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 carried out its role of monitoring and 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 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, counterfeit 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), Melissa Bethell, Karen Blackett, Susan Kilsby, Valérie Chapoulaud-Floquet, Sir John Manzoni, Lady Mendelsohn and Irena Vittal. 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 has also supervised progress in relation to a business transformation project which the company has 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 112.

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 focussing 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, focussing 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 focussed 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 compliance with the recommendations of the Task Force on Climate-related Financial Disclosures.
AUDIT COMMITTEE REPORT continued

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 2022, 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 and review of the consolidated financial statements and the draft Annual Report is completed by the Filings Assurance Committee (FAC) to ensure that the financial position and results of the group are accurately presented. In addition to reviewing draft financial statements for publication at the half and full year, the FAC is responsible for examining the company’s financial information and disclosures, 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 & Company Secretary, the Group Controller, the Group Chief Accountant, the Head of Investor Relations, the General Manager, the Relations to the Head of GAR and the Chief Business Integrity Officer.

The company’s external auditor also attends meetings of the FAC. The Audit 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 a self-assessment, 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 the internal controls relating to the preparation of the Group’s financial statements. The self-assessment was undertaken by management in drafting, developing and reviewing the contents of the Annual Report, which have been designed to ensure the robustness and adequacy of the information provided. The following review by and input from senior executives, the company’s advisors and through the work of the FAC. On this basis, the Audit Committee recommended to the Board that it could make the required statement that the Annual Report is “fair, balanced and understandable”.

FRC correspondence

The Committee reviewed a letter to the company from the FRC 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 FRC had no questions or queries to raise following their review, although their letter did include some matters which the FRC believed could be improved for the benefit of users. In its reply to the FRC, the company noted those comments and confirmed that they would be taken into consideration in future reporting. The Committee notes that the FRC’s review does not provide assurance that the interim results were correct in all material respects as the FRC’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 accordingly. At its meeting on 16 November, the Audit Committee recommended that the appointment of PwC as auditor for the financial year ending 30 June 2023 be approved by the Board.

The Audit Committee considers the effectiveness of the external audit, whether the report is consistent throughout with the narrative reflecting the financial statements and understanding of directors during the year, that information is presented fairly, without omission of material information and not in a manner which might mislead users. 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 arrangements undertaken by management in drafting, developing and reviewing the contents of the Annual Report, which have been designed to ensure the robustness and adequacy of the information provided.

External auditor effectiveness and quality

The Audit Committee assesses the ongoing effectiveness and quality of the external audit. The Committee carries out a robust methodology, commencing with identification of appropriate risks by the external auditor as part of its detailed audit plan presented to the Audit Committee at the start of the audit cycle. These risks were reviewed by the Committee and the work performed by the auditor was used to test management’s assumptions and estimates relating to such risks. The effectiveness of the audit process in addressing these matters was assessed through reports presented by the auditor to the Audit Committee which were discussed by the Committee at both the half-year, in January, and year-end, in July. Following completion of the audit process, feedback on its effectiveness was provided through review meetings with the company’s finance team and management and completion of questionnaires, in advance of management and the auditor providing assessments of auditor effectiveness and quality to the Audit Committee for consideration at its meeting in December. This year the questionnaire was updated to ensure more focus on the extent to which the auditor had challenged management. The auditor’s assessment is undertaken on guidance issued to audit committees by the FRC in April 2016 and draft Minimum Standards for Audit Committees published by the FRC in November 2022, and includes consideration of the findings of the FRC’s Quality Review team on the quality of the FRC’s 2021 statutory audit regulatory review carried out by the PCAOB and the Quality Assurance Department of the Institute of Chartered Accountants in England and Wales, as well as benchmarking of the auditor as against its peers. In this year’s assessment, the overall satisfaction with PwC’s performance was rated as solid, remaining broadly flat as compared to the prior year. Decreases from the prior year resulted from two issues, being the audit process in relation to hyperinflation in Turkey and the audit of a certain UK subsidiary. Consistent strong feedback was provided as to auditor independence, quality control processes, professional expertise, business knowledge and audit risk management, which was consistent with the prior year’s assessment. An overall lack of detailed feedback from the external auditor was also noted.

During the external audit, the auditor challenged management on its assumptions and estimates relating to such risks. The auditor also challenged management while preparing the Annual Report in relation to whether the company had sufficiently consistent with and linked to the risks and disclosures open, with clear and open communications on areas and views which were considered significant.

During the external audit, the auditor challenged management on its approach taken to issues related to the current financial year, including in relation to the implementation of new accounting standards and the application of material conditions in India and Turkey, and other judgemental matters such as pricing by the FRC. The auditor also challenged management while preparing the Annual Report in relation to whether disclosures as to the impact of certain risks in the financial statements were sufficiently consistent with and linked to the risks and disclosed set out in the Strategic Report and where there was sufficient balance in the Annual Report. The committee will note that these challenges were not raised by the Audit Committee which sought additional evidence from management in support of their assessments, including requesting that independent legal opinions were provided as to certain tax positions.

External auditor independence

The group has a policy on auditor independence and on the use of the external auditor to perform certain non-audit services. This policy was most recently in July 2023. When last reviewed, minor changes were agreed to be made to the policy’s contents, reflecting the change in effective date in July 2023 to take into account the new FRC non-audit service changes. Under the auditor independence policy, any member of the FRC Global Network firm providing internal audit services to the company, its subsidiaries or any related entity on behalf of the Audit Committee after it has properly assessed through its governance process the threats to independence and the safeguards applied in accordance with the FRC Ethical Standard and US Public Company Accounting Oversight Board rules. These services are set out in full in the policy and are generally those which the external auditor is best placed to provide, which may include reporting required by law or regulation to be performed by the auditor and services where the services are closely linked to audit work and where the auditor’s understanding of the group is relevant to the services. Any FRC permissible service to be provided by the external auditor, regardless of the size of the engagement, must be specifically approved by the Audit Committee or its nominated delegate (being the Chairman of the Audit Committee) based on a defined scope of pre-approved services.

The policy explicitly specifies the auditor independence review and reporting requirements for non-assurance services. The threshold for non-assurance engagements above the specified threshold of £100,000. Fees paid to the auditor for audit-related and other services are analysed in note 3(b) to the consolidated financial statements. The nature and level of all services provided by the external auditor are factors taken into account by the Audit Committee when it reviews annually the independence of the external auditor. During the year, no non-assurance related services were provided by the external auditor to the company, its subsidiaries or any related entity. The total number of personnel services provided to two Non-Executive Directors and the provision of services in connection with the issuance of senior notes by a group company.

Financial expert’, recent and relevant financial experience

The Board has satisfied itself that the membership of the Audit Committee includes at least one Director with recent and relevant financial expertise and has competence in accounting and/or auditing and the sector in which the company operates. The Board has satisfied itself that all members are financially literate and have experience of corporate financial matters. For the purposes of the Code and the relevant rules under SOX, Section 407, the Board has determined that Alan Stewart is independent and may be regarded as an Audit Committee financial expert, having financial expertise and that all the members of the Audit Committee are independent Non-Executive Directors with relevant financial and sectoral competence. See pages 101 and 103 for details of relevant experience of Directors.

Internal audit, controls assurance and risk

The company’s internal GAR team undertakes an annual audit and risk plan by delivering a series of internal assurance and audit assignments across a variety of company processes, business units and functions. On the conclusion of each assignment, GAR issues a report on its findings, which may also include an overall rating as to the status of the market, process or function being audited, detailed reasons for the rating and actions to be taken within a specific timetable. The Audit Committee receives regular reports from the Head of GAR on the latest reports issued.

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Reported and substantiated breaches

<table>
<thead>
<tr>
<th>Year</th>
<th>2021</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported</td>
<td>487</td>
<td>639</td>
</tr>
<tr>
<td>Through SpeakUp</td>
<td>280</td>
<td>419</td>
</tr>
<tr>
<td>Substantiated breaches</td>
<td>433</td>
<td>158</td>
</tr>
<tr>
<td>Code-related breaches</td>
<td>63</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>510</td>
<td>692</td>
</tr>
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</table>

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.

Audit and Assurance Policy

During the year management has reviewed its approach to assurance in preparation for drafting and adopting an audit and assurance policy, consistent with the reporting requirements set out in draft legislation proposed by the UK Department for Business and Trade in July 2023. The Committee has reviewed and discussed the principles on which such policy will be based and will continue to monitor management’s development of the policy.

Committee activities

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

- External audit and assurance
- Internal controls
- Corporate governance
- Risk management
- Environmental, social and governance (ESG)
- Management's report on internal control over financial reporting
- Effective management of the Group's principal and emerging risks
- Efficient management of Group operations
- Sustained and improved quality growth
- Improved decision-making through ESG information

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 198, 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(e) and 15d-15(e) 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 assessed 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 included in the company’s Form 20-F to be filed with the SEC.

Diageo Annual Report 2023
### 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.

<table>
<thead>
<tr>
<th>Matter considered</th>
<th>How the Audit Committee addressed the matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>The nature and size of any one-off items impacting the quality of the earnings and cash flows.</td>
<td>The Audit Committee assessed whether the related presentation and disclosure of those items in the financial statements were appropriate based on management’s analysis, and concluded that they were.</td>
</tr>
<tr>
<td>Items that were to be presented as exceptional. Refer to note 4 of the Financial Statements.</td>
<td>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.</td>
</tr>
<tr>
<td>Whether the carrying value of assets, in particular intangible assets, was supportable. Refer to notes 6, 9, 10 and 13 of the Financial Statements.</td>
<td>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 McDowell’s, some smaller other brands and investments in associates and certain fixed assets have been impaired by £549 million in the year ended 30 June 2023, out of which £320 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.</td>
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<td>The group’s more significant tax exposures and the appropriateness of any related provisions and financial statement disclosures. Refer to page 91 of ‘Our principal risks and risk management’ and note 7 of the Financial Statements.</td>
<td>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.</td>
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<td>The appropriateness of the valuation of post employment liabilities, and the recognition of any surplus. Refer to note 14 of the Financial Statements.</td>
<td>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 reviewed 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.</td>
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<td>Significant legal matters impacting the group. Refer to note 19 of the Financial Statements.</td>
<td>The Committee agreed that adequate provision and/or disclosure have been made for all material litigation and disputes, based on the current most likely outcomes, including the litigation summarised in note 19 of the Financial Statements.</td>
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<td>Accounting for business combinations. Refer to note 8 of the Financial Statements.</td>
<td>Diageo acquired Kanlao 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 £397 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 judgements and estimates, 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.</td>
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<td>Functional currency of Diageo plc and presentation currency of Diageo group.</td>
<td>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 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. 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.</td>
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<tr>
<td>Whether the Annual Report is fair, balanced and understandable.</td>
<td>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 an appropriate balance between statutory (GAAP) and adjusted (non-GAAP) measures ensuring equal prominence.</td>
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<td>The impact of climate change on the group’s financial reporting and financial statements. Refer to pages 71-87 of ‘Pioneer grain-to-glass sustainability’ and note 1 and note 9 of the Financial Statements.</td>
<td>The Audit Committee agreed that the disclosures on pages 71-87 made in response to the recommendations of the Task Force on Climate-related Financial Disclosures are appropriate and that the assumptions used in the financial statements are consistent with these disclosures.</td>
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</table>