

Summary income statement

	30 June 2022	Exchange (a)	Acquisitions and disposals (b)	Organic movement <sup>(1)</sup>	Fair value remeasurement (d)	Hyperinflation <sup>(1)</sup>	30 June 2023
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Sales	22,448	588	(683)	1,091	—	71	23,515
Excise duties	(6,996)	114	569	(122)	—	33	(6,402)
Net sales	15,452	702	(114)	969	—	104	17,113
Cost of sales	(5,973)	(363)	84	(522)	5	(63)	(6,832)
Gross profit	9,479	339	(30)	447	5	41	10,281
Marketing	(2,721)	(151)	(15)	(152)	(1)	(11)	(3,051)
Other operating items	(1,961)	(66)	(16)	26	49	(8)	(1,976)
Operating profit before exceptional items	4,797	122	(61)	321	53	22	5,254
Exceptional operating items (c)	(388)						(622)
Operating profit	4,409						4,632
Non-operating items (c)	(17)						328
Net finance charges	(422)						(594)
Share of after tax results of associates and joint ventures	417						370
Profit before taxation	4,387						4,736
Taxation (e)	(1,049)						(970)
Profit for the year	3,338						3,766

(1) For the definition of organic movement and hyperinflation see pages 232-233.

(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.

The effect of movements in exchange rates and other movements on profit before exceptional items and taxation for the year ended 30 June 2023 is set out in the table below.

	Gains/ (losses) £ million
Translation impact	246
Transaction impact	(124)
Operating profit before exceptional items	122
Net finance charges – translation impact	(32)
Net finance charges – transaction impact	6
Net finance charges	(26)
Associates – translation impact	8
Profit before exceptional items and taxation	104

	Year ended	Year ended
	30 June 2023	30 June 2022
Exchange rates		
Translation £1 =	\$1.20	\$1.33
Transaction £1 =	\$1.30	\$1.29
Translation £1 =	€1.15	€1.18
Transaction £1 =	€1.16	€1.15

(b) Acquisitions and disposals

The acquisitions and disposals movement in the year ended 30 June 2023 was primarily attributable to the disposal of the United Spirits Limited (USL) Popular brands and Guinness Cameroun S.A.

See pages 186-189 for further details.

(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 (£498 million) and the supply chain agility programme (£100 million).

In the year ended 30 June 2023, exceptional non-operating items were a gain of £328 million (2022 – a loss of £17 million), mainly driven by the gain in relation to the sale of Guinness Cameroun S.A. (£310 million).

See pages 179-181 for further details and the definition of exceptional items.

(d) Fair value remeasurement

The adjustments to marketing and other operating expenses were the elimination of fair value changes to contingent consideration liabilities and earn out arrangements in respect of prior year acquisitions of £113 million gain for the year ended 30 June 2023 and £65 million gain 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.

Included in the tax charge of £970 million in the year ended 30 June 2023 is a net exceptional tax credit of £186 million, including an exceptional tax credit of £124 million in respect of brand impairments, mainly the McDowell's brand, a 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, a tax credit of £23 million in respect of the supply chain agility programme, partly offset by a tax charge of £42 million in respect of the sale of Guinness Cameroun S.A.

The reported tax charge for the year ended 30 June 2022 included an exceptional tax credit of £31 million, comprising exceptional tax credits of £35 million and £20 million on the impairment of the McDowell's and Bell's brands respectively, partly offset by an exceptional tax charge of £23 million in respect of the gain on the sale of the Picon brand and a further tax charge of £3 million in respect of winding down operations in Russia.

The tax rate before exceptional items for the year ended 30 June 2023 was 23.0% compared with 22.5% for the year ended 30 June 2022.

We expect the tax rate before exceptional items for the year ending 30 June 2024 to be in the region of 24%.

(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 put to the shareholders for approval at the Annual General Meeting is 49.17 pence, an increase of 5% on the prior year final dividend. This would bring the full year dividend to 80.00 pence per share, an increase of 5% on the prior year. The group will keep future returns of capital, including dividends, under review through the year ending 30 June 2024, to ensure Diageo's capital is allocated in the best way to maximise value for the business and its stakeholders.

Subject to approval by shareholders, the final dividend will be paid to holders of ordinary shares and US ADRs on the register as of 25 August 2023. The ex-dividend date both for holders of ordinary shares and for US ADR holders is 24 August 2023. The final dividend, once approved by shareholders, will be paid to shareholders on 12 October 2023 and payment to US ADR holders will be made on 17 October 2023. A dividend reinvestment plan is available to holders of ordinary shares in respect of the final dividend and the plan notice date is 22 September 2023.

(g) Return of capital

Diageo completed a total of £1.4 billion return of capital for the year ended 30 June 2023, which included £0.9 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 37.8 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 £16 million). All shares purchased under the share buyback programme were cancelled.

Movement in net borrowings and equity

Movements in net borrowings

	2023 £ million	2022 £ million
Net borrowings at the beginning of the year	(14,137)	(12,109)
Free cash flow (1)	1,800	2,783
Acquisitions (2)	(342)	(206)
Investment in associates (2)	(93)	(65)
Sale of businesses and brands (3)	462	82
Share buyback programme (4)	(1,381)	(2,284)
Net sale of own shares for share schemes (5)	29	18
Purchase of treasury shares in respect of subsidiaries	—	(15)
Dividends paid to non-controlling interests	(97)	(81)
Net movements in bonds (6)	889	742
Purchase of shares of non-controlling interests (7)	(146)	—
Net movements in other borrowings (8)	59	79
Equity dividend paid	(1,761)	(1,718)
Net decrease in cash and cash equivalents	(581)	(665)
Net increase in bonds and other borrowings	(950)	(825)
Exchange differences (9)	159	(334)
Other non-cash items (10)	(32)	(204)
Net borrowings at the end of the year	(15,541)	(14,137)

(1) See page 39 for the analysis of free cash flow.

(2) In the year ended 30 June 2023, acquisitions included upfront payments of €246 million (£218 million) for Kanlaon Limited and Chat Noir Co. Inc. (the owner of Don Papa Rum) and \$102 million (£89 million) for Balcones Distilling.

In the year ended 30 June 2022, acquisitions included the final earn-out payment in respect of the Casamigos acquisition amounting to \$113 million (£83 million) and upfront payment of £62 million for 21Seeds.

In the years ended 30 June 2023 and 2022, investment in associates included additional investments in a number of Distill Ventures associates.

(3) In the year ended 30 June 2023, sale of businesses and brands included the disposal of Guinness Cameroun S.A. beer business for a net cash consideration, net of disposal costs, of £354 million and the disposal of the Popular brands of Diageo's USL business, for a cash consideration, net of disposal costs, of £83 million.

In the year ended 30 June 2022, sale of businesses and brands included the cash received on the disposal of Picon brand, net of transaction costs.

(4) See more details of Diageo's return of capital programmes above on this page.