Looking back on 2023

Annual incentive plan (AIP) payouts for 2023 (audited)

AIP payout 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.

Group financial measures[1]

Measure	Weighting	Threshold	Target	Maximum	Actual	Payout (% of total AIP opportunity)
Payout opportunity (% maximum)		25%	50%	100%		
Net sales (% growth)[2]	26.67%	3.5%	6.5%	9.5%	**6.5%**	**13.34%**
Operating profit (% growth)[2]	26.67%	2.5%	7.5%	12.5%	**7.0%**	**12.67%**
Operating cash conversion[3]	26.67%	95.0%	100.0%	105.0%	**93.3%**	**–**
Full year performance for 1 July 2022 - 30 June 2023	**80.00%**					**26.00%**

Individual business objectives

Measure (IBOs equally weighted) and target	Weighting	Result	Payout (% of total AIP opportunity)
Ivan Menezes Chief Executive	**20.00 %**		**11.25%**
Global market share performance • Grow or hold total trade market share in 2/3rds of total net sales in measured markets.	10.00 %	• We gained or held total trade market share in markets that total 70% of our net sales in fiscal 23[6]	5.00%
Positive drinking Continued improvement in Positive Drinking in fiscal 23 • Educate 809,000 people on the dangers of underage drinking. • Progress towards a cumulative total of 1 billion people with dedicated responsible drinking messaging by 2030. • Help create a thriving hospitality sector post Covid-19 where responsible drinking is the norm by reaching 19,400 people by the end of fiscal 23 through skills building programmes.	10.00 %	Positive drinking targets for fiscal 23 have been exceeded as set out below: • By the end of fiscal 23, we had educated just under 2 million people on the dangers of underage drinking, far exceeding the target. • The 2030 target of reaching 1 billion people with dedicated responsible drinking messaging has been met several years earlier than planned. • Significant achievement with Diageo markets across the world reaching 31,600 people with business and hospitality skills training.	6.25%
Lavanya Chandrashekar Chief Financial Officer	**20.00 %**		**10.00%**
Global operating margin • Deliver Operating Margin in line with fiscal 23 Annual Operating Plan (AOP).	10.00 %	• Achieved a performance level just below AOP for fiscal 23.	3.75%
Finance Transformation • Reduce time taken to set up customers in specified markets, thereby increasing speed to market and supporting growth. • Reduce finance organisation costs (people and indirect) by £10 million. • Close 80% of audit management action plans on time. • Improve Service Level Agreement(SLA) performance by resolving 80% of both critical and high priority incidents within the specified SLA timeframe.	10.00 %	There has been over delivery on the finance transformation milestones for fiscal 23 as follows: • Delivered a new integrated customer account solution into six markets making customer set up time faster than the target of 10 business days. • Delivered finance productivity savings of greater than £18m. • Closure of 100% of all audit management actions, where these were required. • SLA improvement target exceeded for high priority incidents and just under target for critical incidents.	6.25%

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 value market share in North America Total Beverage Alcohol, whilst 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%.

Payout

	Group (weighted 80%)	IBO (weighted 20%)	**Total (% max)**	Total (% annual salary)	**Total ('000)[4] GBP**	Total ('000) USD
Ivan Menezes[4],[5]	26.00%	11.25%	**37.25%**	69.40%	**£1,019**	$1,223
Debra Crew[4],[5]	26.00%	9.38%	**35.38%**	5.40%	**£79**	$95
Lavanya Chandrashekar[4],[5]	26.00%	10.00%	**36.00%**	72.00%	**£603**	$723

(1) Performance against the AIP measures is calculated using 2023 budgeted exchange rates and is measured on a currency-neutral basis.
(2) For AIP purposes, Net Sales Value (NSV) growth and Operating Profit (OP) growth are calculated on budgeted currency exchange rates, after adjustments for acquisitions and disposals and incorporates 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, maturing inventories 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 ratio is stated 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 payment reflects 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 and is based on her CEO salary which applied from 5 June 2023.
(5) In accordance with the 2020 remuneration policy and their individual elections to defer post tax, one-third of Debra Crew's and Lavanya Chandrashekar's after tax AIP payout disclosed in the table above will be deferred into Diageo shares, which will be held for three years in a nominee account. These shares will be acquired in September 2023 and the number of shares will be disclosed in the 2024 remuneration report. The Committee waived the deferral requirement in respect of Ivan Menezes.
(6) Market share reflects internal estimates incorporating Nielsen, Association of Canadian Distillers, CGA, Dichter and Neira, Frontline, Intage, IRI, ISCAM, NABCA, Scentia, State Monopolies, TRAC, Ipsos and other third-party providers.
(7) No discretion was exercised by the Remuneration Committee in determining the AIP outcome.

Long-term incentive plans (LTIPs) vesting in 2023 (audited)

Long-term incentive awards are made under the Diageo Long-Term Incentive Plan (DLTIP), 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 shares and share options. 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 share option awards over ADRs under the DLTIP, 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:

TSR ranking (out of 17)	Vesting (% max)
1st, 2nd or 3rd	100
4th	95
5th	75
6th	65
7th	55
8th	45
9th	20
10th or below	0

TSR peer group (16 companies)		
AB Inbev	Heineken	Pernod Ricard
Brown-Forman	Kimberly-Clark	Procter & Gamble
Carlsberg	L'Oréal	Reckitt Benckiser
The Coca-Cola Company	Mondelēz International	Unilever
Colgate-Palmolive	Nestlé	
Groupe Danone	PepsiCo	

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 DLTIP. Awards vest after a three-year period subject to the achievement of three performance conditions outlined below:

- Organic Net Sales Value (NSV) growth (weighted 40%);
- Profit Before Exceptional items and Tax (PBET) growth (weighted 40%); and
- 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.

Vesting outcome for 2020 performance share and share option awards in September 2023 (audited)

The 2020 performance share award vested at 98.7% of maximum for Ivan Menezes and 98.8% of maximum for Debra Crew and Lavanya Chandrashekar. The 2020 share options vested at 77.5% of maximum for Ivan Menezes and Debra Crew, as detailed below:

Vesting of 2020 DLTIP[5]	Weighting	Threshold	Midpoint	Maximum	Actual	Ivan Menezes vesting (% maximum)[5]	Debra Crew vesting (% maximum)[5][6]	Lavanya Chandrashekar vesting (% maximum)[5][6]
Vesting if performance achieved (% maximum)		20%/25%	60%/62.5%	100%				
Organic net sales growth (NSV)[1]	40.0%	4.0%	6.0%	8.0%	14.5%	40.0%	40.0%	40.0%
Profit before exceptional items and tax (PBET) growth[2]	40.0%	4.5%	8.25%	12.0%	16.5%	40.0%	40.0%	40.0%
Carbon reduction (ESG)	5.0%	6.3%	10.3%	14.3%	14.7%	5.0%	5.0%	5.0%
Water efficiency (ESG)	5.0%	5.8%	8.5%	11.2%	9.4%	3.7%	3.8%	3.8%
Positive drinking (ESG)	5.0%	0.75m	1.0m	1.25m	2.2m	5.0%	5.0%	5.0%
Inclusion & diversity - % female leaders globally (ESG)	2.5%	41.0%	42.0%	43.0%	44.0%	2.5%	2.5%	2.5%
Inclusion & diversity - % ethnically diverse leaders globally (ESG)	2.5%	38.0%	39.0%	40.0%	43.0%	2.5%	2.5%	2.5%
Vesting of performance shares (% maximum)						**98.7%**	**98.8%**	**98.8%**
Cumulative free cash flow (FCF)[3]	50.0%	£6,200m	£7,200m	£8,200m	£8,404m	50.0%	50.0%	n/a
Relative total shareholder return[4]	50.0%	9th	-	3rd	7th	27.5%	27.5%	n/a
Vesting of share options (% maximum)						**77.5%**	**77.5%**	**n/a**

(1) Net Sales Value (NSV) growth is calculated on budgeted currency exchange rates, after adjustments for acquisitions and disposals and incorporates the organic treatment of hyperinflationary economies.
(2) Profit before exceptionals and tax growth is presented on a constant currency basis and it excludes the impact of acquisitions and disposals. The impact of hyperinflation on operating profit is considered under the same organic methodology as for net sales while the impact on other lines (primarily on finance charges) is excluded. This metric also includes adjustment to exclude the fair value remeasurement of contingent considerations, earn out arrangements and biological assets and to exclude post-employment credits. Furthermore, the metric excluded the interest on current year's share repurchase program (SRP) and excludes the year-over-year change of M&A related interest.
(3) Cumulative FCF is based on the outcome for each of the three years within the performance period, measured before exceptional items and on an FX neutral basis by adjusting actual outcomes back to the base year exchange rates, and incorporates the organic treatment of hyperinflationary economies. Furthermore, the cash flow impact of any material business development activities such as share repurchase programmes, acquisitions and disposals, which were not known and planned at the beginning of the vesting period, are excluded from the 3-year performance.
(4) Relative total shareholder return (TSR) is measured as the percentage growth in Diageo's share price (assuming all dividends and capital distributions are re-invested) compared to the TSR of a peer group of 16 international drinks and consumer goods companies. TSR calculations are based on an averaging period of 6 months and converted to a common currency (US dollars). Calculation is performed and provided by FIT.
(5) No discretion was exercised by the Remuneration Committee in determining the long-term incentive outcomes.
(6) At the time of grant of the 2020 awards, Debra Crew and Lavanya Chandrashekar were not Executive Directors. The vesting schedule for awards granted to executives below the Board has a threshold vesting of 25% of maximum (62.5% at midpoint). Vesting at threshold for awards granted to Executive Directors is 20% of maximum (60.0% at midpoint). No options were granted to Lavanya Chandrashekar in 2020 as she was not on the Executive Committee at the time of grant.

Summary of performance share awards and options vesting (audited)

	Award	Award Date	Awarded (ADRs)	Vesting (% Max)	Vesting (ADRs)	Option price	ADR price	Dividend equivalent share	Estimated value ($'000)[1]	Estimated value (£'000)
Ivan Menezes	Performance shares	03/09/2020	43,377	98.7%	42,813	–	$178.52	2,796	$8,142	£6,785
	Share options	03/09/2020	43,377	77.5%	33,617	$133.88	$178.52	–	$1,501	£1,251
Debra Crew	Performance shares	03/09/2020	1,176[2]	98.8%	1,161		$178.52	75	$221	£184
	Share options	03/09/2020	714[2]	77.5%	553	$133.88	$178.52		$25	£21
Lavanya Chandrashekar	Performance shares	03/09/2020	1,827	98.8%	1,805	–	$178.52	117	$343	£286

(1) The total long-term incentives value shown in the single figure of remuneration on page 139 is split between performance shares 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 vesting included in the table above for Debra Crew are pro-rata amounts reflecting the period from 5 to 30 June as a proportion of the three-year performance period, as shown in the single figure of remuneration on page 139. The 1,176 pro-rata performance shares awarded comprises 714 performance shares granted under the DLTIP (total award of 30,076 ADRs) and 462 performance shares granted under the DESAP (total award of 19,494 ADRs), which was granted in recognition of equity which was forfeited on joining Diageo. The pro-rata share options number reflects 714 share options granted under the DLTIP (total award of 30,076 ADRs)

In considering the vesting outcome of the 2020 DLTIP awards, the Remuneration Committee was especially cognisant of investor concerns around the potential risk of windfall gains following volatility in global stock markets at the time of grant as a result of the Covid-19 pandemic. The Committee considered a number of factors including share price movement over the performance period (up 26%), Diageo's underlying financial performance, historical award and vesting levels and absolute award value. The Committee noted that the 2020 DLTIP awards were made in September 2020 and, in line with usual Diageo practice, the number of awards granted was determined using a six-month average share price up to 30 June. This helps to smooth out share price volatility and, at $143.63 for the 2020 grants, the price used to calculate the awards was only around 10% lower than the prior year's price. The Committee considered Diageo's overall business performance and value created for shareholders and other relevant factors over the period and determined that the outcomes were fair and appropriate and made no adjustment to the payouts. It also considered the level of difficulty of the targets set at a time of uncertainty and determined that the vesting outcome was consistent with Diageo's long-term performance and returns to shareholders. Diageo's compound annual growth in net sales and profit over this period have also been at the top end of the global peer group.

Pensions and benefits in the year ended 30 June 2023

Benefits provisions for the Executive Directors are in accordance with the information set out in the Directors' remuneration policy.

Pension arrangements (audited)

Ivan Menezes was a member of the Diageo North America Inc. Supplemental Executive Retirement Plan (SERP), with an accrual rate of 20% of base salary until 1 January 2023 when it was reduced to 14% of base salary, until his date of death of 6 June 2023. Debra Crew and Lavanya Chandrashekar are members of the SERP with an accrual rate of 14% of base salary respectively during the year ended 30 June 2023. The SERP is an unfunded, non-qualified supplemental retirement programme. Under the plan, accrued company contributions are subject to quarterly interest credits. Under the rules of the SERP, Debra Crew and Lavanya Chandrashekar can withdraw the balance of the plan six months after leaving service or age 55, if later and the balance may be withdrawn in either a lump sum or five equal annual instalments, depending on the size of the balance.

Ivan Menezes, Debra Crew and Lavanya Chandrashekar participated in the US Cash Balance Plan and the Benefit Supplemental Plan (BSP), until August 2012, 30 September 2022 and June 2021 respectively, and have accrued benefits under both plans. The Cash Balance Plan is a qualified funded pension arrangement. Employer contributions were 10% of pay capped at the Internal Revenue Service (IRS) limit. The BSP is a non-qualified unfunded arrangement; notional employer contributions were 10% of pay above the IRS limit. Interest (notional for the BSP) is credited quarterly on both plans.

Ivan Menezes was also a member of the Diageo Pension Scheme (DPS) in the United Kingdom between 1 February 1997 and 30 November 1999. The accrual of pensionable service ceased in 1999 but the linkage to salary remained until January 2012.

Upon death in service on 6 June 2023, a life insurance benefit of $3 million became payable by the insurance provider for Ivan Menezes. In the event of death in service, a lump sum of six times base salary is payable to Debra Crew and Lavanya Chandrashekar.

The table below shows the pension benefits accrued by each Executive Director as at year end (or to 6 June 2023 in the case of Ivan Menezes). The accrued United Kingdom benefits for Ivan Menezes are annual pension amounts, whereas the accrued US benefits for Ivan Menezes, Debra Crew and Lavanya Chandrashekar are one-off cash balance amounts.

	30 June 2023		30 June 2022	
Executive Director	**UK pension £'000 p.a.**	**US benefit £'000**	UK pension £'000 p.a.	US benefit £'000
Ivan Menezes[1]	**75**	**9,563**	75	9,251
Debra Crew[2]	**Nil**	**761**	Nil	761
Lavanya Chandrashekar[3]	**Nil**	**413**	Nil	302

(1) Ivan Menezes' US benefits are higher at 6 June 2023 than at 30 June 2022 by £312k. The breakdown of this relates to £452k of which is due to pension benefits earned over the year (none of which is over and above the increase due to inflation - as reported in the single figure of remuneration, see page 139), £103k of which is due to interest earned on his deferred US benefits until his death in service and a reduction of (£243k) which is due to exchange rate movements over the year.
(2) Debra Crew's US benefits are the same at 30 June 2023 than at the date of her appointment to interim CEO and Executive Director and CEO. The breakdown of this relates to £10k of which is due to pension benefits earned over the year (all of which is over and above the increase due to inflation - as reported in the single figure of remuneration, see page 139), £1k of which is due to interest earned on her deferred US benefits over the year and a reduction of (£11k) of which is due to exchange rate movements over the year.
(3) Lavanya Chandrashekar's US benefits are higher at 30 June 2023 than at 30 June 2022 by £111k. The breakdown of this relates to £122k of which is due to pension benefits earned over the year (£110k of which is over and above the increase due to inflation - as reported in the single figure of remuneration, see page 139), £7k of which is due to interest earned on her deferred US benefits over the year and a reduction of (£18k) of which is due to exchange rate movements over the year.

The Normal Retirement Age applicable to each Director's benefits depends on the pension scheme, as outlined below.

Executive Director	UK benefits (DPS)	US benefits (Cash Balance Plan)	US benefits (BSP)	US benefits (SERP)
Ivan Menezes	60	65	6 months after leaving service	6 months after leaving service
Debra Crew	n/a	65	6 months after leaving service, or age 55 if later	6 months after leaving service, or age 55 if later
Lavanya Chandrashekar	n/a	65	6 months after leaving service, or age 55 if later	6 months after leaving service, or age 55 if later

Long-term incentive awards made during the year ended 30 June 2023 (audited)

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.

	Performance shares							Share options	
2022 DLTIP	Organic net sales growth	Organic profit before exceptional items and tax growth	Reduction in greenhouse gas emission	Water efficiency	Changed attitudes on dangers of underage drinking	% Female leaders	% Ethnically diverse leaders	Cumulative free cash flow[1]	Relative TSR
Weighting	40%	40%	5%	5%	5%	2.5%	2.5%	50%	50%
Target range	4.5% - 8.5%	5% - 12%	10.7% - 17.6%	6.3% - 12.1%	2.6m - 4.0m	45% - 47%	42% - 44%	$10,175m - $12,569m	Median - upper quintile

(1) The cumulative free cash flow (FCF) targets have been restated in USD following the change in reporting currency from fiscal 24 onwards (original GBP target range was £7,650m - £9,450m). More details can be found on page 36.

20% (25% for Ms Crew as the awards were made before she became an Executive Director) of DLTIP awards will vest at threshold, with vesting in a straight line up to 100% if the maximum level of performance is achieved. As explained in the remuneration policy, one performance share is deemed equal in value at grant to three share options.

Executive Director	Date of grant	Plan	Share type	Awards made during the year	Exercise price	Face value $'000	Face value (% of salary)
Ivan Menezes	02/09/2022	DLTIP - share options	ADR	33,845	$176.95	$6,610	375%
Ivan Menezes	02/09/2022	DLTIP - performance shares	ADR	33,845	–	$6,610	375%
Debra Crew	02/09/2022	DLTIP - share options	ADR	26,629	$176.95	$5,200	360%
Debra Crew	02/09/2022	DLTIP - performance shares	ADR	26,629	–	$5,200	360%
Lavanya Chandrashekar	02/09/2022	DLTIP - share options	ADR	18,512	$176.95	$3,615	360%
Lavanya Chandrashekar	02/09/2022	DLTIP - performance shares	ADR	18,512	–	$3,615	360%

The proportion of the awards outlined above that will vest is 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).

Outstanding share plan interests (audited)

Plan name	Date of award	Performance period	Year of vesting	Award calculation share price	Exercise price	Number of shares/ options at 30 June 2022 [1]	Granted	Vested/ exercised	Dividend equivalent Shares released	Lapsed	Number of shares/ options at 30 June 2023	Share type
Ivan Menezes												
DLTIP – share options[3]	Sep 2017	2017-2020	2020		$134.06	14,098					14,098	ADR
DLTIP – share options[3]	Sep 2018	2018-2021	2021		$140.89	4,284					4,284	ADR
DLTIP – share options[3]	Sep 2019	2019-2022	2022		$170.28	38,827				14,949	23,878	ADR
Total vested but unexercised share options in Ordinary shares[2]											**169,040**	**ORD**
DLTIP - share options[4] [5] [9]	Sep 2020	2020-2023	2023		$133.88	43,377					43,377	ADR
DLTIP – share options[6] [9] [11]	Sep 2021	2021-2024	2024		$194.75	36,675				12,248	24,427	ADR
DLTIP - share options[7] [9] [11]	Sep 2022	2022-2025	2025		$176.95		33,845			22,574	11,271	ADR
Total unvested share options subject to performance in Ordinary shares[2]											**316,300**	**ORD**
DLTIP - performance shares	Sep 2019	2019-2022	2022	$160.46		38,827		23,024	1,476	15,803	0	ADR
DLTIP - performance shares[4] [5] [9]	Sep 2020	2020-2023	2023	$143.63		43,377					43,377	ADR
DLTIP - performance shares[6] [9]	Sep 2021	2021-2024	2024	$174.97		36,675				12,248	24,427	ADR
DLTIP - performance shares[7] [9]	Sep 2022	2022-2025	2025	$195.29			33,845			22,574	11,271	ADR
Total unvested shares subject to performance in Ordinary shares[2]											**316,300**	**ORD**
Debra Crew												
DLTIP - share options[4] [5]	Sep 2020	2020-2023	2023		$133.88	30,076					30,076	ADR
DLTIP – share options[6] [11]	Sep 2021	2021-2024	2024		$194.75	27,019					27,019	ADR
DLTIP - share options[7] [11]	Sep 2022	2022-2025	2025		$176.95		26,629				26,629	ADR
Total unvested share options subject to performance in Ordinary shares[2]											**334,896**	**ORD**
DLTIP - performance shares[4] [5]	Sep 2020	2020-2023	2023	$143.63		30,076					30,076	ADR
DLTIP - performance shares[6]	Sep 2021	2021-2024	2024	$174.97		27,019					27,019	ADR
DLTIP - performance shares[7]	Sep 2022	2022-2025	2025	$195.29			26,629				26,629	ADR
DESAP - performance shares[4][5][8]	Sep 2020	2020-2023	2023	$143.63		19,494					19,494	ADR
DESAP - performance shares[8]	Mar 2022	2023-2025	2026	$197.06		8,796					8,796	ADR
DESAP - performance shares[8]	Mar 2022	2024-2026	2027	$197.06		8,930					8,930	ADR
DESAP - performance shares[8]	Mar 2022	2025-2027	2028	$197.06		8,930					8,930	ADR
Total unvested shares subject to performance in Ordinary shares[2]											**519,496**	**ORD**
DESAP – restricted stock units [8]	Mar 2022		2027	$197.06		8,796					8,796	ADR
DESAP – restricted stock units [8]	Mar 2022		2028	$197.06		8,930					8,930	ADR
DESAP – restricted stock units [8]	Mar 2022		2029	$197.06		8,930					8,930	ADR
Total unvested shares not subject to performance in Ordinary shares[2], [8]											**106,624**	**ORD**
Lavanya Chandrashekar												
DLTIP – share options[3]	Sep 2018	2018-2021	2021		$140.89	3,832					3,832	ADR
DLTIP – share options[3]	Sep 2018	2018-2021	2021		$140.89	1,064					1,064	ADR
Total vested but unexercised share options in Ordinary shares[2]											**19,584**	**ORD**
DLTIP – share options[6] [11]	Sep 2021	2021-2024	2024		$194.75	20,060					20,060	ADR
DLTIP – share options[7] [11]	Sep 2022	2022-2025	2025		$176.95		18,512				18,512	ADR
Total unvested share options subject to performance in Ordinary shares[2]											**154,288**	**ORD**
DLTIP – performance shares	Sep 2019	2019-2022	2022	$160.46		1,444		863	55	581	–	ADR
DLTIP – performance shares[4] [5]	Sep 2020	2020-2023	2023	$143.63		1,827					1,827	ADR
DLTIP – performance shares[6]	Sep 2021	2021-2024	2024	$174.97		20,060					20,060	ADR
DLTIP – performance shares[7]	Sep 2022	2022-2025	2025	$195.29			18,512				18,512	ADR
Total unvested shares subject to performance in Ordinary shares[2]											**161,596**	**ORD**
DLTIP – restricted stock units [10]	Sep 2019	2019-2022	2022	$160.46		1,567		1,567	1,567		–	ADR
DLTIP – restricted stock units [10]	Sep 2020	2020-2023	2023	$143.63		2,635					2,635	ADR
Total unvested shares not subject to performance in Ordinary shares[2],[10]											**10,540**	**ORD**

(1) For unvested 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) ADRs have been converted to ORDs (one ADR is equivalent to four ordinary shares) for the purpose of calculating the total number of vested and unvested 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 unexercised 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 (6.3% - 14.3%), improvement in water efficiency (5.8%-11.2%), changing attitudes on dangers of underage drinking (0.75m-1.25m), % of female leaders (41%-43%), % of ethnically diverse leaders (38%-40%), cumulative free cash flow (£6,200m-£8,200m) and relative total shareholder return (median-upper quintile).
(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%-9%), organic growth in profit before exceptional items and tax (6.5%-13.5%), reduction in greenhouse gas emissions (19.1%-27.1%), improvement in water efficiency (6.3%-12.1%), changing attitudes on dangers of underage drinking (2.3m-3.7m), % of female leaders (44%-46%), % of ethnically diverse leaders (39%-41%), cumulative free cash flow ($10,058m-$12,488m) and relative total shareholder return (median-upper quintile).
(7) Details of the performance conditions attached to DLTIP awards of performance shares and share options granted in 2022 are organic net sales growth (4.5%-8.5%), organic growth in profit before exceptional items and tax (5.0%-12.0%), reduction in greenhouse gas emissions (10.7%-17.6%), improvement in water efficiency (6.3%-12.1%), changing attitudes on dangers of underage drinking (2.6m-4.0m), % of female leaders (45%-47%), % ethnically diverse leaders (42%-44%), cumulative free cash flow ($10,175m-$12,569m) and relative total shareholder return (median-upper quintile).
(8) 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 performance shares and 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 or holding market share in at least 2/3rs of total NSV in measured markets over the respective three-year performance periods (F23-F25 for awards due to vest in September 2026, F24-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.
(9) 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.
(10) Lavanya Chandrashekar was granted a number of restricted stock units prior to her appointment as CFO and joining the Board.
(11) 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.

Directors' shareholding requirement and share interests (audited)

The beneficial interests of the Directors who held office during the year ended 30 June 2023 (and their connected persons) in the ordinary shares (or ordinary share equivalents) of the company are shown in the table below.

	Ordinary shares or equivalent[1],[2]					
	26 July 2023	30 June 2023 (or date of cessation, if earlier)	30 June 2022 (or date of appointment if later)	Shareholding requirement (% salary)[3]	Shareholding at 25 July 2023 (% salary)[3]	Shareholding requirement met
Chairman						
Javier Ferrán[7]	310,720	310,468	307,288			
Executive Directors						
Ivan Menezes[4],[7]	1,141,234	1,141,234	1,078,566	500%	2,728%	Yes
Debra Crew[7],[8]	260	260	n/a	500%	1%	No - to be met by June 2028
Lavanya Chandrashekar [5],[6],[7]	11,113	11,109	6,228	400%	47%	No - to be met by July 2026
Non-Executive Directors						
Susan Kilsby[7]	2,600	2,600	2,600			
Melissa Bethell	2,668	2,668	2,668			
Valérie Chapoulaud-Floquet	2,098	2,098	2,055			
Sir John Manzoni	2,929	2,929	2,870			
Lady Nicola Mendelsohn	5,000	5,000	5,000			
Alan Stewart	7,269	7,269	7,120			
Ireena Vittal	–	–	–			
Karen Blackett	–	–	–			

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 three-month average share price for period ending 30 June 2023 of £35.11.
(4) In addition to the number of shares reported in the table above, Ivan Menezes' estate holds 169,040 vested but unexercised share options.
(5) Lavanya Chandrashekar's 2022 Deferred Bonus Plan Shares (1,698 ADRs) are included in the total share interests shown above.
(6) In addition to the number of shares reported in the table above, Lavanya Chandrashekar holds 19,584 vested but unexercised 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 the table are stated as ordinary share equivalents.
(8) Debra Crew joined Diageo in 2020 and her first tranche of Diageo share awards will vest in September 2023.

Relative importance of spend on pay

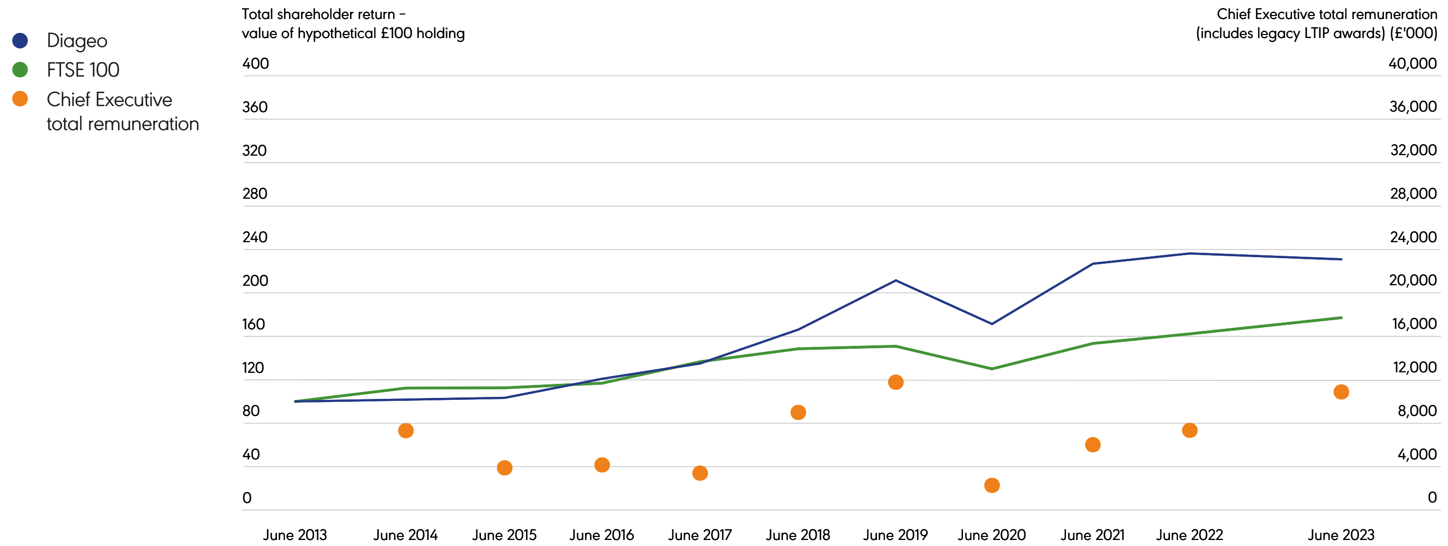
The graphs below illustrate the relative importance of spend on pay (total remuneration of all group employees) compared with distributions to shareholders (total dividends plus the share buyback programme but excluding transaction costs), and the percentage change from the year ended 30 June 2022 to the year ended 30 June 2023. There are no other significant distributions or payments of profit or cash flow.

Distributions to shareholders
(21.5)%

Staff pay
1.9%

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.



	Ivan Menezes[(1)] £'000 F14	Ivan Menezes[(1)] £'000 F15	Ivan Menezes[(1)] £'000 F16	Ivan Menezes[(1)] £'000 F17	Ivan Menezes[1] £'000 F18	Ivan Menezes[(1)] £'000 F19	Ivan Menezes[(1)] £'000 F20	Ivan Menezes[(1)] £'000 F21	Ivan Menezes[(1)] £'000 F22	**Ivan Menezes[(1)] £'000 F23**	**Debra Crew[(1)] £'000 F23**
Chief Executive total remuneration (includes legacy DLTIP awards)	7,312	3,888	4,156	3,399	8,995	11,776	2,273	6,019	7,343	**10,582**	**403**
Annual incentive[(2)]	9.0%	44.0%	65.0%	68.0%	70.0%	61.0%	0.0%	93.8%	93.8%	**37.3%**	**35.4%**
Share options[(2)]	71.0%	0.0%	0.0%	0.0%	60.0%	73.1%	27.5%	10.0%	61.5%	**77.5%**	**77.5%**
Performance shares[(2)]	55.0%	33.0%	31.0%	0.0%	70.0%	89.3%	10.0%	29.3%	59.3%	**98.7%**	**98.8%**

(1) To enable comparison, Ivan Menezes' and Debra Crew's single total figure of remuneration has been converted into sterling using the average weighted exchange rate for the relevant financial year. The figure represented in the graph for fiscal 23 is the combined single figure total for Ivan Menezes and Debra Crew.
(2) % of total maximum opportunity.

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 package 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 employee population. The Chairman also explains the Directors' remuneration policy to employees and seeks their feedback as part of the workforce engagement sessions.

The structure of our reward packages is based on the principle that it should enable Diageo to attract and retain the best talent globally within our broader industry. It is driven by local market practice, as well as the level of seniority and accountability, reflecting the global nature of our business. Diageo is committed to fostering an inclusive and diverse workplace, and creating a culture where every individual can thrive. Reflective of this, pay parity and consistency of treatment for all employees are critical to the reward practices across the organisation. The reward framework is regularly reviewed to ensure employees are rewarded fairly and appropriately, in line with the business strategy, performance outcomes, competitive paid market practice and our diversity agenda.

During the year, the Chairman explained the directors' remuneration policy and alignment with wider workforce pay to employees as part of the workforce engagement sessions.

Remuneration Committee review of wider workforce pay

Each year, the Remuneration Committee has a detailed session reviewing wider workforce remuneration. In fiscal 23, the review focussed on the prior year's annual reward cycle outcomes, including improvements made to base pay competitive positions, the level of differentiation across our reward programmes, gender pay equity analysis, how cost-of-living challenges were addressed and how we have used reward structures to attract talent in key skills areas. The all-employee reward priorities for the coming year were also reviewed by the Committee. Information on wider workforce reward is also provided as required throughout the year to enable the Committee to consider the broader employee context when making executive remuneration decisions, for example the annual salary increase budgets by country.

Supporting our employees

We continue to focus on all aspects of the wellbeing of our employees. Early in fiscal 2023, we made a one-time recognition payment of £1,000 gross (capped at 15% of local equivalent annual salary) to thank employees for their ongoing efforts and support them with the rising cost of living in many locations. Since then, the Executive Committee has continued to monitor the cost-of-living in all our geographies using a formal monitoring process and has implemented actions as required, for example off-cycle salary increases in 16 high-inflation geographies. We have also provided financial education to all employees to support them in managing their personal finances more effectively.

Other reward based initiatives include the roll out of a new recognition platform into North America and the UK, with more regions planned for fiscal 24. We have deployed global support for menopause, including a global app for employees.

We continue to innovate with market leading benefit policies that support and demonstrate our commitment to diversity and inclusion, including increasing the provision of fertility support and personal counselling. We have continued to evolve our flexible working policy, creating guidelines to empower employees and leaders to decide how, when and where they create their best work, making sure our people consider what works best for the individual's and team's success.

The renewed focus on our employee assistance programmes continued with the deployment of a global mental health online tool in November 2022. This enables employees to proactively manage their mental health and covers key topics like sleep, diet, relationships and managing stress. To date the tool has been downloaded by over 4.7k employees, which is 19% of the global population.

CEO pay ratio

In accordance with The Companies (Miscellaneous Reporting) Regulations 2018, the table below sets out Diageo's CEO pay ratios for the year ended 30 June 2023. These CEO pay ratios provide a comparison of the Chief Executive's total remuneration, comprising the sum of both Ivan Menezes and Debra Crew's total single figure of remuneration, converted into sterling, with the equivalent remuneration for the employees paid at the 25th (P25), 50th (P50) and 75th (P75) percentile of Diageo's workforce in the United Kingdom. Also shown are the salary and total remuneration for each quartile employee.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023	**Option A[(2)]**	**232:1**	**178:1**	**137:1**
2023	Total pay and benefits	£47,295	£61,733	£80,159
2023	Salary	£33,137	£44,398	£54,679
2022 [(1)]	Option A[(2)]	146:1	114:1	90:1
2021	Option A[(2)]	127:1	100:1	79:1
2020	Option A[(2)]	50:1	38:1	31:1
2019	Option A[(2)]	265:1	208:1	166:1

(1) 2022 CEO pay ratios have been updated to reflect the value of the updated 2022 single figure which incorporates long-term incentives based on the actual share price at vesting, rather than the average share price in the last three months of the financial year which had been used for the 2022 disclosure.
(2) Only people employed in the United Kingdom and with the same number of contractual working hours throughout the full 12-month period have been included in the calculation. 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 ratio.

Methodology

Consistent with the approach for Diageo's disclosure in previous years, the methodology used to identify the employees at each quartile 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 location by pro-rating 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 sufficiently representative of those positions, we calculated the total remuneration for a number of employees above and below each of the selected median, 25th and 75th percentile UK employees and used the median value. In light of financial performance outcomes being signed off 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 calculate all payments under the annual incentive, although some employees may receive a variation on this multiple in practice. Pension values for each employee are not calculated on an actuarial basis as for the Chief Executive, but rather as the notional cost of the company's pension contribution during the financial year, according to the relevant section of the pension scheme for each individual. This approach allows meaningful data for a large group of people to be obtained in a more efficient way.

Points 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 payouts under the annual incentive plan both for Diageo's Chief Executive and the wider UK workforce are lower than the prior two years which saw double digit growth in organic net sales and operating profit. The annual incentive plan outcome is directly linked to awards made under the Freeshares scheme, which all UK employees are eligible to participate in. The median remuneration and resulting pay ratio for 2023 are consistent with the pay and progression policies for Diageo's UK employees as a whole and reflect the impact of performance-related pay on total remuneration for the year. As the Chief Executive has a larger proportion of their total remuneration linked to business performance than other employees in the UK workforce, the ratio has increased versus last year due to a significantly higher performance outcome under the 2020 long-term incentives which vested this year, compared to the 2019 awards which vested last year which has more than 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 23 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 small size of Diageo plc's workforce, data for all employees of the group has also been included.

	2023			2022			2021			2020		
	Salary	Bonus	Benefits	Salary	Bonus	Benefits	Salary	Bonus	Benefits	Salary	Bonus	Benefits
Plc employee average[1]	**9.0%**	**(61.3%)**	**(7.2%)**	11.1%	25.8%	10.5%	5.1%	N/A[5]	38.8%	7.5%	(100.0%)	9.0%
Average global employee[2]	**12.9%**	**(41.6%)**	**17.0%**	6.4%	38.4%	11.7%	–	278.8%	12.6%	5.3%	(67.8)	6.9%
Executive Directors[3]												
Ivan Menezes[6]	**–**	**–**	**–**	2.3%	4.4%	59.5%	0.7%	N/A[5]	(10.7)%	2.7%	(100.0)%	0.8%
Debra Crew[5]	**N/A[5]**	**N/A[5]**	**N/A[5]**	N/A[5]	N/A[5]	N/A[5]	N/A[5]	N/A[5]	N/A[5]	N/A[5]	N/A[5]	N/A[5]
Lavanya Chandrashekar	**2.3%**	**(58.8%)**	**(89.4%)**	N/A[5]	N/A[5]	N/A[5]	N/A[5]	N/A[5]	N/A[5]	N/A[5]	N/A[5]	N/A[5]
Non-Executive Directors[4]												
Melissa Bethell [7]	**3.0%**	**–**	**10.1%**	2.3%	–	16.0%	N/A[5]	–	–	–	–	–
Karen Blackett [5]	**N/A[5]**	**–**	**N/A[5]**	N/A[5]	–	N/A[5]	–	–	–	–	–	–
Valérie Chapoulaud-Floquet [7]	**3.0%**	**–**	**108.5%**	–	–	–	N/A[5]	–	–	–	–	–
Javier Ferrán (Chairman)	**2.3%**	**–**	**(22.4%)**	8.3%	–	28.8%	0.0%	–	0.0%	0.0%	–	0.0%
Susan Kilsby [7]	**2.6%**	**–**	**125.7%**	3.8%	–	300.0%	9.6%	–	(87.7%)	37.3%	–	68.9%
Sir John Manzoni [7]	**3.0%**	**–**	**20.0%**	–	–	–	–	–	–	–	–	–
Lady Mendelsohn	**3.0%**	**–**	**0.0%**	2.3%	–	0.0%	3.2%	–	0.0%	3.3%	–	0.0%
Alan Stewart	**3.2%**	**–**	**0.0%**	4.7%	–	0.0%	2.4%	–	0.0%	2.5%	–	0.0%
Ireena Vittal [7]	**3.0%**	**–**	**734.0%**	–	–	–	–	–	0.0%	–	–	0.0%

(1) Around 60 UK-based employees are 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 employed during the full financial year have been included in calculations.
(2) Calculated by dividing staff cost related to salaries, bonus and benefits by the average number of employees on a full-time equivalent basis, as disclosed in note 3c to the financial statements under staff costs and average number of employees on page 178, but reduced to account for the inclusion of Executive Directors in reported figures. The salary, bonus and benefits cost data used for calculation are subsets of the Wages and salaries figure disclosed in this note. The salary data used for this calculation has been adjusted to exclude costs related to severance payments which are included in staff costs, and last year's disclosure has been updated in line with this for consistency. In line with the approach for Directors, the bonus values used for the calculation reflect the bonus earned in relation to performance during the relevant financial year.
(3) Calculated using the data from the single figure table in the annual report on remuneration (page 139) in US dollars, reflecting payment currency for Ivan Menezes, Debra Crew and Lavanya Chandrashekar.
(4) Calculated using the fees and taxable benefits disclosed under Non-Executive Directors' remuneration in the table on page 151. Taxable benefits for Non-Executive Directors comprise a product allowance as well as expense reimbursements relating to attendance at Board meetings, which may vary year-on-year.
(5) N/A refers to a nil value in the previous year or an incomplete prior year, meaning that the year-on-year change cannot be calculated.
(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 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.

Payments to former Directors (audited)

There were no payments to former Directors in the year ended 30 June 2023.

Payments for loss of office (audited)

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 139. The time pro-rated bonus is based on full year performance and is payable at the normal time entirely in cash, the Committee having exercised its discretion to waive the one-third payment in deferred shares. Sir Ivan's deferred bonus shares from fiscal 21 and fiscal 22 vested on the date of death in accordance with the plan rules.

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 under the plan rules on death-in-service, subject to an assessment against the performance measures and time pro-rating. The Committee exercised its discretion under the policy to slightly extend the time pro-rating from 6 to 30 June 2023 on compassionate grounds to reflect the full fiscal 23 year. The 2020 award vested based on actual performance measured over the full three-year period to 30 June 2023 as disclosed on pages 141 and 142. The 2021 and 2022 awards vested subject to an assessment by the Committee against the performance measures as at 30 June 2023. Sir Ivan was originally awarded 36,675 PSP and 36,675 SESOP options in 2021 which were each time pro-rated to 24,427 awards. The 2021 PSP award vested at 81.2% and the 2021 SESOP award vested at 10.0%. The 2022 awards (33,845 PSP awards and 33,845 SESOP awards) were each time pro-rated to 11,271 awards and vested at 48.0% (PSP) and 0.0% (SESOP). The total vesting value of the 2021 and 2022 awards was $3,693k and $987k 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 Committee has chosen not to disclose the detail of performance relative to the targets set for each performance measure for the 2021 and 2022 awards, measured over the shortened period, on the basis that the information is regarded as commercially sensitive. SESOP options will be exercisable for 24 months from the date of death (already vested options) and the date of vesting (options vesting early on 2 August 2023), the Committee having exercised discretion to extend from 12 months to give the estate sufficient time to exercise the options. The two-year post-vesting holding periods will not apply and the post-employment shareholding requirement falls away.

Sir Ivan's 2006 employment contract provided for lifetime medical cover for Sir Ivan and his spouse on a cost sharing basis with the company. The lifetime medical cover will continue for Sir Ivan's surviving spouse, the company cost of which for the first year is $12,381, based on 2023 rates. The company will continue to 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 became payable by the insurance provider and Sir Ivan's pension benefits will be treated in accordance with the terms of the relevant pension plans.

Non-Executive Directors

Fee policy

Javier Ferrán's fee as non-executive Chairman was increased by 3% from £650,000 per annum to £670,000 on 1 October 2022. The Chairman's fee is appropriately positioned against our comparator group of FTSE 30 companies excluding financial services. The Executive Directors and 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.

Per annum fees	2023 £'000	2022 £'000
Chairman of the Board	**670**	650
Non-Executive Directors		
Base fee	**104**	101
Senior Non-Executive Director	**30**	30
Chairman of the Audit Committee	**35**	35
Chairman of the Remuneration Committee	**35**	35

Single total figure of remuneration for Non-Executive Directors' (audited)

	Fees £'000		Taxable benefits £'000[1]		Total £'000[4]	
	2023	2022	2023	2022	2023	2022
Chairman						
Javier Ferrán[2]	**665**	650	**1**	2	**666**	652
Non-Executive Directors						
Melissa Bethell	**103**	100	**2**	1	**105**	102
Karen Blackett[3]	**103**	8	**1**	–	**104**	9
Valérie Chapoulaud-Floquet	**103**	100	**10**	5	**113**	105
Susan Kilsby	**168**	164	**11**	5	**179**	169
Sir John Manzoni	**103**	100	**2**	1	**105**	102
Lady Mendelsohn	**103**	100	**1**	1	**104**	102
Alan Stewart	**138**	134	**1**	1	**139**	135
Ireena Vittal	**103**	100	**10**	1	**113**	102

(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, which are deemed by HMRC to be taxable in the United Kingdom. The amounts in the single total figure of remuneration table above include any tax gross-ups on the benefits 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.
(2) £100,000 of Javier Ferrán's net remuneration in the year ended 30 June 2023 was used for the monthly purchase of Diageo ordinary shares, which will be retained until he retires from the company or ceases to be a Director for any other reason.
(3) Karen Blackett was appointed to the Board on 1 June 2022.
(4) Some figures add up to slightly different totals due to rounding.

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.

	Debra Crew		Lavanya Chandrashekar	
Salary at 1 October ('000)	**2023**	2022	**2023**	2022
Base salary	**$1,750**	n/a	**$1,044**	$1,004
% increase (over previous year)	**n/a**	n/a	**4%**	3%

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) (26.67% weighting): a key performance measure of year-on-year top line growth;
- **operating profit** (% growth) (26.67% 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 exchange;
- **operating cash conversion** (26.67% weighting): ensures focus on efficient cash delivery by the end of the year; and
- **individual business objectives** (20% weighting): measurable deliverables that are specific to the individual and are focussed 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 consistent with prior years, equal to 100% of base salary at target, with a maximum opportunity of 200% of base salary.

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 consistent performance in line with Diageo's business strategy and to create alignment with the delivery of value for shareholders. The Committee has ensured that the incentive structure for senior management does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour.

As per last year, DLTIP awards to be made in September 2023 will comprise awards of both performance shares and share options, 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 relative total 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 organisation 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 2030: 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: Spirit 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.

Awards are calculated on the basis of a six-month average share price for the period ending 30 June 2023.

It is intended that a DLTIP award to the equivalent of 500% 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 480% of salary will be made to Lavanya Chandrashekar in September 2023, comprising 360% of salary in performance shares and the equivalent of 120% of salary in market price share options. In 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.

	Chief Executive	Chief Financial Officer
Grant value (% salary)	**Performance share equivalents (1 share: 3 options)**	
Performance shares	375%	360%
Share options	125%	120%
Total	**500%**	**480%**

Performance conditions for long-term incentive awards to be made in the year ending 30 June 2024

	Performance shares								Share options		
			Environmental, social & governance (ESG)								
	Organic net sales (CAGR)	Organic profit before exceptional items and tax (CAGR)	Greenhouse gas reduction	Water efficiency index (1)	Positive drinking	% Female leaders	% Ethnically diverse leaders	Vesting schedule	Relative Total Shareholder Return	Cumulative free cash flow ($m) (2)	Vesting schedule
Weighting (% total)	40%	40%	5%	5%	5%	2.5%	2.5%		50.0%	50.0%	
Maximum	8.0%	11.5%	25.9%	8.3%	4.2m	49%	46%	100%	3rd and above	$12,600	100%
Midpoint	6.0%	8.0%	21.9%	6.0%	3.5m	48%	45%	60%	–	$11,000	60%
Threshold	4.0%	4.5%	17.9%	3.7%	2.8m	47%	44%	20%	9th and above	$9,400	20%

(1) For more information on the water efficiency index, see pages 152 and 79.
(2) The cumulative free cash flow targets are shown in USD following the change in functional currency from GBP to USD from fiscal 24. More details on this can be found on page 36.

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.

Other than disclosed in this report, no Director had any interest, beneficial or non-beneficial, in the share capital of the company. Save as disclosed above, no Director has or has had any interest in any transaction which is or was unusual in its nature, or which is or was significant to the business of the group and which was effected by any member of the group during the financial year, or which having been effected during an earlier financial year, remains in any respect outstanding or unperformed. There have been no material transactions during the last three years to which any Director or officer, or 3% or greater shareholder, or any spouse or dependent thereof, was a party. There is no significant outstanding indebtedness to the company from any Directors or officer or 3% or greater shareholder.

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 8 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.

The Companies Act 2006 and the Listing Rules require the company's auditor to report on the audited information in their report and to state that this section has been properly prepared in accordance with these regulations.

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 notes), Payments to former Directors, Payments for loss of office, Annual incentive plan (AIP) payouts for 2023, Long-term incentive plans (DLTIPs) 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 number 23307 and registered office and principal place of business at 16 Great Marlborough Street, London W1F 7HS, United Kingdom. The company's telephone number is +44 (0) 20 7947 9100. 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 21 October 1886. It is the ultimate holding company of the group, a full list of whose subsidiaries, partnerships, associates, joint ventures and joint 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 pages 101 and 103 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 a resolution for its re-appointment as auditor of the company 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 company's auditor is unaware; and each Director has taken all reasonable steps to ascertain any relevant audit information and to ensure that the company's auditor is aware of that information.

Corporate governance statement

The corporate governance statement, prepared in accordance with rule 7.2 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, comprises the following sections of the Annual Report: the 'Corporate governance report', the 'Audit Committee report' and the 'Additional information for shareholders'.

Significant agreements – change of control

The following significant agreements contain certain termination and other rights for Diageo's counterparties upon a change of control of the company. Under the partners agreement governing the company's 34% investment in Moët Hennessy SAS (MH) and Moët Hennessy International SAS (MHI), if a Competitor (as defined therein) directly or indirectly takes control of the company (which, for these purposes, would occur if such Competitor acquired more than 34% of the voting rights or equity interests in the company), LVMH Moët Hennessy – Louis Vuitton SA (LVMH) may require the company to sell its interests in MH and MHI to LVMH.

The master agreement governing the operation of the group's market-level distribution joint ventures with LVMH states that if any person acquires interests and rights in the company resulting in a Control Event (as defined) occurring in respect of the company, LVMH may within 12 months of the Control Event either appoint and remove the chairman of each joint venture entity governed by such master agreement, who shall be given a casting vote, or require each distribution joint venture entity to be wound up. Control Event for these purposes is defined as the acquisition by any person of more than 30% of the outstanding voting rights or equity interests in the company, provided that no other person or entity (or group of affiliated persons or entities) holds directly or indirectly more than 30% of the voting rights in the company.

Related party transactions

Transactions with related parties are disclosed in note 21 to the consolidated financial statements.

Major shareholders

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:

Shareholder	Number of ordinary shares	Percentage of issued ordinary share (excluding treasury shares)	Date of notification of interest
BlackRock Investment Management (UK) Limited (indirect holding)	147,296,928	5.89%	3 December 2009
Capital Research and Management Company (indirect holding)	124,653,096	4.99%	28 April 2009
Massachusetts Financial Services Company (indirect holding)	114,036,646	4.95%	1 June 2022

(1) On 3 February 2023, BlackRock Inc. filed an Amendment to Schedule 13G with the SEC in respect of the calendar year ended 31 December 2010, reporting that, as of December 31, 2022, 190,024,658 ordinary shares representing 8.4% of the issued ordinary share capital were beneficially owned by BlackRock Inc. and its subsidiaries (including BlackRock Investment Management (UK) Limited).

(2) On 8 February 2023, Massachusetts Financial Services Company filed an Amendment to Schedule 13G with the SEC in respect of the calendar year ended 31 December 2018, reporting that, as of December 31, 2022, 118,813,187 ordinary shares representing 5.2% of the issued ordinary share capital were beneficially owned by Massachusetts Financial Services Company.

The company has not been notified of any other substantial interests in its securities since 30 June 2023. The company's substantial shareholders do not have different voting rights. Diageo, so far as is known by the company, is not directly or indirectly owned or controlled by another corporation or by any government. Diageo knows of no arrangements, the operation of which may at a subsequent date result in a change of control of the company.

As at the close of business on 26 July 2023, 324,354,320 ordinary shares, including those held through American Depositary Shares (ADSs), were held by approximately 2,678 holders (including American Depositary Receipt (ADR) holders) with registered addresses in the United States, representing approximately 14.43% of the outstanding ordinary shares (excluding treasury shares). At such date, 81,014,846 ADSs were held by 2,224 registered ADR holders. Since certain of such ordinary shares and ADSs are held by nominees or former Grand Metropolitan PLC or Guinness plc ADR holders who have not re-registered their ADSs, the number of holders may not be representative of the number of beneficial owners in the United States or the ordinary shares held by them.

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 diversity of skills and experiences in its workplace and communities will provide a competitive advantage. To enable this, the company has various global employment policies and standards, covering such issues as resourcing, data protection, human rights, dignity at work, health, safety and wellbeing. These policies and standards seek to ensure that the company treats current or prospective employees justly, solely according to their abilities to meet the requirements and standards of their role and in a fair and consistent way. This includes giving full and fair consideration to applications from prospective employees who are disabled, having regard to their aptitudes and abilities, and not discriminating against employees under any circumstances (including in relation to applications, training, career development and promotion) on the grounds of any disability. In the event that an employee, worker or contractor becomes disabled in the course of their employment or engagement, Diageo aims to ensure that reasonable steps are taken to accommodate their disability by making reasonable adjustments to their existing employment or engagement.

Trading market for shares

Diageo plc ordinary shares are listed on the London Stock Exchange (LSE). Diageo ADSs, representing four Diageo ordinary shares each, are listed on the New York Stock Exchange (NYSE). Diageo plc completed the voluntary delisting of its shares from the Dublin Euronext and Paris Euronext Exchanges by 30 May 2023. The principal trading market for the ordinary shares is the LSE. Diageo shares are traded on the LSE's electronic order book. Orders placed on the order book are displayed on-screen through a central electronic system and trades are automatically executed, in price and then time priority, when orders match with corresponding buy or sell orders. Only member firms of the LSE, or the LSE itself if requested by the member firm, can enter or delete orders on behalf of clients or on their own account. All orders are anonymous. Although use of the order book is not mandatory, all trades, whether or not executed through the order book and regardless of size, must be reported within three minutes of execution, but may be eligible for deferred publication.

The Markets in Financial Instruments Directive (MiFID) allows for delayed publication of large trades with a sliding scale requirement based on qualifying minimum thresholds for the amount of consideration to be paid/the proportion of average daily turnover (ADT) of a stock represented by a trade. Provided that a trade/consideration equals or exceeds the qualifying minimum size, it will be eligible for deferred publication ranging from 60 minutes from time of trade to three trading days after time of trade. Fluctuations in the exchange rate between sterling and the US dollar will affect the US dollar equivalent of the sterling price of the ordinary shares on the LSE and, as a result, will affect the market price of the ADSs on the NYSE. In addition, such fluctuations will affect the US dollar amounts received by holders of ADSs on conversion of cash dividends paid in pounds sterling on the underlying ordinary shares.

American depositary shares

Fees and charges payable by ADR holders

Citibank N.A. serves as the depositary (Depositary) for Diageo's ADS programme. Pursuant to the deposit agreement dated 14 February 2013 between Diageo, the Depositary and owners and holders of ADSs (the Deposit Agreement), ADR holders may be required to pay various fees to the Depositary, and the Depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid. In particular, the Depositary, under the terms of the Deposit Agreement, shall charge a fee of up to $5.00 per 100 ADSs (or fraction thereof) relating to the issuance of ADSs; delivery of deposited securities against surrender of ADSs; distribution of cash dividends or other cash distributions (i.e. sale of rights and other entitlements); distribution of ADSs pursuant to stock dividends or other free stock distributions, or exercise of 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 Deposit Agreement to pay the Depositary (a) taxes (including applicable interest and penalties) and other governmental charges; (b) registration fees; (c) certain cable, telex, and facsimile transmission and delivery expenses; (d) the expenses and charges incurred by the Depositary in the conversion of foreign currency; (e) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements; and (f) the fees and expenses incurred by the Depositary, the custodian, or any nominee in connection with the servicing or delivery of ADSs. The Depositary may (a) withhold dividends or other distributions or sell any or all of the shares underlying the ADSs in order to satisfy any tax or governmental charge and (b) deduct from any cash distribution the applicable fees and charges of, and expenses incurred by, the Depositary and any taxes, duties or other governmental charges on account.

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 certain 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 associated with non-deal road shows, third-party investor relations consultant fees and expenses, Diageo's cost for administration of the ADR programme not absorbed by the Depositary and related activities (e.g. expenses associated with the AGM), travel expenses to attend training and seminars, exchange listing fees, legal fees, auditing fees and expenses, the SEC filing fees, expenses related to Diageo's compliance with US securities law and regulations (including, without limitation, the Sarbanes-Oxley Act) and other expenses incurred by Diageo in relation to the ADR programme.

Articles of association

The company is incorporated under the name Diageo plc, and is registered in England and Wales under registered number 23307. The following description summarises certain provisions of Diageo's articles of association (as adopted by special resolution at the Annual General Meeting on 28 September 2020) and applicable English law concerning companies (the Companies Acts), in each case as at 26 July 2023. This summary is qualified in its entirety by reference to the Companies Acts and Diageo's articles of association. Investors can obtain copies of Diageo's articles of association by contacting the Company Secretary at the.cosec@diageo.com. Any amendment to the articles of association of the company may be made in accordance with the provisions of the Companies Act 2006, by way of special resolution.

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 directors, in which all powers to manage the business and affairs of Diageo are vested. Directors may be elected by the members in a general meeting or appointed by the Board. 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 requirement in respect of directors. Directors may also be removed before the expiration of their term of office in accordance with the provisions of the Companies Acts.

Voting rights

Voting on any resolution at any general meeting of the company is by a show of hands unless a poll is duly demanded. On a show of hands,

(a) every shareholder who is present in person at a general meeting, and every proxy appointed by any one shareholder and present at a general meeting, has/have one vote regardless of the number of shares held by the shareholder (or, subject to (b), represented by the proxy), and

(b) every proxy present at a general meeting who has been appointed by more than one shareholder has one vote regardless of the number of shareholders who have appointed him/her or the number of shares held by those shareholders, unless he/she has been instructed to vote for a resolution by one or more shareholders and to vote against the resolution by one or more shareholders, in which case he/she has one vote for and one vote against the resolution.

On a poll, every shareholder who is present in person or by proxy has one vote for every share held by that shareholder, but a shareholder or proxy entitled to more than one vote need not cast all his/her votes or cast them all in the same way (the deadline for exercising voting rights by proxy is set out in the form of proxy).

A poll may be demanded by any of the following:

- the chairman of the general meeting;
- at least three shareholders entitled to vote on the relevant resolution and present in person or by proxy at the meeting;
- any shareholder or shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to vote on the relevant resolution; or
- any shareholder or shareholders present in person or by proxy and holding shares conferring a right to vote on the relevant resolution on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Diageo's articles of association and the Companies Acts provide for matters to be transacted at general meetings of Diageo by the proposing and passing of two kinds of resolutions:

- ordinary resolutions, which include resolutions for the election, re-election and removal of directors, the declaration of final dividends, the appointment and re-appointment of the external auditor, the remuneration report and remuneration policy, the increase of authorised share capital and the grant of authority to allot shares; and
- special resolutions, which include resolutions for the amendment of Diageo's articles of association, resolutions relating to the disapplication of pre-emption rights, and resolutions modifying the rights of any class of Diageo's shares at a meeting of the holders of such class.

An ordinary resolution requires the affirmative vote of a simple majority of the votes cast by those entitled to vote at a meeting at which there is a quorum in order to be passed. Special resolutions require the affirmative vote of not less than three-quarters of the votes cast by those entitled to vote at a meeting at which there is a quorum in order to be passed. The necessary quorum for a meeting of Diageo is a minimum of two shareholders present in person or by proxy and entitled to vote.

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 may reasonably require, (b) is in respect of only one class of share and (c) if to joint transferees, 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 uncertificated share is to be transferred exceeds four.

The Board may decline to register a transfer of any of 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).

Other information

Other information relevant to the Directors' report may be found in the following sections of the Annual Report:

Information (including that required by UK Listing Authority Listing Rule 9.8.4)	Location in Annual Report
Agreements with controlling shareholders	Not applicable
Contracts of significance	Not applicable
Details of long-term incentive schemes	Directors' remuneration report
Directors' indemnities and compensation	Directors' remuneration report - Additional information; Consolidated financial statements - note 21 Related party transactions
Dividends	Group financial review; Consolidated financial statements - Unaudited financial information
Engagement with employees	Corporate governance report - Workforce engagement statement
Engagement with suppliers, customers and others	Corporate governance report - Stakeholder engagement
Events post 30 June 2023	Consolidated financial statements - note 23 Post balance sheet events
Financial risk management	Consolidated financial statements - note 16 Financial instruments and risk management
Future developments	Chairman's statement; Chief Executive's statement; Our market dynamics
Greenhouse gas emissions	Pioneer grain-to-glass sustainability; Non-Financial and sustainability information statement
Interest capitalised	Not applicable
Non-pre-emptive issues of equity for cash (including in respect of major unlisted subsidiaries)	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Political donations	Corporate governance report
Provision of services by a controlling shareholder	Not applicable
Publication of unaudited financial information	Unaudited financial information
Purchase of own shares	Repurchase of shares; Consolidated financial statements - note 18 Equity
Research and development	Other Additional Information - Research and development; Consolidated financial statements - note 3 Operating costs
Review of the business and principal risks and uncertainties	Chief Executive's statement; Our principal risks and risk management; Pioneer grain-to-glass sustainability; Business reviews
Share capital - structure, voting and other rights	Consolidated financial statements - note 18 Equity
Share capital - employee share plan voting rights	Consolidated financial statements - note 18 Equity
Shareholder waivers of dividends	Consolidated financial statements - note 18 Equity
Shareholder waivers of future dividends	Consolidated financial statements - note 18 Equity
Sustainability and responsibility	Pioneer grain-to-glass sustainability
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable

The Directors' report of Diageo plc for the year ended 30 June 2023 comprises these pages and the sections of the Annual Report referred to under 'Directors', 'Corporate governance statement' and 'Other information' above, which are incorporated into the Directors' report by reference.

In addition, certain disclosures required to be contained in the Directors' report have been incorporated into the 'Strategic report' as set out in 'Other information' above.

The Directors' report, which has been approved by a duly appointed and authorised committee of the Board of Directors, was signed on its behalf by Tom Shropshire, the Company Secretary, on 31 July 2023.

Financial statements

Contents

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).

Independent auditors' report to the members of Diageo plc

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;
- 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 reporting 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 comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description 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 and belief, 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.

PwC was initially appointed by you on 15 October 2015 and has acted for eight uninterrupted years. This is the third and final year that Richard Oldfield has acted as your Senior Statutory Auditor, with other changes in senior audit team members reflecting required partner rotation in Australia, Scotland, and over the group's Treasury, Tax and technology functions.

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 confidence in the financial statements that are provided by companies to their members. The scope of an audit is sometimes not fully understood. We believe that it is important that you understand the scope 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/auditorsresponsibilities; 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 deliberate concealment by, for example, forgery or intentional 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 data auditing techniques, e.g. the testing of manual journals and the deactivation of leaver 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 risk 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 in the financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, international 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, Securities 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 evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of internal controls. We determined that the principal risks were related to posting inappropriate journal entries to, for example, suppress 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 amongst other things, 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 Moët 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 throughout the year with the teams responsible for these audits; this included consideration of how they planned and performed their work. 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 with local teams, but also to meet directly with management to hear about the market and Diageo 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 findings reported by each of the audit teams were 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 business service centres in Colombia, Hungary, India and 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 ensured that appropriate further audit work was undertaken at a group level and for the company. This work included auditing, for example, the consolidation of the group's results, the preparation of the financial statements, certain disclosures within the Directors' Remuneration Report, litigation 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 one-off transactions, including acquisitions and disposals, undertaken during the year. This work was supported by team members who are based in Budapest and Bangalore.

Collectively, these three areas of work covered 73% of group net sales, 82% of group total assets, and 71% of group profit before exceptional items and tax (PBET (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 expand the deployment of technology solutions on our audit and for the 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 testing and real time reporting by our global team.

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 only change being the removal 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 predicted by Diageo's management. As an example, performing procedures over balances and transactions which otherwise wouldn't have been subject to audit procedures due to their size such as the group's acquisition of Balcones 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 used in management's models supporting key audit areas and management's assessment of going concern.

Materiality

The scope 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 ("FSLIs") 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:

	Group	Company
Overall materiality	£251m (2022: £239m).	£273m (2022: £278m). For the purposes of the group audit, we increased materiality to £40m (2022: £20m), other than for those balances which were eliminated on consolidation.
How we determined it	5% of the PBET This approach has not changed compared to the prior year.	0.5% of the net assets. This approach has not changed compared to the prior year.
Why we believe this is appropriate	In assessing Diageo's performance, you exclude items identified by management as exceptional. Therefore, we have used PBET which is a generally accepted auditing benchmark.	We consider a net asset measure to reflect the nature of the company, which primarily acts as a holding company for the group's investments and holds certain liabilities on the balance sheet. The results of procedures performed over balances and transactions contributing to the group's overall results were used to support our group opinion.

We asked each of the teams reporting on the individual business units to work to assigned materiality levels which reflected the size of the operations they audited. This materiality will differ from that used in any external audit of the separate financial statements for these business units, for example the materiality used for the company balance sheet and reported profit was lowered to £40m for the group audit as described in the table. The range of materiality allocated across the business unit audits was between £25m (Diageo Investment Corporation) and £155m (North America).

When planning the audit, we considered if multiple misstatements may exist which, when aggregated, could exceed our overall materiality level. In order to reduce the risk of multiple misstatements which could aggregate to this amount we used a lower level of materiality, known as performance materiality, to identify the individual balances, classes of transactions and disclosures that were subject to audit. Our performance materiality was £188m (2022: £179m) for the group and £205m (2022: £209m) for the company, being 75% of overall materiality for both the group and company financial statements. In determining this amount, we considered a number of factors - the history of low levels of misstatements, our risk assessment and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

Where the audit identified any items that were not reflected appropriately in the financial information, we considered these items carefully to assess if they were individually or in aggregate material. We agreed with the Audit Committee that we would report to them misstatements identified which were qualitatively significant or which exceeded £12m (2022: £11m). This amount was £14m for the company (2022: £10m). The Audit Committee was responsible for deciding whether adjustments should be made to the financial statements in respect of those items. The Directors concluded that all items which remained unadjusted were not material to the financial statements, either individually or in aggregate. We agreed with their conclusion.

Key audit matters

We attended each of the five Audit Committee and sub-Committee meetings held during the year. Part of each meeting involved a private discussion without management present. We also met with the Chair of the Audit Committee on an ad-hoc basis. During these various conversations we discussed our observations on a variety of accounting matters, for example the accounting for acquisitions, disposals and changes in assumptions used in the group's impairment assessment over goodwill and brand intangibles assets, and observations on controls over financial reporting. In December, the Audit Committee discussed and challenged the audit plan. The plan included the matters which we considered presented the highest risk to the audit (the key audit matters) and other information on our audit approach such as our approach to specific balances, the audit of journals and where the latest technology would be used to obtain better quality audit evidence.

The areas of highest risk for the group audit and where we focused most effort and resources are substantially unchanged from the prior year. They were;

- Valuation of goodwill and brand intangible assets;
- Uncertain tax positions in respect of direct and indirect taxes in India and Brazil; and
- Valuation of post-employment benefit assets and liabilities.

To help you understand their impact on the audit, we have listed them in order of decreasing audit effort. Most of these areas are common with other international beverage companies. The key audit matters above are consistent with last year.

We have included in an appendix to this report an explanation of each item, why it was discussed and how the audit approach was tailored to address the concerns.

As the sponsoring company for the United Kingdom schemes, valuation of post-employment benefit schemes was also identified as a key audit matter for the company.

The impact of climate risk on our audit

As explained in the "Non-financial and sustainability information statement" section of the Strategic Report, the group has also performed a risk assessment to understand the potential impacts of climate change upon key selected businesses, in particular how increasing global temperatures are likely to impact operations due to water scarcity and policy changes impacting input costs. As part of our audit, we made enquiries of management to understand the extent of the potential impact of climate change on the group's business and the financial statements, including reviewing management's climate change risk assessment and climate change scenarios which were prepared with support from an external expert. We used our knowledge of the group and we engaged with our own climate change experts to evaluate the risk assessment performed by management, and to understand the scenarios considered.

By their nature financial statements present historical information which does not fully capture future events. We did determine that the key areas in the financial statements that are more likely to be materially impacted by climate change are those areas that are based on estimated future cash flows. As a result, we considered in particular how climate risks and the impact of the 'Society 2030: Spirit of Progress' commitments would impact the assumptions made in the forecasts prepared by Diageo used in the group's impairment analysis (see also key audit matter on Valuation of goodwill and brand intangibles) and for going concern purposes. We challenged how longer term physical chronic risks had been considered such as water scarcity from water stress together with the impacts of chronic weather on agricultural supply chains, and shorter-term transitional risks such as the introduction of carbon taxes. Our procedures did not identify any material impact on our audit for the year ended 30 June 2023. We ensured that the assumptions used in preparation of the financial statements are consistent with the Task Force on Climate-related Financial Disclosures ("TCFD") disclosure.

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 Δ. The independent limited assurance report, which explains the scope of our work and the limited procedures undertaken is 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 assurance.

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 impacts of an inflationary environment and testing the amounts of debt maturing during the assessment period, we have not identified any material uncertainties 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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

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 in this report, any form of assurance thereon.

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 materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise 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 based 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 included.

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 light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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 explanation of how these are being managed or mitigated;

- 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 is appropriate; and
- 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 longer-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; or
- 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; or
- 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 20-F 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 the 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 intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for the other information referenced above.

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 FSLIs	2023	2022
Goodwill	**£2,227m**	£2,287m
Brands	**£7,520m**	£7,896m

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 the value in use (VIU) and fair value 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 and are required to be disclosed in the Annual Report.

The methodology 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 2024 to 2026 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 Yeni Raki brand, and the portfolio of USL (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 alternatives 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 selection of the significant assumptions used.

We agreed the mathematical accuracy of the calculations, to estimate the VIU.

In respect 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. We paid particular attention to achievement of the strategic plan and margin improvements through productivity initiatives in light of historical ability to achieve these and the current elevated inflationary environment;
- obtaining and evaluating evidence where available for critical data relating to significant assumptions of forecasted growth, from a combination of historic experience, external market (e.g. IWSR, the leading source of data and analysis on the global beverage alcohol market) and other financial information;
- assessing whether the cash flows included in the model were in accordance with the accounting standard IAS 36 "Impairment of Assets";
- independently assessing the sensitivity of the VIU to reasonable variations in significant assumptions, both individually and in aggregate; and
- determining a reasonable range for the discount rate used within the model, with the assistance of PwC valuation experts, and comparing it to the discount rate used by management.

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 1(e) - 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

Impacted FSLIs	2023	2022
Current tax assets	**£232m**	£149m
Current tax liabilities	**£135m**	£252m
Provision for tax uncertainties	**£173m**	£156m

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 alcohol beverage 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 and customs authorities and international bodies could materially impact the amounts recorded in the group 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 our audit 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.

We agreed the mathematical accuracy of the provision calculation.

We evaluated and tested the related disclosures in relation to uncertain tax positions and considered them to be reasonable.

Relevant references in Annual Report

Note 1(e) - Critical accounting estimates and judgements
Note 4 - Exceptional items
Note 5 - Finance income and charges
Note 7 - Taxation
Note 15 - Working capital
Note 19 - Contingent liabilities and legal proceedings

Valuation of post employment benefit schemes

Nature of the Key Audit Matter

Impacted FSLI	2023	2022
Post-employment benefit plan assets (Group)	**£6,846m**	£8,399m
Post-employment benefit plan assets (Company)	**£4,578m**	£6.041m
Post employment benefit plan liabilities (Group)	**£6,252m**	£7,234m
Post employment benefit plan liabilities (Company)	**£4,041m**	£4,897m

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 our audit 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 asset 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 investment 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(e) - Critical accounting estimates and judgements
Note 14 - Post employment benefits (Group)
Note 6 - Post employment benefits (Company)

Consolidated income statement

	Notes	Year ended 30 June 2023 £ million	Year ended 30 June 2022 £ million	Year ended 30 June 2021 £ million
Sales	2	**23,515**	22,448	19,153
Excise duties	3	**(6,402)**	(6,996)	(6,420)
Net sales	2	**17,113**	15,452	12,733
Cost of sales	3	**(6,899)**	(5,973)	(5,038)
Gross profit		**10,214**	9,479	7,695
Marketing	3	**(3,051)**	(2,721)	(2,163)
Other operating items	3	**(2,531)**	(2,349)	(1,801)
Operating profit		**4,632**	4,409	3,731
Non-operating items	4	**328**	(17)	14
Finance income	5	**340**	497	278
Finance charges	5	**(934)**	(919)	(651)
Share of after tax results of associates and joint ventures	6	**370**	417	334
Profit before taxation		**4,736**	4,387	3,706
Taxation	7	**(970)**	(1,049)	(907)
Profit for the year		**3,766**	3,338	2,799
Attributable to:				
Equity shareholders of the parent company		**3,734**	3,249	2,660
Non-controlling interests		**32**	89	139
		3,766	3,338	2,799
Weighted average number of shares		**million**	million	million
Shares in issue excluding own shares		**2,264**	2,318	2,337
Dilutive potential ordinary shares		**7**	7	8
		2,271	2,325	2,345
		pence	pence	pence
Basic earnings per share		**164.9**	140.2	113.8
Diluted earnings per share		**164.4**	139.7	113.4

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Notes	Year ended 30 June 2023 £ million	Year ended 30 June 2022 £ million	Year ended 30 June 2021 £ million
Other comprehensive income				
Items that will not be recycled subsequently to the income statement				
Net remeasurement of post employment benefit plans				
Group	14	**(643)**	616	16
Associates and joint ventures		**13**	5	3
Non-controlling interests	14	**–**	(1)	–
Tax on post employment benefit plans		**161**	(123)	(46)
Changes in the fair value of equity investments at fair value through other comprehensive income		**(4)**	(12)	–
		(473)	485	(27)
Items that may be recycled subsequently to the income statement				
Exchange differences on translation of foreign operations				
Group		**(876)**	1,128	(1,233)
Associates and joint ventures	6	**(59)**	60	(240)
Non-controlling interests		**(148)**	171	(173)
Net investment hedges		**416**	(623)	810
Exchange (gain)/loss recycled to the income statement				
On disposal of foreign operations	8	**(18)**	63	–
On step acquisitions		**(1)**	–	–
Tax on exchange differences - group		**(2)**	(6)	(9)
Tax on exchange differences - non-controlling interests		**–**	–	(1)
Effective portion of changes in fair value of cash flow hedges				
Hedge of foreign currency debt of the group		**6**	233	(298)
Transaction exposure hedging of the group		**273**	(172)	101
Hedges by associates and joint ventures		**24**	(15)	(1)
Commodity price risk hedging of the group		**(56)**	78	41
Recycled to income statement - hedge of foreign currency debt of the group		**54**	(239)	175
Recycled to income statement - transaction exposure hedging of the group		**(13)**	42	10
Recycled to income statement - commodity price risk hedging of the group		**(33)**	(46)	(2)
Tax on effective portion of changes in fair value of cash flow hedges		**(39)**	32	(6)
Hyperinflation adjustments		**182**	365	(17)
Tax on hyperinflation adjustments		**(39)**	(74)	5
		(329)	997	(838)
Other comprehensive (loss)/income, net of tax, for the year		**(802)**	1,482	(865)
Profit for the year		**3,766**	3,338	2,799
Total comprehensive income for the year		**2,964**	4,820	1,934
Attributable to:				
Equity shareholders of the parent company		**3,080**	4,561	1,969
Non-controlling interests	18	**(116)**	259	(35)
Total comprehensive income for the year		**2,964**	4,820	1,934

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

	Notes	30 June 2023 £ million	30 June 2023 £ million	30 June 2022 £ million	30 June 2022 £ million
Non-current assets					
Intangible assets	9	**11,512**		11,902	
Property, plant and equipment	10	**6,142**		5,848	
Biological assets	11	**156**		94	
Investments in associates and joint ventures	6	**3,829**		3,652	
Other investments	13	**57**		37	
Other receivables	15	**31**		37	
Other financial assets	16	**394**		345	
Deferred tax assets	7	**141**		114	
Post employment benefit assets	14	**960**		1,553	
			23,222		23,582
Current assets					
Inventories	15	**7,661**		7,094	
Trade and other receivables	15	**2,720**		2,933	
Corporate tax receivables	7	**232**		149	
Assets held for sale	8	**–**		222	
Other financial assets	16	**347**		251	
Cash and cash equivalents	17	**1,439**		2,285	
			12,399		12,934
Total assets			**35,621**		36,516
Current liabilities					
Borrowings and bank overdrafts	17	**(1,701)**		(1,522)	
Other financial liabilities	16	**(359)**		(444)	
Share buyback liability		**–**		(117)	
Trade and other payables	15	**(5,300)**		(5,887)	
Liabilities held for sale	8	**–**		(61)	
Corporate tax payables	7	**(135)**		(252)	
Provisions	15	**(119)**		(159)	
			(7,614)		(8,442)
Non-current liabilities					
Borrowings	17	**(14,801)**		(14,498)	
Other financial liabilities	16	**(747)**		(703)	
Other payables	15	**(368)**		(380)	
Provisions	15	**(243)**		(258)	
Deferred tax liabilities	7	**(2,183)**		(2,319)	
Post employment benefit liabilities	14	**(373)**		(402)	
			(18,715)		(18,560)
Total liabilities			**(26,329)**		(27,002)
Net assets			**9,292**		9,514
Equity					
Share capital	18	**712**		723	
Share premium		**1,351**		1,351	
Other reserves		**1,861**		2,174	
Retained earnings		**3,898**		3,550	
Equity attributable to equity shareholders of the parent company			**7,822**		7,798
Non-controlling interests	18		**1,470**		1,716
Total equity			**9,292**		9,514

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements have been approved by a duly appointed and authorised committee of the Board of Directors on 31 July 2023 and were signed on its behalf by Debra Crew and Lavanya Chandrashekar, Directors.

Consolidated statement of changes in equity

	Notes	Share capital £ million	Share premium £ million	Other reserves: Capital redemption reserve £ million	Other reserves: Hedging and exchange reserve £ million	Retained earnings/(deficit): Own shares £ million	Retained earnings/(deficit): Other retained earnings £ million	Retained earnings/(deficit): Total £ million	Equity attributable to parent company shareholders £ million	Non-controlling interests £ million	Total equity £ million
At 30 June 2020		742	1,351	3,201	(929)	(1,936)	4,343	2,407	6,772	1,668	8,440
Profit for the year		–	–	–	–	–	2,660	2,660	2,660	139	2,799
Other comprehensive loss		–	–	–	(652)	–	(39)	(39)	(691)	(174)	(865)
Total comprehensive (loss)/income for the year		**–**	**–**	**–**	**(652)**	**–**	**2,621**	**2,621**	**1,969**	**(35)**	**1,934**
Employee share schemes		–	–	–	–	59	(10)	49	49	–	49
Share-based incentive plans	18	–	–	–	–	–	49	49	49	–	49
Share-based incentive plans in respect of associates		–	–	–	–	–	3	3	3	–	3
Tax on share-based incentive plans		–	–	–	–	–	9	9	9	–	9
Purchase of non-controlling interests	8	–	–	–	–	–	(15)	(15)	(15)	(27)	(42)
Associates' transactions with non-controlling interests		–	–	–	–	–	(91)	(91)	(91)	–	(91)
Change in fair value of put option		–	–	–	–	–	(2)	(2)	(2)	–	(2)
Share buyback programme		(1)	–	1	–	–	(200)	(200)	(200)	–	(200)
Dividend declared for the year	18	–	–	–	–	–	(1,646)	(1,646)	(1,646)	(72)	(1,718)
At 30 June 2021		741	1,351	3,202	(1,581)	(1,877)	5,061	3,184	6,897	1,534	8,431
Adjustment to 2021 closing equity in respect of hyperinflation in Turkey		–	–	–	–	–	251	251	251	–	251
Adjusted opening balance		741	1,351	3,202	(1,581)	(1,877)	5,312	3,435	7,148	1,534	8,682
Profit for the year		–	–	–	–	–	3,249	3,249	3,249	89	3,338
Other comprehensive income		–	–	–	535	–	777	777	1,312	170	1,482
Total comprehensive income for the year		–	–	–	535	–	4,026	4,026	4,561	259	4,820
Employee share schemes		–	–	–	–	39	50	89	89	–	89
Share-based incentive plans	18	–	–	–	–	–	59	59	59	–	59
Share-based incentive plans in respect of associates		–	–	–	–	–	4	4	4	–	4
Tax on share-based incentive plans		–	–	–	–	–	9	9	9	–	9
Share-based payments and purchase of own shares in respect of subsidiaries		–	–	–	–	–	(11)	(11)	(11)	(6)	(17)
Unclaimed dividend		–	–	–	–	–	3	3	3	1	4
Change in fair value of put option		–	–	–	–	–	(34)	(34)	(34)	–	(34)
Share buyback programme		(18)	–	18	–	–	(2,310)	(2,310)	(2,310)	–	(2,310)
Dividend declared for the year	18	–	–	–	–	–	(1,720)	(1,720)	(1,720)	(72)	(1,792)
At 30 June 2022		**723**	**1,351**	**3,220**	**(1,046)**	**(1,838)**	**5,388**	**3,550**	**7,798**	**1,716**	**9,514**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**3,734**	**3,734**	**3,734**	**32**	**3,766**
Other comprehensive loss		**–**	**–**	**–**	**(324)**	**–**	**(330)**	**(330)**	**(654)**	**(148)**	**(802)**
Total comprehensive (loss)/income for the year		**–**	**–**	**–**	**(324)**	**–**	**3,404**	**3,404**	**3,080**	**(116)**	**2,964**
Employee share schemes		**–**	**–**	**–**	**–**	**24**	**24**	**48**	**48**	**–**	**48**
Share-based incentive plans	18	**–**	**–**	**–**	**–**	**–**	**49**	**49**	**49**	**–**	**49**
Share-based incentive plans in respect of associates		**–**	**–**	**–**	**–**	**–**	**6**	**6**	**6**	**–**	**6**
Tax on share-based incentive plans		**–**	**–**	**–**	**–**	**–**	**6**	**6**	**6**	**–**	**6**
Share-based payments and purchase of own shares in respect of subsidiaries		**–**	**–**	**–**	**–**	**–**	**3**	**3**	**3**	**2**	**5**
Purchase of non-controlling interests	8	**–**	**–**	**–**	**–**	**–**	**(111)**	**(111)**	**(111)**	**(35)**	**(146)**
Associates' transactions with non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**	**(7)**	**–**	**(7)**
Unclaimed dividend		**–**	**–**	**–**	**–**	**–**	**1**	**1**	**1**	**–**	**1**
Change in fair value of put option		**–**	**–**	**–**	**–**	**–**	**(16)**	**(16)**	**(16)**	**–**	**(16)**
Share buyback programme		**(11)**	**–**	**11**	**–**	**–**	**(1,273)**	**(1,273)**	**(1,273)**	**–**	**(1,273)**
Dividend declared for the year	18	**–**	**–**	**–**	**–**	**–**	**(1,762)**	**(1,762)**	**(1,762)**	**(97)**	**(1,859)**
At 30 June 2023		**712**	**1,351**	**3,231**	**(1,370)**	**(1,814)**	**5,712**	**3,898**	**7,822**	**1,470**	**9,292**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Notes	Year ended 30 June 2023 £ million	Year ended 30 June 2023 £ million	Year ended 30 June 2022 £ million	Year ended 30 June 2022 £ million	Year ended 30 June 2021 £ million	Year ended 30 June 2021 £ million
Cash flows from operating activities							
Profit for the year		**3,766**		3,338		2,799	
Taxation		**970**		1,049		907	
Share of after tax results of associates and joint ventures		**(370)**		(417)		(334)	
Net finance charges		**594**		422		373	
Non-operating items		**(328)**		17		(14)	
Operating profit			**4,632**		4,409		3,731
Increase in inventories		**(675)**		(740)		(443)	
Decrease/(increase) in trade and other receivables		**121**		(378)		(446)	
(Decrease)/increase in trade and other payables and provisions		**(621)**		939		1,220	
Net (increase)/decrease in working capital			**(1,175)**		(179)		331
Depreciation, amortisation and impairment		**1,066**		828		447	
Dividends received		**219**		190		290	
Post employment payments less amounts included in operating profit		**(25)**		(89)		(30)	
Other items		**62**		53		88	
			1,322		982		795
Cash generated from operations			**4,779**		5,212		4,857
Interest received		**131**		110		89	
Interest paid		**(685)**		(438)		(440)	
Taxation paid		**(1,201)**		(949)		(852)	
			(1,755)		(1,277)		(1,203)
Net cash inflow from operating activities			**3,024**		3,935		3,654
Cash flows from investing activities							
Disposal of property, plant and equipment and computer software		**13**		17		13	
Purchase of property, plant and equipment and computer software		**(1,180)**		(1,097)		(626)	
Movements in loans and other investments		**(57)**		(72)		(4)	
Sale of businesses and brands	8	**462**		82		14	
Acquisition of subsidiaries[1]	8	**(342)**		(206)		(450)	
Investments in associates and joint ventures[1]	8	**(93)**		(65)		(38)	
Net cash outflow from investing activities			**(1,197)**		(1,341)		(1,091)
Cash flows from financing activities							
Share buyback programme	18	**(1,381)**		(2,284)		(109)	
Net sale of own shares for share schemes		**29**		18		49	
Purchase of treasury shares in respect of subsidiaries		**–**		(15)		–	
Dividends paid to non-controlling interests		**(97)**		(81)		(77)	
Proceeds from bonds	17	**2,229**		2,263		1,031	
Repayment of bonds	17	**(1,340)**		(1,521)		(1,247)	
Purchase of shares of non-controlling interests	8	**(146)**		–		(42)	
Cash inflow from other borrowings		**433**		503		34	
Cash outflow from other borrowings		**(374)**		(424)		(787)	
Equity dividends paid		**(1,761)**		(1,718)		(1,646)	
Net cash outflow from financing activities			**(2,408)**		(3,259)		(2,794)
Net decrease in net cash and cash equivalents	17		**(581)**		(665)		(231)
Exchange differences			**(227)**		239		(285)
Net cash and cash equivalents at beginning of the year			**2,211**		2,637		3,153
Net cash and cash equivalents at end of the year			**1,403**		2,211		2,637
Net cash and cash equivalents consist of:							
Cash and cash equivalents	17		**1,439**		2,285		2,749
Bank overdrafts	17		**(36)**		(74)		(112)
			1,403		2,211		2,637

(1) For the years ended 30 June 2022 and 30 June 2021, the previously reported line item of 'Acquisition of businesses' has been replaced with 'Acquisition of subsidiaries' and 'Investments in associates and joint ventures' to show separately the amounts which had previously been shown combined.

The accompanying notes are an integral part of these consolidated financial statements.

Accounting information and policies

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. IFRS as 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 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 TBA 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-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 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.

(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 has rights to specified assets and obligations for liabilities of that entity, the entity is included on 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 subsidiaries.

The income statements and cash flows of non-sterling entities are translated into sterling at weighted average rates of exchange, except for subsidiaries in hyperinflationary economies that are translated with the closing rate at the end of the year and for substantial transactions that are translated at the rate on the date of the transaction. Exchange differences arising on the retranslation to closing rates are taken to the exchange reserve.

Assets and liabilities are translated at closing rates. Exchange differences arising on the retranslation at closing rates of the opening balance sheets of overseas entities are taken to the exchange reserve, as are exchange differences arising on foreign currency borrowings and financial instruments designated as net investment hedges, to the extent that they are effective. Tax charges and credits arising on such items are also taken to the exchange reserve. Gains and losses accumulated in the exchange reserve are recycled to the income statement when the foreign operation is sold. Other exchange differences are taken to the income statement. Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction.

The principal foreign exchange rates used in the translation of financial statements for the three years ended 30 June 2023, expressed in US dollars and euros per £1, were as follows:

	2023	2022	2021
US dollar			
Income statement and cash flows[1]	**1.20**	1.33	1.35
Assets and liabilities[2]	**1.26**	1.21	1.39
Euro			
Income statement and cash flows[1]	**1.15**	1.18	1.13
Assets and liabilities[2]	**1.17**	1.16	1.17

(1) Weighted average rates
(2) Closing rates

The group uses foreign exchange hedges to mitigate the effect of exchange rate movements. For further information, see note 16.

(e) Critical accounting estimates and judgements

Details of critical estimates and judgements which the Directors consider could have a significant impact on the financial statements are set out in the related notes as follows:

- Exceptional items – management judgement whether exceptional or not – page 179
- Taxation – management judgement whether a provision is required and management estimate of amount of corporate tax payable or receivable, the recoverability of deferred tax assets and expectation on manner of recovery of deferred taxes – pages 183 and 216
- Brands, goodwill, other intangibles and contingent considerations – management judgement whether the assets and liabilities are to be recognised and synergies resulting from an acquisition. Management judgement and estimate are required in determining future cash flows and appropriate applicable assumptions to support the intangible asset and contingent consideration value – pages 184 and 206

- Post employment benefits – management judgement whether a surplus can be recovered and management estimate in determining the assumptions in calculating the liabilities of the funds – page 195
- Contingent liabilities and legal proceedings – management judgement in assessing the likelihood of whether a liability will arise and an estimate to quantify the possible range of any settlement; and significant unprovided tax matters where maximum exposure is provided for each – page 215

(f) Hyperinflationary accounting

The group applied hyperinflationary accounting for its operations in Turkey, Venezuela and Lebanon. Turkey has been a hyperinflationary economy where cumulative inflation for the three years ended 30 June 2022 exceeded 100%. Consequently, since March 2022, the group applies hyperinflationary accounting for its Turkish operations. The group's consolidated financial statements for the years ended 30 June 2023 and 30 June 2022 include the results and financial position of its Turkish operations restated to the measuring unit current at the end of each period, with hyperinflationary gains and losses in respect of monetary items being reported in finance income and charges. Comparative amounts presented in the consolidated financial statements were not restated. Hyperinflationary accounting needs to be applied as if Turkey has always been a hyperinflationary economy, hence, as per Diageo's accounting policy choice, the differences between equity at 30 June 2021 as reported and the equity after the restatement of the non-monetary items to the measuring unit current at 30 June 2021 were recognised in retained earnings. Such restatement includes impairment of TRL 2,133 million (£177 million) recognised on the goodwill in the Turkey cash-generating unit and TRL 1,627 million (£135 million) in respect of the Yenì Raki brand, as a result of the increased carrying values for those due to hyperinflation adjustments. When applying IAS 29 on an ongoing basis, comparatives in stable currency are not restated and the effect of inflating opening net assets to the measuring unit current at the end of the reporting period is presented in other comprehensive income. The inflation rate used by the group is the official rate published by the Turkish Statistical Institute. The movement in the publicly available official price index for the year ended 30 June 2023 was 38% (2022 – 79%).

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/£ 759). This rate reflects management's estimate of the exchange rate considering inflation and the most appropriate official exchange rate. Movement in the price index for the year ended 30 June 2023 was 382% (2022 - 268%). The inflation rate used by the group is provided by an independent valuer because no reliable, officially published rate is available for Venezuela.

The following table presents the contribution of the group's Venezuelan operations to consolidated net sales, operating profit, operating cash flow and assets for the years ended 30 June 2023 and 30 June 2022 and with the amounts that would have resulted if the official reference exchange rate had been applied:

	Year ended 30 June 2023		Year ended 30 June 2022	
	At estimated exchange rate	At official reference exchange rate	At estimated exchange rate	At official reference exchange rate
	3,807 VES/£	36 VES/£	759 VES/£	7 VES/£
	£ million	£ million	£ million	£ million
Net sales	–	9	–	15
Operating loss	–	–	(1)	(1)
Other finance (charges)/income - hyperinflation adjustment	(2)	(212)	1	157
Net cash outflow from operating activities	–	(3)	–	(5)
Net assets	6	657	41	4,606

Sterling amounts presented at the official reference exchange rate are results of simple mathematical conversion.

The impact of hyperinflationary accounting for Lebanon was immaterial both in the current and comparative periods.

(g) New accounting standards and interpretations

The following amendments to the accounting standards, issued by the IASB and endorsed by the UK, were adopted by the group from 1 July 2022 with no impact on the group's consolidated results, financial position or disclosures:

- Amendments to IFRS 3 Updating a Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use
- Amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract
- Amendments to Annual improvements 2018-2020 - IFRS 9 - Fees in the '10 per cent' Test, IFRS 16 - Lease incentives, IAS 41 - Taxation in Fair Value Measurements
- Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules

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) is ultimately intended to replace IFRS 4. Based on a preliminary assessment, the group believes that the adoption of IFRS 17 will not 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 gives rise to equal amounts 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 not have a significant impact on its consolidated results and 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.

(h) Climate change considerations

The impact of climate change assessment and the net zero carbon emission target for Diageo's direct operations (Scope 1 & 2) for 2030 have been considered as part of the assessment of estimates and judgements in preparing the group's consolidated financial statements.

The climate change scenario analyses performed in 2023 – conducted in line with TCFD recommendations ('Transition Scenario' (RCP 2.6), 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 (including forecast depreciation in line with capital expenditure plans for Diageo's net zero carbon emission commitment) in impairment assessments for the value-in-use of non-current assets including goodwill (see note 9).
- The impact of climate change on post-employment assets.

Results for the year

Introduction

This section explains the results and performance of the group for the three years ended 30 June 2023. Disclosures are provided for segmental information, operating costs, exceptional items, finance income and charges, the group's share of results of associates and joint ventures, taxation. For associates, joint ventures and taxation, balance sheet disclosures are also provided in this section.

2. Segmental information

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 value added tax. Sales are recognised as or 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. For the sale of goods, 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. Where the transfer of control is subsequent to the dispatch of goods, the time between dispatch and receipt by the customer is generally less than five days. The group includes in sales the net consideration to which it expects to be entitled. Sales are recognised to the extent that it is highly probable that a significant reversal will not occur. Therefore, sales are stated net of expected price discounts, allowances for customer loyalty and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing.

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.

Advertising costs, point of sale materials and sponsorship payments are charged to marketing in operating profit when the company has a right of access to the goods or services acquired.

Diageo is an international manufacturer and distributor of premium drinks. Diageo also owns a number of investments in associates and joint ventures, as set out in note 6.

The segmental information presented is consistent with management reporting provided to the Executive Committee (the chief operating decision-maker).

The Executive Committee considers the business principally from a geographical perspective based on the location of third-party sales and the business analysis is presented by geographical segment. In addition to these geographical selling segments, a further segment reviewed by the Executive Committee is the Supply Chain and Procurement (SC&P) segment, which manufactures products for other group companies and includes the production sites in the United Kingdom, Ireland, Italy, Guatemala and Mexico, as well as comprises the global procurement function.

The group's operations also include the Corporate segment. Corporate costs are in respect of central costs, including finance, marketing, corporate relations, human resources and legal, as well as certain information systems, facilities and employee costs that are not allocable to the geographical segments or to the SC&P.

Diageo uses shared services operations to deliver transaction processing activities for markets and operational entities. These centres are located in India, Hungary, Colombia and the Philippines. These captive business service centres also perform certain central finance activities, including elements of financial planning and reporting, treasury and HR services. The costs of shared services operations are recharged to the regions.

For planning and management reporting purposes, Diageo uses budgeted exchange rates 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 with management reporting. The adjustments required to retranslate the segmental information to actual exchange rates and to reconcile it to the group's reported results are shown in the tables below. The comparative segmental information, prior to retranslation, 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 from the results of the geographical segments. 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.

(a) Segmental information for the consolidated income statement

2023	North America £ million	Europe £ million	Asia Pacific £ million	Latin America and Caribbean £ million	Africa £ million	SC&P £ million	Eliminate inter-segment sales £ million	Total operating segments £ million	Corporate and other £ million	Total £ million
Sales	**7,382**	**5,996**	**5,403**	**2,260**	**2,386**	**3,073**	**(3,073)**	**23,427**	**88**	**23,515**
Net sales										
At budgeted exchange rates[1]	**6,052**	**3,377**	**3,084**	**1,642**	**1,631**	**2,942**	**(2,876)**	**15,852**	**87**	**15,939**
Acquisitions and disposals	**20**	**20**	**35**	**3**	**104**	**–**	**–**	**182**	**–**	**182**
SC&P allocation	**8**	**38**	**8**	**9**	**3**	**(66)**	**–**	**–**	**–**	**–**
Retranslation to actual exchange rates	**678**	**(41)**	**73**	**145**	**(39)**	**197**	**(197)**	**816**	**1**	**817**
Hyperinflation	**–**	**175**	**–**	**–**	**–**	**–**	**–**	**175**	**–**	**175**
Net sales	**6,758**	**3,569**	**3,200**	**1,799**	**1,699**	**3,073**	**(3,073)**	**17,025**	**88**	**17,113**
Operating profit/(loss)										
At budgeted exchange rates[1]	**2,337**	**1,076**	**886**	**597**	**347**	**(32)**	**–**	**5,211**	**(292)**	**4,919**
Acquisitions and disposals	**(18)**	**(13)**	**5**	**–**	**27**	**–**	**–**	**1**	**(6)**	**(5)**
SC&P allocation	**3**	**(24)**	**(6)**	**(3)**	**(2)**	**32**	**–**	**–**	**–**	**–**
Fair value remeasurements	**87**	**25**	**–**	**1**	**–**	**–**	**–**	**113**	**–**	**113**
Retranslation to actual exchange rates	**280**	**18**	**20**	**66**	**(152)**	**–**	**–**	**232**	**(28)**	**204**
Hyperinflation	**–**	**23**	**–**	**–**	**–**	**–**	**–**	**23**	**–**	**23**
Operating profit/(loss) before exceptional items	**2,689**	**1,105**	**905**	**661**	**220**	**–**	**–**	**5,580**	**(326)**	**5,254**
Exceptional operating items	**(97)**	**(8)**	**(473)**	**–**	**(44)**	**–**	**–**	**(622)**	**–**	**(622)**
Operating profit/(loss)	**2,592**	**1,097**	**432**	**661**	**176**	**–**	**–**	**4,958**	**(326)**	**4,632**
Non-operating items										**328**
Net finance charges										**(594)**
Share of after tax results of associates and joint ventures										**370**
Profit before taxation										**4,736**

2022	North America £ million	Europe £ million	Asia Pacific £ million	Latin America and Caribbean £ million	Africa £ million	SC&P £ million	Eliminate inter-segment sales £ million	Total operating segments £ million	Corporate and other £ million	Total £ million
Sales	6,682	5,740	5,624	1,945	2,403	2,010	(2,010)	22,394	54	22,448
Net sales										
At budgeted exchange rates[1]	5,955	3,258	2,879	1,486	1,699	2,095	(2,016)	15,356	55	15,411
Acquisitions and disposals	34	23	–	3	15	–	–	75	–	75
SC&P allocation	9	46	9	12	3	(79)	–	–	–	–
Retranslation to actual exchange rates	97	(304)	(4)	24	(35)	(6)	6	(222)	(1)	(223)
Hyperinflation	–	189	–	–	–	–	–	189	–	189
Net sales	6,095	3,212	2,884	1,525	1,682	2,010	(2,010)	15,398	54	15,452
Operating profit/(loss)										
At budgeted exchange rates[1]	2,388	1,086	703	528	346	(22)	–	5,029	(256)	4,773
Acquisitions and disposals	(28)	11	–	–	(10)	–	–	(27)	–	(27)
SC&P allocation	(1)	(18)	(2)	–	(1)	22	–	–	–	–
Fair value remeasurements	32	36	–	(8)	–	–	–	60	–	60
Retranslation to actual exchange rates	63	(108)	10	18	(20)	–	–	(37)	18	(19)
Hyperinflation	–	10	–	–	–	–	–	10	–	10
Operating profit/(loss) before exceptional items	2,454	1,017	711	538	315	–	–	5,035	(238)	4,797
Exceptional operating items	(1)	(146)	(241)	–	–	–	–	(388)	–	(388)
Operating profit/(loss)	2,453	871	470	538	315	–	–	4,647	(238)	4,409
Non-operating items										(17)
Net finance charges										(422)
Share of after tax results of associates and joint ventures										417
Profit before taxation										4,387

2021	North America £ million	Europe £ million	Asia Pacific £ million	Latin America and Caribbean £ million	Africa £ million	SC&P £ million	Eliminate inter-segment sales £ million	Total operating segments £ million	Corporate and other £ million	Total £ million
Sales	5,803	4,795	5,146	1,369	2,020	1,537	(1,537)	19,133	20	19,153
Net sales										
At budgeted exchange rates[1]	5,527	2,579	2,561	1,176	1,541	1,627	(1,548)	13,463	20	13,483
Acquisitions and disposals	28	2	–	–	5	–	–	35	–	35
SC&P allocation	9	45	9	13	3	(79)	–	–	–	–
Retranslation to actual exchange rates	(355)	(68)	(82)	(143)	(137)	(11)	11	(785)	–	(785)
Net sales	5,209	2,558	2,488	1,046	1,412	1,537	(1,537)	12,713	20	12,733
Operating profit/(loss)										
At budgeted exchange rates[1]	2,469	728	628	422	228	(97)	–	4,378	(218)	4,160
Acquisitions and disposals	(18)	(3)	–	–	–	–	–	(21)	–	(21)
SC&P allocation	(30)	(32)	(5)	(27)	(3)	97	–	–	–	–
Fair value remeasurement of contingent consideration	(9)	(27)	–	–	–	–	–	(36)	–	(36)
Retranslation to actual exchange rates	(175)	(31)	(15)	(92)	(54)	–	–	(367)	10	(357)
Operating profit/(loss) before exceptional items	2,237	635	608	303	171	–	–	3,954	(208)	3,746
Exceptional operating items	–	(15)	–	–	–	–	–	(15)	–	(15)
Operating profit/(loss)	2,237	620	608	303	171	–	–	3,939	(208)	3,731
Non-operating items										14
Net finance charges										(373)
Share of after tax results of associates and joint ventures										334
Profit before taxation										3,706

(1) These items represent the IFRS 8 performance measures for the geographical and SC&P segments.
(i) The net sales figures for 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.
(ii) The group's net finance charges are managed centrally and are not attributable to individual operating segments.
(iii) Approximately 38% of annual net sales occurred in the last four months of calendar year 2022.

(b) Other segmental information

	North America £ million	Europe £ million	Asia Pacific £ million	Latin America and Caribbean £ million	Africa £ million	SC&P £ million	Corporate and other £ million	Total £ million
2023								
Purchase of property, plant and equipment and computer software	**197**	**209**	**166**	**121**	**126**	**356**	**5**	**1,180**
Depreciation and intangible asset amortisation	**(95)**	**(98)**	**(61)**	**(18)**	**(80)**	**(134)**	**(10)**	**(496)**
Exceptional impairment of tangible assets	**(52)**	**2**	**(22)**	**–**	**–**	**–**	**–**	**(72)**
Exceptional impairment of intangible assets	**(29)**	**(25)**	**(444)**	**–**	**–**	**–**	**–**	**(498)**
2022								
Purchase of property, plant and equipment and computer software	230	187	146	128	139	256	11	1,097
Depreciation and intangible asset amortisation	(80)	(93)	(93)	(16)	(81)	(116)	(10)	(489)
Exceptional impairment of tangible assets	–	(3)	–	–	–	–	–	(3)
Exceptional impairment of intangible assets	–	(96)	(240)	–	–	–	–	(336)
2021								
Purchase of property, plant and equipment and computer software	153	23	56	20	125	125	124	626
Depreciation and intangible asset amortisation	(76)	(31)	(60)	(16)	(79)	(126)	(59)	(447)

(c) Category and geographical analysis

	Category analysis					Geographic analysis				
	Spirits £ million	Beer £ million	Ready to drink £ million	Other £ million	Total £ million	United States £ million	India £ million	Great Britain £ million	Rest of World £ million	Total £ million
2023										
Sales[(1)]	**19,004**	**3,355**	**899**	**257**	**23,515**	**6,972**	**2,751**	**2,138**	**11,654**	**23,515**
Non-current assets[(2), (3)]						**5,816**	**1,798**	**2,909**	**11,204**	**21,727**
2022										
Sales[(1)]	18,164	3,128	882	274	22,448	6,327	3,219	2,142	10,760	22,448
Non-current assets[(2), (3)]						5,899	2,396	2,413	10,861	21,569
2021										
Sales[(1)]	15,634	2,562	741	216	19,153	5,441	3,011	1,822	8,879	19,153
Non-current assets[(2), (3)]						4,320	2,561	2,119	10,063	19,063

(1) The geographical analysis of sales is based on the location of third-party customers.
(2) The geographical analysis of non-current assets is based on the geographical location of the assets and comprises intangible assets, property, plant and equipment, biological assets, investments in associates and joint ventures, other investments and non-current other receivables.
(3) The management information provided to the chief operating decision-maker does not include an analysis of assets and liabilities by category and therefore is not disclosed.

3. Operating costs

	2023 £ million	2022 £ million	2021 £ million
Excise duties	**6,402**	6,996	6,420
Cost of sales	**6,899**	5,973	5,038
Marketing	**3,051**	2,721	2,163
Other operating items	**2,531**	2,349	1,801
	18,883	18,039	15,422
Comprising:			
Excise duties			
India	**1,625**	2,182	2,127
Great Britain	**1,095**	1,172	1,018
United States	**687**	614	589
Other	**2,995**	3,028	2,686
Increase in inventories	**(513)**	(909)	(293)
Raw materials and consumables	**4,328**	4,017	3,126
Marketing	**3,051**	2,721	2,163
Other external charges	**2,747**	2,597	1,978
Staff costs	**1,830**	1,795	1,586
Depreciation, amortisation and impairment	**1,066**	828	447
Gains on disposal of properties	**(4)**	(2)	(1)
Net foreign exchange losses	**10**	10	22
Other operating income	**(34)**	(14)	(26)
	18,883	18,039	15,422

(a) Other external charges

Other external charges include research and development expenditure in respect of new drinks products and package design of £53 million (2022 - £43 million; 2021 - £40 million) and maintenance and repairs of £143 million (2022 - £136 million; 2021 - £107 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.

	2023 £ million	2022 £ million	2021 £ million
Audit of these financial statements	**5.2**	4.2	3.8
Audit of financial statements of subsidiaries	**5.7**	6.1	4.4
Audit related assurance services[(1)]	**2.7**	2.5	2.6
Total audit fees (Audit fees)	**13.6**	12.8	10.8
Other assurance services (Audit related fees)[(2)]	**1.2**	0.7	0.8
	14.8	13.5	11.6

(1) Audit related assurance services are in respect of reporting under section 404 of the US Sarbanes-Oxley Act and the review of the interim financial information.
(2) Other assurance services comprise the aggregate fees for assurance and related services that are not reported under 'total audit fees'.
(i) Disclosure requirements for auditors fees in the United States are different from those required in the United Kingdom. The terminology by category required in the United States is disclosed in brackets in the above table.

Audit services provided by firms other than PwC for the year ended 30 June 2023 were £0.1 million (2022 - £0.1 million; 2021 - £0.1 million). Further PwC fees for audit services in respect of post employment plans were £0.3 million for the year ended 30 June 2023 (2022 - £0.2 million; 2021 - £0.2 million).

(c) Staff costs and average number of employees

	2023 £ million	2022 £ million	2021 £ million
Aggregate remuneration			
Wages and salaries	1,548	1,557	1,336
Share-based incentive plans	48	59	50
Employer's social security	115	107	83
Employer's pension			
Defined benefit plans	67	36	82
Defined contribution plans	44	33	25
Other post employment plans	8	3	10
	1,830	1,795	1,586

The average number of employees on a full-time equivalent basis (excluding employees of associates and joint ventures) was as follows:

	2023	2022	2021
North America	**2,884**	2,811	2,562
Europe	**2,789**	3,014	3,237
Asia Pacific	**6,856**	6,500	6,474
Latin America and Caribbean	**1,495**	1,500	1,505
Africa	**3,526**	4,061	4,016
SC&P	**6,934**	5,025	5,085
Corporate and other	**5,753**	5,076	4,687
	30,237	27,987	27,566

At 30 June 2023, on a full-time equivalent basis, the group had 30,269 (2022 - 28,558; 2021 - 27,783) employees. The average number of employees of the group, including part-time employees, for the year was 30,419 (2022 - 28,137; 2021 - 28,025).

(d) Exceptional operating items

Included in the table above are exceptional operating items as follows:

	2023 £ million	2022 £ million	2021 £ million
Depreciation, amortisation and impairment			
Brand and goodwill impairment	**498**	336	–
Tangible asset impairment and accelerated depreciation	**72**	–	–
Staff costs	**10**	–	5
Other external charges	**60**	52	13
Other operating income	**(18)**	–	(3)
Total exceptional operating items (note 4)	**622**	388	15
Cost of sales	**67**	–	–
Other operating expenses	**555**	388	15

4. Exceptional items

Accounting policies

Critical accounting judgements

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. Management believes that separate disclosure of exceptional items and the classification between operating and non-operating 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.

Operating items

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.

Non-operating items

Gains and losses on the sale or directly attributable 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.

Taxation items

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.

	2023 £ million	2022 £ million	2021 £ million
Exceptional operating items			
Brand and goodwill impairment (1)	**(498)**	(336)	–
Supply chain agility programme (2)	**(100)**	–	–
Distribution termination fee (3)	**(44)**	–	–
Winding down Russian operations (4)	**20**	(50)	–
Other exceptional operating items (5)	**–**	(2)	(15)
	(622)	(388)	(15)
Non-operating items			
Sale of businesses and brands			
Guinness Cameroun S.A. (6)	**310**	–	–
Archers brand (7)	**20**	–	–
USL Popular brands (8)	**4**	–	–
USL businesses (9)	**1**	–	3
Tyku brand (10)	**(3)**	–	–
Picon brand (11)	**–**	91	–
Meta Abo Brewery (12)	**–**	(95)	–
Windsor business (13)	**–**	(19)	–
Step acquisition - Mr Black (14)	**(8)**	–	–
Other non-operating exceptional items (15)	**4**	6	11
	328	(17)	14
Exceptional items before taxation	**(294)**	(405)	(1)
Tax on exceptional items (note 7 (b))	**186**	31	(84)
Total exceptional items	**(108)**	(374)	(85)
Attributable to:			
Equity shareholders of the parent company	**33**	(271)	(86)
Non-controlling interests	**(141)**	(103)	1
Total exceptional items	**(108)**	(374)	(85)

(1) In the year ended 30 June 2023, an impairment charge of £498 million was recognised in exceptional operating items mainly driven by the McDowell's brand in India.
In the year ended 30 June 2022, an impairment charge of £336 million was recognised in exceptional operating items in respect of the McDowell's brand (£240 million), the Bell's brand (£77 million) and goodwill related to Smirnov (£19 million).
For further information, see note 9 (d).

(2) In the year ended 30 June 2023, an exceptional charge of £100 million was accounted for in respect of the supply chain agility programme announced in July 2022. With this five-year spanning programme, Diageo expects to strengthen its supply chain, improve its resilience and agility, drive efficiencies, deliver additional productivity savings and make its supply operations more sustainable. Total implementation cost of the programme is expected to be up to £500 million over the five-year period, which will comprise non-cash items and one-off expenses, the majority of which are expected to be recognised as exceptional operating items. The exceptional charge for the year ended 30 June 2023 was primarily in respect of accelerated depreciation, being additional depreciation of assets in the period directly attributable to the programme, and impairment of property, plant and equipment in respect of North America and India. Restructuring cash expenditure was £12 million in the year ended 30 June 2023.

(3) In the year ended 30 June 2023, Diageo agreed with one of its distributors in Africa to terminate the distribution license of one of its spirits brands, in respect of which a provision of £44 million was provided for and was recognised as an operating exceptional charge. No payment was made in the period.

(4) In the year ended 30 June 2023, Diageo released unutilised 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.

(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 'Raising 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 Cameroun S.A., to the Castel Group for an aggregate consideration of £384 million resulting in an exceptional gain of £310 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.

(11) In May 2022, Diageo sold its Picon brand. The sale resulted in an exceptional non-operating gain of £91 million, net of disposal costs.

(12) In the year ended 30 June 2022, a loss of £95 million was recognised as a non-operating item attributable to the sale of Meta Abo 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 part 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 associate 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 net gain of £4 million (2022 – £6 million; 2021 – £11 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).

Cash payments and receipts included in net cash inflow from operating activities in respect of exceptional items were as follows:

	2023 £ million	2022 £ million	2021 £ million
Thalidomide (note 15 (d) (i))	**(14)**	(16)	(15)
Winding down Russian operations	**(13)**	(13)	–
Supply chain agility programme	**(12)**	–	–
Donations	**–**	(37)	(50)
Indirect tax in Korea	**–**	–	(10)
Ongoing litigation in Turkey	**–**	–	(1)
Substitution drawback	**–**	–	60
Total cash payments	**(39)**	(66)	(16)

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.

	2023 £ million	2022 £ million	2021 £ million
Interest income	**160**	127	119
Fair value gain on financial instruments	**103**	341	124
Total interest income[1]	**263**	468	243
Interest charge on bank loans, bonds and overdrafts	**(470)**	(371)	(365)
Interest charge on leases	**(15)**	(12)	(16)
Interest charge on other borrowings	**(271)**	(92)	(84)
Fair value loss on financial instruments	**(102)**	(346)	(126)
Total interest charges[1]	**(858)**	(821)	(591)
Net interest charges	**(595)**	(353)	(348)
Net finance income in respect of post employment plans in surplus (note 14)	**59**	22	18
Hyperinflation adjustment in respect of Turkey (note 1 (f))	**10**	–	–
Hyperinflation adjustment in respect of Venezuela (note 1 (f))	**–**	1	2
Interest income in respect of direct and indirect tax	**8**	2	15
Unwinding of discounts	**–**	4	–
Total other finance income	**77**	29	35
Net finance charge in respect of post employment plans in deficit (note 14)	**(15)**	(12)	(13)
Hyperinflation adjustment in respect of Turkey (note 1 (f))	**–**	(34)	–
Hyperinflation adjustment in respect of Venezuela (note 1 (f))	**(2)**	–	–
Hyperinflation adjustment and foreign exchange revaluation of monetary items in respect of Lebanon (note 1 (f))	**–**	(3)	(8)
Unwinding of discounts	**(13)**	(11)	(20)
Interest charge in respect of direct and indirect tax	**(25)**	(16)	(11)
Change in financial liability (Level 3)	**(8)**	(20)	(7)
Guarantee fees	**(1)**	(1)	(1)
Other finance charges	**(12)**	(1)	–
Total other finance charges	**(76)**	(98)	(60)
Net other finance income/(charges)	**1**	(69)	(25)

(1) Includes £81 million interest income and £(522) million interest charge in respect of financial assets and liabilities that are not measured at fair value through income statement (2022 – £27 million income and £(417) million charge; 2021 – £28 million income and £(429) million charge).

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:

	Moët Hennessy £ million	Others £ million	Total £ million
Cost less provisions			
At 30 June 2021	3,128	180	3,308
Exchange differences	48	12	60
Additions	–	65	65
Share of profit/(loss) after tax	425	(8)	417
Dividends	(186)	(4)	(190)
Share of movements in other comprehensive income and equity	(6)	–	(6)
Impairment charged during the year	–	(2)	(2)
At 30 June 2022	**3,409**	**243**	**3,652**
Exchange differences	**(51)**	**(8)**	**(59)**
Additions	**–**	**93**	**93**
Share of profit/(loss) after tax	**379**	**(9)**	**370**
Step acquisition	**–**	**(17)**	**(17)**
Dividends	**(214)**	**(5)**	**(219)**
Share of movements in other comprehensive income and equity	**36**	**–**	**36**
Transfer	**–**	**1**	**1**
Impairment charged during the year	**–**	**(28)**	**(28)**
At 30 June 2023	**3,559**	**270**	**3,829**

(i) Investment in associates includes loans given to and preference shares invested in associates of £168 million (2022 – £163 million).
(ii) If certain performance targets are met by associates in the Distill Ventures programme, an additional £27 million (2022 – £22 million) will be invested in those associates.

(b) Moët Hennessy prepares its financial statements under IFRS as endorsed by the EU in euros to 31 December each year. The results were adjusted for alignment with Diageo accounting policies and were translated at £1 = €1.15 (2022 – £1 = €1.18; 2021 – £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:

	2023 £ million	2022 £ million	2021 £ million
Sales	**6,003**	5,553	4,819
Profit for the year	**1,117**	1,250	985
Total comprehensive income	**1,161**	1,269	999

	2023 £ million	2022 £ million
Non-current assets	**6,774**	5,957
Current assets	**9,155**	8,447
Total assets	**15,929**	14,404
Non-current liabilities	**(2,108)**	(1,791)
Current liabilities	**(3,160)**	(2,415)
Total liabilities	**(5,268)**	(4,206)
Net assets	**10,661**	10,198

(i) Including acquisition fair value adjustments principally in respect of Moët Hennessy's brands and translated at £1 = €1.17 (2022 – £1 = €1.16).

(c) Information on transactions between the group and its associates and joint ventures is disclosed in note 21.

(d) 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).

(e) The associates and joint ventures have not reported any material contingent liabilities in their latest financial statements.

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 value for tax purposes, 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 taxation enacted or substantively enacted by the balance sheet date. Deferred tax assets are not recognised where it is more likely than not that the assets 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			Rest of world			Total		
	2023 £ million	2022 £ million	2021 £ million	2023 £ million	2022 £ million	2021 £ million	2023 £ million	2022 £ million	2021 £ million
Current tax									
Current year	**160**	174	100	**879**	867	684	**1,039**	1,041	784
Adjustments in respect of prior years	**33**	10	1	**(39)**	16	28	**(6)**	26	29
	193	184	101	**840**	883	712	**1,033**	1,067	813
Deferred tax									
Origination and reversal of temporary differences	**25**	–	13	**(70)**	21	18	**(45)**	21	31
Changes in tax rates	**–**	2	46	**11**	1	32	**11**	3	78
Adjustments in respect of prior years	**6**	–	8	**(35)**	(42)	(23)	**(29)**	(42)	(15)
	31	2	67	**(94)**	(20)	27	**(63)**	(18)	94
Taxation on profit	**224**	186	168	**746**	863	739	**970**	1,049	907

(b) Exceptional tax (credits)/charges

The taxation charge includes the following exceptional items:

	2023 £ million	2022 £ million	2021 £ million
Brand impairment[1]	(124)	(55)	–
US guarantee fee claim[2]	(57)	–	–
Supply chain agility programme	(23)	–	–
Distribution termination fee	(11)	–	–
Disposal of businesses and brands[3]	29	23	–
Winding down Russian operations	–	3	–
Tax rate change in the United Kingdom[4]	–	–	46
Tax rate change in the Netherlands[5]	–	–	42
Other items	–	(2)	(4)
	(186)	(31)	84

(1) In the year ended 30 June 2023, an exceptional tax credit of £124 million was recognised mainly in respect of the impairment of the McDowell's brand. In the year ended 30 June 2022, the exceptional tax credit of £55 million consists of tax impact on the impairment of the McDowell's and Bell's brands for £35 million and £20 million, respectively.
(2) In the year ended 30 June 2023, an exceptional tax credit of £57 million was recognised in respect of the deductibility of fees paid to Diageo plc for guaranteeing externally issued debt of US group entities. Following engagement with the tax authorities, guarantee fees for the periods ended 30 June 2012 to 30 June 2022 are fully deductible.
(3) In the year ended 30 June 2023, the exceptional net tax charge of £29 million mainly comprised of a tax charge of £42 million in respect of the sale of Guinness Cameroun S.A., partly offset by a tax credit of £10 million in respect of the sale of certain USL businesses. In the year ended 30 June 2022, a £23 million exceptional tax charge was recognised in respect of the gain on the sale of the Picon brand.
(4) On 24 May 2021, legislation was substantively enacted in the UK to increase the corporate tax rate to 25% with effect from 1 April 2023. As a result of the change, an exceptional tax charge of £46 million was recognised for the year ended 30 June 2021 in relation to the remeasurement of deferred tax assets and liabilities. In addition, there was a one-off charge of £48 million to other comprehensive income and equity, mainly in respect of the remeasurement of the deferred tax liabilities on the post employment assets.
(5) On 15 December 2020, legislation was substantively enacted in the Netherlands to maintain the headline corporate tax rate at 25%, reversing a previously enacted reduction in the corporate tax rate to 21.7% from 2021. As a result of the change, an exceptional tax charge of £42 million was recognised for the year ended 30 June 2021 in relation to the remeasurement of deferred tax liabilities. 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

	2023 £ million	2023 %	2022 £ million	2022 %	2021 £ million	2021 %
Profit before taxation	4,736		4,387		3,706	
Notional charge at UK corporation tax rate	971	20.5	833	19.0	704	19.0
Elimination of notional tax on share of after tax results of associates and joint ventures	(76)	(1.6)	(79)	(1.8)	(63)	(1.7)
Differences in overseas tax rates	95	2.0	161	3.7	128	3.5
Disposal of businesses and brands	(42)	(0.9)	21	0.5	(2)	(0.1)
Other items not chargeable	(63)	(1.3)	(49)	(1.1)	(52)	(1.4)
Impairment	(2)	–	36	0.8	–	–
Other items not deductible	71	1.5	58	1.3	67	1.8
Irrecoverable withholding taxes	38	0.8	39	0.9	25	0.7
Movement in provision in respect of uncertain tax positions[1]	27	0.6	42	0.9	1	–
Changes in tax rates[2]	11	0.2	3	0.1	78	2.1
Adjustments in respect of prior years[3]	(60)	(1.3)	(16)	(0.4)	21	0.6
Taxation on profit	970	20.5	1,049	23.9	907	24.5
Tax rate before exceptional items	–	23.0	–	22.5	–	22.2

(1) Movement in provision in respect of uncertain tax positions includes both current and prior year uncertain tax position movements.
(2) Changes in tax rates for the year ended 30 June 2021 are mainly due to the tax rate change in the Netherlands and the United Kingdom.
(3) Excludes prior year movement in provisions. Also included an 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.

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 actual 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 tax authorities.

Significant ongoing changes 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 – £149 million) and tax liability of £135 million (30 June 2022 – £252 million) include £173 million (30 June 2022 – £156 million) of provisions for tax uncertainties.

The cash tax paid in the year ended 30 June 2023 amounts to £1,201 million (30 June 2022 – £949 million) and is £231 million higher than the current tax charge (30 June 2022 – £100 million lower). 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 20 June 2023 and will apply to Diageo from the financial year ending 30 June 2025 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:

	Property, plant and equipment £ million	Intangible assets £ million	Post employment plans £ million	Tax losses £ million	Other temporary differences[1] £ million	Total £ million
At 30 June 2021	(381)	(1,636)	(129)	57	244	(1,845)
Exchange differences	(21)	(155)	3	3	17	(153)
Recognised in income statement	(42)	(3)	(10)	2	74	21
Reclassification	2	40	–	–	(7)	35
Recognised in other comprehensive loss and equity	(20)	(104)	(103)	–	20	(207)
Tax rate change – recognised in income statement	(1)	(3)	–	1	–	(3)
Tax rate change – recognised in other comprehensive loss and equity	–	–	(22)	–	2	(20)
Acquisition of subsidiaries	–	(31)	–	–	–	(31)
Sale of businesses	(5)	–	–	–	3	(2)
At 30 June 2022	(468)	(1,892)	(261)	63	353	(2,205)
Exchange differences	33	113	(3)	1	(10)	134
Recognised in income statement	(30)	93	2	(15)	24	74
Recognised in other comprehensive income and equity	(6)	(30)	152	–	(50)	66
Tax rate change – recognised in income statement	(1)	(12)	(1)	–	3	(11)
Acquisition of subsidiaries	–	(71)	–	–	–	(71)
Transfer from asset held for sale	(2)	(37)	–	–	5	(34)
Sale of businesses	10	–	(1)	–	(4)	5
At 30 June 2023	(464)	(1,836)	(112)	49	321	(2,042)

(1) Deferred tax on other temporary differences includes hyperinflation, fair value movement on cross-currency swaps, interest and finance costs, share-based payments and intra-group sales of products.

After offsetting deferred tax assets and liabilities that relate to taxes levied by the same taxation authority on the same taxable fiscal unit, the net deferred tax liability comprises:

	2023 £ million	2022 £ million
Deferred tax assets	141	114
Deferred tax liabilities	(2,183)	(2,319)
	(2,042)	(2,205)

Deferred tax assets of £141 million include £65 million (2022 – £47 million) arising in jurisdictions with prior year taxable losses, primarily in Germany and Brazil. It is considered more likely than not that there will be sufficient future taxable profits to realise these deferred tax assets, which for the most part arose on losses from a historic one-off transaction, and on existing provisions. The majority of deferred tax assets can be carried forward indefinitely. From the total recognised tax losses of £49 million, it is expected that £10 million will be utilised in the year ending 30 June 2024.

(e) Unrecognised deferred tax assets

The following table shows the tax value of tax losses which has not been recognised due to uncertainty over their utilisation in future periods. The gross value of those losses is £632 million (2022 – £674 million).

	2023 £ million	2022 £ million
Capital losses – indefinite	98	98
Trading losses – indefinite	24	25
Trading and capital losses – expiry dates up to 2032	39	46
	161	169

Additionally, no deferred tax asset has been recognised in respect of certain temporary differences arising from brand valuations, as the group is not planning to sell those brands thus the benefit from the temporary differences is unlikely to be realised.

(f) Unrecognised deferred tax liabilities

Relevant legislation largely exempts overseas dividends remitted from tax. A tax liability is more likely to arise in respect of withholding taxes levied by the overseas jurisdiction. Deferred tax is provided where there is an intention to distribute earnings, and a tax liability arises. It is impractical to estimate the amount of unrecognised deferred tax liabilities in respect of these unremitted earnings.

The aggregate amount of temporary differences in respect of investments in subsidiaries, branches, interests in associates and joint ventures for which deferred tax liabilities have not been recognised is approximately £19.8 billion (2022 – £21.0 billion).

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-combination 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 dependent 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.

(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:

	Net assets acquired and consideration				
	Don Papa £ million	Other £ million	2023 £ million	2022 £ million	2021 £ million
Brands and other intangibles	293	45	338	120	334
Property, plant and equipment	1	24	25	–	15
Inventories	6	21	27	6	12
Other working capital	(2)	(1)	(3)	3	(3)
Deferred tax	(67)	(4)	(71)	(31)	(15)
Borrowings	–	–	–	–	(8)
(Overdraft)/Cash	(1)	1	–	1	4
Fair value of assets and liabilities	230	86	316	99	339
Goodwill arising on acquisition	64	28	92	70	274
Settlement of pre-existing relationship	–	–	–	(1)	–
Step acquisitions	–	(11)	(11)	(6)	–
Consideration payable	294	103	397	162	613
Satisfied by:					
Cash consideration paid	(218)	(98)	(316)	(88)	(358)
Contingent consideration payable	(72)	(4)	(76)	(70)	(253)
Deferred consideration payable	(4)	(1)	(5)	(4)	(2)
	(294)	(103)	(397)	(162)	(613)

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:

	Consideration		
	2023 £ million	2022 £ million	2021 £ million
Acquisitions in the year - subsidiaries			
Cash consideration paid	(316)	(88)	(358)
Cash acquired	–	1	4
Prior year acquisitions - subsidiaries			
Contingent consideration paid for Casamigos	–	(83)	(89)
Other consideration	(26)	(36)	(7)
Investments in associates			
Cash consideration paid	(14)	(4)	–
Capital injection	(79)	(61)	(38)
Net cash outflow on acquisition of businesses	(435)	(271)	(488)
Purchase of shares of non-controlling interests	(146)	–	(42)
Total net cash outflow	(581)	(271)	(530)

Acquisitions in the year

On 10 March 2023, Diageo completed the acquisition of Kanlaon Limited and Chat Noir Co. Inc., (the owner of Don Papa Rum) to support Diageo's participation in the super-premium dark rum segment for upfront cash consideration of €246 million (£218 million), deferred consideration of €4 million (£4 million) and contingent consideration of up to €178 million (£158 million) through to 2028 subject to certain financial performance targets, reflecting the brand's expected growth potential. The fair value of the contingent consideration of €82 million (£72 million) was estimated by calculating the present value of the future expected cash flows which is dependent on management's estimates in respect of the forecasting of future cash flows and the discount rates applicable to the future cash flows. The goodwill arising on the acquisition of Don Papa Rum represents expected revenue synergies and the acquired workforce. Don Papa Rum contributed £10 million to net sales and £15 million operating loss to the period, out of which £15 million is related to acquisition transaction and integration costs in the year ended 30 June 2023. The fair value measurement of assets and liabilities acquired is in progress. The fair values of assets and liabilities acquired are provisional and will be finalised in the year ending 30 June 2024.

Diageo completed further acquisitions in the year ended 30 June 2023: (i) on 29 September 2022, the acquisition of the remaining 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; 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 whiskey in the United States. The aggregate up-front cash consideration paid on completion of these transactions in the year ended 30 June 2023 was £98 million.

Prior year acquisitions

On 31 March 2022, Diageo acquired 100% equity interest in 21Seeds, to support Diageo's participation in the super premium flavoured tequila segment, for a total consideration of £62 million upfront in cash and a contingent consideration of up to £61 million linked to performance targets.

Diageo completed further acquisitions in the year ended 30 June 2022, including (i) on 27 January 2022, the acquisition of Casa UM, to expand Reserve portfolio with premium artisanal mezcal brand, Mezcal Unión and (ii) on 29 June 2022, the acquisition of Vivanda, owner of the technology behind 'What's your Whisky' platform and the Journey of Flavour experience at Johnnie Walker Princes Street, to support Diageo's ambition to provide customised brand experiences across all channels. The aggregate upfront cash consideration paid on completion of these transactions in the year ended 30 June 2022 was £26 million. In addition, these transactions included provision for further contingent consideration of up to £18 million in aggregate, linked to performance targets and a further deferred consideration of £4 million.

On 30 September 2020, Diageo completed the acquisition of Aviation Gin LLC (Aviation Gin) and Davos Brands LLC (Davos Brands) to support Diageo's participation in the super-premium gin segment for a total consideration of $337 million (£263 million) upfront in cash and contingent consideration of up to $275 million (£214 million) linked to performance targets.

Diageo also completed a number of additional acquisitions in the year ended 30 June 2021, comprising: (i) in February 2021, the acquisition of Chase Distillery Limited, to further support Diageo's participation in the premium-plus gin segment in the United Kingdom; (ii) in March 2021, the acquisition of Far West Spirits LLC, owner of the Lone River Ranch Water brand, to improve Diageo's participation in the ready to drink category in the United States; and (iii) in April 2021, the acquisition of Sons of Liberty Spirits Company, to expand Diageo's spirits-based ready to drink portfolio with Loyal 9 Cocktails. The aggregate upfront cash consideration paid on completion of these three transactions in the year ended 30 June 2021 was £95 million. In addition, two of these transactions included provision for further contingent consideration of up to £86 million in aggregate, in each case linked to performance targets, and one of the transactions provided for a further £2 million of deferred consideration, of which £1 million was paid by 30 June 2021.

Purchase of shares of non-controlling interests
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 65%. EABL 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 Serengeti Breweries 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 47.0%.

All transactions were recognised in retained earnings.

(b) Sale of businesses and brands

Cash consideration received and net assets disposed of in respect of sale of businesses and brands in the three years ended 30 June 2023 were as follows:

	Guinness Cameroun S.A. £ million	Other £ million	2023 £ million	2022 £ million	2021 £ million
Sale consideration					
Cash received	384	115	499	106	14
(Cash)/overdraft disposed of	(13)	–	(13)	2	–
Transaction and other directly attributable costs paid	(17)	(7)	(24)	(26)	–
Net cash received	354	108	462	82	14
Transaction costs payable	(8)	3	(5)	(16)	1
	346	111	457	66	15
Net assets disposed of					
Goodwill	–	–	–	(14)	–
Property, plant and equipment	(103)	(3)	(106)	(11)	(2)
Assets and liabilities held for sale	–	(79)	(79)	–	–
Inventories	(24)	(4)	(28)	(4)	–
Other working capital	69	–	69	15	1
Other borrowings	2	–	2	1	–
Corporate tax	(3)	–	(3)	(5)	–
Deferred tax	5	–	5	(2)	–
Post employment benefit liabilities	4	–	4	–	–
	(50)	(86)	(136)	(20)	(1)
Impairment charge recognised up until the date of sale	(3)	–	(3)	–	–
Exchange recycled from other comprehensive income	17	1	18	(63)	–
Gain/(loss) on disposal before taxation	310	26	336	(17)	14
Taxation	(42)	13	(29)	(23)	–
Gain/(loss) on disposal after taxation	268	39	307	(40)	14

On 26 May 2023, Diageo completed the sale of Guinness Cameroun S.A., its brewery in Cameroon. The aggregate consideration for the disposal was £384 million, the disposed net asset of £63 million mainly included property, plant and equipment and trade and other payables. The transaction resulted in a non-operating exceptional gain of £310 million. The disposed Cameroon operations contributed net sales of £101 million (2022 - £124 million; 2021 - £113 million), operating profit of £26 million (2022- £27 million; 2021- £22 million) in the year ended 30 June 2023.

On 30 September 2022, 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 derecognised. The transaction resulted in a non-operating exceptional gain of £4 million. Popular brands contributed net sales of £34 million (2022- £139 million; 2021 - £148 million), operating profit of £5 million (2022- £26 million; 2021- £30 million) in the year ended 30 June 2023.

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 10 May 2022, Diageo completed the sale of the Picon brand for an upfront consideration of €117 million (£100 million). The gain of £91 million, net of disposal cost, was recognised as a non-operating item in the income statement.

In the year ended 30 June 2022, ZAR 133 million (£6 million) (2021 - £10 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 (£27 million) from which ZAR 378 million (£17 million) was deferred.

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.

(c) Assets and liabilities held for sale

Assets and liabilities held for sale at 30 June 2022 included Diageo's Windsor business in Korea and the portfolio of Popular brands of USL.

In March 2022, Diageo agreed to sell its Windsor business in Korea to Bayside/Metis Private Equity Consortium. On 27 September 2022, Diageo announced the termination of the conditional agreement. Consequently, the recoverable assets and liabilities attributable to the business were reclassified out of held for sale.

On 27 May 2022, USL reached agreement with Inbrew 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, accordingly 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 brands and other 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 1998 was eliminated against reserves, and this goodwill has not been reinstated. Goodwill arising subsequent to 1 July 1998 has been capitalised.

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 amortised and are reviewed for impairment at least annually or when 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.

Computer software is 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-generating units. 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, thus excluding any increased inflation growth experienced in the short-term;
- additional sensitivity scenarios are applied for those markets or regions where the inflation and/or the exchange devaluation is considered significant based on management's judgement.

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 Scenario' (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.

	Brands £ million	Goodwill £ million	Other intangibles £ million	Computer software £ million	Total £ million
Cost					
At 30 June 2021	8,458	2,627	1,421	673	13,179
Hyperinflation adjustment in respect of Turkey	315	208	–	1	524
Exchange differences	639	145	194	28	1,006
Additions	109	70	55	67	301
Disposals	(23)	(42)	–	(23)	(88)
Reclassification to asset held for sale	(560)	–	–	(8)	(568)
At 30 June 2022	**8,938**	**3,008**	**1,670**	**738**	**14,354**
Hyperinflation adjustment in respect of Turkey	**81**	**60**	**–**	**–**	**141**
Exchange differences	**(531)**	**(257)**	**(64)**	**(16)**	**(868)**
Additions	**338**	**92**	**13**	**155**	**598**
Disposals	**–**	**–**	**–**	**(26)**	**(26)**
Reclassification from/(to) asset held for sale	**453**	**(29)**	**–**	**–**	**424**
At 30 June 2023	**9,279**	**2,874**	**1,619**	**851**	**14,623**
Amortisation and impairment					
At 30 June 2021	1,097	670	80	568	2,415
Exchange differences	51	60	(1)	25	135
Amortisation for the year	–	–	7	38	45
Impairment	317	19	–	–	336
Disposals	(23)	(28)	–	(20)	(71)
Reclassification to asset held for sale	(400)	–	–	(8)	(408)
At 30 June 2022	**1,042**	**721**	**86**	**603**	**2,452**
Exchange differences	**(96)**	**(61)**	**(1)**	**(15)**	**(173)**
Amortisation for the year	**–**	**–**	**16**	**40**	**56**
Impairment	**498**	**–**	**–**	**–**	**498**
Disposals	**–**	**–**	**–**	**(24)**	**(24)**
Reclassification from/(to) asset held for sale	**315**	**(13)**	**–**	**–**	**302**
At 30 June 2023	**1,759**	**647**	**101**	**604**	**3,111**
Carrying amount					
At 30 June 2023	**7,520**	**2,227**	**1,518**	**247**	**11,512**
At 30 June 2022	7,896	2,287	1,584	135	11,902
At 30 June 2021	7,361	1,957	1,341	105	10,764

(a) Brands

The principal acquired brands, all of which are regarded as having indefinite useful economic lives, are as follows:

	Principal markets	2023 £ million	2022 £ million
Crown Royal whisky	United States	**1,162**	1,210
Captain Morgan rum	Global	**954**	993
Smirnoff vodka	Global	**654**	681
Johnnie Walker whisky	Global	**625**	625
Casamigos tequila	United States	**479**	499
McDowell's No.1 whisky, rum and brandy	India	**308**	778
Don Papa rum	Europe	**282**	–
Yenì raki	Turkey	**249**	294
Shui Jing Fang Chinese white spirit	Greater China	**246**	279
Don Julio tequila	United States	**235**	207
Aviation American gin	United States	**209**	218
Seagram's 7 Crown whiskey	United States	**177**	184
Signature whisky	India	**176**	191
Zacapa rum	Global	**152**	158
Black Dog whisky	India	**149**	162
Antiquity whisky	India	**145**	158
Windsor Premier whisky	Korea	**137**	–
Gordon's gin	Europe	**119**	119
Bell's whisky	Europe	**102**	102
Other brands		**960**	1,038
		7,520	7,896

The brands are protected by trademarks which are renewable indefinitely in all of the major markets where they are sold. There are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of these brands. The nature of the premium drinks industry is that obsolescence is not a common issue, with indefinite brand lives being commonplace, and Diageo has a number of brands that were originally created more than 100 years ago. Accordingly, the Directors believe that it is appropriate that the brands are treated as having indefinite lives for accounting purposes and are therefore not amortised.

(b) Goodwill

For the purposes of impairment testing, goodwill has been attributed to the following cash-generating units:

	2023 £ million	2022 £ million
North America	**767**	773
Europe		
Turkey	**216**	255
Asia Pacific		
Greater China	**124**	141
India	**673**	747
Latin America and Caribbean – Mexico	**161**	142
Other cash-generating units	**286**	229
	2,227	2,287

Goodwill has arisen on the acquisition 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.

(c) 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).

(d) 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 forecasted for each cash-generating unit for the financial years based on management's approved plans and reflect the following assumptions:

- Cash flows are projected based on the actual operating results and a three-year strategic plan approved by management. 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 steady or progressively declining growth rates.

The main exception is India and the USL 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 the weighted average cost of capital which reflect the returns on government bonds and an equity risk premium adjusted for the drinks industry specific to the cash-generating units. The group applies post-tax discount rates to post-tax cash flows as the valuation calculated using this method closely approximates to applying pre-tax discount rates to pre-tax cash flows.

For goodwill, these assumptions are based on the cash-generating unit or group of units to which the goodwill is attributed. 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:

	2023			2022		
	Pre-tax discount rate %	Terminal growth rate %	Long-term growth rate %	Pre-tax discount rate %	Terminal growth rate %	Long-term growth rate %
North America – United States	9	2	4	8	2	4
Europe						
United Kingdom	9	2	5	8	2	4
Turkey	28	16	28	31	15	25
Asia Pacific						
Australia	10	3	5	7	2	5
Korea	11	(2)	4	7	2	5
India	14	4	15	14	4	11
Greater China	11	2	6	7	2	7
Latin America and Caribbean						
Brazil	16	3	6	12	3	6
Mexico	13	3	6	14	3	6
Africa						
Africa Emerging Markets	35	8	18	12	5	11
South Africa	20	5	6	16	–	6
Nigeria	35	5	18	24	12	15

As a result of the impairment review, in the year ended 30 June 2023, an impairment charge of £420 million in respect of the McDowell's brand and £24 million in respect of the Director's Special brand were 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 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 £111 million. The recoverable amount is £379 million in respect of the McDowell's brand and £11 million in respect of the Director's Special brand cash-generating units.

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 in some categories as a result of the challenging operating environment and premiumisation. 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 £13 million.

In the year ended 30 June 2022, an impairment charge of £240 million in respect of the McDowell's brand was recognised in exceptional operating items, based on its value in use. The brand impairment reduced the deferred tax liability by £35 million.

Further, in the year ended 30 June 2022, an impairment charge of £77 million in respect of the Bell's brand was recognised in exceptional operating items, based on its value in use. The impairment reduced the deferred tax liability attributable to the brand by £20 million.

In the year ended 30 June 2022, Diageo decided to wind down its operations in Russia. As a result, an impairment charge of £19 million in respect of the Smirnov goodwill was recognised in exceptional operating items.

The Turkish economy became hyperinflationary for the year ended 30 June 2022, and an impairment charge of TRY 3,760 million (£312 million) on the opening carrying amount of the Turkey cash-generating unit was recognised in retained earnings. From this impairment charge, TRY 1,627 million (£135 million) was directly attributable to the Yenì Raki brand and the remaining TRY 2,133 million (£177 million) impairment charge was recognised on the Turkey goodwill.

(e) Sensitivity to change in key assumptions

Impairment testing for the year ended 30 June 2023 has identified the following cash-generating units as being sensitive to reasonably possible changes in assumptions.

The table below shows the headroom at 30 June 2023 and the impairment charge that would be required if the assumptions in the calculation of their value in use were changed:

			Increase in discount rate		Decrease in terminal growth rate		Decrease in annual growth rate in forecast period 2024-2029		Decrease in cash flows[1]	
	Carrying value of CGU £ million	Headroom £ million	Reasonably possible change	Potential impairment charge £ million	Reasonably possible change	Potential impairment charge £ million	Reasonably possible change	Potential impairment charge £ million	Reasonably possible change	Potential impairment charge £ million
McDowell's	379	–	1ppt	(38)	1ppt	(26)	2ppt	(67)	10 %	(76)

(1) Including reasonably possible changes in productivity saving assumptions.

10. Property, plant and equipment

Accounting policies

Land and buildings are stated at cost less accumulated depreciation. Freehold land is not depreciated. Leaseholds are generally depreciated over the unexpired period of the lease. Other property, plant and equipment are depreciated on a straight-line basis to estimated residual values over their expected useful lives, and these values and lives are reviewed each year. Subject to these reviews, the estimated useful lives fall within the following ranges: buildings – 10 to 50 years; within plant and equipment casks and containers – 15 to 50 years; other plant and equipment – 5 to 40 years; fixtures and fittings – 5 to 10 years; and returnable bottles and crates – 5 to 10 years.

Reviews are carried out if there is an indication that assets may be impaired, to ensure that property, plant and equipment are not carried at above their recoverable amounts.

Government grants

Government grants are not recognised until there is reasonable assurance that the group will comply with the conditions pursuant to which they have been granted and that the grants will be received. Government grants in respect of property, plant and equipment are deducted from the asset that they relate to, reducing the depreciation expense charged to the income statement.

	Land and buildings £ million	Plant and equipment £ million	Fixtures and fittings £ million	Returnable bottles and crates £ million	Under construction £ million	Total £ million
Cost						
At 30 June 2021	2,160	4,714	121	528	659	8,182
Hyperinflation adjustment in respect of Turkey and Venezuela	56	32	2	–	7	97
Exchange differences	107	226	1	11	45	390
Sale of businesses	(4)	(58)	(3)	(19)	(1)	(85)
Additions	230	245	8	41	612	1,136
Disposals	(65)	(122)	(15)	(32)	(3)	(237)
Transfers	177	249	10	13	(449)	–
Reclassification to assets held for sale	(8)	(25)	–	–	–	(33)
At 30 June 2022	**2,653**	**5,261**	**124**	**542**	**870**	**9,450**
Hyperinflation adjustment in respect of Turkey and Venezuela	**5**	**10**	**1**	**–**	**4**	**20**
Exchange differences	**(166)**	**(331)**	**(6)**	**(49)**	**(30)**	**(582)**
Acquisitions	**8**	**14**	**–**	**3**	**–**	**25**
Sale of businesses	**(35)**	**(147)**	**(3)**	**(55)**	**(3)**	**(243)**
Additions	**111**	**214**	**13**	**50**	**832**	**1,220**
Disposals	**(64)**	**(141)**	**(12)**	**(105)**	**(2)**	**(324)**
Transfers	**146**	**238**	**12**	**28**	**(424)**	**–**
Reclassification from assets held for sale	**2**	**–**	**1**	**–**	**–**	**3**
At 30 June 2023	**2,660**	**5,118**	**130**	**414**	**1,247**	**9,569**
Depreciation						
At 30 June 2021	658	2,218	86	371	–	3,333
Exchange differences	31	94	1	9	–	135
Depreciation charge for the year	125	276	14	29	–	444
Exceptional impairment	2	1	–	–	–	3
Sale of businesses	(4)	(50)	(2)	(18)	–	(74)
Disposals	(62)	(113)	(13)	(30)	–	(218)
Transfers	5	4	(9)	–	–	–
Reclassification to assets held for sale	(5)	(16)	–	–	–	(21)
At 30 June 2022	**750**	**2,414**	**77**	**361**	**–**	**3,602**
Exchange differences	**(38)**	**(176)**	**(3)**	**(27)**	**–**	**(244)**
Depreciation charge for the year	**125**	**269**	**13**	**33**	**–**	**440**
Exceptional accelerated depreciation and impairment	**31**	**41**	**–**	**–**	**–**	**72**
Sale of businesses	**(21)**	**(80)**	**(2)**	**(34)**	**–**	**(137)**
Disposals	**(63)**	**(130)**	**(11)**	**(103)**	**–**	**(307)**
Reclassification from assets held for sale	**–**	**–**	**1**	**–**	**–**	**1**
At 30 June 2023	**784**	**2,338**	**75**	**230**	**–**	**3,427**
Carrying amount						
At 30 June 2023	**1,876**	**2,780**	**55**	**184**	**1,247**	**6,142**
At 30 June 2022	1,903	2,847	47	181	870	5,848
At 30 June 2021	1,502	2,496	35	157	659	4,849

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 £389 million (2022 – £410 million). Depreciation was not charged on £141 million (2022 – £114 million) of land.

Property, plant and equipment is net of a government grant of £147 million (2022 – £153 million) received in prior years in respect of the construction of a rum distillery in the US Virgin Islands.

11. Biological assets

Accounting policies

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:

	Biological assets £ million
Fair value	
At 30 June 2021	66
Exchange differences	10
Transferred to inventories	(11)
Fair value change	(5)
Farming cost capitalised	34
At 30 June 2022	**94**
Exchange differences	**15**
Transferred to inventories	**(8)**
Fair value change	**–**
Farming cost capitalised	**55**
At 30 June 2023	**156**

At 30 June 2023, the number of agave plants was approximately 37 million (2022 – 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 when it is new 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 other operating expenses. A judgement in calculating 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.

(a) Movement in right-of-use assets

The company principally leases warehouses, office buildings, plant and machinery, cars and distribution vehicles in the ordinary course of business.

	Land and buildings £ million	Plant and equipment £ million	Under construction £ million	Total £ million
At 30 June 2021	230	184	29	443
Exchange differences	26	14	–	40
Additions	129	56	–	185
Transfers	29	–	(29)	–
Reclassification to assets held for sale	(1)	(1)	–	(2)
Disposals	(6)	–	–	(6)
Depreciation	(54)	(41)	–	(95)
At 30 June 2022	**353**	**212**	**–**	**565**
Exchange differences	**(3)**	**(23)**	**–**	**(26)**
Additions	**45**	**37**	**–**	**82**
Reclassification from assets held for sale	**1**	**1**	**–**	**2**
Derecognition due to disposal of business	**(1)**	**(1)**	**–**	**(2)**
Depreciation	**(56)**	**(39)**	**–**	**(95)**
At 30 June 2023	**339**	**187**	**–**	**526**

(b) Lease liabilities

	2023 £ million	2022 £ million
Current lease liabilities	**(75)**	(85)
Non-current lease liabilities	**(373)**	(390)
	(448)	(475)

The future cash outflows, which are not included in lease liabilities on the balance sheet, in respect of extension and termination options which are not reasonably expected to be exercised are estimated at £261 million (2022 – £282 million).

(c) Amounts recognised in the consolidated income statement

In the year ended 30 June 2023, other external charges (within other operating items) included £57 million (2022 – £39 million) in respect of leases of low value assets and short term leases and £4 million (2022 – £9 million) in respect of variable lease payments. Refer to note 5 for further information relating to the interest expenses on lease liabilities.

The total cash outflow for leases in the year ended 30 June 2023 was £172 million (2022 – £154 million).

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 de-recognition 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.

	Loans £ million	Other investments £ million	Total £ million
Cost less allowances or fair value			
At 30 June 2021	10	30	40
Exchange differences	2	1	3
Additions	6	9	15
Repayments and disposals	(1)	(1)	(2)
Fair value adjustment	–	(13)	(13)
Step acquisitions	–	(6)	(6)
Capitalised interest	1	–	1
Transfer	–	(1)	(1)
At 30 June 2022	**18**	**19**	**37**
Exchange differences	**(1)**	**–**	**(1)**
Additions	**20**	**9**	**29**
Repayments and disposals	**(3)**	**–**	**(3)**
Fair value adjustment	**–**	**(4)**	**(4)**
Capitalised interest	**1**	**–**	**1**
Impairment charged during the year	**–**	**(2)**	**(2)**
At 30 June 2023	**35**	**22**	**57**

At 30 June 2023, loans comprise £6 million (2022 – £6 million; 2021 – £3 million) of loans to customers and other third parties, after allowances of £121 million (2022 – £129 million; 2021 – £113 million), and £29 million (2022 – £12 million; 2021 – £7 million) of loans to associates.

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 payable 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, devised 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 and 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 most recent funding valuations of the significant defined benefit plans were carried out as follows:

Principal plans	Date of valuation
United Kingdom[1]	1 April 2021
Ireland[2]	31 December 2021
United States	1 January 2022

(1) The Diageo Pension Scheme (DPS, the UK Scheme) closed to new members in November 2005. Employees who joined Diageo in the United Kingdom between November 2005 and January 2018, had been eligible to become members of the Diageo Lifestyle Plan (a cash balance defined benefit plan). Since then, new employees have been eligible to become members of a master trust defined contribution plans.
(2) The Guinness Ireland Group Pension Scheme (GIGPS, the Irish scheme) closed to new members in May 2013. Employees who have joined Diageo in Ireland since the defined benefit scheme closed have been eligible to become members of a master trust defined contribution plans.

The assets of the UK and Irish pension plans are held in separate trusts administered by trustees who are required to act in the best interests of the plans' beneficiaries. For DPS, the trustee is Diageo Pension Trust Limited. As required by legislation, one-third of the directors of the Trust are nominated by the members of the DPS, member nominated directors are appointed from both the pensioner member community and the active member community. For the Irish Scheme, Diageo Ireland makes four nominations and appoints three further candidates nominated by representative groupings.

The amounts charged to the consolidated income statement and statement of comprehensive income for the group's defined benefit plans for the three years ended 30 June 2023 are as follows:

	2023 £ million	2022 £ million	2021 £ million
Current service cost and administrative expenses	(76)	(107)	(105)
Past service (losses)/gains – ordinary activities	(1)	34	–
Past service losses – exceptional	–	–	(5)
Gains on curtailments and settlements	2	34	18
Charge to operating profit	(75)	(39)	(92)
Net finance income in respect of post employment plans	44	10	5
Charge before taxation[1]	**(31)**	**(29)**	**(87)**
Actual returns less amounts included in finance income	(1,435)	(1,432)	(6)
Experience (losses)/gains	(226)	(35)	80
Changes in financial assumptions	958	2,133	125
Changes in demographic assumptions	53	(40)	(183)
Other comprehensive (loss)/income	(650)	626	16
Changes in the surplus restriction	7	(11)	–
Total other comprehensive (loss)/income	**(643)**	**615**	**16**

(i) The year ended 30 June 2022 includes settlement gains of £27 million in respect of the Enhanced Transfer Values (ETV) exercise carried out in the Irish Schemes and past 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 exceptional past service loss of £5 million is in respect of the equalisation of Guaranteed Minimum Pension (GMP) benefits for men and women.
(1) The (charge)/income before taxation is in respect of the following countries:

	2023 £ million	2022 £ million	2021 £ million
United Kingdom	15	(27)	(46)
Ireland	1	45	4
United States	(32)	(31)	(28)
Other	(15)	(16)	(17)
	(31)	(29)	(87)

In addition to the charge in respect of defined benefit post employment plans, contributions to the group's defined contribution plans were £44 million (2022 – £33 million; 2021 – £25 million).

The movements in the net surplus for the two years ended 30 June 2023 is set out below:

	Plan assets £ million	Plan liabilities £ million	Net surplus £ million
At 30 June 2021	9,892	(9,445)	447
Exchange differences	93	(100)	(7)
Income/(charge) before taxation	176	(205)	(29)
Other comprehensive (loss)/income[1]	(1,432)	2,058	626
Contributions by the group	128	–	128
Settlements paid[2]	(52)	52	–
Employee contributions	5	(5)	–
Benefits paid	(411)	411	–
At 30 June 2022	**8,399**	**(7,234)**	**1,165**
Exchange differences	(49)	55	6
Disposals	–	4	4
Income/(charge) before taxation	298	(329)	(31)
Other comprehensive (loss)/income[1]	(1,435)	785	(650)
Contributions by the group	100	–	100
Employee contributions	5	(5)	–
Benefits paid	(472)	472	–
At 30 June 2023	**6,846**	**(6,252)**	**594**

(1) Excludes surplus restriction.
(2) Includes settlement payment of £52 million on ETV exercise in Ireland.

The plan assets and liabilities by type of post employment benefit and country are as follows:

	2023		2022	
	Plan assets £ million	Plan liabilities £ million	Plan assets £ million	Plan liabilities £ million
Pensions				
United Kingdom	4,578	(4,041)	6,041	(4,897)
Ireland	1,588	(1,310)	1,645	(1,409)
United States	441	(411)	453	(408)
Other	180	(194)	191	(212)
Post employment medical	2	(227)	2	(225)
Other post employment	57	(69)	67	(83)
	6,846	(6,252)	8,399	(7,234)

The balance sheet analysis of the post employment plans is as follows:

	2023		2022	
	Non-current assets[1] £ million	Non-current liabilities £ million	Non-current assets[1] £ million	Non-current liabilities £ million
Funded plans	960	(132)	1,553	(144)
Unfunded plans	–	(241)	–	(258)
	960	(373)	1,553	(402)

(1) Includes surplus restriction of £7 million (2022 – £14 million).

The disclosures have been prepared in accordance with IFRIC 14. In particular, where the calculation for a plan results in a surplus, the recognised asset 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 2023, the DPS had a net surplus of £589 million (2022 – £1,174 million; 2021 – £840 million) and the GIGPS had a net surplus of £260 million (2022 a surplus of £221 million; 2021 a deficit of £79 million) and other schemes in a surplus totalled of £111 million (2022 – £158 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 will 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 life 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 as at the previous 30 June.

	United Kingdom			Ireland			United States[1]		
	2023 %	2022 %	2021 %	2023 %	2022 %	2021 %	2023 %	2022 %	2021 %
Rate of general increase in salaries[2]	3.7	3.6	3.4	3.9	3.8	3.0	–	–	–
Rate of increase to pensions in payment	2.9	2.9	3.1	2.3	2.2	1.7	–	–	–
Rate of increase to deferred pensions	2.7	2.6	2.5	2.4	2.3	1.6	–	–	–
Discount rate for plan liabilities	5.2	3.8	1.9	3.6	3.2	1.0	4.9	4.4	2.7
Inflation – CPI	2.7	2.6	2.5	2.5	2.4	1.6	2.2	2.3	2.3
Inflation – RPI	3.2	3.1	3.0	–	–	–	–	–	–

(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:

	United Kingdom[1]			Ireland[2]			United States		
	2023 Age	2022 Age	2021 Age	2023 Age	2022 Age	2021 Age	2023 Age	2022 Age	2021 Age
Retiring currently at age 65									
Male	86.8	87.1	87.2	87.2	87.7	86.9	85.6	85.5	85.4
Female	88.4	88.7	88.7	89.6	90.0	89.3	87.2	87.2	87.1
Currently aged 45, retiring at age 65									
Male	88.1	88.5	88.6	88.8	89.3	88.6	87.1	87.0	86.9
Female	90.4	90.7	90.8	91.3	91.7	91.1	88.7	88.6	88.5

(1) Based on the CMI's S3 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 S3 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 plan liabilities at 30 June 2023:

	United Kingdom			Ireland			United States		
Benefit/(cost)	Operating profit £ million	Profit after taxation £ million	Plan liabilities[1] £ million	Operating profit £ million	Profit after taxation £ million	Plan liabilities[1] £ million	Operating profit £ million	Profit after taxation £ million	Plan liabilities[1] £ million
Effect of 0.5% increase in discount rate	2	15	259	1	5	85	2	2	22
Effect of 0.5% decrease in discount rate	(2)	(14)	(267)	(1)	(4)	(95)	(2)	(2)	(24)
Effect of 0.5% increase in inflation	(1)	(8)	(156)	–	(2)	(49)	–	(1)	(9)
Effect of 0.5% decrease in inflation	2	8	173	–	2	50	–	1	8
Effect of one year increase in life expectancy	–	(6)	(131)	–	(2)	(55)	–	(1)	(15)

(1) The estimated effect on the liabilities excludes the impact of any interest rate and inflation swaps held by the pension plans.
(i) The sensitivity analyses above have been determined based on reasonably possible changes of the respective assumptions and may not be representative of the actual change. Each 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).

(c) Investment and hedging strategy

The investment strategy for the group's funded post employment plans is determined locally by the trustees of the plan and/or Diageo, as appropriate, and takes account of the relevant statutory requirements. The objective of the investment strategy is to achieve a target rate of return in excess of the movement on the liabilities, whilst taking an acceptable level of investment risk relative to the liabilities. This objective is implemented by using the funds of the plans to invest in a variety of asset classes that are expected over the long-term to deliver a target rate of return. The majority of the investment strategies have significant amounts allocated to bonds, in order to provide a natural hedge against movements in the liabilities of the plans. At 30 June 2023, approximately 97% and 98% (2022 – 100% and 103%) of the UK plans' liabilities measured on the Trustee's funding basis (gilts+50bp) were hedged against future movements in interest rates and inflation, respectively, through the combined effect of bonds and swaps. At 30 June 2023, approximately 92% and 112% (2022 – 70% and 76%) of the Irish plans' liabilities measured on the Trustee's funding basis (euro-swaps+50bp) were hedged against future movements in interest rates and inflation, respectively, through the combined effect of bonds and swaps.

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 yield curves of AA-rated corporate bonds for which the timing and amount of cash outflows are similar to those of the plans. A similar process is used to determine the discount rates used for the non-UK plans.

An analysis of the fair value of the plan assets is as follows:

	2023								
	United Kingdom £ million		Ireland £ million		United States and other £ million		Total £ million		
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Total
Equities	12	916	–	291	64	98	76	1,305	1,381
Bonds									
Fixed-interest government	18	24	–	6	48	8	66	38	104
Inflation-linked government	–	–	–	96	2	2	2	98	100
Investment grade corporate	–	29	–	328	21	227	21	584	605
Non-investment grade	22	289	6	186	2	133	30	608	638
Loan securities	13	526	–	84	–	–	13	610	623
Repurchase agreements	2,351	826	–	–	–	–	2,351	826	3,177
Liability Driven Investment (LDI)	–	–	–	81	–	–	–	81	81
Property	29	462	–	62	–	1	29	525	554
Hedge funds	–	–	–	12	–	5	–	17	17
Interest rate and inflation swaps	–	(971)	102	(18)	–	–	102	(989)	(887)
Cash and other	46	(14)	5	347	–	69	51	402	453
Total bid value of assets	2,491	2,087	113	1,475	137	543	2,741	4,105	6,846

	2022								
	United Kingdom £ million		Ireland £ million		United States and other £ million		Total £ million		
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Total
Equities	23	1,218	–	319	70	105	93	1,642	1,735
Bonds									
Fixed-interest government	2	86	–	30	49	152	51	268	319
Inflation-linked government	–	–	–	199	1	1	1	200	201
Investment grade corporate	–	68	–	388	25	222	25	678	703
Non-investment grade	44	557	2	200	1	1	47	758	805
Loan securities	11	1,271	–	98	–	–	11	1,369	1,380
Repurchase agreements	2,400	(215)	–	–	–	–	2,400	(215)	2,185
Liability Driven Investment (LDI)	–	119	–	46	–	–	–	165	165
Property	28	716	–	74	–	1	28	791	819
Hedge funds	–	107	–	92	–	5	–	204	204
Interest rate and inflation swaps	–	(900)	–	37	–	–	–	(863)	(863)
Cash and other	24	481	7	154	–	80	31	715	746
Total bid value of assets	2,532	3,508	9	1,637	146	567	2,687	5,712	8,399

(i) 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).

(d) Deficit funding arrangements

UK plans

In the year ended 30 June 2011, the group established a Pension Funding Partnership (PFP) in respect of the UK Scheme. Whisky inventory was transferred into the partnership but the group retains control over the partnership which at 30 June 2023 held inventory with a book value of £732 million (2022 – £561 million). The partnership is fully consolidated in the group financial statements. The UK Scheme has a limited interest in the partnership and, as a partner, is entitled to a distribution from the profits of the partnership. The arrangement is expected to cease in 2030, and contributions to the UK scheme in any year will be dependent on the funding position of the UK scheme at the previous 31 March. Given the surplus funding position in the DPS, there were no contributions to the DPS in the years ended 30 June 2023 and 30 June 2022.

In 2030, the group will be required, dependent upon the funding position of the UK Scheme at that time, to pay an amount not greater than the actuarial deficit at that time, up to a maximum of £430 million in cash, to purchase the UK Scheme's interest in the partnership. If the UK Scheme is in surplus at an actuarial triennial valuation excluding the value of the PFP, then the group can exit the PFP with the agreement of the trustees. 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 requirement.

Irish plans

The 31 December 2021 triennial actuarial valuation of the Guinness Ireland Group Pension Scheme was completed during the year ended 30 June 2023 showing the Scheme is fully funded on the Trustee's ongoing funding basis and the statutory minimum funding standard basis. Given the fully funded position, no deficit contributions were payable in the year ended 30 June 2023 and the Trustee agreed to the company's request to terminate the contingent arrangements comprising mortgages over certain land and buildings and fixed and floating charges over certain receivables of the group up to a value of €200 million (£171 million). The company has agreed with the Trustee conditional contributions of up to €35 million (£30 million) by 31 December 2024, €39 million (£33 million) by 31 December 2027 and €39 million (£33 million) by 31 December 2030 if a deficit is identified at those valuations.

(e) Timing of benefit payments

The following table provides information on the timing of the benefit payments and the average duration of the defined benefit obligations and the distribution of the timing of benefit payments:

	United Kingdom		Ireland		United States	
	2023 £ million	2022 £ million	2023 £ million	2022 £ million	2023 £ million	2022 £ million
Maturity analysis of benefits expected to be paid						
Within one year	303	295	73	70	57	58
Between 1 to 5 years	1,090	1,082	367	353	174	187
Between 6 to 15 years	2,439	2,556	727	704	331	310
Between 16 to 25 years	2,244	2,252	645	634	206	183
Beyond 25 years	2,664	2,787	747	768	187	174
Total	8,740	8,972	2,559	2,529	955	912
	years	years	years	years	years	years
Average duration of the defined benefit obligation	14	15	14	15	9	9

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.

(f) Related party disclosures

Information on transactions between the group and its pension plans is given in note 21.

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

	2023 £ million	2022 £ million
Raw materials and consumables	543	489
Work in progress	132	86
Maturing inventories	5,794	5,229
Finished goods and goods for resale	1,192	1,290
	7,661	7,094

Maturing inventories include whisk(e)y, rum, tequila and Chinese white spirits. The following amounts of inventories are expected to be utilised after more than one year:

	2023 £ million	2022 £ million
Raw materials and consumables	23	15
Maturing inventories	4,063	3,713
	4,086	3,728

Inventories are disclosed net of provisions for obsolescence, an analysis of which is as follows:

	2023 £ million	2022 £ million	2021 £ million
Balance at beginning of the year	94	96	98
Exchange differences	(27)	6	(8)
Income statement charge	55	6	20
Utilised	(19)	(13)	(14)
Sale of businesses	(1)	(1)	–
	102	94	96

(b) Trade and other receivables

	2023		2022	
	Current assets £ million	Non-current assets £ million	Current assets £ million	Non-current assets £ million
Trade receivables	2,011	–	2,155	–
Interest receivable	12	–	18	–
VAT recoverable and other prepaid taxes	271	15	290	15
Other receivables	163	13	158	13
Prepayments	229	3	290	9
Accrued income	34	–	22	–
	2,720	31	2,933	37

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:

	2023 £ million	2022 £ million
Not overdue	1,967	2,114
Overdue 1 – 30 days	25	19
Overdue 31 – 60 days	7	8
Overdue 61 – 90 days	3	5
Overdue 91 – 180 days	6	5
Overdue more than 180 days	3	4
	2,011	2,155

Trade and other receivables are disclosed net of expected credit loss allowance for doubtful debts, an analysis of which is as follows:

	2023 £ million	2022 £ million	2021 £ million
Balance at beginning of the year	118	112	160
Exchange differences	(12)	6	(13)
Income statement (release)/charge	(3)	21	(15)
Written off	(14)	(21)	(20)
	89	118	112

(c) Trade and other payables

	2023		2022	
	Current liabilities £ million	Non-current liabilities £ million	Current liabilities £ million	Non-current liabilities £ million
Trade payables	2,659	–	2,705	–
Interest payable	237	–	143	–
Tax and social security excluding income tax	632	–	696	–
Other payables	432	368	600	380
Accruals	1,229	–	1,635	–
Deferred income	73	–	90	–
Dividend payable to non-controlling interests	38	–	18	–
	5,300	368	5,887	380

Interest payable at 30 June 2023 includes interest on non-derivative financial instruments of £217 million (2022 – £141 million). Accruals at 30 June 2023 include £561 million (2022 – £613 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 £90 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

	Thalidomide £ million	Other £ million	Total £ million
At 30 June 2022	178	239	417
Exchange differences	(1)	(26)	(27)
Disposal of businesses	–	(2)	(2)
Provisions charged during the year	–	31	31
Provisions utilised during the year	(14)	(61)	(75)
Transfers from other payables	–	12	12
Unwinding of discounts	5	1	6
At 30 June 2023	168	194	362
Current liabilities	13	106	119
Non-current liabilities	155	88	243
	168	194	362

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 £51 million (2022 – £49 million) in respect of employee deferred compensation plans which will be utilised when employees leave the group.

Risk management and capital structure

Introduction

This section sets out the policies and procedures applied to manage the group's capital structure and the financial risks the group is exposed to. Diageo considers the following components of its balance sheet to be capital: borrowings and equity. Diageo manages its capital structure to achieve capital efficiency, provide flexibility to invest through the economic cycle and give efficient access to debt markets at attractive cost levels.

16. Financial instruments and risk management

Accounting policies

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 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 13, 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 eligible to be carried at either amortised 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 forecast 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 at least 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 movements on the derivative 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 hedges 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 exchange 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 to the extent that they are effective, with any ineffectiveness taken to the income statement. Foreign currency contracts hedging net investments are carried at fair value. Effective fair value movements are 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 hedge 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 foreign currency spots, forwards, swaps and other financial derivatives. 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 £10,627 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 transactional foreign currency risk on major currency pair exposures up to 24 months, targeting 75% coverage for the current financial year, and on other currency exposures up to 18 months. The group's exposure to foreign currency risk arising principally on forecasted sales transactions is managed using forward agreements and options.

(b) Interest rate risk

The group has an exposure 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 approved by the Board, primarily through issuing fixed and floating rate borrowings, and by utilising interest rate swaps. These practices aim to minimise the group's net finance charges with acceptable year-on-year volatility. To facilitate operational efficiency and effective hedge accounting, for the year ended 30 June 2023 the group's policy was to maintain fixed rate borrowings within a band of 40% to 90% 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:

	2023		2022	
	£ million	%	£ million	%
Fixed rate	**11,961**	**77**	11,070	78
Floating rate[1]	**3,225**	**21**	2,612	19
Impact of financial derivatives and fair value adjustments	**(93)**	**(1)**	(20)	–
Lease liabilities	**448**	**3**	475	3
Net borrowings	**15,541**	**100**	14,137	100

(1) The floating rate portion of net borrowings includes cash and cash equivalents, collaterals, floating rate loans and bonds and bank overdrafts.

The table below sets out the average monthly net borrowings and effective interest rate:

Average monthly net borrowings			Effective interest rate		
2023 £ million	2022 £ million	2021 £ million	**2023 %**	2022 %	2021 %
15,244	12,692	12,702	**3.9**	2.7	2.7

(i) For this calculation, net interest charge excludes fair value adjustments to derivative financial instruments and average monthly net borrowings include the impact of interest rate swaps that are no longer in a hedge relationship but exclude the market value adjustment for cross currency interest rate swaps.

IBOR reform

In accordance with the UK Financial Conduct Authority's announcement on 5 March 2021, LIBOR benchmark rates were discontinued after 31 December 2021, 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 rate changes in relation to other valuation models and credit risk, and concluded that they were not material.

In line with the relief 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 IBOR reform. The derivative hedging instruments provide a close approximation to the extent and nature of the risk exposure the group manages through hedging relationships.

Included in floating rate net borrowings are interest rate swaps designated in fair value hedges, with a notional amount of £2,063 million (2022 – £2,893 million) whose interest rates 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 either through long-term purchase contracts with suppliers or, where appropriate, derivative contracts. The group policy is to maintain the Value at Risk of commodity price risk arising from commodity exposures below 75 bps 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 impacts on the consolidated income statement and other comprehensive income of either an instantaneous increase or decrease of 0.5% in market interest rates or a 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 financial derivatives, 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.

	Impact on income statement gain/(loss)		Impact on consolidated comprehensive income gain/(loss)[1][2]	
	2023 £ million	2022 £ million	2023 £ million	2022 £ million
0.5% decrease in interest rates	**16**	13	**36**	31
0.5% increase in interest rates	**(16)**	(13)	**(35)**	(30)
10% weakening of sterling	**(45)**	(33)	**(1,336)**	(1,125)
10% strengthening of sterling	**36**	28	**1,093**	922

(1) The impact on foreign currency borrowings and derivatives in net investment hedges is largely offset by the foreign exchange difference arising on the translation of net investments.
(2) The impact on the consolidated statement of comprehensive income includes the impact on the income statement.

(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 committed transactions.

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 section (i), excluding the impact of any collateral held or other credit enhancements. A financial asset is in default when the counterparty fails 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.

Financial credit risk

Diageo aims to minimise its financial credit risk through the application of risk management policies approved and monitored by the Board. Counterparties are predominantly limited to investment grade banks and financial institutions, and policy restricts the exposure to any one counterparty by setting credit limits taking into account the credit quality of the counterparty. The group's policy is designed to ensure that individual counterparty limits are adhered to and that there are no significant concentrations of credit risk. The Board also defines the types of financial instruments which may be transacted. The credit risk arising through the use of financial instruments for currency, interest rate and commodity price risk management is estimated with reference to the fair value of contracts with a positive value, rather than the notional amount of the instruments themselves. Diageo annually reviews the credit limits applied and regularly monitors the counterparties' credit quality reflecting market credit conditions.

When derivative transactions are undertaken with bank counterparties, the group may, where appropriate, enter into certain agreements with such bank counterparties whereby the parties agree to post cash collateral for the benefit of the other if the net valuations of the derivatives are above a predetermined threshold. At 30 June 2023, the collateral held under these agreements amounted to $(19) million (£(15) million) (2022 – $23 million (£19 million)).

Business related credit risk

Exposures from loan, trade and other receivables are managed locally in the operating units where they arise and active risk management is applied, focusing on country risk, credit limits, ongoing credit evaluation and monitoring procedures. There is no significant concentration of credit risk with respect to loans, trade and other receivables as the group has a large number of customers which are internationally dispersed.

(f) Liquidity risk

Liquidity risk is the risk of Diageo encountering difficulties in meeting its obligations associated with 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 demand deposits. In addition, the group's policy is to maintain backstop facilities with relationship 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 yield curve prevailing at the respective year ends. 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 gross in the consolidated balance sheet although, in practice, the group uses netting arrangements to reduce its liquidity requirements on these instruments.

Contractual cash flows

	Due within 1 year £ million	Due between 1 and 3 years £ million	Due between 3 and 5 years £ million	Due after 5 years £ million	Total £ million	Carrying amount at balance sheet date £ million
2023						
Borrowings[1]	**(1,707)**	**(3,615)**	**(2,980)**	**(8,652)**	**(16,954)**	**(16,502)**
Interest on borrowings[1][2]	**(541)**	**(750)**	**(623)**	**(1,503)**	**(3,417)**	**(217)**
Lease capital repayments	**(75)**	**(104)**	**(69)**	**(200)**	**(448)**	**(448)**
Lease future interest payments	**(18)**	**(28)**	**(19)**	**(37)**	**(102)**	**–**
Trade and other financial liabilities[3]	**(4,417)**	**(231)**	**(122)**	**(96)**	**(4,866)**	**(4,782)**
Non-derivative financial liabilities	**(6,758)**	**(4,728)**	**(3,813)**	**(10,488)**	**(25,787)**	**(21,949)**
Cross currency swaps (gross)						
Receivable	**43**	**87**	**87**	**1,341**	**1,558**	
Payable	**(28)**	**(56)**	**(56)**	**(930)**	**(1,070)**	
Other derivative instruments (net)	**19**	**(88)**	**(79)**	**(54)**	**(202)**	
Derivative instruments[2]	**34**	**(57)**	**(48)**	**357**	**286**	**134**
2022						
Borrowings[1]	(1,524)	(2,842)	(2,738)	(9,276)	(16,380)	(16,020)
Interest on borrowings[1][2]	(427)	(626)	(560)	(1,622)	(3,235)	(141)
Lease capital repayments	(85)	(107)	(61)	(222)	(475)	(475)
Lease future interest payments	(13)	(20)	(16)	(44)	(93)	–
Trade and other financial liabilities[3]	(4,765)	(123)	(142)	(126)	(5,156)	(5,145)
Non-derivative financial liabilities	(6,814)	(3,718)	(3,517)	(11,290)	(25,339)	(21,781)
Cross currency swaps (gross)						
Receivable	851	90	90	1,442	2,473	
Payable	(783)	(56)	(56)	(958)	(1,853)	
Other derivative instruments (net)	(86)	(123)	(78)	(65)	(352)	
Derivative instruments[2]	(18)	(89)	(44)	419	268	22

(1) For the purpose of these tables, borrowings are defined as gross borrowings excluding lease liabilities and fair value of derivative instruments as disclosed in note 17.
(2) Carrying amount of interest on borrowings, interest on derivatives and interest on other payable is included within interest payable in note 15.
(3) Primarily consists of trade and other payables that meet the definition of financial liabilities under IAS 32.

The group had available undrawn committed bank facilities as follows:

	2023 £ million	2022 £ million
Expiring within one year	**99**	793
Expiring between one and two years	**496**	103
Expiring after two years	**2,083**	1,893
	2,678	2,789

The facilities can be used for general corporate purposes and, together with cash and cash equivalents, support the group's commercial paper programmes.

There are no financial covenants on the group's material short- and long-term borrowings. Certain of these borrowings contain cross default provisions and negative pledges.

The committed bank facilities are subject to a single financial covenant, being minimum interest cover ratio of two times (defined as the ratio of operating profit before exceptional items, aggregated with share of after tax results of associates and joint ventures, to net interest charges). They are also subject to pari passu ranking and negative pledge covenants.

Any non-compliance with covenants underlying Diageo's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain borrowings and the inability to access committed facilities. Diageo was in full compliance with its financial, pari passu ranking and negative pledge covenants in respect of its material short- and long-term borrowings throughout each of the years presented.

(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 group maintains policies and procedures to value instruments using the most relevant data available. If multiple inputs that fall into different levels of the hierarchy are used in the valuation of an instrument, the instrument is categorised on the basis of the most subjective input.

Foreign currency forwards and swaps, cross currency swaps and interest rate swaps are valued using discounted cash flow techniques. These techniques incorporate inputs at levels 1 and 2, such as foreign exchange rates and interest rates. These market inputs are used in the discounted cash flow calculation incorporating the instrument's term, notional amount and discount rate, and taking credit risk into account. As significant inputs to the valuation are observable in active markets, these instruments are categorised as level 2 in the hierarchy.

Other financial liabilities include a put option, which does not have an expiry date, held by Industrias Licoreras de Guatemala (ILG) to sell the remaining 50% equity stake in Rum Creation & Products Inc., the owner of the Zacapa rum brand, to Diageo. The liability is fair valued using the discounted cash flow method and as at 30 June 2023, an amount of £218 million (30 June 2022 – £216 million) is recognised as a liability with changes in the fair value of the put option included in retained earnings. As the valuation of this option uses assumptions not observable in the market, it is 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 forecast 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 – £157 million), £59 million in respect of the acquisition of 21Seeds (2022 – £59 million) and £18 million in respect of the acquisition of Lone River Ranch Water (2022 – £57 million). Contingent consideration of £70 million in respect of the acquisition of Don Papa 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:

	2023 £ million	2022 £ million
Derivative assets	594	480
Derivative liabilities	(440)	(456)
Valuation techniques based on observable market input (Level 2)	**154**	24
Financial assets - other	192	184
Financial liabilities - other	(529)	(587)
Valuation techniques based on unobservable market input (Level 3)	**(337)**	(403)

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:

	Zacapa financial liability 2023 £ million	Contingent consideration recognised on acquisition of businesses 2023 £ million	Zacapa financial liability 2022 £ million	Contingent consideration recognised on acquisition of businesses 2022 £ million
At the beginning of the year	(216)	(371)	(149)	(429)
Net (losses)/gains included in the income statement	(8)	117	(20)	62
Net gains/(losses) included in exchange in other comprehensive income	9	11	(26)	(39)
Net losses included in retained earnings	(16)	–	(34)	–
Acquisitions	–	(76)	–	(70)
Settlement of liabilities	13	8	13	105
At the end of the year	**(218)**	**(311)**	(216)	(371)

(h) Results of hedge relationships

The group targets a one-to-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.

The notional amounts, contractual maturities and rates of the hedging instruments designated in hedging relationships by the main risk categories are as follows:

	Notional amounts £ million	Maturity	Range of hedged rates[1]
2023			
Net investment hedges			
Derivatives in net investment hedges of foreign operations	**637**	**July 2023**	**US dollar 1.27**
Cash flow hedges			
Derivatives in cash flow hedge (foreign currency debt)	**873**	**September 2036 - April 2043**	**US dollar 1.60 - 1.88**
Derivatives in cash flow hedge (foreign currency risk)	**1,734**	**September 2023 - December 2024**	**US dollar 1.05 - 1.33, Mexican peso 14.76 - 18.38**
Derivatives in cash flow hedge (commodity price risk)	**217**	**July 2023 - September 2024**	**Feed Wheat: 183.75 - 240.00 USD/Bu LME Aluminium: 2,248 - 3,399 USD/Mt**
Fair value hedges			
Derivatives in fair value hedge (interest rate risk)	**3,999**	**September 2023 - April 2030**	**(0.01) - 3.09%**
2022			
Net investment hedges			
Derivatives in net investment hedges of foreign operations	11	July 2022	Turkish lira 22.27
Cash flow hedges			
Derivatives in cash flow hedge (foreign currency debt)	1,694	April 2023 - April 2043	US dollar 1.22 - 1.88
Derivatives in cash flow hedge (foreign currency risk)	1,874	September 2022 - June 2024	US dollar 1.22 - 1.42, euro 1.13 - 1.17
Derivatives in cash flow hedge (commodity price risk)	234	July 2022 - March 2024	Natural Gas: 1.67 - 3.57 GBP/therm(ec) LME Aluminium: 2,009 - 3,399 USD/Mt
Fair value hedges			
Derivatives in fair value hedge (interest rate risk)	4,444	September 2022 - April 2030	(0.01) - 3.09%

(1) In case of derivatives in cash flow hedges (commodity price risk and foreign currency risk), the range of the most significant contract's hedged rates are presented.

For hedges of the cash flow risk from a change in forward exchange rates using cross currency interest rate swaps, the retranslation of the related bond principal to closing exchange rates and recognition of interest on the related bonds will affect the income statement in each year until the related bonds mature in 2036 and 2043. Exchange retranslation and the interest on the hedged bonds in the income statement are expected to offset those on the cross currency swaps in each of the years.

In respect of cash flow hedging instruments, a gain of £247 million (2022 – £124 million gain; 2021 – £157 million loss) was recognised in other comprehensive income due to changes in fair value. A gain of £13 million was transferred out of other comprehensive income to other operating expenses and a loss of £54 million to other finance charges, respectively, (2022 – a loss of £42 million and a gain of £239 million; 2021 – a loss of £10 million and a loss of £175 million) to offset the foreign exchange impact on the underlying transactions. A gain of £33 million (2022 – £46 million gain, 2021 – £2 million gain) was transferred out of other comprehensive income to operating profit in relation to commodity hedges. The carrying amount of hedged items recognised in the consolidated balance sheet in relation to hedges of cash flow risk arising from foreign currency debts equals the notional value of the hedging instruments at 30 June 2023 and are included within borrowings. The notional amount for cash flow hedges of foreign currency debt at 30 June 2023 was £873 million (2022 – £1,694 million).

For cash flow hedges of forecast transactions at 30 June 2023, based on year end interest and exchange rates, a gain to the income statement of £143 million in the year ending 30 June 2024 and a gain of £20 million in the year ending 30 June 2025 is expected to be recognised.

In respect of hedges of foreign currency borrowings that are no longer applicable at 30 June 2023, a loss of £18 million (2022 – a loss of £19 million) was reported in reserves. There was no significant ineffectiveness on net investment and cash flow hedges during the year ended 30 June 2023.

The £3,999 million (2022 – £4,444 million) notional value of hedged items in fair value hedges equals to the notional value of hedging instruments designated in these relationships at 30 June 2023 and the carrying amount of hedged items are included within borrowings in the consolidated balance sheet.

For fair value hedges that are no longer applicable, the accumulated fair value changes shown on the consolidated balance sheet at 30 June 2023 was £nil (2022 – £1 million).

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:

	At the beginning of the year £ million	Consolidated Income statement £ million	Consolidated statement of comprehensive income £ million	Other £ million	At the end of the year £ million
2023					
Net investment hedges					
Derivatives in net investment hedges of foreign operations	**(1)**	**–**	**–**	**1**	**–**
Cash flow hedges					
Derivatives in cash flow hedge (foreign currency debt)	**367**	**(54)**	**60**	**(25)**	**348**
Derivatives in cash flow hedge (foreign currency risk)	**(77)**	**(17)**	**260**	**17**	**183**
Derivatives in cash flow hedge (commodity price risk)	**50**	**33**	**(89)**	**(19)**	**(25)**
Fair value hedges					
Derivatives in fair value hedge (interest rate risk)	**(283)**	**(94)**	**–**	**–**	**(377)**
Fair value hedge hedged item	**276**	**96**	**–**	**–**	**372**
Instruments in fair value hedge relationship	**(7)**	**2**	**–**	**–**	**(5)**
2022					
Net investment hedges					
Derivatives in net investment hedges of foreign operations	–	–	5	(6)	(1)
Cash flow hedges					
Derivatives in cash flow hedge (foreign currency debt)	154	239	(6)	(20)	367
Derivatives in cash flow hedge (foreign currency risk)	53	(11)	(130)	11	(77)
Derivatives in cash flow hedge (commodity price risk)	16	46	32	(44)	50
Fair value hedges					
Derivatives in fair value hedge (interest rate risk)	63	(346)	–	–	(283)
Fair value hedge hedged item	(65)	341	–	–	276
Instruments in fair value hedge relationship	(2)	(5)	–	–	(7)

(i) Reconciliation of financial instruments

The table below sets out the group's accounting classification of each class of financial assets and liabilities:

	Fair value through income statement £ million	Fair value through other comprehensive income £ million	Assets and liabilities at amortised cost £ million	Not categorised as a financial instrument £ million	Total £ million	Current £ million	Non-current £ million
2023							
Other investments and loans[1]	**192**	**–**	**31**	**2**	**225**	**–**	**225**
Trade and other receivables	**–**	**–**	**2,234**	**517**	**2,751**	**2,720**	**31**
Cash and cash equivalents	**–**	**–**	**1,439**	**–**	**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	**–**	**–**	**1**	**–**	**1**	**–**	**1**
Total other financial assets	**740**	**–**	**1**	**–**	**741**	**347**	**394**
Total financial assets	**932**	**–**	**3,705**	**519**	**5,156**	**4,506**	**650**
Borrowings[2]	**–**	**–**	**(16,502)**	**–**	**(16,502)**	**(1,701)**	**(14,801)**
Trade and other payables	**(311)**	**–**	**(4,472)**	**(885)**	**(5,668)**	**(5,300)**	**(368)**
Derivatives in fair value hedge (interest rate risk)	**(377)**	**–**	**–**	**–**	**(377)**	**(6)**	**(371)**
Derivatives in cash flow hedge (foreign currency risk)	**(9)**	**–**	**–**	**–**	**(9)**	**(7)**	**(2)**
Derivatives in cash flow hedge (commodity price risk)	**(27)**	**–**	**–**	**–**	**(27)**	**(26)**	**(1)**
Other instruments	**(245)**	**–**	**–**	**–**	**(245)**	**(245)**	**–**
Leases	**–**	**–**	**(448)**	**–**	**(448)**	**(75)**	**(373)**
Total other financial liabilities	**(658)**	**–**	**(448)**	**–**	**(1,106)**	**(359)**	**(747)**
Total financial liabilities	**(969)**	**–**	**(21,422)**	**(885)**	**(23,276)**	**(7,360)**	**(15,916)**
Total net financial (liabilities)/assets	**(37)**	**–**	**(17,717)**	**(366)**	**(18,120)**	**(2,854)**	**(15,266)**
2022							
Other investments and loans[1]	180	4	15	1	200	–	200
Trade and other receivables	–	–	2,365	605	2,970	2,933	37
Cash and cash equivalents	–	–	2,285	–	2,285	2,285	–
Derivatives in fair value hedge (interest rate risk)	1	–	–	–	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	251	345
Total financial assets	773	4	4,668	606	6,051	5,469	582
Borrowings[2]	–	–	(16,020)	–	(16,020)	(1,522)	(14,498)
Trade and other payables	(371)	–	(4,774)	(1,122)	(6,267)	(5,887)	(380)
Derivatives in fair value hedge (interest rate risk)	(284)	–	–	–	(284)	(1)	(283)
Derivatives in cash flow hedge (foreign currency risk)	(109)	–	–	–	(109)	(81)	(28)
Derivatives in cash flow hedge (commodity price risk)	(7)	–	–	–	(7)	(5)	(2)
Derivatives in net investment hedge	(1)	–	–	–	(1)	(1)	–
Other instruments	(271)	–	(117)	–	(388)	(388)	–
Leases	–	–	(475)	–	(475)	(85)	(390)
Total other financial liabilities	(672)	–	(592)	–	(1,264)	(561)	(703)
Total financial liabilities	(1,043)	–	(21,386)	(1,122)	(23,551)	(7,970)	(15,581)
Total net financial (liabilities)/assets	(270)	4	(16,718)	(516)	(17,500)	(2,501)	(14,999)

(1) Other investments and loans are including 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).

(j) Capital management

The group's management is committed to enhancing shareholder value in the long-term, both by investing in the business and brands so as to deliver continued improvement in the return from those investments and by managing the capital structure. Diageo manages its capital structure to achieve capital efficiency, provide flexibility to invest through the economic cycle and give efficient access to debt markets at attractive cost levels. This is achieved by targeting an adjusted net borrowings (net borrowings aggregated with post employment benefit liabilities) to adjusted EBITDA leverage of 2.5 - 3.0 times, this range for Diageo being currently broadly consistent with an A band credit rating. Diageo would consider operating outside of this range in order to effect strategic initiatives within its stated goals, which could have an impact on its rating. If Diageo's leverage was to be negatively impacted by the financing of an acquisition, it would seek over time to return to the range of 2.5 – 3.0 times. The group regularly assesses its debt and equity capital levels against its stated policy for capital structure. As at 30 June 2023, the adjusted net borrowings (£15,914 million) to adjusted EBITDA ratio was 2.6 times. For this calculation, net borrowings are adjusted by post employment benefit liabilities before tax (£373 million) whilst adjusted EBITDA (£6,120 million) comprises operating profit excluding exceptional operating items and depreciation, amortisation and impairment and includes share of after tax results of associates and joint ventures.

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 relationship. 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 unadjusted 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, cross currency interest rate swaps and foreign currency forwards and swaps used to manage borrowings) less cash and cash equivalents.

	2023 £ million	2022 £ million
Bank overdrafts	36	74
Commercial paper	198	–
Bank and other loans	121	105
Credit support obligations	15	(19)
$300 million 8% bonds due 2022[1]	–	248
$1,350 million 2.625% bonds due 2023[2]	–	1,115
€600 million 0.125% bonds due 2023	513	–
$500 million 3.5% bonds due 2023[2]	397	–
€500 million 0.5% bonds due 2024	427	–
Fair value adjustment to borrowings	(6)	(1)
Borrowings due within one year	**1,701**	1,522
€600 million 0.125% bonds due 2023	–	516
$500 million 3.5% bonds due 2023[2]	–	413
€500 million 0.5% bonds due 2024	–	430
$600 million 2.125% bonds due 2024[2]	476	495
€500 million 1.75% bonds due 2024	427	430
$500 million 5.2% bonds due 2025[2]	396	–
$750 million 1.375% bonds due 2025[2]	594	618
€600 million 1% bonds due 2025	511	515
€ 500 million 3.5% bonds due 2025	427	–
€850 million 2.375% bonds due 2026	725	731
€500 million 1.75% bonds due 2026	497	498
$750 million 5.3% bonds due 2027[2]	593	–
€750 million 1.875% bonds due 2027	638	643
€500 million 1.5% bonds due 2027	426	430
€700 million 0.125% bonds due 2028	595	600
$500 million 3.875% bonds due 2028[2]	395	411
£300 million 2.375% bonds due 2028	298	298
$1,000 million 2.375% bonds due 2029[2]	787	819
£300 million 2.875% bonds due 2029	299	298
€750 million 1.15% bonds due 2029	640	645
$1,000 million 2% bonds due 2030[2]	789	821
€1,000 million 2.5% bonds due 2032	850	856
$750 million 2.125% bonds due 2032[2]	590	614
£400 million 1.25% bonds due 2033	396	395
$750 million 5.5% bonds due 2033[2]	590	–
€900 million 1.15% bonds due 2034	764	770
$400 million 7.45% bonds due 2035[1]	317	331
$600 million 5.875% bonds due 2036[2]	472	491
£600 million 2.75% bonds due 2038	595	595
$500 million 4.25% bonds due 2042[1]	393	409
$500 million 3.875% bonds due 2043[2]	391	407
Bank and other loans	296	293
Fair value adjustment to borrowings	(366)	(274)
Borrowings due after one year	**14,801**	14,498
Total borrowings before derivative financial instruments	16,502	16,020
Fair value of cross currency interest rate swaps	(348)	(367)
Fair value of foreign currency swaps and forwards	1	11
Fair value of interest rate hedging instruments	377	283
Lease liabilities	448	475
Gross borrowings	**16,980**	16,422
Less: Cash and cash equivalents	(1,439)	(2,285)
Net borrowings	**15,541**	14,137

(1) SEC-registered debt issued on an unsecured basis by Diageo Investment Corporation, a 100% owned finance subsidiary of Diageo plc and fully and unconditionally guaranteed by Diageo plc. No other subsidiary of Diageo plc guarantees the security.
(2) SEC-registered debt issued on an unsecured basis by Diageo Capital plc, a 100% owned finance subsidiary of Diageo plc and fully and unconditionally guaranteed by Diageo plc. No other subsidiary of Diageo plc guarantees the security.

(i) The interest rates shown are those contracted on the underlying borrowings before taking into account any interest rate hedges (see note 16).
(ii) Bonds are stated net of unamortised finance costs of £81 million (2022 – £85 million).
(iii) All bonds, medium-term notes and commercial paper issued on an unsecured basis by the group's 100% owned subsidiaries are fully and unconditionally guaranteed on an unsecured basis by Diageo plc and no other subsidiary of Diageo plc guarantees such securities.

Gross borrowings before derivative financial instruments are expected to mature as follows:

	2023 £ million	2022 £ million
Within one year	1,701	1,522
Between one and three years	3,522	2,817
Between three and five years	2,874	2,625
Beyond five years	8,405	9,056
	16,502	16,020

During the year, the following bonds were issued and repaid:

	2023 £ million	2022 £ million	2021 £ million
Issued			
€ denominated	441	1,371	636
£ denominated	–	892	395
$ denominated	1,788	–	–
Repaid			
€ denominated	–	(769)	(696)
$ denominated	(1,340)	(752)	(551)
	889	742	(216)

(a) Reconciliation of movement in net borrowings

	2023 £ million	2022 £ million
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**	1,490
Exchange differences on net borrowings	(159)	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, net increase in bonds and other borrowings excludes £2 million cash outflow in respect of derivatives designated in forward point hedges (2022 – £4 million).
(2) In the year ended 30 June 2023, other non-cash items are principally in respect of fair value changes of cross currency interest rate swaps and interest rate swaps of £(34) million and lease liabilities of £(82) million, partially offset by the £84 million fair value change of borrowings. In the year ended 30 June 2022, other non-cash items are principally in respect of fair value changes of cross currency interest rate swaps and interest rate swaps of £(346) million and lease liabilities of £(183) million, partially offset by the £331 million fair value change of borrowings.

(b) Analysis of net borrowings by currency

	2023		2022	
	Cash and cash equivalents £ million	Gross borrowings[1] £ million	Cash and cash equivalents £ million	Gross borrowings[1] £ million
US dollar	542	(5,751)	1,315	(3,260)
Euro[2]	48	(3,864)	61	(2,943)
Sterling	46	(6,227)	67	(9,214)
Indian rupee	123	(31)	26	(74)
Mexican peso	25	(286)	14	(264)
Hungarian forint	3	(261)	2	(214)
Kenyan shilling	28	(253)	53	(254)
Chinese yuan	199	(63)	290	(75)
Nigerian naira	83	–	133	–
Other[2]	342	(244)	324	(124)
Total	**1,439**	**(16,980)**	2,285	(16,422)

(1) Includes foreign currency forwards and swaps and leases.
(2) Includes £21 million (Euro) cash and cash equivalents in cash-pooling arrangements (2022 – £23 million (Turkish lira and Euro)).

18. Equity

Accounting policies

Own shares represent shares and share options of Diageo plc that are held in treasury or by employee share trusts for the purpose of fulfilling obligations in respect of various employee share plans or were acquired as part of a share buyback programme. Own shares are treated as a deduction from equity until the shares are cancelled, reissued or disposed of and when vest are transferred from own shares to retained earnings at their weighted average cost.

Share-based payments include share awards and options granted to directors and employees. The fair value of equity settled share options and share grants is initially measured at grant date based on Monte Carlo and Black Scholes models and is charged to the income statement over the vesting period. For equity settled shares, the credit is included in retained earnings. Cancellations of share options are treated as an acceleration of the vesting period and any outstanding charge is recognised in operating profit immediately. Any surplus or deficit arising on the sale of the Diageo plc shares held by the group is included as a movement in equity.

Dividends are recognised in the financial statements in the year in which they are approved.

(a) Allotted and fully paid share capital – ordinary shares of $28^{101}/_{108}$ pence each

	Number of shares million	Nominal value £ million
At 30 June 2023	**2,460**	**712**
At 30 June 2022	2,498	723
At 30 June 2021	2,559	741

(b) Hedging and exchange reserve

	Hedging reserve £ million	Exchange reserve £ million	Total £ million
At 30 June 2020	93	(1,022)	(929)
Other comprehensive income/(loss)	20	(672)	(652)
At 30 June 2021	113	(1,694)	(1,581)
Other comprehensive (loss)/income	(87)	622	535
At 30 June 2022	**26**	**(1,072)**	**(1,046)**
Other comprehensive income/(loss)	**216**	**(540)**	**(324)**
At 30 June 2023	**242**	**(1,612)**	**(1,370)**

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 – £22 million credit, 2021 – £22 million credit) to the hedging reserve.

(c) Own shares

Movements in own shares

	Number of shares million	Purchase consideration £ million
At 30 June 2020	227	1,936
Share trust arrangements	(1)	(11)
Shares used to satisfy options	(3)	(48)
Shares purchased - share buyback programme	3	109
Shares cancelled	(3)	(109)
At 30 June 2021	223	1,877
Share trust arrangements	(2)	(23)
Shares used to satisfy options	(2)	(16)
Shares purchased - share buyback programme	61	2,284
Shares cancelled	(61)	(2,284)
At 30 June 2022	**219**	**1,838**
Share trust arrangements	**(1)**	**(12)**
Shares used to satisfy options	**(2)**	**(12)**
Shares purchased - share buyback programme	**38**	**1,381**
Shares cancelled	**(38)**	**(1,381)**
At 30 June 2023	**216**	**1,814**

Share trust arrangements

At 30 June 2023, the employee share trusts owned 3 million of ordinary shares in Diageo plc (the company) at a cost of £52 million and market value of £101 million (2022 – 2 million shares at a cost of £25 million, market value £63 million; 2021 – 2 million shares at a cost of £47 million, market value £74 million). Dividends receivable by the employee share trusts on the shares are waived and the trustee abstains from voting.

Purchase of own shares

Authorisation was given by shareholders on 6 October 2022 to purchase a maximum of 227,870,414 ordinary shares at a minimum price of $28^{101}/108$ pence and a maximum price of the higher of (a) 105% of the average market value of the company's ordinary shares for the five business days prior to the day the purchase is made and (b) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. The programme expires at the conclusion of the next Annual General Meeting or on 5 January 2024, if earlier.

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 finalised in February 2023, 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.

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 3616 pence per share, and an aggregate cost of £1,381 million (including £13 million of transaction costs) (2022 – 3709 pence per share, and an aggregate cost of £2,284 million, including £16 million of transaction costs; 2021 – 3407 pence 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.

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:

Period	Number of shares purchased under share buyback programme	Total number of shares purchased	Average price paid pence	Authorised purchases unutilised at month end
July 2022	1,660,507	1,660,507	3567	177,756,956
August 2022	1,646,883	1,646,883	3820	176,110,073
September 2022	2,273,226	2,273,226	3744	173,836,847
1-6 October 2022	131,864	131,864	3702	173,704,983
7-31 October 2022 [1]	–	–	–	227,870,414
November 2022	4,497,414	4,497,414	3679	223,373,000
December 2022	4,571,923	4,571,923	3710	218,801,077
January 2023	7,989,915	7,989,915	3558	210,811,162
February 2023	1,718,877	1,718,877	3577	209,092,285
March 2023	4,353,777	4,353,777	3541	204,738,508
April 2023	2,883,950	2,883,950	3672	201,854,558
May 2023	5,196,558	5,196,558	3534	196,658,000
June 2023	410,562	410,562	3348	196,247,438
Total	**37,335,456**	**37,335,456**	**3617**	**196,247,438**

(1) New maximum number of purchasable shares was authorised by shareholders at the AGM held on 6 October 2022.

(d) Dividends

	2023 £ million	2022 £ million	2021 £ million
Amounts recognised as distributions to equity shareholders in the year			
Final dividend for the year ended 30 June 2022 46.82 pence per share (2021 – 44.59 pence; 2020 – 42.47 pence)	**1,066**	1,040	992
Interim dividend for the year ended 30 June 2023 30.83 pence per share (2022 – 29.36 pence; 2021 – 27.96 pence)	**696**	680	654
	1,762	1,720	1,646

The proposed final dividend of £1,113 million (49.17 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. As this was after the balance sheet date and the dividend is subject to approval by shareholders at the Annual General Meeting, this dividend has not been included as a liability in these consolidated financial statements. There are no corporate tax consequences arising from this treatment.

Dividends are waived on all treasury shares owned by the company and all shares owned by the employee share trusts.

(e) Non-controlling interests

Diageo consolidates USL, a company incorporated in India, with a 42.79% non-controlling interest, Sichuan Shuijingfang Company Limited, a company incorporated in China, with a 36.83% non-controlling interest and has a 50% controlling interest in Ketel One Worldwide B.V. (Ketel One), a company incorporated in the Netherlands.

Summarised financial information for USL and other subsidiaries, after fair value adjustments on acquisition, and the amounts attributable to non-controlling interests are as follows:

	2023			2022	2021
	USL £ million	Others £ million	Total £ million	Total £ million	Total £ million
Income statement					
Sales	**2,713**	**2,628**	**5,341**	5,797	5,140
Net sales	**1,087**	**2,051**	**3,138**	3,055	2,553
(Loss)/profit for the year[1]	**(215)**	**289**	**74**	227	298
Other comprehensive (loss)/income[2]	**(133)**	**(154)**	**(287)**	333	(434)
Total comprehensive (loss)/income	**(348)**	**135**	**(213)**	560	(136)
Attributable to non-controlling interests	**(149)**	**33**	**(116)**	259	(35)
Balance sheet					
Non-current assets[3]	**1,074**	**3,175**	**4,249**	5,017	4,669
Current assets	**790**	**1,049**	**1,839**	2,002	1,492
Non-current liabilities	**(151)**	**(1,164)**	**(1,315)**	(1,499)	(1,356)
Current liabilities	**(384)**	**(1,035)**	**(1,419)**	(1,646)	(1,335)
Net assets	**1,329**	**2,025**	**3,354**	3,874	3,470
Attributable to non-controlling interests	**568**	**902**	**1,470**	1,716	1,534
Cash flow					
Net cash inflow from operating activities	**120**	**383**	**503**	690	661
Net cash inflow/(outflow) from investing activities	**34**	**(231)**	**(197)**	(289)	(137)
Net cash outflow from financing activities	**(48)**	**(93)**	**(141)**	(322)	(371)
Net increase in cash and cash equivalents	**106**	**59**	**165**	79	153
Exchange differences	**(7)**	**(77)**	**(84)**	52	(19)
Dividends payable to non-controlling interests	**–**	**(97)**	**(97)**	(72)	(72)

(1) (Loss)/profit for the year includes exceptional operating expenses attributable to non-controlling interests.
(2) Other comprehensive (loss)/income is principally in respect of exchange on translating the subsidiaries to sterling.
(3) Non-current assets include the global distribution rights to distribute Ketel One vodka products throughout the world. The carrying value of the distribution rights at 30 June 2023 was £1,428 million (2022 – £1,488 million; 2021 – £1,295 million).
(i) On 31 December 2022, USL completed the merger with its subsidiary, Pioneer Distilleries Limited (PDL) 75% owned by USL. Under the terms, PDL's minority shareholders received additional shares in USL in exchange for their 25% interest in PDL and non-controlling interest increased from 42.73% to 42.79%.
(ii) On 24 March 2023, Diageo completed the purchase of an additional 14.97% of the share capital of EABL. This increased Diageo's controlling shareholding position in EABL from 50.03% to 65.00%.

(f) 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:

	2023 £ million	2022 £ million	2021 £ million
Executive share award plans	**41**	51	41
Executive share option plans	**4**	4	4
Savings plans	**4**	4	4
	49	59	49

Executive share awards have been made primarily under the Diageo 2014 Long Term Incentive Plan (DLTIP) from September 2014 onwards and delivered in conditional awards in the form of performance shares, performance share options, time-vesting restricted stock units (RSUs) and/or time-vesting share options (or cash-based equivalents in certain locations for regulatory reasons). Share options are granted at the market value at the time of grant. Prior to the introduction of the DLTIP, employees in associated companies were granted awards under the Diageo plc 2011 Associated Companies Share Incentive Plan (DACSIP). In the case of Executive Directors, conditional awards of time-vesting RSUs or forfeitable shares may be awarded under the 2020 Deferred Bonus Share Plan (DBSP), with vesting not subject to any performance conditions and not subject to a post-vesting retention period. The DLTIP plan rules will be presented for renewal at the AGM in September 2023 and any future awards made post approval will be made under the new plan rules.

Share awards normally vest and are released on the third anniversary of the grant date. Participants do not make a payment to receive the award at grant. Executive Directors are required to hold any vested shares awarded under DLTIP for a further two-year post-vesting holding period. Share options may normally be exercised between three and ten years after the grant date. Executives in North America and Latin America and Caribbean are granted awards over the company's ADRs (one ADR is equivalent to four ordinary shares).

Performance shares under the DLTIP (for awards in 2020 and thereafter) are subject to the achievement of three performance measures: 1) compound annual growth in profit before exceptional items over three years; 2) compound annual growth in organic net sales over three years; 3) environmental, social and governance (ESG) priorities, weighted 40%, 40% and 20% of the maximum respectively, as set out in the Directors' remuneration report. Performance share options under the DLTIP are subject to the achievement of two equally weighted performance measures: 1) a comparison of Diageo's three-year TSR with a peer group; 2) cumulative free cash flow over a three-year period, measured at constant exchange rates. Performance measures and targets are set annually by the Remuneration Committee.

The vesting range is 20% for Executive Directors and 25% for other participants for achieving minimum performance targets, up to 100% for achieving the maximum target level. Retesting of the performance measures is not permitted.

For performance shares under the DLTIP, dividends are accrued on awards and are given to participants to the extent that the awards actually vest at the end of the performance period. Dividends are normally paid out in the form of shares.

Savings plans are provided in the form of a savings-related share option plan. For UK employees, awards were made under the Diageo 2010 Sharesave plan (for options granted up until 2020) and the Diageo 2020 Sharesave plan (for options granted from 2021).

For Republic of Ireland (ROI) based employees, awards were made under the Diageo 2009 Irish Sharesave Scheme (for options granted up until 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 return, employees are granted the option to buy Diageo shares using the savings accrued at the end of the relevant savings period and at a 20% discounted option price, which 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 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 ROI 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.

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:

	2023	2022	2021
Risk free interest rate	**3.1%**	0.4%	(0.1%)
Expected life of the awards	**35 months**	40 months	36 months
Dividend yield	**2.0%**	2.1%	2.7%
Weighted average share price	**3758 p**	3545 p	2557 p
Weighted average fair value of awards granted in the year	**1992 p**	2729 p	2107 p
Number of awards granted in the year	**1.7 million**	2.1 million	2.1 million
Fair value of all awards granted in the year	**£34 million**	£57 million	£45 million

Transactions on schemes

Transactions on the executive share award plans for the three years ended 30 June 2023 were as follows:

	2023 million	2022 million	2021 million
Number of awards outstanding at 1 July	**5.2**	5.3	5.6
Granted	**1.7**	2.1	2.1
Awarded	**(1.1)**	(1.1)	(1.2)
Forfeited	**(0.9)**	(1.1)	(1.2)
Number of awards outstanding at 30 June	**4.9**	5.2	5.3

The exercise price of share options outstanding at 30 June 2023 was in the range of 1709 pence - 3864 pence (2022 – 1704 pence - 4024 pence; 2021 – 1232 pence - 3483 pence).

At 30 June 2023, 2.5 million share options were exercisable at a weighted average exercise price of 2443 pence. Weighted average remaining contractual life of share options was five years at 30 June 2023.

Other financial statements disclosures

Introduction

This section includes additional financial information that are either required by the relevant accounting standards or management considers these to be material information for shareholders.

19. Contingent liabilities and legal proceedings

Accounting policies

Provision is made for the anticipated settlement costs of legal or other disputes against the group where 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) Guarantees and related matters

As of 30 June 2023, the group has no material unprovided 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 14.98% in USL, 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 Benefit 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 review on appeal. However, as stated by Diageo at the time of closing, it was considered unlikely that any appeal process in respect of the Leave Order would definitively 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 USL from 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.

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 continues to believe that the acquisition price of INR 1,440 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, adverse results for Diageo in the proceedings referred to above could, absent leave or relief in other proceedings, ultimately result in Diageo losing title to the 6.98% stake in USL acquired from UBHL. Diageo believes, including by reason of its rights under USL's articles of association to nominate USL's CEO and CFO and the right to appoint, through USL, a majority of the directors on the boards of USL's subsidiaries as well as its ability as promoter to nominate for appointment up to two-thirds of USL's directors for so long as the chairperson of USL is an independent director, that it would remain in control of USL 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 $75 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 instalments of $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 (£112 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 five-year 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 these matters. At the same time DHN also commenced claims in the English High Court against Dr Mallya, his son Sidhartha Mallya, Watson and Continental Administration Services Limited (CASL) (a company affiliated with Dr Mallya and understood to hold assets on trust for him and certain persons affiliated with him) for in excess of $142 million (£113 million) (plus interest) in relation to Watson's liability to DHN in respect of its borrowings referred to above and the breach of associated security documents. Dr Mallya, Sidhartha Mallya and the relevant affiliated companies filed a defence to these claims, and Dr Mallya also filed a counterclaim for payment of the two instalment payments that had by that time been withheld as described above.

Diageo continues to prosecute its claims and to defend the counterclaim. As part of these proceedings, Diageo and the other relevant members of its group filed an application for strike out and/or summary judgement in respect of certain aspects of the defence filed by Dr Mallya and the other defendants, including their defence in relation to Watson and CASL's liability to repay DHN. The application was successful resulting in Watson being ordered to pay approximately $135 million (£107 million) plus various amounts in respect of interest to DHN, with CASL being held liable as co-surety for 50% of any such amount unpaid by Watson. These amounts were, contrary to the relevant orders, not paid by the relevant deadlines and Watson and CASL's remaining defences in the proceedings were struck out. Diageo and DHN have accordingly sought asset disclosure and are considering further enforcement steps against Watson and CASL, both in the United Kingdom and in other jurisdictions where they are present or hold assets.

A trial of the remaining elements of these claims was due to commence on 21 November 2022. However, on 26 July 2021 Dr Mallya was declared bankrupt by the English High Court pursuant to a bankruptcy petition presented by a consortium of Indian banks. Diageo and the relevant members of its group have informed the Trustee in Bankruptcy of their position as creditors in the bankruptcy and have engaged with the Trustee regarding their claims and the status of the current proceedings. An appeal by Dr Mallya against his bankruptcy (and an appeal by the bank consortium against orders made in the course of the bankruptcy proceedings) are pending. In light of the uncertainty posed by the ongoing bankruptcy proceedings, the trial of Diageo's claim was initially relisted to take place in February 2024. However, Dr Mallya's appeal against his bankruptcy and the banks' cross appeal will not now be heard until April 2024, and thus the trial of Diageo's claim has been deferred from February 2024 until after those appeals have been determined.

At this stage, it is not possible to assess the extent to which the various ongoing proceedings related to the bankruptcy will affect the remaining elements of the claims by Diageo and the relevant members of its group.

Upon completion of an initial inquiry in April 2015 into past improper transactions which identified references to certain additional parties and matters, USL carried out an additional inquiry into these transactions (Additional Inquiry) which was completed in July 2016. The Additional Inquiry, prima facie, identified transactions indicating actual and potential diversion of funds from USL and its Indian and overseas subsidiaries to, in most cases, entities that appeared to be affiliated or associated with Dr Mallya. All amounts identified in the Additional Inquiry have been provided for or expensed in the financial statements of USL or its subsidiaries in the respective prior periods. USL has filed recovery suits against relevant parities identified pursuant to the Additional Inquiry.

Further, at this stage, it is not possible for the management of USL to estimate the financial impact on USL, if any, arising out of potential non-compliance with applicable laws in relation to such fund diversions.

(d) Other matters in relation to USL

In respect of the Watson backstop guarantee arrangements, the Securities and Exchange Board of India (SEBI) issued a notice to Diageo on 16 June 2016 that if there is any net liability incurred by Diageo (after any recovery under relevant security or other arrangements, which matters remain pending) on account of the Watson backstop guarantee, such liability, if any, would be considered to be part of the price paid for the acquisition of USL shares under the SPA which formed part of the Original USL Transaction and that, in that case, additional equivalent payments would be required to be made to those shareholders (representing 0.04% of the shares in USL) who tendered in the open offer made as part of the Original USL Transaction. Diageo believes that the Watson backstop guarantee arrangements were not part of the price paid or agreed to be paid for any USL shares under the Original USL Transaction and that therefore SEBI's decision was not consistent with applicable law, and Diageo appealed against it before the Securities Appellate Tribunal, Mumbai (SAT). On 1 November 2017, SAT issued an order in respect of Diageo's appeal in which, amongst other things, it observed that the relevant officer at SEBI had neither considered Diageo's earlier reply nor provided Diageo with an opportunity to be heard, and accordingly directed SEBI to pass a fresh order after giving Diageo an opportunity to be heard. Following SAT's order, Diageo made its further submissions in the matter, including at a personal hearing before a Deputy General Manager of SEBI. On 26 June 2019, SEBI issued an order reiterating the directions contained in its previous notice dated 16 June 2016. As with the previous SEBI notice, Diageo believes that SEBI's latest order is not consistent with applicable law. Diageo appealed against this order before SAT and, after a hearing in March 2023, SAT allowed Diageo's appeal on 26 July 2023. Accordingly, SEBI's order dated 26 June 2019 stands quashed. Under applicable law, SEBI is entitled to file an appeal against SAT's order before the Supreme Court of India. Therefore, pending any appeal which may be filed by SEBI, there can be no certainty as to its outcome or the timeframe within which any such appeal would be concluded.

(e) USL's dispute with IDBI Bank Limited

Prior to the acquisition by Diageo of a controlling interest in USL, USL had prepaid a term loan of INR 6,280 million (£60 million) taken through IDBI Bank Limited (IDBI), an Indian bank, which was secured on certain fixed assets and brands of USL, as well as by a pledge of certain shares in USL held by the USL Benefit Trust (of which USL is the sole beneficiary). The maturity date of the loan was 31 March 2015. IDBI disputed the prepayment, following which USL filed a writ petition in November 2013 before the High Court of Karnataka (the High Court) challenging the bank's actions.

Following the original maturity date of the loan, USL received notices from IDBI seeking to recall the loan, demanding a further sum of INR 459 million (£4 million) on account of the outstanding principal, accrued interest and other amounts, and also threatening to enforce the security in the event that USL did not make these further payments. Pursuant to an application filed by USL before the High Court in the writ proceedings, the High Court directed that, subject to USL depositing such further amount with the bank (which amount was duly deposited by USL), the bank should hold the amount in a suspense account and not deal with any of the secured assets including the shares until disposal of the original writ petition filed by USL before the High Court.

On 27 June 2019, a single judge bench of the High Court issued an order dismissing the writ petition filed by USL, amongst other things, on the basis that the matter involved an issue of breach of contract by USL and was therefore not maintainable in exercise of the court's writ jurisdiction. USL filed an appeal against this order before a division bench of the High Court, which on 30 July 2019 issued an interim order directing the bank to not deal with any of the secured assets until the next date of hearing. On 13 January 2020, the division bench of the High Court admitted the writ appeal and extended the interim stay. This appeal is currently pending. Based on the assessment of USL's management supported by external legal opinions, USL continues to believe that it has a strong case on the merits and therefore continues to believe that the secured assets will be released to USL and the aforesaid amount of INR 459 million (£4 million) remains recoverable from IDBI.

(f) Tax

The international tax environment has seen increased scrutiny and rapid change over recent years bringing with it greater uncertainty for multinationals. Against this backdrop, Diageo has been monitoring developments and continues to engage transparently with the tax authorities in the countries where Diageo operates to ensure that the group manages its arrangements on a sustainable basis.

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 audits can take several years to resolve. In the context of these operations, it is possible that tax exposures which have not yet materialised (including those which could arise as a result of tax assessments) may result in losses to the group. In the circumstances where tax authorities have raised assessments, challenging interpretations which may lead to a possible material outflow, these have been included as contingent liabilities. Where the potential tax exposures are known to us and have not been assessed, the group considers disclosure of such matters taking into account their size and nature, relevant regulatory requirements and potential prejudice of the future resolution or assessment thereof.

Diageo has a large number of ongoing tax cases in Brazil and India. Since assessing an accurate value of contingent liabilities in these markets requires a high degree of judgement, contingent liabilities are disclosed on the basis of the current known possible exposure from tax assessment values. While not all of these cases are individually significant, the current aggregate known possible exposure from tax assessment values is up to approximately £616 million for Brazil and up to approximately £90 million for India. 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 in India, the possibility of further tax assessments related to the same matters cannot be ruled out and the judicial processes may take extended periods to conclude. Based on its current assessment, Diageo believes that no provision is required in respect of these issues.

Payments were made under protest in India in respect of the periods 1 April 2006 to 31 March 2019 in relation to tax assessments where the risk is considered to be remote or possible. These payments have to be made in order to be able to challenge the assessments and as such have been recognised as a receivable in the group's balance sheet. The total amount of payments under protest recognised as a receivable as at 30 June 2023 is £116 million (corporate tax payments of £104 million and indirect tax payments of £12 million).

(g) Other disputes

On 31 May 2023, a complaint against Diageo North America, Inc (DNA) was filed in the Supreme Court of New York by Combs Wine and Spirits LLC (an entity associated with Mr Sean Combs) alleging, inter alia, breach of contract in respect of a joint venture agreement related to DeLeón tequila. DNA has also served notice of material breaches and termination to Mr Combs and his relevant associated entities of certain agreements related to services provided by Mr Combs and these entities in respect of Cîroc, and notice of material breaches and an intent to arbitrate in respect of the DeLeón joint venture agreement. Diageo categorically denies the allegations that have been made by Mr Combs and his associated parties in the complaint and will defend itself vigorously. Diageo will refrain from making any further disclosures given the inherent uncertainties of these matters and the prejudicial nature any such disclosures may have on the potential outcomes related thereto or other associated matters.

(h) Other

The group has extensive international operations and routinely makes judgements on a range of legal, customs and tax matters which are incidental to the group's operations. Some of these judgements are or may become the subject of challenges and involve proceedings, the outcome of which cannot be foreseen. In particular, the group is currently a defendant in various customs proceedings that challenge the declared customs value of products imported by certain Diageo companies. Diageo continues to defend its position vigorously in these proceedings.

Save as disclosed above, neither Diageo, nor any member of the Diageo group, is or has been engaged in, nor (so far as Diageo is aware) is there pending or threatened by or against it, any legal or arbitration proceedings which may have a significant effect on the financial position of the Diageo group.

20. Commitments

(a) Capital commitments

Commitments for expenditure on intangibles and property, plant and equipment not provided for in these consolidated financial statements are estimated at £599 million (2022 – £399 million; 2021 – £263 million).

(b) Other commitments

The future minimum lease rentals payable in the year ended 30 June 2023 for short-term leases and leases of low-value assets are estimated at £36 million (2022 – £13 million; 2021 – £11 million). The total 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).

21. Related party transactions

Transactions between the group and its related parties are made on terms equivalent to those that prevail in arm's length transactions.

(a) Subsidiaries

Transactions between the company and its subsidiaries are eliminated on consolidation and therefore are not disclosed. Details of the principal group companies are given in note 22.

(b) Associates and joint ventures

Sales and purchases to and from associates and joint ventures are principally in respect of premium drinks products but also include the provision of management services.

Transactions and balances with associates and joint ventures are set out in the table below:

	2023 £ million	2022 £ million	2021 £ million
Income statement items			
Sales	**10**	11	8
Purchases	**13**	31	23
Balance sheet items			
Group payables	**2**	2	5
Group receivables	**1**	2	1
Loans payable	**–**	–	9
Loans receivable	**197**	175	108
Cash flow items			
Loans and equity contributions, net	**93**	66	38

Other disclosures in respect of associates and joint ventures are included in note 6.

(c) Key management personnel

The key management of the group comprises the Executive and Non-Executive Directors, the members of the Executive Committee and the Company Secretary. They are listed under 'Board of Directors and Company Secretary' and 'Executive Committee'.

	2023 £ million	2022 £ million	2021 £ million
Salaries and short-term employee benefits	**11**	10	9
Annual incentive plan	**6**	13	13
Non-Executive Directors' fees	**1**	1	1
Share-based payments[1]	**12**	19	12
Post employment benefits	**2**	2	1
Termination benefits	**–**	–	2
	32	45	38

(1) Time-apportioned fair value of unvested options and share awards.

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 Diageo Pension Trust Limited, consisting of £850 million for the Diageo Pension Scheme, to support temporary liquidity 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 Diageo 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).

(e) Directors' remuneration

	2023 £ million	2022 £ million	2021 £ million
Salaries and short-term employee benefits	3	3	2
Annual incentive plan	2	4	4
Non-Executive Directors' fees	1	1	1
Share option exercises[1]	–	4	–
Shares vesting[1]	4	3	1
Post employment benefits	1	–	–
	11	15	8

(1) Gains on options realised in the year and the benefit from share awards, calculated by using the share price applicable on the date of exercise of the share options and release of the awards.

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.

	Country of incorporation	Country of operation	Percentage of equity owned[1]	Business description
Subsidiaries				
Diageo Ireland Unlimited Company	Ireland	Worldwide	100%	Production, marketing and distribution of premium drinks
Diageo Great Britain Limited	England	Great Britain	100%	Marketing and distribution of premium drinks
Diageo Scotland Limited	Scotland	Worldwide	100%	Production, marketing and distribution of premium drinks
Diageo Brands B.V.	Netherlands	Worldwide	100%	Marketing and distribution of premium drinks
Diageo North America, Inc.	United States	Worldwide	100%	Production, importing, marketing and distribution of premium drinks
United Spirits Limited[2]	India	India	55.88%	Production, importing, marketing and distribution of premium drinks
Diageo Capital plc[3]	Scotland	United Kingdom	100%	Financing company for the group
Diageo Capital B.V.[3]	Netherlands	Netherlands	100%	Financing company for the group
Diageo Finance plc[3]	England	United Kingdom	100%	Financing company for the group
Diageo Investment Corporation	United States	United States	100%	Financing company for the US group
Mey İçki Sanayi ve Ticaret A.Ş.	Turkey	Turkey	100%	Production, marketing and distribution of premium drinks
Associates				
Moët Hennessy, SAS[4]	France	France	34%	Production, marketing and distribution of premium drinks

(1) All percentages, unless otherwise stated, are in respect of holdings of ordinary share capital and are equivalent to the percentages 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 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.

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 and 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 ADRs 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.

Company balance sheet of Diageo plc

	Notes	30 June 2023 £ million	30 June 2023 £ million	30 June 2022 £ million	30 June 2022 £ million
Non-current assets					
Investments in subsidiary undertakings	3	61,564		61,561	
Other financial assets	4	670		536	
Post employment benefit assets	6	591		1,210	
			62,825		63,307
Current assets					
Amounts owed by group undertakings	4	1,130		2,879	
Trade and other receivables	4	28		7	
Other financial assets	4	2		96	
Cash and cash equivalents		1		16	
			1,161		2,998
Total assets			63,986		66,305
Current liabilities					
Amounts owed to group undertakings	4	(3)		(48)	
Other financial liabilities	4	(2)		(164)	
Trade and other payables	4	(59)		(37)	
Provisions	7	(12)		(11)	
			(76)		(260)
Non-current liabilities					
Amounts owed to group undertakings	4	(8,234)		(9,385)	
Other financial liabilities	4	(612)		(536)	
Provisions	7	(149)		(158)	
Deferred tax liabilities	5	(92)		(243)	
Post employment benefit liabilities	6	(54)		(66)	
			(9,141)		(10,388)
Total liabilities			(9,217)		(10,648)
Net assets			54,769		55,657
Equity					
Share capital (2023 – 2,460 million shares (2022 – 2,498 million shares) of 28 101/108 pence each)	9	712		723	
Share premium		1,351		1,351	
Merger reserve	9	9,161		9,161	
Capital redemption reserve		3,231		3,220	
			14,455		14,455
Retained earnings:					
At beginning of year		41,202		43,780	
Profit for the year		2,543		1,026	
Other changes in retained earnings		(3,431)		(3,604)	
			40,314		41,202
Total equity			54,769		55,657

The accompanying notes are an integral part of these parent company financial statements.

These financial statements have been approved by a duly appointed and authorised committee of the Board of Directors on 31 July 2023 and were signed on its behalf by Debra Crew and Lavanya Chandrashekar, Directors.

Company registration number: 23307

Statement of changes in equity for Diageo plc

					Retained earnings/(deficit)			
	Share capital	Share premium	Merger reserve	Capital redemption reserve	Own shares	Other reserve	Total	Total equity
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 30 June 2021	741	1,351	9,161	3,202	(1,877)	45,657	43,780	58,235
Profit for the year	–	–	–	–	–	1,026	1,026	1,026
Other comprehensive income	–	–	–	–	–	275	275	275
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**1,301**	**1,301**	**1,301**
Employee share schemes	–	–	–	–	39	50	89	89
Share-based incentive plans	–	–	–	–	–	59	59	59
Tax on share-based incentive plans	–	–	–	–	–	1	1	1
Unclaimed dividend	–	–	–	–	–	2	2	2
Share buyback programme	(18)	–	–	18	–	(2,310)	(2,310)	(2,310)
Dividend declared for the year	–	–	–	–	–	(1,720)	(1,720)	(1,720)
At 30 June 2022	**723**	**1,351**	**9,161**	**3,220**	**(1,838)**	**43,040**	**41,202**	**55,657**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**2,543**	**2,543**	**2,543**
Other comprehensive loss	**–**	**–**	**–**	**–**	**–**	**(503)**	**(503)**	**(503)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**2,040**	**2,040**	**2,040**
Employee share schemes	**–**	**–**	**–**	**–**	**24**	**24**	**48**	**48**
Share-based incentive plans	**–**	**–**	**–**	**–**	**–**	**49**	**49**	**49**
Tax on share-based incentive plans	**–**	**–**	**–**	**–**	**–**	**1**	**1**	**1**
Unclaimed dividend	**–**	**–**	**–**	**–**	**–**	**1**	**1**	**1**
Share buyback programme	**(11)**	**–**	**–**	**11**	**–**	**(1,265)**	**(1,265)**	**(1,265)**
Dividend declared for the year	**–**	**–**	**–**	**–**	**–**	**(1,762)**	**(1,762)**	**(1,762)**
At 30 June 2023	**712**	**1,351**	**9,161**	**3,231**	**(1,814)**	**42,128**	**40,314**	**54,769**

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 IFRSs 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 18 to the consolidated financial statements. Where the company grants options over its own shares to the employees of its subsidiaries, it generally recharges the cost to the relevant group company. Where the amount is not recharged, the value of the options is recognised as a capital contribution to the subsidiaries and increases the cost of investment.

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. Past 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 counterparty. Expected credit loss is immaterial for amounts owed by group undertakings.

Amounts owed to group undertakings are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade payables 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 one day and therefore these amounts are disclosed as non-current liabilities.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values. These liabilities are subsequently measured at the higher of the amount determined under IAS 37 and the amount initially recognised (fair value) less where appropriate, cumulative amortisation of the initial amount recognised.

Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires the directors 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.

The critical accounting policies, which the directors consider are of greater complexity and/or particularly subject to the exercise of estimates and judgements, are the same as those disclosed in note 1 to the consolidated financial statements in respect of taxation, post employment benefits, contingent liabilities and legal proceedings.

A critical accounting estimate, specific to the company is the assessment of the recoverable amount of the investments in subsidiaries. Impairment reviews are carried out to ensure that the value of the investments in subsidiaries are not carried at above their recoverable amounts. 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 expected growth rates. Such estimates and judgements are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts.

Additional estimates have been applied by management regarding the potential financial impacts of increasing inflationary pressures. Details are set out in note 9 to the consolidated financial statements.

2. Income statement

Note 3 to the consolidated financial statements provides details of the remuneration of the company's auditor for the group.

Information on Directors' emoluments, share and other interests, transactions and pension entitlements is included in the Directors' remuneration report in this Annual Report.

3. Investments in subsidiary undertakings

Cost	£ million
At 30 June 2022	**72,701**
Additions	3
At 30 June 2023	**72,704**
Provision	
At 30 June 2022	**(11,140)**
Increase in the year	–
At 30 June 2023	**(11,140)**
Carrying amount	
At 30 June 2023	**61,564**
At 30 June 2022	61,561

Investments in subsidiary undertakings are stated at historical cost of £72,704 million (2022 – £72,701 million) less impairment provisions of £11,140 million (2022 – £11,140 million).

Investments in subsidiary undertakings include £140 million (2022 – £137 million) of costs in respect of share-based payments, granted to subsidiary undertakings 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.

A list of group companies as at 30 June 2023 is provided in note 10.

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 any 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

	Post employment plans £ million	Other temporary differences £ million	Total £ million
At 30 June 2021	(190)	46	(144)
Changes in tax rates	(23)	(1)	(24)
Recognised in income statement	(4)	(2)	(6)
Recognised in other comprehensive income and equity	(69)	–	(69)
At 30 June 2022	**(286)**	**43**	**(243)**
Changes in tax rates	**27**	**–**	**27**
Recognised in income statement	**(13)**	**(1)**	**(14)**
Recognised in other comprehensive income and equity	**138**	**–**	**138**
At 30 June 2023	**(134)**	**42**	**(92)**

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:

	Plan assets £ million	Plan liabilities £ million	Net surplus £ million
At 30 June 2021	7,341	(6,582)	759
Income/(charge) before taxation	134	(161)	(27)
Other comprehensive (loss)/income	(1,191)	1,557	366
Contributions by group companies	46	–	46
Employee contributions	1	(1)	–
Benefits paid	(290)	290	–
At 30 June 2022	**6,041**	**(4,897)**	**1,144**
Income/(charge) before taxation	**218**	**(203)**	**15**
Other comprehensive (loss)/income	**(1,396)**	**725**	**(671)**
Contributions by group companies	**49**	**–**	**49**
Benefits paid	**(334)**	**334**	**–**
At 30 June 2023	**4,578**	**(4,041)**	**537**

The net surplus for the UK post employment plans of £537 million (2022 – £1,144 million) for which the company is a sponsor comprises funded plans of £591 million (2022 – £1,210 million) disclosed as part of non-current assets and unfunded liabilities of £54 million (2022 – £66 million) disclosed as part of non-current liabilities.

The disclosures have been prepared in accordance with IFRIC 14. In particular, where the calculation for a plan results in a surplus, the recognised asset 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.

Additional information on the UK post employment plans and the principal risks and assumptions applicable is disclosed in note 14 to the consolidated financial statements.

7. Provisions

	Thalidomide £ million
At 30 June 2022	**169**
Provisions utilised during the year	**(12)**
Unwinding of discounts	**4**
At 30 June 2023	**161**

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 £149 million (2022 – £158 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 – £15,933 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 purchase 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 repurchased 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 3616 pence per share, and an aggregate cost of £1,381 million (including £13 million of transaction costs) (2022 – 3709 pence per share, and an aggregate cost of £2,284 million, including £16 million of transaction costs; 2021 – 3407 pence 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(c) 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 purchases 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 02/17BL '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.

10. Group companies

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, joint ventures and joint arrangements, the country of incorporation and the effective percentage of equity owned, as at 30 June 2023 are disclosed below. Unless otherwise stated the share capital disclosed comprises ordinary shares which are indirectly held by Diageo plc.

FULLY OWNED SUBSIDIARIES

Angola

Rua Fernao de Sousa, Condominio Bengo, Letter A, 11.s floor, Fraction A37, neighbourhood Vila Alice, Province of Luanda

Diageo Angola Limitada

Argentina

Bernardo de Irigoyen 972, floor 7, office A, CABA

Diageo de Argentina S.A.

Australia

162 Blues Point Road, Level 1, NSW, 2060, McMahons Point

Bundaberg Distilling Investments Pty Ltd[3]

Level 7, 99 Macquarie Street, Sydney, NSW 2000

Diageo Australia Limited[3]

Mr Black Spirits Pty Ltd.

Whittred Street, QLD, 4670, Bundaberg

Bundaberg Distilling Company Pty. Limited[5]

Austria

Teinfaltstrasse 8, 1010, Wien

Diageo Austria GmbH

Belgium

Z.3 Doornveld 150, 1731, Zellik

Diageo Belgium N.V.

Bermuda

Victoria Place, 5th Floor, 31 Victoria Street, Hamilton, HM10

Atalantaf Limited

Brazil

Fazenda Santa Eliza, Zona Rural, Ceará, 62.685-000, Paraipaba

Ypioca Agricola LTDA

Municipio de Itaitinga, Estado do Ceara, na Rodovia BR 116, no 15.000, Bairro Jiboia, CEP 61.880-000

Ypioca Industrial de Bebidas S.A.

Rua Olimpiadas, 205, floor 14-15, 04551-000, Sao Paulo

Diageo Brasil Ltda

Bulgaria

7 Iskarsko Shose Blvd., Trade Center Europe, building 12, floor 2, 1528, Sofia

Diageo Bulgaria Ltd

Cameroon

535 rue AFCODI, Douala P.O. Box 1245

Diageo Cameroon Ltd

Canada

134 Peter Street, Suite 1501, Ontario, M5V 2H2, Toronto

Diageo Canada Holdings Inc.

Diageo Canada Inc.

Boul Henri-Bourassa E., 9225, Local A, Quebec, H1E 1P6 , Montreal

Diageo Americas Supply Quebec Distribution Inc.

Diageo Ireland Quebec Distribution Inc.

Chile

Avenida Apoquindo 5950, Piso 4, Oficina 04-103, Las Condes Santiago de Chile

Diageo Chile Limitada

China

41F, One Museum Place, 669 Xinzha Road, Jingan District, Shanghai

Diageo China Limited

Fengxiang Village Fengyu Town, Eryuan County, Dali Bai Minority Region, Yunnan Province

Diageo Liquor (Dali) Co. Ltd

No. 9 Quanxing Road, Jinniu District, Chengdu, 610036

Sichuan Chengdu Shuijingfang Group Co. Ltd

No.28 Jiafeng Road, 2502, 5, Pudong District, 200137, Shanghai

Diageo (Shanghai) Limited

Unit 1101, 1102, Building 16, No.1000 Jinhai Road, Shanghai

Diageo Liquor Technology (Shanghai) Co. Ltd

Unit B, 2nd Floor, West Logistics Center, No. 88 Linhai Avenue, Nanshan Street, Shenzhen

Diageo Supply Chain (Shenzhen) Co. Ltd

Colombia

100 street No.13 21 Office 502. Bogota

Diageo Colombia S.A.

Costa Rica

Trejos Montealegre, Edificio Escazu, Village II, Oficinas 03-118 y 03-120, Distrito San Rafael, San Jose

Diageo Costa Rica S.A.

Croatia

Hektoroviceva ulica 2, 10000, Zagreb

Diageo Croatia d.o.o.za usluge

Czech Republic

Namesti I. P. Pavlova 1789/5. 4th floor, 120 00, Prague 2

Diageo Czech Marketing Services LLC

Denmark

Sundkrogsgade 19, 2. 2100, Copenhagen

Diageo Denmark AS

Dominican Republic

Num. 07 Av. Jacinto Ignacio Manon, Sector Ensanche Paraiso, Edificio Chez Space, Piso 3rd, Distrito Nacional, Santo Domingo

Diageo Dominicana S.R.L.

France

4 Rue Jules Lefebvre, 75009, Paris

Guinness France Holdings SAS

73, Rue de Provence, 75009, Paris

United Distillers France SAS

Germany

Reeperbahn 1, 20359, Hamburg

Belsazar GmbH

Diageo Germany GmbH

Greece

Leof. Kifisias 115, Athens, 115 24

Diageo Hellas S.A.

Guernsey

Heritage Hall, Le Marchant Street, St Peter Port, GY1 4HY

Diageo Group Insurance Company Limited

Hong Kong

31/F, Tower two, Times Square, 1 Matheson street Causeway Bay, Hong Kong

Diageo RTD Hong Kong Limited

Hungary

Dozsa Gyorgy ut 144, Budapest, 1134

Diageo Business Services Private Company Limited by Shares

Diageo Hungary Finance Limited Liability Company

Diageo Hungary Marketing Services Limited Liability Company

India

Kempapura Main Road, Opp Nagawara Lake, Karle SEZ Tower, 2nd floor, Karnataka, 560045, Bangalore

Diageo Business Services India Private Limited

Marathon Futurex, A-Wing, 2601, 26th Floor, N M Joshi Marg, Lower Parel, Mumbai, 400 013

Diageo Distilleries Private Limited[7]

Diageo India Private Limited

Indonesia

Jl Jend Sudirman Kav. 76-78, Sudirman Plaza, Plaza Marein, 15th, Jakarta Selatan, 12910, Jakarta

PT Gitaswara Indonesia[9]

Ireland

Nangor House, Western Estate, Nangor Road, Dublin, 12

Gilbeys of Ireland Unlimited Company

R & A Bailey & Co Unlimited Company

UDV Ireland Group (Trustees) Designated Activity Company

St. James's Gate, Dublin 8

AGS Employee Shares Nominees (Ireland) Designated Activity Company

Arthur Guinness Son & Company (Dublin) Unlimited Company[2]

Diageo Ireland Finance 1 Unlimited Company

Diageo Ireland Holdings Unlimited Company

Diageo Ireland Unlimited Company

Diageo Retirement Savings Plan Pension Trustee Designated Activity Company

Diageo Turkey Holdings Limited

Guinness Storehouse Limited

Irish Ale Breweries Holdings Unlimited Company[3]

R & A Bailey Pension Trustee Designated Activity Company[2]

Italy

Strada Statale 63, 12069, Santa Vittoria d'Alba (CN)

Diageo Operations Italy S.p.A.

Via Ernesto Lugaro 15, 10126, Torino

Diageo Italia S.p.A.

Japan

9-7-1 Akasaka, Minato-ku, Tokyo 164-0001

Diageo Japan Administration Services K.K.

Diageo Japan K.K

Kenya

L R NO 1870/1/176, Aln House, Off Eldama Ravine Close, Westlands, Nairobi

Diageo Kenya Limited

La Reunion

45 Rue Alexis De Villeneuve 97400 Saint-Denis

Diageo Reunion SAS

Lebanon

Diageo LENA Off-shore SAL

Mexico

Av. Ejercito Nacional, 843-B, Torre Paseo Acceso B, 2, Mexico City , 11520

Diageo Mexico II, S.A. de C.V.

Calle Gobernador Rafael Rebollar 95, Col San Miguel de Chapultepec, Del Miguel Hidalgo CP 11850, Mexico City

CASA UM, S.A.P.I. DE C.V.

Carretera Atotonilco - Guadalajara, Atotonilco el Alto, Jalisco, 47750

Diageo Mexico Comercializadora S.A. de C.V.

Diageo Mexico SA de CV

Independencia SN Santiago, Matatlán, Oaxaca 70440

Sombra Mezcal S. de R.L. de S.V.

Porfirio Diaz 17, Jalisco, 47750, Atotonilco el Alto

Diageo Mexico Operaciones S.A. de C.V.

Diageo Mexico Spirits

Don Julio Agavera S.A. de C.V.

Servicios Agavera, S.A. de C.V.

Mozambique

Estrada Nacional numero 1, Micanhine, Marracuene

Diageo Supply Marracuene Lda.

Netherlands

De Ruyterkades, Postbus 2852 1000cw Amsterdam

United Distillers & Vintners (SJ) B.V.[2]

Molenwerf 12, 1014 BG, Amsterdam

Diageo Atlantic B.V.

Diageo Brands B.V.

Diageo Capital B.V.[1]

Diageo Highlands Holding B.V.

Diageo Holdings Netherlands B.V.

Diageo Nederland B.V.

Diageo Relay B.V.

Global Farming Initiative B.V.

Justerini & Brooks Importers B.V.

Selviac Nederland B.V.

New Zealand

123 Carlton Gore Road, Level 2, Newmarket, 1023, Auckland

Diageo New Zealand Limited[3]

Nigeria

Oba Akran Avenue Ikeja, 24, Lagos, PMB 21071, 100001

Diageo Brands Nigeria Ltd

Norway

Apotekergata 10, 0180 Oslo

Diageo Norway AS

Panama

Costa del Este, Ave La Rotonda, Business Park, Torre V. piso 15 Panama City

Diageo Panama S.A.

Panama city, West Boulevard, PH ARIFA, 9th and 10th, Santa Maria Business

Diageo Taiwan Inc.

Paraguay

Avda Aviadores del Chaco 2050. Edificio World trade center. Torre 3 piso 11

Diageo Paraguay S.R.L.

Peru

Vi-ctor Andres Belaunde 147, Vi-a Principal 133, Interior 107, Piso 10, San Isidro, Lima

Diageo Peru S.A.

Philippines

10th Floor Commerce and Industry Plaza Building, McKinley Hill Dr, Taguig, 1634

Diageo Asia Pacific Shared Services Centre Limited, Inc.

Unit 1, 17th Floor, Ore Central 9th Avenue corner 31st Street Bonifacio Global City, Taguig City, 1634

Diageo Export SR Inc.[2]

Diageo Philippines Free Port Inc[2]

Diageo Philippines Inc.

North Island United Enterprise Holdings Inc[2]

Unit 3 G/F, 134 Legaspi Parkview Condominium, Carlos Palanca Street cor. Legaspi Street, Makati City

Chat Noir Co. Inc.

Poland

Przyokopowa Str. 31, PL 01 – 208 Warsaw

Diageo Polska Sp. z o.o.

Portugal

Avenida D. Joao II, No 50, piso 2, letra D, Edificio Mar Vermelho, 1990-095 Lisboa

Diageo Portugal - Distribuidora de Bebidas, Unipessoal, Lda

Romania

Expo Business Park, Street Aviator Popisteanu 54A, Cladirea 2, et 1-3, Sector 1, Bucharest, 012244

Diageo Balkans S.R.L.

Russia

Kaspiyskaya Street, 22, main bld. 1, bld. 5, floor 3, apartment VII, room 31a, 115304, Moscow

D Distribution Joint-Stock Company

Diageo Brands Distributors LLC

Singapore

112 Robinson Road, 1, 5th Floor, 1, Singapore 68902

Diageo Singapore Pte Ltd.

Streetcar Investment Holding Pte. Ltd.

South Africa

Building 3, Maxwell Office Park, Magwa Crescent West, Waterfall City, Midrand, 2090

Diageo South Africa (Pty) Limited

United Distillers Southern Africa (Proprietary) Limited

South Korea

932-94, Daewol-ro, Daewol-myun, Icheon-shi, Gyeonggi-do, 17342, Icheon

Windsor Global Co., Ltd.

Diageo Korea Co. Ltd

Spain

Avda de la Victoria 32, Edificio Spirit, 28023, Madrid

Diageo Espana S.A.

Sweden

Gavlegatan street 22/C, 11330, Stockholm

Diageo Sweden AB

Switzerland

Place de la Gare 12, Lausanne, 1003

Diageo Suisse S.A.

Tanzania

CRB Africa Legal Attorneys, Plot 60, Ursino Street P.O. Box 32840, Dar es Salaam

Sumagro Limited[2]

Turkey

Esentepe Mah. Bahar Sk. Ozdilek River Plaza Vyndham Grand Apt. No 13/25 Sisli, Istanbul

Mey Alkollü İçkiler Sanayi ve Ticaret A.Ş.

Mey İçki Sanayi ve Ticaret A.Ş.

Ukraine

1v Pavla Tychyny avenue , 2152, Kyiv

Diageo Ukraine LLC

United Kingdom

11 Lochside Place, Edinburgh, EH12 9HA

Arthur Bell & Sons Limited[2]

Copper Dog Whisky Limited

Diageo Capital plc[1]

Diageo Scotland Limited

J & B Scotland Limited[2]

John Haig & Company Limited

The Lochnagar Distillery Limited[2]

William Sanderson and Son Limited[2]

Zepf Technologies UK Limited

16 Great Marlborough St, London, W1F 7HS

Anna Seed 83 Limited

Anyslam Investments

Cellarers (Wines) Limited

Chase Distillery (Holdings) Limited

Chase Distillery Limited

Diageo (IH) Limited[2]

Diageo Distribution Company Limited

Diageo DV Limited

Diageo Eire Finance & Co[2]

Diageo Employee Shares Nominees Limited[1],[2]

Diageo Finance plc[1]

Diageo Finance US Limited

Diageo Financing Turkey Limited

Diageo Great Britain Limited

Diageo Healthcare Limited[2]

Diageo HF Holdings Limited

Diageo Holdings Limited[1]

Diageo Holland Investments Limited[2]

Diageo Investment Holdings Limited

Diageo Overseas Holdings Limited[6]

Diageo Scotland Investment Limited

Diageo Share Ownership Trustees Limited[1],[2]

Diageo UK Turkey Holdings Limited

Diageo UK Turkey Limited

Diageo US Holdings

Diageo US Investments

Grand Metropolitan Capital Company Limited

Grand Metropolitan Estates Limited

Grand Metropolitan International Holdings Limited

Grand Metropolitan Limited

Guinness Limited[1]

Guinness Overseas Holdings Limited[1]

Guinness Overseas Limited

James Buchanan & Company Limited[2]

John Walker and Sons Limited[2]

Kanlaon Ltd

Mr Black UK Ltd

Tanqueray Gordon and Company, Limited[1]

The Distillers Company (Biochemicals) Limited[2]

The Pimm's Drinks Company Limited[2]

Tipplesworth Limited

UDV (SJ) Holdings Limited[1]

UDV (SJ) Limited

United Distillers France Limited

3rd Floor Capital House, 3 Upper Queen Street, Belfast

Diageo Global Supply IBC Limited

Diageo Northern Ireland Limited[1]

S & B Production Limited

61 St. James's Street, London, SW1A 1LZ

Justerini & Brooks, Limited

United States

1 Estate Annaberg & Shannon Grove, RR1 Box 9400, Kingshill, VI 00850-9703

Diageo USVI Inc.

1209 Orange Street, New Castle, Delaware 19801

DV Technology LLC

1425 South Kingstown Road, South Kingstown, RI 02879

Diageo Loyal Spirits Corporation

175 Greenwich Street, Three World Trade Center, New York, NY 10007

Ballroom Acquisition, Inc.

Davos Services LLC

Diageo Americas Supply, Inc.

Diageo Americas, Inc.

Diageo Beer Company USA

Diageo Inc.

Diageo Investment Corporation

Diageo Latin America & Caribbean LLC

Diageo Non-Alcohol Beverages LLC

Diageo North America Foundation, Inc.

Diageo North America, Inc.[5]

Liquor Investment LLC

Soh Spirits LLC

Stirrings LLC

The Bulleit Distillery, Inc.[2]

Whisky Archive Inc.

300 Delaware Ave Ste 210-A Wilmington, DE 19801

21Seeds Inc.

3411 Silverside Road Tatnall Building, Ste 104 Wilmington, DE 19810

Casamigos Spirits Company LLC

Casamigos Tequila LLC

CT Staffing Services LLC

Vivanda Inc.

381 Park Avenue South, Suite 1015, New York, NY 10016

Aviation Gin LLC

Davos Brands LLC

5444 Westheimer 1000, Houston, TX 77056

Balcones Distilling LLC

Uruguay

Pasaje Paseo De Las Carretas, 2580, oficina 1301, Montevideo

Diageo Uruguay SA

Venezuela

Av Intercomunal Alí Primera, Los Taques, Estado Falcón

DV Paraguana, C.A.[2]

Av La Hormiga con Intersección de la Carretera via Payara, C.C. Tierra Buena Acarigua

Mull Trading C.A.[2]

Av. Circunvalacion Norte (Jose Asunsion Rodriguez) Edificio Distribuidora Metropol, Porlamar, Estado Nueva Esparta

Clyde Trading, C.A.[5]

Cupar Trading, C.A.[5]

Diageo Nueva Esparta, C.A.[2]

DV Trading, C.A.[5]

Zeta Importers C.A.[5]

Ave. San Felipe Urbanización La Castellana, Edificio Centro Coinasa, Piso 6. Caracas, 1060

Diageo Venezuela C.A.

Calle 1 Este, Edificio y Galpon BTP, Zona Industrial La Caracarita, Municipio Los Guayos, estado Carabobo

Arran Tradings, C.A.

DV Release, C.A.

Islay Trading, C.A.

L4L Trading, C.A.

Lismore Trading, C.A.

Skye Trading C.A.

Carretera Nacional Acarigua-Barquisimeto Casa Agropecuaria Las Marias I C.A.S-N Sector los Guayones La Miel, Lara.

Agropecuarias Las Marias I C.A.

Vietnam

No. 157, 21/8 Street, Phuoc My Ward, Phan Rang - Thap Cham City, Ninh Thuan Province

Diageo Vietnam

Zimbabwe

48 Midlothian Avenue, Eastlea, Harare

International Distillers - Zimbabwe (Private) Limited[2]

SUBSIDIARIES WHERE THE EFFECTIVE INTEREST IS LESS THAN 100%

Angola

Rua Dom Eduardo Andre Muaca, S/No, LOTE C4, Luanda

DIREF Industria de Bebidas,Lda-Angola JV - 50.10%

British Virgin Islands

Commerce House, Wickhams Cay 1, PO Box 3140, Road Town, Tortola

Rum Creation & Products Inc.[4] **- 50.00%**

Sea Meadow House, Blackburne Highway, P.O. Box 116, Road Town, Tortola

Palmer Investment Group Limited[2],[11] **- 55.88%**

USL Holdings Limited[2],[11] **- 55.88%**

Canada

Labatt House, 207 Queen's Quay West, Suite 299, Ontario, M5J 1A7, Toronto

Guinness Canada Limited - 51.00%

China

27 Shuijing Street, Jinjiang District, Chengdu, 610065

Chengdu Shuijingfang Fangcang Liquor Sales Co. Ltd - 63.16%

41F, One Museum Place, 669 Xinzha Road, Jingan District, Shanghai

Swellfun (Shanghai) Consulting Co. Ltd - 63.16%

No. 21 Shuijing Street, Jinjiang District, Chengdu, 610011

Chengdu Swellfun Marketing Co. Limited - 63.16%

No. 38 Jiuyuan Road, Kongming Street, Qionglai, Chengdu

Chengdu Swellfun Liquor Co. Limited - 63.16%

No. 7 Guanghua Road, Chaoyang District, Beijing, 100020

Swellfun (Beijing) Consulting Co. Ltd - 63.16%

No. 9 Quanxing Road, Jinniu District, Chengdu, 610036

Chengdu Jianghai Trade Development Co. Limited - 63.16%

Chengdu Tengyuan Liquor Marketing Co. Limited - 63.16%

Sichuan Swellfun Co., Ltd - 63.16%

No. 998, Juanxing Road, Hongguang County, Chengdu, 610000

Chengdu Ruijin Trading Co. Limited - 63.16%

Cuba

211 Avenida Malecón, entre J y K, Vedado, Plaza de la Revolución, La Habana

Ron Santiago, S.A. - 50.00%

Ghana

Guinness Brewery, Plot 1 Block L, Industrial Area, Kaasi, P. O. Box 1536, Kumasi

Guinness Ghana Breweries Plc - 80.40%

Hungary

Dozsa Gyorgy ut 144, Budapest, 1134

Diageo Employee Ownership Program Organization - 99.94%

Guatemala

Calle 8-19 zona 9, Quetzaltenango

Anejos De Altura, Sociedad Anonima - 50.00%

India

UB Tower, 24 Vittal Mallya Road, Bangalore, 560001

Royal Challengers Sports Private Limited[11] **- 55.88%**

United Spirits Limited[11] **- 55.88%**

Indonesia

Jl. Raya Kaba-Kaba No. 88, Banjar Carik Padang, Desa Nyambu, Kecamatan Kediri, Kabupaten Tabanan, Provinsi Bali

PT Langgeng Kreasi Jayaprima - 80.00%

Kenya

5th Floor, Garden City Business Park, Block A, Garden City Road, Off Exit 7, Thika Superhighway, Nairobi, P.O. Box 30161-00100

Kenya Breweries Limited[5] **- 65.00%**

UDV Kenya Limited - 83.79%

Garden City Business Park, 5th Floor, P.O. Office Box Number 30161-00100, Nairobi

East African Breweries Plc. - 65.00%

Kampala Road, Industrial Area, Nairobi, P.O. Box 41412-00100

East African Maltings Limited - 65.00%

Tusker House, Ruaraka, PO Box 30161, 00100 Nairobi GPO

Allsopp (East Africa) Limited[2] - 63.05%
EABL International Limited[2] - 65.00%
Tembo Properties Limited[2] - 65.00%

Lebanon
Beirut Symposium Bldg, 10th floor, Beirut, PO Box 113-5250
Diageo - Lebanon SAL - 84.99%
Verdun Street, Ibiza Building, Beirut, PO Box 113-5631
Diageo Lebanon Holding SAL

Mauritius
IFS Court, Twenty Eight, Cybercity, Ebene
Asian Opportunities and Investment Limited[2,11] - 55.88%

Netherlands
Molenwerf 12, 1014 BG, Amsterdam
Ketel One Worldwide B.V.[4] - 50.00%

Nigeria
Oba Akran Avenue Ikeja, 24, Lagos, PMB 21071, 100001
Guinness Nigeria plc - 58.02%

North Cyprus
Sehit Mehmet Cetin Sokak, Kucuk Sanayi Bölgesi 4, 99450, Gazi Magusa
Turk Alkollu Icki ve Sarap Endustri Ltd. - 66.00%

Philippines
Unit 1, 17th Floor, Ore Central 9th Avenue corner 31st Street Bonifacio Global City, Taguig City, 1634
ULM Holdings Inc.[2] - 40.00%
United Distillers & Vintners Philippines Inc[2] - 99.95%

Rwanda
Kimihurura, Gasabo, Umujyi was Kigali, 7130 Port Bell Luzira
East African Breweries Rwanda Limited - 65.00%

Seychelles
O'Brien House, 273 Le Rocher, Mahe
Seychelles Breweries Limited - 54.40%

South Sudan
Southern Sudan African Park Hotel, Juba Town
East African Beverages (Southern Sudan) Limited[2] - 64.35%

Tanzania
2nd Floor, East Wing TDFL Building, Ohio street. P.O. Box 32840 Dar es Salaam
EABL (Tanzania) Limited[2] - 65.00%
Plot 117/2, Access Road, Nelson Mandela Expressway, Chang'Ombe Industrial Area, P.O. Box 41080, Dar es Salaam
Serengeti Breweries Limited[3] - 55.25%

Uganda
Plot 3-17 Port Bell Road, Luzira, Kampala, P.O. Box 7130
Uganda Breweries Limited - 63.82%
Plot No 1 Malt Road, Portbell Luzira P.O. Box 3221 Kampala
International Distillers Uganda Limited - 65.00%
Tusker House, Ruaraka, PO Box 30161, 00100 Nairobi GPO
East African Maltings (Uganda) Limited[2] - 65.00%

United Kingdom
11 Lochside Place, Edinburgh, EH12 9HA
Lochside MWS Limited Partnership
McDowell & Co. (Scotland) Ltd[11] - 55.88%
16 Great Marlborough St, London, W1F 7HS
Diageo Pension Trust Limited[1,9] - 55.00%
Lakeside MWS Limited Liability Partnership
Seedlip Ltd - 91.00%
Shaw Wallace Overseas Limited[2,11] - 55.88%
United Spirits (Great Britain) Limited[2,11] - 55.88%
United Spirits (UK) Limited[2,11] - 55.88%
USL Holdings (UK) Limited[2,11] - 55.88%

United States
175 Greenwich Street, Three World Trade Center, New York, NY 10007
California Simulcast Inc.[2] - 80.00%
D/CE Holdings LLC - 50.00%
Seedlip Inc. - 91.00%
2950 North Loop W Ste 1200 Houston, TX 77092-8808
Far West Spirits LLC - 99.00%

Venezuela
Ave. San Felipe Urbanización La Castellana, Edificio Centro Coinasa, Piso 6. Caracas, 1060
Industrias Pampero C.A. - 96.80%

Vietnam
621 Pham Van Chi Street, District 6, Ho Chi Minh City
Vietnam Spirits and Wine Ltd - 55.00%

ASSOCIATES

Australia
50 Bertie Street, Port Melbourne, Victoria 3207
New World Whisky Distillery PTY Limited - 30.00%

Denmark
Stauningvej 38, 6900 Skjern
Stauning Whisky Holding ApS - 40.00%

France
24/32 rue Jean Goujon, 75008 Paris
Moët Hennessy International - 34.00%
Moët Hennessy, SAS - 34.00%

Germany
Mozartstr. 7, 53115 Bonn
Rheinland Distillers GmbH - 20.00%

Hungary
Soroksari ut 26, Budapest, 1095
Zwack Unicum plc - 26.00%

India
E-47/5., Okhla Industrial Area, Phase II, New Delhi, South Delhi, DL 110020
Nao Spirits & Beverages Private Limited - 12.58%

Italy
Via Tortona 15, 20144, Milan
Niocóctails S.R.L. - 20.00%

Japan
845-3 Kaminokawa, Hiyoshi-cho Hioki-shi, Kagoshima
Komasa Kanosuke Distillery Company Ltd. - 12.50%

Netherlands
Ceresstraat 1, 4811 CA Breda
Canbrew B.V.[4] - 28.16%

Spain
Calle General Vara del Rey 5, 1 Piso, 26003 Logroño, La Rioja
El Bandarra S.L. - 25.00%
Calle Malí, 7 La Laguna, 38320 Santa Cruz de Tenerife
Compania Cervecera De Canarias, S.A. - 20.00%
Tomino (Ponteverda), 36750, Parroquia de Goian, Barrio de Centinela, 1
Valdomino Premium Spirits, S.L. - 20.00%

United Kingdom
20 King Street Prince Albert House Maidenhead SL6 1DT
El Rayo Limited - 20.00%
354 Castlehill, The Royal Mile, Edinburgh, EH1 2NE
The Scotch Whisky Heritage Centre Limited - 29.00%
39-45 Bermondsey Street, London, SE1 3XF
London Botanical Drinks Limited - 21.25%
64 New Cavendish Street, London, W1G 8TB
Pulpex Limited - 36.42%
71-75 Shelton Street, Covent Garden, London, WC2H 9JQ
Leaf Arbor Limited - 20.00%
8 King Edward Street, Oxford, OX1 4HL
Still On The Hill Limited - 28.57%
Ballindalloch Castle, Ballindalloch, Banffshire AB37 9AX
Ballindalloch Distillery LLP - 33.33%
Harbourside Brewery, Tretoil Farm, Bodmin, Cornwall, PL30 5BA
The Southwest Fermentorium Limited - 25.00%
Here 470 Bath Road, Arnos Vale, Bristol, BS4 3AP
Caleno Drinks Ltd - 20.00%
International House, 64 Nile Street, London, England, N1 7SR
Las Olas Limited - 33.33%

United States
1045 Dodge Lane Fallon, NV 89406
Nevada Spirits DE, LLC - 25.00%
1222 SE Gideon Street Portland, OR 97202
Naam Som LLC - 30.00%
127 E Warm Springs Road, Las Vegas, NV 89119
Browned Butter Bottling LLC - 40.00%
16192 Coastal Highway, Lewes, Delaware 19958
Ironroot Republic Holdings LLC - 31.95%
1935 W. Irving Park Chicago, IL 60613
Ritual Beverage Company LLC - 30.51%
2459 E 8th Street, Los Angeles, California 90021
Modern Spirits LLC - 20.00%
251 Little Falls Drive, Wilmington, Delaware 19808
VineLab Inc. - 22.22%
3411 Silverside Road, Rodney Building, Suite 104, Wilmington, Delaware 19810
B&M Craft Spirits LLC - 24.06%
517 West 39th Street Austin, TX 78751
Gourmet Grade LLC - 19.41%
545 Johnson Avenue, Brooklyn, NY 11237
Analog Liquid LLC - 27.78%
575 Grand Street, E1507 New York, NY 10002
Grand Street Beverages LLC - 38.89%
6220 Avalon Boulevard, Suite 220, Alpharetta, GA 30009
Pronghorn Initiative Holdings, LLC - 49.00%
65 SE Washington Street Portland, OR 97214
House Spirits Distillery LLC - 29.85%
735 10th Street, Fortuna, CA 95540
Redwood Spirits LLC - 20.00%
838 Walker Road, Suite 21-2, Dover, Delaware 19904
FlyMonkey 20 LLC - 33.90%
8601296, TT Administrative Services LLC, 888 SW Fifth Avenue, Ste 1600, Portland, Oregon, 97204
Wilderton LLC - 27.78%
936 SW 1st Ave, Miami, FL 33130
KOI Global LLC - 24.75%

Vietnam
94 Lo Duc Street, Pham Dinh Ho Ward, Hai Ba Trung District, Ha Noi City
Hanoi Liquor and Beverage Joint Stock Company (Halico) - 45.57%

JOINT VENTURES

Hong Kong
Room 06, 13A/F. South Tower, World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon
Diageo International Spirits Company Limited[3] - 50.00%

United Kingdom
9 Wheatfield Road, EDINBURGH, EH11 2PX
Lothian Distillers Limited - 50.00%
The North British Distillery Company Limited - 50.00%

JOINT OPERATIONS[10]

China
804A, 488 Middle Yincheng Road, Shanghai, Pilot Free Trade Zone
Moët Hennessy Diageo (China) Co Ltd[12] - 67.00%

Costa Rica
Heredia-Flores Llorente, Cervecería de Costa Rica, Edificio Corporativo de FIFCO
HA&COM Bebidas del Mundo, SA - 50.00%

Dominican Republic
Independencia Street, No. 129, Santiago
Gist Dominicana S.A. - 60.25%
Salvador Sturla Street, Ensanche Naco, Santo Domingo
Seagram Dominicana S.A. - 60.83%
Segunda (2da) Street, Los Platanitos, Santiago
Industria de Licores Internationales S.A. - 60.86%

France
105 Boulevard de la Mission Marchand, Courbevoie, 92400
Moët Hennessy Diageo SAS - 0.05%

Hong Kong
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Moët Hennessy Diageo Hong Kong Limited[12] - 67.00%

Japan
13F Jimbocho Mitsui Building, 1-105 Kandajimbocho, Chiyoda-ku, Tokyo
Moët Hennessy Diageo K.K.[12] - 67.00%

Macau
Avenida Comercial de Macau, nos 251º-301, AIA Tower, Level 20, Macau
Moët Hennessy Diageo Macau Limited[12] - 67.00%

Malaysia
Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur
Moët Hennessy Diageo Malaysia Sdn Bhd.[12] - 67.00%

Netherlands
Molenwerf 12, 1014 BG, Amsterdam
Diageo-Moët Hennessy B.V.[5] - 67.00%

Singapore
83 Clemenceau Ave, 09-01 UE Square, Singapore 239920
Moët Hennessy Diageo Singapore Pte. Ltd[12] - 67.00%

Thailand
No. 944, Mitrtown Office Tower, 12th Floor, Rama 4 Road, Wangmai, Pathumwan, Bangkok, 10330
Diageo Moët Hennessy (Thailand) Limited[8] - 63.02%

Ukraine
Chervonoarmiyska Street, bld. 9/2, apt. 70, Kyiv
Seagram Ukraine Limited[2] - 60.90%

United Kingdom
Persimmon House, Fulford, York YO19 4FE
Trafalgar Metropolitan Homes Limited - 50.00%

(1) Directly owned by Diageo plc.
(2) Dormant company.
(3) Ownership held in class of A shares.
(4) Ownership held in class of B shares.
(5) Ownership held in class of A shares and B shares.
(6) Ownership held in preference shares.
(7) Ownership held in equity shares and preference shares.
(8) Operation is managed by Diageo.
(9) Companies controlled by the group based on management's assessments.
(10) Diageo shares joint control over these entities under shareholder's agreements, and Diageo's rights to profit, assets and liabilities of the companies are dependent on the performance of the group's brands rather the effective equity ownership of the companies.
(11) Based on 55.88% equity investment in USL that excludes 2.38% owned by the USL Benefit Trust.
(12) Operation is managed by Moët Hennessy.

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, applied retrospectively, as it believes that this change will provide better alignment of the reporting of performance with its business exposures.

On 31 July 2023, the Board approved plans for a further return of capital programme of $1.0 billion to shareholders.

Additional information

Contents

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 movements. 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 nine-litre case of spirits, which is approximately 272 servings. A serving comprises 33ml of spirits, 165ml 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 '2022 adjusted'. Organic operating margin is calculated by dividing operating profit before exceptional items by net sales after excluding the impact of exchange rate movements, certain fair value remeasurements, hyperinflation and acquisitions and disposals.

(a) Exchange rates

Exchange in the organic movement calculation reflects the adjustment to recalculate the reported results as if they had been generated at the prior period weighted average exchange rates.
Exchange impacts in respect of the external hedging of intergroup sales by the markets in 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 they relate. Residual exchange impacts are reported as part of the Corporate segment. Results from hyperinflationary economies are translated at forward-looking rates.

(b) Acquisitions and disposals

For acquisitions in the current period, the post-acquisition results are excluded from the organic 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 row 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 businesses 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 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 directly attributable 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.

(d) 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 accounted for as remuneration 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 pre-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 '2019 adjusted'. The most comparable GAAP financial measure is '2019 to 2023 reported movement %' 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 considerations to drive commercial competitiveness, as well as hyperinflationary elements and that for the calculation of organic movements, the distortion 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 adjustments have been made to all income statement related lines in the organic movement calculations.

In the tables presenting the calculation of organic movements, 'hyperinflation' is included as a reconciling item between reported and organic movements and that also includes the relevant IAS 29 adjustments.

Organic movement calculations for the year ended 30 June 2023 were as follows:

	North America million	Europe million	Asia Pacific million	Latin America and Caribbean million	Africa million	Corporate million	Total million
Volume (equivalent units)							
2019 reported	49.4	45.4	95.1	22.4	33.6	–	245.9
Disposals	(2.1)	(0.1)	–	–	(2.7)	–	(4.9)
2019 adjusted	47.3	45.3	95.1	22.4	30.9	–	241.0
Organic movement (2020)	**0.1**	**(5.2)**	**(14.5)**	**(3.4)**	**(4.0)**	**–**	**(27.0)**
Organic movement (2021)	**5.1**	**2.9**	**7.0**	**4.1**	**4.8**	**–**	**23.9**
Organic movement (2022)	**1.4**	**8.5**	**6.6**	**4.0**	**4.0**	**–**	**24.5**
2020, 2021 and 2022 movement on a constant basis	**6.6**	**6.2**	**(0.9)**	**4.7**	**4.8**	**–**	**21.4**
Volume (equivalent units)							
2022 reported	54.8	51.2	94.2	27.1	35.7	–	263.0
Disposals[2]	–	(0.8)	(23.3)	–	(1.9)	–	(26.0)
2022 adjusted	54.8	50.4	70.9	27.1	33.8	–	237.0
Organic movement	**(2.5)**	**0.1**	**3.9**	**(0.9)**	**(2.4)**	**–**	**(1.8)**
Acquisitions and disposals[2]	**0.1**	**0.8**	**6.0**	**–**	**1.3**	**–**	**8.2**
2023 reported	**52.4**	**51.3**	**80.8**	**26.2**	**32.7**	**–**	**243.4**
Organic movement %	**(5)**	**–**	**5**	**(3)**	**(7)**	**–**	**(1)**
2019 to 2023 reported growth %	**6**	**13**	**(15)**	**17**	**(3)**	**–**	**(1)**
2019 to 2023 growth on a constant basis %	**9**	**14**	**3**	**17**	**8**	**–**	**8**

	North America £ million	Europe £ million	Asia Pacific £ million	Latin America and Caribbean £ million	Africa £ million	Corporate £ million	Total £ million
Sales							
2022 reported	6,682	5,740	5,624	1,945	2,403	54	22,448
Exchange	(51)	(149)	(4)	(19)	(1)	–	(224)
Disposals[2]	–	(36)	(884)	–	(195)	–	(1,115)
Hyperinflation	–	(213)	–	–	–	–	(213)
2022 adjusted	6,631	5,342	4,736	1,926	2,207	54	20,896
Organic movement	**(15)**	**553**	**317**	**132**	**71**	**33**	**1,091**
Acquisitions and disposals[2]	**23**	**22**	**225**	**6**	**156**	**–**	**432**
Exchange	**743**	**(205)**	**125**	**196**	**(48)**	**1**	**812**
Hyperinflation	**–**	**284**	**–**	**–**	**–**	**–**	**284**
2023 reported	**7,382**	**5,996**	**5,403**	**2,260**	**2,386**	**88**	**23,515**
Organic movement %	**–**	**10**	**7**	**7**	**3**	**61**	**5**