenarios. For most climate variables, these climate scenarios include a ‘moderate’ emissions reduction pathway (RCP4.5 or SSP2-435) and a ‘business as usual’ pathway (RCP8.5 or SSP5-85). The results were expressed as:

Present day and projected EALs driven by:

- The impact of drought, river floods and tropical windstorms on owned and third party operation production assets.
- The impact of floods and tropical windstorms on supplier assets (glass and cans), and present day and projected VaR associated with:

  • The exposure of production and supplier assets to water stress.

The exposure of production and supplier assets to tropical windstorms.

Please see the diagram on page 244 for a summary of the scope of our physical and transition risk assessment (scenario analysis).

(1) Markets using our Workday online Human Resource system.
(2) Non-Workday markets refer to markets where the Workday online Human Resource system is not used.

(3) Non-financial information, including baseline information, excludes the performance attributable to one of our business units in Greater China due to local regulatory restrictions. We believe the exclusion of this business unit is material to the disclosure of our overall environmental performance. The exclusion of this business unit in China due to local regulatory restrictions, and any other changes that would otherwise compromise the accuracy, consistency and relevance of the reported information.

(4) We define operational control using the definition of accounting standards for most of our ESG metrics. For greenhouse gas emissions, our definition is aligned with the Greenhouse Gas Protocol.
A summary of the scope of our physical and transition risk assessments and scenario analysis

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Short term (0-5yrs)</th>
<th>Medium term (2030)</th>
<th>Long term (2050)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geography</td>
<td>All Diageo and key third-party operations in North America, Scotland (fiscal 21); India, Africa, Mexico and Turkey (fiscal 22); and Asia Pacific, Europe and Latin America and Caribbean (fiscal 23).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk types</td>
<td>Physical risks: Water (availability, quality, temperature), temperature, flooding, landslides, wildfires, wind, humidity. Transition risks and opportunities: Temperature scenarios.</td>
<td>Transition risks and opportunities.</td>
<td></td>
</tr>
<tr>
<td>Temperature scenarios</td>
<td>+4 to +5°C (extreme) RCP 8.5</td>
<td>+2 to +3°C (moderate) RCP 4.5</td>
<td>1.5°C to 2°C (Paris agreement) RCP 2.6</td>
</tr>
</tbody>
</table>

Scenario analysis of transition risks

Over fiscal years 2023, we have conducted scenario analysis of the impact on our financial performance of transition risks stemming from a Paris-aligned scenario. Our modelling envisages a successful transition to a low-carbon economy in time to keep the temperature rise to 1-2°C by 2050 and assumes a variety of decarbonisation challenges and opportunities relating to ingredients, energy, packaging and transport costs, and changes in demand for our products (to 2030 and 2050). Over consecutive years, we have refined the model and incorporated data relating to our entire business, including production volume, sales, raw materials and packaging costs, and projected growth rates by category and market to inform future scenarios.

In modelling the financial impact of a successful transition to a low-carbon economy, we considered two scenarios:

1. A baseline scenario which incorporates stated policies and national targets that are already in place and have detailed measures for their realisation; and
2. A transition scenario that assumes the world successfully reaches net zero emissions by 2050. This scenario considers necessary changes in the global energy sector and associated changes across all other sectors of the economy that can reasonably be modelled.

Both scenarios rely on a combination of internal assumptions (e.g., production costs, sales and margin growth rates, product mix) and external factors (e.g., carbon pricing, greening of energy production, decarbonisation of industry). External models available from the International Energy Agency, the Intergovernmental Panel on Climate Change and other institutions were supplemented where necessary by our expert partners’ internal models. Together, these models gave us a range of plausible assumptions designed to capture a trajectory of changes in demand, costs, prices, regulation, technology and capital investments in relevant markets and business segments, that could result in the world achieving net zero emissions by 2050. We looked at how combinations of these changes might affect us both positively (increased demand for sustainable products) and negatively (higher costs) and estimated the combined effect on our cash flow to both 2030 and 2050. Outlined in the table on page 245, below are the materials that most affect our input costs, which may go up or down depending on the situation. We have modelled costs based on our exposure to global versus local changes; so, for example, glass and aluminium are procured globally, while the cost of energy, for example, is always local. For each scenario, we then estimated the prices of major input costs, where relevant by geography, and modelled the impact they would have on our operating profit.
As a responsible business, we want to change the way people drink - for the better. This is why we promote moderate drinking and invest in education and programmes to discourage the harmful use of alcohol. Around the world, we reach audiences with messages that aim to change attitudes, whether it's through the harms of underage drinking or binge drinking, warning of the dangers of drink-driving, or using our brands to highlight the importance of moderation.

Our work speaks to audiences across the globe. We continue to innovate and look for ways to improve so we strive to engage more and more people through our work to promote positive drinking. This desire to learn and improve extends to how we measure and evaluate the impact of our education and programmes to discourage the harmful use of alcohol. Around the world, we reach audiences with messages that aim to change attitudes, whether it's through the harms of underage drinking or binge drinking, warning of the dangers of drink-driving, or using our brands to highlight the importance of moderation.

We have reached our DRINKiQ target by launching it in all our markets where legally permissible, but we are determined to continue promoting DRINKiQ so that consumers have access to information that can increase their knowledge and awareness of the impact of harmful drinking.

**Target**

**Target**

**Performance measure**

Number of markets that have launched DRINKiQ

**Definition**

Markets required for DRINKiQ rollout were identified during the initial project scoping phase in fiscal 20. The baseline is the total number of Diageo markets where we live, work, source and sell. "Launched" means the DRINKiQ website is live and accessible by consumers in the market from November 2020.

**Data preparation**

- The Global Spirit of Progress team manages all aspects of DRINKiQ design, development and deployment (except China, where we had to use a local vendor for build due to Firewall issues).
- We engage and manage the global agency that is responsible for building and testing every website in every market throughout all stages of development, user acceptance testing and deployment.
- The agency web developers who build the DRINKiQ website undertake a series of steps to deploy DRINKiQ to the production environment. Once the deployment is complete, the agency conducts testing to verify overall site performance and functionality is operating as intended. The completion of the testing concludes the deployment process, and the site/updates are deemed as "Live" since they are available on www.drinkiq.com.

**Scope exception**

Turkey is the only market in which we are unable to roll out DRINKiQ due to legal restrictions. Travel Retail Asia covers multiple geographical territories and is therefore not counted as an individual market in scope for delivering our DRINKiQ target.

**Target**

Leverage Diageo marketing and innovation to make moderation the norm – reaching 1 billion people with dedicated responsible drinking messaging

**Performance measure**

Number of people reached through campaigns and training specifically designed to promote moderation

**Definition**

We deliver responsible drinking campaigns and training through social media, viral videos, events, traditional media campaigns and other forms of marketing by Diageo brands.

**Scope exception**

Markets are only included where we have verifiable media data provided by third-party partners.

**Reporting period**

1 June to 31 May. For the baseline year for calculating cumulative progress May 2018.

**Data preparation**

- We review data on how many people our campaigns reach is collected by our media agency partners and reported to us. Diageo’s media agency partners manage measurement and verification of this data through various industry-standard practices optimized for each media channel.
- Digital media: Cookies/pixels provide unique consumer identifiers. These identifiers provide us with the ability to estimate how many people we reach across a single campaign.
- Non-digital media: Utilising industry-standard audience measurement for each platform, we can estimate how many people the campaigns reach for any TV, radio, out of home or other non-digital channel. For example, we utilise industry-standard metrics, such as Nielsen, to estimate viewership audience for a TV programme during which we ran an ad. For out of home, industry-standard measurement of foot traffic, vetted through third-party organisations, is used to estimate the number of people who pass by a billboard.

To attempt to prevent double counting, we also adjust the data in the context of the adult population for each market. Each market’s total annual reach figure comprises either the highest number of people reached in any given quarter in that market, or the highest number of people reached by a specific campaign in that market, whichever is the greater.

**Limitations**

Reach data cannot be as accurately deduplicated over periods of time longer than a year. When reporting how many people we reach over time periods of longer than one fiscal year, figures for individual fiscal years are added together to provide a cumulative number.

**Target**

Scale up our SMASHED partnership and educate 10 million young people, parents and teachers on the dangers of underage drinking

**Performance measure**

- Number of people educated on the dangers of underage drinking through a Diageo-supported education programme
- Number of people who confirmed changed attitudes on the dangers of underage drinking following participation in a Diageo-supported education programme

**Definition**

SMASHED is our flagship underage drinking programme, developed and delivered in partnership with Collingwood Learning (Collingwood) and sponsored by Diageo. Our SMASHED partnership aims to change attitudes to underage drinking through live theatre performances and workshops and interactive online events.

- Live: A live or virtual theatre performance in schools or other community setting, with interactive workshops for students, resources for teachers and parents, and comprehensive evaluation.
- Online: An innovative and engaging e-learning course, telling the SMASHED story through filmed clips, with interactive learning tools, student assessment and teacher support.

**Offline: SMASHED Online**

- Can also be delivered offline through PowerPoint and video clips.

People educated: Target age group: 10-17, who have participated in the full 60-minute live or online learning experience. Completions for online are counted only on course completion, and live completion is counted when the number, as stated by the teacher, has completed the full 60-minute session, which is then confirmed by the local delivery partner.

**Changed attitudes:** A young person who confirmed a changed attitude is someone who responds to the post-survey question by stating that they are less likely to drink underage. This is supported by evidenced progression through pre- and post-performance surveys against all other learning outcomes, with the ‘less likely to drink underage’ results as the core indicator.

**Scope exception**

Local adaptations: Collingwood has set criteria for partners – e.g., local delivery partner, ministry of education (or similar) and sponsors - to support the success of local adaptations on the ground. Each delivery partner will culturally and linguistically adapt the storyline and interactive elements to suit the local audience, with guidance from Collingwood.

Collingwood collaborates with delivery partners to ensure they comply with the original content while accommodating appropriate adaptations. This is also supported by programme sponsors and educational stakeholders to support links with existing curriculum. Evaluation questions remain consistent worldwide, both pre- and post-programme. Collingwood does not allow changes to the content or intent of the questions. The only adaptations made are for local language translation.

**Reporting period**

The complexity of gathering data from hundreds of schools globally with different academic years means there is a lag in reporting information from our live programmes. Each financial year we include data from 1 June to 31 May. The baseline year for the reporting of cumulative progress towards our target is our financial year ended 30 June 2018; reporting is therefore cumulative progress from July 2018 onwards.

**Data preparation**

The number of people educated is supplied by in-country delivery partners to Collingwood. When SMASHED is delivered by a third party and is partially funded by Diageo, we only claim the proportion of people reached that our funding contributes to.

From September 2022, when an audience number over 500 students in one session, we have categorised these as ‘largescale special events’. Where large-scale events are run if there are a sufficient number of facilitators (ratio 1:200) then the full number of people educated is included. If the number of facilitators present is below this ratio, then the number of people in attendance are capped at the large-scale event number.

The number of people educated is calculated by adding together the number of people reached in each country. SMASHED Live operates pre- and post-evaluation surveys of at least 20% of the target audience of young learners as part of the programme on the day. This represents 20% of the participating schools on each tour.

The following sampling criteria have been established to measure attitude change:

- Assesses 20% of programme participants through pre- and post-evaluation surveys.
- The participants collected are a random sampling.
- If the sample is less than 200 people, the same participants take the pre- and post-evaluation surveys.
- The sample to be at least 50% male and 50% female.

The number of people who confirmed changed attitude is calculated by projecting the results of the survey, for those who have confirmed in the post-survey question that they are less likely to drink underage, to the total number of people educated for the events run.

The data, alongside supporting evidence is supplied by delivery partners and then consolidated and reviewed by Collingwood before being shared with us for review and reporting.

We have assumed that teachers are an important and accurate provider of student numbers, with clear knowledge of the groups allocated to SMASHED. We have also assumed that students participating in SMASHED Live and Online have adequate literacy skills to understand and complete written evaluation forms.
## Performance measure
- Number of people educated about the dangers of drink driving
- Number of people who confirmed attitudinal change on the dangers of drink driving through the Diageo supported programme
- Number of law enforcement officers trained through the UNITAR High Visibility Enforcement (HVE) programme.

### Definition
We run two programmes that aim to address the dangers of drink driving. Our Wrong Side of the Road (WSOTR) programme, primarily delivered online, is designed to help people understand the consequences of drink driving by listening to the repercussions for people who decided to get behind the wheel after drinking. All stories are real and aim to help prevent other people from making the same mistakes. The purpose is to show the effects that this decision can have on the individual and the people around them, helping viewers to consider what would happen if they were in a similar situation.

We also partner with UNITAR on its high-visibility enforcement training programme, an online training course which aims to help government and law enforcement officials design and implement interventions that contribute to reducing the number of alcohol-related fatalities and injuries.

Programmes run SMASHED Live and Online concurrently by offering only a single option in the vast majority of countries. Where two programmes are available, we mitigate the risk of duplication by offering programmes strategically to different school areas. In the unlikely event a school uses SMASHED Online and SMASHED Live, we assume that the school will utilise courses for different student groups. We mitigate the risk further by checking participating school data quarterly and communicating with teachers.

We have assumed that the number of students expected to either repeat a year group or change secondary schools is negligible, based on the most recent statistics from third parties.

### Limitation
We consider double counting to be highly unlikely, given the activity is only delivered once to any audience within the curricular requirements for the year. No unique personal identifiers are collected, for data privacy reasons.

### Data preparation
- **1 July to 30 June.** Our baseline year is fiscal 22.
- **Scope exception** Employees on long-term leave e.g. family leave, sickness leave.
- **Scope exception** We update the number of substantiated breaches and Code-related leavers from previous years to include the outcomes of those reports made in one financial year - but for which the investigation and any associated disciplinary actions are not closed until the following financial year, after the Annual Report has been published. This enables us to make a full and accurate year-on-year comparison.

### Scope exception
- **Definition** Reported breaches are potential breaches of our Code of Business Conduct, policies or standards made known to the business, either via our SpeakUp service or brought to our attention internally. Substantiated breaches are those reports that ultimately result in sufficient evidence being gathered to support the concern raised.
- **Data preparation** We update the number of substantiated breaches and Code-related leavers from previous years to include the outcomes of those reports made in one financial year - but for which the investigation and any associated disciplinary actions are not closed until the following financial year, after the Annual Report has been published. This enables us to make a full and accurate year-on-year comparison.
We have conducted a corporate-level risk assessment and mapped our global policies and processes against the UN Global Compact and other frameworks to identify and assess potential risks to human rights. We have conducted Human Rights Impact Assessments (HRIs) in every market, but not every country. We discuss significant actual and potential negative impacts on local communities at global and local levels but do not collate and report this by specific locations.

**Definition**

We have completed an HRIA in every market, but not every country. We discuss significant actual and potential negative impacts on local communities at global and local levels but do not collate and report this by specific location.

**Scope exception**

To date, we have conducted HRIs in Australia, Brazil, China, Colombia, Ghana, Guatemala, India, Kenya, Mexico, the Middle East, Nigeria, North America (United States and Canada), North Asia (South Korea and Japan), PEBAC (Peru, Ecuador, Bolivia, Argentina and Chile), South Africa, Tanzania, Thailand, Turkey, Uganda and the United Kingdom. From fiscal 24, all direct operations will be required to complete a detailed annual human rights self-assessment questionnaire, and take remedial action where necessary.

**Data preparation**

We have conducted a corporate-level risk assessment and mapped our global policies and processes against the UN Global Compact and other frameworks to identify and assess potential risks to human rights. Following the corporate-level assessment, we developed a comprehensive human rights impact assessment toolkit to guide our markets through a systematic review of their businesses to identify and assess potential human rights impacts, including modern slavery risks, throughout our value chain.

Where assessments identify human rights concerns or suggest our approach can be strengthened to better identify and prevent risk, we put in place robust action plans to resolve matters, working with external experts when appropriate.

**Limitation**

We have completed an HRIA in every market, but not every country. We discuss significant actual and potential negative impacts on local communities at global and local levels but do not collate and report this by specific location.

**Performance measure**

**Diageo has been a signatory to the UN Guiding Principles on Business and Human Rights (UNGPs) since 2014. As part of our commitment to act in accordance with the UNGPs, we partnered with Business for Social Responsibility in 2016 to formalise our human rights strategy and deliver a Human Rights Impact Assessment (HRIA) in all of our markets. An HRIA is a process for identifying, understanding, assessing and addressing the adverse effects of business activities on the human rights of impacted rights-holders such as workers and community members.**
We collect and report safety data for all sites where we have full operational control, including all office sites. It includes newly acquired businesses as soon as resources and systems are in place, and no later than one year after we have assumed operational control. We include safety data associated with any divestments during the current reporting year from reporting in the current period.

When an incident occurs at any site (operational, corporate office, remote commercial and remote home-working environments), we initiate a manager and local health and safety team to investigate the cause and root cause analysis. If the accident is classified as an LTA, then the local health and safety representative will escalate to the site leadership team, who will in turn escalate to regional, market and global leadership. Each month, sites are required to submit details associated with all incidents, accidents and LTAs, as well as OH&S FTE data for their site. OH&S FTE data is primarily obtained directly from the global HR/payroll system or estimated using employee numbers, average number of hours worked, absences and overtime information. If actual data is not readily available, Contractor agencies provide data on the hours worked by each contractor. This is then combined with Diageo employee data to calculate the total FTE data for the month. Safety data and OH&S FTE data is reported at site level using our global data management system.

**Performance measure**

**Total recordable accident frequency rate (TRAFLR)** less than 3.5

**Definition**

The KPI is the sum of all work-related accidents including OH&S FTE/non-FTE (contractors) fatalities on Diageo premises, OH&S FTE/non-FTE LTAs, OH&S FTE medical treatment cases (MTCs), and non-FTE permanent location-based MTCs, expressed as rate per 1,000 OH&S FTEs plus permanent location-based non-FTEs. We consider an injury or illness to be work-related when an event or exposure in the work environment (including people working at home) either caused or contributed to the resulting condition, or significantly aggravated a medically documented and treated pre-existing injury or illness.

**Scope exception**

As under LTAFR

**Data preparation**

As under LTAFR

**Limitation**

We do not report LTAFR for independent contractors because of the difficulty and administrative burden in accurately recording headcount.

**Performance measure**

**Lost-time injury frequency rate (LTIFR)**

**Definition**

The LTIFR is a standard Occupational Safety and Health Administration (OSHA) metric that measures the number of lost-time injuries occurring in a workplace per one million hours worked.

**Scope exception**

As under LTAFR

**Data preparation**

As under LTAFR

**Limitation**

We do not report LTIFR for independent contractors because of the difficulty and administrative burden in accurately recording headcount.

**Performance measure**

**Lost-time injury frequency rate (LTIFR)**

**Definition**

The LTIFR is a standard OSHA metric that calculates the number of lost-time injuries occurring in a workplace per 200,000 hours worked.

**Scope exception**

As under LTAFR

**Data preparation**

As under LTAFR

**Limitation**

We do not report LTIFR for independent contractors because of the difficulty and administrative burden in accurately recording headcount.

**Performance measure**

**Employee Engagement Index**

**Definition**

The Employee Engagement Index is calculated as the percentage of respondents who answer positively to three questions in our Your Voice survey: I am proud to work for Diageo; I would recommend Diageo as a great place to work; I am extremely satisfied with Diageo as a place to work.

**Scope exception**

As per LTAFR

**Data preparation**

The index is calculated from an anonymous annual survey run by an independent third-party.

**Limitation**

Contractors and employees on long-term leave are excluded.

Championing inclusion and diversity is at the heart of what we do, and is crucial to our purpose of ‘celebrating life, every day, everywhere’. We have set ourselves ambitious goals to drive progress, inside our business and beyond. They range from increasing representation of women and people from ethnically diverse backgrounds to 45% by 2030.
 Ambition | Through the Diageo Bar Academy (DBA), we will provide 1.5 million training sessions delivering skills and resources to help build a thriving hospitality sector that works for all
---|---
Performance measure | Number of participations in training sessions delivered through Diageo Bar Academy
Definition | We measure the number of participations in DBA training sessions. One individual could receive multiple training sessions and each training participation would count towards our target. The DBA delivers a range of hospitality skills training to owners, managers, bartenders and wait staff with the objective of training professional standards in the industry and helping professionals and businesses to thrive. Examples of course content include alcohol category knowledge, drink preparation skills, serving skills including responsible serving, business and bar management skills. Training includes physical, virtual, e-learning and masterclass tutorials.
Scope exception | -
Data preparation | Participants in all these DBA trainings are included in this performance measure. Diageo obtains data on the number of participations in trainings delivered in different ways depending on the types of course, as outlined below:
- Physical training: attendance number in face-to-face sessions delivered to groups of participants
- Virtual training: attendance number in live online sessions
- E-learning: number of completions of self-directed learning courses
- Masterclass: number of attendances at Live Tutorials and number of viewers of the recorded sessions From fiscal 23 we include online training data from China, where different digital platforms are used.
Limitation | Accuracy of data in case of physical trainings relies on third-party delivery partners.
---|---
Ambition | Ensure 50% of beneficiaries of our community programmes are women and that our community programmes are designed to enhance diversity and inclusion of under-represented groups
Performance measure | Percentage of beneficiaries of our community programmes who are women
Definition | For Learning for Life (or equivalent) programmes, we measure the number and percentage of women who have gained business and hospitality skills.
Scope exception | Our scope currently includes female beneficiaries of registered business and hospitality skills programmes. In future, the scope of this target will also include female representation on our water sanitation and hygiene (WASH) committees and water staff who benefit from initiatives such as our smallholder farmer programmes.
Data preparation | For Learning for Life programmes (and other skills programmes), we collect data on the number of female participants through training records managed by Diageo programme managers or third-party delivery partners.
Limitation | Accuracy relies on the quality of data provided by our third-party delivery partners.
---|---
Pioneer grain-to-glass sustainability

Our continued long-term success depends on the people and planet around us. Our work to pioneer grain-to-glass sustainability is divided into three areas: preserve water for life, accelerate to a low-carbon world and become sustainable by design.

Our water stewardship strategy, ‘Preserve Water for Life’, outlines how we manage water in our supply chain, operations and communities, as well as advocate for collective action to improve water security. We started our decarbonisation journey in 2008, and we aim to reach net zero across our direct operations by 2030, using 100% renewable energy everywhere we operate. We’re also committed to reducing our value chain carbon emissions by 50% by 2030. We are working to reduce our carbon footprint by reducing packaging, increasing recycled content and focusing on regenerative agriculture.
Preserve water for life

Our strategy is based on best practice water stewardship in three areas: water accessibility, availability and quality. We are also working in partnership to better manage water globally and to lead collective action in critical water basins.

Target
Reduce water use in our operations with a 40% improvement in water-use efficiency in water-stressed areas and a 30% improvement across the company

Performance measure
Water-use efficiency per litre of product packaged (Litres/Litre)

Additional performance measure
Percentage improvement in litres of water used per litre of product packaged from the prior year

Definition
We prepare and report water withdrawn (use) from sites where we have operational control, using internally developed reporting methodologies based on the GRI Standards.

Data preparation
Water withdrawn (use) is measured primarily from meter readings and invoices. In limited cases, estimates are used. Water withdrawn includes water obtained from ground water, surface water, mains supply and water delivered to the site by tanker, less any clean water provided back to local communities directly from a site. Uncontaminated water abstracted and returned to the same source under local consent, water abstracted from the sea, and rainwater collection are excluded from reported water withdrawn data.

For water-stressed only: We define water-stressed areas using the World Resources Institute (WRI) Aqueduct tool, UN definitions and internal survey information. During the reporting period, we identified 40 of our sites as located within water-stressed areas. An assessment of our sites located in water-stressed areas is completed every two years and includes any new-build or acquired sites and excludes any sites divested.

Scope exception
The volume of water used at Diageo-operated agricultural lands — in Brazil, Mexico and Turkey — is quantified and reported separately.

Limitation
In limited cases (e.g., failure or malfunction of water meters), estimates are used for water withdrawals.

The complexity of gathering data from multiple projects globally means there can be a delay in reporting information. This means we currently include data from projects completed by 31 May 2023 to allow us to consolidate data by fiscal year end.
Target: Invest in improving access to clean water, sanitation and hygiene (WASH) in communities near our sites and local sourcing areas in all of our water-stressed markets

Performance measure: Percentage of water-stressed markets with investment in WASH

Definition: This target tracks funding committed and spent on new WASH facilities to improve local community access to clean water, sanitation or hygiene in communities within the same water basin as our sites and local sourcing areas.

We usually define Diageo’s markets as countries or locations where we operate or sell our products. To ensure that our reporting is sufficient to reach our ambition, this KPI instead defines each market as an individual country, as set out on page 40. This means that the KPI considers water stress and investment at a country level, rather than at a market level.

We define water-stressed areas using the WRU Aqueduct tool at the minor basin level, UN definitions and internal assessment. During the reporting period, we identified 40 of our sites across 32 countries that are located in water-stressed areas, with 34 of these locations currently operational and six non-operational. An assessment of our sites located in water-stressed areas is completed every two years and includes any new build or acquired sites and excludes any sites divested.

The KPI is calculated as a percentage of the number of water-stressed markets in which Diageo has invested in WASH programmes in the same minor water basin as the site, divided by the total number of (in scope) water-stressed markets in which Diageo operates.

Scope exception: The scope excludes water-stressed markets in which Diageo operates where there is no demand or requirement for new community WASH projects (Turkey, Indonesia, Seychelles). These exclusions are verified by an expert implementing partner, and are based on government, WRI or World Health Organization information on WASH risk and availability. It also excludes Diageo WASH projects in markets that are not assessed as water stressed or where we do not have direct operations [for example, Myanmar].

Reporting period: 1 June to 31 May

Data preparation: Data on the WASH programmes, including locations, clean water yield, and the number of people (including the number of women) who benefit is calculated by NGO delivery partners and validated by an external validator.

The KPI is calculated as a percentage, i.e., the total number of water-stressed markets in which Diageo has invested in WASH programmes divided by the total number of (in scope) water-stressed markets in which Diageo operates.

Limitation: The completeness of gathering data from multiple projects globally means there can be a delay in reporting information.

This means we currently include data from projects completed by 31 May 2023 to allow us to consolidate data by fiscal year end.

Target: Engage in collective action in all of our priority water basins to improve water accessibility, availability and quality and contribute to a net positive water impact

Performance measure: Percentage of priority water basins with collective action participation

Definition: We identify priority water basins using a Diageo critically assessed (based on expert judgement and consultation) methodology leaving high water risk, according to the WRI Aqueduct tool. These basins would benefit from Diageo operational sites participating in collective action to address identified water challenges.

Collective action in water stewardship includes multi-stakeholder water management initiatives or projects that involve interaction with government entities, local communities, NGOs and/or civil society organisations.

Scope exception: –

Data preparation: Priority water basins with collective action participation are reported at country level and tracked by the Diageo global metric owner.

Limitation: –

Accelerating to a low-carbon world

We know that our planet needs significant, science-based action to create a sustainable future. We have set ourselves bold targets to reach net zero carbon across our operations and to work with our suppliers to reduce our value chain carbon emissions by 50% by 2030.

Target: Become net zero carbon in our direct operations (Scope 1 and 2)

Performance measure: Total direct and indirect carbon emissions by weight [market/net based] (1,000 tonnes CO2e)

Additional performance measures: Percentage reduction in absolute carbon emissions (direct and indirect carbon emissions by weight [market/net based]) from the prior year

Market based (net) intensity ratio of GHG emissions [grams CO2e per litre of packaged product]

Definition: Scope 1 and 2 emissions are presented as the absolute GHG emissions (Direct - Scope 1 emissions from on-site energy consumption of fuel sources and Indirect - Scope 2 emissions from purchased electricity and heat) in 1,000 tonnes CO2e using market-based reporting methodology. We externally report Scope 1 and 2 emissions using metric tonnes of CO2e to compare the emissions from the seven main GHGs based on their global warming potential. We base our CO2e reduction targets and reporting protocols (since 2007) on market-based emissions.

Scope exception: We exclude minor quantities of Scope 1 emissions up to 0.5% of a site’s emissions, to a maximum of 50 tonnes CO2e per emission source, as well as the carbon emissions associated with biogas flaring, since they are determined to be insignificant to our overall impacts. More details can be found in the Scope section of General Reporting methodology and boundaries, covering both non-environmental and environmental metric reporting.

We calculate CO2e emissions from the combustion of bioenergy, and from direct operations processes such as fermentation to create alcohol which are outside of scope and are reported separately. However, bioenergy CO2e emissions associated with methane and nitrous oxides that are not absorbed in bioenergy feedstock growth are included in Scope 1 emissions.

We do not include carbon offsets or credits in the Scope 1 and 2 GHG emissions market-based approach.

Data preparation: We calculate CO2e emissions data based on direct measurement of energy use (meter readings/invoices) for the majority of sites.

Market-based emissions: We externally report Scope 1 and 2 GHG emissions using metric tonnes of CO2e to compare the emissions from the seven main GHGs based on their global warming potential. We base our CO2e reduction targets and reporting protocols (since 2007) on market-based emissions.

Direct (Scope 1) emissions: We report fuel consumption by fuel type at site level using the environmental management system. Using calorific values, the fuel is then converted to energy consumption, in kilowatt hours (kWh), using a multiplier of the relevant CO2e emission factor to derive total CO2e emissions. Scope 1 emissions factors for fuels are typically average fuel CO2e emissions factors and calorific values (the latest available at the end of the reporting year) from the UK Government Department for Energy Security and Net Zero. We apply product-specific factors, where available. Energy attribute certificates (EACs), derived from our distillery by-product feedstock and processed by a third-party to generate biomethane, form a component of our decarbonisation, together with purchased renewable gas EACs (i.e., from certificate backed biomethane supplied indirectly through the natural gas grid). This is reflected in data preparation and aggregation.

Indirect (Scope 2) emissions: We report GHG emissions from electricity as market-based emissions in line with the WRI/WBSCD GHG Protocol Scope 2 guidance 2015. Electricity consumption recorded on our environmental management system is multiplied by emissions factors specified in EACs, contracts, power purchase agreements and supplier utility emissions, as detailed in the GHG Protocol’s Scope 2 guidance. We use GHG Protocol Scope 2 guidance to ensure EACs and associated contracts and agreements meet the required standards. GHG emission factors relating to indirect emissions are updated with the latest available by end of the financial year.

Fugitive and owned agricultural (Scope 1) emissions: We calculate fugitive emissions based on the amount of emitted ozone-depleting substances and fluorinated gases, multiplied by the relevant emission factor to represent the global warming potential in tonnes of CO2e. Annually, each site reports the quantity (mass) of each material/gas emitted based any added/topped-up amount, reported via the environmental management system. The mass of each of emitted ozone-depleting substance and fluorinated gas is multiplied by the relevant emission factor and then added together to report the equivalent GHG emissions in tonnes of CO2e.

We calculate agricultural emissions from direct operations owned and operated agricultural land only based on fertiliser use. The annual quantity (mass) of inorganic fertiliser is multiplied by the percentage of nitrogen content and by the relevant GHG emission and conversion factors (i.e., nitrogen to nitrous oxide, nitrous oxide GHG emission factor) to determine the equivalent tonnes CO2e emissions.

Scope 1 and Scope 2 data aggregation: Total direct and indirect carbon emissions by weight [market/net based] (1,000 tonnes CO2e) is the aggregation of Scope 1 and 2 GHG emissions with fugitive and owned agriculture emissions for external reporting annually. The percentage reduction in absolute carbon emissions [direct and indirect carbon emissions by weight [market/net based]] from the prior year is a percentage change calculation with reference to the corresponding prior year figure.

Our net zero emissions target for 2030 remains consistent with earlier reporting protocols and is based on market-based emissions.

GHG emission intensity ratios: Total, aggregated direct operations market-based emissions (as detailed above) are divided by the volume of direct operations packaged product reported in the same period. The market-based emissions are converted to grammes of CO2e and the volume of packaged product is reported in litres to generate relevant product GHG intensity ratios in 3 CO2e/litre packaged. For fiscal 23, the total volume packaged used for the denominator in intensity indicators is 3,801,229,885 litres.

Limitation: Where invoices or site meter readings are not available due, for example, to timing differences or muling issues, we estimate consumption.
We report Scope 3 GHG emissions using metric tonnes of CO$_2$e from the prior year.

Definition
Scope 3 emissions are all indirect emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions (but excluding Scope 2 emissions from purchased power and heat). The CO$_2$e emissions relating to all categories of materials and services within our value chain include those from purchased raw materials, packaging, third-party manufacturers, consumer use and disposal. We aggregate emissions from upstream and downstream logistics and distribution, including Category 4 logistics emissions. In addition, we include Category 2 capital goods, Category 3 fuels and energy-related activities, Category 5 waste generated in operations, Category 6 business travel and Category 7 employee commuting. The emissions attributable to all categories of materials and services provide a total value chain, Scope 3 footprint.

We do not include carbon offsets or credits in the Scope 3 GHG emissions market-based or location-based approaches.

Scope exception
Any categories of Scope 3 emissions not listed in the definition above are not currently included in our external reporting.

Data preparation
We report Scope 3 GHG emissions using metric tonnes of CO$_2$e to compare the emissions from the seven main GHGs based on their global warming potential. We base our CO$_2$e reduction targets and reporting protocols on real consumption location-based emissions. We report in line with the WRI/WBCSD GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard, 2011.

We calculate CO$_2$e emissions data on the basis of the volume of materials purchased, services provided, capital equipment purchased and distances travelled for upstream/downstream logistics. Supplier-specific emission factors and/or emission factors from literature are then applied to the component type to derive an absolute CO$_2$e emissions volume, in metric tonnes.

Limitation
—

Target
Use 100% renewable energy across all our direct operations

Performance measure
Change in percentage of renewable energy across our direct operations

Definition
We report total energy use and renewable energy use in megawatt hours (MWh) and/or terajoules (TJ). Total energy and renewable energy use are determined from direct and indirect energy consumption; energy generated on our sites and purchased energy. We determine direct energy (renewable/non-renewable) from the quantity of different fuel types (in metric tonnes, liters) of renewable and non-renewable fuels, and by applying the relevant calorific value (either from BEIS or the supplier). We measure indirect energy (renewable/non-renewable) in MWh and/or TJ from energy utilities or suppliers and/or by applying the relevant EACs. For avoidance of doubt, we include directly connected renewable energy generated or on our sites, where all energy is used on site and no EACs are created (e.g., roof-mounted solar panels with all generated renewable electricity used on site).

Scope exception
We exclude minor energy sources that account for less than 0.5% of a site’s overall Scope 1 and 2 emissions, up to a maximum of 50.1 CO$_2$e of individual emission source. They are considered immaterial to our overall impact.

Data preparation
We report total energy and renewable energy in MWh and/or TJ. We calculate direct and indirect energy data based on the direct measurement of energy use (meter readings/invoices for volumes of fuel supplied) for the majority of sites. We report fuel consumption by fuel type at site level using the environmental management system. Using calorific values, the fuel is then converted to energy consumption, in kWh, by fuel type and classified as either renewable or non-renewable based on fuel type or source. EACs, derived from our electricity by product feedstock and processed by a third party to generate biogas, together with purchased renewable gas EACs, are applied to relevant natural gas supplied to sites via a common carrier pipeline/network. This is reflected in data preparation and aggregation.

All indirect energy generated and used on site, along with purchased indirect energy supplied through the grid is classified as renewable by the allocation of EACs, contracts, power purchase agreements and supplier specific utility factors, where relevant.

To achieve the percentage of renewable energy use, we divide total renewable energy into direct and indirect energy (renewable/non-renewable) by total energy use, comprising all reported energy sources (MWh).

Limitation
Energy data is calculated based on direct measurement of energy use (meter readings/invoices) for the majority of sites. Where invoices are not available – due, for example, to timing differences – consumption is estimated. These instances account for less than 1% of the total.

Definition
We report fuel consumption by fuel type at site level using the environmental management system. Using calorific values, the fuel is then converted to energy consumption, in kWh, by fuel type and classified as either renewable or non-renewable based on fuel type or source. EACs, derived from our electricity by product feedstock and processed by a third party to generate biogas, together with purchased renewable gas EACs, are applied to relevant natural gas supplied to sites via a common carrier pipeline/network. This is reflected in data preparation and aggregation.

All indirect energy generated and used on site, along with purchased indirect energy supplied through the grid is classified as renewable by the allocation of EACs, contracts, power purchase agreements and supplier specific utility factors, where relevant.

To achieve the percentage of renewable energy use, we divide total renewable energy into direct and indirect energy (renewable/non-renewable) by total energy use, comprising all reported energy sources (MWh).

Limitation
Energy data is calculated based on direct measurement of energy use (meter readings/invoices) for the majority of sites. Where invoices are not available – due, for example, to timing differences – consumption is estimated. These instances account for less than 1% of the total.

ADDITIONAL INFORMATION
Number of regenerative agriculture pilot programmes initiated

Target
Achieve 40% recycled content in our plastic bottles by 2025, and 100% by 2030

Performance measure
Percentage of recycled content in our plastic bottles used

Definition
This is determined by quantifying the metric tonnes of non-virgin plastic in the total volume of all plastic bottles used at each site or market reported through a plastics database.

Scope exception
—

Data preparation
We collate plastic material volume data from enterprise software, including SAP and other sources, for the total volume of plastic purchased. We collect recycled content data through quarterly supplier questionnaires and then consolidate and internally verify it.

Limitation
Reporting relies on suppliers’ technical information and supporting supplementary information.

Target
Ensure 100% of our plastics are designed to be widely recyclable (or reusable/compostable) by 2025

Performance measure
Percentage of recyclable (or reusable/compostable) plastic used

Definition
For fiscal 23, we are reporting our ‘technically recyclable’ number. This includes packaging that is technically possible to recycle, but does not take into account whether the collection, sorting and recycling of the package happens in practice, at scale and at viable cost.

Scope exception
—

Data preparation
Packaging material volume data is collated from enterprise software, including SAP (materials supplied) and other sources. It is then consolidated and internally verified, based on the best available information.

Limitation
Reporting relies on suppliers’ technical information and supporting supplementary information.

Scope exception
—

Target
Provide all of our local sourcing communities with agricultural skills and resources, building economic and environmental resilience (supporting 150,000 smallholder farmers)

Performance measure
Number of smallholder farmers in our supply chain supported by our smallholder farmer programmes

Definition
We define a smallholder farmer as an individual or family farming an area of less than four hectares, for the primary markets in scope for this target. Our local sourcing communities are those where we engage directly with smallholder farmers, or indirectly through our suppliers.

We define providing agricultural skills and inputs aimed at improving the methods and activities used by smallholder farmers to farm effectively and sustainably by providing training or providing or facilitating access to farm inputs such as certified seeds and mechanisation.

Building economic and environmental resilience involves improving smallholders’ financial awareness, their family income and/or their understanding of how to act in a climate-smart way.

Scope exception
—

Data preparation
Our work with smallholder farmers is currently focused around sorghum value chains in five countries in Africa. For Fiscal 23, we focussed efforts on Kenya. With this focus we have learned how to best deploy at scale.

Data preparation
Our sourcing teams and third-party partners track the number of smallholder farmers undertaking training and education or being provided with access to farm inputs both manually and directly into our new digital platform. The baseline year for our smallholder programmes is fiscal 22. The performance measure is refreshed each year, rather than accumulated over consecutive years, to evidence evolution of the number of smallholder supported on a year-by-year basis.

Limitation
Monitoring is likely to evolve over time, because collecting data at smallholder-farm level is complex, with a heavy reliance on individuals, a lack of publicly available high-impact datasets and a lack of real-time data.

Scope exception
—

Target
Develop regenerative agriculture pilot programmes in five key sourcing landscapes

Performance measure
Number of regenerative agriculture pilot programmes initiated

Definition
We define our key sourcing landscapes as locations from which we source our most material crops, in terms of volumes sourced, product dependency (e.g., agave for tequila) and contribution to our Scope 3 GHG footprint. The programmes include:

• On-farm-ground programmes with farmers to test and integrate regenerative and low-carbon practices in crop production systems
• On-farm measurements and data collection protocols to track improvements in soil health, soil carbon, biodiversity, water stewardship and farm profitability
• Collaborative programmes with our suppliers, other commodity allergists, expert agronomists, technology providers, NGOs or specialist organisations.

Scope exception
—

Data preparation
Data is collated for each pilot programme, tracking KPIs and reporting on improvements against key outcomes. The baseline year is fiscal 23. The baseline year for assessing the results of our first pilot programme, Guineas barley, is fiscal 22.

Limitation
—

INDEPENDENT LIMITED ASSURANCE REPORT ON SELECTED SUBJECT MATTER

Independent Limited Assurance Report to the Directors of Diageo plc on selected subject matter

Our limited assurance conclusion
Based on the procedures we have performed, as described under “Summary of work performed” and the evidence we have obtained, nothing has come to our attention that causes us to believe that the information marked with the symbol £ in Diageo plc’s (‘Diageo’s’) Annual Report (‘the Report’), for the year ended 30 June 2023 and summarised below (together the ‘Subject Matter Information’), has not been prepared, in all material respects, in accordance with “Diageo’s Reporting boundaries and methodologies” (the ‘Reporting Criteria’) set out on pages 242-262 of the Annual Report.

What we assured
The Subject Matter Information needs to be read and understood together with the Reporting Criteria which Diageo’s Directors are solely responsible for selecting and applying. The Subject Matter Information are set out below:

Subject Matter Information [for the year ended 30 June 2023 unless otherwise stated]

Environmental and Safety Indicators:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Location of Subject Matter Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total volume packaged (litres)</td>
<td>1,801,239,185</td>
</tr>
<tr>
<td>Water use efficiency per litre of product packaged (litres/litre)</td>
<td>4.1</td>
</tr>
<tr>
<td>Percentage improvement in litres of water used per litre of product packaged from the prior year (percentage)</td>
<td>2.07%</td>
</tr>
<tr>
<td>Percentage reduction in absolute carbon emissions (direct and indirect carbon emissions by weight) (market / net based) from the prior year</td>
<td>5.4%</td>
</tr>
<tr>
<td>Total direct and indirect carbon emissions by weight (market / net based) (1,000 tonnes CO2e)</td>
<td>405</td>
</tr>
<tr>
<td>Market based (net) intensity ratio of GHG emissions (g CO2e per litre of packaged product)</td>
<td>105</td>
</tr>
<tr>
<td>Percentage reduction in total waste sent to landfill from the prior year</td>
<td>25.5%</td>
</tr>
<tr>
<td>Lost time accident frequency rate per 1,000 full-time employees (FTEs)</td>
<td>0.91</td>
</tr>
</tbody>
</table>

Smashed indicators (for the period 1 June 2022 to 31 May 2023):

- Number of people educated on the dangers of underage drinking through a Diageo supported education programme | 1,905,617 | page 5 and 58 |
- Number of people who confirmed changed attitudes on the dangers of underage drinking following participation in a Diageo supported education programme | 1,549,196 | page 58 |

Exclusion and Diversity indicators:

- The percentage of female leaders globally | 44% | pages 5 and 68 |
- The percentage of ethnically diverse leaders globally | 43% | pages 5 and 68 |

Water Replenishment indicators:

- Annual volumetric replenishment capacity (m3) of projects developed | 1,371,010 | page 79 |
- Percentage of water-stressed markets where Diageo have invested in improving access to clean water, sanitation and hygiene near sites and local sourcing areas (FY21-FY22) | 100% | page 60 |

The footnote refers to our assessment of materiality discussed in this report.

The scope of our work did not extend to information in respect of earlier periods or to any other information included in, or linked from, the Report.

Our work
Professional standards applied
We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) ‘Assurance Engagements other than Audits or Reviews of Historical Financial Information’ and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3400 ‘Assurance engagements on greenhouse gas statements’, issued by the International Auditing and Assurance Standards Board.

Our independence and quality control
We have compiled with the Institute of Chartered Accountants in England and Wales Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards).

ADDITIONAL INFORMATION

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INDEPENDENT LIMITED ASSURANCE REPORT ON SELECTED SUBJECT MATTER continued

We apply International Standard on Quality Management (UK) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed

We performed a limited assurance engagement. Because a limited assurance engagement can cover a range of assurance, we give more detail about the procedures performed, so that the intended users can understand the nature, timing and extent of procedures we performed as context for our conclusions. The procedures performed do not include evaluating the suitability of the design or operating effectiveness of control activities.

In performing our assurance procedures, which were based on our professional judgement, we performed the following:

- considered the suitability of the circumstances of Diageo’s use of the Reporting Criteria, as the basis for preparing the Subject Matter Information;
- obtained an understanding of Diageo’s control environment, processes and systems relevant to the preparation of the Subject Matter Information; and
- procedures did not include evaluating the suitability of the design or operating effectiveness of control activities.

- we assessed the appropriateness of measurement and evaluation methods, reporting policies used and estimates made by Diageo, noting that our procedures did not involve testing the data on which the estimates are based or separately developing our own estimates against which to evaluate Diageo’s estimates;
- undertook site visits at 32 of Diageo’s sites; we selected these sites based on their inherent risk, materiality to the group, and an analysis of unexpected results in the Subject Matter Information since the prior period. 4 of these sites based in Scotland, Uganda, Ghana and the United States were performed virtually using live feed streaming under our direction. A further 8 sites in Scotland (2), England, India, Nigeria (2), Mexico and Australia were conducted as physical visits;

- performed limited substantive testing on a selective basis of the Subject Matter Information related to the Environmental and Safety indicators. This testing was performed at the Diageo head office, to check that underlying information was complete and accurate, and had been appropriately evaluated or measured, recorded, collated and reported;

- the Subject Matter Information related to Water Replenishment indicators is aggregated from the specific water replenishment programmes undertaken by Diageo. In order to understand the key processes and controls for reporting, we made management enquiries and performed limited substantive testing on a selective basis by sampling 5 out of 35 projects, based on inherent risk and materiality and the potential for individual, volumetric water replenishment capacity. This specifically focused on understanding how processes are selected and implemented by implementation partners on behalf of Diageo. This testing checked that underlying information had been appropriately evaluated or measured, recorded, collated and reported;

- performed limited substantive testing on a selective basis of the Subject Matter Information related to the Smashed and Inclusion and Diversity indicators. This testing was performed at the Diageo head office, to check that underlying information was complete and accurate, and had been appropriately evaluated or measured, recorded, collated and reported; and

- evaluated the disclosures, in, overall presentation of the Subject Matter Information. Our assurance procedures specifically did not evaluate the suitability of design or operating effectiveness of control activities.

Materiality

We are required to plan and perform our work to address the areas where we have identified that a material misstatement of the Subject Matter Information is likely to occur. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature and extent of our work in relation to the assurance objective. We believe that it is important that the intended users understand the concept and the materiality of our conclusion.

Based on our professional judgement, we determined materiality for the Subject Matter Information as follows:

Overall materiality

Materiality differs depending upon the nature of the Subject Matter Information. We apply professional judgement to consider the most appropriate materiality benchmark for each aspect of the Subject Matter Information, having considered how the intended users may use the information.

The benchmark approach for each aspect of the Subject Matter Information is indicated in the table by one of the following numbers:

• 1 This metric is an absolute number. A benchmark materiality of 5% has been applied.
• 2 This metric measures intensity, which is calculated as a ratio between 2 different numbers. A benchmark of 5% has been applied to both the numerator and denominator used in the calculation.
• 3 This metric is a ratio of a significant change. A benchmark materiality of 1000 FTEs is set at 5%.
• 4 This metric is a percentage. A benchmark materiality of 2.5% has been applied to both the number of females and total number of leaders used in the percentage calculation.
• 5 This metric is a percentage. A benchmark materiality of 2.5% has been applied to both the number of ethnic diversity leaders and total number of leaders used in the percentage calculation.

This metric is a percentage. Any identified misstatement in either the numerator or denominator is considered material.

This metric is a percentage change. A benchmark of 5% has been applied to both the numerator and denominator.

We also agreed to report to the Directors misstatements (“reportable misstatements”) identified during our work at a level below overall materiality, as well as misstatements below that lower level, that in our view warranted reporting for qualitative reasons. The Directors are responsible for deciding whether adjustments should be made to the Subject Matter Information in respect of those items.

Key assurance matters

We considered the following areas to be those that required our particular focus and discussed these areas with Diageo’s management. This is not a complete list of all areas of focus identified by our work.

Classification of waste

NATURE OF THE ISSUE

Diageo engages in a wide range of third parties in the collection, management and disposal of the waste generated through their global operations. As such, waste leaves the Diageo network through this intermediary path taken and there is a class of visibility of waste disposal routes. Diageo then only has to rely on management information provided by their third parties to appropriately classify waste – particularly waste sent to landfill.

How our work addressed the key assurance matter

- Whilst our testing approach in relation to third parties is unique to each individual aspect of the Subject Matter Information, the following are examples of work performed at some of the 32 Diageo sites selected in relation to waste specifically:
  - Performed walkthrough procedures to gain an understanding of the end-to-end waste journey (for selected waste streams, and enquired with local management to understand how they are comparable with data obtained from third party waste handlers);
  - Enquired with third party waste handlers to understand how they compile their management information they send to Diageo;
  - Obtained an understanding of any specific contractual obligations in place on third party waste handlers in relation to sending waste to landfill;
  - Obtained third party confirmation of year to date waste to landfill volumes for a sample of waste handlers selecting the sites;
  - Obtained and reviewed waste traceability review reports compiled by local site management of waste streams monitored from by third parties;
  - Attended a waste traceability review conducted by local site management with a third party waste handler;
  - Reviewed the group management schedule of waste handler reviews, assessing key findings and the broader impact on the group;
  - Performed substantive testing to confirm accuracy and classification of waste values reported, and for a sample of waste streams monitored at some of the sites, we obtained weightage validation certificates, or equivalent documents, to confirm accuracy of actual waste collection volumes;
  - Obtained and reviewed calculations performed by selected waste handlers to report total waste sent to landfill (figure 2.3); and
  - Obtained and assessed reasonableness of estimation methodologies applied locally in the absence of reliable third party data, and validated data inputs.

Element(s) of the Subject Matter Information significantly impacted

Percentage reduction in total waste sent to landfill from the prior year

Application of complex criteria

NATURE OF THE ISSUE

Diageo has extensive internal risk management and assurance guidance to support local site management teams to compile and report health and safety incidents consistently. Whilst this guidance is detailed, there are some complex areas which can sometimes be open to interpretation or judgement, resulting in significant assurance risks around completeness, accuracy, classification and presentation and disclosure.

There are complex definitions and exception criteria specific to Lost Time Accidents (LTAs), which determine whether an incident is reportable and how it should be classified. For example, in relation to the lost time accident classification, judgement can be in interpreting key definitions: work-related or job restriction based on detailed internal definitions and criteria which may not be objective.

How our work addressed the key assurance matter

- Whilst our testing approach in relation to judgements is unique to each individual aspect of the Subject Matter Information, the following are examples of work performed at some of the 32 Diageo sites selected in relation to lost time accident reporting specifically:
  - Obtained an understanding of local safety governance and escalation channels available to local site management;
  - Performed walkthrough procedures to gain an understanding of local incident reporting procedures to ensure and assess consistency when utilizing classification guidance;
  - Enquired with local site management to understand how they classify incidents for complex or unusual incidents;
  - Performed substantive testing over all lost time accidents reported to date, and for a sample of between 5-15 other incidents to confirm classification;
  - Obtained additional corroborating evidence where underlying incident reporting was not sufficiently substantiated by classification.

Element(s) of the Subject Matter Information most significantly impacted

Lost time accident frequency rate per 1000 full time employees

Challenges of non-financial information

The absence of a significant body of established practice upon which to draw to evaluate and measure non-financial information allows for different, but acceptable, evaluation and measurement techniques that can affect comparability between entities, and over time.

Non-financial information is subject to more inherent limitations than financial information, given the characteristics of the underlying subject matter and the methods used for evaluating or measuring it. The precision of different measurement techniques may also vary.

ADDITIONAL INFORMATION
INDEPENDENT LIMITED ASSURANCE REPORT ON SELECTED SUBJECT MATTER

Our report, including our conclusion, has been prepared solely for the Directors of Diageo in accordance with the agreement between us dated 31 January 2023 (as varied). To the fullest extent permitted by law, we do not accept or assume responsibility or liability to any other than the Board of Directors and Diageo for our work or this report except where terms are expressly agreed between us in writing.

As explained in the Directors’ Statement on page 116 of the Annual Report, the Directors of Diageo are responsible for:

• determining appropriate reporting topics and selecting or establishing suitable criteria for measuring or evaluating the underlying subject matter;
• ensuring that those criteria are relevant and appropriate to Diageo and the intended users of the Report;
• the preparation of the Subject Matter Information in accordance with Those Reporting Criteria including designing, implementing and maintaining systems, processes and controls over the evaluation or measurement of the underlying subject matter or result in Subject Matter Information that is free from material misstatement, whether due to fraud or error;
• producing the Report, including underlying data and statements of Directors’ responsibility, which provides a balanced reflection of Diageo’s performance in this area and discloses, with supporting rationale, matters relevant to the intended users of the Report.

We are responsible for:

• planning and performing the engagement to obtain limited assurance about whether the Subject Matter Information is free from material misstatement, whether due to fraud or error;
• forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
• reporting our conclusion to the Directors of Diageo.

Use of this report

Our report, including our conclusion, has been prepared solely for the Directors of Diageo in accordance with the agreement between us dated 31 January 2023 (as varied). To the fullest extent permitted by law, we do not accept or assume responsibility or liability to any other than the Board of Directors and Diageo for our work or this report except where terms are expressly agreed between us in writing.

ADDITIONAL INFORMATION

Other additional information

Spirits and investments

Spirits are produced in distilleries located worldwide. The group owns 30 Scotch whisky distilleries in Scotland, two whisky distilleries in Canada and three in the United States. Diageo produces Smirnoff internationally. Ketel One and Cîroc vodkas are purchased as finished product from The Nikka Group and Maison Veuve, respectively. Gin distilleries are in both the United Kingdom and in São Paulo. Tequila, Irish and Italian Tequilas are produced in Italy in Toscana, France, and Sicily. In Italy, Baileys is produced in the Republic of Ireland and Northern Ireland. Irish whiskey is distilled at the Roe & Co distillery in Dublin. Rum is distilled in the US Virgin Islands and in Australia, Venezuela, and Guatemala and is blended and bottled in the United States, Canada, Italy and the United Kingdom. Raki is produced in Turkey. Chinese white spirits are produced in Chengdu, in the Sichuan province of China, cachaça is produced in Ceará State in Brazil and tequila in Mexico. The Chase Distillery in England produces vodka and gin.

Diageo’s maturing Scotch whisky is in warehouses in Scotland (Clackmannanshire area between Blackgrange, Cambus West and Menstrie, where we are holding approximately 50% of the group’s maturing Scotch whisky), its maturing Canadian whisky in Volleyfield and Glenmorangie in Canada, its maturing American whisky in Kentucky and Tennessee in the United States and maturing Chinese white spirits in Chengdu, China.

There is a significant progress in our investment of £185 million in the Scotch whisky and tourism sectors in Scotland. This has included the creation of a new Johnnie Walker global brand attraction in Edinburgh (Johnnie Walker Princes Street). The distillery visitor experience at Glenkinchie, Clynelish and Cardhu are now fully operational and Cîroc opened in August 2022. The iconic single malt distillery of Port Ellen is expected to be back in production in the summer of 2023.

In China, work continues with our £75 million investment in the Eyruan malt whisky distillery. It will produce our first China-origin, single malt whisky and be carbon-neutral on opening.

In North America, further capacity expansion projects are now underway to support future growth including the £246 million construction of a carbon neutral Crown Royal distillery in Canada to supplement existing manufacturing operations.

Diageo’s end-to-end tequila production is in Mexico, and more than $500 million dollars is being invested to expand our manufacturing footprint through an investment in new facilities in the state of Jalisco to support growth. As part of our expansion and our investments in the tequila category, we have different digital transformation projects under implementation at the El Centenario production site to respond to the growing demand in tequila and the expansion of our operations. Projects include additional technology support for the collection and certification of our new bottling line on site, which will be dedicated to Cosmoagave tequila. The use of technology will allow us to operate 24x7.

Diageo owns a controlling equity stake in United Spirits Limited (USL) which is one of the leading alcoholic beverage companies in India selling close to 6.6 million equivalent units (equivalent to 8% of our consolidated net sales) to 1.8 million consumers through our bottling and distribution operations. Projects are underway to support future growth including the $235 million announced to expand and optimise capacity at its key bottling facilities in Bangalore and Buncorn. This is in addition to the $200 million which was announced in the USC report.

Ready to drink

Diageo produces a range of ready to drink products mainly in the United Kingdom, Italy, across Africa, Australia, the United States and Canada.

Raw materials and supply agreements

The group has several long-term contracts in place for the purchase of raw materials, including glass, other packaging, spirits, cream, rum and grapes. Forward contracts are in place for the purchase of cereals and packaging materials to minimize the effects of short-term price fluctuations. The global ocean freight crisis coupled with volatile but strong consumer demand, change in consumer habits (for example, the increase in e-commerce, the energy crisis, residual impact of Covid-19 and impact of the conflict in Ukraine) are the key drivers of constraints that we are managing through.

As a result of strengthening our supply chain, we are benefitting from cost reductions and increased resilience and agility in our logistics networks.

Cereals, including barley, wheat, corn and sorghum are used in Scotch and beer production and in our spirits brands through purchased neutral spirit. Cream is the principal raw material used in the production of beer and our spirits brand through purchased neutral spirit. The global ocean freight crisis coupled with volatile but strong consumer demand, change in consumer habits (for example, the increase in e-commerce, the energy crisis, residual impact of Covid-19 and impact of the conflict in Ukraine) are the key drivers of constraints that we are managing through.

Other raw materials purchased in significant quantities to produce spirits and beer are molasses, sugar, and several flavours (such as juniper berries, agave,
Diageo’s brands compete primarily on the basis of quality and price. It is critical that Diageo’s products are sold directly to the right consumer for the right occasion, and at the right price, including through taking into account ever- evolving shopper landscapes, technologies and consumer preferences. Diageo has created a portfolio of brands designed to appeal to a diverse consumer base, with the profile varying between regions, with several brands that compete directly with Diageo’s brands. In addition, Diageo faces competition from local and international companies in the countries in which it operates. In Brazil, Diageo also competes globally, as well as on a regional and local basis (with the profile varying between regions) with several competitors, including AB InBev, Pernod Ricard, Bacardi and Brown-Forman, each of which has several brands that are substantially dependent on the maintenance and protection of their valuable patents and trade secrets for technology and takes all reasonable steps to protect these rights.

In the United States and regulating trade practices. In addition, the US beverage alcohol industry, including federal and state government regulations. At the federal level, the reasonable steps to protect these rights.

Innovation forms an important part of Diageo’s growth strategy, and local basis (with the profile varying between regions) with several brands that compete directly with Diageo’s brands. In addition, Diageo faces competition from local and international companies in the countries in which it operates. In Brazil, Diageo also competes globally, as well as on a regional and local basis (with the profile varying between regions) with several competitors, including AB InBev, Pernod Ricard, Bacardi and Brown-Forman, each of which has several brands that are substantially dependent on the maintenance and protection of their valuable patents and trade secrets for technology and takes all reasonable steps to protect these rights.

 Import and export duties can have a significant impact on the final pricing of Diageo’s products. In addition to transaction tax, product’s revenue or margin, both by reducing consumption and/or by encouraging consumers to switch to lower-priced categories of beverages. The group devotes resources to encouraging the equitable taxation treatment of all beverage alcohol categories and to reducing government-imposed barriers to fair trading.

The advertising, marketing and sale of alcohol are subject to extensive regulations in the United States and other countries. To reduce the risk of product damage, the group seeks to limit its exposure to product damage or to model legislation. In the United States, Diageo and other beverage alcohol companies are required to be included on all beverage alcohol products sold in the US, in certain countries within the EU, and in a number of other jurisdictions where the beverage alcohol industry is subject to strict federal and state government regulations. At the federal level, the and pricing, labelling and packaging and advertising, antitrust, labor, environmental, tax, competition, and intellectual property regulations and environmental issues.

Diageo’s beverages are marketed to consumers in a variety of retail outlets and/or expanding retail licensing requirements. As legal drinking age, further limiting the number, time or opening hours of retail outlets and/or expanding retail licensing requirements. As legal drinking age, further limiting the number, time or opening hours of retail outlets and/or expanding retail licensing requirements.

The implementation of this system, which aims to simplify the previous duty regime, could impact Diageo’s business activities.

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In the United States, the group believes that its significant trademarks are registered and/or otherwise protected (as far as legal protection is available) in all material respects in the important markets. Diageo also owns valuable patents and trade secrets for technology and takes all reasonable steps to protect these rights.

Regulations and taxes

Diageo’s worldwide operations are subject to extensive regulatory requirements relating to production, product liability, distribution, importation, marketing, pricing, sales, pricing, labelling, packaging, advertising, antitrust, labor, environmental, tax, competition, and intellectual property regulations and environmental issues. Diageo’s beverages are marketed to consumers in a variety of retail outlets and/or expanding retail licensing requirements. As legal drinking age, further limiting the number, time or opening hours of retail outlets and/or expanding retail licensing requirements.

In addition, this section is based in part upon the representations of the holders of the ordinary shares or ADSs should consult its tax advisor with regard to the US federal income tax treatment of an investment in Diageo ADSs. For UK tax purposes, this section applies only to persons who are the absolute beneficial owners of ordinary shares or ADSs and who hold their ordinary shares or ADSs in their own names. The income tax treatment of a partner will generally depend on the status of the partnership and the member and the profit or loss in partnership.

For UK tax purposes, this section applies only to persons who are the absolute beneficial owners of ordinary shares or ADSs and who hold their ordinary shares or ADSs in their own names. The income tax treatment of a partner will generally depend on the status of the partnership and the member and the profit or loss in partnership.

All dividends received by an individual shareholder or ADS holder which are not generally be subject to tax on dividends from the company. Other income, such as the amount may depend on the relevant dividend income, may be subject to tax at the rate of 39.35%, to the extent that the relevant dividend income falls below the threshold for the higher rate of income tax and falls below the threshold for the additional rate of income tax.

In determining whether and, if so, to what extent the relevant dividend income falls above or below the threshold for the higher rate of income tax or, as the case may be, the additional rate of income tax, the income, dividend, and capital gains tax rates in the country or countries in which the individual resides or is domiciled.

Shareholders within the charge to UK corporation tax which are not US holders eligible for the nil-rate band amount for the purpose of the UK taxation of dividends.

A US holder is a beneficial owner of ordinary shares or ADSs that is for US federal income tax purposes:

• a citizen or resident for tax purposes of the United States and who is not and has not been a resident of the United Kingdom;

• a US domestic corporation;

• a person that holds ordinary shares or ADSs subject to US federal income tax regardless of its source;

• a trust if a US court can exercise primary supervision over the trust’s assets, but below the threshold for the additional rate of income tax.
US taxation

Under the US federal income tax laws, and subject to the passive foreign investment company (PFIC) rules discussed below, the gross amount of any distribution (other than certain pro rata distribution of ordinary shares) paid to a US holder by Diageo in respect of its ordinary shares or ADSs out of its current or accumulated earnings and profits (as determined for US federal income tax purposes) will be treated as a dividend that is subject to US federal income taxation. Dividends paid to a non-corporate US holder that constitute qualified dividend income will be taxed at the preferential rates applicable to long-term capital gains, provided that the ordinary shares or ADSs are held for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and the holder meets other holding period requirements. Dividends paid by Diageo with respect to its ordinary shares or ADSs generally will be qualified dividend income to US holders that meet the holding period requirement provided, that, in the year that you receive the dividend, we are eligible for the benefit of the Treaty. We believe that we are currently eligible for the benefits of the Treaty and we therefore expect that dividends on the shares or ADSs will be qualified dividend income, but there can be no assurance that we will continue to be eligible for the benefits of the Treaty. Under UK law, dividends paid by the company are not subject to UK withholding tax. Therefore, the US holder will include in income for US federal income tax purposes the amount of the dividend received, and the receipt of a dividend will not entitle the US holder to a foreign tax credit.

The dividend must be included in income when the US holder, in the case of shares, or the Depository, in the case of ADSs, receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. Dividends will generally be income from sources outside the United States and will generally be ‘passive’ income for purposes of computing the foreign tax credit allowable to a US holder. The amount of the dividend distribution that must be included in income of a US holder will be the US dollar value of the pounds sterling payments made, determined at the spot pounds sterling/US dollar foreign exchange rate on the date of the dividend distribution, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is distributed to the date the payment is converted into US dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

PFIC rules

Diageo believes that ordinary shares and ADSs should not currently be treated as stock of a PFIC for US federal income tax purposes, and we do not expect to become a PFIC in the foreseeable future. However this conclusion is a factual determination that is made annually and thus may be subject to change. It is therefore possible that we could become a PFIC in a future taxable year. If treated as a PFIC, gain realized on the sale of other disposition of ordinary shares or ADSs would in general not be treated as capital gain. Instead, unless a US holder elects to be taxed annually on a mark-to-market basis with respect to the ordinary shares or ADSs, US holders would be treated as if the holder had realized such gain and certain ‘excess distributions’ promoted over the holder’s holding period for the ordinary shares or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain or distribution was allocated, together with an interest charge in respect of the tax attributable to such excess distribution. Certain exceptions, a holder’s ordinary shares or ADSs would be treated as stock in a PFIC if Diageo were a PFIC at any time during the holding period in a holder’s ordinary shares or ADSs. In addition, dividends received from Diageo will not be eligible for the special tax rates applicable to qualified dividend income if Diageo is a PFIC (or a treated as a PFIC with respect to the holder) in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income. If you own our shares or ADSs during any year that we are a PFIC with respect to you, you may be required to file IRS Form 8621.

UK inheritance tax

Subject to certain provisions relating to trusts or settlements, an ordinary share or ADS held by an individual shareholder who is domiciled in the United States in the years for the purposes of the Convention between the United States and the United Kingdom relating to estate and gift taxes (the Convention) and who is neither domiciled in the UK nor (where conditions are met) a UK national (as defined in the Convention), will generally not be subject to UK inheritance tax on the individual’s death (whether held on the date of death or gifted during the individual’s lifetime) except where the ordinary share or ADS is part of the business property of a UK permanent establishment of the individual or pertains to a UK fixed base of an individual who performs independent personal services. In a case where an ordinary share or ADS is subject both to UK inheritance tax and to US federal gift or estate tax, the Convention generally provides for inheritance tax paid in the United Kingdom to be credited against federal gift or estate tax payable in the United States, or for federal gift or estate tax paid in the United States to be credited against any inheritance tax payable in the United Kingdom, based on priority rules set forth in the Convention.

UK stamp duty and stamp duty reserve tax

Stamp duty and stamp duty reserve tax (SDRT) may arise upon the deposit of an underlying ordinary share with the Depository, generally at the higher of 1.5% of its issue price or, as the case may be, the cost for the purposes of UK tax on capital gains. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Dividends paid by Diageo with respect to its ordinary shares or ADSs generally will be qualified dividend income to US holders that meet the holding period requirement provided, that, in the year that you receive the dividend, we are eligible for the benefit of the Treaty. We believe that we are currently eligible for the benefits of the Treaty and we therefore expect that dividends on the shares or ADSs will be qualified dividend income, but there can be no assurance that we will continue to be eligible for the benefits of the Treaty. Under UK law, dividends paid by the company are not subject to UK withholding tax. Therefore, the US holder will include in income for US federal income tax purposes the amount of the dividend received, and the receipt of a dividend will not entitle the US holder to a foreign tax credit.

The dividend must be included in income when the US holder, in the case of shares, or the Depository, in the case of ADSs, receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. Dividends will generally be income from sources outside the United States and will generally be ‘passive’ income for purposes of computing the foreign tax credit allowable to a US holder. The amount of the dividend distribution that must be included in income of a US holder will be the US dollar value of the pounds sterling payments made, determined at the spot pounds sterling/US dollar foreign exchange rate on the date of the dividend distribution, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is distributed to the date the payment is converted into US dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Dividends in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the holder’s basis in the ordinary shares or ADSs and thereafter as capital gain. However, Diageo does not expect to calculate earnings and profits in accordance with US federal income tax principles. Accordingly, a US holder should expect to generally treat distributions Diageo makes as dividends.
Annual General Meeting (AGM)
The AGM will be held at etc venues St Paul’s, 200 Aldersgate, London EC1A 4HD at 2.30 pm on Thursday, 28 September 2023.

Documents on display
The Annual Report on Form 20-F and any other documents filed by the company with the US Securities Exchange Commission (SEC) may be inspected at the SEC’s office of Investor Education and Advocacy located at 100 F Street, NE, Washington, DC 20549-0213, USA. Please call the SEC at 1800 SEC 0330 for further information on the public reference rooms and their copy charges. Filing with the SEC are also available to the public from commercial document retrieval services, and from the website maintained by the US Securities and Exchange Commission at www.sec.gov.

Warning to shareholders - share fraud
Please beware of the share fraud of ‘boiler room’ scams, where shareholders are called ‘out of the blue’ by fraudsters (sometimes claiming to represent Diageo) attempting to obtain money or property dishonestly. Further information on boiler room scams can be found on the Financial Conduct Authority’s website (https://www.fca.org.uk/scamsmart/share-bond-boiler-room-scams) but in short, if in doubt, take proper professional advice before making any investment decision.

Electronic communications
Shareholders can register for an account to manage their shareholding online, including being able to: check the number of shares they own and the value of their shareholding; register for electronic communications; update their personal details; provide a dividend mandate instruction; access dividend confirmations; and use the online share dealing service. To register for an account, shareholders should visit www.diageoregistrars.com.

Dividend payments
Direct payment into bank account
Shareholders can have their cash dividend paid directly into their UK bank account on the dividend payment date. To register UK bank account details, shareholders can register for an online account at www.diageoregistrars.com or call the Registrar on +44 (0)371 277 1010* to request the relevant application form. For shareholders outside the UK, Link Group (a trading name of Link Market Services Limited and Link Market Services Trustees Limited) may be able to provide you with a range of services relating to your shareholding. To learn more about the services available to you please visit the shareholder portal at www.diageoregistrars.com or call +44 (0)371 277 1010*.

Dividend Reinvestment Plan
A Dividend Reinvestment Plan is offered by the Registrar, Link Market Services Trustees Limited, to give shareholders the opportunity to build up their shareholding in Diageo by using their cash dividends to purchase additional Diageo shares. To join the Dividend Reinvestment Plan, shareholders can call the Registrar, Link Group on +44 (0)371 277 1010* to request the relevant application form.

Exchange controls
Other than certain economic sanctions which may be in effect from time to time, there are currently no UK foreign exchange control restrictions on the payment of dividends, interest or other payments to holders of Diageo’s securities who are non-residents of the UK or on the conduct of Diageo’s operations.

There are no restrictions under the company’s articles of association or under English law that limit the right of non-resident or foreign owners to hold or vote the company’s ordinary shares. Please refer to the ‘Taxation’ section on pages 269-271 for details relating to the taxation of dividend payments.

Useful contacts
The Registrar/Shareholder queries
Link Group acts as the company’s registrar and can be contacted as follows:
By email: Diageo@linkgroup.co.uk
By telephone: +44 (0) 371 277 1010*
In writing: Registrars - Link Group, Diageo Registrar, Central Square, 29 Wellington Street, Leeds, LS1 1LD

* Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 08:30 to 17:30 UK time, Monday to Friday, excluding public holidays in England and Wales.

ADR administration
Citibank Shareholder Services acts as the company’s ADR administrator and can be contacted as follows:
By email: citibank@shareholders-online.com
By telephone: +1 866 253 0933/ (International) +1 781 575 4555*
In writing: Citibank Shareholder Services, PO Box 43177, Providence, Ri 02940 3077*
* Lines are open Monday to Friday 8:30 to 18:00 EST

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