# DIAGEO

Annual Report 2022

# *Celebrating life,* every day, everywhere

## Strategic report



## Governance report




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COVER: JOHNNIE WALKER BLUE LABEL

TANQUERAY Nº TEN GIN

# *A global leader* in beverage alcohol with an *outstanding collection of brands* across spirits and beer

## Financial performance

### Volume
(equivalent units)

**EU263.0m**

**(2021: EU238.4m)**

| | |
|---|---|
| Reported movement | **10.3%↑** |
| Organic movement[2] | **10.3%↑** |

### Net sales[1]

**£15,452m**

**(2021: £12,733m)**

| | |
|---|---|
| Reported movement | **21.4%↑** |
| Organic movement[2] | **21.4%↑** |

### Operating profit

**£4,409m**

**(2021: £3,731m)**

| | |
|---|---|
| Reported movement | **18.2%↑** |
| Organic movement[2] | **26.3%↑** |

### Net cash from operating activities

**£3,935m**

**(2021: £3,654m)**

| | |
|---|---|
| 2022 increase of | **£281m** |
| 2022 free cash flow[2] | **£2,783m** |

### Earnings per share (eps)

**140.2p**

**(2021: 113.8p)**

| | |
|---|---|
| Reported movement | **23.2%↑** |
| eps before exceptional items movement[2] | **29.3%↑** |

### Total recommended dividend per share[3]

**76.18p**

**(2021: 72.55p)**

**5.0%↑**

## Non-financial performance

### Positive drinking

**607,374Δ**

**(2021: 210,443)**

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

### Inclusion and diversity

**44%Δ**

**(2021: 42%)**

Percentage of female leaders globally

**41%Δ**

**(2021: 37%)**

Percentage of ethnically diverse leaders globally

### Water efficiency[4]

**4.13l/lΔ**

**(2021: 4.29l/l)**

Ratio of the amount of water required to produce one litre of packaged product

### Carbon emissions[4] (1,000 tonnes $CO_2$e)

**447Δ**

**(2021: 472)**

Absolute volume of Scope 1 and 2 carbon emissions, in 1,000 tonnes

1. Net sales are sales less excise duties
2. See Definitions and reconciliation of non-GAAP measures to GAAP measures on pages 76-83
3. Includes recommended final dividend of 46.82p
4. In accordance with Diageo's environmental reporting methodologies and, where relevant, WRI/WBCSD GHG Protocol; data for the baseline year 2020 and for the three years in the period ended 30 June 2019 has been restated where relevant

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index

Unless otherwise stated in this document, percentage movements refer to organic movements. For a definition of organic movement and reconciliation of all non-GAAP measures to GAAP measures, see pages 76-83. Share refers to value share. Percentage figures presented are reflective of a year-on-year comparison, namely 2021-2022, unless otherwise specified.

# With *over 200 brands* and sales in *more than 180 countries,* our portfolio offers something *for every taste and celebration*


## A global giant with a local voice

Johnnie Walker is the world's number one Scotch whisky brand.[1] Following the celebration of the brand's 200th year in 2020, this year we've taken the first bold steps into a new chapter of Johnnie Walker's remarkable journey. We also welcomed over 235,000 visitors to Johnnie Walker Princes Street,[2] our newly opened visitor experience in Edinburgh, and unveiled a new era of the brand's iconic 'Keep Walking' story.

During the pandemic, people around the world experienced dramatic shifts in their everyday lives. At Johnnie Walker, these changes, combined with our consumer insight, created an opportunity to instil the iconic 'Keep Walking' line with contemporary meaning, continuing to build this global giant through new, local connections. Hot on the heels of unveiling a bold new look for Johnnie Walker, we launched our new 'Keep Walking' campaign in October 2021. For more than 20 years, Johnnie Walker has inspired people with these two simple words, and this next chapter will continue to build cultural relevance for the brand among the next generation of whisky drinkers.

Our campaign burst onto screens, into venues, social feeds and advertising spaces in over 50 countries. Through partnerships with local changemakers, including CL, the South Korean rapper; Burna Boy, the Nigerian singer, songwriter and performance artist; and DJ Alok, the Brazilian DJ and record producer, we reconnected people with the socialising spaces they had missed for so long. We broke away from more conventional communications, telling the story of African creativity in an award-winning documentary, 'The Ones Who Keep Walking', which was made with the Forbes 30-under-30 director, Amarachi Nwosu. We shared inspiring quotes on progress from famous personalities, such as Grace Jones, Mark Twain and Mae West, across city skylines and cultural hot spots. And our television and cinema advertisement 'Anthem' brought Johnnie Walker's charismatic spirit and the power of 'Keep Walking' to life with energy and optimism.

Johnnie Walker organic net sales grew 34% this year, surpassing 21 million nine-litre cases. And the 'Keep Walking' campaign's success speaks for itself. We're proud that, judged against 13,000 other advertisements, 'Keep Walking' won three top 10 places in Kantar's Creative Effectiveness Awards 2022.

## 2 out of 4

We own Johnnie Walker and Smirnoff, two of the world's four largest international spirits brands by retail sales value[3]

1. IWSR, 2021
2. Diageo internal data: 6 September 2021 to 30 June 2022
3. IWSR, 2021

JOHNNIE WALKER BLACK LABEL

# Brand building expertise

We are driven to be the world's best brand builder, leading the way in premium drinks. Global or local, every one of our brands has a story. Many bear witness to the changing world over centuries, while others are products of our world today. All have a purpose and role to play in creating enduring connections with people. While we honour the past, we're passionate about nurturing categories old and new, and about building authentically crafted, culturally relevant brands.

From much-loved, established brands to the latest innovations, we move at pace with the latest trends, creating products, tastes and experiences for people to enjoy as part of celebrations big or small.

We are obsessed with building brands that will stand the test of time. This requires focus, precision and investment, in what we call a perfect blend of 'creativity with precision'. It describes how we effectively combine data, insights and innovation with the creative flair our consumers expect from us, as the custodian of some of the most iconic brands in the world.


BAILEYS ORIGINAL LIQUEUR

## Baileys: Halloween is for adults, too

Featuring three of the United Kingdom's most popular drag queens making a deliciously wicked Baileys S'mores martini cocktail, Baileys' 'Witches' campaign and television advertisement launched in over 10 countries in October 2021, celebrating Baileys as the ultimate adult Halloween treat. Developed in partnership with Diageo's LGBTQ+ employee group, the Rainbow Network, the campaign put inclusivity at the heart of one of the biggest treating events of the year.

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# £6.1bn[4]

We are the global leader in super-premium and above international spirits, with retail sales value of over £6.1bn

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4. IWSR, 2021


TANQUERAY LONDON DRY GIN AND TEA-INSPIRED COCKTAILS

## It's not teatime – it's T-Time

Tanqueray prides itself on its unique mix of ingenuity and heritage. And in March 2022, the brand found a fitting creative partner in the Netflix Regency era-inspired series, Bridgerton. To mark the premiere of the hit show's second season, fans were cordially invited to 'Make it T-Time'. That is, teatime with a modern Tanqueray twist, with singer and Tanqueray brand partner, Joe Jonas.


TALISKER SINGLE MALT SCOTCH WHISKY

## Raising 'One for the Sea'

Made on the rugged shores of the Isle of Skye, Talisker shares its spirit with the wildness and adventure of the sea. This is why the brand has partnered with Parley for the Oceans to 'Rewild Our Seas', committing to preserve and protect 100 million square metres of marine ecosystems around the world by the end of 2023. Through the 'One for the Sea' campaign, first launched in 2020, Talisker and Parley have reached millions with their message, underpinned by activations including a celebrity swim in Brighton and limited-edition engraved bottles.

# Building a company *that can prosper* over the long term

Today, we are one of the world's leading companies. A business tuned to respond to the needs of all our stakeholders and society at large. Arthur Guinness, Charles Tanqueray, Elizabeth Cumming, John Walker, and those who followed in their footsteps, were incredible innovators and entrepreneurs. They understood, as we do today, that our distilleries, breweries and the hospitality industry we serve are at the heart of local communities, and that our business will only thrive if it helps these communities prosper too. That's why we believe that our responsibility and influence extend beyond our direct operations.

We're building and nurturing some of the world's most iconic brands, rooted in culture and local communities, which is why we're focussed on creating an inclusive, sustainable business in its widest sense.


BAILEYS AMERICANO

# At the heart of everything we do

## Our purpose and culture

**Celebrating life, every day, everywhere.**

We have an accessible purpose that provides a holistic platform for us to be the best we can be at work, at home and in our communities. Our purpose is about celebrating life in its broadest sense and it goes hand-in-hand with performance: never one without the other.

Our culture is rooted in a deep sense of our purpose, the personal connections we have to our brands, our relationships with each other and our passion to win in the marketplace.

At the core of our approach is a commitment to positive drinking through promoting moderation and addressing the harmful use of alcohol. That's good for consumers and good for business.

Our 'Society 2030: Spirit of Progress' ESG action plan sets ambitious goals that support our commitment to shaping a more sustainable and inclusive business and society. We take great care in building sustainable supply chains; in protecting the environment and the natural resources we all rely on; and in our commitment to skills development, empowerment, inclusion and diversity.

## Our ambition

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

To be best performing, we need to deliver efficient growth and value creation for our shareholders. This means delivering quality sustainable growth in net sales; steady margin expansion; and reliable cash flows year after year. We don't believe that we can become 'best performing' without also being 'most trusted and respected'. This means we must do business the right way, from grain to glass, and ensure our people are highly engaged and continuously learning.

# Shaping the way we work

## Our values

**Our values underpin our business and guide how we work.**

We are **passionate about our customers and consumers** and want to **be the best**. We give each other the **freedom to succeed** and **value each other**. Pride is a source of energy for our company and we work hard so we can be **proud of what we do**.

# Aligned to stakeholders' interests

## Our stakeholders

- Our people
- Consumers
- Customers
- Suppliers
- Communities
- Investors
- Governments and regulators

READ MORE ON PAGES 92-94

# A roadmap for achieving our ambition

## Our strategic priorities

**Our six inter-related and mutually reinforcing strategic priorities drive our company forward.**

They help us deliver the strategic outcomes against which we measure our performance.


## Our strategic outcomes

- EG Efficient growth
- CVC Consistent value creation
- CT Credibility and trust
- EP Engaged people

READ MORE ON PAGE 19

# Measuring our progress

## Our key performance indicators

| Outcomes | KPI |
|---|---|
| EG CVC | Organic net sales growth |
| EG CVC | Organic operating profit growth |
| EG CVC | Earnings per share before exceptional items |
| EG CVC | Free cash flow |
| CVC | Return on average invested capital |
| CVC | Total shareholder return |
| CVC CT EP | Percentage of ethnically diverse leaders globally |
| CVC CT EP | Percentage of female leaders globally |
| CT EP | Reach and impact of positive drinking programmes |
| CT EP | Health and safety |
| CVC CT EP | Water efficiency |
| CVC CT EP | Carbon emissions |
| CT EP | Employee engagement |

READ MORE ON PAGES 32-38

# A *strong platform* for future growth

This has been a challenging year for all consumer goods categories, with continuing reverberations from the Covid-19 pandemic, significant economic uncertainty and the terrible conflict in Ukraine. Our thoughts are with all those, including our colleagues, affected by this conflict.

**Recommended final dividend per share**

**46.82p**

2021: 44.59p

**Total shareholder return**

**4%**

2021: 32%

**Total dividend per share[1]**

**5% to 76.18p**

2021: 72.55p

1. Includes recommended final dividend of 46.82p

Despite these challenges, I am pleased that Diageo has, once again, delivered strong performance. Employee engagement remains high and we continue to invest, for long-term growth, in our brands and in our portfolio. On behalf of the Board, I would like to thank our employees for their hard work and commitment to the company. Their focus and agility have enabled Diageo to navigate the volatility and finish the year a stronger business.

## Global environment

We have again seen considerable instability in the global environment over the past year. Covid-19 continues to have unpredictable impacts in some countries, even as the easing of restrictions across most of the world has seen a welcome recovery for the on-trade in many regions. In June, we took the difficult decision to wind down our business in Russia – after having stopped shipments and sales in March. And our focus will remain on supporting our employees in the region, as we have done since this terrible conflict began.

Our supply chain has also been impacted by inflationary pressures. While high energy prices affect our suppliers and operations, they can also impact consumers' disposable income. We have been agile in our response to this volatility, leveraging our supply chain capabilities and longstanding experience in managing the complexities of international trade.

## Long-term view

In the face of these challenges, we continue to take a long-term view of our business, our portfolio and our brands. At our Capital Markets Day in November 2021, we set out our ambition to increase our value share of the total beverage alcohol (TBA) market by 50%, from 4% to 6%, by 2030. This ambition reflects our view of TBA as a long-cycle market with attractive fundamentals, including demand from a growing, global middle class. Hundreds of millions more consumers will be able to access premium brands, as they increasingly choose to trade up and 'drink better, not more.'

Our sustained investment in brand building and the active management of our portfolio continue to build equity and position us well to capture trends and occasions. We are responding to our consumers' evolving tastes and demands with innovation, creativity and precision in our marketing. And we believe that investing in our brands, even in periods of volatility, is the right way to grow their long-term equity and our business. Our teams are building brands that are relevant today and which, we believe, consumers will choose for many years to come. You can read more about some of our brand building work over the last year on pages 2-3.

## Building an entrepreneurial culture

I believe Diageo's culture is a key source of competitive advantage. Our heritage is rooted in the vision of extraordinary entrepreneurs, such as John and Alexander Walker, Elizabeth Cumming, Don Julio González, Charles Tanqueray and Arthur Guinness, creating brands whose relationships with consumers have endured for centuries. Continuing that tradition, we are striving to become ever more entrepreneurial, as the proud custodians of exceptional brands from iconic names to innovative newcomers, such as Bulleit Bourbon, Seedlip or Casamigos.

This entrepreneurial spirit is embedded across Diageo through an agile, purpose-driven culture, which demonstrated its value in our response to the challenges of the Covid-19 pandemic. We have grown market share while supporting the industry, our customers and each other.

## Delivering 'Society 2030: Spirit of Progress'

I was delighted to see the launch of our 'Society 2030: Spirit of Progress' ESG targets in fiscal 21, and the decision to link 20% of long-term incentive plan (LTIP) grants, for all our senior leaders, to performance against several of our ESG measures. I am encouraged by the energy and progress I see in our work to deliver our 2030 goals.

We now have four carbon-neutral distilleries in Scotland and North America, with another four sites, globally, committed to achieving carbon neutrality. And we are proud that the Scotland-based Alliance for Water Stewardship (AWS), which sets a global benchmark for water sustainability, awarded the International Water Stewardship Standard (AWS Standard) certification to 12 of our distilleries this year, including our largest distillery, Cameronbridge, in Scotland.

We have incorporated the Task Force on Climate-related Financial Disclosures framework into our reporting. And this year, we have continued to extend the scope and sophistication of our climate risk assessments and the scenario analysis of climate change impacts. While our analysis indicates the financial impact will not be material to 2030, we know that managing the increasing climate risks we face, such as water stress, remains a priority. We expect to invest around £1 billion in environmental sustainability to reduce our impact and adapt to a changing climate, including decarbonisation of direct operations through biomass, bioenergy and electrification.
Read more on pages 30-31, 35-38 and 47-56.

## Engaging stakeholders

As designated Non-Executive Director for workforce engagement, I have very much enjoyed meeting hundreds of employees across Diageo during the year. My Board colleagues and I have been delighted to see some of them face-to-face again, and I am encouraged by their pride in the company and their ambition for the future. I am very pleased by the results of the annual Your Voice survey, with engagement at 82%, and 90% of respondents[2] proud to work for Diageo – 10 percentage points higher than our external benchmark.[3]
Read our workforce engagement statement on page 96.

## Creating value

I am pleased with the momentum and the performance delivered in fiscal 22. We have built solid foundations for future progress across the four areas of performance we measure: efficient growth, consistent value creation, credibility and trust, and engaged people. Return on invested capital was up 331 basis points to 16.8%, driven mainly by organic operating profit growth. Total shareholder return (TSR) was 4% this year. And our 10-year annualised TSR is 11%.

We continue to target dividend cover (the ratio of basic earnings per share before exceptional items to dividend per share) of between 1.8 and 2.2 times. The recommended final dividend is 46.82 pence per share, an increase of 5%. This brings the recommended full-year dividend to 76.18 pence per share and dividend cover to 2.0 times. Subject to shareholder approval, the final dividend will be paid to ordinary shareholders on 20 October 2022. Payment will be made to ADR holders on 25 October 2022.

On 21 February 2022, we announced the commencement of the third phase of our fiscal 20 to fiscal 23 return of capital (ROC) programme of up to £4.5 billion. Under the first two phases of the ROC programme, which were completed on 31 January 2020 and 11 February 2022 respectively, Diageo repurchased shares with an aggregate value of £2.25 billion. Under the third phase, due to complete no later than 5 October 2022, Diageo is seeking to return up to £1.7 billion to shareholders via share buybacks. As at 30 June 2022, £1.4 billion of phase three had been completed and the remaining £0.9 billion of the ROC programme is expected to be completed by 30 June 2023. During fiscal 22, the company purchased 61 million ordinary shares returning £2.3 billion to shareholders.

## Board changes

We are delighted to have appointed Karen Blackett, OBE, as a non-executive Director from 1 June 2022. Karen joined the Audit, Nomination and Remuneration Committees on appointment, and brings 25 years' experience of the media, marketing and creative industries. She is also a strong advocate for inclusion, diversity and creating opportunities for all.

Following Siobhán Moriarty's retirement on 30 September 2021, after an outstanding contribution to the company over 20 years, Tom Shropshire, formerly a Partner & Global US Practice Head at Linklaters LLP, succeeded Siobhán as General Counsel and Company Secretary.

## Looking ahead

We recognise that regulatory change to tackle the threat of climate change and increased scrutiny of our own social and economic contribution will likely accelerate in years to come. And there is potential for increased volatility in our operating environment, including ongoing impacts from Covid-19, the conflict in Ukraine, inflationary pressures and disruption in our supply chains, as well as the potential for broader economic malaise, which could impact consumer demand in fiscal 23. Diageo is, however, well diversified, by category, price point and geography; our people are engaged and proud of Diageo; and we continue to invest for the future to sustain the momentum in our brands and deliver a positive impact on society. We have consistently shown resilience in the face of volatility in recent years and proven our ability to emerge stronger in these circumstances.

I believe that our strengths in brand building, our supply chain operations and our culture, combined with the attractive fundamentals of the TBA market, give us a strong platform to realise our ambitions for the future growth of Diageo, even in the face of continued volatility. Your Board and executive leadership team will remain focussed on delivering long-term value creation for all our stakeholders.

**Javier Ferrán**
Chairman

## Statement on Section 172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires the Directors to promote the success of the company for the benefit of the members as a whole, having regard to the interests of stakeholders in their decision-making. In making decisions, the Directors consider what is most likely to promote the success of the company for its shareholders in the long term, as well as the interests of the group's stakeholders. The Directors understand the importance of taking into account the views of stakeholders and the impact of the company's activities on local communities, the environment, including climate change, and the group's reputation.

READ MORE ABOUT HOW STAKEHOLDERS WERE TAKEN INTO ACCOUNT IN DECISION-MAKING ON PAGES 92-94

2. 88% of our global employees completed the survey (fiscal 21: 85%)
3. Benchmark consists of over 30 fast moving consumer goods and manufacturing companies with similar global reach to Diageo

# Positioned *to win*

Diageo is the number one player in international spirits, which is growing, premiumising and gaining share of total beverage alcohol.[1]

And our iconic global brand Guinness, at the heart of our beer portfolio, is well positioned for the key growth trends within the category as a premium, flavourful beer.[2]


THE GUINNESS MICRODRAUGHT DISPENSER

## A large, growing and attractive industry

Total beverage alcohol (TBA) has a strong record of value growth over the last 10 years, with international spirits, where Diageo is the number one player, growing faster than TBA.[3] In both developed and emerging markets, growth is underpinned by attractive consumer fundamentals, including population growth, increased spirits penetration and premiumisation.

An additional 600 million consumers are expected to come of age by 2032, and the continued growth of the 'middle class and above' income bracket should enable 600 million more consumers to access our brands.[4] Spirits penetration remains low and even in our largest market, the United States, only around 50% of households purchase spirits every year.[5]

Premiumisation is a long-established trend, with the highest price tiers growing at more than double the international spirits category growth rate between 2016 and 2021.[3] Diageo has the largest premium-plus business within international spirits[3], and this segment now comprises over half of our reported net sales value. Our super-premium-plus portfolio, which focusses on the global luxury opportunity, grew 31% this year. While the current economic environment may create near-term volatility, we remain confident in continued premiumisation over the long term.

In beer, we have a differentiated and highly profitable business model, with exposure to attractive growth opportunities in both emerging and developed markets. Our iconic global brand, Guinness, is well-positioned for the key growth trends within the beer category as a premium, flavourful and differentiated beer.

With only 4.6% of global TBA share,[3] we believe we have significant headroom for sustainable, long-term growth, and our ambition is to outperform the market and increase our TBA value share to 6% by 2030.

READ MORE ON PAGES 12-15

## With an advantaged portfolio and geographic footprint

We own over 200 brands, with sales in more than 180 countries, including a market-leading position in international spirits in the United States[3] and fast-growing businesses in India and China. The breadth and depth of our portfolio across categories and price points, and our well-balanced position between developed and emerging markets, gives exposure to the largest consumer growth opportunities while providing some resilience to global volatility.

Our active and disciplined approach to portfolio management has shaped it towards higher-growth categories, including tequila, international whisky, scotch and gin. This has included acquisitions of premium-plus brands, such as Don Julio in 2015, Casamigos in 2017, Aviation American Gin in 2020 and 21Seeds flavoured tequila in 2022. And through our majority stake in Sichuan Swellfun Co., Ltd. (ShuiJingFang), we are the only international spirits player to compete in the large, growing and rapidly premiumising baijiu market. We've also made strategic disposals, including a portfolio of 19 brands in 2018; the Meta Abo Brewery in Ethiopia; and Picon in 2022. We also agreed to dispose of Windsor in Korea in 2022; and United Spirits Limited announced an agreement to sell and franchise a portfolio of brands in India.

READ MORE ON PAGES 57-75

## World-class brand building and effective route to consumer

Our exceptional capabilities in brand building and innovation drive sustainable long-term growth of our brands. We combine our deep understanding of consumers with marketing creativity, and we execute with precision. This is underpinned by smart investment in marketing effectiveness tools, such as Catalyst, Demand Radar and Sensor.

Our ability to have the right product in the right place at the right time and at the right price, enables us to win with consumers. We've invested in transformational digital and data capabilities, including proprietary technology tools, to consistently deliver a customer-first mindset.

Our suite of 'Every Day Great Execution' (EDGE) technology tools, including EDGE365 and Diageo One, gives us deeper insights that enable us to improve our commercial execution and customer service.

We're also building our e-commerce and direct-to-consumer capabilities, which further expand our sales reach to consumers. The strength of our on-trade customer relationships, enhanced through programmes such as Diageo Reserve World Class and Diageo Bar Academy, inspire and educate bartenders in the craft of mixology while supporting advocacy and quality serves of our brands.

Our route to consumer is a key competitive advantage, underpinned by a supply chain that is resilient, agile, efficient and sustainable. We manage diverse supply chains, from gins and beers to aged whiskies and tequilas, and we have a proven ability to respond at pace in complex and volatile environments.

READ MORE ON PAGES 22-23

## Financial strength and a culture of efficiency

We expect to deliver organic net sales growth consistently in the range of 5% to 7%, and organic operating profit growth sustainably in the range of 6% to 9%, for fiscal 23 to fiscal 25. Sustainable top-line growth and productivity savings enable smart re-investment to drive long-term growth. These investments include expanding our production capacity, such as new whiskey distilleries in North America and China; adding new consumer experiences, including the Johnnie Walker Princes Street visitor experience in Edinburgh; and strengthening our digital capabilities.

We have a consistent and disciplined approach to capital allocation, prioritising investment in the business to deliver sustainable and efficient organic growth, and pursuing acquisitions that strengthen our exposure to attractive categories. Excess cash is returned to shareholders.

We have a track record of growing shareholder value, and have increased our full-year dividend per share every year since 2001, including during Covid-19. Over the last 20 years, our absolute dividend per share has increased 220% and, over the last five years, we have returned £7.9 billion to shareholders through share buybacks.

READ MORE ON PAGES 22-23

## Highly engaged people and agile culture

Our people and culture are key enablers in delivering our Performance Ambition. Our culture connects our people. And their shared purpose and passion for our brands drives ownership of performance. This year, 90% of respondents to our Your Voice survey told us they are proud to work for Diageo.[6]

READ MORE ON PAGE 18

## And a commitment to shaping a more sustainable future

Doing business in the right way is fundamental to our Performance Ambition. We want to create a positive impact on our company, within our communities and for our society. And we are delivering this through our 'Society 2030: Spirit of Progress' ESG action plan. Our priorities in sustainability, inclusion and diversity, and promoting positive drinking reflect the most material issues affecting our company, our people, our brands, our suppliers and our communities. We strongly believe that our ESG ambitions are a source of commercial advantage and are fundamental to attracting and retaining the best talent, building deep consumer loyalty, increasing innovation, and driving efficiency and resilience across our operations.

READ MORE ON PAGES 19, 26-34 AND 41

1. IWSR, 2021 – retail sales value (RSV) CAGR 2011-2021
2. Global Data, 2021
3. IWSR, 2021
4. World Bank, 2022
5. Numerator
6. 88% of our global employees completed the survey (fiscal 21: 88%)

# Another year of *strong performance*

I am very pleased with our fiscal 22 results. In the face of unprecedented political and economic volatility, my 27,987 colleagues have worked tirelessly to deliver another year of strong performance.

| | |
|---|---|
| Reported volume movement<br>**10.3% ↑**<br>2021: 9.9% ↑ | Volume movement<br>**10.3% ↑**<br>2021: 11.2% ↑ |
| Reported net sales movement<br>**21.4% ↑**<br>2021: 8.3% ↑ | Net sales movement<br>**21.4% ↑**<br>2021: 16.0% ↑ |
| Reported operating profit movement<br>**18.2% ↑**<br>2021: 74.6% ↑ | Operating profit movement<br>**26.3% ↑**<br>2021: 17.7% ↑ |

The operating environment was even more challenging in the second half with stronger headwinds from inflation, supply chain disruptions and geopolitical events. Diageo has responded to these challenges with agility and resilience, reflected in the strength of this year's results.

Although there is more to do, I am proud of the progress we have made against our 'Society 2030: Spirit of Progress' ESG action plan, and the support we are giving to our colleagues, customers and the communities where we operate. Read more on pages 26-31 and 35-38.

As Javier notes, we are in the process of winding down our business in Russia. We are providing support to our employees across the region and doing what we can to assist the humanitarian effort, including pledging €2 million to aid organisations. Our thoughts are with everyone affected by the conflict in Ukraine, including all those concerned for family, friends and colleagues.

## Performance

For the full year, reported net sales increased 21.4%, primarily driven by strong organic growth, also up 21.4%, with strong double-digit growth across all regions. Growth reflects continued recovery in the on-trade, resilient consumer demand in the off-trade and market share gains. This performance was also underpinned by favourable industry trends of spirits taking share of total beverage alcohol (TBA) and premiumisation.[1] Our premium-plus brands contributed 57% of reported net sales and drove 71% of organic net sales growth. Organic volume growth was 10.3% and price/mix was up 11.1%, reflecting positive mix from strong performance in super-premium-plus brands, and mid-single digit price growth driven by price increases across all regions. Overall, we grew or held off-trade market share in over 85% of total net sales value in measured markets.[2]

Reported operating profit, up 18.2%, was primarily driven by a 26.3% increase in organic operating profit – with growth across all regions. Reported operating margin decreased 77 basis points (bps), driven by organic margin growth which was more than offset by exceptional operating items of £388 million. Despite increased cost inflation and 24.7% growth in organic marketing investment, we delivered a 121bps improvement in organic operating margin. This reflected a strong recovery in organic gross margin and leverage on operating costs. Organic gross margin was driven, primarily, by positive mix from premiumisation and the recovery of the on-trade channel. It also benefitted from improved fixed cost absorption from volume growth. Price increases and supply productivity savings more than offset the absolute impact of cost inflation.

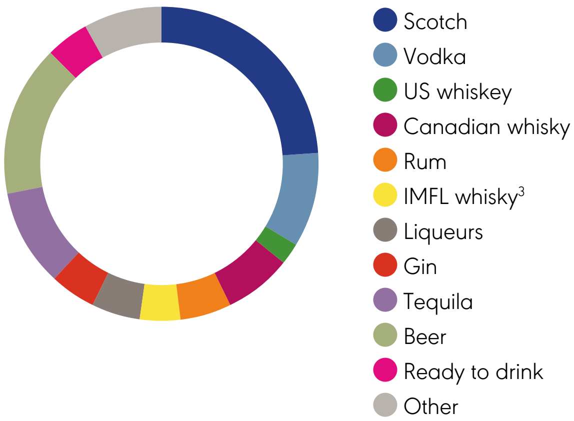
Reported and organic net sales were up across all key categories, with particularly strong growth in scotch, tequila and beer. Our global giants grew organic net sales by 22%, with all brands in growth and Johnnie Walker up 34%. Our Reserve brands grew 31%, largely driven by Casamigos, up 90%, Don Julio, Johnnie Walker Reserve variants, Chinese white spirits and scotch malts.

Our local stars grew 14%, largely driven by double-digit growth in Buchanan's, and growth in Chinese white spirits, Crown Royal and Old Parr. Windsor and Bundaberg organic net sales were down 9% and 4%, respectively.

Basic earnings per share increased 23.2%, primarily driven by organic operating profit growth, partially offset by higher tax and exceptional items. Basic earnings per share before exceptional items increased 29.3%. We delivered free cash flow of £2.8 billion this year, a decline of £0.3 billion, due to lapping an exceptionally strong working capital benefit in fiscal 21.

1. ISWR, 2021
2. Internal estimates incorporating Nielsen, Association of Canadian Distillers, Dichter & Neira, Frontline, INTAGE, IRI, ISCAM, NABCA, Scentia, State Monopolies, TRAC, Ipsos and other third-party providers

## Reported net sales by category




## Doing business the right way

I firmly believe that Diageo's commitment to sustainability, inclusivity, diversity and promoting positive drinking through our 'Society 2030: Spirit of Progress' ESG action plan is a source of commercial advantage, and ensures we attract and retain the most talented employees.

At Diageo, we want people who choose to drink, to 'drink better, not more'. There is no alcoholic drink of moderation, only a practice of moderation, and we are determined to provide consumers with the information they need to make informed choices. The prevalence of harmful drinking – including heavy episodic, or binge drinking, and underage drinking – has been falling in many regions over the last decade. There is, however, much more to do and all of us in the industry have an important role to play in reducing the harmful use of alcohol, in partnership with governments and civil society.

Wrong Side of the Road, a hard-hitting new programme to support changes in attitudes to drink driving globally, has reached over 500,000 people in 24 countries since it was launched in May 2021. And SMASHED, our award-winning programme focussed on tackling underage drinking, is now running in 26 countries and has educated 607,374[Δ] people in fiscal 22. DRINKiQ, our responsible drinking tool, is now available in 73 countries and 23 languages, delivering early achievement of one of our 2030 goals.[4] We also made significant progress against our target to reach one billion people with dedicated responsible drinking messages by 2030. Read more on pages 26-27 and 35.

I'm also very proud that we continue to make progress in building a more inclusive and diverse company: 64% of Diageo's Board are female and the percentage of female leaders globally is now 44%.[Δ] And 45% of our Board and 41%[Δ] of leaders globally, including our Executive Committee, are ethnically diverse. Read more on pages 28-29, 35-36 and 105.

As Javier explains, we have made progress this year in the delivery of our grain-to-glass sustainability goals, with a focus on preserving water for life, accelerating to a low-carbon world and becoming sustainable by design. Read more on pages 30-31 and 36-38.

## Delivering growth

We have set new medium-term guidance for consistent and sustainable growth for fiscal 23 to fiscal 25, and an ambition to deliver a 50% increase in our value share of the TBA market, from 4% to 6%, by 2030. This ambition rests on our view of the attractive fundamentals of TBA combined with our determination to become the best brand builders in the world. I am pleased with the progress we have made towards this ambition, having increased our TBA share to 4.6% in 2021.[5] This share gain was more than any of our peers and two times more than our largest competitor.[6]

I believe Diageo's performance demonstrates the consistent delivery of our strategy: focussing on agility, efficiency, commercial execution, sustained investment, and above all, understanding and responding to our consumers through culturally relevant marketing, innovation and active portfolio management. During the year, we continued to invest for the future across production capacity, digital capabilities and consumer experiences, opening Johnnie Walker Princes Street in Edinburgh and announcing investments in Guinness experiences in Chicago and London.

We also continued to shape our portfolio towards attractive categories by acquiring 21Seeds and Mezcal Unión. We also acquired Vivanda, owner of the flavour matching technology behind 'What's Your Whisky' and the 'Journey of Flavour' at Johnnie Walker Princes Street in Edinburgh. This acquisition supports our ambition to provide customised and interactive experiences for consumers across all channels and is part of the acceleration of the digital transformation journey we embarked upon in 2017. We sold Picon and the Meta Abo Brewery, in Ethiopia, and announced an agreement to dispose of the Windsor business. And in May 2022, United Spirits Limited announced an agreement to sell and franchise a portfolio of Indian Popular brands.

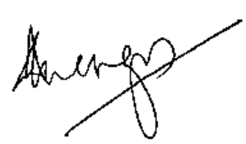
We are proud that, in June 2022, we captured eight of the top ten positions in the Drinks International 'Millionaires' Club' – an annual list featuring the fastest growing spirits brands around the world, which achieve annual sales volumes exceeding one million nine-litre cases. Consistent investment in our brands has been a key enabler of quality market share gains and we will continue to invest in their growth.

## Outlook

Looking ahead to fiscal 23, we expect the operating environment to be challenging, with ongoing volatility related to Covid-19, significant cost inflation, a potential weakening of consumer spending power and global geopolitical and macroeconomic uncertainty. Notwithstanding these factors, I am confident in the resilience of our business and our ability to navigate headwinds.

I believe we have an advantaged portfolio with extraordinary brands across geographies, categories and price points. And we continue to actively shape our portfolio to fast-growing categories through innovation and acquisitions. We are staying close to our consumers, and our digital tools and data capabilities are enabling us to quickly understand trends and execute with precision. Continued smart re-investment is being fuelled by our culture of everyday efficiency. And our expertise in revenue growth management is enabling strategic pricing actions. In addition to our everyday efficiency savings, as we continue to build a more agile and sustainable business, we have initiated a new supply chain agility programme, spanning a five-year period from fiscal 23. We expect this programme to strengthen our supply chain, improve its resilience and agility, drive efficiencies, deliver additional productivity savings and make our supply operations more sustainable. The programme is expected to have a five-year payback period, with the majority of savings delivered in fiscal 25 and beyond.

We are executing our strategic priorities, including our ambitious 10-year ESG action plan. And I am confident that we are well-positioned to deliver our medium-term guidance for fiscal 23 to fiscal 25 of organic net sales growth consistently in the range of 5% to 7% and organic operating profit growth sustainably in the range of 6% to 9%.



**Ivan Menezes**
Chief Executive

3. Indian-Made Foreign Liquor (IMFL) whisky
4. Our promote positive drinking goal is to 'Champion health literacy and tackle harm through DRINKiQ in every market where we live, work, source and sell' (where it is legally permissible). Read more on page 35.
5. Diageo retail sales value % share of TBA for calendar year 2021, IWSR, 2021
6. IWSR, 2021

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index.

# An attractive industry with a runway *for growth*

**Our markets are shaped by long-term consumer, economic, cultural and social trends, and the regulatory environment. Total beverage alcohol (TBA) is resilient, and we believe the long-term trends for our industry are attractive.**

**Drinking occasions and practices vary, depending on local culture and traditions. We believe that drinking in a responsible way can be part of a balanced lifestyle in many societies around the world.**

| Retail sales value of total global alcohol market[1] | Total equivalent units of alcohol sold[2] | New legal purchase age consumers expected to enter the market by 2032[3] |
|---|---|---|
| £865 billion | 5 billion | 600 million |

1. IWSR, 2021
2. IWSR, 2021
3. World Bank, 2022


CROWN ROYAL WHISKY

CONSUMERS WANT TO 'DRINK BETTER'

## Consumers are seeking new experiences and higher quality products

When it comes to beverage alcohol, consumers are 'drinking better, not more'[1] – increasingly choosing brands and categories that offer superior quality, authenticity and taste. This premiumisation trend is supported by product innovation, fuelled by higher levels of prosperity and disposable income – and coupled with a greater desire to explore new experiences, ingredients and serves for social occasions.

Higher price spirits tiers grew **7 times** faster than the total spirits category

IWSR, 2021, volume CAGR for the period 2011 to 2021

### Impact

Over the last 10 years, brands in higher price tiers have grown volume faster than those in lower price tiers.[2] Consumers are buying a broader range of premium products, including no- and lower-alcohol drinks, that reflect their diet and lifestyle choices and their interest in natural ingredients and craft production.

### Our response

We have built an industry-leading portfolio of Reserve brands – through focussed investment, brand building, the creation of a dedicated management team – and, in many countries, a dedicated route to market. Through the development of our Reserve portfolio, we are able to influence the evolution of luxury spirits across different categories and occasions, including super premium scotch and tequila.

We are also growing brands of the future, including no- and lower-alcohol choices. We do this through a combination of acquisition, by developing our own brands, and investing in entrepreneurs through the Diageo-backed accelerator programme, Distill Ventures.

**This market dynamic aligns with these strategic priorities:**
Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking, Pioneer grain-to-glass sustainability

CONSUMERS ARE INCREASINGLY CHOOSING SPIRITS

## Consumers who drink alcohol are increasingly choosing spirits over beer and wine

This is a long-term trend we see occurring across the globe. In markets where spirits is a less mature category, mainstream spirits brands can offer quality and affordability. In more mature markets, premium core and Reserve brands offer variety and new experiences.

**+7%** increase in spirits share of total beverage alcohol

IWSR, 2021, between 2011 to 2021

### Impact

In markets such as the United States, household penetration of spirits has grown ahead of wine and beer. And this accelerated during the pandemic. This was driven by consumers adding cocktails more often to their 'at home' repertoires, whilst the spirit-based ready-to-drink category benefitted from increased consumption across more occasions.[3] In many emerging markets, spirits penetration is still low compared to developed markets, with potential for future growth.

### Our response

Our broad, global portfolio across categories and price points provides consumers with product choices to suit different occasions and their disposable income. Our innovation is driven by our consumer insight on trends and occasions, ensuring we provide choices to suit evolving consumer attitudes and motivations.

**This market dynamic aligns with these strategic priorities:**
Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking

AN EMERGING MIDDLE CLASS WHO CAN AFFORD INTERNATIONAL-STYLE SPIRITS

## Global economic development is driving the emergence of consumers with higher disposable income

These consumers are seeking new, aspirational experiences and driving demand for quality drinks at a range of price points. They are also moving away from illicit alcohol, which is estimated to account for around 25% of global alcohol sales despite the associated health risks and loss of tax revenue for governments.[4]

**600m** consumers expected to join 'middle class and above' income bracket by 2032

World Bank, 2022

### Impact

Demand for international-style spirits is rising. Around 600 million new legal purchase age consumers[5] are expected to enter the market globally by 2032. Over the same period, we expect hundreds of millions of additional consumers to be able to afford international-style spirits.

### Our response

We have built a portfolio of lower price point options, such as Smirnoff X1 in Africa, McDowell's No. 1 in India and Black & White in Latin America. As emerging market consumers' disposable incomes rise, these products give them access to quality at affordable prices and enable us to help shape responsible drinking trends.

**This market dynamic aligns with these strategic priorities:**
Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking

CONSUMERS ARE CHANGING HOW THEY SOCIALISE

## Consumers in developed markets are moving towards lower-tempo, food-related occasions

As the on-trade has reopened following the pandemic, high-tempo, late-night occasions are recovering. However, the long-term shift towards occasions before, during and after meals, and in choices that suit 'at home' occasions, persists.

**+7%** increase in lower-tempo share of TBA occasions in Great Britain

Kantar, 2022, between 2018 to 2022

1. IWSR, 2021
2. IWSR, 2021
3. Numerator, 2022
4. WHO, 2021
5. World Bank, 2021


DON JULIO TEQUILA

## Luxury tequila positioned for premiumisation in North America

In North America, tequila accounts for 15% of total spirits retail sales value and is gaining share. It continues to premiumise at pace, with premium price tiers growing the fastest.[1]

Our luxury tequila portfolio includes Don Julio 1942, which is the number one luxury spirit brand variant by retail sales value in the United States.[2] Its success as a luxury icon has been driven by a combination of outstanding liquid and powerful brand building, deeply rooted in culture. We've built consumer desire over the past decade through targeted distribution, influencer partnerships and cultural collaborations.

This year, under the Don Julio brand, we launched two new luxury innovations in North America, both of which exceeded expectations on launch. This included Don Julio Primavera, a limited edition Reposado tequila finished in European casks, which previously held wine infused with macerated orange peel; and Don Julio Ultima Reserva, a 36-month aged luxury Extra-Añejo tequila, making use of the final agave harvest planted by Don Julio González and his family in 2006. Both variants are built on key consumer insights. Don Julio Primavera drives relevance within informal and outdoor daytime occasions, whilst Don Julio Ultima Reserva delivers an authentic and credible brand experience, coupled with eye-catching packaging.

1. IWSR, 2021
2. Nielsen + NABCA combined, 2021

### Impact

Spirits, which are versatile and adaptable, are benefitting from the recovery of high-tempo socialising, as well as the long-term shifts in consumers' discovery of new serves which are suitable for a broader range of occasions.

### Our response

Our consumer insight enables us to innovate within existing brands, anticipate new consumer occasions and meet emerging consumer demand. This insight is supported by our ability to develop and launch products and campaigns rapidly and effectively, reaching the right consumers fast. This year, we launched Johnnie Walker Blonde in six markets globally to recruit new scotch consumers, using a refreshing long serve to appeal to casual, lower-tempo occasions. After a successful launch, we'll be extending Johnnie Walker Blonde to more markets in fiscal 23.

**This market dynamic aligns with these strategic priorities:**
Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking

CONSUMERS ARE CHANGING HOW THEY BUY

## Digital and technology are changing the way consumers find and buy our brands

Online shopping for alcohol is still low compared to other retail categories, but it continues to be a fast-growing channel that dramatically accelerated during the pandemic. Consumers are increasingly using the internet to discover and learn about brands and products.

**+16%** retail sales value growth of global e-commerce TBA

IWSR, 2021

### Impact

The lines between channels are blurring as consumers expect a seamless omnichannel experience. And as regulations continue to evolve and e-commerce expands further, digital channels will play an ever-increasing role in bringing our products to consumers.

### Our response

Our mission is to delight consumers across both digital and physical touchpoints, transforming our route to consumer approach. We continue to build strength on key platforms, such as Amazon in Europe and Drizly in the United States, whilst development of our owned e-commerce channels and capabilities has been a key global focus this year. We rolled out TheBar.com to four new markets and re-launched in one; upgraded and repositioned malts.com as the digital hub for our Scotland brand homes and distilleries; and extended Diageo Rare & Exceptional to a global audience. These channels enable us deepen our relationship with consumers, as well as help them find the right drink for the right occasion.

**This market dynamic aligns with these strategic priorities:**
Sustain quality growth, Invest smartly, Promote positive drinking

A COMPLEX REGULATORY ENVIRONMENT

## The beverage alcohol industry is highly regulated

Regulation varies widely around the world, often evolving in response to changes in society. Compliance with law and regulation wherever we operate is a minimum requirement, and we have long understood that a responsible alcohol company must go beyond mere compliance.

We are proud of our brands and we want them to be enjoyed responsibly. Through our work, we are aligned with the World Health Organization's goal of reducing harmful drinking by 10% by 2025. We also advocate policies and industry standards, including minimum legal purchase age laws and maximum blood-alcohol concentration driving limits, in countries where these are not already in place.

**607,374**$^{\Delta}$ young people, parents and teachers educated on the dangers of underage drinking this year

Diageo, fiscal 22

### Impact

While most people who choose to enjoy alcohol do so responsibly, the misuse of alcohol can harm individuals and those around them, damage our industry's reputation and make it harder for us to create value.

### Our response

We want to offer consumers the opportunity to 'drink better, not more' – an approach that is rooted in our social values and aligns with our business model as a producer of premium drinks. We're committed to promoting moderation while campaigning to reduce harmful drinking and advocating for better laws and industry standards. Our approach to positive drinking includes ambitious targets for areas in which we can have the greatest impact in reducing harm: drink driving, underage drinking and binge drinking.

**This market dynamic aligns with these strategic priorities:**
Sustain quality growth, Embed everyday efficiency, Promote positive drinking

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index.

CONSUMERS EXPECT BUSINESSES TO ACT RESPONSIBLY

## Consumers are increasingly challenging businesses to show how they make a positive impact across all aspects of society

They expect to see that businesses are generating wealth, fostering inclusion and diversity, respecting human rights, supporting their communities and acting on important societal and environmental issues, including climate change and water stress.

**56%** of global households expected to be 'Eco Actives' (the most environmentally conscious shoppers) by 2031

'Who Cares, Who Does?', Kantar, 2021

### Impact

Earning trust and respect is fundamental to achieving our ambition. We know our brands must continue to play an active role in society to meet consumer demands. This must be underpinned by a business that reduces environmental impact and promotes inclusive economic growth, while making sure that we do business with integrity and respect for human rights.

### Our response

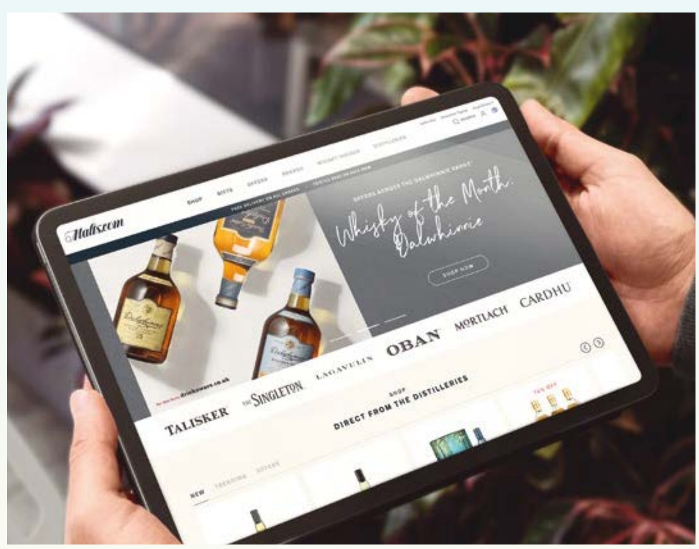
The 25 goals in our 'Society 2030: Spirit of Progress' ESG action plan provide a platform for many of our global brands' sustainability programmes. These include Baileys' launch of the Sustainable Farming Academy in Ireland; Guinness' regenerative agriculture plans; and a circular packaging pilot with Smirnoff and Captain Morgan in South East Asia. This year, we started removing cardboard gift boxes from our premium scotch portfolio, increased spend with diverse suppliers by more than 50%, and have trained over 190,000 hospitality workers through the Diageo Bar Academy. In response to the conflict in Ukraine, we've pledged €2 million via The Red Cross and Care International UK for immediate humanitarian aid, and pivoted our Learning for Life programme in Europe to support Ukrainian refugees into work.

**This market dynamic aligns with these strategic priorities:**
Sustain quality growth, Invest smartly, Promote positive drinking, Champion inclusion and diversity, Pioneer grain-to-glass sustainability

## Unlocking the omnichannel Scotch whisky opportunity through malts.com

We're actively building our omnichannel participation through a number of initiatives. In scotch, malts.com is our direct-from-distillery platform, offering consumers access to our scotch portfolio, connecting them with our community of whisky makers and providing a central hub to plan visits and book tickets to our Scotland brand homes, wherever they are.

This year, we re-launched malts.com across five markets with a new look and feel to reflect the changing values of our growing audience. Designed with more than just an e-commerce platform in mind, we set out to create a premium destination for experiences, exclusive and personalised products, gifts and events. This allows us to nurture a relationship with our consumers directly, whilst maintaining relevance with consumer trends and behaviours.




MALTS.COM DIGITAL HUB

# Creating a truly *sustainable business* for the long term

We deliver our strategic priorities through a business model that leverages global and local expertise, has the consumer at its heart and puts our responsibilities to our stakeholders front and centre.

Since launching our 'Society 2030: Spirit of Progress' ESG action plan, we've set out to help create a more inclusive and sustainable world, creating a positive impact in our company, with our communities and for our society.

## Our enablers

### Our people

We're proud of our people, whose passion, commitment and specialist skills make the difference.

**27,987 people**

### Our brands

We have a leading portfolio of iconic brands. Its breadth across categories and price points offers choice for every taste and celebration.

**200+ brands**

### Our relationships

From grain to glass, strong, trusted relationships with all our stakeholders are essential to our business.

**180+ countries**

### Our insight and know-how

Our in-country sales and marketing teams give us greater agility and enhanced insight, so we can anticipate the diverse needs of our consumers and customers.

### Our infrastructure

We have a global network of sites devoted to research and development, distillation, maturation, brewing, warehousing and packaging of spirits and beer.

**132 sites globally**

### Our financial strength

We believe attractive margins, a strong balance sheet and solid free cash flow give us the financial strength to execute our strategic priorities and deliver strong shareholder returns over the long term.

READ MORE ABOUT OUR STRATEGIC PRIORITIES ON PAGES 19-31, AND OUR PRINCIPAL RISKS AND RISK MANAGEMENT ON PAGES 42-46

1. Data points refer to fiscal 22 unless otherwise stated
2. 88% of global employees completed our Your Voice survey (fiscal 21: 85%)
3. Net promoter score is an internally generated metric that indicates the likelihood that suppliers surveyed would recommend Diageo as a preferred business partner, as of November 2021
4. Oxford Economics, 2022 for calendar year 2021

## What sets us apart

### Our brand portfolio and geographic footprint

We actively manage our leading brand portfolio to ensure we offer consumers a broad range of products across regions, categories and price points. We have leading positions in many of the markets that are expected to contribute most to medium- and long-term industry growth.

### Our track record in innovation and brand building

To recruit consumers, we innovate across centuries-old brands such as Johnnie Walker, Tanqueray and Guinness, and develop, grow and acquire new brands such as Seedlip, Chase Distillery and 21Seeds. We use our archives in Scotland and Ireland, two of the largest and most comprehensive in the drinks industry, to provide a rich source of inspiration for our brands. Our creative expertise is enhanced through the use of data and tools, which we use to develop a deep understanding of our consumers and customers. We call this combination 'creativity with precision'.

## Our business activities

### Consumer insights
We continually evolve our data tools to understand consumers' attitudes and motivations. We convert this information into insights which enable us to respond with agility to our consumers' interests and preferences.

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

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

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

### Distilling and brewing
We distil, brew, bottle and distribute our spirits and beer brands through a globally co-ordinated supply operation, working to the highest quality and manufacturing standards. Where it makes sense, we produce locally.

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

### Our relationships with the trade
Through Diageo Reserve World Class and Diageo Bar Academy programmes, we continue to build a network of relationships with bartenders, customers and distributors that provides us with a strong route to our consumers.

### Our expertise in distillation and brewing
Our supply chain teams are the guardians of our brands' quality and craftsmanship. Their skills and experience range from the craft of barrel-making and coppersmithing, to blending scotch, brewing premium beer, designing packaging and ensuring our complex modern supply operations are working to the highest standards.

## The value we create[1]

### For our people
We want our people to be the best they can be. We offer a diverse and inclusive workplace with opportunities for development and progression.

**90%**
of respondents are proud to work for Diageo[2]

### For our consumers
We are passionate about the role our brands play in celebrations globally. We are committed to promoting moderation and reducing alcohol misuse.

**456 million**
people reached with moderation messages from our brands

### For our customers
We work closely with customers to build sustainable ways of working that help grow their businesses through great insight and execution.

**3.3 million**
bar professionals used the Diageo Bar Academy website

### For our communities
We help build thriving communities by making lasting contributions where we live, work, source and sell.

**>158,000**
people benefitted from our community programmes

### For our suppliers
We partner with suppliers to ensure long-term, mutually beneficial relationships. Respect for human rights is embedded throughout our global value chain.

**+39**
supplier net promoter score[3]

### For our investors
We aim to maximise long-term shareholder returns through consistent, sustainable growth and a disciplined approach to capital allocation.

**11%**
compound annual growth rate in total shareholder return over 10 years

### For governments and regulators
We contribute to economic and development priorities and advocate laws that protect communities where these are not already in place.

**£900,000**
estimated economic benefit generated for every £1 million we contribute to national GDP[4]

# Highly engaged people, *and advantaged culture*

DIAGEO EMPLOYEES AND BRANDS

## At Diageo, we are committed to building an engaging and inclusive culture that empowers our people to thrive and grow.

### Advantaged culture fuelled by our people's passion for our brands and business

Our most valuable assets are the 27,987[1] people who work in our business every day, with an incredible passion for our brands, strong ownership mindset and accountability for delivering our Performance Ambition. Diageo's culture is rooted in this deep sense of purpose, passion and personal connections to our brands and each other.
The Your Voice survey gives us the opportunity to hear from our people on how they are experiencing work at Diageo; the output of which further shapes our culture. This year, our Employee Engagement Index increased by 1 percentage point to 82%, and our Employer Advocacy score for working at Diageo improved by 5% versus last year.

### Commitment to our people's wellbeing

We believe that our people are most productive when they are physically and mentally thriving, emotionally balanced, financially secure, and socially connected. Recently, we launched our Global Wellbeing Philosophy, outlining our commitment to creating an environment where people can thrive, along with practical frameworks and tools to support our people in managing their wellbeing.
In addition to local wellbeing initiatives, such as free Wellbeing Day and Mental Health capability programmes, we are designing our new office spaces with wellbeing at the heart. For example, our new Global Headquarters in Soho, London is equipped with wellness and fitness classes.

**82%**

Employee Engagement Index[2]

(+1 vs 2021)

**80%**

Diageo is sufficiently supporting my health and wellbeing[2]

(+2 vs 2021)

### Unlocking the growth and potential of our people

Our talent strategy helps us to develop the best talent for Diageo by providing our people with the right developmental experiences to grow and develop. During fiscal 22, the number of international moves undertaken by our people increased by 32%, demonstrating our continued investment in developing our talent and building a longer-term talent pipeline. We are making significant progress in acquiring the best and most diverse talent externally, by digitising our recruitment processes and making it easy for our people to refer great talent. Similarly, our new offer and onboarding process has significantly reduced our 'time to fill roles', supporting us in attracting and accelerating the performance of new joiners.

### Enabling a culture of agility and experimentation

To create speed and agility in a dynamic and volatile environment, we are simplifying our internal processes through the Radical Liberation programme – a series of interventions to reduce and stop processes that get in the way of us performing at our best. Also, we are forming more cross-functional, cross-market teams to leverage diversity, create a culture of experimentation and provide learning opportunities for our people. This has enabled us to quickly launch and scale new initiatives, such as the pan-African Johnnie Walker 'Keep Walking' campaign which launched across Africa in fiscal 22 and delivered significant growth for the brand.

### Average number of employees by region by gender[3]

| Region[5] | Men | % | Women | % | Not declared[4] | % | Total |
|---|---|---|---|---|---|---|---|
| North America | 1,719 | 59% | 1,150 | 40% | 28 | 1% | 2,897 |
| Europe | 5,487 | 58% | 3,914 | 41% | 59 | 1% | 9,460 |
| Asia Pacific | 5,634 | 69% | 2,481 | 30% | 89 | 1% | 8,204 |
| Africa | 2,445 | 67% | 1,185 | 32% | 18 | 0% | 3,647 |
| Latin America and Caribbean | 2,349 | 62% | 1,398 | 37% | 32 | 1% | 3,779 |
| **Total** | **17,634** | **63%** | **10,127** | **36%** | **226** | **1%** | **27,987** |

### Average number of employees by role by gender[3]

| Role | Men | % | Women | % | Not declared[4] | % | Total |
|---|---|---|---|---|---|---|---|
| Executive | 8 | 62% | 5 | 38% | 0 | 0% | 13 |
| Senior manager[6] | 304 | 56% | 239 | 44% | 1 | 0% | 544 |
| Line manager[7] | 2,299 | 66% | 1,155 | 33% | 11 | 0% | 3,465 |
| Supervised employee[8] | 15,022 | 63% | 8,729 | 36% | 213 | 1% | 23,965 |
| **Diageo (total)** | **17,634** | **63%** | **10,127** | **36%** | **226** | **1%** | **27,987** |

1. This data is correct as of 30 June 2022
2. This is based upon the respondents to the fiscal 22 Your Voice engagement survey
3. This data has been compiled based on the proportion of employees who have identified their gender identity as male, female or undisclosed, and will not be fully representative of the gender identity or diversity within our employee population
4. This data represents the proportion of employees who have chosen not to disclose their gender identity as male or female
5. Employees have been allocated to the region in which they reside
6. Top leadership positions in Diageo, excluding Executive Committee
7. All Diageo employees (non-senior managers) with one or more direct reports
8. All Diageo employees (non-senior managers) who have no direct reports

# Delivering our *Performance Ambition*

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

## Our strategic priorities


## Our strategic outcomes

**EG** **Efficient growth**
Consistently grow organic net sales, grow operating profit, deliver strong free cash flow

**CVC** **Consistent value creation**
Top-tier total shareholder returns, increase return on invested capital

**CT** **Credibility and trust**
Trusted by stakeholders for doing business the right way, from grain to glass

**EP** **Engaged people**
High-performing and engaged teams, continuous learning, inclusive culture

## Our culture and values

**Our culture underpins the work we do to deliver our strategic priorities and is key to our success.**

It is shaped by our values and encourages our people to: lead bold execution that ensures consumers delight in our brands; act like entrepreneurs and encourage learning; take ownership for shaping and achieving our ambition; and create an inclusive environment where everyone can be at their best.

**We strive to share our values with our stakeholders, building mutually fulfilling relationships and partnerships.**

### Passionate about consumers and customers

Our curiosity and insights deliver experiences and products that delight and drive growth.

### Freedom to succeed

We foster an entrepreneurial spirit by giving each other the freedom to succeed. It's how we move with pace and keep our big company small.

### Proud of what we do

We are proud of how we operate and what we stand for. We act sensitively with the highest standards for integrity and social responsibility.

### Valuing each other

We are creating a truly inclusive culture. We seek diversity in people and perspectives, and believe in the benefits it delivers across our business.

### Be the best

We are restless: always learning, always improving. We strive to be the best at work and in our communities.

# *Sustain* quality growth

**Creating sustainable and consistent quality growth is at the heart of our ambition to be 'one of the best performing'. It means delivering consistent net sales and margin growth as well as top-tier shareholder returns.**

## Delivering our strategic outcomes

Sustained quality growth contributes to the delivery of our strategic outcomes of Efficient growth, Consistent value creation and Credibility and trust.

EG CVC CT

Delivering sustained, quality growth is not new to us. Brands such as Guinness, Johnnie Walker and Crown Royal show how the right approach to quality, brand building, innovation and investing for the long term can build lasting value. To sustain quality growth, we focus on developing the successful new brands of the future; on growing volume, price and mix – what we call Revenue Growth Management (RGM); on executing the most effective route to our consumers; and on working with governments and stakeholders around the world to ensure our brands compete on a more equal playing field for alcohol taxation and regulatory policy.

READ MORE ABOUT HOW WE ARE RESPONDING TO OUR MARKET DYNAMICS ON PAGES 12-15

## Progress in fiscal 22

- Leveraged RGM in challenging inflationary environment, upweighting strategic pricing capabilities
- Launched innovations including Johnnie Walker High Rye, Don Julio Ultima Reserva and Gordon's Pink 0.0. Also launched Smirnoff Raspberry Crush Vodka Lemonade RTD, Cîroc Vodka Spritz, Bulleit Crafted Cocktails and Seedlip RTDs, supporting expansion of ready to drink portfolio
- Launched no-alcohol portfolio in additional markets
- Continued to actively manage our portfolio of brands, announcing: an agreement to sell the Windsor business; the sale of Picon, the French liqueur brand, and of the Meta Abo Brewery in Ethiopia; and an agreement by United Spirits Limited to dispose of and franchise select Popular brands in India
- Enhanced and relaunched malts.com as a digital hub for our Scotland brand homes and distilleries; relaunched TheBar.com, our flagship direct-to-consumer site, in Great Britain; and introduced it in the United States, Venezuela, Mexico and Kenya

## Looking ahead to fiscal 23

- Continue to drive quality market share
- Continue to embed RGM plan globally to reduce impact of cost inflation and support long-term growth
- Accelerate the transformation and integration of our digital capabilities, tools and platforms across marketing and global sales

## Building the *luxury* opportunity


Our super-premium-plus portfolio of luxury brands grew 31% this year, contributing 27% of our reported net sales.

As the premiumisation trend evolves, so too has the idea of luxury. And we're seizing the opportunity to position our brands for further sustained growth with a more diverse, luxury consumer looking for unique and personalised experiences.

The Singleton has introduced a new generation of consumers to single malts through its accessible, fresh and distinctive perspective. Its simplified portfolio and refreshed brand image are recruiting more diverse consumers.

In China, the fastest growing single malt market,[1] we are building the brand at the high end of the luxury market. We have invested in unique innovations, such as The Singleton 39-Year-Old (Epicurean Odyssey Series), and created experiences that highlight the brand's most aged variants – contributing to an increase in share.[2]

In Great Britain, we launched our 'This will be Good' campaign in October 2021, including the brand's first ever television advertisement, which brings to life the delicious taste of The Singleton. As part of the campaign, we partnered with celebrated tastemaker Monica Galetti to create delicious recipes and cocktails featuring The Singleton. Our plans are delivering results, with The Singleton now the fastest growing single malt in the United Kingdom.[3]

1. Of top 15 single malt markets globally by retail sales value, IWSR, 2021
2. SmartPath and Think&Do: rolling 12 months to 31 March 2022
3. Of top 20 single malt brands by retail sales value, IWSR, 2021

THE SINGLETON SINGLE MALT SCOTCH WHISKY

# Guinness: *building* for the long term

When it comes to quality growth, Guinness is showing the way. After a period of challenged performance followed by the closure of bars and pubs during Covid-19, the iconic brand is reaping the dividends of a strategy that builds on its legacy of 'power, goodness and communion', embedding its place in culture and attracting a more diverse consumer base.

Guinness is our second biggest brand,[4] and the work we're doing to deliver its ambition of becoming the 'most creative, innovative and sustainable beer in the world' is yielding results. This year, organic net sales grew 32%.

## Coming alive in culture

Guinness' distinctive voice is informed by deep consumer insight and powered by precision marketing to ensure it connects with key cultural moments. In August 2021, Guinness launched its first pan-African campaign in five years: Black Shines Brightest. Inspired by the bold and unique beer, Guinness Foreign Extra Stout, the campaign celebrates African creativity and ingenuity, and features some of the best-known local culture makers, including Ghanaian choreographer Incredible Zigi; Nigerian designer Adebayo Oke-Lawal and Kenyan media personality Adelle Onyango. Proving that it resonated locally, Black Shines Brightest led to the recruitment of 1.5 million new Guinness drinkers across Africa during fiscal 22.

## Innovation for new consumer occasions

Our recent award-winning dispense innovations and our liquid innovations have been focussed on ensuring high-quality Guinness is accessible in emerging occasions at home and in new places and spaces, no matter their size or physical setup. Following the successful launch of Guinness MicroDraught in pubs, restaurants and bars, we launched a limited first release for consumers in Great Britain in December 2021. This launch delivered Guinness Draught on tap in consumers' homes for the very first time. And we also introduced Guinness NitroSurge in Ireland this year. It provides an easy new way to experience the famous 'surge and settle' at home, increasing the number of occasions in which consumers choose Guinness.

## Investing for the long term

In addition to our investments in innovation and marketing, we also announced, this year, investments in two new Guinness visitor experiences that are due to open in Chicago and London in 2023. And to support our sustainability ambitions, in February, we embarked on a three-year regenerative agriculture pilot in Ireland, to highlight opportunities to reduce the carbon emissions of barley production.

4. By organic net sales value

GUINNESS FOREIGN EXTRA STOUT

# Embed everyday *efficiency*

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

## Delivering our strategic outcomes

Embedding everyday efficiency contributes to the delivery of our strategic outcomes of Efficient growth and Consistent value creation.

EG CVC

We want to ensure our resources are deployed where they are most effective. This means using technology and data analytics to make better, faster decisions and to work in a more agile way. It also means simplifying our business, so that we can liberate our teams to better meet the needs of our consumers and customers. At the same time as freeing resources to focus on great performance, everyday efficiency generates savings that we can reinvest smartly.

READ MORE ABOUT HOW WE ARE RESPONDING TO OUR MARKET DYNAMICS ON PAGES 12-15

## Progress in fiscal 22

- Continued to scale efficiencies by embedding a new operating model across global supply and procurement
- Rolled out Diageo One, our digital marketplace for customers, to seven further countries, now covering over 43,000 customers
- Continued to improve process controls in our supply operation to reduce waste, optimise the use of raw materials, and unlock efficiencies through the introduction of additional automation
- Enhanced EDGE365 capabilities through the introduction of an automated contract management function in the application

## Looking ahead to fiscal 23

- Enhance focus on everyday efficiency and productivity
- Initiate supply chain agility programme, spanning five years from fiscal 23, to strengthen our supply chain, improve its resilience and agility, drive efficiencies, deliver additional productivity savings and make our supply operations more sustainable. Programme expected to have a five-year payback period, with the majority of savings delivered in fiscal 25 and beyond
- Continue to innovate with EDGE365, adding capabilities to further improve customer service and efficiency
- Extend usage of Diageo One
- Accelerate the development and progress of the digitalisation of our marketing and sales operations
- Continue investment in data analytics and automation

# EDGE365: digitalisation to *enhance efficiency and support growth*

EDGE365, our digital sales tool, delivers a globally consistent way of selling and supports our ambition to be our customers' preferred business partner. Launched in 2019, it's used in 23 countries covering over 67% of our reported net sales, to add value for our customers – the pubs, bars, restaurants and stores that sell our products.

The tool provides real-time access to insights and analytics that are tailored to support the growth of our customers' businesses. And it simplifies our sales activities by providing, at the touch of a button, all the information our teams need for their customer sales meetings. The efficiency delivered through EDGE365 means our people can spend more quality time with more customers. And it's delivering results: overall, since we began the digitalisation of our sales force three years ago, we have been able to call on 40% more customer outlets globally.

In Kenya, where over 1,000 salespeople use EDGE365, the tool recommends the most appropriate product assortment and promotional activities to support the growth of customers' businesses. And for Diageo, the number of sales calls per day is up 14%[1] since we introduced EDGE365 in Kenya in 2021. This is being achieved with the same resource and working hours, and has led to a year-on-year reduction in our cost to serve.


EXAMPLE OF EDGE365 INTERFACE

1. From introduction in 2021 to 31 May 2022


# Supporting *supply chain visibility* in volatile times

In fiscal 22, we shipped more than 100,000 product containers to over 130 countries around the world, working with more than 40 carriers. With this level of complexity, visibility is crucial – especially at a time of significant global supply chain volatility.

Our integrated logistics platform, the Luminate Control Tower (LCT), has transformed how we manage operations. It allows us to track global ocean freight movements in real time and make interventions that are driving cost efficiencies and improving customer service.

Prior to the LCT, tracking each shipment was challenging and time-consuming for our teams. Tracking relied on manual processes and third-party systems – meaning information was often out of date or inaccurate. We recognised that investing in a platform integrated with existing carrier infrastructure would transform the way we manage operations. And enable us to provide more accurate, timely updates to our customers, helping them to better manage their stock levels.

With the LCT, we can now predict and plan warehouse capacity and efficiencies up to three months in advance, giving teams the time to manage common challenges like port congestion. And we have reduced our spend on air freight, a costly remedy for shipping delays, by almost 90% this year.

The visibility the LCT delivers has allowed us to proactively respond to the changing logistics environment, anticipate potential delays, alert markets and customers, and take fast remedial action – even in the most challenging situations. This was particularly evident during the Suez Canal obstruction in 2021, which disrupted worldwide shipping. Using the LCT, we were able to rapidly identify the markets and customers that would be impacted by both the immediate backlog of vessels and the broader disruption in shipping, which lasted for many months. As a result, our colleagues and customers were able to act swiftly to manage the disruption. Previously, it would have taken weeks to identify and notify markets of the impact of an issue of this scale.

The LCT now covers more than 96% of our ocean carrier network. It is helping drive a more future-focussed mindset, where our logistics planning is no longer reactive but predictive, enabling us to manage our business more efficiently and effectively, and better support our customers.

EXAMPLE OF THE LUMINATE CONTROL TOWER INTERFACE

# *Invest* smartly

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

## Delivering our strategic outcomes

Investing smartly contributes to the delivery of our strategic outcomes of Efficient growth, Consistent value creation and Engaged people.

EG CVC EP

We focus our investment in areas where we believe it will bring the greatest benefits: our people; advertising and promotional (A&P) spend; technology, data and e-commerce; capital expenditure; and mergers and acquisitions (M&A).

READ MORE ABOUT HOW WE ARE RESPONDING TO OUR MARKET DYNAMICS ON PAGES 12-15 AND ABOUT OUR PEOPLE ON PAGE 18

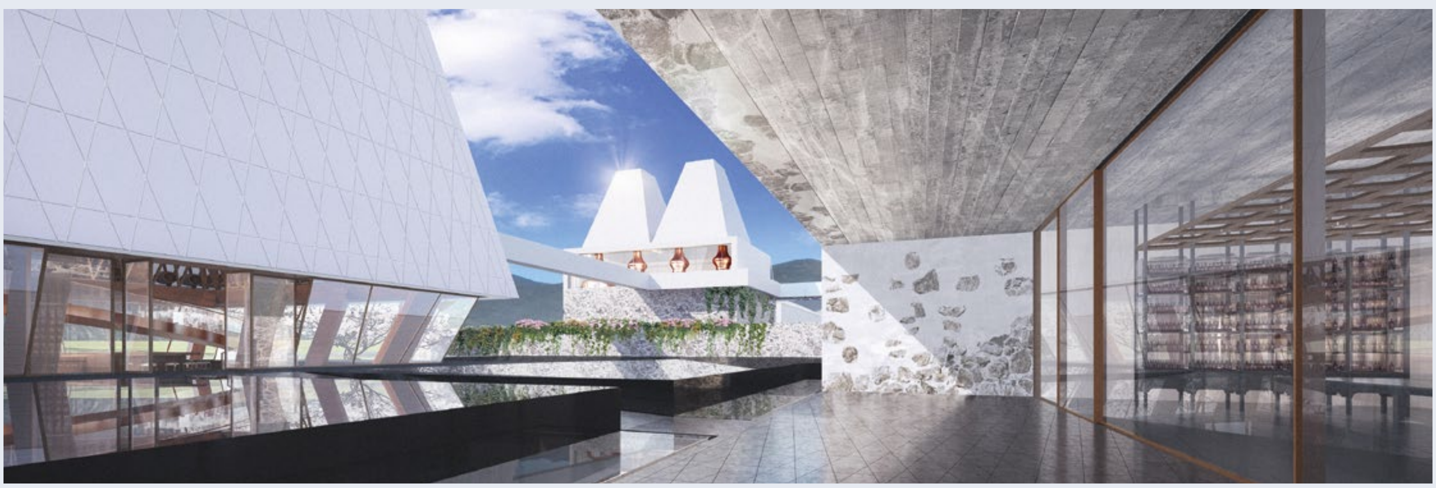
### Progress in fiscal 22

- Invested in high-growth categories and enabling technologies, including the acquisitions of 21Seeds, the super-premium flavoured tequila brand; Mezcal Unión, a premium artisinal mezcal brand; and Vivanda, the owners of FlavorPrint technology
- Opened Johnnie Walker Princes Street, our global visitor attraction in Edinburgh and the centrepiece of our £185 million investment in whisky tourism in Scotland
- Opened our first carbon-neutral distillery in Lebanon, Kentucky
- Announced establishment of new research and development centre in Shanghai to further our ambitions in China
- Announced C$94 million joint investment with Hydro-Québec and the governments of Québec and Canada, to make our Salaberry-de-Valleyfield distillery carbon neutral by 2025

### Looking ahead to fiscal 23

- Continue to develop our data tools and embed analytics capabilities to further improve our return on investment, and enable faster decision-making and execution across our marketing, sales and brand homes
- Continue to actively manage and invest in our portfolio of brands and brand experiences
- Accelerate investment in support of 2030 carbon reduction targets

## Investing for the *long term*



Investing smartly means investing in the future success of our business. This supports the delivery of consistent performance and enables sustainable, quality growth. A core element of that growth is investing in production capacity in fast-growing strategic categories.

In September 2021, we launched the expansion of our tequila production capacity in Mexico through an investment of over US$500 million. With our tequila volumes growing 35% over the last five years,[1] this investment will support future category growth.

We're also investing to add capacity for Crown Royal Canadian Whisky, North America's most valuable whisk(e)y brand.[2] A new carbon-neutral facility in Canada, announced in March 2022, will support our growth ambitions.

To support growth plans for our ready to drink (RTD) portfolio of premium drinks in North America, we opened our new canning facility in Illinois, in March 2022. It has capacity to produce over 25 million cases of RTD cocktails.

In China, we broke ground on the Eryuan Malt Whisky Distillery. It will produce our first China-origin, single malt whisky and be carbon neutral on opening. Also featuring an immersive visitor centre, our $75 million investment in this distillery is part of our long-term growth plans in this key strategic market – the world's largest for total beverage alcohol.[3]

And, in March 2022, to support the growth of Guinness, we announced a £40.5 million investment in capacity expansion at our packaging facilities in Belfast, Northern Ireland, and Runcorn, England.

1. Volume CAGR fiscal 18 to fiscal 22
2. Retail sales value, IWSR, 2021
3. Volume and retail sales value, IWSR, 2021

RENDER OF ERYUAN DISTILLERY

CROWN ROYAL CANADIAN WHISKY

# Creativity with precision: *investing efficiently and effectively*

We have a track record of investing in our brands to support their long-term growth. We combine creativity with precision, to ensure that we're maximising the impact of our investment. And with consumers increasingly looking for personalised and unique experiences, we're bringing together data and analytics to reach more of the right consumers more often, at the right times and in the right places, with the right message for them.

By enhancing our data and analytics capabilities, our content and engagement better reflect consumers' interests, improving their experience on the digital platforms where they interact with our brands. And we use data and analytics to optimise the consumer experience and the investment choices we make to support this work.

Taking this approach across our marketing activity, including our advertising campaigns, direct-to-consumer websites, digital brand channels and brand homes, while measuring our performance to improve our insight, creates a virtuous circle that supports more efficient and effective engagement with our consumers and better returns on investment.

In the United States, where progress on developing our data and analytics engine is most advanced, our work has delivered an improvement in return on investment of over 80% since fiscal 19.[4] And it is supporting our ability to tailor our campaigns to the right consumers in the right digital channels. For example, this year, to amplify our multi-year sponsorship of the National Football League (NFL), we created 90 versions of Crown Royal video content, using data and analytics to identify how we could make our content more relevant. These videos were deployed to coincide with various consumer occasions, such as football party preparations. We also used geolocation data to ensure content was more personalised and specifically targeted to consumers in cities where we have individual NFL team sponsorships. Work such as this contributed to a 17% improvement in return on investment in Crown Royal's digital media spend in the first half of fiscal 22.[5]

4. Sensor: US Spirits portfolio measured media spend fiscal 19 to 31 December 2021
5. Year-on-year comparison to first half of fiscal 21

# *Promote* positive drinking

We are determined to change the way the world drinks for the better. We will promote moderation and continue to reduce the harmful use of alcohol. As we reach more people with our programmes, we will change attitudes and tackle binge drinking, underage drinking and drink driving.

**Performance against all our 'Society 2030: Spirit of Progress' goals is described on pages 35-38.**

## Delivering our strategic outcomes

By promoting positive drinking, we deliver against two strategic outcomes: Credibility and trust and Engaged people.

CT EP

At Diageo, we're committed to promoting moderation and addressing the harmful use of alcohol wherever we live, work, source and sell. This is why promoting positive drinking is an essential part of our Performance Ambition.

When we encourage people to 'drink better, not more' we also support our commercial success, as consumers trade up to our higher-quality drinks. We're proud of our brands and know the best way to enjoy them is in moderation.

### Alignment with the UN Sustainable Development Goals

3 GOOD HEALTH AND WELL-BEING

17 PARTNERSHIPS FOR THE GOALS

## Progress in fiscal 22

- DRINKiQ has been launched in all our markets, where legally permissible. It's now launched in 21[Δ] markets, 73 countries and 23 languages
- SMASHED Online is now live in 23 countries and SMASHED Live in 15 countries, educating 607,374[Δ] people on the dangers of underage drinking
- 'Wrong Side of the Road' is now active in 24 countries, reaching 500,415 people this year
- Our brand moderation messages reached 456 million people

## Looking ahead to fiscal 23

We will continue to focus on making progress towards our 'Society 2030: Spirit of Progress' ambition:

- Maintain a focus on championing health literacy and tackling harm through DRINKiQ in every market where we live, work, source and sell (where it is legally permissible)
- Scale up our SMASHED partnership, and educate 10 million young people, parents and teachers on the dangers of underage drinking
- Extend our UNITAR partnership, and promote changes in attitudes to drink driving, reaching five million people
- Leverage Diageo marketing and innovation to make moderation the norm – reaching one billion people with dedicated responsible drinking messaging by 2030.

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index.

## Emerging more determined

We know that excessive drinking can cause significant harm to individuals, their families and society. We share our stakeholders' concerns about this and are working with others as part of a whole-of-society approach to address it. It's why promoting positive drinking is central to our 'Society 2030: Spirit of Progress' plan – and why, as we emerge from Covid-19, we are innovating, enhancing and increasing the scale of our programmes.

### Committed to reducing harmful use

In 2015, Diageo was a founding member of IARD, the International Alliance for Responsible Drinking, a not-for-profit organisation comprising 13 leading beer, wine and spirits companies. IARD members work together to actively support the WHO's target within the Non-Communicable Diseases (NCD) Global Monitoring Framework of an 'at least 10% relative reduction in the harmful use of alcohol' by 2025.

## Making moderation a business imperative

This year we formed our Positive Drinking Council with representatives from across the business and began refreshing our ambition in this area. This whole-of-business approach will enable us to clarify the role of non-alcoholic drinks in promoting moderation; harness digital to enhance our insights; improve the effectiveness of our messaging; and define market and brand segmentation for our moderation campaigns. Alongside existing programmes, this approach will help us to meet our target of reaching one billion people with dedicated responsible drinking messaging by 2030.

We want our people to be ambassadors for moderation and are using the reach and influence of our brands to connect with consumers. For example, in Great Britain we reached 22 million people with the Captain Morgan anti drink-drive campaign 'A mate doesn't let a mate drink drive', developed in collaboration with Think!. In the United States, Crown Royal, Captain Morgan and Smirnoff had moderation messaging and game activations throughout the National Football League (NFL) season.

Both through lockdowns and as markets have been emerging from Covid-19, we've been investing in reaching more consumers with responsible drinking messaging and are committed to continuing this work.

## Empowering people to make responsible choices

Our enhanced DRINKiQ.com platform is a dedicated responsible drinking tool that provides facts about alcohol, the effects of drinking on the body and mind, and the impact of harmful drinking on individuals and society. It's one of our most important tools in promoting positive drinking. DRINKiQ aims to inspire consumers to take action and empower them to achieve a balanced lifestyle – inviting them to change their attitudes to alcohol.

We designed the platform to complement resources offered by governments, charities and independent bodies. For example, our drinking self-assessment tool – which aligns with the WHO's Alcohol Use Disorders Identification Test (AUDIT) tool – helps determine if someone is at risk of problem drinking.

We've now reached our 2030 goal to launch DRINKiQ in every market in which we live, work, source and sell. The DRINKiQ platform, which champions health literacy and tackles harm, has been launched in 21$^{\Delta}$ markets and is available in 73 countries and 23 languages. This year, our campaigns around the world have engaged users with DRINKiQ. In South Korea, for example, a festive campaign in 2021 reached more than a million users in four weeks.

## Tackling underage drinking

For many years, we've run ambitious campaigns and programmes to tackle underage drinking – because it is never acceptable for somebody who is underage to consume alcohol.

SMASHED, an award-winning alcohol education programme, developed by Collingwood Learning and sponsored by Diageo, plays a key role in sharing this message – and measures changed attitudes in young people who participate. SMASHED started as a live theatre production. As part of a long-term goal to reach a greater number of students, we're pivoting to digital, developing SMASHED Online.

This year we further extended the global scale of the programme. Despite ongoing challenges, including Covid-19 and adapting the programme for local governing bodies, we launched SMASHED Live in 15 countries and SMASHED Online in 18 new countries. In total, Diageo-supported education programmes educated 607,374$^{\Delta}$ people on the dangers of underage drinking – 491,128$^{\Delta}$ of those confirmed a changed attitude on the subject after taking part.

We remain committed to educating 10 million people on the dangers of underage drinking by 2030; SMASHED has educated more than 1.8 million people since it launched in 2018.

## Preventing drink driving by changing attitudes

Attitude change is also crucial to preventing drink driving. For decades, we've been addressing this issue through a range of interventions, including partnerships with police, local authorities and other agencies that support the enforcement of drink-drive laws.

Last year we launched 'Wrong Side of the Road' (WSOTR), which is now live in 24 countries. Developed in partnership with the United Nations Institute for Training and Research (UNITAR), it's our digital learning experience to help as many people as possible around the world understand the consequences of drink driving. In China, WSOTR launched alongside a national road traffic safety campaign, allowing us to reach 26,000 people in its first month. This year in India we reached 107,000 people within seven months, using a mix of online and offline learning in a classroom setting. We continue to look for ways to make the digital experience more effective, and scale the programme to engage more people with our positive drinking message post-pandemic.

We have partnered with UNITAR since 2016 to develop ways to prevent drink driving. Together we continue to support the second UN Decade of Action for Road Safety. Our own 'Society 2030: Spirit of Progress' plan commits us to changing the attitudes of five million people towards drink driving by 2030.

### Pivoting to digital at a time of global challenge

Due to Covid-19, promoting positive drinking remains challenging, particularly for programmes that rely on in-person events. By using online solutions in many markets, we continue to find new ways to reach audiences and deliver our most important messages. Expanding our digital approach has given us more data insights, which we are using to increase engagement and measure impact. It's helping us to enhance our industry-leading programmes and change more attitudes towards the harmful use of alcohol.

## Advocating improved laws and industry standards

As a minimum, we aim to comply with all laws and regulations where we operate. We advocate effective new regulation based on evidence, including blood-alcohol volume driving limits, responsible digital marketing and legal-purchase-age laws, equal for all categories of alcohol in countries where these don't exist.

We support IARD's commitments on digital marketing and commercial practices, and its package of measures to combat underage drinking, including its new Influencer Guiding Principles – the first global standards to ensure responsible marketing of alcohol by social influencers. We've also committed to including an age-restriction symbol or equivalent words on all our alcohol brand products, in all markets, by 2024.

We are also part of a global alliance between IARD and prominent online retailers and e-commerce and delivery platforms, developing industry standards to promote moderation and address the risk of alcohol being sold to people who are underage or intoxicated.

## Responsible marketing

Our Diageo Marketing Code (DMC) and Digital Code set mandatory minimum standards for responsible marketing. We review them every two years. At the heart of the DMC is our commitment to ensuring all our activities depict and encourage only responsible and moderate drinking, and never target those who are underage.

We've also taken a leadership role in shaping safer online environments through our work with the World Federation of Advertisers' Global Alliance for Responsible Media (GARM) – a cross-industry programme, steadily progressing better and more consistent standards, controls, measurement and verification of harmful digital content. This year GARM launched its first report tracking the brand safety performance of digital platforms and setting a benchmark for progress.

### Advertising complaints upheld by key industry bodies that report publicly

Across some of our markets, advertising monitoring and industry bodies publicly report breaches of self-regulatory alcohol marketing codes.

This year one complaint was upheld against Diageo, by the ABAC scheme in Australia. It was a 'no-fault breach' decision issued on 30 May 2022 against UDL, a ready-to-drink brand. A no-fault finding is defined as an instance where an alcohol marketer has acted properly and diligently in seeking to comply with its ABAC obligations, but a failure has occurred that was outside the reasonable control of the marketer or their advertising agency. In this instance, an agency placed a billboard at a bus stop too close to a school, because of an error defining the boundaries of the school's premises in a location database. We accepted that the placement rule had been breached, and asked for a no-fault finding. We acted immediately to remove the advertising.

| Country | Body | Industry complaints upheld | Complaints about Diageo brands upheld | Brand |
|---|---|---|---|---|
| Australia | ABAC scheme | 48 | 1 | UDL |
| Ireland | Advertising Standards Authority for Ireland (ASAI) | 0 | 0 | |
| United Kingdom | Advertising Standards Authority | 7 | 0 | |
| | Portman Group | 8 | 0 | |
| United States | Distilled Spirits Council of the United States (DISCUS) | 1 | 0 | |

# *Champion* inclusion and diversity

We believe that everybody should be able to thrive in an environment that values their contribution and celebrates what makes them unique. Across Diageo, we champion inclusion and diversity, from how we attract, recruit and develop our teams, to representation in our supply chain, and the ways we portray the richness of society across our brands.

**Performance against all our 'Society 2030: Spirit of Progress' goals is described on pages 35-36**

## Delivering our strategic outcomes

By championing inclusion and diversity, we deliver against three strategic outcomes: Consistent value creation, Credibility and trust and Engaged people.

CVC CT EP

We are committed to creating the most inclusive and diverse culture, as well as shaping market-leading policies and practices. This helps us attract the best and most diverse talent – driving both innovation and commercial performance. Beyond our workplace, through our partnerships, creative skills and media spend, we help educate and make society more equitable. Because championing inclusion and diversity is central to our purpose of 'Celebrating life, every day, everywhere' – and it is simply the right thing to do.

### Alignment with the UN Sustainable Development Goals

4 QUALITY EDUCATION
5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

## Progress in fiscal 22

- Increased female representation across leadership, including our Executive Committee, to 44%[Δ] and the ethnic diversity of our leadership population to 41%[Δ]
- Announced ambitious goals to increase our supplier diversity spend with diverse-owned and disadvantaged businesses, to 10% by 2025 and 15% by 2030
- Improved our Inclusion & Diversity Index in our employee survey by two percentage points year-on-year, to 84% 'positive sentiment'
- Updated our Learning for Life programme to tackle barriers to ethnic minorities working in hospitality
- Launched 'Domestic and Family Abuse' guidelines to support our people
- Leveraged our Employee Resource Groups (ERGs), collaborating with our marketing teams to create highly relevant and progressive advertising

## Looking ahead to fiscal 23

We have set a range of ambitious goals to help drive our performance in: championing gender and ethnic diversity; improving employability and livelihoods through specialist training; supporting progressive voices and diverse-owned and disadvantaged businesses, through our spend; and ensuring our community programmes benefit everyone equally. Performance against all our 'Society 2030: Spirit of Progress' goals is described on pages 35-36.

* Statements on representation should be considered an ambition for Diageo, not a target

1. This data is calculated as an average across the four quarters of fiscal 22

## Championing our people

Every individual who works for, or with, Diageo should feel they belong and know they can thrive. To achieve that, we embrace diversity in every possible sense, including gender, ethnicity, ability, age, sexual orientation, neurodiversity, social class, education, experience and ways of thinking.

Globally, we put significant focus on two areas: empowering women to flourish in all roles, and increasing the representation of those from ethnically diverse backgrounds. It is both the right thing to do and a critical driver of our 'Society 2030: Spirit of Progress' ambitions, which is why we've backed up our ambition by directly linking our Long-Term Incentive Plan (LTIP) awards to delivering diversity in our leadership – see page 130.

## Women in leadership: progress continues

Our goal is to see women represent 50%[*] of our leadership group by 2030. This year, representation reached 44%[1Δ], from 42% in 2021. We're also proud to have 64% female Board representation, and be recognised for our gender equality work by the FTSE Women Leaders Review, Bloomberg Equality Index, Equileap and others. We continue to work towards our goals, with a deep commitment to supporting gender equality through representation, policy development and transparency.

## A focus on ethnic diversity

Progress requires ambition. Our Ethnic Diversity Framework supports markets in defining multi-year plans covering talent representation and development, supplier ethnic diversity, inclusive marketing – and where local law allows, we invite employees to share their ethnicity. In these markets, 82% of our global workforce and 96% of our leadership population has confidentially disclosed their ethnic background. By 2030, we're aiming to have increased representation of Diageo leaders from ethnically diverse backgrounds to 45%[*]. Today, 45% of our Board and 41%[1Δ] of our leadership population, including our Executive Committee, is ethnically diverse.

## Creating an inclusive culture through progressive policies and our Employee Resource Groups

Our progressive policies help us foster an inclusive environment that supports every employee. This year, we introduced 'Domestic and Family Abuse' guidelines, while continuing to embed our 'Thriving through Menopause' and 'Gender Expression & Identity' guidelines.

### Supporting people affected by abuse

In November 2021, we introduced Domestic and Family Abuse guidelines, created in partnership with CARE International UK. These outline our zero-tolerance approach to all forms of domestic and family abuse, and provide guidance to employees and line managers on where to go for expert and confidential support.

Our network of Employee Resource Groups gives our people the opportunity to support one another, while helping leaders better understand the concerns of diverse communities. Our active ERGs include: AHEAD (African Heritage Employees at Diageo); Conectados (Diageo employees championing Latin culture); PAN (Pan Asian Network), in the United States; We Are All Able and REACH (Race, Ethnicity and Cultural Heritage), in Europe; and our international Spirited Women and Rainbow Networks. Highlights from this year include:

- **Our partnership with Queer Britain in London**, the UK's first LGBTQ+ museum, celebrating 50 years of LGBTQ+ Pride in the UK, allowing meaningful connections to both past and present
- **Lighting up purple for International Day of People with Disabilities** at our sites across the world, showing our commitment to supporting those with a disability
- **Celebrating Black Heritage Month (US) and Race Equity Week (UK)**, with thought-provoking discussion, encouraging us to challenge our way of thinking and create meaningful action
- **#MyNameIs global campaign** as part of our annual inclusivity week, designed to educate others that the correct pronunciation of our names is central to championing inclusion
- **85 Diageo sites taking part in our annual PRIDE flag-raising event**, which saw the Progress flag flown, representing marginalised LGBTQIA+ transgender and ethnically diverse communities

## Changing society through our reach and influence

As one of the world's largest advertisers, we're committed to an advertising and media environment where, from script to screen, everyone sees themselves represented.

We invest in progressive voices, measuring and increasing our percentage spend. This is unlocking opportunities in front of the camera, behind the camera and in who owns the camera.

The Baileys 'Witches' campaign for Halloween was a celebration of how enjoying treats spans generations, ethnicities and sexualities, featuring three of the UK's biggest drag queens. The campaign was created in partnership with our employee Rainbow Network and consultancy, INvolve, to ensure it was a true representation of drag, within the context of the wider LGBTQ+ community. Our Guinness 'Black Shines Brightest' campaign was created for and by African markets, to bring together passionate and creative individuals and celebrate the cultural diversity of Africa.

### Celebrating and supporting employees with disabilities

Across our manufacturing sites, our Youth4Jobs partnership in India has seen us hire more than 62 people with disabilities, and our award-winning 'We Are All Able' internship programme at our Shieldhall packaging site is now in its third year. In Kenya, we have partnered with Sightsavers to promote the inclusion of farmers with disabilities, working with more than 350 disabled farmers (of which 51% are female) in the production of our Senator Keg beer.

### Thriving through menopause

By 2025, there will be over one billion women experiencing menopause in the world – and this subject should not be taboo. In 2021, we introduced our 'Thriving Through Menopause' guidelines, to raise awareness and understanding of menopause throughout our business. In 2022, we worked with our partner, Balance, to launch an employee app, that offers medical provision, advice and diagnosis to employees worldwide.

### Fostering an inclusive culture

Improving our Inclusion and Diversity Index to 84% (+2ppt vs 2021), as reported by our annual employee survey, keeps us ahead of global benchmarks – and highlights that our employees see this as a key driver of both our culture and commercial performance.

Δ Within PwC's limited assurance; see page 213 for further details

## Our commitment to supplier diversity

A value chain built on inclusion and diversity can create employment opportunities, economic advancement and greater representation in marginalised communities. This is why we have chosen to recognise supplier diversity as a business priority, committing to spend 10% with diverse-owned and disadvantaged suppliers and agencies by 2025, and 15% by 2030.

In the last year, we have worked with our markets, advocacy organisations and peer companies to understand which groups were under-represented at a local level – and to align on what defines 'supplier diversity'. We surveyed 1,500 suppliers, covering 80% of our global spend, establishing the baseline of diversity in our existing value chain. This year, we spent £429 million with 369 diverse-owned and disadvantaged businesses, approximately 4.8% of global spend.

## Helping communities thrive where we live, work, source and sell

We continue to promote sustainable growth through inclusive programmes that provide equal access to resources, skills and employment opportunities – including in business and hospitality training, safe water, sanitation and hygiene, and support for smallholder farmers. Each programme puts measures in place that reduce barriers to underrepresented groups who need to access these benefits.

### Equal opportunities for women

We make sure at least 50% of people trained by our community programmes are women, and that women's needs are met at all stages of design, implementation and evaluation. We do this with CARE International UK, a leading NGO in gender equality. For example, in 2022, our Learning for Life programme in India reached 658 female beneficiaries (59% of programme attendees), through dedicated gender focussed engagement and education.

This year, we reached 22,230 people with our business and hospitality skills programmes, 64% of whom were female. We also expanded our approach to tackling barriers to ethnic minorities in hospitality, including lack of access to essential education, skills and infrastructure; lack of safe, inclusive working spaces free from harassment and abuse; and unfair wages, informal contracts and inappropriate working hours. We've updated our Learning for Life (L4L) inclusive-by-design principles, and will be partnering with the Diageo Bar Academy, which itself has delivered 190,383 training sessions to help create an inclusive and thriving hospitality industry that works for all.

This year, we invested a total of £22 million in community initiatives, equivalent to 0.5% of operating profit. See our ESG Reporting Index for more details of our community investments.

## Gender representation of our leadership[1]

| Role | Men | % | Women | % | Total |
|---|---|---|---|---|---|
| Leadership population[2] | 312 | 56% | 244 | 44%Δ | 556[3] |

## Ethnic representation of our leadership[1,4]

| Role | Ethnically diverse | % | Non-ethnically diverse | % | Decline to self-identify | % | Not Disclosed | % | Total |
|---|---|---|---|---|---|---|---|---|---|
| Leadership population[2] | 231 | 41%Δ | 291 | 52% | 14 | 3% | 21 | 4% | 557 |

1. This data is calculated as an average across the four quarters of fiscal 22
2. Leadership population encompasses Executive Committee and senior managers
3. One person has opted not to disclose their gender; they cannot be positively attributed to either group and therefore are not included
4. Please refer to our reporting boundaries and methodologies of our ESG Reporting Index, for more information on how data has been compiled, including standards and assumptions used

# *Pioneer* grain-to-glass sustainability

The climate is in crisis. We must increase our efforts to preserve water for life, accelerate to a low-carbon world and become sustainable by design – helping to create a better future for communities everywhere.

**Performance against all our 'Society 2030: Spirit of Progress' goals is described on pages 35-38, with more detail about our performance in our ESG Reporting Index 2022.**

## Delivering our strategic outcomes

By pioneering grain-to-glass sustainability, we deliver against three strategic outcomes: Consistent value creation, Credibility and trust and Engaged people.

CVC CT EP

The urgency of the climate crisis requires us to do more, and quickly. Water stress, biodiversity loss, natural disasters, inequality and poverty threaten the environment and the prosperity of communities. The period to 2030 will be critical and difficult – as we manage both our impact on the planet, and mitigate and adapt to the effects of a changing climate.

We are acting. At COP26 we became a founding signatory of the Glasgow Declaration for Fair Water Footprints for climate-resilient, inclusive and sustainable development – and are part of the COP26 Business Leaders Group, stimulating business action to help accelerate delivery of the Glasgow Climate Pact ahead of COP27. We are vocal supporters of two key UN-backed global campaigns: Race to Zero and Race to Resilience. And we continue to pioneer innovative approaches from grain to glass, partnering with others to make a difference – because we know our long-term commercial performance and effective stewardship of the environment go hand in hand. Managing the risks and opportunities of a changing climate will be critical, and we report on these in line with the recommendations of the Task Force on Climate-related Financial Disclosures on pages 47-56.

### Alignment with the UN Sustainable Development Goals

2 ZERO HUNGER | 6 CLEAN WATER AND SANITATION | 7 AFFORDABLE AND CLEAN ENERGY | 8 DECENT WORK AND ECONOMIC GROWTH | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION | 15 LIFE ON LAND | 17 PARTNERSHIPS FOR THE GOALS

## Progress in fiscal 22

- Achieved 3.7%$^{\Delta}$ water efficiency improvement and generated the annual capacity to replenish 1,058,822$m^{3\Delta}$ of water
- Reduced carbon emissions from our direct operations by 5.3%$^{\Delta}$ despite a year-on-year increase of 9.6% in packaged volume and 6.7% in distilled volume
- The Science Based Targets initiative validated our GHG targets as meeting the criteria for the 1.5°C warming pathway
- Launched our first regenerative agriculture programme with Guinness
- Launched our second round of Diageo Sustainable Solutions innovation challenges, this time focussed on enhancing the sustainability of our packaging

## Looking ahead to fiscal 23

In the coming year we will continue to focus on the targets we have set to drive our performance in preserving water for life, accelerating to a low-carbon world and becoming sustainable by design. We report against all our targets on page 35-38.

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index.

## Acting now, acting together

We work with our whole value chain to look after the people and resources that contribute to our success. We're engaging with suppliers to identify common challenges and accelerate our journey to net zero together. As we grow, reducing emissions and the consumption of raw materials are among our biggest challenges. It's why we take an integrated approach to sustainability – making improvements and launching initiatives that support climate, water and biodiversity.

## 'Society 2030: Spirit of Progress' ambition

By 2030 we expect to have invested around £1 billion of capital expenditure on improving our environmental performance. This investment will support our drive to be global champions for water stewardship and a strong contributor to a low-carbon world – through using renewable energy, scaling circular solutions and implementing regenerative agriculture approaches. These investments will help us to be more efficient, reduce our resource consumption, develop innovative solutions and ensure a more resilient supply chain.

## Water and the climate crisis

Water is a critical resource, as well as our most important ingredient. Preserving it is crucial to our communities and business – and remains a strategic priority for us, especially in water-stressed areas.

Our updated water stewardship strategy 'Preserve Water for Life' outlines how we'll manage water in our supply chain, operations and communities, as well as advocate collective action to improve water outcomes. Our work on water efficiency continues, particularly in Africa, with another two water recovery plants in Nigeria – one recently commissioned and the other being completed. As part of our water replenishment programme, this year we launched our first project in Turkey – conserving water through efficient drip irrigation for growing grapes, a core raw material of Yenì Raki. This will improve the climate resiliency of farmers while reducing our Scope 3 carbon emissions.

We know there is a connection between climate, water, people and regenerative agriculture. We continue to prioritise climate adaptation in the 'Global South' to support vulnerable local communities and strengthen the resilience of our supply chain, by addressing our most important climate risks. Our analysis shows we must do more on indirect water use, especially in our agricultural supply chains in water-stressed areas, which now include parts of Europe and Latin America (see map on page 49). We are engaging in enhanced water efficiency and replenishment programmes in these areas. More investment in our regenerative agriculture programme is another key element of our integrated approach to climate adaptation.

Our approach supports farmers, improves water-use efficiency in agricultural and production operations, replenishes water in water-stressed catchments and provides clean water to our communities. In India, Mexico and across Africa, we continue to take collective action through supporting better water stewardship and increased water security.

## Water in communities

A key part of our integrated approach is to provide access to clean water, sanitation and hygiene (WASH) in communities near our sites and in the water-stressed areas that supply our raw materials.

Our strategy contributes to SDG 6 (clean water and sanitation), including replenishing the water we use in our operations. This year we launched our first WASH programme in Brazil. We reached 135,800 people with safe water and sanitation across Nigeria, Kenya, Tanzania, South Africa, Uganda, India and Ghana. In fiscal 23 we'll also develop ways to ensure greater female representation in all WASH programmes.

We recognise the importance of returning water to the environment safely and, at a minimum, in compliance with regulations. As water management relates to local ecosystems, we've adopted a context-based approach to managing wastewater informed by robust scientific assessment.

## Leading and collaborating

Advocacy and collaboration are essential to our ambitions for water stewardship. This year, as part of our collective action programme, we continued to support the Upper Tana Water Fund in the catchment of our Tusker brewery in Nairobi and the Charco Bendito Water Action Hub in the Santiago Lerma basin in Mexico. We also initiated a new collective action collaboration in the Ganges basin near our Alwar distillery in Rajasthan, and continued to assess collective action opportunities as part of our engagement in the Water Resilience Coalition. Twelve of our distilleries in Scotland have achieved formal water stewardship certification from the Alliance for Water Stewardship (AWS).

## Accelerating to a low-carbon world

We started our decarbonisation journey in 2008, and we aim to reach net zero across our direct operations by 2030, using 100% renewable energy everywhere we operate. This year we achieved a further 5.3%$^{\Delta}$ reduction in emissions from our direct operations. We have developed decarbonisation roadmaps to reduce direct emissions from our existing sites and are investing in new carbon-neutral sites, such as our distillery for Crown Royal in Ontario, Canada and a new malt whisky distillery in China, which will operate using 100% renewable energy. We're also working hard to achieve net zero across our supply chain (Scope 3) by 2050 or sooner, with the aim of achieving a 50% reduction by 2030.

We are analysing the data and reporting methodology for our Scope 3 emissions – including those from recent acquisitions. So far this has expanded the number of categories we report and has resulted in a significant increase in our reported Scope 3 emissions this year compared to our previous baseline (see page 37). Our Scope 3 footprint is largely based on currently available, standard emissions factors. As we work with our suppliers to gain more granular insights into our supply chain, we'll further refine our footprint.

We can't achieve net zero alone. In pursuit of our Scope 3 target, for example, we plan to partner with our suppliers on renewable energy solutions, circular-designed products, increasing the recycled content of packaging and regenerative agriculture.

Our strong commercial growth has meant that we've increased our production volumes across many of our markets. This has made it even more challenging to meet our absolute emissions reduction targets – and meant that we've had to continue to use renewable energy certificates for direct energy, to supplement our decarbonisation projects. We've reviewed our decarbonisation roadmaps, looking at when projects will deliver emission reductions – and then adjusted our interim decarbonisation trajectory. We've also defined our key projects for the next three years, setting us up to meaningfully accelerate decarbonisation in the second half of the decade.

### A move to biomass

Tusker and Kisumu breweries in Kenya are in the final stages of commissioning new biomass facilities, using sustainable local by-products to produce renewable energy. Our biomass investment in East Africa, and other projects like it, are critical enablers in reducing GHG emissions and using 100% renewable energy across all our direct operations by 2030.

## Being sustainable by design

With the climate in crisis, we're committed to reducing our footprint by reducing packaging and increasing recycled content. We're focussed on innovations that improve circularity and reduce waste – for our business and the planet.

Given we purchase much of our packaging materials, effective partnerships will be critical to achieving our ambitions. One way we're doing this is through Diageo Sustainable Solutions, where we partner with innovators, customers, suppliers and researchers to identify and accelerate breakthrough technological solutions that address our biggest sustainability challenges, such as how to make packaging sustainable by design. We're also improving internal awareness of the impact of different material choices through our newly defined Sustainable Packaging Strategy and internal guidance documents, which will build knowledge and capacity across the business.

### Reducing our footprint

We continue to innovate to meet our commitments: thinking differently about waste, and using the right amount of the right material to protect our product, with end-of-life considerations in mind. For example, in April 2022 we announced the phased removal of cardboard gift boxes from our premium scotch portfolio.

## Collaborating with suppliers and farmers

With a supply chain that connects us to communities around the world, we can have a positive social and environmental impact by creating economic opportunity, promoting human rights and improving agricultural and environmental practices.

Our Partnering with Suppliers standard sets minimum social, ethical and environmental expectations for our suppliers. We also work through AIM-PROGRESS, a forum of leading consumer goods companies, and the not-for-profit organisation SEDEX. Our approach is described in more detail on our website. This year we have started to develop carbon reduction toolkits for our smallholder farmers.

Our Sustainable Agriculture Guidelines (SAG) set out principles we expect suppliers of agricultural raw materials to adopt to improve on-farm sustainability. We work with our suppliers and farmers across our supply chains to implement sustainable and regenerative practices, and to increase our procured volumes of third-party verified and sustainably sourced raw materials. Raw materials are considered sustainably sourced if they are covered by sustainability standards and certifications equivalent to SAI Platform's Farm Sustainability Assessment (FSA). Or our suppliers can demonstrate continuous improvement on the most relevant risks to their crops, and investment in farm-level programmes such as emissions and post-harvest loss reduction, soil health improvements and adoption of regenerative agriculture practices. We are also working with our suppliers to improve the traceability of raw materials.

### Guinness – in partnership with nature

This year we launched one of the most ambitious regenerative agriculture pilots to take place in Ireland: a three-year, farm-based programme that aims to highlight opportunities for reducing the carbon emissions of barley production for Guinness. We're taking an integrated landscape approach, working with farmers and land managers to identify and implement regenerative practices that optimise carbon, water and biodiversity-based outcomes, while increasing farm resilience.

# Monitoring performance *and progress*

## Net sales growth (%)

REP

| | |
|---|---|
| **2022** | **21.4** |
| 2021 | 8.3 |
| 2020 | (8.7) |
| 2019 | 5.8 |
| 2018 | 0.9 |

### Definition
Sales growth after deducting excise duties.

## Operating profit growth (%)

REP

| | |
|---|---|
| **2022** | **18.2** |
| 2021 | 74.6 |
| 2020 | (47.1) |
| 2019 | 9.5 |
| 2018 | 3.7 |

Operating profit growth, including exceptional operating items.

## Basic earnings per share (pence)

| | |
|---|---|
| **2022** | **140.2** |
| 2021 | 113.8 |
| 2020 | 60.1 |
| 2019 | 130.7 |
| 2018 | 121.7 |

Profit attributable to equity shareholders of the parent company, divided by the weighted average number of shares in issue.

## Organic net sales growth (%)[1]

**21.4%**

EG CVC R K

| | |
|---|---|
| **2022** | **21.4** |
| 2021 | 16.0 |
| 2020 | (8.4) |
| 2019 | 6.1 |
| 2018 | 5.0 |

### Definition
Sales growth after deducting excise duties, excluding the impact of exchange rate movements, hyperinflation adjustment and acquisitions and disposals.

### Why we measure
This measure reflects our performance as the result of the choices made in terms of category and market participation, and Diageo's ability to build brand equity, increase prices and grow market share.

### Performance
Reported net sales grew 21.4%, driven by strong organic growth. An unfavourable foreign exchange impact was partially offset by a hyperinflation adjustment in respect of Turkey. Organic net sales growth of 21.4% reflects organic volume growth of 10.3% and 11.1 percentage points of positive price/mix.

MORE DETAIL ON PAGE 59

## Organic operating profit growth (%)[1]

**26.3%**

EG CVC R K

| | |
|---|---|
| **2022** | **26.3** |
| 2021 | 17.7 |
| 2020 | (14.4) |
| 2019 | 9.0 |
| 2018 | 7.6 |

Organic operating profit growth is calculated on a constant currency basis, excluding the impact of exceptional items, certain fair value remeasurement, hyperinflation adjustment and acquisitions and disposals.

The movement in operating profit measures the efficiency and effectiveness of the business. Consistent operating profit growth is a business imperative, driven by investment choices, our focus on driving out costs across the business and improving mix.

Reported operating profit increased 18.2%, primarily driven by growth in organic operating profit. This was partially offset by the negative impact of exceptional operating items, which were mainly due to non-cash impairments related to India and Russia.

MORE DETAIL ON PAGE 58

## Earnings per share before exceptional items (pence)[1]

**151.9p**

EG CVC R K

| | |
|---|---|
| **2022** | **151.9** |
| 2021 | 117.5 |
| 2020 | 109.4 |
| 2019 | 130.8 |
| 2018 | 118.6 |

Profit before exceptional items attributable to equity shareholders of the parent company, divided by the weighted average number of shares in issue.

Earnings per share reflects the profitability of the business and how effectively we finance our balance sheet. It is a key measure for our shareholders.

Basic eps increased 26.4 pence, primarily driven by organic operating profit growth, partially offset by higher tax and exceptional items, primarily due to non-cash impairment charges related to India and Russia. Basic eps before exceptional items increased 34.4 pence.

MORE DETAIL ON PAGE 58

1. Organic net sales growth, organic operating profit growth, earnings per share before exceptional items, free cash flow and return on average invested capital are non-GAAP measures. See definitions and reconciliation of non-GAAP measures to GAAP measures on pages 76-83.
2. For reward purposes this measure is further adjusted for the impact of exchange rates, hyperinflation adjustment and other factors not controlled by management, to ensure focus on our underlying performance drivers

## Net cash from operating activities (£ million)

| | |
|---|---|
| **2022** | **3,935** |
| 2021 | 3,654 |
| 2020 | 2,320 |
| 2019 | 3,248 |
| 2018 | 3,084 |

Net cash from operating activities comprises the net cash flow from operating activities as disclosed on the face of the consolidated statement of cash flows.

## Return on closing invested capital (%)

| | |
|---|---|
| **2022** | **35.1** |
| 2021 | 33.2 |
| 2020 | 17.2 |
| 2019 | 32.9 |
| 2018 | 26.8 |

Profit for the year divided by net assets at the end of the financial year.

### Our strategic outcomes

- EG **Efficient growth**
- CVC **Consistent value creation**
- CT **Credibility and trust**
- EP **Engaged people**
- R **Remuneration:** Some KPIs are used as a measure in the incentives plans for the remuneration of executives. See our Directors' remuneration report from page 106 for more detail.
- K **KPI:** Key Performance Indicator
- REP **Reported**

## Free cash flow (£ million)[1,2]

# 2,783m

EG CVC R K

| | |
|---|---|
| **2022** | **2,783** |
| 2021 | 3,037 |
| 2020 | 1,634 |
| 2019 | 2,608 |
| 2018 | 2,523 |

Free cash flow comprises the net cash flow from operating activities aggregated with the net cash received/paid for working capital loans receivable and other investments, and the net cash expenditure paid for property, plant and equipment, and computer software.

Free cash flow is a key indicator of the financial management of the business and reflects the cash generated by the business to fund payments to our shareholders and acquisitions.

Net cash from operating activities increased by £281 million to £3,935 million. Free cash flow decrease of £254 million was driven by the impact of lapping a strong working capital benefit in fiscal 21 and increased capex, partially offset by a strong growth in operating profit.

MORE DETAIL ON PAGE 59

## Return on average invested capital (ROIC) (%)[1]

# 16.8%

CVC K

| | |
|---|---|
| **2022** | **16.8** |
| 2021 | 13.5 |
| 2020 | 12.4 |
| 2019 | 15.1 |
| 2018 | 14.3 |

Profit before finance charges and exceptional items attributable to equity shareholders divided by average invested capital. Invested capital comprises net assets aggregated with exceptional restructuring costs and goodwill at the date of transition to IFRS, excluding net post employment benefit assets/liabilities, net borrowings and non-controlling interests.

ROIC is used by management to assess the return obtained from the group's asset base. Improving ROIC builds financial strength, to enable Diageo to attain its financial objectives.

ROIC increased 331bps, driven mainly by organic operating profit growth, partially offset by higher tax.

MORE DETAIL ON PAGE 58

## Total shareholder return (TSR) (%)

# 4%

CVC R K

| | |
|---|---|
| **2022** | **4** |
| 2021 | 32 |
| 2020 | (19) |
| 2019 | 27 |
| 2018 | 23 |

Percentage growth in the value of a Diageo share (assuming all dividends and capital distributions are re-invested).

Diageo's Directors have a fiduciary responsibility to maximise long-term value for shareholders. We also monitor our relative TSR performance against our peers.

TSR was up 4% over the past 12 months driven by the higher year-on-year share price.

## Positive drinking

CT EP R K

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

**607,374Δ**
(2021: 210,443)

Total to date: 1.81m[1]

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

### Why we measure
We want to change the way the world drinks for the better by promoting moderation and addressing the harmful use of alcohol.

### Performance
This year we implemented SMASHED Live in 15 countries and SMASHED Online in 18 countries. We educated 607,374Δ young people about the dangers of underage drinking.

MORE DETAIL ON PAGE 35

## Inclusion and diversity

CVC CT EP R K

**Percentage of female leaders globally**

**44%Δ**
(2021: 42%)

**Percentage of ethnically diverse leaders globally**

**41%Δ**
(2021: 37%)

### Definition
The percentage of women and the percentage of ethnically diverse individuals who are in Diageo leadership roles.

### Why we measure
Nurturing an inclusive and diverse culture is the right thing to do, and having the most diverse talent drives commercial performance.

### Performance
This year 44%Δ of our leadership roles were held by women, compared with 42% last year and 41%Δ of our leaders were ethnically diverse, compared with 37% last year.

MORE DETAIL ON PAGE 35

## Carbon emissions[2]

**447Δ**

CVC CT EP R K

| | |
|---|---|
| **2022** | **447** |
| 2021 | 472 |
| 2020 | 492 |
| 2019 | 533 |
| 2018 | 570 |

### Definition
Absolute volume of Scope 1 and 2 carbon emissions, in 1,000 tonnes.

### Why we measure
Reducing our carbon emissions is a significant part of our efforts to mitigate climate change.

### Performance
Carbon emissions reduced by 5.3%Δ in fiscal 22. The principal drivers of this were energy efficiency gains and the ongoing displacement of fossil fuels, including the use of renewable energy certificates.

MORE DETAIL ON PAGE 37

## Water efficiency[2]

**4.13Δ**

CVC CT EP R K

| | |
|---|---|
| **2022** | **4.13** |
| 2021 | 4.29 |
| 2020 | 4.63 |
| 2019 | 4.66 |
| 2018 | 4.81 |

### Definition
Ratio of the amount of water required to produce one litre of packaged product.

### Why we measure
Water is the main ingredient in all of our brands. We aim to improve efficiency, and minimise our water use, particularly in water-stressed areas.

### Performance
Water efficiency improved by 3.7%Δ compared to fiscal 21. This resulted from fully commissioned water recovery and reuse plants in Kenya and Uganda, and overall improved water use rates at a number of other locations.

MORE DETAIL ON PAGE 36

## Employee engagement (%)

**82%**

CT EP K

| | |
|---|---|
| **2022** | **82%** |
| 2021 | 81%[3] |
| 2020 | N/A[4] |
| 2019 | 75% |
| 2018 | 76% |

### Definition
Measured through our Your Voice survey; includes metrics for employee satisfaction, advocacy and pride.[3]

### Why we measure
Employee engagement is a key enabler of our performance. The survey allows us to measure how far employees believe we are living our values.

### Performance
This year 88% of our people completed our Your Voice survey. 82% were identified as engaged. 90% declared themselves proud to work for Diageo, 82% would recommend Diageo as a great place to work and 76% were extremely satisfied with Diageo as a place to work.

MORE DETAIL ON PAGE 18

## Health and safety (LTA)

**0.92Δ**

CT EP K

| | |
|---|---|
| **2022** | **0.92** |
| 2021 | 1.03 |
| 2020 | 0.60 |
| 2019 | 0.98 |
| 2018 | 1.00 |

### Definition
Number of accidents per 1,000 full-time employees and directly supervised contractors resulting in time lost from work of one calendar day or more.

### Why we measure
Health and safety is a basic human right; our Zero Harm philosophy is that everyone should go home safe and healthy, every day, everywhere.

### Performance
This year's rate of 0.92Δ is an improvement on fiscal 21 performance. The severity rate of these lost-time accidents (LTAs), which measures the seriousness of the incident and consequent absence from work, reduced by 13.9% globally.

MORE DETAIL ON PAGE 39-40

1. The baseline year for our 'Society 2030: Spirit of Progress' goals is 2020 unless otherwise stated. For our target to educate 10 million young people, parents and teachers on the dangers of underage drinking the baseline year is 2018.
2. In accordance with Diageo's environmental reporting methodologies and, where relevant, WRI/WBCSD GHG Protocol, data for the baseline year 2020 and for the two years in the period ended 30 June 2019 has been restated where relevant.
3. Last year we updated the way we measure employee engagement in our Your Voice survey to bring it in line with standard practice. When the 2019 employee engagement index score from the Your Voice survey is recalculated based on the three questions we used in 2021 (satisfaction, advocacy and pride), as opposed to the four we used in 2019 (satisfaction, advocacy, pride and loyalty), the difference is a one percentage point increase.
4. Because of the Covid-19 pandemic, in 2020 we did not run a full Your Voice survey. Instead we used a pulse survey tool to listen to employees' feedback and learn from their experiences of working during the pandemic. We therefore do not have a comparable employee engagement metric for 2020.

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index.

# *Performing* against our 2030 targets[1]

| Target by 2030 | Fiscal 22 progress | Progress to date | Commentary |
|---|---|---|---|
| **Promote positive drinking** | | | |
| Champion health literacy and tackle harm through DRINKiQ in every market where we live, work, source and sell (where it is legally permissible)<br>SDG alignment: 3.4; 3.5; 17.16 | Number of markets that have launched DRINKiQ<br>**6** | 21[Δ] | Our enhanced DRINKiQ.com platform provides facts about alcohol, the effects of drinking on the mind and the body, and the impact of harmful drinking on individuals and society. This year we reached our 2030 target of launching DRINKiQ in every market where we live, work, source and sell, covering a total of 21[Δ] markets, 73 countries and 23 languages. Going forward we aim to drive traffic to and engagement with this resource among adults above the legal purchase age. |
| Scale up our SMASHED partnership, and educate 10 million young people, parents, and teachers on the dangers of underage drinking<br>SDG alignment: 3.5; 17.16 | Number of people educated on the dangers of underage drinking through a Diageo supported education programme<br>**607,374[Δ]** | 1.81m | SMASHED is our flagship underage drinking programme, developed in partnership with Collingwood Learning. It started as a live theatre-based education programme in 2005, and we developed a digital version, SMASHED Online, in 2021, which is now live in 23 countries. This year we further extended the global scale of the programme, implementing SMASHED Live in 15 countries and launching SMASHED Online in 18 countries. In total, SMASHED educated 607,374[Δ] young people about the dangers of underage drinking, with survey data showing that 491,128[Δ] confirmed changed attitudes on the dangers of underage drinking following participation in the programme. We've educated 1.81 million people since our baseline year of 2018. |
| Extend our UNITAR partnership and promote changes in attitudes to drink driving reaching five million people<br>SDG alignment: 3.5; 3.6; 17.16 | Number of people educated about the dangers of drink driving<br>**500,415** | 510,274 | 'Wrong Side of the Road' is our innovative anti-drink-drive experience, designed to change the attitudes of people to drink driving. Launched in 2021, the experience is live in 24 countries, reaching 500,415 people this year. 'Wrong Side of the Road' allows users to learn from former impaired drivers through pre-recorded videos to understand the effects of alcohol and driving, as well as the consequences of making the decision to drive while impaired. We have reached a total of 510,274 people with our programmes since 2020. |
| Leverage Diageo marketing and innovation to make moderation the norm – reaching one billion people with dedicated responsible drinking messaging<br>SDG alignment: 3.5; 17.16 | Number of people reached with responsible drinking messages from our brands<br>**456 million** | 823m | We reached 456 million people this year, reflecting significant progress towards our 2030 goal. Notable campaigns include the Captain Morgan anti-drink-drive campaign 'A mate doesn't let a mate drink drive' in Great Britain, developed in collaboration with Think!. In the United States, Crown Royal, Captain Morgan and Smirnoff had responsible drinking messaging and game activations throughout the National Football League (NFL) season. During the festive period we accelerated brand-led responsible drinking campaigns to reach more people. This year we also began to explore the role non-alcoholic products play in offering consumers more choice, thus helping them moderate their alcohol intake. We promoted our 0.0 non-alcoholic spirits to travellers across our Global Travel Channel. We'll use insights from our research into perceptions of non-alcoholic products to inform how we reach our 2030 goals to promote moderation. |
| **Champion inclusion and diversity** | | | |
| Champion gender diversity with an ambition to achieve 50% representation of women in leadership roles by 2030[2]<br>SDG alignment: 5.5; 10.2; 10.4 | Percentage of female leaders globally<br>**+2ppt** | 44%[Δ] | We want to continue to build our reputation as an inclusive employer committed to advancing efforts to achieve gender equality. Each of our markets has stretching multi-year inclusion and diversity plans, which include a focus on empowering women to flourish in all roles. This year 44%[Δ] of our leadership roles were held by women, up from 42% in 2021. Once again we've received external recognition – notably our fifth consecutive year in the Bloomberg Equality Index, where we see year-on-year positive shifts, and a number 14 ranking in the FTSE Women Leaders Review, recognising our commitment to improve the representation of females in Board and leadership roles. |
| Champion ethnic diversity with an ambition to increase representation of leaders from ethnically diverse backgrounds to 45% by 2030[2]<br>SDG alignment: 10.2; 10.4 | Percentage of ethnically diverse leaders globally<br>**+4ppt** | 41%[Δ] | Ethnicity is a global inclusion and diversity priority. We're deepening ethnic representation and diversity at every level of our business, with 41% of our leadership population, including our Executive Committee, identifying as being ethnically diverse, up from 37% in 2021. We collect voluntary ethnicity data in 64 countries where local legislation allows. Across these countries, 82% of employees at all levels have disclosed their ethnicity information confidentially, and within our leadership population, 96% have disclosed their ethnicity. |
| We will use our creative and media spend to support progressive voices, measuring and increasing the percentage spend year on year<br>SDG alignment: 5.5; 5B; 10.2; 10.4 | Measurement and evaluation framework under development | | We partner with our advertising agencies to ensure our creative teams are as diverse as our consumers. We're in the fourth year of collecting insight about the make-up of our agency workforce. We commit media investment to platforms and with publishers that are working to make mainstream media both more diverse and more inclusive. For example, we have established a Progressive Programming strategy with Channel 4 in the United Kingdom, where we contextually support progressive content by picking our programming investment across linear TV and its on demand platform. We continue to make sure our advertising reaches a broad consumer base, including those living with disabilities. For example, Tusker Lager – a local jewel in East Africa – partnered with a media house that broadcasts exclusively in sign language to ensure the Tusker Milele campaign was translated to audiences during the Olympic Games. |

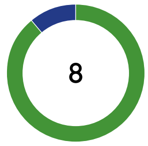
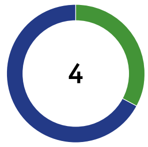
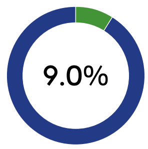
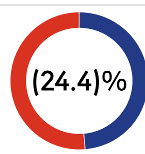
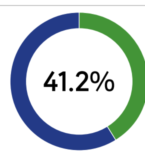
1. All baselines for our 'Society 2030: Spirit of Progress' targets and ambitions are 2020, unless otherwise stated
2. Statements on representation should be considered an ambition for Diageo, not a target

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index.

| Target by 2030 | Fiscal 22 progress | Progress to date | Commentary |
|---|---|---|---|
| **Champion inclusion and diversity (continued)** | | | |
| Accelerate inclusion and diversity in our value chain, measuring and increasing the percentage of spend with Diageo suppliers from diverse-owned and disadvantaged businesses to 15%[1]<br>SDG alignment: 5.5; 5B; 10.2; 10.4 | Percentage of spend with diverse-owned and disadvantaged businesses<br>**4.8%** | 4.8% | This year we launched our Supplier Diversity programme globally and announced an ambitious goal to increase the share of our global spend with diverse-owned and disadvantaged businesses to 15% by 2030.<br>We have partnered with peer companies and advocacy organisations, as well as engaging our markets, to identify underrepresented groups at a regional level. We are confident that this will drive inclusion and diversity throughout our value chain – creating employment opportunities, economic advancement and greater representation in the marginalised communities of regions where we source.<br>At the end of fiscal 21, we surveyed 1,500 suppliers, representing around 80% of our global spend, to establish a baseline of our diverse suppliers. We're using this baseline to track the progress of diverse spend across our business. We're proud that, in the first year of the programme, we have increased our spend with diverse businesses by more than 65% – and have been awarded gold by a panel of leading advocacy organisations in the Top Global Champion Awards for Supplier Diversity and Inclusion. |
| Provide business and hospitality skills to 200,000 people, increasing employability and improving livelihoods through Learning for Life (L4L) and our other skills programmes<br>SDG alignment: 4.4; 8.1; 8.6 10.2; 17.16 | Number of people reached through L4L and other skills programmes<br>**22,230** | 30,861 | This year we reached 22,230 people through our business and hospitality skills programmes. We continued to deliver L4L in person and online, working in partnership with our network of charities and training providers. We've engaged a specialist learning partner for social impact programmes to enhance our training materials, platforms, and measurement and evaluation of our skills programmes. |
| Through the Diageo Bar Academy we will deliver 1.5 million training sessions, providing skills and resources to help build a thriving hospitality sector that works for all<br>SDG alignment: 4.4; 8.1; 8.6; 10.2; 17.16 | Number of training sessions delivered through Diageo Bar Academy<br>**190,383** | 303,830 | We delivered over 190,000 skills training sessions to hospitality industry workers – owners, managers, bartenders and waiting staff – through Diageo Bar Academy (DBA) this year. DBA delivers a variety of courses, both online and in-person. This year, as pandemic restrictions eased, we returned to face-to-face training in addition to virtual training, allowing us to reach people at scale and with more intensive, hands-on learning experiences. We modified many of our courses to help address the unique challenges of the industry re-opening. DBA also supports the development of a more diverse and inclusive hospitality sector; we continue to increase the participation of women, and run women-only sessions in Africa and India. Our research this year showed that 84% of people surveyed said DBA presents a modern and progressive view of the bar community. In addition, 68% of women surveyed agreed that DBA actively supports the advancement of women in the industry. |
| Ensure 50% of beneficiaries from our community programmes are women, and that our community programmes are designed to enhance diversity and inclusion of underrepresented groups<br>SDG alignment: 5.5; 5A | Percentage of beneficiaries of our community programmes who are women<br>**64%** | On track | This year 64% of beneficiaries of our L4L programme were women, up from 51% last year. We have now defined our approach to ensuring women are proportionately represented in our community water and smallholder farmer programmes, which we'll start implementing next year with the support of our global NGO partners WaterAid and CARE International UK. L4L is gender inclusive by design, which means we put in place measures that reduce barriers to women accessing the skills, resources and opportunities we provide. For example, we offer training at times of the day that don't clash with childcare responsibilities, and also make it available online and on-demand. This year we conducted research to understand the barriers to ethnic minorities in hospitality, which led us to update L4L. The programme is also partnering with the Diageo Bar Academy to tackle barriers through training, communications and customer partnerships – helping to create an inclusive and thriving hospitality industry that works for all. |
| **Pioneer grain-to-glass sustainability: Preserve water for life** | | | |
| Reduce water use in our operations with a 40% improvement in water use efficiency in water-stressed areas and 30% improvement across the company<br>SDG alignment: 6.4; 17.16 | Percentage improvement in litres of water used per litre of packaged product<br>**7.8%** in water-stressed areas<br>**3.7%Δ** across the company | 14.9%<br>10.8% | Across the company, we delivered a 3.7%Δ improvement in water efficiency this year and, cumulatively, water-use rates have improved by 10.8% versus our 2020 baseline. In water-stressed areas, water efficiency improved by 7.8% and 14.9% versus our 2020 baseline. In addition, the volume of water we recycled or reused in our own production ancillary processes was 1,132,367$m^3$, representing 6.5% of total water withdrawals.<br>Our Africa region's water stewardship work has been particularly impressive. Alongside three existing facilities in Kenya and Uganda, we began delivering water efficiency improvements at our site in Lagos, Nigeria through a water recovery and recycling facility. This year we used 21,896$m^3$ of water for agricultural purposes on land under our operational control. We report this separately from water used in our direct operations and do not include it in our water efficiency calculations. |
| Replenish more water than we use for our operations for all of our sites in water-stressed areas by 2026<br>SDG alignment: 6.1; 6.2; 6.6; 6B; 15.1 | Percentage of water replenished in water-stressed areas<br>**15.3%** | 43.2% | Our water replenishment programme had a strong year in India, where we completed 10 projects across 12 villages. This helped us to exceed our target for the year, completing, in total, 34 projects in 10 countries – and generating the annual capacity to replenish 1,058,822$m^{3}$Δ of water. This represents 15.3% of our target for 2026 and, cumulatively (fiscal 16 to fiscal 22), represents replenishing 43.2% of our estimated fiscal 26 volume. This year, replenishment projects in water-stressed catchments where we operate or where we source raw materials included tree planting in Kenya; access to clean water and sanitation in Ghana, Uganda and Nigeria; aquifer recharge in India; and drip irrigation in Turkey and Seychelles. |

1. Statements on representation should be considered an ambition for Diageo, not a target

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index

| Target by 2030 | Fiscal 22 progress | Progress to date | Commentary |
|---|---|---|---|
| **Pioneer grain-to-glass sustainability: Preserve water for life (continued)** | | | |
| Invest in improving access to clean water, sanitation, and hygiene (WASH) in communities near our sites and local sourcing areas in all of our water-stressed markets<br>SDG alignment: 6.1; 6.2; 6.6; 6A; 6B; 15.1; 17.16 | Percentage of water-stressed markets with investment in WASH<br>**88.9%[Δ]** |   | The continuing pandemic makes it especially important for implementing WASH projects in vulnerable communities. As part of our replenishment programme we completed 22 WASH projects in eight countries: Brazil, India, Nigeria, Ghana, Uganda, Kenya, Tanzania and South Africa. In total, 135,800 people benefitted from these WASH projects this year. We have now implemented WASH projects in eight of the nine water-stressed markets (countries) where lack of access to clean drinking water and sanitation is a risk. |
| Engage in collective action in all of our priority water basins to improve water accessibility, availability and quality and contribute to a net positive water impact<br>SDG alignment: 6.1; 6.2; 6.5; 6.6; 6A; 6B; 15.1; 17.16 | Percentage of priority water basins with collective action participation<br>**33.3%** |   | Our structured collective action programme is fundamental to improving water security in our priority water basins, and how we're adapting to climate change. Last year we identified priority water basins in four regions where we operate, based on water risk and strategic importance to our business. This year we engaged in collective action initiatives in another two priority basins in India (in the Ganges basin) and Kenya (in the Upper Tana basin), which means in total we're participating in four initiatives in four of our 12[1] priority water basins. |
| **Pioneer grain-to-glass sustainability: Accelerate to a low-carbon world** | | | |
| Become net zero carbon in our direct operations (Scopes 1 and 2)[2,3]<br>SDG alignment: 7.2; 7.3; 12.6; 13.3 | Percentage reduction in absolute GHG ($ktCO_2e$)<br>**5.3%[Δ]** |   | This year we reduced GHG emissions by 5.3%[Δ], building on our 2021 achievement of a 4.0%[4] reduction in absolute emissions. This emissions reduction was despite a year-on-year increase of 9.6% in packaged volume and 6.7% in distilled volume. GHG emission reductions were driven by continuous improvement projects and an increase in the use of certificate-backed renewable gas at production sites in the United Kingdom and Canada. Our facilities in Uganda and Kenya are in the final stage of commissioning new biomass facilities, which will be operational in early fiscal 23. The expected annual carbon saving is approximately 40,000-50,000 tonnes GHG.<br>We continue to identify the right technologies to support our decarbonisation journey across our global portfolio of sites. Given the varying maturity of renewable infrastructure across our markets, and the time it takes to build and commission large decarbonisation assets, we acknowledge the acceleration needed to deliver these projects in time for 2030.<br>Using a location-based calculation approach[5], this year our total direct and indirect carbon emissions were 712,260[Δ] tonnes (2021 - 675,243 tonnes), comprising direct emissions (Scope 1) of 554,476 tonnes (2021 - 536,963 tonnes) and indirect (Scope 2) emissions of 157,784 tonnes (2021 - 138,280 tonnes). The intensity ratio for this year was 168[Δ] grams per litre packaged (2021 - 175 grams per litre packaged).[5] |
| Reduce our value chain (Scope 3) carbon emissions by 50%[2,3]<br>SDG alignment: 7.2; 7.3; 7A; 12.6; 13.3; 17.16 | Percentage reduction in absolute GHG ($ktCO_2e$)<br>**(4.7)%** |   | Our target of reducing Scope 3 emissions by 50% by 2030 and achieving a net zero value chain by 2050 or sooner led to a comprehensive review of our total value chain footprint and associated emissions last year. We reset our baseline, incorporating additional categories of upstream and downstream Scope 3 emissions[6]. This year, our Scope 3 emissions increased by 4.7%. This was mainly due to increased production and the associated increased use of raw materials, packaging, third-party operations and neutral-spirit sourcing. We recognise that this target is challenging given the complexities of enabling impactful change up and down the value chain, and that we will not meet our target unless we work closely with suppliers, peers and others. |
| Use 100% renewable energy across all our direct operations<br>SDG alignment: 7.2; 7A; 17.16 | Percentage of renewable energy across our direct operations<br>**+4.6ppt** |   | Renewable energy represented 41.2% of our total energy use this year, up 4.6ppt on last year. This was driven by increases in our use of both renewable electricity and renewable fuel and heat. As a signatory to RE100, we aim to source 100% of our electricity from renewable sources by 2030. This year, 100% of our electricity came from renewable sources in the UK, Europe, Turkey and South Africa, and overall we achieved 83% (2021 - 66.4%), exceeding our interim 2025 target of 50% renewable electricity. This included sources such as solar, wind, hydro, geothermal and biomass, generated on site and off site. Our overall increase this year was due to the opening of a new distillery in Lebanon, North America, which is entirely powered by renewable electricity; moving to renewable-backed electricity supplies at our sites in Nigeria and Ghana; our operations in India and Indonesia now sourcing more than 95% of their total energy from renewable sources; and our new London head office being powered by 100% zero emission renewable energy.<br>We are also continuing to invest in renewable electricity generation capacity, creating 'additionality', which means we can add renewable energy generation to the grid, and we have broken ground at our Leven packaging site in Scotland, where we're in the process of installing 9,000 solar PV panels, approximately 4.1MW of additional generation capacity. |

1. Due to the sale of our Ethiopia business in fiscal 22, we now have 12 rather than 13 priority water basins
2. In line with our environmental reporting methodologies and the WRI/WBCSD GHG Protocol, baseline data for fiscal 20 and performance data for fiscal 21 have been restated to account for acquisitions and divestments. Our reporting methodologies in the ESG Reporting Index outline how data has been compiled, including standards and assumptions used
3. Our targets to achieve net zero by 2030 in Scope 1 and 2 emissions, and our near-term Scope 3 target of 50% emissions reduction by 2030, were independently validated and approved by the Science Based Targets initiative in September 2021
4. The sale of our Ethiopia business in fiscal 22 means that our emissions reductions for fiscal 21 have been restated, changing from a 5.1% decrease in GHG emissions to a 4.0% decrease
5. Please refer to our reporting methodologies in the ESG Reporting Index for more information on how we calculate location-based versus market-based emissions
6. A comprehensive review of Scope 3 categories has decreased the fiscal 20 baseline to $4.6MtCO_2e$

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index

| Target by 2030 | Fiscal 22 progress | Progress to date | Commentary |
|---|---|---|---|
| **Pioneer grain-to-glass sustainability: Become sustainable by design** | | | |
| Achieve zero waste in our direct operations and zero waste to landfill in our supply chain<br>SDG alignment: 12.5; 12.6 | Percentage reduction in total waste to landfill in our direct operations (tonnes)<br>**(265)%**$^{\Delta}$ | 90.6% | The total volume of waste diverted to landfill this year increased by 265% – to 168 tonnes (fiscal 21 – 46 tonnes) – equivalent to 0.02% of all waste, co-products and by-products generated in our operations. At one of our facilities in Australia, waste material was incorrectly diverted to landfill by a third-party contractor. This issue was the principal cause of the year-on-year increase, and we are now working to address it with the contractor. Despite the increase, our performance remains within the de minimis threshold for zero waste and represents a 90.6% reduction on waste diverted to landfill since our fiscal 20 baseline. We continue to focus on and work hard to maintain zero waste to landfill[1] at all our supply and office sites through ongoing segregation of materials and close collaboration with our partners.<br>Turning to our supply chain, we also launched a global point-of-sale (POS) request for proposal this year, focused on delivering our 2030 objectives and making a shift in the industry. This should reduce the POS material we create and deliver a step change in how we reduce the potential for landfill in our supply chain. |
| Continue our work to reduce total packaging and increase recycled content in our packaging (delivering a 10% reduction in packaging weight and increasing the percentage recycled content of our packaging to 60%)<br>SDG alignment: 12.5; 12.6 | Percentage reduction of total packaging (by weight)<br>**(16.2)%** | (20.5)% | In fiscal 22, packaging volume and weight increased because our global sales grew. Nonetheless we remain committed to our targets. As part of our Diageo Sustainable Solutions programme, we're partnering with EXXERGY and Ardagh Group to pilot a glass coating that has the potential to 'light-weight' our bottles without compromising strength or shape – an industry first. We have also launched a programme to remove cardboard gift boxes from our premium scotch portfolio, on brands such as Johnnie Walker Black Label. In North America, we redesigned our corrugate cases, saving around 82 tonnes of corrugate a year – one example of the incremental improvements that we're planning to roll out. |
| | Percentage of recycled content (by weight)<br>**(2.6)ppt** | 40.2% | While we have made some positive changes in our portfolio, our percentage of recycled content is down 2.6ppt to 40.2% because of a lack of available post-consumer materials. Global material recovery rates and recycling centres have not yet returned to their pre-Covid-19 operating levels, which has affected how much recycled content is available to our supply chain. We have a number of projects in the pipeline for fiscal 23 to help us address this issue. |
| Ensure 100% of our packaging is widely recyclable (or reusable/compostable)<br>SDG alignment: 12.2; 12.6 | Percentage of packaging recyclable (by weight)<br>**99.9%**<br>(Technically recyclable) | 99.9% | This year 99.9% of our packaging was recyclable using the definition we've applied historically – that is, technically recyclable. The remaining non-recyclable components are currently not replaceable, although we continue to explore alternatives. We're working to create a universal definition of recyclable across the many markets we operate in. We are following changing global legislation closely and, in fiscal 23, will define a new approach to measuring recyclability that takes into account local practices and recycling systems in some of our largest markets. |
| Achieve 40% average recycled content in our plastic bottles by 2025 (and 100% by 2030)[2]<br>SDG alignment: 12.5; 12.6 | Percentage of recycled content/percentage of plastics used<br>**(2.2)ppt** | 3.2% | While our sales volumes have increased, our overall percentage of PET used – 1.3% of our total packaging materials mix – has remained broadly constant. However, this year the percentage of recycled content in our PET bottles reduced to 3.2% (fiscal 21 – 5.4%). We are partnering with our suppliers to improve and are conducting sampling trials in Great Britain and North America with bottles that contain 30%, 50% and 100% recycled PET, across multiple brands and formats. |
| Ensure 100% of our plastics is designed to be widely recyclable (or reusable/compostable) by 2025[2]<br>SDG alignment: 12.5; 12.6 | Percentage of recyclable (or reusable/compostable)/percentage of plastic used<br>**+5.2ppt** | 72.0% | We're encouraged by the improvement in recyclability of our plastics – now at 72% – which is an increase of 5.2ppt on last year. This is primarily due to the discontinuation of single-use plastics in certain markets, and an increase in the use of widely recyclable plastics versus other plastic types. In Ghana, we partnered with local authorities, investing in plastic buyback centres. Five centres were established this year, helping to build a local circular economy for plastic recycling – and they have already helped to recover 46 tonnes of plastic. |
| Provide all of our local sourcing communities with agricultural skills and resources, building economic and environmental resilience (supporting 150,000 smallholder farmers)<br>SDG alignment: 2.3; 2.4; 8.3; 12.2; 12.3 | Number of smallholder farmers in our supply chain supported by our smallholder farmer programme focused on improving economic, environmental and social resilience<br>**4,660** | 4,660 | In this first year of reporting quantitatively against this target, we supported 4,660 smallholder farmers through our programme, which focuses on improving their economic, environmental and social resilience. We do this by offering agricultural training and providing farming essentials, such as fertilisers and certified high-quality seeds. Where low yields and issues with quality significantly affect a smallholder farmer's income, we work with our suppliers, technical partners and research organisations to build more resilient local supply chains. In Kenya and Ghana, for example, we're conducting on-farm trials to develop more climate-resilient and higher-yielding sorghum varieties adapted to Kenya and Ghana, as well as investing in more research and development. |
| Develop regenerative agriculture pilot programmes in five key sourcing landscapes<br>SDG alignment: 15.2; 15.3; 15.5; 15A; 17.16 | Number of regenerative agriculture pilot programmes active<br>**1** | 1 | During fiscal 22, we launched one regenerative agriculture pilot programme. Our brand Guinness is working in Ireland with farmers of barley, one of our most important ingredients. The pilot is based on an approach to farming that works in harmony with nature. We expect this three-year farm-based programme to reveal opportunities to reduce our carbon emissions in barley production, alongside other benefits including enhanced biodiversity and soil health. We continue to develop roadmaps identifying where and how we can support more regenerative agriculture programmes in other parts of our agricultural supply chain. We're committed to partnerships with farmers to help them implement regenerative projects that test new farming approaches and practices, measure impacts and learnings. |

1. Please refer to the reporting methodologies in our ESG Reporting Index for more information on how data has been compiled, including standards and assumptions used
2. Targets were introduced in 2018

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# Doing business *the right way* from grain to glass

At Diageo, we always aim to do the right thing, in the right way. We embed human rights in our people's working day. We strive to improve health, safety and wellbeing, understanding that no level of accidents is acceptable. And we make compliance and business integrity non-negotiable.

## Respect for human rights – part of everyone's working day

We aim to create an environment where people feel they are treated fairly and with respect. We work hard to ensure we do not infringe their human rights, and that we're not complicit with others who do. We expect everyone we work with to adopt our principles and to uphold our standards.

We have a well-developed policy framework that covers our responsibilities to protect the human rights of those working in our direct operations, as well as in our value chain and communities. Our policies are aligned to all relevant internationally recognised laws, regulations and voluntary guidelines.

As part of our ongoing commitment to the UN Guiding Principles on Business and Human Rights (UNGP), we've updated our human rights governance framework in line with current best practice. We will continue to embed human rights in our enterprise risk management processes and to enhance our policies, standards and disclosures.

### Strengthening our approach to human rights

As well as adhering to the rights called out in the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, our own Human Rights Impact Assessments (HRIAs) identified three external risks as particularly salient to our business and supply chain: labour rights, including the risk of child labour, especially in agricultural supply networks; labour standards for contract workers; and sexual harassment in the hospitality sector.

We have acted in response. For example, we've created awareness programmes focussed on child protection, and training for a variety of internal and external stakeholders on modern slavery risks. We have also developed standards and training in all our markets, aimed at protecting brand promotion teams from harassment.

In addition, we have started to embed the detailed findings and recommendations from our market HRIAs into our routine enterprise risk management processes. This will help us to continue to intervene when required, and allow us to track emerging risks.

We measure the effectiveness of our human rights governance through monitoring breach allegation trends and root causes. We're also enhancing our internal assurance framework to identify opportunities for strengthening our approach. And we're using lessons learned from our interventions to drive continuous improvement. For example, we're creating an online version of our Global Brand Promoter Standard training to make it easier for people to take part, and for us to track how many have completed it.

We describe our human rights approach and performance in more detail in our ESG Reporting Index. We publish our Modern Slavery Statement on our website.

## Health and safety matters

Our global health and safety strategy focusses on wellbeing and safety. Critically, our Zero Harm programme is designed to ensure that everyone goes home safe and healthy, every day, everywhere. We have a dedicated expert team that creates and frequently reviews our policies and standards – providing a roadmap that enables every employee, irrespective of their role, to work as safely as possible.

Our total recordable accident frequency rate (TRAFR) takes into account injuries that require more than first aid. We investigate each recordable incident thoroughly to establish the root cause, to provide insights that are used to mitigate the risk of further incidents and to reinforce our policies and standards. The learnings from each incident are shared with governance and site leaders in dedicated sessions. This year we achieved our global target of 3.5 or lower, with a rate of 2.18. This is slightly higher than last year (1.98).

We also report lost-time accident frequency rate (LTAFR). After sustaining more than one LTA per 1,000 employees in fiscal 21 for the first time in three years, this year the LTA frequency rate decreased from 1.03 to 0.92[Δ]. We achieved this improvement by deploying focussed interventions in North America and Europe, which had a high level of incidents in 2021. The severity rate of these LTAs, which is a measure of the seriousness of the incident and consequent absence from work, decreased by 13.9% globally.

'Lagging indicators' like TRAFRs and LTAFRs are traditional metrics used to indicate progress towards compliance with safety rules. The challenge with using only these to measure safety performance is that they don't indicate how well we're preventing incidents and accidents. To partially address this challenge we have adopted a key 'leading indicator', severe injury and fatality potential (SIFP), which specifically considers all incidents and near-misses and their potential to cause life-threatening or life-altering outcomes. Every month senior management reviews performance of this indicator, as well as any learnings and improvements to help prevent similar incidents in future. Over the next three years, our focus on both leading and lagging indicators will provide more opportunities to prevent incidents and accidents.

There is no acceptable level of accidents, which is why we encourage safe behaviour among all our people. We will continue to identify and implement the best available health and safety practices, technologies and systems – providing our employees with the most up-to-date health and safety skills and knowledge so that they can always carry out their roles safely.

We remain committed to working with our contractors and third-party providers to ensure they are equally committed to ensuring everyone goes home safe and healthy, every day, everywhere.

### Making health and safety an engaging experience

In 2022 we launched a new communication strategy for health and safety and now have a dedicated intranet site with a learning channel. Our new Yammer social networking group enhances visibility of updates, meaning employees can access the latest health and safety news and are signposted to existing and new content. These digital channels make it easier for us to share learnings across the business, helping build a better health and safety culture.

For this culture to succeed, employee engagement is critical. It's why we've refreshed our health and safety brand and vision – to have a world-class, high-performing health and safety culture, where everyone, everywhere is safer together when working on site, at home and on the road.

### 2022 safety data by region

| Region | Employee LTA rate | Employee TRA rate | Independent contractor LTAs[1] | Employee LTAs | Fatalities[2] |
|---|---|---|---|---|---|
| North America | 1.85 | 4.33 | 1 | 5 | 0 |
| Europe | 1.09 | 2.89 | 12 | 11 | 0 |
| Asia Pacific | 0.59 | 1.17 | 2 | 7 | 0 |
| Africa | 1.01 | 1.75 | 8 | 8 | 0 |
| Latin America and Caribbean | 0.61 | 3.44 | 4 | 2 | 0 |
| **Diageo (total)** | **0.92Δ** | **2.18** | **27** | **33** | **0** |

1. We do not report an LTA rate for independent contractors due to the difficulty and administrative burden in accurately recording headcount
2. Fatalities include any employee work-related fatality arising in their day-to-day work environment, or any work-related fatalities occurring to third parties and contractors (non full-time employees) while on Diageo's premises

Δ Within PricewaterhouseCoopers LLP's (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index.

### Improving our people's safety on the roads

We want our employees everywhere to be safer when working on site, at home and on the road. Our Severe and Fatal Incident Prevention Programme – a core component of our health and safety strategy – helps us to achieve that. It protects our people and our reputation by preventing serious injuries and fatalities across our business.

As part of our Driving on Roads programme, we focus on driver behaviour and capability. In Africa, we've launched a bespoke driving capability programme featuring e-learning training modules around risks of driving on the road as well as business policies, standards and best practices. In Europe we've successfully embedded a best-in-class driver capability programme that identifies and tailors training based on an individual's driving behaviour. The programme aims to prevent employees from becoming complacent with their driving. We anticipate that these initiatives will improve drivers' capabilities and behaviours, and ultimately reduce road traffic accidents and our insurance premium rates.

## Business integrity

We remain committed to operating in the right way in everything we do. Compliance with our Code of Business Conduct and conducting our business with integrity are non-negotiable, and our approach to risk and compliance helps us go beyond the basics to encourage the right behaviours and attitudes every day, everywhere.

Our global Code of Business Conduct, available in 20 languages, sets out what we stand for as a company and how we operate, so all our employees understand what is required of them in working for Diageo. We undertake annual mandatory global training on our Code of Business Conduct and key global policies, which includes an Annual Certification of Compliance (ACC) for all managers and their direct reports, encompassing a total of 15,522 eligible employees.

Global training is delivered to all Diageo employees in an easily accessible e-learning format, with classroom training delivered to those employees who do not have regular access to a computer.

Another area of potential compliance risk is out interaction with third parties. Our Know Your Business Partner programme is designed to help us evaluate the risk of doing business with a third party before entering a contractual relationship, as well as help us to monitor any changes during our interactions. This year we refreshed our third-party risk programme to include additional mitigation of the increased risk of economic sanctions. We assess all our business partners for potential economic sanctions and compliance risks such as bribery and corruption, money laundering, facilitation of tax evasion, data privacy or other reputational red flags. We carry out additional due diligence processes for those parties that pose a potentially higher risk. Our global business integrity team oversees the programme and regularly reviews its effectiveness.

We encourage our employees, and anyone we do business with, to raise concerns about potential breaches of our Code of Business Conduct or policies. Our confidential whistleblowing helpline, SpeakUp, is available via phone or web portal, enabling anyone in or beyond Diageo to report a concern. Additionally, we encourage employees to come forward to their line manager; their legal or HR partners; risk and compliance teams; or business integrity partners.

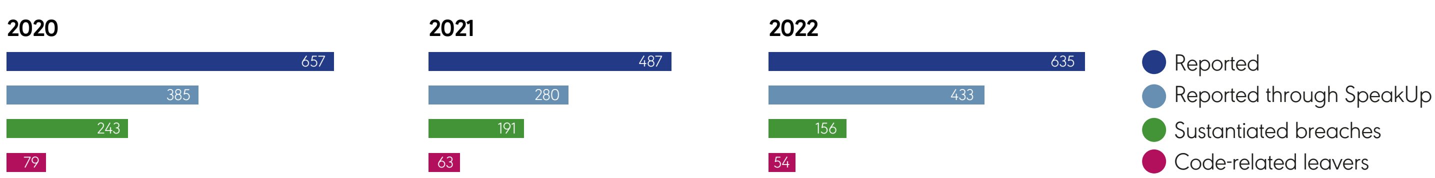
This year 635 allegations of breaches were reported. While we saw an increase in allegations versus last year, we are noting that the reporting levels are recovering to pre-pandemic levels due to the return to offices. The substantiation rate of allegations has slightly decreased compared to last year, with 30% of cases confirmed as a breach (versus 39% in fiscal 21).

All allegations are taken seriously and investigated, and action is taken where necessary. We monitor all breaches to identify trends and root causes.

As of the end of fiscal 22, 54 people exited the business as a result of breaches of our Code of Business Conduct or policies (fiscal 21: 63 people). This is due to a reduction in severity and type of breaches this year.

The number of leavers for fiscal 21 has been restated due to a number of open cases from fiscal 21 being concluded this year. At the end of fiscal 22, we had 113 open cases, which may lead to more people exiting the business.

### Reported and substantiated breaches



# Our ESG *reporting approach*

Reporting transparently on the environmental, social and governance (ESG) issues that affect our business and that our business creates, plays a vital role in delivering our strategy. It helps us to manage ESG risks, seize opportunities and promote sustainable development everywhere we live, work, source and sell.

Our ESG reporting suite aims to provide comprehensive and comparable disclosures for a broad range of stakeholders.

As well as publishing our integrated Annual Report and ESG Reporting Index at the year end, we also submit non-financial information to benchmarking and index organisations throughout the year, including those listed in our ESG Reporting Index.

The non-financial reporting space is evolving quickly. We are committed to continual evaluation and improvement of our approach and to actively tracking emerging ESG frameworks and good practice.

## How we report to our stakeholders – our reporting suite


**Annual Report** Where we present our most material disclosures and describe how our strategy delivers value for our business and other stakeholders.


**Diageo.com** Where, through the 'Society 2030: Spirit of Progress' section, we give further details of our approach and performance, with examples of our strategy in action.


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

Who are our stakeholders? Everyone who is affected by our business, and everyone who affects it, is a stakeholder. A detailed description of our stakeholder engagement process is on pages 92-94 of this Annual Report.

## Non-financial information statement

| Focus area | Relevant policies and standards | Read more in this report | Page |
|---|---|---|---|
| **Promote positive drinking** | • Marketing and Digital Marketing Policy<br>• Employee Alcohol Global Policy<br>• Position papers | • Promote positive drinking<br>• Performing against our 2030 targets | 26-27<br>35-38 |
| **Champion inclusion and diversity**<br>**Our people** | • Code of Business Conduct<br>• 2021 Gender Pay Gap Report<br>• Human Rights Global Policy | • Champion inclusion and diversity<br>• Our people<br>• Performing against our 2030 targets | 28-29<br>18<br>35-38 |
| **Pioneer grain-to-glass sustainability** | • Environmental Global Policy<br>• Sustainable Agriculture Guidelines<br>• Sustainable Packaging Commitments<br>• Partnering with Suppliers Standard<br>• Deforestation Guidelines | • Pioneer grain-to-glass sustainability<br>• Performing against our 2030 targets<br>• Responding to climate-related risks | 30-31<br>35-38<br>47-56 |
| **Human rights** | • Human Rights Global Policy<br>• Modern Slavery Statement<br>• Global Brand Promoter Standard | • Doing business the right way from grain to glass | 39 |
| **Health and safety** | • Health, Safety and Wellbeing Global Policy | • Doing business the right way from grain to glass | 39-40 |
| **Anti-bribery and corruption** | • Code of Business Conduct | • Doing business the right way from grain to glass | 40 |
| **Our contribution to the UN Sustainable Development Goals** | | • Performing against our 2030 targets | 35-38 |

# *Effective* risk management

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

### Our approach

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

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

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

Further details about our risk management approach are described in the Corporate governance report on page 87 and in the Audit Committee report on pages 99-103

### Our principal risks

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

This year's annual review of our principal risk descriptions has resulted in a number of changes. We have combined risks as a result of aligned cause and effect, while simplifying others. All principal risks have updated descriptions, risk outlooks and mitigating actions.

Our overall risk footprint reflects significant external threats, such as geopolitical risks, climate change, digital revolution, and the resulting impact of global uncertainty in many areas. The pandemic risk was elevated from an emerging risk last year. The risk associated with Covid-19 is better understood, however the risk of a new pandemic is possible. This year, we have combined the risk of a pandemic with a business interruption risk. We have also merged Geopolitical and Macroeconomic volatility, and Product quality and counterfeit, and have incorporated Data Privacy as part of the overall Business ethics & Integrity risk.

This year, we have elevated Supply chain disruption as a separate principal risk.

#### Update on our response to the Covid-19 pandemic and ongoing supply chain disruption

The pandemic continues to cause disruption in regions across the world, contributing to a heightened level of uncertainty. Vaccination rollouts are at all-time highs in many markets, and our understanding and agility in responding to and managing through volatility has grown. Our ongoing mitigations and developments concerning the Pandemic & Business interruption risk are articulated in the principal risk section below.

Supply chain disruption has emerged as a risk of significant global impact. Ongoing geopolitical issues, increasing inflation, strict regional responses to Covid-19 outbreaks, in addition to heightened demand for raw and packaging materials, has led to ongoing constraints, longer lead times and increased costs. We continue to improve our levels of resilience across our end-to-end supply chain, while continuously monitoring the external landscape and responding with agility.

### Risk appetite

This year, we have progressed our approach to the assessment of principal risks, and risk appetite. The ARC and the Audit Committee have defined the group's risk appetite across our risk categories (Strategic, Financial, Operational and Regulatory). A three-point risk appetite scale (Averse, Cautious and Open) and appetite ratings have been applied, using both quantitative and qualitative criteria that align to the delivery of our Performance Ambition. This category-led approach enables practical application of risk appetite thresholds to all business risks, which informs the level of mitigation required. Examples of risks for which we have an averse appetite include risks that could: harm our people; impact product quality; cause us to market irresponsibly or act without integrity; and be non-compliant with laws and regulations, including those relating to financial reporting.

Risks that can be partially mitigated through insurance are also identified and evaluated. We focus our insurance resources on the most critical areas or where there is a legal requirement, seeking a balance between retained risk and risk transfer. As insurance markets are getting tighter, this is an area we continue to monitor.

### Emerging risks

The ARC and Audit Committee formally review emerging risks. Our Corporate Strategy and Enterprise Risk Management teams undertake horizon-scanning to monitor any potential disruptions that could dramatically change our industry and/or our business, from both a risk and opportunity perspective, for the Executive to understand the changing landscape and take appropriate actions.

We perform scenario planning and draw on external thinking and research to consider the changes around us, to understand how our risk profile could change over a longer period. Emerging risks we are monitoring include the changing socio-economic landscape.

### The changing socio-economic landscape

The human and economic cost of the pandemic has been significant, leading to increased poverty and unemployment levels, which have been compounded by further geopolitical instability and sharp global cost inflation. These factors and others are contributing to increased social inequalities and a widening of the wealth gap between demographics. Whilst we cannot completely mitigate the impact of this risk, we continue to monitor this changing socio-economic landscape, its impact on our consumer base and their buying preferences, and the development of our pricing strategies accordingly.

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

| Risk and impact | Mitigation plans | Risk outlook |
|---|---|---|
| **1. CLIMATE CHANGE & SUSTAINABILITY**<br>EG CVC CT EP V<br>Physical and transition climate change risks, including water stress, extreme weather events, temperature rises and increased regulation, may result in increased volatility in the supply of raw materials, production costs, capacity constraints and higher costs of compliance. In addition, the failure to meet sustainability goals could result in loss of licence to operate, financial loss and reputational damage amongst customers, consumers, investors and other stakeholders. | **Ongoing mitigations**<br>• Resource-scarcity issues identified and mitigated, especially within agricultural ingredient sourcing, and manufacturing, water and energy<br>• Physical risk exposures identified for sites assessed in North America and Scotland, and built into site risk footprints<br>• 'Society 2030: Spirit of Progress' ambition launched and operationalised to deliver against key targets and longer-term goals.<br>• Water blueprint defined and operationalised in water-stressed locations<br>• Communication programmes in place to share impact, strengthen reputation and support advocacy platform<br>• Carbon pricing being assessed as an internal mechanism to drive deeper understanding of the impact of our energy choices<br>**Developments in 2022**<br>• Progress against our 'Society 2030: Spirit of Progress' targets (see pages 30-31).<br>• Further multi-year climate change risk assessments and scenario analysis performed to evaluate short- and long-term impacts from physical and transition risks<br>• The cross-functional Climate Risk Steering Group sets our strategy for ongoing climate risk assessment, and manages associated opportunities and risks, while continuing to develop our approach to climate change risk reporting. (see page 47)<br>• We have increased resource dedicated to the mitigation of climate impact within our sustainability, sourcing and finance teams | **Increasing** ▲<br>Climate action failure, extreme weather and biodiversity loss continue to top the list of the globe's highest risks, with regulations and government interventions expected to continue to increase.<br>Transition climate risk is expected to increase due to the acceleration of regulatory efforts to control global warming. In addition, transition risks associated with increased customer and consumer awareness and action on climate change are likely to accelerate. |
| **2. REGULATION, TRADE BARRIERS AND INDIRECT TAX**<br>EG CVC CT V<br>Public health concerns may lead regulators in major markets to ban or restrict the marketing or sale of alcohol, while increased trade tensions and/or fiscal pressures may prompt the introduction of trade barriers and/or disproportionate tax increases, all of which may result in financial loss. | **Ongoing mitigations**<br>• We run multi-year public policy campaigns to minimise risk and unlock tax, trade and regulatory opportunities<br>• We have active involvement with the United Kingdom, the European Union and the United States authorities to prevent escalation of tariff tensions<br>• Our positive drinking programmes are supported by a global industry platform to promote responsible drinking and tackle spirits discrimination<br>• We practise evidence-based engagement to build trust and reputation with governments, health ministries and other stakeholders<br>**Developments in 2022**<br>• The geopolitical situation in Europe, with the Russian invasion of Ukraine, continues to impact business. Having initially suspended all shipping and trading to Russia and Belarus, we have now taken the decision to wind down our business operations in these markets<br>• We continue to prioritise the execution of public policy campaigns in all markets, to minimise risks and unlock tax, trade and regulatory opportunities | **Increasing** ▲<br>As we emerge from the pandemic and see increasing geopolitical tensions rise, as well as an increasing global inflation crisis, pressures on public finances will increase the need to raise new tax revenue. |
| **3. PANDEMIC AND BUSINESS INTERRUPTION**<br>EG CVC CT EP V<br>A significant interruption to our business due to external events (such as a public health threat/ pandemic, war or natural hazard) could restrict access to our products, negatively affect our operations and brands, or pose a threat to the safety of our employees; any of which could have a negative impact on our commercial and financial performance. | **Ongoing mitigations**<br>• Policies and processes are in place to prioritise the health and safety of our people<br>• Global crisis management and business continuity management programmes, and training, are in place to enhance our capability to react effectively to a crisis, and minimise damage and disruption<br>• Multi-channel product availability enables consumers to continue to purchase our products<br>• Global diversification enables the manufacturing of some of our products across various sites, thereby reducing dependency<br>• Insurance programmes in place to protect against the financial consequences of covered events<br>• Security arrangements are in place across all sites<br>• Well-established home working (including sales teams) supports business continuity<br>**Developments in 2022**<br>• The business acted rapidly to address the conflict in Ukraine, activating crisis teams and business continuity plans, in order to ensure employee safety, protect business operations, and plan for the future<br>• The business continued to demonstrate great resilience in fiscal 22, dynamically managing the evolving Covid-19 risk and volatility, utilising crisis management teams and sharing lessons learnt, to support the business in adapting commercial ways of working to changing conditions | **Increasing** ▲<br>• Restrictions are being lifted in most regions, signaling the transition from pandemic to lower-impact endemic situation.<br>• However, further variants are expected to arise, with uncertainty over their potential impact; a significant variant could potentially reverse progress.<br>• We continue to monitor risk of new pandemic strains.<br>• In the short term, there will also be significantly heightened international tensions, widespread economic reverberations from sanctions, and interruption. |

**Strategic outcomes** EG Efficient growth CVC Consistent value creation CT Credibility and trust EP Engaged people V Risk included in viability assessment

**Risk outlook** ▲ Increasing ▼ Decreasing ▶ Stable

| Risk and impact | Mitigation plans | Risk outlook |
|---|---|---|
| **4. GEOPOLITICAL AND MACROECONOMIC VOLATILITY**<br>EG CVC V<br>Failure to react quickly enough to changing economic and/or political conditions, e.g., inflationary pressures, currency instability, global trade tensions, heightened political protectionism, changes to customs duties and tariffs, and/or eroded consumer confidence, may impact on our freedom to operate in a market and could adversely impact forecasting and/or financial performance. | **Ongoing mitigations**<br>• Local and global monitoring of key business drivers and performance, to prepare for rapid changes in the external environment<br>• Group-level strategic analysis and scenario planning to strengthen market strategies and risk management<br>• Multi-country investment strategy and local sourcing strategies<br>• Central hedging and currency monitoring to manage volatility<br>• Dedicated cross-functional steering groups to manage acute issues, including inflation and other supply chain considerations<br>**Developments in 2022**<br>• We have continued to improve long-term forecasting and planning capabilities, resulting in 10-year volume forecasts by spirits category, region and price tier, to better assess and respond to long-term opportunities and risks<br>• We have introduced a new strategic planning and performance function with a stronger governance model for financial and non-financial decision-making, which will enable closer monitoring of external volatility/risk and its impact on short, mid and long-term planning and performance management | **Increasing**<br>• The global recovery from Covid-19 is continuing, but momentum has slowed and there is a risk of imbalanced recovery across geographies.<br>• The Russian invasion of Ukraine has caused significant volatility in the region and beyond.<br>• There is increasing risk of recession and slowing growth being reported. Inflationary pressures are broadly expected to continue in the short term but then start to ease over the medium term, as key bottlenecks ease, capacity expands, more people return to the labour force and demand rebalances. |
| **5. INTERNATIONAL DIRECT TAX**<br>EG CVC CT V<br>The international tax environment, including significant changes thereto, may alter our operating position, leading to an increased cost of compliance, an increase in our effective tax rates and/or unexpected tax exposures and uncertainty, resulting in financial loss. | **Ongoing mitigations**<br>• We monitor and, where appropriate, express views on the formulation of tax laws either directly or through trade associations or similar bodies<br>• We are continuing the implementation of our tax transformation programme, to standardise, centralise and automate tax activities and controls where possible<br>• We have embedded our refreshed global transfer pricing policy, to ensure the way profits are taxed is consistent with business activities and economic substance<br>**Developments in 2022**<br>• We continue to monitor tax laws, and progress the implementation of our tax transformation programme | **Increasing**<br>• The OECD's work on digitalisation may result in changes to how multinationals are taxed, and could result in tax increases – through the implementation of a global agreement on minimum effective tax rate, or unilateral actions by individual countries.<br>• The risk of unilateral tax increases as governments seek to address fiscal challenges has begun to materialise, with the UK corporation tax rate increasing to 25% as of 1 April 2023. |
| **6. SUPPLY CHAIN DISRUPTION**<br>EG CVC CT V<br>Supply chain disruptions can occur for a range of reasons, including pandemics and volatility in consumer behaviour, customer and consumer demand, labour capacity and global economic conditions. We have been impacted by disruptions to our supply chain and this may continue to occur in the future. The occurrence of these events may result in shortages of essential materials, heightened logistical constraints, longer lead times and heightened third-party supplier disruption, and therefore may continue to have a negative impact our commercial and financial performance. | **Ongoing mitigations**<br>• Regular reviews across supply chain and procurement areas to identify, assess and manage risks<br>• Cross-functional scenario planning to ensure effective levels of resilience exist across single points of failure within the supply chain<br>• Ongoing monitoring of capacity and demand ratios across the supply chain to ensure visibility of constraints and resilience is in place<br>• Product portfolio simplification and stock-keeping unit (SKU) rationalisation, ensuring focus remains on keys SKU's while limiting the likelihood of out-of-stocks<br>• Annual testing and review of supply site, business continuity and crisis management plans<br>**Developments in 2022**<br>• We have prioritised our portfolio and implemented various strategies based upon our product segmentation<br>• We have partnered closely with our external partners, across ocean, logistics, cans and glass to build mitigation plans and manage volatility<br>• We have leveraged our data visualisation and other tools to monitor and react to the rapidly changing consumer needs or supply chain disruptions<br>• We have become more resilient by establishing dual sourcing solutions across the supply chain nodes | **Increasing**<br>• Supply chain disruption is likely to grow in the near term, rather than stabilising. Geopolitical tensions, oil and gas prices, ongoing conflict in Ukraine and higher inflation will have an adverse impact on logistics, and material volatility, amidst broader supply chain impacts.<br>• The economic reverberations are likely to impact first- and second-tier suppliers, supply chain lead times and sufficiency of supply. |
| **7. CYBER AND IT RESILIENCE**<br>EG CVC CT V<br>Sophisticated cyber and IT threats (both within our network and at third parties), including those facilitated through breaches of internal policies and unauthorised access, could lead to theft, loss and misappropriation of critical assets, such as personal and consumer data, and operational/production systems. Inadequate IT resilience arrangements and integration with legacy systems could cause disruption to core business operations, including manufacturing and supply, resulting in financial loss and reputational damage. | **Ongoing mitigations**<br>• Enterprise-wide cyber risk management processes and policies<br>• Our employees engage in mandatory global e-learning and regular phishing exercises<br>• We have deployed next-generation security technologies to tackle advanced attacks<br>• We have multi-factor authentication, single sign-on and privileged access management for sensitive applications<br>• We perform IT disaster recovery and business continuity testing across our key systems<br>• We monitor external cyber incidents to assess any potential risk and impact to our organisation<br>**Developments in 2022**<br>• Additional threat detection and incident management processes and tools<br>• We continue to enhance our operational technology cyber capabilities at our manufacturing plants<br>• The Board has approved the upgrade of our enterprise resource planning system and are reviewing associated processes to ensure they remain resilient | **Increasing**<br>• Cyber attacks are becoming more prevalent, and we are increasingly dependent on third-party IT services and solutions.<br>• Geopolitical tensions are growing, and there is a rise in more sophisticated cyber threats affecting all organisations, therefore the risk of a cyber attack remains heightened. |

| Risk and impact | Mitigation plans | Risk outlook |
|---|---|---|
| **8. BUSINESS ETHICS AND INTEGRITY**<br>EG CT EP<br><br>Lack of an embedded business integrity culture or any breach of our policies, relevant laws or regulations (including but not limited to anti-corruption, money laundering, global competition, human rights, data protection and economic sanctions) could result in significant penalties, financial loss and reputational damage. | **Ongoing mitigations**<br>• Our Code of Business Conduct and supporting policies and standards set out compliance requirements which are then embedded throughout Diageo via regular training, communications, annual certification, and risk-based global and local engagement activities<br>• Risk management process and assessment framework to identify, assess, mitigate and monitor business and compliance risks<br>• Well-embedded control assurance programme and centralised second line of defence<br>• Third-party due diligence process supported by technology and central oversight<br>• Utilisation of data and analytics tools to proactively support risk identification, assessment and ongoing governance<br><br>**Developments in 2022**<br>• Leveraged existing sanctions and Know Your Business Partners processes to manage the impact of regulation and risks arising from the conflict in Ukraine. Supplemented these by quickly deploying a centralised team with specialist knowledge, to ensure compliance and structure our business accordingly<br>• Deployment of values-based training and engagement across all levels, with a particular focus on anti-bribery and corruption as part of our Code of Business Conduct training, and conflicts of Interest and our SpeakUp whistleblower service<br>• We have updated our global human rights framework and are further enhancing our governance processes, to ensure that human rights considerations are strengthened across all business operations and reflect emerging human rights regulations across the globe | **Increasing**<br>• There are increased regulatory expectations with new legal regimes being imposed, and a heightened enforcement stance being adopted across different markets; e.g., enhanced economic sanctions relating to Russia, and an incoming UK strict liability offence for certain sanctions breaches (subject to civil penalties). |
| **9. CONSUMER DISRUPTION**<br>EG CVC CT V<br><br>Inability to respond and adapt our products or processes to disruptive market forces – including but not limited to digital technology, health and lifestyle priorities, altered consumption behaviour, new drivers of choice, and new formats and technologies – that could impact our ability to effectively service our customers and consumers with the required agility, and result in financial loss. | **Ongoing mitigations**<br>• We have a highly diversified portfolio of brands, to ensure coverage of consumer occasions, trends and price points<br>• We operate a rigorous process of strategy development and governance at corporate and market level<br>• We perform a systematic review of emerging consumer and route-to-consumer trends at market and brand level, including growth of disruptive digital technologies<br>• We focus our innovation on our strategic priorities and the biggest consumer opportunities, through global brand extensions and new-to-world products<br>• Systematic review of emerging consumer and route-to-consumer trends at market and brand level, including growth of disruptive digital technologies<br>• Our Demand Radar system provides enhanced demand forecasting capability at market and category level, allowing us to optimise marketing investment<br><br>**Developments in 2022**<br>• We have continued to refine our end-to-end early warning system for consumer disruption, bringing together demand sensing, signals gathering, trend detection, macro forces tracking, and consumption analysis into one comprehensive system of consumer intelligence and business resilience | **Stable**<br>• The world is emerging from a period of extreme disruption that has reshaped consumerism both temporarily and residually.<br>• Near-term consumer trends are likely to be characterised by a return to normalcy, and the normalisation of newly acquired (or recently accelerated) behaviours. |
| **10. PRODUCT QUALITY AND COUNTERFEIT**<br>EG CT<br><br>Accidental or malicious contamination of raw materials or finished product, and/or ineffective brand protection and intervention to address counterfeiting of our products supplied to market, could cause harm to consumers, damage our corporate and brand reputation and pose potential threats to our people due to the illicit nature of organisations involved in counterfeiting activities. | **Ongoing mitigations**<br>• We have food safety system certification (FSSC 22000) in place for our owned brewing and packaging sites<br>• We monitor the certification for third-party sites and, where necessary, exercise our contractual right to audit<br>• Food fraud and food threat risk assessments are regularly undertaken<br>• Anti-counterfeiting measures embedded in our packaging deter against reuse, making our products more difficult to copy and enabling rapid authentication<br>• We operate an active programme to identify high-risk areas, engage with customs and law enforcement authorities, and participate in industry initiatives to monitor and prevent counterfeiting activity<br>• We run an online monitoring and takedown programme across high-risk e-commerce and social media platforms, and directly engage with many platforms to create awareness and stop counterfeit listings<br><br>**Developments in 2022**<br>• Our Global Product Recall Standards have been strengthened, and training has been developed, with each market performing a test recall<br>• We have further developed and standardised our approach to monitoring known and emerging food safety risks associated with the spirits category in fiscal 22, by implementing a global spirits product integrity testing programme<br>• New vendor onboarded, enhancing our online monitoring capabilities and improving our ability to respond to online counterfeit risk<br>• We have begun to roll-out upgraded liquid authentication machines | **Stable**<br>• The risk of product quality risk remains stable, though material sourcing challenges mean we need to ensure that we maintain and implement our standards effectively to mitigate this additional risk.<br>• The geopolitical risk in Eastern Europe (including Russia) brings increased risk of counterfeit as it creates porous borders; while the rise in inflation and the cost of living across many markets could lead to an increase in illicit activity. |

**Strategic outcomes** EG Efficient growth CVC Consistent value creation CT Credibility and trust EP Engaged people V Risk included in viability assessment

**Risk outlook** Increasing Decreasing Stable

# Viability statement

The Directors have reviewed the long-term prospects of the group in order to assess its viability. This review considered the activities and principal risks of the group, together with factors likely to affect the group's future performance, financial position, cash flows, liquidity position and borrowing facilities, as described in this Annual Report.

## Assessment

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

## The viability assessment has three parts

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

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

Thirdly, they considered the group's sources of liquidity to fund both the strategic plan and the impact of the severe scenarios over this period. Diageo has continuous access to the debt capital markets and committed facilities over the viability period, including the ability to refinance any maturing debt, or meet new funding requirements at commercially acceptable terms. The group's liquidity is supported by a healthy balance of short-term and long-term debt programmes, and £2.8 billion of committed credit facilities, if required. The group also has flexibility in reducing discretionary spending, including acquisitions and capital expenditure, as well as temporarily suspending/reducing its return of capital to shareholders (dividends or share buybacks).

| Risk Scenarios Modelled | Description & Severity | Principal risks |
|---|---|---|
| **Global economic downturn** | Severe global recession compounded by heightened geopolitical tensions and sharp economic challenges, including significant cost inflation, sustained foreign exchange volatility and fiscal tightening. This results in lost sales, through reduced consumer confidence, greater volatility amongst our customers, and heightened price sensitivity. Geopolitical tensions also drive up risk of cyber-attack, causing production and shipment outages in key sites.<br>**Sales:** Reduction in volumes across the three-year period, and consumer downtrading, with reduced pricing outcomes.<br>**Costs:** Geopolitical tensions increase costs of raw materials and freight, adversely impact gross margin. | Geopolitical and macroeconomic volatility<br>International direct tax<br>Cyber and IT Resilience |
| **Pandemic-driven demand shock** | A sharp shock to demand driven by a global pandemic results in temporary closure of on-trade outlets, extensive travel bans across the globe, driving heightened credit and accounts receivable risks across our customer base. Supply chains are disrupted by labour and logistical constraints, causing volatility within our internal, third party and suppliers' operations.<br>**Sales:** Sharp shock, with severely reduced sales from the onset of the pandemic for a sustained period of time.<br>**Costs:** Increased volatility for inbound and outbound logistics.<br>**Cash:** Inability to collect cash from customers due to reduced trading ability, impacting free cash flow. | Pandemic and business interruption<br>Supply chain disruption |
| **Consumer choice changes and regulatory impact** | Consumer preferences move away from alcohol consumption and large international brands, driven by changing health and lifestyle priorities and social habits, alongside trends to support new, local and independently owned brands. In parallel, public health concerns lead regulators in major markets to impose significant health-driven excise increases.<br>**Sales:** Loss of sales to new to world brands and the no and low segment, each year across the three-year period.<br>**Profit:** Increase in excise tax, and the introduction of a health tax across the globe, leading to a reduction in profit. | Regulation, trade barriers and indirect tax<br>Consumer disruption |
| **Climate change and natural hazard** | Increasing global temperatures impact our ability to make products due to constrained water supply, leading to a rotational short-term shutdown occurring across some of our water-stressed sites. Climate change drives increasing costs of raw materials, while the acceleration of taxation against carbon use increases our operational costs. Extreme weather events occur more frequently, impacting our supply facilities, causing production outages. The assumptions associated with this scenario are based upon our TCFD scenario modelling, and applied to a three-year period.<br>**Sales:** Loss of sales due to operational outages as a result of ceasing of production at water-stressed sites, and the impact of extreme weather events.<br>**Costs:** Increased carbon tax per tonne, and cost of raw and packaging materials increases overall costs of goods. | Climate change and sustainability<br>Supply chain disruption<br>Pandemic and business interruption |
| **Combined scenarios** | The highly unlikely event of the combination of all of the above scenarios occurring at the same time. | |

Management has prepared cash flow forecasts which have also been sensitised to reflect severe but plausible downside scenarios, taking into consideration the group's principal risks. In the base case scenario, management has included assumptions for mid-single digit net sales growth, operating margin improvement and global TBA market share growth. In light of the ongoing geopolitical volatility, the base case outlook and plausible downside scenarios have incorporated considerations for a slower post-pandemic economic recovery, supply chain disruptions, higher inflation and further geopolitical deterioration. Even under these scenarios, the group's cash position is still expected to remain strong, as the group's liquidity was protected by issuing €1,650 million of fixed-rate euro and £900 million of fixed-rate sterling denominated bonds, in the year ended 30 June 2022. 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.

## Conclusion

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

# *Action* to combat climate change

Climate change is disruptive and accelerating. It is a risk we can, if we act swiftly and collectively, try to mitigate. There are also opportunities for companies that recognise the challenge and develop credible plans to adapt to changing circumstances.

## Climate risk is disruptive and accelerating

The past year has seen climate change move dramatically up the global agenda. In August 2021, the Intergovernmental Panel on Climate Change (IPCC) published its Sixth Assessment Report, which paints a stark picture of the impact of climate change on our environment, and makes it clear that all parties need to act immediately if we are to avoid catastrophic implications for the planet. November 2021 saw most of the world's leadership gathering for COP26, the UN's climate change conference, which confirmed the Paris Agreement, a treaty made at COP21 in 2015, that governments must make every reasonable effort to ensure that the global temperature rises by no more than 1.5°C above pre-industrial levels. In January 2022, the World Economic Forum's Global Risks Report stated: 'Climate change continues to be perceived as the gravest threat to humanity. Global Risks Perception Survey respondents rate "climate action failure" as the risk with the potential to inflict the most damage at a global scale over the next decade'[1].

## Developments in corporate regulation

It is no surprise that climate change is of increasing concern to legislators, investors and analysts – as well as to employees and other corporate stakeholders. Global companies, with considerable economic and wider influence, are important actors in the world's efforts to combat climate change. This concern is making itself felt through developments in regulation, for example, with the requirement in the United Kingdom this year for premium listed companies to report against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In the United States, the Securities and Exchange Commission (SEC) proposed rule changes that would require companies to include climate-related disclosures in their periodic reports. 2021 also saw the establishment by the IFRS Foundation of the International Sustainability Standards Board (ISSB), whose aim is to 'deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions'.

## Committed to action

We welcome many of these developments, and particularly certain recommendations of the TCFD and the SEC, as important steps in increasing stakeholders' and companies' focus on climate change, and we are committed to playing our part and championing policies that support the Paris Agreement. We believe harmonisation of reporting frameworks will bring benefits to investors, as well as simplifying reporting requirements for companies. We support the establishment of a coordinated approach by regulators across jurisdictions, which reflects the reality that climate change is a cross-border issue, and we have actively engaged in consultations by organisations like the SEC to advocate such harmonisation.

### 'Society 2030: Spirit of Progress'

Since 2020, we have worked to incorporate the TCFD framework into our reporting, and have found it helpful in accelerating our efforts to decarbonise our value chain, mitigate and adapt to climate change risks and identify opportunities for transitioning quickly to a low-carbon future. We began our carbon reduction efforts in 2008, while also acting as a champion for water stewardship around the world to combat the related issue of water stress.

Today, our focus on climate change is encapsulated in one of our six strategic priorities, which help us pursue our ambition to be one of the best performing, most trusted and respected consumer products companies in the world. The priority, 'pioneer grain-to-glass sustainability', also encompasses other important topical issues relating to sustainability, such as water stress, biodiversity loss, poverty and inequality. Many of these issues are being exacerbated by climate change, and are threatening both the environment and the prosperity of communities everywhere, particularly those in low-income countries. In response to these challenges, in 2020 we launched a bold, 10-year action plan, 'Society 2030: Spirit of Progress', which sets stretching targets, including our commitment to achieving net zero carbon emissions from our direct operations (Scopes 1 and 2) by 2030, and across our full value chain (Scope 3) by 2050 or earlier. And we are proud to be a signatory to the Business Ambition for 1.5°C, which calls on companies to set ambitious science-based emissions reduction targets.

## Understanding the impact of climate change on our business

Climate change is an important disruptive force, with potential to drive substantive changes in our operations and supply chain in the short term (one to five years), medium term (five to 10 years) and long term (10 to 30 years). Many of the potential effects of climate change can be characterised as risks, either physical risks to our environment, or risks associated with the transition to a low-carbon economy in pursuit of the Paris Agreement targets. Climate risk is therefore cross-cutting, with the potential to affect companies, financial institutions, households, countries and the financial system at large. There may, however, be opportunities as well as risks for those companies that enable the transition to a low-carbon economy.

Because there are so many different factors affecting how climate change will play out in the world, it is difficult to quantify the precise timing and impact of climate risks on our business, or indeed the opportunities that may present themselves. Nonetheless, some modelling is possible, and so, with the support of expert partners, we are building our capability to assess both, and model their impact under various scenarios, as discussed in this report. From this modelling work, we estimate that, from what we know now, climate change is not expected to have a material impact on the results of our operations, or on our financial condition by 2030 (see page 151).

1. Global Risks Report, World Economic Forum, January 2022

# Governance

*We have adopted the TCFD's recommendations for reporting on governance, summarised on page 56.*

Given its importance, and the potential severity of the risk it poses, we oversee climate change at the highest level of the company, and have governance processes in place intended to ensure that we consider and factor climate risk into our business operations. We include climate risk as a principal risk in our risk register (page 43), now as well as in the short, medium and long term, and we assess and consider its impact carefully, including a formal review by the Executive Committee and the Board at least twice a year, and discussion at our Annual Strategy Conference.

## Board and management oversight of climate change

We believe governance of climate change risks and opportunities needs to be embedded at all levels of our organisation. This year, while our governance structure, described below, has not changed, we increased our investment in climate risk management and scenario analysis.


We believe that climate change is of such importance to us and our stakeholders that the Diageo Board and Executive Committee should be responsible for managing climate-related risks and opportunities, and do not delegate responsibility to a sub-committee. Executive sponsorship and responsibility is shared jointly between the President of Global Supply Chain and Procurement (Ewan Andrew) and the Corporate Relations Director (Dan Mobley). At an operational level, they are supported by our cross-functional Climate Risk Steering Group, with sub-groups dedicated to different areas such as supply, strategy, risk and so on.

The Steering Group meets up to twice a month to oversee how we are managing climate risks and identifying opportunities. Within this, a sub-group from Supply and Procurement oversees physical risks, with other working groups responsible for addressing transition risks and opportunities, for example market and reputation, policy and legal, and technology.

Our Executive Committee reviews updates on climate risks and opportunities from the Steering Group twice a year, and considers their implications for strategy and decision-making. The Executive Sponsors formally update the Board quarterly, including, where relevant, reviewing the outputs of our climate change risk assessments and scenario analyses, and overseeing any related decision-making. Any potential financial implications of climate risk and potential impacts on Diageo's consolidated financial statements, including performance and progress against non-financial metrics, are also shared with the Audit Committee.

Because of the critical importance of climate change, we have developed a range of communications and training materials on sustainability issues for our employees on our digital learning platform. These include specialist training for leaders, and climate-risk education programmes open to all.

We continue to engage externally, to monitor and promote good practice and keep pace with stakeholders' expectations of companies with regard to climate change. This includes being an active member of the TCFD working group through the UN Global Compact.

## Climate change as part of remuneration

Given the importance of managing climate change, the performance element of the long-term incentive plan (LTIP) for our senior leaders encourages and rewards performance against an ESG measure (introduced in 2020, for fiscal 21 to 23). It constitutes 20% of the performance share award, which is granted to the Executive Committee as well as other senior leaders across the business. Of this 20%, 10% (i.e. half of the share award) relates to targets for carbon emissions and water efficiency, which directly support mitigation of and adaptation to climate change risk (see Directors' remuneration report pages 106-131).

# Risk management

*We have adopted the TCFD's recommendations for reporting on risk management, and include identification of risks in this section as they are easier to understand in this context.*

Climate risk may be divided into two broad categories: physical risk and transition risk. Physical risks to our environment manifest themselves in two ways: chronic changes (sea level rise, temperature increases, changes in precipitation patterns), and acute events (such as floods, storms, heatwaves or other extreme weather events). While acute events can cause short-term damage, chronic changes are slower to materialise but can cause long-term, irreversible changes. Transition risks are those associated with the economic transformation needed to transition to a low-carbon economy: for example, policy and legal changes, such as introducing carbon taxes; technology changes such as developments to switch to renewable energy; or market changes such as consumer pressure for more sustainable solutions. As we have already seen in the last few years, the time lag between emissions increasing and the resulting change in the climate means that some physical risks are already becoming a reality, and will continue to increase even while efforts to reduce emissions intensify.

Although they are interconnected, physical and transition risks are normally assessed separately, since they are amplified by different scenarios. In a world where carbon emissions continue to rise, physical risks become more likely, whereas in a world where we meet the goals of the Paris Agreement, transition risks – and opportunities – increase.

## How we manage climate risk

As a global business with a broad portfolio of brands based on agricultural ingredients, and production facilities in multiple geographies and locations, we are exposed to a wide range of climate risks. However, we believe we have a considerable measure of resilience, built up through decades of experience managing the effects on our raw material supply of normal variations in climatic conditions and agricultural yields. We do this through careful planning in our supply and procurement function, and through supporting research and development of high-yield, drought-resistant crops. Many of the regions in which we operate are water stressed, and we have a strong track record of adaptation measures to support the sustainability of our operations in these areas. Climate risk has been integrated into our enterprise risk management processes for some time, particularly in our market, supply chain, procurement, and site and strategic risk management processes; and has been built into our strategic and business continuity plans.

Nevertheless, climate risk is accelerating fast, so we must not be complacent – which is why it is included as a principal risk on our risk register. We take very seriously the risks climate change could pose – to the health and safety of our people, to our reputation, and to our ability to meet our 'Society 2030: Spirit of Progress' goals. We are therefore prepared to take some risk ourselves in innovating to meet consumer needs for more sustainable products and combat climate change that way. And so, with the help of external partners, we have developed a much broader and deeper analysis of climate-related risks, which will continue to evolve as scientific understanding develops, and as we build our internal knowledge and expertise.

## Identifying our physical risks

Physical risks manifest themselves differently in different parts of the world, and so, for a global business like ours, with operations in many parts of the world, assessing them is a considerable task, requiring assessment not only of our own sites, but those of our many suppliers as well. Trying to do it all at once is challenging, and there is an advantage in doing the analysis over a couple of years because it means we can incorporate what we learn from earlier assessments into later ones. Nonetheless, we appreciate the urgency of understanding this risk, and are pleased with the coverage we've achieved since we began the process last year. We plan to complete the work with our remaining markets over the next two years.

We began our physical risk assessment in 2021 by focussing on those markets with the highest sales value – North America and Scotland – and followed that up this year with those geographies where physical climate risk is likely to be highest – Africa, India, Mexico and Turkey. Also in 2021 we carried out a global assessment of water stress, an activity we conduct routinely every two to three years.

### Scope of assessment

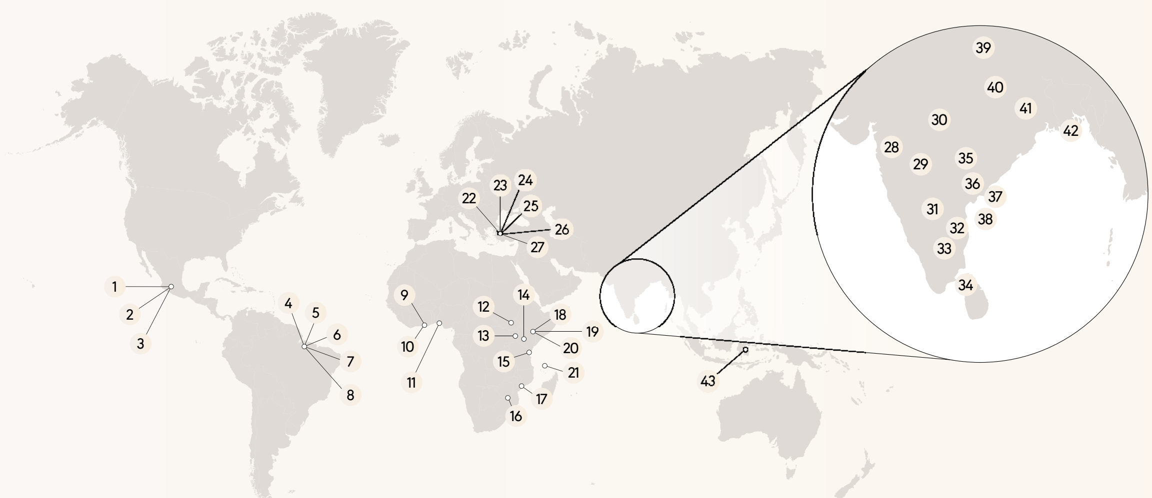
We conducted assessments for our own sites and those of key suppliers and logistics, over two timeframes (present to 2030 and to 2050), and for two warming scenarios: medium warming, 2-3°C (IPCC scenario RCP 4.5) and severe warming, 4-5°C (IPCC scenario RCP 8.5). The analysis we have done so far (see table on page 50) represents approximately three quarters of our volume produced globally.

- **Diageo sites:** for our own and key third-party operator (TPO) sites, we analysed at a high level the risks to which they are likely to be exposed; and for those that are either of greatest strategic importance or at greatest risk, we carried out more detailed assessments. In doing so, we developed a site-specific climate risk register, which will help us plan how to mitigate the risks. At each location, we looked at a combination of three things: the different activities carried out (e.g. malting, distilling, packaging and so on); the part of the process that might be affected (e.g. infrastructure, water supply, energy sources); and the physical risks that might occur (a total of 19). This level of detail is necessary because some activities are more sensitive to physical risks (such as higher temperatures) than other activities at the same site. In total, we analysed 316 site/activity combinations, which gave us an overall risk rating for each site.
- **Supply chain and logistics:** in each location we analysed the factories and warehouses of our key suppliers (e.g. those of our most critical or specialised ingredients and components); key agricultural commodities; and our most critical upstream and downstream distribution routes (road and rail, and sea ports), to determine those that might be exposed to physical risk in the future. We carried out the same analysis of physical risks for our supplier sites as we did for our own sites.

## Focus on water stress

Because we rely so heavily on water as a raw material and in our processes, we have been regularly assessing our own production sites for water stress since 2008. The most recent assessment was in 2021, and we updated it in 2022 to reflect changes in our operations due to disposals. The assessment – and our classification of a site as 'water stressed' – is based on external (WRI Aqueduct tool) and internal site surveys covering physical, regulatory, and social and reputational considerations.

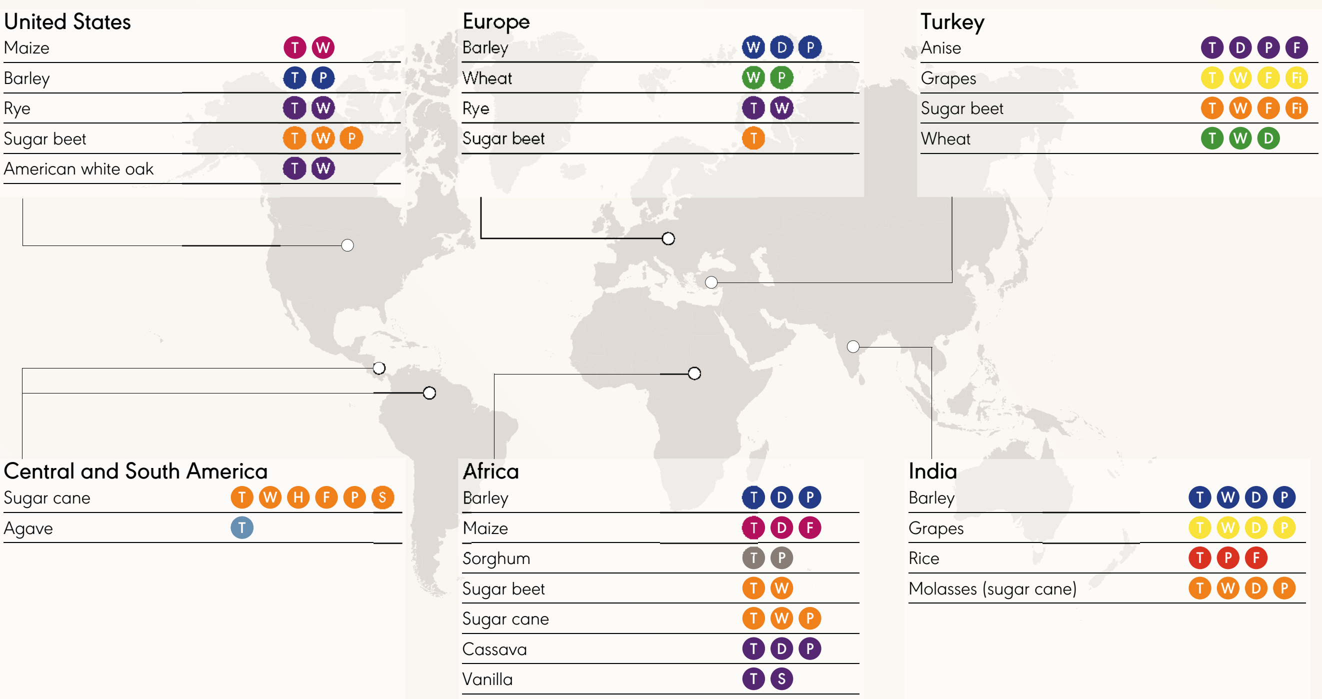
### Our sites located in water-stressed areas in 2022



**Sites**

1. El Charcón, Mexico
2. Agricultural lands, Guadalajara, Mexico
3. La Primavera, Mexico
4. Agricultural lands, Céara, Brazil
5. Itaitinga, Brazil
6. Maracanaú, Brazil
7. Messejana, Brazil
8. Paraipaba, Brazil
9. Kaase, Ghana
10. Achimota, Ghana
11. Lagos, Nigeria
12. Kampala, Uganda
13. Mwanza, Tanzania
14. Moshi, Tanzania
15. Dar es Salaam, Tanzania
16. Isipingo, South Africa
17. Marracuene, Mozambique
18. East African Maltings, Kenya
19. Kisumu, Kenya
20. Tusker, Kenya
21. SeyBrew, Seychelles
22. Alaşehir, Turkey
23. Acıpayam, Turkey
24. Karaman, Turkey
25. Nevşehir, Turkey
26. Taşel, Turkey
27. Tarsus, Turkey
28. Nasik, India
29. Udaipur, India
30. Alwar, India
31. Baramati, India
32. Hospet, India
33. Sovereign, India
34. Kumbalgodu, India
35. Aurangabad, India
36. Pioneer, India
37. Nacharam, India
38. Malkajgiri, India
39. Pathankot, India
40. Meerut, India
41. Rosa, India
42. Serampore, India
43. LKJ Packaging, Indonesia

## Key climate risks to agricultural ingredients by region



| United States | |
|---|---|
| Maize | T W |
| Barley | T P |
| Rye | T W |
| Sugar beet | T W P |
| American white oak | T W |

| Europe | |
|---|---|
| Barley | W D P |
| Wheat | W P |
| Rye | T W |
| Sugar beet | T |

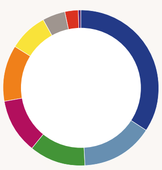
| Turkey | |
|---|---|
| Anise | T D P F |
| Grapes | T W F Fi |
| Sugar beet | T W F Fi |
| Wheat | T W D |

| Central and South America | |
|---|---|
| Sugar cane | T W H F P S |
| Agave | T |

| Africa | |
|---|---|
| Barley | T D P |
| Maize | T D F |
| Sorghum | T P |
| Sugar beet | T W |
| Sugar cane | T W P |
| Cassava | T D P |
| Vanilla | T S |

| India | |
|---|---|
| Barley | T W D P |
| Grapes | T W D P |
| Rice | T P F |
| Molasses (sugar cane) | T W D P |

### Priority raw materials by volume




### Climate risks likely to affect agricultural commodities

- T Temperature
- D Drought
- F Flood
- P Precipitation (variability/extremes)
- W Water stress
- Fi Fires
- H Hurricane/storm
- S Sea level

### Operational scope of our physical risk assessments

| Region | Diageo and key TPO assets (detailed assessments) | Agricultural commodities | Supplier assets | Ports[2] |
|---|---|---|---|---|
| North America | 12 (4) | 8 | 86 | 6 |
| Scotland | 47 (5) | 16 | 103 | 15 |
| Africa | 48 (5) | 6 | 256 | 14 |
| India | 46 (7) | 4 | 59 | 1 |
| Mexico | 16 (4) | 1 | 68 | 2 |
| Turkey | 9 (4) | 4 | 64 | 5 |
| **Total** | **178 (29)** | **n/a[1]** | **636** | **43** |

1. We analysed some commodities in more than one location
2. Road and rail assessments were done at a country level and therefore not individually quantified

## Our physical risks – results

The assessments highlighted three key points:

1. **Risks are high and increasing:** the level of physical climate risk is already relatively high and is projected to increase in all regions, most severely in India, which accounts for the top 10 of our most 'at risk' activities. Risks ranged from medium to high in our top 10 most at-risk sites in each region.
2. **All agricultural ingredients are at risk:** all those we assessed are subject to some degree of climate risk, with the risk set to increase for most under the scenarios we analysed.
3. **Water scarcity and high temperatures:** water stress, drought and high temperatures are our most significant risks.

Overall, out of the 316 site/activity combinations we analysed, two are currently classified as high risk, and 29 as medium-high. Under the worst-case scenario, i.e. a temperature rise of 4-5°C, this rises to 11 high-risk site/activity combinations by 2050, and 42 medium-high.

### Trajectory of physical risk from 316 site/activity combinations[3]

| Scenario | Combined number of sites/activities at medium-high risk, including % of total site/activities | Combined number of sites/activities at high risk, including % of total site/activities |
|---|---|---|
| Present day | 29 (9%) | 2 (1%) |
| 2030, 2-3°C (RCP 4.5) | 28 (9%) | 9 (3%) |
| 2050, 2-3°C (RCP 4.5) | 34 (11%) | 10 (3%) |
| 2030, 4-5°C (RCP 8.5) | 32 (10%) | 9 (3%) |
| 2050, 4-5°C (RCP 8.5) | 42 (13%) | 11 (3%) |

3. Scoring methodology
   a) **Relative risk score:** the physical risk assessment results are reported as relative risk scores (in comparison to the full sample of Diageo sites assessed) to help us prioritise the sites for which we should create mitigation plans. High-risk sites are above the 99th percentile; medium-high are in the 90th to 99th percentile; and medium are in the 55th to 90th percentile.
   b) **Trajectory score:** the risk assessment also produces trajectory scores for each of the hazards assessed, indicating how they are expected to worsen or improve in the scenario and time frame in question.

### Physical risks in our supply chain

We focussed on three main areas in assessing risks to our supply chain, with the results as follows:

- **Suppliers' assets:** given the number and geographical spread of the sites we assessed, we found a greater range of risks than for our own sites. Nonetheless, as with our own sites, the most common risks, and those forecast to get worse, were water stress and higher temperatures. Other relevant risks, which may affect our packaging components, were humidity and wildfires. The information about our suppliers' sites was also useful to our suppliers themselves, and means we can work together to develop mitigation plans where it makes sense to do so.
- **Agricultural commodities:** through the analysis, we produced a risk register for each commodity (chosen for their strategic importance), detailing possible risks, their severity, how we should respond (e.g. whether to mitigate or transfer the risks), and control measures to put in place. The map (on page 50) summarises the main climate hazards to which our key commodities are exposed. Some (barley, wheat, maize, for example), are easier to procure in multiple locations than others (agave, for example); so the insights we've gained will help us find ways to adapt what we do for the most sensitive crops, and we will create contingency sourcing plans for the rest.
- **Distribution routes:** the analysis showed that in general, the risks to ports came from water stress and changing temperatures, while the risks to road networks were broader, including both chronic risks, such as temperature increases and sea level rises, and acute risks, such as storms, floods or wildfires. Both acute and chronic risks were assessed to be higher in the warmer geographies (India, Africa, Mexico and Turkey). The insights from this review will help us plan effectively for any contingencies in our distribution routes that may become necessary.

### Physical risk results by region – Diageo and key third-party supply sites

Overall, the main physical hazards we are exposed to are high temperatures and water stress. High temperatures may cause risks to employees' health and productivity, as well as affecting our processes (such as fermentation, which is sensitive to temperature variations) and cost. For example, higher water temperatures mean higher costs of cooling to the temperature we need to use water in our sites. Here we summarise the key findings by region, which may affect both our own and our suppliers' sites, and our agricultural commodities and packaging materials sourced in those regions.

| Region | Risks increasing | Risks declining |
|---|---|---|
| North America | • Wildfires<br>• Storm winds<br>• High temperatures<br>• Water temperature | • Cold temperatures |
| Mexico | • Water temperature<br>• Water stress<br>• Wildfires | • Cold temperatures |
| Scotland | • Water temperature<br>• Wildfires | • Cold temperatures |
| Africa | • Water temperature<br>• High temperatures<br>• Rising sea level/ coastal flooding | • Cold temperatures |
| Turkey | • Water temperature<br>• High temperatures<br>• Rising sea level/ coastal flooding | • Cold temperatures |
| India | • Water stress<br>• Extreme heat | • Cold temperatures |

## Summary of our key climate risks and opportunities

### Risks

| Risk type | **Water scarcity**<br>Increasing water stress and water scarcity negatively affects our ability to continue to produce beverages in areas of high water stress | **Input costs**<br>Policy changes (carbon taxation, shift to renewables) cause increases in input costs, particularly glass | **Consumer behaviour**<br>Consumers prioritise purchasing more sustainable products, rejecting products perceived to have a negative environmental impact |
|---|---|---|---|
| **Category** | Physical – chronic | Transition – policy/legal | Transition – market |
| **Time frame** | Short, medium, long | Short, medium | Short, medium, long |
| **Trajectory** | Increasing | Increasing | Increasing |
| **Impact (if not mitigated)** | Moderate[1] | Moderate[1] | Moderate[1] |
| **Response examples** | • Improvements in water-use efficiency<br>• Water replenishment plans in 100% of water-stressed areas<br>• Collective action programme to reduce water use in 'priority water basins' | • Supply chain decarbonisation<br>• Engaging suppliers in alternative technologies for low-carbon operations<br>• Exploring technologies for reducing packaging weight | • Packaging weight reduction<br>• Increased recycled content in packaging<br>• Developing circular product offerings (refill, reuse) |

### Opportunities

| Opportunity type | **Supply chain decarbonisation**<br>Reducing our Scope 1, 2, and 3 emissions reduces our exposure to carbon taxes and related costs, and improves our reputation with customers and consumers | **Innovation in sustainable product offerings**<br>Developing more sustainable products (lighter weight, higher recycled content, more refillable and reusable containers) meets consumers' increasing demands |
|---|---|---|
| **Category** | Transition – policy/legal | Transition – market |
| **Time frame** | Short, medium | Short, medium |
| **Trajectory** | Increasing | Increasing |
| **Impact (if not mitigated)** | Moderate[1] | Moderate[1] |
| **Response examples** | • 'Society 2030: Spirit of Progress' goals for Scope 1, 2 and 3 emissions<br>• Decarbonisation programme and capital investment<br>• Renewable energy and regenerative agriculture | • 'Society 2030: Spirit of Progress' goals for sustainable packaging<br>• Innovation to deliver more sustainable products |

1. 'Low' impact is defined as having a negligible impact on customer service, or an absorbable disruptive impact on one or more brands. 'Moderate' impact is defined as disruption to production/supply chain creating an inability to service a small portion of our customer base, the impact of which is manageable; or a significant short-term impact on one or more of our core or local priority brands that is absorbable by the business. 'High' impact is defined as an inability to service a significant portion of our customer base, or major reputational damage.

## Identifying our transition risks and opportunities

In 2021, alongside our physical risk analysis for North America and Scotland, we also analysed, as defined by TCFD, the risks[1] and opportunities[2] in those regions of transitioning to a low-carbon economy. In doing so, we found that there were some opportunities as well as risks, and we concluded that most of these risks/opportunities were generally applicable to other regions as well. This year, we reviewed that analysis based on the latest insights from our working groups, and concluded that overall, the risks/opportunities identified in the 2021 assessment were still appropriate.

### Our transition risks and opportunities – results

The purpose of carrying out a transition risk assessment across our operations and value chain is to uncover our risks, strengthen our resilience, capitalise on opportunities and, ultimately, in the face of the changing market dynamics as we transition to a low-carbon economy, help us both protect and grow our business. The assessment examined our agricultural inputs, our production and packaging, and our distribution and sales channels. The greatest risks and opportunities were found to be in packaging and sales, respectively. In packaging, shifting to low-carbon production may well mean higher costs; we may also be subject to higher taxes, and need to meet requirements for more light-weighting, redesign, recycling and recycled content. On the positive side, however, there are potential sales opportunities for those businesses that offer consumers more sustainable products, making greater use of recycling, reuse and returnable products.

We identified 150 risks and opportunities overall, and assessed 105 that were relevant to our business. From this list we identified 24 that we need to manage, and, of those 24, identified those with the most potential impact on our business. These were:

- **Policy and legal risks** included carbon taxation, and legal and social considerations relating to land use, agricultural material use and water use.
- **Market and reputation risks and opportunities** related to GDP reduction, consumer rejection of particular brands, categories, materials or supply chains due to their perceived environmental impact, and consumers switching to more sustainable products.
- **Technology risks and opportunities** related to the decarbonisation of our supply chain and those of our suppliers.

# Strategy

*We have adopted the TCFD's recommendations for reporting on strategy, although we have included the identification of risks and opportunities in the risk management section since they are easier to understand in that context.*

We have a long history of creating world-class drinks experiences for consumers across the world, from a wide range of natural ingredients. Over the years, we have become more expert at managing scarce resources, particularly water, and adapting production of our drinks to use alternative ingredients when necessary. This is reflected in one of our six strategic priorities, 'pioneering grain-to-glass sustainability'. The insights we've gained from our recent work to identify the risks and opportunities from climate change is informing our strategy through the next stage of the process – scenario analysis based on those risks and opportunities. This analysis, carried out with the help of external experts, aims to estimate the financial impact of climate change on our business. Because of the limitations of climate risk scenario analysis, any estimate will have limitations; in fact, perhaps the greatest benefit of scenario analysis is that it helps us to understand where risks and opportunities are most likely to materialise, to understand trends, and to integrate them into our strategy.

## The limitations of climate change scenario analysis

Any scenario analysis is limited by the variables and assumptions included in the model, but it is particularly difficult with climate change. This is because of the considerable uncertainties in how the physical risks will play out under different temperature scenarios in different parts of the world, and the considerable uncertainties in how far and how quickly the world will be able to introduce the changes needed to limit the rise in temperature. No single scenario is likely to materialise in the coming decades by itself, and we are all likely to be exposed to both physical and transition risks as the world continues to warm as a consequence of emissions already in the atmosphere. The pathway to reducing emissions is also highly variable, as governments and industry pursue a variety of means, such as introducing regulation and developing new technologies. But, whatever the pathway, we are committed to playing our part in fighting climate change, through delivering our 'Society 2030: Spirit of Progress' goals.

## Summary of scenario analysis results

We analysed three temperature increase scenarios. The first envisages a successful transition to a low-carbon economy in time to keep the temperature rise to 1-2°C by 2100, and assumes a variety of decarbonisation challenges and opportunities relating to ingredients, energy, packaging and transport costs, and changes in demand for our products (to 2030 and 2050). The other two look at the likely effects of varying degrees of continued warming, and the impacts that will arise from the physical risks this presents (to 2030 and 2050). We looked at a moderate warming scenario (temperature rise of 2-3°C), and a severe warming scenario (temperature rise of 4-5°C). For both these warming scenarios, we assessed our assets, supply chain and critical ingredients for financial vulnerability to physical risk.

As discussed in detail below, the impacts of climate change are broad, and in many cases difficult to predict with certainty; however, some consistent themes have emerged. First, it is highly likely that we will be exposed to both transition and physical risks, and therefore should be prepared for both; and second, that the main impacts on our business, under any of these scenarios, are likely to come from water stress, the cost of decarbonisation and consumer demand for more sustainable offerings, although none of these are expected to have a material impact on the results of our operations, or on our financial condition by 2030. Our priorities should therefore continue to be to decarbonise our supply chain, adapt to water stress in water-stressed areas, and develop more sustainable products, to continue to reduce our impact on the environment. These will help us mitigate the risks and prevent them from becoming material to our financial performance.

The potential impacts of climate change are evolving all the time, and we need to stay on top of them in our planning. In the coming year, we aim to cover those countries we have not yet assessed; and we will continue to refresh our analysis of water stress and update our scenario analyses regularly. We will also continue to research consumers' attitudes to sustainability, and develop more environmentally friendly products – e.g. increasing the use of recycled content in packaging, and reducing the amount of packaging material we use.

As one example of a step change towards our 'Society 2030: Spirit of Progress' goals, in 2020 we launched Diageo Sustainable Solutions (DSS). This global programme involves partnering with early- to mid-stage technology businesses to find and apply cutting-edge technology in our supply chain – covering agriculture, energy, packaging, waste and water.

1. The TCFD's definition of transition risks: policy and legal, market, reputation, technology
2. The TCFD's definition of transition opportunities: resource efficiency, energy source, products/services, markets, resilience

In looking for bigger, bolder ideas and solutions that can transform sustainability in all areas of our products, DSS allows us to do far more than we could do on our own. At the launch of the programme, we published four challenges, and received more than 280 applications, of which we reviewed 30 pitches. We chose six partners for the first cohort, and are currently piloting their technologies. In December 2021, we published another four much more specific packaging challenges, around alternative formats and reusable technology, and received 73 applications. We shortlisted 27, and are currently finalising the choice of projects for pilots.

## Results of analysis of warming scenarios – effects of physical risk

As discussed on the previous page, we analysed the likely effects of the physical risks of two warming scenarios on the financial performance of our business, projected to 2030 and 2050. To calculate the financial impact, we assessed the value of the assets at risk, the likely loss of either asset or sales value in a year as a result of a risk materialising, and then calculated the total loss in value in each of 2030 and 2050. Importantly, the scenarios assumed that we will have taken no mitigating actions in the meantime. The risks are characterised as acute or chronic. Chronic risks include changes in temperature and precipitation that may cause increased water stress, water scarcity or decreased water quality, or may impact our ability to source agricultural materials. Acute risks include floods and storms, which may impact our sites, or the supply of raw materials and ingredients.

The results showed that overall, our sites are likely to be resilient to acute weather events, like floods and storms, although we are more exposed to the acute risk of drought, and to chronic changes like water scarcity. Indeed, water scarcity is the biggest climate-related risk to our financial performance, since we have many sites in water-stressed areas that may not be able to continue production at current levels should these temperature scenarios play out. Those sites most likely to be affected are in India, Mexico, Turkey and North America, with all of our production sites in Mexico likely to be exposed to extremely high water stress.

Under the medium warming scenario, the number of our production sites and thus our sales exposed to extremely high water stress is unlikely to change from the situation today, either by 2030 or by 2050. But, should the severe warming scenario occur, even though the number of sites affected won't change, those that are affected are likely to suffer even greater shortages of water, under both time frames. They will also have a greater impact on the health and wellbeing of employees at those sites. Flooding and storms are the next most likely physical risks to affect our financial performance, since they may damage our sites or disrupt our supply of agricultural commodities, and the price of most of the commodities we analysed is set to increase under these scenarios. The only physical risk likely to affect our operations or financial condition in any material way is drought, given our reliance on water to make our products.

Modelling the financial impact of drought is particularly difficult because there are many factors at play, not least the probability of drought occurring, the length of time operations would have to be suspended, the impact of any adaptation or contingency measures, and so on. Nonetheless, we have modelled what we can, using both the standard external models and our own analyses, and considering severe but plausible assumptions (e.g. concurrent downtime in all water-stressed sites due to drought). We concluded that, by 2030, drought is not expected to have a material impact on the results of our operations, or on our financial condition.

Beyond 2030 it is much harder to analyse, given the lengthy time frame; however, our models show that if we take no mitigating actions, by 2050 drought could have a material impact on the results of our operations, or on our financial condition.

This is why it is so important that we focus on water stress in our strategic planning.

### How we are mitigating physical risks

Our physical risk scenario analysis confirmed that, of all the physical risks of climate change, we are most exposed to water stress; and that we are most exposed in India and Mexico, as well as North America, Turkey and Africa. This serves to reinforce our commitments to using less water, and replenishing more water than we use, in areas of water stress. Water is a shared resource, so we cannot tackle water stress alone; this is why we launched the Diageo Collective Action Programme in 2020. Through this programme, we are working with partners in 'priority water basins' (areas suffering particular water stress, and which are strategically important) where our sites are located, namely 14 sites across 12 priority water basins in 10 countries. For more on our water replenishment and collective action work, see pages 30-31.

## Results of analysis of transition scenario – risks and opportunities

As discussed above, the successful transition to a low-carbon economy, which assumes we meet the Paris Agreement target of limiting global warming to 1-2°C, brings both risks and opportunities. To help us model the potential impacts on our financial performance, we worked with an external expert in this type of modelling.

### Methodology for analysing the transition scenario

We looked at two potential scenarios, and compared the likely difference in cash flows to 2030 and 2050:

- **Baseline scenario:** some drivers of the transition scenario, such as policy intentions and national targets, are already in place. This scenario therefore aims to analyse what the effects of these elements would be, insofar as they are backed up by detailed measures for their realisation, as well as other market trends and expectations that can be inferred from available data and analysis.
- **Transition scenario assuming we reach net zero emissions by 2050:** this sets out a narrow but achievable pathway for the global energy sector to achieve net zero emissions by 2050, alongside necessary changes in all other sectors of the economy to limit global warming to 1-2°C.

Both scenarios are based on a combination of internal and external models and data.

- **External models:** we used a variety of scenarios developed by the International Energy Agency (IEA), the IPCC and various other institutions.
- **Internal models:** for each of our product categories, we looked at production costs and margins; sales and consumption by region; and expected growth. It was important to look at each product category separately because they are exposed to different types of transition risk.

Together, these models gave us a range of plausible assumptions designed to capture a trajectory of changes in demand, costs, prices, regulation, technology, and capital investments in relevant markets and business segments, that could result in the world achieving net zero by 2050. We looked at how combinations of these changes might affect us both positively (increased demand for sustainable products) and negatively (higher costs), and estimated the combined effect on our cashflow to both 2030 and 2050.

Outlined in the table on page 54 are the materials that most affect our input costs, which may go up or down depending on the situation. We have modelled the costs based on our exposure to global versus local changes; so, for example, glass and aluminium are procured globally, while the cost of energy, for example, is always local.

### Input costs assessed in the scenario analysis by geography

| Region | Global | UK | US | Canada | Mexico | Turkey | India | Africa |
|---|---|---|---|---|---|---|---|---|
| Glass | • | | | | | | | |
| Aluminium | • | | | | | | | |
| Land transport | • | | | | | | | |
| Ocean transport | • | | | | | | | |
| Energy | | • | • | • | • | • | • | • |
| Electricity | | • | • | • | • | • | • | • |
| Raw materials | | | | | | | | |
| Barley | • | | | | | | | |
| Wheat | • | | | | | | | |
| Maize | • | | | | | | | |
| Rice | • | | | | | | | |
| Sorghum | | | | | | | | • |
| Sugar | • | | | | | | | |
| Vanilla | | | | | | | | • |
| Anise | | | | | | • | | |
| Agave | | | | | • | | | |
| Grapes | | | | | | • | | |

For each scenario, we then estimated the prices of major input costs, where relevant by geography, and modelled the impact they would have on our operating profit.

### Transition risk and opportunity scenario analysis – findings

Transitioning to a low-carbon economy would generate both risks and opportunities for Diageo, and through our scenario analysis we have estimated the impact on our operations and financial condition to 2030, concluding that it is unlikely to be material by that date, even assuming all changes in production costs were borne by us. This is reflected in our assessment of viability and impairment (see page 46). We have not calculated the financial impact to 2050 because there are too many variables and unknowns to make such a calculation meaningful. However, what we do know is what the drivers are – namely water stress, decarbonising our supply chain and increasing demand from consumers for sustainable products. Within these drivers, the biggest cost comes from decarbonising the supply chain, and much of that comes from the price of glass, an important component of many of our products' packaging. The cost of glass is likely to continue to rise, pushing unit production costs up, even while other costs may generally decline over the longer term. While the impact on Diageo as modelled may not be material to 2030, the planet needs significant science-based action to create a sustainable low-carbon future. Therefore we have committed to decarbonising our own operations and partnering with our suppliers to halve the carbon emissions from our supply chain by 2030. For more on our plans to decarbonise our supply chain, please see the metrics and targets section (pages 54-55).

The scenario analysis gave us insights into which parts of our business would be most affected by transition risk. The markets most likely to be affected are India and Mexico, because of the high relative impact of packaging costs on overall profitability. Looking at product categories, Scotch whisky and tequila are most likely to be affected – because they can be produced only in Scotland and Mexico respectively, but are imported into many countries around the world, and are packaged mainly in glass. And today, consumers are increasingly sensitive to the perceived environmental impacts of imported products. Although not financially quantified, these changes in consumer behaviour could potentially result in lost revenue and profit, if we do not respond. However, there is an opportunity for companies that innovate, and that develop and produce drinks in a more sustainable way, for example through packaging reduction, reuse and recycling.

Δ Within PwC's independent limited assurance scope. Please refer to the reporting methodologies in our ESG Reporting Index for more information on how data has been compiled, including standards and assumptions used.

# Metrics and targets[1]

*We have adopted the TCFD's recommendations for reporting on metrics and targets.*

We are committed to playing our part in transitioning to a low-carbon world and making a positive impact on the environment. Our 'Society 2030: Spirit of Progress' ambition includes stretching goals for decarbonising our operations and supply chain, and for water efficiency and replenishment. The figure (on page 55) outlines our pathway to net zero carbon emissions. Our annual targets to achieve net zero by 2030 in our Scope 1 and 2 emissions have been validated by the Science Based Targets initiative (SBTi). We have an interim target of a 50% reduction in Scope 3 emissions by 2030, and our Scope 3 target of net zero by 2050 has also been validated by the SBTi.

### Science-based targets for carbon emissions

By 2030, we commit to:

| Target | KPI | 2022 performance |
|---|---|---|
| Becoming carbon net zero in our direct operations (Scopes 1 and 2) | Percentage reduction in absolute GHG ($ktCO_2e$) | 5.3%Δ |
| Reducing our value chain (Scope 3) emissions by 50% | Percentage reduction in absolute GHG ($ktCO_2e$) | (4.7)%[2] |
| Using 100% renewable energy across our direct operations | Percentage of renewable energy across our direct operations | 41.2% |

This year we achieved a further 5.3%Δ reduction in emissions from our direct operations, which keeps us on track to achieve net zero by 2030. However, increased production volumes across many of our markets is making it even more challenging to meet our net zero targets, so we reviewed our net zero roadmap and adjusted our interim decarbonisation trajectory accordingly. Our value chain Scope 3 emissions increased by 4.7%, mainly due to increased production and the associated increased use of raw materials, packaging, third-party operations and neutral-spirit sourcing. We recognise that this target is challenging given the complexities of enabling impactful change up and down the value chain, and we must work closely with suppliers, peers and others to ensure we meet this target.

### Carbon emissions (Scopes 1 and 2) by region by year (1,000 tonnes $CO_2e$)[3,4,5]

| Region | 2020 (baseline) | 2021 | 2022 |
|---|---|---|---|
| North America | 128 | 127 | **100** |
| Europe | 153 | 130 | **145** |
| Asia Pacific | 37 | 15 | **14** |
| Africa | 151 | 172 | **150** |
| Latin America and Caribbean | 23 | 28 | **38** |
| **Diageo (total)** | 492 | 472 | **447Δ** |
| United Kingdom | 87 | 71 | **84** |

1. Baseline year for 'Society 2030: Spirit of Progress' targets is 2020 unless otherwise stated
2. For commentary on performance against this target, please see page 37 and refer to our reporting methodologies in the ESG Reporting Index for more information on how data has been compiled, including standards and assumptions used
3. $CO_2e$ figures are calculated using the WRI/WBCSD GHG Protocol guidance available at the beginning of our financial year; the kWh/$CO_2e$ conversion factor provided by energy suppliers; the relevant factors to the country of operation; or the International Energy Agency, as applicable
4. 2020 baseline data, and data for the periods ended 30 June 2021, have been restated in accordance with the WRI/WBCSD GHG Protocol and Diageo's environmental reporting methodologies
5. Diageo UK total direct and indirect carbon emissions were 8,484$ktCO_2e$, comprising direct emissions (Scope 1) of 84$ktCO_2e$ and indirect emissions (Scope 2) of 0. The intensity ratio was 80 grams/litre packaged. Total global energy consumption was 3,650,444MWh; total UK energy consumption was 1,091,403MWh, comprising 951,552MWh of direct energy and 139,851MWh of indirect energy.

## Water efficiency and replenishment targets

As a beverage business, water stewardship is critical if we are to adapt successfully to a changing climate, as outlined in the risk management section on pages 42-45. We carry out global assessments of water stress every two to three years, and any sites newly classified as water stressed are included in our more stretching targets for water efficiency and replenishment. The last assessment was conducted in fiscal 21.

We have set a number of water targets for 2030 or earlier, focussing particularly on water-stressed areas:

| Target | KPI | 2022 performance |
|---|---|---|
| Reduce water use in our operations with a 40% improvement in water-use efficiency in water-stressed areas and a 30% improvement across the company | Percentage improvement in litres of water used per litre of packaged product | 3.7%$^{\Delta}$ across the company |
| Replenish more water than we use for our operations in 100% of sites in water-stressed areas by 2026 | Percentage of water replenished in water-stressed areas | 15.3% |
| Invest in improving access to clean water, sanitation and hygiene (WASH) in communities near our sites and local sourcing areas in 100% of our water-stressed markets | Percentage of water-stressed markets with investment in WASH | 88.9%$^{\Delta}$ |
| Engage in collective action in all of our priority water basins to improve water accessibility, availability and quality and contribute to a net positive water impact | Percentage of priority water basins participating in our collective action plans | 33.3% |

### Water efficiency (litres per litre packaged) by region by year[1,2]

| Region | 2020 (baseline) | 2021 | 2022 |
|---|---|---|---|
| North America | 5.33 | 4.91 | **5.06** |
| Europe | 5.10 | 5.13 | **4.87** |
| Asia Pacific | 3.95 | 3.58 | **3.57** |
| Africa | 4.11 | 3.53 | **3.29** |
| Latin America and Caribbean | 4.93 | 5.07 | **4.86** |
| **Diageo (total)** | 4.63 | 4.29 | **4.13**$^{\Delta}$ |

1. 2020 baseline data, and data for the periods ended 30 June 2021, have been restated in accordance with the WRI/WBCSD GHG Protocol and Diageo's environmental reporting methodologies
2. In accordance with our environmental reporting methodologies, total water used excludes irrigation water for agricultural purposes on land under our operational control

Δ Within PwC's independent limited assurance scope. Please refer to the reporting methodologies in our ESG Reporting Index for more information on how data has been compiled, including standards and assumptions used.

This year we achieved a 7.8% improvement in water-use efficiency in water-stressed areas and a 3.7%$^{\Delta}$ improvement across the company, which are on track against our 2030 targets. We report on our performance against our 'Society 2030: Spirit of Progress' targets in full on pages 35-38. Our overall approach to risk management is described further on pages 42-45. A commitment to pioneering grain-to-glass sustainability is central to our strategy – read about our approach on pages 30-31. Our ESG Reporting Index contains more detailed disclosures aligned with the GRI, SASB and UN Global Compact reporting frameworks.

## Pathway to net zero[1]

| | 2008 | 2015 | 2020 | 2021 | 2025 | 2030 | 2050 or earlier |
|---|---|---|---|---|---|---|---|
| **Milestone** | GHG targets set for 2015 | GHG targets set for 2020 | 'Society 2030: Spirit of Progress' (SOP) targets set | Targets approved by the SBTi | | SOP 2030 targets due | Scope 3 net zero targets due |
| **Target** | | **2015 targets** -50% Scopes 1&2 | **2020 targets** -50% Scopes 1&2 -30% Scope 3 | | | Scope 1: net zero Scope 2: net zero Scope 3: -50% | Scope 1: net zero Scope 2: net zero Scope 3: net zero |
| **Delivery** | | -33.3% Scopes 1&2 **Baseline = 2007** | -50.1% Scopes 1&2 -33.7% Scopes 1-3 **Baseline = 2007** | | | **Baseline = 2020** | |

**Pathway to delivery**

| | | |
|---|---|---|
| **Scope 1 (8%)**[2] | Decarbonisation of direct operations through biomass, bioenergy and electrification as part of our £1 billion investment of capital expenditure in environmental sustainability<br>Renewable energy certificates to close gap | New technologies and partnerships to close remaining gap |
| **Scope 2 (2%)**[2] | Continue switch to renewable electricity<br>Investment and partnership with governments and utilities to create required renewable infrastructure | 100% renewable electricity |
| **Scope 3 (90%)**[2] | Packaging: decarbonising glass manufacturing; reducing pack weights; increasing recycling and recycled content; circular packaging<br>Regenerative agriculture pilots → Regenerative agriculture scale-up<br>Reduce emissions from logistics, product refrigeration and cooling | |

**Diageo Sustainable Solutions (DSS) technology partnerships with suppliers to decarbonise the end-to-end supply chain, e.g. pilot study on innovative glass coatings to enable radical glass light-weighting; and the development of innovative biofuel technology and heat energy storage solutions**

1. This is an estimate based on current management expectations; the underlying assumptions and future developments may change over time, which would cause changes to management expectations and the information contained herein. Please see pages 47-56 for further information about the potential impact of climate change on Diageo and our current plans to manage and mitigate risks.
2. Percentage of total carbon footprint

## How we have adopted the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

This table outlines how we have reported in line with the recommendations of TCFD and where we have more to do. Each year, with the help of expert partners, we expand the scope of our risk assessments and scenario analysis. The order of the table reflects the order in which we report on each recommendation.

| TCFD recommendation | Alignment |
|---|---|
| **Governance – see page 48** | |
| a. Describe the board's oversight of climate-related risks and opportunities | Yes |
| b. Describe management's role in assessing and managing climate-related risks and opportunities | |
| **Risk management – see pages 48-52** | |
| a. Describe the organisation's processes for identifying and assessing climate-related risks | Yes |
| b. Describe the organisation's processes for managing climate-related risks | |
| c. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management | |
| **Strategy – see pages 52-54** | |
| a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term | We have described risks and opportunities for our business in North America and Scotland (high-value markets), and in India, Africa, Mexico and Turkey (geographies most exposed to physical risk), as well as the impact of those risks and opportunities on our strategy. We have modelled the resilience of our strategy under three climate-related scenarios.<br>We intend to extend this analysis to our remaining markets over the next two years, and include a quantitative analysis of the impact in our disclosure. |
| b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning | |
| c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario | |
| **Metrics and targets – see pages 54-55** | |
| a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process | Yes |
| b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks | Yes for Scopes 1, 2 and 3 |
| c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets | Yes |

# Fiscal 22 organic net sales were up 21%, with all regions contributing double-digit top-line growth

**Reported net sales increased**
**21.4%**
driven by organic growth

**Reported operating profit was up**
**18.2%**
driven by growth in organic operating profit, partially offset by the negative impact of exceptional operating items.

**Organic results improved with volume growth of**
**10.3%**

**Organic net sales growth[1] of**
**21.4%**

**Organic operating profit[1] grew**
**26.3%**

**Net cash from operating activities was**
**£3.9bn**

**Free cash flow[1] was**
**£2.8bn**

**Basic eps of**
**140.2p**
was up 23.2%

**Eps before exceptional items[1] increased**
**29.3%**
to 151.9 pence

"Our business delivered strong performance across all key financial metrics. Organic net sales grew double-digit, with growth across all categories and our super-premium-plus portfolio grew 31%. In an environment of high cost inflation, we delivered strategic price increases across all regions while growing volume and market share. Organic operating margin expanded 121bps, benefitting from leverage on operating costs, pricing, favourable mix and productivity savings while investing in marketing spend ahead of net sales.

Supported by double-digit operating profit growth, our cash generation continues to be strong. We generated £2.8 billion of free cash flow.

We stepped up marketing and capital investment in the business, to deliver long-term sustainable organic growth. We continue to actively manage our portfolio, to increase our presence in fast-growing categories and occasions. We are a progressive dividend payer and expect to complete our £4.5 billion return of capital programme, in fiscal 23.

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

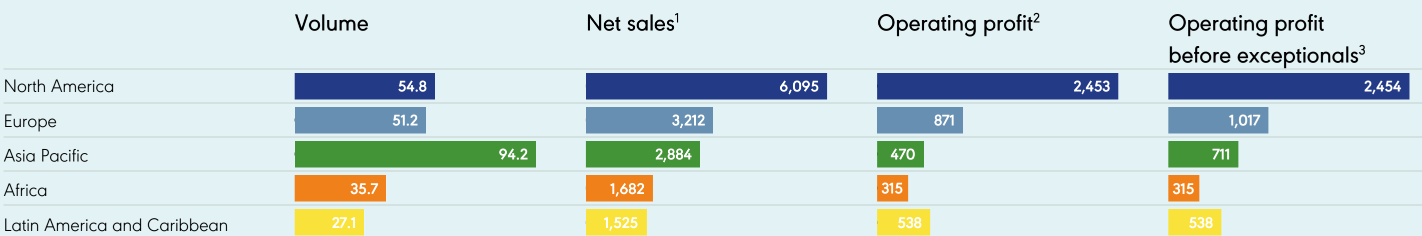
**Lavanya Chandrashekar**
Chief Financial Officer

1. See definitions and reconciliation of non-GAAP measures to GAAP measures on pages 76-83

## Summary financial information

| | | 2022 | 2021 |
|---|---|---|---|
| Volume | EUm | **263.0** | 238.4 |
| Net sales | £ million | **15,452** | 12,733 |
| Marketing | £ million | **2,721** | 2,163 |
| Operating profit before exceptional items | £ million | **4,797** | 3,746 |
| Exceptional operating items[1] | £ million | **(388)** | (15) |
| Operating profit | £ million | **4,409** | 3,731 |
| Share of associate and joint venture profit after tax | £ million | **417** | 334 |
| Non-operating exceptional items[1] | £ million | **(17)** | 14 |
| Net finance charges | £ million | **(422)** | (373) |
| Exceptional taxation credit/(charge)[1] | £ million | **31** | (84) |
| Tax rate including exceptional items | % | **23.9** | 24.5 |
| Tax rate before exceptional items | % | **22.5** | 22.2 |
| Profit attributable to parent company's shareholders | £ million | **3,249** | 2,660 |
| Basic earnings per share | pence | **140.2** | 113.8 |
| Basic earnings per share before exceptional items | pence | **151.9** | 117.5 |
| Recommended full year dividend | pence | **76.18** | 72.55 |

1. For further details of exceptional items, see pages 156-157




1. Excluding corporate net sales of £54 million (2021 – £20 million)
2. Excluding net corporate costs of £238 million (2021 – £208 million)
3. Excluding exceptional operating charges of £388 million (2021 – £15 million) and net corporate operating costs of £238 million (2021 – £208 million)

| | Volume % | Net sales % | Marketing % | Operating profit before exceptional items % | Operating profit[1] % |
|---|---|---|---|---|---|
| North America | 3 | 17 | 28 | 10 | 10 |
| Europe | 20 | 26 | 22 | 60 | 40 |
| Asia Pacific | 8 | 16 | 17 | 17 | (23) |
| Africa | 12 | 19 | 18 | 84 | 84 |
| Latin America and Caribbean | 17 | 46 | 51 | 78 | 78 |
| **Diageo – reported growth by region[1]** | **10** | **21** | **26** | **28** | **18** |

| | Volume % | Net sales % | Marketing % | Operating profit before exceptional items % |
|---|---|---|---|---|
| North America | 3 | 14 | 24 | 7 |
| Europe | 20 | 30 | 26 | 64 |
| Asia Pacific | 8 | 16 | 16 | 16 |
| Africa | 13 | 22 | 22 | 79 |
| Latin America and Caribbean | 17 | 43 | 49 | 70 |
| **Diageo – organic growth by region[1]** | **10** | **21** | **25** | **26** |

1. Includes Corporate. In the year ended 30 June 2022, corporate net sales were £54 million (2021 – £20 million). Net corporate operating costs were £238 million (2021 – £208 million).

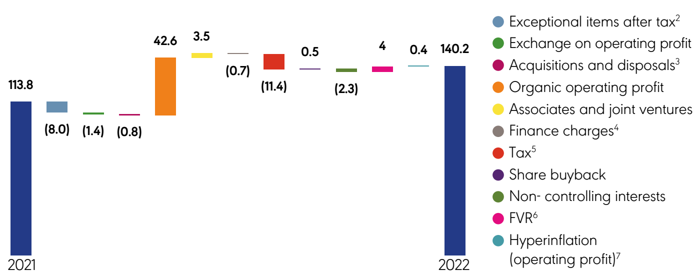
## Basic earnings per share (pence)

### Basic eps increased 23.2% from 113.8 pence to 140.2 pence

### Basic eps before exceptional items[1] increased 29.3% from 117.5 pence to 151.9 pence

Basic eps increased 26.4 pence, primarily driven by organic operating profit growth, partially offset by higher tax and exceptional items, primarily due to non-cash impairment charges related to India and Russia.

Basic eps before exceptional items increased 34.4 pence.




1. See page 76-83 for explanation of the calculation and use of non-GAAP measures
2. For further details on exceptional items see pages 156-157
3. Includes finance charges net of tax
4. Excludes finance charges related to acquisitions, disposals, share buybacks and includes finance charges related to hyperinflation adjustments (2022 – £(36) million; 2021 – £(6) million)
5. Excludes tax related to acquisitions, disposals and share buybacks
6. Fair value remeasurements. For further details see page 60
7. Operating profit hyperinflation adjustment movement was £10 million compared to fiscal 21 (2022 – £10 million; fiscal 2021 – £nil)

## Operating margin (%)

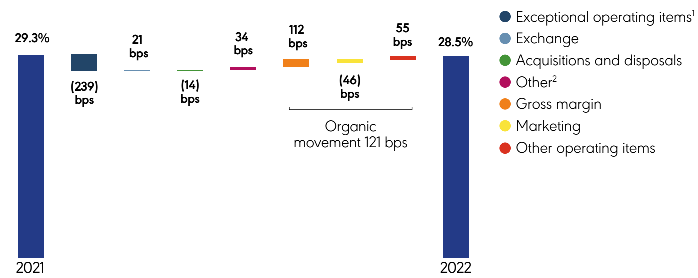
### Reported operating margin decreased 77bps

### Organic operating margin increased 121bps

Reported operating margin decreased 77bps, with organic margin expansion, more than offset by exceptional operating items of £388 million, primarily due to non-cash impairments related to India and Russia.

Organic operating margin increased 121bps, reflecting a strong recovery in gross margin and leverage on operating costs, while increasing marketing investment. Strong operating margin expansion in Latin America and Caribbean, Europe and Africa was partially offset by a decline in North America.

Organic gross margin increased 112bps, primarily driven by positive mix from premiumisation and the recovery of the on-trade channel. It also benefitted from improved fixed cost absorption from volume growth. Price increases and supply productivity savings more than offset the absolute impact of cost inflation, and mostly offset the adverse impact on gross margin.

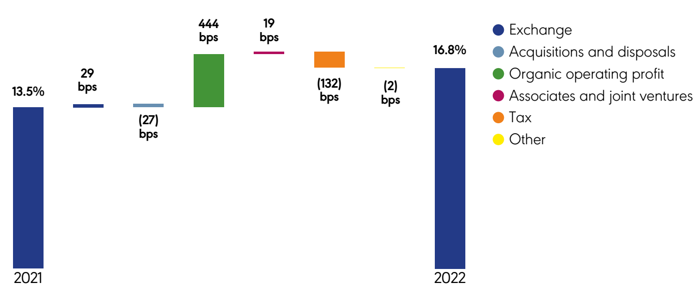



1. For further details on exceptional operating items see pages 156-157
2. Fair value remeasurements and hyperinflation adjustment. For further details on fair value remeasurements see page 60. See page 76-83 for details of hyperinflation adjustment.

## Return on average invested capital (%)[1]

### ROIC increased 331bps

ROIC increased 331bps, driven mainly by organic operating profit growth, partially offset by higher tax.




1. ROIC calculation excludes exceptional operating items from operating profit. For further details on ROIC see page 82

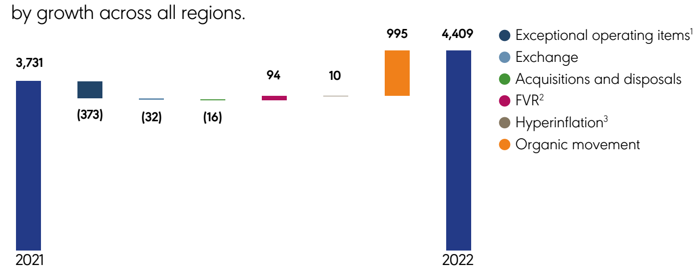
## Operating profit (£ million)

### Reported operating profit grew 18.2%

### Organic operating profit grew 26.3%

Reported operating profit increased 18.2%, primarily driven by growth in organic operating profit. This was partially offset by the negative impact of exceptional operating items, which were mainly due to non-cash impairments related to India and Russia.

Organic operating profit grew 26.3%, ahead of organic net sales growth, driven by growth across all regions.




1. For further details on exceptional operating items see pages 156-157
2. Fair value remeasurements. For further details see page 60
3. See page 76-83 for details of hyperinflation adjustment

## Net sales (£ million)

### Reported net sales grew 21.4%

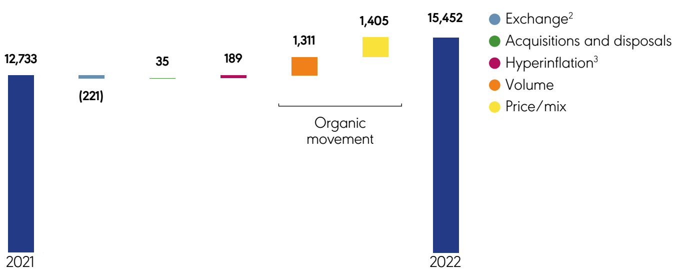
### Organic net sales grew 21.4%

Reported net sales grew 21.4%, driven by strong organic growth. An unfavourable foreign exchange impact was partially offset by a hyperinflation adjustment in respect of Turkey.

Organic net sales growth of 21.4% reflects organic volume growth of 10.3% and 11.1 percentage points of positive price/mix. All regions delivered double-digit growth, reflecting the continued recovery of the on-trade channel, resilient consumer demand in the off-trade channel and market share gains. Growth was underpinned by favourable industry trends of spirits taking share of total beverage alcohol and premiumisation[1].

Price/mix drove 11.1 percentage points of growth, reflecting positive mix and mid-single digit price growth from price increases across all regions.

Positive mix was driven by strong growth of our super-premium-plus brands, particularly scotch, tequila and Chinese white spirits. It also reflects continued recovery of the on-trade channel in North America and Europe and the partial recovery of Travel Retail, partially offset by negative market mix due to the increased contribution to net sales from India.




1. IWSR, 2021
2. Exchange rate movements reflect the adjustment to recalculate the reported results as if they had been generated at the prior period weighted average exchange rates
3. See page 76-83 for details of hyperinflation adjustment

## Net cash from operating activities and free cash flow (£ million)

### Generated £3,935 million net cash from operating activities[1] and £2,783 million free cash flow

Net cash from operating activities was £3,935 million, an increase of £281 million compared to fiscal 21. Free cash flow decreased by £254 million to £2,783 million.

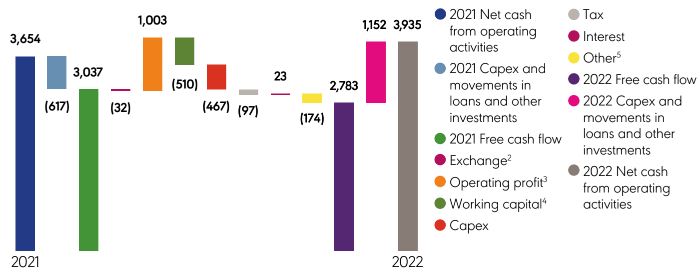
Free cash flow decreased as strong growth in operating profit was more than offset by the impact of lapping an exceptionally strong working capital benefit in fiscal 21, increased capex investment, lower dividends from joint ventures and associates and higher cash tax paid.

The working capital benefit in fiscal 21 was due to a large increase in creditors as operating performance recovered during the year, following reduced volumes and cost control measures in the second half of fiscal 20.

Increased capex reflects investment in production capacity, sustainability, digital capabilities and consumer experiences, including projects delayed in fiscal 21 due to Covid-19.

The negative cash flow impact from 'other' items was due to lapping a delayed dividend payment of £82 million from Moët Hennessy, which was received in fiscal 21 for the year ended December 2019.

The increase in cash tax payments primarily reflects higher tax on increased earnings.




1. Net cash from operating activities excludes net capex (2022 - £(1,080) million; 2021 - £(613) million) and movements in loans and other investments
2. Exchange on operating profit before exceptional items
3. Operating profit excludes exchange, depreciation and amortisation, post employment charges of £(53) million and other non-cash items
4. Working capital movement includes maturing inventory
5. Other items include dividends received from associates and joint ventures, movements in loans and other investments and post employment payments

## Summary income statement

| | 30 June 2021 £ million | Exchange (a) £ million | Acquisitions and disposals (b) £ million | Organic movement[1] £ million | Fair value remeasurement (d) £ million | Hyperinflation[1] £ million | 30 June 2022 £ million |
|---|---|---|---|---|---|---|---|
| **Sales** | 19,153 | (838) | 38 | 3,567 | – | 528 | 22,448 |
| Excise duties | (6,420) | 617 | (3) | (851) | – | (339) | (6,996) |
| **Net sales** | 12,733 | (221) | 35 | 2,716 | – | 189 | 15,452 |
| Cost of sales | (5,038) | 127 | (22) | (901) | (5) | (134) | (5,973) |
| **Gross profit** | 7,695 | (94) | 13 | 1,815 | (5) | 55 | 9,479 |
| Marketing | (2,163) | 15 | (25) | (532) | 1 | (17) | (2,721) |
| Other operating items | (1,786) | 47 | (4) | (288) | 98 | (28) | (1,961) |
| **Operating profit before exceptional items** | 3,746 | (32) | (16) | 995 | 94 | 10 | 4,797 |
| Exceptional operating items (c) | (15) | | | | | | (388) |
| **Operating profit** | 3,731 | | | | | | 4,409 |
| Non-operating items (c) | 14 | | | | | | (17) |
| Net finance charges | (373) | | | | | | (422) |
| Share of after tax results of associates and joint ventures | 334 | | | | | | 417 |
| **Profit before taxation** | 3,706 | | | | | | 4,387 |
| Taxation (e) | (907) | | | | | | (1,049) |
| **Profit for the year** | 2,799 | | | | | | 3,338 |

1. For the definition of organic movement, see pages 76-83

### (a) Exchange

The impact of movements in exchange rates on reported figures for net sales and operating profit was principally in respect of the translation exchange impact of the strengthening of sterling against the euro and the Turkish lira, partially offset by weakening of sterling against the US dollar.

The effect of movements in exchange rates and other movements on profit before exceptional items and taxation for the year ended 30 June 2022 is set out in the table below.

| | Gains/(losses) £ million |
|---|---|
| Translation impact | **(37)** |
| Transaction impact | **5** |
| **Operating profit before exceptional items** | **(32)** |
| Net finance charges – translation impact | **4** |
| Net finance charges – transaction impact | **(3)** |
| **Net finance charges** | **1** |
| Associates – translation impact | **(19)** |
| **Profit before exceptional items and taxation** | **(50)** |

| | Year ended 30 June 2022 | Year ended 30 June 2021 |
|---|---|---|
| Exchange rates | | |
| Translation £1 = | **$1.33** | $1.35 |
| Transaction £1 = | **$1.29** | $1.34 |
| Translation £1 = | **€1.18** | €1.13 |
| Transaction £1 = | **€1.15** | €1.14 |

### (b) Acquisitions and disposals

The acquisitions and disposals movement was primarily attributable to the disposal of the Picon brand and Meta Abo Brewery Share Company (Meta Abo Brewery) in the year ended 30 June 2022 and to the impact of prior year's acquisitions.

**SEE PAGES 163-165 FOR FURTHER DETAILS.**

### (c) Exceptional items

**Exceptional operating items** in the year ended 30 June 2022 were £388 million loss before tax (2021 – £15 million).

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 No.1 brand (£240 million), Bell's brand (£77 million) and Smirnov related goodwill (£19 million).

In March 2022, a decision was taken to suspend exporting to and selling in Russia and on 28 June 2022, Diageo decided that it would wind down its operations in Russia over the following six months. Losses of £50 million directly attributable to the wind down primarily include provisions for onerous contracts (£14 million) and redundancies (£13 million). Total impact of winding down operations in Russia resulted in a loss of £146 million, including impairment of the Bell's brand (£77 million), Smirnov related goodwill (£19 million), and directly attributable items.

An exceptional charge of $3 million (£2 million) (2021 – £5 million) was recognised as part of the 'Raising the Bar' programme, in addition to the commitment of $100 million (£81 million) announced in the year ended 30 June 2020. The additional charge represents the re-investment of corporate tax benefit in the fund in certain markets, where a corporate tax deduction is available, and was recognised as an exceptional operating item, consistent with the initial commitment. Diageo also provided other forms of support to help our communities and the industry, which amounted to £8 million in the year ended 30 June 2020.

In the year ended 30 June 2021, an additional provision of £15 million was recorded as an exceptional item in respect of ongoing litigation in Turkey, bringing the provision's balance to £23 million, following a settlement of £1 million during that year.

On 20 November 2020, the High Court of Justice of England and Wales issued a ruling that requires pension schemes to equalise pension benefits for men and women for the calculation of their guaranteed minimum pension liability (GMP) on historic transfers out, which resulted in an additional liability of £5 million in the year ended 30 June 2021. The corresponding expense was recognised as an exceptional operating item consistently with the charge in relation to the initial GMP ruling.

In the year ended 30 June 2021, an inventory provision of £7 million was released in respect of obsolete inventories that had earlier been expected to be returned and destroyed as a direct consequence of the Covid-19 pandemic, resulting in an exceptional gain. The provision release was recognised as an exceptional operating item consistently with the original charge in the year ended 30 June 2020.

In the year ended 30 June 2021, an additional gain of $4 million (£3 million) was recognised in exceptional operating items for excess receipts in respect of substitution drawback claims that had been filed and were to be filed with the US Government in relation to prior years. The changes in estimates were recognised as an exceptional operating item consistently with the initial income of £83 million in the year ended 30 June 2020.

**Non-operating items** in the year ended 30 June 2022 were £17 million loss before tax (2021 – £14 million gain).

On 25 April 2022, Diageo completed the sale of its Ethiopian subsidiary, Meta Abo Brewery Share Company. A loss of £95 million was recognised as a non-operating item attributable to the sale, including cumulative translation losses in the amount of £63 million recycled to the income statement.

On 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. At 30 June 2022, cumulative translation gains recognised in exchange reserves were £141 million which will be recycled to the income statement on completion of the transaction, in the year ending 30 June 2023.

On 10 May 2022, Diageo sold its Picon brand. The sale resulted in an exceptional non-operating gain of £91 million, net of disposal costs. Disposal costs relating to the transaction amounted to £9 million.

In the year ended 30 June 2022, ZAR 133 million (£6 million) of deferred consideration was paid to Diageo in respect of the sale of United National Breweries, the full amount of which represented a non-operating gain (2021 – a gain of £10 million).

Certain subsidiaries of United Spirits Limited (USL) were sold in the year ended 30 June 2021. The sale of these subsidiaries resulted in an exceptional gain of £3 million.

In the year ended 30 June 2021, the group reversed £1 million from provisions in relation to the sale of a portfolio of 19 brands to Sazerac on 20 December 2018.

**SEE PAGE 76 FOR THE DEFINITION OF EXCEPTIONAL ITEMS.**

### (d) Fair value remeasurement

The adjustment to cost of sales reflects the elimination of fair value changes for biological assets in respect of growing agave plants of £5 million loss for the year ended 30 June 2022. The adjustments to marketing and other operating expenses were the elimination of fair value changes to contingent consideration liabilities and earn out arrangements in respect of prior year acquisitions of £65 million gain for the year ended 30 June 2022 and £34 million loss for the year ended 30 June 2021.

### (e) Taxation

The reported tax rate for the year ended 30 June 2022 was 23.9% compared with 24.5% for the year ended 30 June 2021.

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

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 post employment assets.

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.

The tax rate before exceptional items for the year ended 30 June 2022 was 22.5% compared with 22.2% for the year ended 30 June 2021.

We expect the tax rate before exceptional items for the year ending 30 June 2023 to be in the range of 22%-24%.

### (f) Dividend

The group aims to increase the dividend each year. The decision in respect of the dividend is made with reference to the dividend cover, as well as current performance trends, including sales and profit after tax together with cash generation. Diageo targets dividend cover (the ratio of basic earnings per share before exceptional items to dividend per share) within the range of 1.8-2.2 times. For the year ended 30 June 2022, dividend cover is 2.0 times. The recommended final dividend for the year ended 30 June 2022, to be put to the shareholders for approval at the Annual General Meeting is 46.82 pence, an increase of 5% on the prior year final dividend. This brings the full year dividend to 76.18 pence per share, an increase of 5% on the prior year. The group will keep future returns of capital, including dividends, under review through the year ending 30 June 2023, to ensure Diageo's capital is allocated in the best way to maximise value for the business and stakeholders.

Subject to approval by shareholders, the final dividend will be paid to holders of ordinary shares and US ADRs on register as of 26 August 2022. The ex-dividend date both for holders of ordinary shares and for US ADR holders is 25 August 2022. The final dividend, once approved by shareholders, will be paid to holders of ordinary shares on 20 October 2022 and payment to US ADR holders will be made on 25 October 2022. A dividend reinvestment plan is available to holders of ordinary shares in respect of the final dividend and the plan notice date is 23 September 2022.

### (g) Return of capital

Diageo's current return of capital programme, initially approved by the Board on 25 July 2019, seeks to return up to £4.5 billion to shareholders and is expected to be completed by 30 June 2023. Under the first two phases of the programme, which ended on 31 January 2020 and 11 February 2022 respectively, the company returned capital to shareholders via share buyback, at a cost, excluding transaction costs, of £2.25 billion. On 21 February 2022, the company announced the third phase of the programme with a value of up to £1.7 billion returned to shareholders, via share buybacks, to be completed no later than 5 October 2022. At 30 June 2022, £1.4 billion had been completed as part of the third phase.

The remaining £0.9 billion of the programme is expected to be completed by 30 June 2023.

In the year ended 30 June 2022, the company purchased 61 million ordinary shares at a cost of £2,284 million (including transactions costs of £16 million). All shares purchased under the share buyback programme were cancelled. A financial liability of £117 million was established at 30 June 2022, representing the 3.3 million shares that were expected to be purchased by 28 July 2022.

## Movements in net borrowings and equity

### Movements in net borrowings

| | 2022 £ million | 2021 £ million |
|---|---|---|
| **Net borrowings at the beginning of the year** | **(12,109)** | (13,246) |
| Free cash flow (a) | **2,783** | 3,037 |
| Acquisitions (b) | **(271)** | (488) |
| Sale of businesses and brands | **82** | 14 |
| Share buyback programme (c) | **(2,284)** | (109) |
| Net sale of own shares for share schemes (d) | **18** | 49 |
| Purchase of treasury shares in respect of subsidiaries | **(15)** | – |
| Dividend paid to non-controlling interests | **(81)** | (77) |
| Net movements in bonds (e) | **742** | (216) |
| Purchase of shares of non-controlling interests (f) | **–** | (42) |
| Net movements in other borrowings (g) | **79** | (753) |
| Equity dividend paid | **(1,718)** | (1,646) |
| **Net decrease in cash and cash equivalents** | **(665)** | (231) |
| Net (increase)/decrease in bonds and other borrowings | **(825)** | 967 |
| Exchange differences (h) | **(334)** | 598 |
| Other non-cash items (i) | **(204)** | (197) |
| **Net borrowings at the end of the year** | **(14,137)** | (12,109) |

a. See page 59 for the analysis of free cash flow.

b. Diageo completed a number of acquisitions in the year ended 30 June 2022, including: (i) on 27 January 2022, the acquisition of Casa UM, to expand its Reserve portfolio with the premium artisanal mezcal brand, Mezcal Unión, (ii) on 31 March 2022, the acquisition of 21Seeds, to support Diageo's participation in the super premium flavoured tequila segment and (iii) 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 final earn-out payment in respect of the Casamigos acquisition amounting to $113 million (£83 million) was made on 17 September 2021.

Contingent consideration paid in respect of other prior year acquisitions is primarily attributable to Aviation Gin and Davos Brands.

In the year ended 30 June 2021, Diageo completed the acquisition of Aviation Gin and Davos Brands for a total consideration of $337 million (£263 million) in cash and contingent consideration of up to $275 million (£214 million) over a 10-year period linked to performance targets. Diageo also completed a number of additional acquisitions for a total consideration of £95 million in cash and contingent consideration of £86 million, in each case linked to performance targets.

c. See page 61 for details of Diageo's return of capital programmes.

d. Net sale of own shares comprised receipts from employees on the exercise of share options of £32 million (2021 – £57 million) less purchase of own shares for the future settlement of obligations under the employee share option schemes of £14 million (2021 – £8 million).

e. In the year ended 30 June 2022, the group issued bonds of €1,650 million (£1,371 million – net of discount and fee) and £892 million (including £8 million discount and fee) and repaid bonds of €900 million (£769 million) and $1000 million (£752 million). In the year ended 30 June 2021, the group issued bonds of €700 million (£636 million – net of discount and fee) and £395 million (including £5 million discount and fee) and repaid bonds of $696 million (£551 million) and €775 million (£696 million).

f. In the year ended 30 June 2021, East African Breweries Limited, a subsidiary of Diageo, completed the purchase of 30% of the share capital of Serengeti Breweries Limited for $55 million (£42 million).

g. In the year ended 30 June 2022, the net movements in other borrowings principally arose from cash movement of foreign currency swaps and forwards partially offset by the repayment of lease liabilities.

In the year ended 30 June 2021, the net movements in other borrowings principally arose from cash movement of foreign currency swaps and forwards.

h. In the year ended 30 June 2022, exchange losses arising on net borrowings of £334 million were primarily driven by adverse exchange movements on US dollar denominated borrowings, partially offset by favourable movement on euro denominated borrowings, cash and cash equivalents, foreign currency swaps and forwards.

In the year ended 30 June 2021, exchange gains arising on net borrowings of £598 million were primarily driven by favourable exchange movements on US dollar and euro denominated borrowings, partially offset by an adverse movement on cash and cash equivalents, foreign currency swaps and forwards.

i. In the year ended 30 June 2022, other non-cash items were principally in respect of additional leases entered into during the year.

In the year ended 30 June 2021, other non-cash items are principally in respect of fair value losses of cross currency interest rate swaps and interest rate swaps, partially offset by the fair value gains of borrowings.

## Movements in equity

| | 2022 £ million | 2021 £ million |
|---|---|---|
| **Equity at the beginning of the year** | **8,431** | 8,440 |
| Adjustment to 2021 closing equity in respect of hyperinflation in Turkey (a) | **251** | – |
| **Adjusted equity at the beginning of the year** | **8,682** | 8,440 |
| Profit for the year | **3,338** | 2,799 |
| Exchange adjustments (b) | **799** | (836) |
| Remeasurement of post employment plans net of taxation | **497** | (27) |
| Purchase of shares of non-controlling interests (c) | **–** | (42) |
| Hyperinflation adjustments net of taxation (a) | **291** | (12) |
| Associates' transactions with non-controlling interest | **–** | (91) |
| Dividend to non-controlling interests | **(72)** | (72) |
| Equity dividend paid | **(1,718)** | (1,646) |
| Share buyback programme (d) | **(2,310)** | (200) |
| Other reserve movements | **7** | 118 |
| **Equity at the end of the year** | **9,514** | 8,431 |

a. See pages 76-83 for details of hyperinflation adjustment.

b. Exchange movements in the year ended 30 June 2022 primarily arose from exchange gains driven by the US dollar and the Indian rupee, partially offset by the Turkish lira. Exchange movements in the year ended 30 June 2021 primarily arose from exchange losses driven by the Indian rupee, the US dollar and the Turkish lira.

c. In the year ended 30 June 2021, East African Breweries Limited completed the purchase of 30% of the share capital of Serengeti Breweries Limited for $55 million (£42 million).

d. See page 61 for details of Diageo's return of capital programmes.

## Post employment benefit plans

The net surplus of the group's post employment benefit plans increased by £707 million from £444 million at 30 June 2021 to £1,151 million at 30 June 2022. The increase in net surplus was predominantly attributable to the favourable change in the discount rate assumptions in the United Kingdom and Ireland due to the increase in returns from 'AA' rated corporate bonds used to calculate the discount rates on the liabilities of the post employment plans (UK from 1.9% to 3.8%; Ireland from 1.0% to 3.2%) that was partially offset by the unfavourable actual change in the market value of assets held by the post employment benefit plans in the United Kingdom and Ireland, and the change in inflation rate assumptions in the United Kingdom and Ireland (UK from 3.0% to 3.1%; Ireland from 1.6% to 2.4%).

The operating profit charge before exceptional items decreased by £48 million from £87 million for the year ended 30 June 2021 to £39 million for the year ended 30 June 2022. The operating profit for the year ended 30 June 2022 includes settlement gains of £27 million in respect of the Enhanced Transfer Values exercise carried out in the Guinness Ireland Group Pension Scheme (GIGPS) and the Grand Metropolitan Pension Fund, and past service gain of £28 million as a result of the changes in the benefits of the GIGPS.

Total cash contributions by the group to all post employment benefit plans in the year ending 30 June 2023 are estimated to be approximately £70 million.

# North America

**North America remains the second largest beverage alcohol market worldwide[1] and represents over one-third of our net sales.**

**Our consumers are at the heart of our business, and our strategy is focussed on accelerating sustainable growth through smart investments in our portfolio of brands, data-led insights, and excellence in our route to market. We have a well-positioned portfolio of brands that leans into premiumisation, and recruit and re-recruit consumers into the portfolio through sustainable innovation and meaningful consumer engagement, including on-promise re-opening in the past year. We are proud of our progress in our 'Society 2030: Spirit of Progress' goals, dialing up our purposefulness to make a positive impact in the communities where we live and work.**

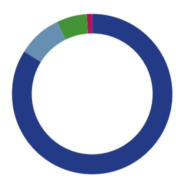
## Key financials

| | 2021 £ million | Exchange £ million | Acquisitions and disposals £ million | Organic movement £ million | Other[3] £ million | 2022 £ million | Reported movement % |
|---|---|---|---|---|---|---|---|
| Net sales | 5,209 | 98 | 34 | 754 | – | 6,095 | 17 |
| Marketing | 936 | 19 | 24 | 222 | (1) | 1,200 | 28 |
| Operating profit before exceptional items | 2,237 | 49 | (19) | 148 | 39 | 2,454 | 10 |
| Exceptional operating items[2] | – | | | | | (1) | |
| Operating profit | 2,237 | | | | | 2,453 | 10 |

### Markets and categories

| | Organic volume movement % | Reported volume movement % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|---|
| North America | 3 | 3 | 14 | 17 |
| | | | | |
| US Spirits | 4 | 4 | 17 | 19 |
| DBC USA[4,5] | (2) | – | 2 | 6 |
| Canada | (2) | (2) | 3 | 6 |
| | | | | |
| Spirits | 3 | 3 | 16 | 18 |
| Beer | (4) | (4) | 1 | 2 |
| Ready to drink[4] | 15 | 40 | 21 | 49 |

**Reported net sales by market (%)**

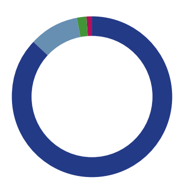


US Spirits
DBC USA
Canada
Other (principally Travel Retail)

### Global giants, local stars and reserve[6]

| | Organic volume movement[7] % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|
| Crown Royal | 2 | 6 | 8 |
| Don Julio | 30 | 36 | 38 |
| Casamigos | 81 | 88 | 91 |
| Johnnie Walker | 9 | 26 | 28 |
| Smirnoff | (4) | (3) | (2) |
| Captain Morgan | (3) | (5) | (3) |
| Ketel One[8] | 7 | 12 | 13 |
| Baileys | (10) | (8) | (6) |
| Guinness | 5 | 7 | 9 |
| Bulleit | 10 | 14 | 16 |
| Cîroc vodka | (4) | – | 1 |

**Reported net sales by category (%)**



Spirits
Beer
Ready to drink
Other

1. IWSR, calendar year 2021
2. For further details on exceptional operating items see pages 156-157
3. Fair value remeasurements. For further details see page 60.
4. Reported volume movement impacted by acquisitions. For further details see page 80.
5. Certain spirits-based ready to drink products in certain states are distributed through DBC USA and those net sales are captured within DBC USA
6. Spirits brands excluding ready to drink and non-alcoholic variants
7. Organic equals reported volume movement
8. Ketel One includes Ketel One vodka and Ketel One Botanical

## Our markets
Headquartered in New York, Diageo North America is comprised of US Spirits, Diageo Beer Company USA (DBC USA) and Diageo Canada, headquartered in Toronto.

## Supply operations
With 11 domestic production facilities across the United States, Canada and the US Virgin Islands, Diageo North America's supply function is one of the largest producers of beverage alcohol on the continent. We have made major investments in innovation and sustainability, driving efficiency and best-in-class operations. To support the growth of our business portfolio, we started up two new production sites, including a ready to drink (RTD) facility in Plainfield and a Bulleit Bourbon Distillery in Lebanon, Kentucky. The Lebanon site is the first distillery in North America powered by 100% renewable energy. We recently announced plans for a carbon-neutral distillery in Ontario, Canada, to support the growth ambitions for our Crown Royal Canadian whisky brand.

## Route to consumer
The route to consumer in the United States is through the three-tier system across our spirits and beer/RTD portfolio. We have consolidated our US Spirits business into single distributors or brokers in 42 states and the District of Columbia, representing more than 80% of our spirits volume. US Spirits is responsible for the sale of our portfolio of spirits and spirits-based RTD products and manages sales through two divisions focussed on Open (distribution through private distributors) and Control (distribution through governmental entities) States. DBC USA sells and markets brands, including Guinness and Smirnoff Ice to over 400 beer distributors across the US. Diageo Canada distributes our portfolio of spirits, RTD and beer brands across all Canadian provinces, which operate within a highly regulated federal and provincial system. Diageo Canada manages all sales operations with the provincial liquor control boards and national chain account customers directly, utilising brokers to support execution at the point of sale. Our strategy in North America is to be consumer-first, occasion-oriented, and focussed on developing competitive differentiation in both our brand propositions and our route to consumer. This includes building key capabilities around commercial execution, Revenue Growth Management, e-commerce and robust performance management, all of which is underpinned by data and analytics.

## 'Society 2030: Spirit of Progress'
Promoting positive drinking remains a priority. Along with Black, Latino and Native American organisations, we established the Multicultural Consortium for Responsible Drinking – to increase awareness of the risks of harmful use of alcohol and promote moderation in diverse communities across the United States. We partnered with road safety organisations, distributors and corporations in the country to stigmatise drink driving by educating nearly 39,000 people through our interactive learning experience 'Wrong Side of the Road'. We also partnered with the Traffic Injury Research Foundation to create the Impaired Driving Coalition of Canada to tackle similar challenges. Several brands led responsible drinking campaigns reaching over 150 million consumers, including activations from Crown Royal and Captain Morgan through our Major League Soccer (MLS) and National Football League (NFL) partnerships.

We continue to promote diversity and equal representation through our work with Pronghorn, an initiative to cultivate the next generation of diverse founders, leaders and entrepreneurs within the industry. Our Learning Skills for Life (L4L) programme provided employability skills and hospitality training to 931 people through our partnerships, including Historically Black Colleges and Universities. We also donated $2.5 million to the Seattle 'Raising the Bar' recovery fund – to support Asian-American and Pacific Islanders hospitality communities. These groups were particularly affected by the pandemic. We've surpassed our goal to double our spend with diverse-owned media companies, instead spending six times more than the previous year, and we invested 10% of media spend in programmes reaching multicultural consumers through brand activations.

As well as opening our first carbon-neutral distillery in Lebanon, Kentucky, and announcing plans to build our first carbon-neutral distillery in Ontario, Canada, this year we announced plans to transition our Valleyfield manufacturing site in Quebec to be carbon neutral by 2025. We've also made progress reusing treated wastewater in cooling processes at our US Virgin Islands operations, and with several initiatives at Plainfield, Illinois, to reduce water usage.

## Regional performance

- Reported net sales grew 17%, primarily reflecting strong organic growth. There were favourable impacts from foreign exchange, mainly due to the strengthening of the US dollar, and from brand acquisitions.
- Organic net sales increased 14%, building on strong growth in fiscal 21, largely driven by US Spirits.
- US Spirits net sales grew 17%, reflecting the recovery of the on-trade channel and resilient consumer demand in the off-trade channel, market share gains and spirits taking share of total beverage alcohol, and replenishment of stock levels by distributors. We drove particularly strong growth in our super-premium plus portfolio and increased prices.
- US Spirits shipments were ahead of depletions, with a benefit of approximately three percentage points from the replenishment of stock levels by distributors, recovering from lower levels during Covid-19. It also reflects distributors increasing inventories of certain imported products due to longer product transit times in fiscal 22.
- US Spirits growth was primarily driven by tequila, up 57%, as well as double-digit growth in scotch and US whiskey and growth in Canadian whisky. This more than offset declines in Baileys and rum.
- Diageo Beer Company net sales increased 2%, reflecting increased sales of Guinness driven by the on-trade recovery and growth in ready to drink[1], partially offset by a decline in flavoured malt beverages.
- Organic operating margin decreased by 295bps, as we continued to increase marketing investment, up 24%, ahead of net sales growth, to support growth momentum across key brands. Price increases and productivity savings partially offset cost inflation.

# Market highlights

## US Spirits

- Tequila net sales increased 57%, with Casamigos growing 89% and Don Julio growing 36%, and both brands gained share of the spirits market and the tequila category. This primarily reflects strong volume growth, and there was also a benefit from price increases and innovation.
- Crown Royal net sales increased 7%, with double-digit growth in the core variant. However, supply constraints of aged liquid led to slower growth in certain variants and a decline in Crown Royal's share of the spirits market and the Canadian whisky category.
- Scotch grew 19% and gained share of the spirits market and the scotch category. Johnnie Walker net sales grew 23%, with double-digit growth in Johnnie Walker Blue Label and Johnnie Walker Black Label. Buchanan's net sales increased 14% and it gained share of the scotch category. Scotch malts grew 8%.
- Vodka net sales grew 1%. Ketel One net sales increased 11%, driven by double-digit growth in the core variant, and slower growth of Ketel One Botanical. Cîroc net sales declined 2%, lapping double-digit growth in fiscal 21, with growth from recent innovations more than offset by declines of other variants. Smirnoff net sales decreased 4%, due to declines in certain flavour variants, partially offset by growth from recent innovations; net sales of the core variant were flat.
- Captain Morgan net sales declined 6%, as the rum category continued to lose spirits market share, however, Captain Morgan gained share of the category.
- US whiskey sales grew 11%, primarily driven by Bulleit, up 14%. Bulleit lost share of the US whiskey category due to glass supply constraints, which have now been resolved.
- Baileys net sales declined 8%, following strong growth in fiscal 21.
- Spirits-based ready to drink[1] net sales grew 18%, primarily driven by strong performance of Crown Royal cocktails and the launch of Cîroc cocktails, partially offset by lower sales of Ketel One Botanical Spritz.

1. Certain spirits-based ready to drink products in certain states are distributed through DBC USA and those net sales are captured within DBC USA

# Europe

**Across our Europe business, we are building further momentum behind our six-markets model, bringing marketing programmes closer to our consumers and customers, and optimising our routes to market to accelerate our growth strategy through international premium spirits and beer.**

## Key financials

| | 2021 £ million | Exchange £ million | Acquisitions and disposals £ million | Organic movement £ million | Other[1] £ million | Hyperinflation[2] £ million | 2022 £ million | Reported movement % |
|---|---|---|---|---|---|---|---|---|
| Net sales | 2,558 | (304) | 3 | 766 | – | 189 | 3,212 | 26 |
| Marketing | 473 | (35) | – | 122 | – | 17 | 577 | 22 |
| Operating profit before exceptional items | 635 | (110) | 1 | 418 | 63 | 10 | 1,017 | 60 |
| Exceptional operating items[3] | (15) | | | | | | (146) | |
| Operating profit | 620 | | | | | | 871 | 40 |

## Markets and categories

| | Organic volume movement % | Reported volume movement % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|---|
| Europe | 20 | 20 | 30 | 26 |
| | | | | |
| Great Britain | 15 | 15 | 20 | 20 |
| Northern Europe | 16 | 16 | 15 | 10 |
| Southern Europe | 30 | 27 | 33 | 26 |
| Ireland | 35 | 35 | 71 | 65 |
| Eastern Europe | 7 | 8 | 18 | 18 |
| Turkey | 18 | 18 | 49 | 25 |
| | | | | |
| Spirits | 18 | 18 | 24 | 19 |
| Beer | 36 | 36 | 63 | 60 |
| Ready to drink | 23 | 23 | 23 | 22 |

**Reported net sales by market (%)**


## Global giants and local stars[4]

| | Organic volume movement[5] % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|
| Guinness | 42 | 65 | 62 |
| Johnnie Walker | 22 | 35 | 31 |
| Baileys | 20 | 19 | 16 |
| Smirnoff | 35 | 38 | 35 |
| Captain Morgan | 11 | 12 | 9 |
| Tanqueray | 36 | 37 | 33 |
| Yenì Raki | 9 | 15 | 14 |
| J&B | 19 | 26 | 17 |

**Reported net sales by category (%)**


1. Fair value remeasurements. For further details see page 60
2. See page 76-83 for details of hyperinflation adjustment
3. Exceptional items are in respect of Diageo's decision, announced on 28 June 2022, to wind down its operations in Russia over the following six months. For further details on exceptional operating items see pages 156-157.
4. Spirits brands excluding ready to drink and non-alcoholic variants
5. Organic equals reported volume movement, except for Smirnoff, which had reported volume movement of 36% due to a reclassification

## Our markets

Our six markets are Great Britain, Northern Europe, Southern Europe, Ireland, Eastern Europe and Turkey, and operate with end-to-end accountability.

## Supply operations

A number of Diageo's Supply Chain and Procurement operations are in Europe, including production sites in the United Kingdom, Ireland, Italy and Turkey. The group owns 30 distilleries in Scotland, a Dublin based brewery, distillery, five distilleries in Turkey and maturation and packaging facilities in Scotland, England, Ireland, Italy and Turkey. The team manufactures whisky, vodka, gin, rum, beer, cream liqueurs, raki and other spirit-based drinks which are distributed in over 180 countries.

The company is currently investing £185 million in Scotch whisky and tourism in Scotland, including the creation of a major new Johnnie Walker global brand attraction in Edinburgh (Johnnie Walker Princes Street), which opened its doors in September 2021. The distillery visitor investment focuses on the 'Four Corners distilleries', Glenkinchie, Caol Ila, Clynelish and Cardhu, celebrating the key role these single malts play in the flavours of Johnnie Walker. The new visitor experiences at Glenkinchie, Clynelish and Cardhu are already operational, and Caol Ila is expected to open later in 2022. The iconic lost distillery of Port Ellen is expected to be back in production in the summer of 2023.

Supporting our beer ambition, a £41 million investment has started at the Belfast and Runcorn beer packaging facilities, to expand capacity to support growth, with new capacity expected to be available during 2023. Also, we will be opening in autumn 2023 a £73 million Guinness microbrewery and culture hub to be built in Covent Garden, London.

In July 2022, Diageo announced plans to invest €200 million in Ireland's first purpose-built carbon neutral brewery on a greenfield site in Littleconnell, Newbridge, Co. Kildare.

## Route to consumer

In Great Britain, we sell and market our products through Diageo GB (spirits, beer and ready to drink) and Justerini & Brooks Fine Wines (wines, private clients and spirits). In the Republic of Ireland and Northern Ireland, Diageo sells and distributes directly to the on-trade and the off-trade, as well as wholesalers. In France, our products are sold through a joint venture arrangement with Moët Hennessy. In Northern and Southern Europe, we distribute our spirits brands primarily through our own in-market companies (IMC). In the Eastern Europe market, we distribute our spirits and beer brands both via IMC and distributors. In Turkey, we sell our products via the distribution network of Mey İçki, our wholly owned subsidiary. Mey İçki distributes both local brands (raki, other spirits and wine) and Diageo's global spirits brands.

## 'Society 2030: Spirit of Progress'

Sustainability remains high on our agenda. This year, Guinness launched a three-year regenerative agriculture pilot in Ireland and started the transition to electric vehicles of the Guinness Quality fleet. We launched our first water replenishment project in Turkey – conserving water through efficient drip-irrigation in agriculture – which has provided capacity to replenish over 15,000$m^3$ a year. At Santa Vittoria in Italy we'll save around 30 tonnes of shrink film a year by replacing it with PEFC-certified cardboard in some multipacks.

We continue to promote positive drinking. In Southern Europe over 20,000 people took part in 'Wrong Side of the Road' through online, off-trade and on-trade activations. In Great Britain, Gordon's 0.0% festive sampling campaign encouraged consumers to visit DRINKiQ.com. Brand campaigns reached over 80 million people with responsible drinking messaging. And finally, we delivered on our SMASHED targets for the region, educating over 78,000 young people in total.

As part of our commitment to inclusion and diversity, we adapted Learning for Life to support Ukrainian refugees in Belgium and Poland.

## Regional performance

- Reported net sales increased 26%, driven by strong organic growth. Net sales were unfavourably impacted by foreign exchange, primarily due to the weakening of the Turkish lira, which was partially offset by a hyperinflation adjustment[2].
- Organic net sales grew 30%, with strong double-digit growth across all markets and a partial recovery of Travel Retail Europe.
- Growth reflects the recovery of the on-trade channel, particularly in Ireland, Great Britain and Southern Europe, as well as resilient consumer demand in the off-trade channel, where Diageo continued to gain market share.
- Growth was also underpinned by the spirits category gaining share of total beverage alcohol, premiumisation, price increases and innovation.
- Spirits net sales grew 24%, with broad-based growth across scotch, vodka, Baileys, gin, rum and raki.
- Beer net sales grew 63%, following a 21% decline in fiscal 21, with strong growth in Guinness driven by the on-trade recovery in Ireland and Great Britain, as well as growth from innovation.
- Strong improvement in organic operating margin of 671bps primarily reflects leverage on operating costs as net sales recovered strongly. Benefits from positive channel and product mix, price increases, productivity savings and improved fixed cost absorption more than offset cost inflation.
- Marketing investment increased 26%, supporting the on-trade recovery and off-trade share momentum.

## Market highlights

- Net sales in Great Britain grew 20%, reflecting a strong recovery in the on-trade and resilient consumer demand in the off-trade. Spirits grew 12%, with growth across vodka, rum, Baileys and scotch, partially offset by a decline in gin. Guinness grew strongly, up 52%, driven by the on-trade recovery, as well as growth from innovation. Ready to drink grew double digits reflecting category momentum and innovation.
- Northern Europe net sales grew 15%, reflecting continued strong performance in the off-trade and recovery in the on-trade. Growth was broad-based across categories.
- Southern Europe net sales grew 33%, as a result of on-trade restrictions easing and a partial recovery of tourism. Scotch, gin, vodka, rum and Baileys all delivered strong double-digit growth.
- Ireland net sales increased 71%, lapping a significant decline in fiscal 21, driven by strong growth in Guinness as the on-trade recovered.
- Eastern Europe net sales increased 18%, reflecting continued momentum in the off-trade and recovery in the on-trade. Following an announcement in March 2022 to suspend exports to and sales in Russia, net sales in Russia declined in fiscal 22. Diageo announced on 28 June 2022 that it would wind down its operations in Russia over the following six months.
- Turkey net sales increased 49%, driven by price increases in response to inflation, increases in excise duties and currency devaluation. Growth also reflects strong volume growth, up 18%, as on-trade restrictions eased, and premiumisation.

# Asia Pacific

**In Asia Pacific, our focus is to grow in both developed and emerging markets across our entire portfolio, ranging from international and local spirits to ready to drink formats and beer. We have a clear long-term strategy that enables us to allocate resources behind brands that win in key consumer occasions and categories. We manage our portfolio to meet the increasing demands of the growing middle class, and aim to inspire our consumers to drink better, not more. This strategy ensures that we deliver consistent and efficient growth, with a key focus on developing our premium and super deluxe segments across the region.**

## Key financials

| | 2021 £ million | Exchange £ million | Acquisitions and disposals £ million | Organic movement £ million | 2022 £ million | Reported movement % |
|---|---|---|---|---|---|---|
| Net sales | 2,488 | (6) | – | **402** | **2,884** | **16** |
| Marketing | 418 | 4 | – | **68** | **490** | **17** |
| Operating profit before exceptional items | 608 | 5 | – | **98** | **711** | **17** |
| Exceptional operating items[1] | – | | | | **(241)** | |
| Operating profit | 608 | | | | **470** | **(23)** |

### Markets and categories

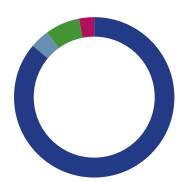
| | Organic volume movement % | Reported volume movement % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|---|
| Asia Pacific | **8** | **8** | **16** | **16** |
| | | | | |
| India | **7** | **7** | **17** | **16** |
| Greater China | **6** | **6** | **13** | **17** |
| Australia | **2** | **2** | **–** | **(2)** |
| South East Asia | **14** | **14** | **20** | **19** |
| North Asia | **(5)** | **(5)** | **12** | **6** |
| Travel Retail Asia and Middle East | **135** | **125** | **178** | **184** |
| | | | | |
| Spirits | **8** | **8** | **17** | **18** |
| Beer | **4** | **4** | **9** | **7** |
| Ready to drink | **3** | **3** | **2** | **(1)** |

**Reported net sales by market (%)**


### Global giants, local stars and reserve[2]

| | Organic volume movement[3] % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|
| Johnnie Walker | **24** | **28** | **28** |
| Shui Jing Fang[4] | **16** | **19** | **24** |
| McDowell's | **5** | **6** | **4** |
| Guinness | **5** | **9** | **7** |
| The Singleton | **11** | **16** | **18** |
| Smirnoff | **13** | **14** | **14** |
| Baileys | **12** | **13** | **12** |
| Windsor | **1** | **(9)** | **(13)** |

**Reported net sales by category (%)**




1. For further details on exceptional operating items see pages 156-157
2. Spirits brands excluding ready to drink and non-alcoholic variants
3. Organic equals reported volume movement, except for Smirnoff, which had reported volume movement of 12% due to a reclassification
4. Growth figures represent total Chinese white spirits of which Shui Jing Fang is the principal brand
5. Indian-Made Foreign Liquor (IMFL) whisky

## Our markets

Asia Pacific comprises India (including Nepal and Sri Lanka), Greater China (China, Taiwan, Hong Kong and Macau), Australia (including New Zealand), South East Asia (Vietnam, Thailand, Philippines, Indonesia, Malaysia, Singapore, Cambodia, Laos, Myanmar), North Asia (Korea and Japan) and Travel Retail Asia and Middle East.

## Supply operations

We have distilleries in Chengdu, China, that produce baijiu and in Bundaberg, Australia, that produce Bundaberg Rum. Our manufacturing plant in Bali produces the highest quality spirits for the Indonesian market. United Spirits Limited (USL) in India operates 15 manufacturing sites across the country. In addition, USL and Diageo brands are also produced under licence by third-party manufacturers. We have bottling plants in Thailand and Australia with ready to drink manufacturing capabilities.

## Route to consumer

In India, we manufacture, market and sell Indian whisky, rum, brandy and other spirits through our 55.94% shareholding in USL. Diageo also sells its own brands through USL.

In Greater China, our market presence is established through our 63.17% equity investment in Sichuan Shuijingfang Company Limited, which manufactures and sells baijiu, and our wholly owned entity Diageo China Limited, which sells Diageo brands, and a joint venture arrangement with Moët Hennessy where administrative and distribution costs are shared. Diageo operates a wholly owned subsidiary in Taiwan.

In Australia, we manufacture, market and sell Diageo products. In New Zealand, we operate through third-party distributors. In North Asia, we have our own distribution company in South Korea. In Japan, sales are through our wholly owned entity Diageo Japan, as well as through joint venture agreements with Moët Hennessy. Airport shops and airline operators are serviced through a dedicated Diageo sales and marketing organisation. In the Middle East, we sell our products through third-party distributors.

In South East Asia, spirits and beer are sold through a combination of Diageo companies, joint venture arrangements, and third-party distributors. In Thailand, Malaysia and Singapore, we have joint venture arrangements with Moët Hennessy, sharing administrative and distribution costs. Diageo operates wholly owned subsidiaries in the Philippines and Vietnam. In addition, in Vietnam, we own a 45.57% equity stake in Hanoi Liquor Joint Stock Company which manufactures and sells vodka. In Indonesia, Guinness is brewed by and distributed through third party arrangements.

## ‘Society 2030: Spirit of Progress’

Our positive drinking programmes continued to deliver. This year we reached 86 million consumers with brand moderation messages across the region. In Korea, we reached 1.75 million DRINKiQ users by leveraging mobile applications. The Johnnie Walker #BeWhiskyWise campaign drove visits to DRINKiQ.com, especially through a campaign with Grab in the Philippines. ‘Wrong Side of the Road’, our flagship programme on drink driving, reached over 91,000 consumers in China across the year, and over 136,000 in India. This year we launched SMASHED Online in Australia, Cambodia, Indonesia and the Philippines. In total SMASHED educated over 202,000 young people about the dangers of underage drinking across the Asia Pacific region in fiscal 22.

With the ongoing pandemic, we adapted Learning for Life (L4L) material to work online. In Indonesia, we partnered with the British Chamber of Commerce in the Greater Jakarta region, and with Saraswati in Bali, to provide training in business, hospitality and ecotourism to 766 people. L4L further benefitted over 5,000 people across Thailand, India, China, Vietnam and Taiwan. To champion ethnic diversity in Australia, we launched a Reconciliation Action Plan – strengthening relationships with the First Nation peoples.

Moving towards sustainability, our facility in Bali, Indonesia is now certified as using 100% renewable energy. Our first single malt distillery in Yunnan, China will be carbon neutral when it opens.

In September 2021, we launched our spiced rum, Reeftip, in Australia. Working in partnership with the Coral Nurture Program (CNP), 10% of its profits will go towards regenerating the Great Barrier Reef. This year Reeftip helped CNP propagate and plant more than 15,559 coral pieces across 12,400$m^2$ of reef. In April 2022, we announced our partnership with ecoSPIRITS in Southeast Asia. Together we’ll pilot a sustainable packaging format for on-trade venues in fiscal 23.

## Regional performance

- Reported net sales grew 16%, primarily reflecting strong organic growth.
- Organic net sales grew 16%, with strong growth in India and Greater China, and a partial recovery of Travel Retail Asia and Middle East.
- Spirits grew 17%, mainly driven by scotch, Chinese white spirits and IMFL whisky.[5]
- Organic operating margin was flat. Benefits from the partial recovery of Travel Retail, positive category mix and price increases were offset by strategic investments in Greater China, cost inflation and one-off costs.
- Marketing investment increased 16%, mainly driven by Greater China, across Chinese white spirits and scotch.

## Market highlights

- India net sales grew 17%, driven by strong consumer demand in the off-trade channel, recovery of the on-trade channel and strong premiumisation. The prestige and above segment grew 22%, ahead of popular segment growth of 3%. Scotch grew strong double digits, driven by Johnnie Walker, and IMFL whisky grew 7%.
- Greater China net sales increased 13%, primarily driven by Chinese white spirits growth of 18%, despite the impact of government restrictions related to Covid-19. Scotch growth of 6% reflects double-digit growth in mainland China, driven by the super-premium-plus segment, partially offset by a decline in Taiwan.
- Australia net sales were flat, following strong double-digit growth in fiscal 21.
- South East Asia net sales growth was impacted in the first half of the year by on-trade restrictions, international travel restrictions and reduced tourism due to Covid-19, with performance improving in the second half.
- Travel Retail Asia and Middle East net sales grew triple digits, following a significant decline in fiscal 21. This reflects a partial recovery as international travel restrictions eased and was primarily driven by Johnnie Walker.

# Africa

In Africa, our strategy is to grow our beers fast and our spirits faster, through selective participation across categories, including 'near beer', leveraging the broad range of the global Diageo portfolio. Guinness, Malta Guinness and several local brands, including Tusker and Serengeti, lead our brewing portfolio, while Johnnie Walker and Smirnoff are at the heart of our international premium spirits offerings. Locally, we produce a range of mainstream spirits at the mid-level price point which are tailored to local tastes and flavour profiles. Our operating model seeks to build resilience, agility and strength into our African businesses as they develop. We drive smart investments through local manufacturing, innovation and partnerships to unlock growth. Local sourcing is very important to our strategy, currently at 80%, directly supporting our commercial operations whilst bringing wider economic benefits to local communities, agricultural development and farmers.

## Key financials

| | 2021 £ million | Exchange £ million | Acquisitions and disposals £ million | Organic movement £ million | 2022 £ million | Reported movement % |
|---|---|---|---|---|---|---|
| Net sales | 1,412 | (33) | (5) | **308** | **1,682** | **19** |
| Marketing | 168 | (5) | – | **36** | **199** | **18** |
| Operating profit | 171 | (10) | 2 | **152** | **315** | **84** |

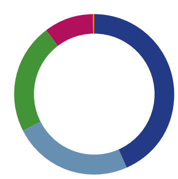
### Markets and categories

| | Organic volume movement % | Reported volume movement % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|---|
| Africa[1] | **13** | **12** | **22** | **19** |
| | | | | |
| East Africa | **22** | **22** | **25** | **24** |
| Africa Regional Markets[1] | **9** | **7** | **14** | **9** |
| Nigeria | **1** | **1** | **30** | **26** |
| South Africa[1] | **6** | **4** | **12** | **10** |
| | | | | |
| Spirits | **12** | **12** | **21** | **20** |
| Beer[1] | **14** | **13** | **22** | **19** |
| Ready to drink[1] | **11** | **5** | **28** | **20** |

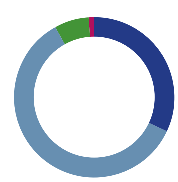
### Global giants and local stars[2]

| | Organic volume movement[3] % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|
| Guinness | **4** | **17** | **13** |
| Johnnie Walker | **16** | **22** | **22** |
| Smirnoff | **9** | **21** | **21** |
| **Other beer:** | | | |
| Malta Guinness[1] | **30** | **53** | **40** |
| Senator | **38** | **36** | **33** |
| Tusker | **14** | **27** | **26** |
| Serengeti | **9** | **9** | **10** |

**Reported net sales by market (%)**




**Reported net sales by category (%)**




1. Reported volume movement impacted by disposals. For further details see page 80.
2. Spirits brands excluding ready to drink and non-alcoholic variants
3. Organic equals reported volume movement, except for Malta Guinness, which had reported volume movement of 27%

## Our markets

The region comprises East Africa (Kenya, Tanzania and Uganda), Africa Regional Markets (including Ghana, Cameroon, Indian Ocean and Angola), Nigeria and South Africa.

## Supply operations

We have 12 breweries in Africa and 12 facilities which provide blending, malting and bottling services. In addition, our beer and mainstream spirits brands are produced under license by third parties in 14 African countries, and we distribute beer and spirits through several third-party relationships across the region.

## Route to consumer

Diageo has wholly owned entities in South Africa and Cameroon. It has controlling stakes in East Africa Breweries Limited (EABL), Guinness Nigeria, Guinness Ghana and Seychelles Breweries Limited, and a majority stake in a JV in Angola. In addition, Diageo has contract brewing arrangements in several countries across the region, most notably with the Castel Group, as well as spirits distribution contracts in more than 30 countries.

## 'Society 2030: Spirit of Progress'

This year, as we continued to champion inclusion and diversity, we invited 31 people with disabilities to our Diageo Bar Academy and Learning for Life (L4L) programmes. We also worked with 71 smallholder farmers in our sorghum-growing areas for the production of Senator Keg beer, and partnered with Sight Savers Kenya, an NGO promoting the inclusion of people with disabilities. Overall we trained over 7,500 people in our value chain through our L4L programme, 68% of whom were women.

Driving is one of our employees' most dangerous work-related activities. This year we refreshed our Driving on Roads programme across Africa, launching a bespoke safe-driving programme with e-learning modules. SMASHED educated over 188,000 people across the region on the dangers of underage drinking and, in South Africa, Wrong Side of The Road reached nearly 89,000 people.

Our breweries in Kenya and Uganda are in the final stage of commissioning new biomass facilities, which will be operational in early fiscal 23. In Ghana, meanwhile, as part of our efforts to reduce plastic waste, we invested in 10 plastic buyback centres.

In Nigeria, a key water recycling and reuse site in Ogba began delivering benefits and we're in the final stages of constructing another facility in Benin. Water recycling facilities are also operational in Kenya and Uganda.

We delivered a 6.5% improvement in water efficiency this year and, cumulatively, water use rates have improved by 19.7% against 2020 levels. The water volume we recycled or reused in our own production is over 289,000$m^3$, representing 5.1% of our total withdrawals.

This year we also reduced carbon emissions by 12.7% on last year, despite a year-on-year increase of 12.2% in packaged volumes. These reductions were driven by increased energy efficiency, and the use of on-site renewable energy and renewable energy attribute certificates.

## Regional performance

- Reported net sales grew 19%, primarily driven by strong organic growth. There were unfavourable impacts from foreign exchange and the disposal of the Meta Abo Brewery in Ethiopia.
- Organic net sales grew 22%, primarily driven by East Africa and Nigeria. All markets grew double digits.
- Strong growth in East Africa and Nigeria was driven by the continued recovery of the on-trade channel, particularly in Kenya, as well as price increases and focussed execution of our total beverage alcohol strategy.
- Beer net sales grew 22%, primarily driven by Malta Guinness, Guinness and Senator.
- Spirits net sales grew 21%, driven by double-digit growth in both mainstream and international spirits, particularly scotch, gin and vodka.
- Organic operating margin improved 643bps, primarily driven by price increases and leverage on operating costs. The benefit from price increases and productivity savings more than offset cost inflation.
- Marketing investment increased 22%, in line with organic net sales growth. Investment focussed on key categories, as well as on e-commerce and new route to consumer opportunities.

## Market highlights

- East Africa grew 25%, with double-digit growth in both beer and spirits across all markets. This reflected the continued recovery of the on-trade, benefitting beer in particular, as well as price increases.
- Nigeria net sales grew 30%, primarily driven by price increases, as well as an improved route to consumer, for certain brands. Beer, mainstream spirits and international spirits all grew double digits. Growth in beer was primarily driven by Malta Guinness and Guinness.
- Africa Regional Markets net sales grew 14%, led by strong growth in Ghana. Double-digit growth in beer, particularly Malta Guinness, was driven by the recovery of the on-trade channel and price increases.
- South Africa grew double digits. While restrictions related to Covid-19 eased compared to fiscal 21, the operating environment remained challenging.

# Latin America and Caribbean

**In Latin America and Caribbean (LAC) our strategic priority is to continue gaining share of TBA while expanding margin, driven by our vibrant scotch portfolio, with Johnnie Walker leading growth, as the most in-culture brand, and complemented by a broader base of brands and categories contributing to growth, such as Don Julio in tequila, Tanqueray in gin and Smirnoff in vodka, among others. This growth in share of TBA has been supported by a consumer-centric upweighted marketing investment that allows us to enter new occasions where non-spirit TBA categories have strong presence. To match our TBA growth agenda, we have upscaled our Society 2030 programs to achieve broader impact across a larger population base.**

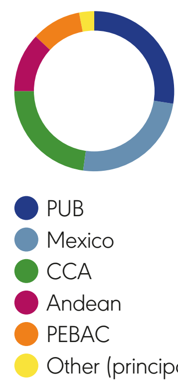
## Key financials

| | 2021 £ million | Exchange £ million | Acquisitions and disposals £ million | Organic movement £ million | Other[1] £ million | 2022 £ million | Reported movement % |
|---|---|---|---|---|---|---|---|
| Net sales | 1,046 | 25 | 3 | 451 | – | 1,525 | 46 |
| Marketing | 161 | 2 | 1 | 79 | – | 243 | 51 |
| Operating profit | 303 | 25 | – | 218 | (8) | 538 | 78 |

### Markets and categories

| | Organic volume movement % | Reported volume movement % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|---|
| Latin America and Caribbean | 17 | 17 | 43 | 46 |
| | | | | |
| PUB | 12 | 12 | 36 | 41 |
| Mexico | 6 | 7 | 24 | 28 |
| CCA | 34 | 34 | 56 | 61 |
| Andean | 18 | 18 | 45 | 38 |
| PEBAC | 31 | 31 | 64 | 62 |
| | | | | |
| Spirits | 17 | 17 | 45 | 48 |
| Beer | 2 | 2 | 6 | 2 |
| Ready to drink | 36 | 36 | 42 | 45 |

**Reported net sales by market (%)**




### Global giants and local stars[2]

| | Organic volume movement[3] % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|
| Johnnie Walker | 42 | 59 | 63 |
| Buchanan's | 48 | 59 | 60 |
| Don Julio | 9 | 34 | 37 |
| Old Parr | 47 | 61 | 62 |
| Smirnoff | 22 | 17 | 18 |
| Black & White | (3) | 9 | 10 |
| Baileys | 20 | 31 | 32 |
| Tanqueray | 37 | 41 | 45 |

**Reported net sales by category (%)**


1. Fair value remeasurements. For further details see page 60.
2. Spirits brands excluding ready to drink and non-alcoholic variants
3. Organic equals reported volume movement

## Our markets
Our Latin America and Caribbean (LAC) business comprises five markets: PUB (Paraguay, Uruguay and Brazil), Mexico, CCA (Central America and Caribbean), Andean (Colombia and Venezuela) and PEBAC (Peru, Ecuador, Bolivia, Argentina and Chile). Moving forward, from 1 July 2022, Uruguay and Paraguay domestic will move from PUB to PEBAC. This will drive simplification and allow us to become more consumer orientated and simplify ways of working.

## Supply operations
Many of the brands sold in the region are manufactured by Diageo's Supply Chain & Procurement in Europe, but we also own manufacturing facilities in Mexico, Brazil and Guatemala. We also work with a wide array of local co-packers, bottlers, and licensed brewers throughout Latin America and Caribbean. We recently announced plans to expand our manufacturing footprint in Mexico, through an investment of more than US$500 million dollars in new facilities in the state of Jalisco. This investment will support the company's growth in the tequila category by expanding production capacity.

## Route to consumer
We drive an efficient route to consumer through differentiated models tailored to each market's size and needs. In Mexico and Brazil, our in-market companies sell to a wide network of retailers, wholesalers and resellers, who make our product available to shoppers in both on- and off-premise outlets. In most of Central America and the Caribbean, Argentina, Ecuador, Bolivia and Venezuela, we partner with geographically exclusive distributors who are in charge of the sales execution and marketing programmes. In Colombia, Peru and Chile, we use hybrid models where Diageo sells directly to some key accounts while distributors are used to improve our products' physical availability.

## 'Society 2030: Spirit of Progress'
Promoting positive drinking remains a priority. To continue to engage our teams around our 'Society 2030: Spirit of Progress' ambition in Latin America, we created a contest where almost 300 employees developed and presented their own projects and ideas to promote positive drinking. The two winning projects were 'Derribando Mitos', based on a successful experience educating people about responsible drinking and moderation in Peru and Argentina, with the aim to be expanded to other markets, and 'SMASHED Everywhere', a regional effort to scale the award-winning alcohol education programme and implement it in all Latin American markets.

Our moderation messages reached 103 million consumers through a number of initiatives, these included 'Derribando Mitos'; and the YouTube series 'Wikitragos' in Colombia, which reached more than 20 million people and features actors, journalists and influencers promoting responsible drinking.

To help prevent underage drinking in Brazil, we activated SMASHED in partnership with the Education Secretariat in the states of Ceará, Pernambuco, Paraíba, Bahia and in Brasilia – reaching more than 102,000 students from public schools. In Jalisco, Mexico we implemented the programme in partnership with the local government, reaching over 16,000 students. The programme also took place in Colombia and Peru, resulting in over 138,000 young people being educated in total across the region.

We launched 'Wrong Side of the Road', our programme to educate people around the world on the dangers of drink driving, in Colombia, Mexico, Venezuela, Dominican Republic, Costa Rica, Panamá and Brazil. It has reached more than 41,000 people, engaging our employees, partners, customers and communities.

We remain committed to providing education and opportunity to our communities. This year Learning for Life trained over 5,000 people to become bartenders and entrepreneurs across the region, including in Mexico, Dominican Republic, Panamá, Peru, Colombia, Venezuela and Brazil. The programme embraced our diversity and inclusion agenda and had special initiatives like '#HablemosDeEmpreendedoras' in Mexico; and the launch of 'Drinks por Elas' in Brazil, an e-book to celebrate Women's Day featuring special drinks created by former women students and educators of the programme.

Our sustainability journey continues. Through our WASH programme, the introduction of a system to supply safe drinking water has benefitted 421 people in the community of Manoel Dias in Ceará state, Brazil.

## Regional performance
- Reported net sales grew 46%, primarily reflecting strong organic growth. A favourable currency impact primarily reflects the strengthening of the Brazilian real and Mexican peso.
- Organic net sales increased 43%, following double-digit growth in fiscal 21, with strong double-digit growth in all markets, particularly PEBAC, CCA and Colombia.
- Growth reflects further recovery of the on-trade channel and strong consumer demand in the off-trade channel, where Diageo continued to gain share in all markets except Mexico.
- Strong price/mix was driven by price increases across all markets, and positive mix from the strong performance of premium-plus scotch across the region.
- Spirits net sales grew 45%, primarily driven by strong double-digit, scotch growth, as well as strong growth across other categories, particularly tequila and gin.
- Organic operating margin improved by 564bps, primarily driven by price increases and premiumisation. This was partially offset by cost inflation and an increase in marketing investment.
- Marketing investment increased 49%, ahead of net sales growth.

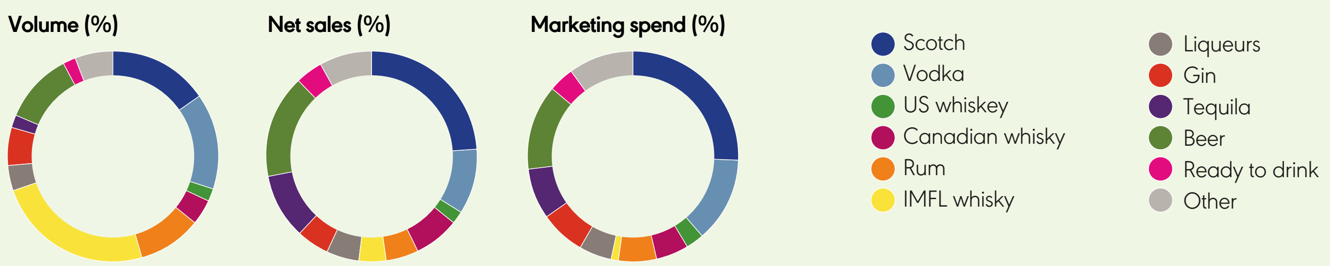
## Market highlights
- PUB (Paraguay, Uruguay and Brazil) net sales increased 36%, mainly driven by Brazil, up 32%, reflecting continued momentum in the off-trade channel, price increases, premiumisation and further recovery in the on-trade channel. PUB growth was mainly driven by scotch, up 43%, as well as double-digit growth in ready to drink, gin and vodka.
- Mexico net sales grew 24%, driven by scotch, up 29%, and tequila, up 25%. The strong performance in scotch reflects double digit growth in both Johnnie Walker and Buchanan's and the benefit from price increases.
- CCA (Central America and Caribbean) net sales grew 56%, primarily reflecting the recovery of the on-trade. Growth was mainly driven by scotch, up 62%.
- Andean (Colombia and Venezuela) net sales increased 45%, reflecting strong growth in Colombia. Growth was mainly driven by scotch, which benefitted from price increases.
- PEBAC (Peru, Ecuador, Bolivia, Argentina and Chile) net sales increased 64%, mainly driven by Chile and Peru, reflecting strong performance of the off-trade, price increases and the recovery of the on-trade channel. Growth was mainly driven by scotch, up 52%, primarily driven by Johnnie Walker.

# Category and brand review

## Key categories

| | Organic volume movement[1] % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|
| **Spirits[2]** | **10** | **21** | **21** |
| Scotch | 18 | 29 | 29 |
| Tequila | 47 | 55 | 57 |
| Vodka[3,4] | 12 | 11 | 11 |
| Canadian whisky | (1) | 6 | 7 |
| Rum[3] | 5 | 6 | 6 |
| Liqueurs | 11 | 10 | 8 |
| Gin[3] | 16 | 18 | 18 |
| Indian-Made Foreign Liquor (IMFL) whisky | 5 | 7 | 5 |
| US whiskey | 5 | 14 | 16 |
| **Beer** | **14** | **25** | **22** |
| **Ready to drink** | **14** | **18** | **21** |

1. Organic equals reported volume movement except for tequila 48%, liqueurs 10%, beer 13% and ready to drink 15%
2. Spirits brands excluding ready to drink and non-alcoholic variants
3. Vodka, rum and gin include IMFL variants
4. Vodka includes Ketel One Botanical




- Spirits grew 21%, with broad-based growth across categories, and particularly strong performance in scotch, tequila, vodka, gin and Chinese white spirits.
- Scotch grew 29%, led by Johnnie Walker up 34%, with both growing strong double digits across all regions.
- Tequila grew 55%, with Don Julio and Casamigos continuing to gain share of the fast-growing tequila category within the US spirits market.
- Vodka grew 11%, with growth across all regions, particularly Europe. Smirnoff and Ketel One both grew double digits.
- Gin grew 18%, primarily driven by strong double-digit growth in Europe, Africa and Latin America and Caribbean. Tanqueray and Gordon's both grew double digits.
- Beer grew 25%, primarily due to the strong recovery of Guinness, up 32%, driven by Ireland and Great Britain as on-trade restrictions eased, as well as double-digit growth in Africa.
- Ready to drink grew 18%, with double-digit growth across Europe, Africa, Latin America and Caribbean and North America.

### Scotch

**24% of Diageo's reported net sales and grew 29%**

- Strong double-digit growth across all regions, particularly in Latin America and Caribbean and Asia Pacific. Growth also reflects the partial recovery of Travel Retail where scotch grew strongly.
- Johnnie Walker net sales increased 34%, with strong double-digit growth across all regions.
  - Johnnie Walker Black Label grew 39%, with double-digit growth across all regions.
  - Johnnie Walker Blue Label grew 63%, with growth across all regions, particularly North America and Asia Pacific.
  - Johnnie Walker Red Label grew 22%, with double-digit growth in Europe, Latin America and Caribbean, and Asia Pacific, partially offset by a decline in North America.
- Scotch malts grew 17%, primarily driven by strong growth in Asia Pacific and Europe.
- Primary scotch brands grew 14%, primarily driven by double-digit growth of Black Dog and Black & White in India.

### Tequila

**10% of Diageo's reported net sales and grew 55%**

Growth reflects the strong performance of Casamigos and Don Julio which continued to gain share of the fast-growing tequila category within the US spirits market.

## Vodka

**10% of Diageo's reported net sales and grew 11%**

- Growth was across all regions, with a particularly strong performance in Europe.
- Smirnoff net sales increased 10%, with double-digit growth in all regions, except North America, where net sales declined.
- Ketel One grew 16%, primarily driven by North America, with double-digit growth in the core variant.
- Cîroc grew 6%, with strong growth in Europe. Net sales were broadly flat in North America, lapping double-digit growth in fiscal 21, with growth from recent innovations more than offset by declines in other variants.

## Canadian whisky

**7% of Diageo's reported net sales and grew 6%**

- Growth was driven by Crown Royal in North America, with double-digit growth in the core variant.
- Supply constraints of aged liquid led to slower growth in certain variants and a decline in Crown Royal's share of spirits and the Canadian whisky category within the US spirits market.

## Rum

**5% of Diageo's reported net sales and grew 6%**

- Captain Morgan grew across all regions except North America, with particularly strong growth in Europe.
- Zacapa grew in all regions, particularly in Europe.

## Liqueurs

**5% of Diageo's reported net sales and grew 10%**

- Growth was driven by Baileys Original in Europe and Latin America and Caribbean.
- Baileys net sales declined in North America, primarily due to lapping strong growth in fiscal 21.

## Gin

**5% of Diageo's reported net sales and grew 18%**

- Growth was across all regions except North America, with strong double-digit growth in Europe, Africa, Latin America and Caribbean and Asia Pacific.
- Tanqueray grew double digits in Europe, Latin America and Caribbean and Asia Pacific.
- Gordon's grew in all regions except North America.
- Growth in Africa was mainly driven by Gilbey's and Gordon's.

## IMFL whisky

**4% of Diageo's reported net sales and grew 7%**

- Growth was mainly driven by Royal Challenge and McDowell's No.1.

## US whiskey

**2% of Diageo's reported net sales and grew 14%**

- Performance was driven by strong growth in Bulleit in North America, despite glass supply constraints, which have now been resolved.

## Beer

**16% of Diageo's reported net sales and grew 25%**

- Growth was primarily driven by Guinness, up 32%, particularly in Europe due to the on-trade recovery.
- Malta Guinness and Senator also grew strong double-digits in Africa, with beer benefitting from the continued recovery of the on-trade, price increases and an improved route to consumer in Nigeria.
- Net sales of Smirnoff flavoured malt beverages decreased in North America, with growth in Smirnoff Ice more than offset by a decline in Smirnoff seltzers.

## Ready to drink

**4% of Diageo's reported net sales and grew 18%**

- Growth was double digit across Europe, Africa, Latin America and Caribbean and North America.
- Growth was primarily driven by Smirnoff Ice, as well as strong double-digit growth in Crown Royal cocktails.

## Global giants

**37% of Diageo's reported net sales and grew by 22%**

- All global giants delivered net sales growth led by Johnnie Walker, up 34%, which grew double digits across all regions.

## Local stars

**19% of Diageo's reported net sales and grew 14%**

- Growth was largely driven by double-digit growth in Buchanan's in Latin America and Caribbean and North America, Chinese white spirits in Greater China, Crown Royal in North America and Old Parr in Latin America and Caribbean.

## Reserve

**27% of Diageo's reported net sales and grew 31%**

- Growth was largely driven by the strong performance of Casamigos and Don Julio in US Spirits, Johnnie Walker Reserve variants in all regions, Chinese white spirits in Greater China and scotch malts.

## Global giants, local stars and reserve[1]:

| | Organic volume movement[2] % | Organic net sales movement % | Reported net sales movement % |
|---|---|---|---|
| **Global giants** | | | |
| Johnnie Walker | 25 | 34 | 35 |
| Guinness | 16 | 32 | 30 |
| Smirnoff | 11 | 11 | 11 |
| Baileys | 10 | 9 | 8 |
| Captain Morgan | 3 | 2 | 2 |
| Tanqueray | 18 | 20 | 20 |
| **Local stars** | | | |
| Crown Royal | 1 | 6 | 8 |
| Shui Jing Fang[3] | 16 | 19 | 24 |
| McDowell's | 5 | 5 | 4 |
| Buchanan's | 36 | 39 | 40 |
| JεB | 17 | 22 | 16 |
| Old Parr | 47 | 59 | 59 |
| Black & White | 7 | 20 | 20 |
| Yenì Raki | 9 | 15 | 14 |
| Windsor | 1 | (9) | (13) |
| Bundaberg | 1 | (4) | (6) |
| Ypióca | (9) | 8 | 12 |
| **Reserve** | | | |
| Don Julio | 24 | 36 | 38 |
| Casamigos | 83 | 90 | 93 |
| Scotch malts | 14 | 17 | 16 |
| Cîroc vodka | 4 | 6 | 7 |
| Ketel One[4] | 12 | 12 | 14 |
| Bulleit | 12 | 16 | 17 |

1. Brands excluding ready to drink, non-alcoholic variants and beer except Guinness
2. Organic equals reported volume movement
3. Growth figures represent total Chinese white spirits of which Shui Jing Fang is the principal brand
4. Ketel One includes Ketel One vodka and Ketel One Botanical

# 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 increase 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 '2021 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 starting from the year ending 30 June 2023. Reported results are recalculated as if they had been generated at those 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. It is believed 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 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.

The 2019 adjusted base is an appropriate comparator for fiscal 19 to fiscal 22 growth calculation on a constant basis, as the rates used for constant currency calculations in fiscal 20 were not materially different from those used for constant currency calculations in fiscal 21 and fiscal 22, and there were no material acquisition or disposal related adjustments or accounting treatment changes in the period.

2019 to 2022 growth on a constant basis is calculated as 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 2022 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.

## Organic growth excluding Travel Retail and Guinness

Additional information on the performance of the business excluding Travel Retail and Guinness was provided in prior years. However, the recovery of the on-trade for Guinness, particularly in Europe, and the partial recovery of Travel Retail has made this measure redundant and therefore no additional information is disclosed for fiscal 22.

## Adjustment in respect of hyperinflation

Before 2022, organic results from hyperinflationary economies were translated at respective years' actual rates which meant that organic movements were broadly in line with reported movements. A review of this methodology was completed in 2022 when Turkey became a hyperinflationary economy.

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' has been updated to include 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 are made to all income statement related lines in the organic movement calculations.

In the tables presenting the calculation of organic movements, 'hyperinflation' has been added as a reconciling item between reported and organic movements that also includes the relevant IAS 29 adjustments. Organic movements for Argentina, Venezuela and Lebanon have not been recalculated in line with this methodology as their contribution is not significant.

### Organic movement calculations for the year ended 30 June 2022 were as follows:

| | North America million | Europe million | Asia Pacific million | Africa million | Latin America and Caribbean million | Corporate million | Total million |
|---|---|---|---|---|---|---|---|
| **Volume (equivalent units)** | | | | | | | |
| 2019 reported | 49.4 | 45.4 | 95.1 | 33.6 | 22.4 | – | 245.9 |
| Disposals | (2.1) | (0.1) | – | (2.7) | – | – | (4.9) |
| 2019 adjusted | 47.3 | 45.3 | 95.1 | 30.9 | 22.4 | – | 241.0 |
| **Organic movement (2020)** | **0.1** | **(5.2)** | **(14.5)** | **(4.0)** | **(3.4)** | **–** | **(27.0)** |
| **Organic movement (2021)** | **5.1** | **2.9** | **7.0** | **4.8** | **4.1** | **–** | **23.9** |
| **2020 and 2021 movement on a constant basis** | **5.2** | **(2.3)** | **(7.5)** | **0.8** | **0.7** | **–** | **(3.1)** |

| | North America million | Europe million | Asia Pacific million | Africa million | Latin America and Caribbean million | Corporate million | Total million |
|---|---|---|---|---|---|---|---|
| **Volume (equivalent units)** | | | | | | | |
| 2021 reported | 53.2 | 42.7 | 87.6 | 31.8 | 23.1 | – | 238.4 |
| Disposals(2) | – | (0.7) | – | (0.4) | – | – | (1.1) |
| 2021 adjusted | 53.2 | 42.0 | 87.6 | 31.4 | 23.1 | – | 237.3 |
| **Organic movement** | **1.4** | **8.5** | **6.6** | **4.0** | **4.0** | **–** | **24.5** |
| **Acquisitions and disposals(2)** | **0.2** | **0.7** | **–** | **0.3** | **–** | **–** | **1.2** |
| **2022 reported** | **54.8** | **51.2** | **94.2** | **35.7** | **27.1** | **–** | **263.0** |
| **Organic movement %** | **3** | **20** | **8** | **13** | **17** | **–** | **10** |
| | | | | | | | |
| **2019 to 2022 reported growth %** | **11** | **13** | **(1)** | **6** | **21** | **–** | **7** |
| **2019 to 2022 growth on a constant basis %** | **13** | **15** | **(1)** | **16** | **21** | **–** | **9** |

| | North America £ million | Europe £ million | Asia Pacific £ million | Africa £ million | Latin America and Caribbean £ million | Corporate £ million | Total £ million |
|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | |
| 2021 reported | 5,803 | 4,795 | 5,146 | 2,020 | 1,369 | 20 | 19,153 |
| Exchange | 1 | (1) | (8) | 2 | 3 | – | (3) |
| Disposals(2) | – | (21) | – | (30) | – | – | (51) |
| 2021 adjusted | 5,804 | 4,773 | 5,138 | 1,992 | 1,372 | 20 | 19,099 |
| **Organic movement** | **735** | **1,298** | **525** | **433** | **541** | **35** | **3,567** |
| **Acquisitions and disposals(2)** | **38** | **26** | **–** | **20** | **5** | **–** | **89** |
| **Exchange** | **105** | **(885)** | **(39)** | **(42)** | **27** | **(1)** | **(835)** |
| **Hyperinflation** | **–** | **528** | **–** | **–** | **–** | **–** | **528** |
| **2022 reported** | **6,682** | **5,740** | **5,624** | **2,403** | **1,945** | **54** | **22,448** |
| **Organic movement %** | **13** | **27** | **10** | **22** | **39** | **175** | **19** |

| | North America £ million | Europe £ million | Asia Pacific £ million | Africa £ million | Latin America and Caribbean £ million | Corporate £ million | Total £ million |
|---|---|---|---|---|---|---|---|
| **Net sales** | | | | | | | |
| 2019 reported | 4,460 | 2,939 | 2,688 | 1,597 | 1,130 | 53 | 12,867 |
| Exchange | (34) | (19) | 1 | (2) | 4 | 2 | (48) |
| Reclassification | – | – | – | – | (10) | – | (10) |
| Disposals | (75) | (1) | (1) | (91) | (1) | – | (169) |
| 2019 adjusted | 4,351 | 2,919 | 2,688 | 1,504 | 1,123 | 55 | 12,640 |
| **Organic movement (2020)** | **105** | **(358)** | **(423)** | **(200)** | **(169)** | **(16)** | **(1,061)** |
| **Organic movement (2021)** | **929** | **108** | **308** | **258** | **275** | **(18)** | **1,860** |
| **2020 and 2021 movement on a constant basis** | **1,034** | **(250)** | **(115)** | **58** | **106** | **(34)** | **799** |

| | North America £ million | Europe £ million | Asia Pacific £ million | Africa £ million | Latin America and Caribbean £ million | Corporate £ million | Total £ million |
|---|---|---|---|---|---|---|---|
| **Net sales** | | | | | | | |
| 2021 reported | 5,209 | 2,558 | 2,488 | 1,412 | 1,046 | 20 | 12,733 |
| Exchange(1) | 1 | – | (2) | 2 | 1 | – | 2 |
| Disposals(2) | – | (20) | – | (20) | – | – | (40) |
| 2021 adjusted | 5,210 | 2,538 | 2,486 | 1,394 | 1,047 | 20 | 12,695 |
| **Organic movement** | **754** | **766** | **402** | **308** | **451** | **35** | **2,716** |
| **Acquisitions and disposals(2)** | **34** | **23** | **–** | **15** | **3** | **–** | **75** |
| **Exchange(1)** | **97** | **(304)** | **(4)** | **(35)** | **24** | **(1)** | **(223)** |
| **Hyperinflation** | **–** | **189** | **–** | **–** | **–** | **–** | **189** |
| **2022 reported** | **6,095** | **3,212** | **2,884** | **1,682** | **1,525** | **54** | **15,452** |
| **Organic movement %** | **14** | **30** | **16** | **22** | **43** | **175** | **21** |
| | | | | | | | |
| **2019 to 2022 reported growth %** | **37** | **9** | **7** | **5** | **35** | **2** | **20** |
| **2019 to 2022 growth on a constant basis %** | **41** | **18** | **11** | **24** | **50** | **2** | **28** |

| | North America £ million | Europe £ million | Asia Pacific £ million | Africa £ million | Latin America and Caribbean £ million | Corporate £ million | Total £ million |
|---|---|---|---|---|---|---|---|
| **Marketing** | | | | | | | |
| 2021 reported | 936 | 473 | 418 | 168 | 161 | 7 | 2,163 |
| Exchange | – | (1) | 1 | (3) | – | (1) | (4) |
| Disposals(2) | – | (1) | – | (2) | – | – | (3) |
| 2021 adjusted | 936 | 471 | 419 | 163 | 161 | 6 | 2,156 |
| **Organic movement** | **222** | **122** | **68** | **36** | **79** | **5** | **532** |
| **Acquisitions and disposals(2)** | **24** | **1** | **–** | **2** | **1** | **–** | **28** |
| **Fair value remeasurement of contingent considerations, equity option and earn out arrangements** | **(1)** | **–** | **–** | **–** | **–** | **–** | **(1)** |
| **Exchange** | **19** | **(34)** | **3** | **(2)** | **2** | **1** | **(11)** |
| **Hyperinflation** | **–** | **17** | **–** | **–** | **–** | **–** | **17** |
| **2022 reported** | **1,200** | **577** | **490** | **199** | **243** | **12** | **2,721** |
| **Organic movement %** | **24** | **26** | **16** | **22** | **49** | **83** | **25** |

| | North America £ million | Europe £ million | Asia Pacific £ million | Africa £ million | Latin America and Caribbean £ million | Corporate £ million | Total £ million |
|---|---|---|---|---|---|---|---|
| **Operating profit before exceptional items** | | | | | | | |
| 2019 reported | | | | | | | 4,116 |
| Exchange | | | | | | | – |
| Disposal | | | | | | | (29) |
| 2019 adjusted | | | | | | | 4,087 |
| **Organic movement (2020)** | | | | | | | **(589)** |
| **Organic movement (2021)** | | | | | | | **627** |
| **2020 and 2021 movement on a constant basis** | | | | | | | **38** |

| | North America £ million | Europe £ million | Asia Pacific £ million | Africa £ million | Latin America and Caribbean £ million | Corporate £ million | Total £ million |
|---|---|---|---|---|---|---|---|
| **Operating profit before exceptional items** | | | | | | | |
| 2021 reported | 2,237 | 635 | 608 | 171 | 303 | (208) | 3,746 |
| Exchange(1) | (14) | (2) | (5) | 10 | 7 | (9) | (13) |
| Fair value remeasurement of contingent considerations and equity option | 7 | 27 | – | – | – | – | 34 |
| Acquisitions and disposals(2) | 9 | (10) | – | 12 | – | – | 11 |
| 2021 adjusted | 2,239 | 650 | 603 | 193 | 310 | (217) | 3,778 |
| **Organic movement** | **148** | **418** | **98** | **152** | **218** | **(39)** | **995** |
| **Acquisitions and disposals(2)** | **(28)** | **11** | **–** | **(10)** | **–** | **–** | **(27)** |
| **Fair value remeasurement of contingent considerations, equity option and earn out arrangements** | **32** | **36** | **–** | **–** | **(3)** | **–** | **65** |
| **Fair value remeasurement of biological assets** | **–** | **–** | **–** | **–** | **(5)** | **–** | **(5)** |
| **Exchange(1)** | **63** | **(108)** | **10** | **(20)** | **18** | **18** | **(19)** |
| **Hyperinflation** | **–** | **10** | **–** | **–** | **–** | **–** | **10** |
| **2022 reported** | **2,454** | **1,017** | **711** | **315** | **538** | **(238)** | **4,797** |
| **Organic movement %** | **7** | **64** | **16** | **79** | **70** | **(18)** | **26** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Organic operating margin % (3)** | | | | | | | |
| **2022** | **40.0** | **32.3** | **24.3** | **20.3** | **35.2** | **n/a** | **31.0** |
| 2021 | 43.0 | 25.6 | 24.3 | 13.8 | 29.6 | n/a | 29.8 |
| **Margin movement (bps)** | **(295)** | **671** | **2** | **643** | **564** | **n/a** | **121** |

| | |
|---|---|
| **2019 to 2022 reported growth %** | **17** |
| **2019 to 2022 growth on a constant basis %** | **25** |

(i) For the reconciliation of sales to net sales, see page 59.
(ii) Percentages and margin movement are calculated on rounded figures.

Notes: Information in respect of the organic movement calculations

(1) The impact of movements in exchange rates on reported figures for net sales and operating profit was principally in respect of the translation exchange impact of the strengthening of sterling against the euro and Turkish lira, partially offset by weakening of sterling against the US dollar
(2) Acquisitions and disposals that had an effect on volume, sales, net sales, marketing and operating profit in the year ended 30 June 2022, are detailed on page 80.
(3) Operating margin calculated by dividing Operating profit before exceptional items by net sales.

In the year ended 30 June 2022, the acquisitions and disposals that affected volume, sales, net sales, marketing and operating profit were as follows, as per footnote (2) on the previous page:

| | Volume equ. units million | Sales £ million | Net sales £ million | Marketing £ million | Operating profit £ million |
|---|---|---|---|---|---|
| **Year ended 30 June 2021** | | | | | |
| **Acquisition** | | | | | |
| Aviation Gin and Davos Brands | – | – | – | – | 9 |
| Chase Distillery | – | – | – | – | 2 |
| Lone River Ranch Water | – | – | – | – | – |
| Loyal 9 Cocktails | – | – | – | – | – |
| | – | – | – | – | 11 |
| **Disposals** | | | | | |
| South African ready to drink | – | (8) | (4) | – | – |
| Meta Abo Brewery | (0.4) | (22) | (16) | (2) | 12 |
| Picon | (0.7) | (21) | (20) | (1) | (12) |
| | (1.1) | (51) | (40) | (3) | – |
| | | | | | |
| **Acquisitions and disposals** | **(1.1)** | **(51)** | **(40)** | **(3)** | **11** |
| | | | | | |
| **Year ended 30 June 2022** | | | | | |
| **Acquisitions** | | | | | |
| Aviation Gin and Davos Brands | **–** | **6** | **5** | **(4)** | **(11)** |
| Chase Distillery | **–** | **5** | **3** | **(1)** | **(2)** |
| Lone River Ranch Water | **0.1** | **14** | **13** | **(13)** | **(13)** |
| Loyal 9 Cocktails | **–** | **14** | **11** | **(5)** | **(2)** |
| Mezcal Unión | **0.1** | **6** | **5** | **(1)** | **1** |
| 21Seeds | **–** | **3** | **3** | **(2)** | **(2)** |
| | **0.2** | **48** | **40** | **(26)** | **(29)** |
| **Disposal** | | | | | |
| Meta Abo Brewery | **0.3** | **20** | **15** | **(2)** | **(10)** |
| Picon | **0.7** | **21** | **20** | **–** | **12** |
| | **1** | **41** | **35** | **(2)** | **2** |
| | | | | | |
| **Acquisitions and disposals** | **1.2** | **89** | **75** | **(28)** | **(27)** |

## Earnings per share before exceptional items

Earnings per share before exceptional items is calculated by dividing profit attributable to equity shareholders of the parent company before exceptional items by the weighted average number of shares in issue.

Earnings per share before exceptional items for the year ended 30 June 2022 and 30 June 2021 are set out in the table below:

| | **2022 £ million** | 2021 £ million |
|---|---|---|
| Profit attributable to equity shareholders of the parent company | **3,249** | 2,660 |
| Exceptional operating and non-operating items | **405** | 1 |
| Exceptional tax charges | **–** | 88 |
| Tax in respect of exceptional operating and non-operating items | **(31)** | (4) |
| Exceptional items attributable to non-controlling interests | **(103)** | 1 |
| | **3,520** | 2,746 |
| | | |
| **Weighted average number of shares** | **million** | million |
| Shares in issue excluding own shares | **2,318** | 2,337 |
| Dilutive potential ordinary shares | **7** | 8 |
| | **2,325** | 2,345 |
| | | |
| | **pence** | pence |
| **Basic earnings per share before exceptional items** | **151.9** | 117.5 |
| **Diluted earnings per share before exceptional items** | **151.4** | 117.1 |

## Free cash flow

Free cash flow comprises the net cash flow from operating activities aggregated with the net cash received/paid for working capital loans receivable, cash paid or received for investments and the net cash expenditure paid for property, plant and equipment and computer software that are included in net cash flow from investing activities.

The remaining components of net cash flow from investing activities that do not form part of free cash flow, as defined by the group's management, are in respect of the acquisition and sale of businesses and non-working capital loans to and from associates.

The group's management regards the purchase and disposal of property, plant and equipment and computer software as ultimately non-discretionary since ongoing investment in plant, machinery and technology is required to support the day-to-day operations, whereas acquisition and sale of businesses are discretionary.

Where appropriate, separate explanations are given for the impacts of acquisition and sale of businesses, dividends paid and the purchase of own shares, each of which arises from decisions that are independent from the running of the ongoing underlying business.

Free cash flow reconciliations for the year ended 30 June 2022 and 30 June 2021 are set out in the table below:

| | 2022<br>£ million | 2021<br>£ million |
|---|---|---|
| Net cash inflow from operating activities | 3,935 | 3,654 |
| Disposal of property, plant and equipment and computer software | 17 | 13 |
| Purchase of property, plant and equipment and computer software | (1,097) | (626) |
| Movements in loans and other investments | (72) | (4) |
| **Free cash flow** | 2,783 | 3,037 |

## Operating cash conversion

Operating cash conversion is calculated by dividing cash generated from operations excluding cash inflows and outflows in respect of exceptional items, dividends received from associates, maturing inventories, provisions, other items and post employment payments in excess of the amount charged to operating profit by operating profit before depreciation, amortisation, impairment and exceptional operating items.
The measure is excluding any hyperinflation adjustment above the organic treatment of hyperinflationary economies. The ratio is stated at the budgeted exchange rates for the respective year and is expressed as a percentage.
Operating cash conversion for the year ended 30 June 2022 and 30 June 2021 were as follows:

| | 2022<br>£ million | 2021<br>£ million |
|---|---|---|
| Profit for the year | 3,338 | 2,799 |
| Taxation | 1,049 | 907 |
| Share of after tax results of associates and joint ventures | (417) | (334) |
| Net finance charges | 422 | 373 |
| Non-operating items | 17 | (14) |
| Operating profit | 4,409 | 3,731 |
| Exceptional operating items | 388 | 15 |
| Fair value remeasurement | (60) | 36 |
| Depreciation, amortisation and impairment(1) | 489 | 447 |
| Hyperinflation adjustment | (10) | – |
| Retranslation to budgeted exchange rates | 27 | 375 |
| | 5,243 | 4,604 |
| | | |
| Cash generated from operations | 5,212 | 4,857 |
| Net exceptional cash paid/(received)(2) | 15 | (49) |
| Post employment payments less amounts included in operating profit(1) | 89 | 35 |
| Net movement in maturing inventories(3) | 360 | 174 |
| Provision movement | 58 | 60 |
| Dividends received from associates | (190) | (290) |
| Other items(1) | (53) | (88) |
| Hyperinflation adjustment | (22) | – |
| Retranslation to budgeted exchange rates | 42 | 387 |
| | 5,511 | 5,086 |
| | | |
| **Operating cash conversion** | **105.1 %** | **110.5 %** |

(1) Excluding exceptional items.
(2) Exceptional cash payments for other donations was £2 million (2021 - £1 million) and for winding down Russian operations was £13 million (2021 – £nil). For the year ended 30 June 2021, exceptional cash received for substitution drawback was £60 million and exceptional cash payments for tax payments were £10 million.
(3) Excluding non-cash movements such as exchange and the impact of acquisitions and disposals.

## Return on average invested capital

Return on average invested capital is used by management to assess the return obtained from the group's asset base and is calculated to aid evaluation of the performance of the business.

The profit used in assessing the return on average invested capital reflects operating profit before exceptional items attributable to equity shareholders of the parent company plus share of after tax results of associates and joint ventures after applying the tax rate before exceptional items for the fiscal year. Average invested capital is calculated using the average derived from the consolidated balance sheets at the beginning, middle and end of the year. Average capital employed comprises average net assets attributable to equity shareholders of the parent company for the year, excluding net post employment benefit assets/liabilities (net of deferred tax) and average net borrowings. This average capital employed is then aggregated with the average restructuring and integration costs net of tax, and goodwill written off to reserves at 1 July 2004, the date of transition to IFRS, to obtain the average total invested capital.

Calculations for the return on average invested capital for the year ended 30 June 2022 and 30 June 2021 are set out in the table below:

| | 2022<br>£ million | 2021<br>£ million |
|---|---|---|
| Operating profit | 4,409 | 3,731 |
| Exceptional operating items | 388 | 15 |
| Profit before exceptional operating items attributable to non-controlling interests | (192) | (138) |
| Share of after tax results of associates and joint ventures | 417 | 334 |
| Tax at the tax rate before exceptional items of 22.5% (2021 – 22.2%) | (1,173) | (906) |
| | 3,849 | 3,036 |
| | | |
| Average net assets (excluding net post employment benefit assets/liabilities) | 8,428 | 8,146 |
| Average non-controlling interests | (1,641) | (1,587) |
| Average net borrowings | 12,859 | 12,672 |
| Average integration and restructuring costs (net of tax) | 1,639 | 1,639 |
| Goodwill at 1 July 2004 | 1,562 | 1,562 |
| Average invested capital | 22,847 | 22,432 |
| | | |
| **Return on average invested capital** | 16.8 % | 13.5 % |

## Adjusted net borrowings to adjusted EBITDA

Diageo manages its capital structure with the aim of achieving capital efficiency, providing flexibility to invest through the economic cycle and giving efficient access to debt markets at attractive cost levels. The group regularly assesses its debt and equity capital levels to enhance its capital structure by reviewing the ratio of adjusted net borrowings to adjusted EBITDA (earnings before exceptional operating items, interest, tax, depreciation, amortisation and impairment).

Calculations for the ratio of adjusted net borrowings to adjusted EBITDA at 30 June 2022 and 30 June 2021 are set out in the table below:

| | 2022<br>£ million | 2021<br>£ million |
|---|---|---|
| Borrowings due within one year | 1,522 | 1,862 |
| Borrowings due after one year | 14,498 | 12,865 |
| Fair value of foreign currency derivatives and interest rate hedging instruments | (73) | (232) |
| Lease liabilities | 475 | 363 |
| Less: Cash and cash equivalents | (2,285) | (2,749) |
| Net borrowings | 14,137 | 12,109 |
| Post employment benefit liabilities before tax | 402 | 574 |
| **Adjusted net borrowings** | 14,539 | 12,683 |
| | | |
| Profit for the year | 3,338 | 2,799 |
| Taxation | 1,049 | 907 |
| Net finance charges | 422 | 373 |
| Depreciation, amortisation and impairment (excluding exceptional intangible impairment) | 492 | 447 |
| Exceptional intangible impairment | 336 | – |
| EBITDA | 5,637 | 4,526 |
| Exceptional operating items (excluding impairment) | 49 | 15 |
| Non-operating items | 17 | (14) |
| **Adjusted EBITDA** | 5,703 | 4,527 |
| | | |
| **Adjusted net borrowings to adjusted EBITDA** | 2.5 | 2.8 |

## Tax rate before exceptional items

Tax rate before exceptional items is calculated by dividing the total tax charge before tax charges and credits in respect of exceptional items, by profit before taxation adjusted to exclude the impact of exceptional operating and non-operating items, expressed as a percentage. The measure is used by management to assess the rate of tax applied to the group's operations before tax on exceptional items.

The tax rates from operations before exceptional and after exceptional items for the year ended 30 June 2022 and year ended 30 June 2021 are set out in the table below:

| | 2022<br>£ million | 2021<br>£ million |
|---|---|---|
| Tax before exceptional items (a) | 1,080 | 823 |
| Tax in respect of exceptional items | (31) | (4) |
| Exceptional tax charge | – | 88 |
| **Taxation on profit (b)** | 1,049 | 907 |
| | | |
| Profit before taxation and exceptional items (c) | 4,792 | 3,707 |
| Non-operating items | (17) | 14 |
| Exceptional operating items | (388) | (15) |
| **Profit before taxation (d)** | 4,387 | 3,706 |
| | | |
| **Tax rate before exceptional items (a/c)** | 22.5 % | 22.2 % |
| Tax rate after exceptional items (b/d) | 23.9 % | 24.5 % |

## Other definitions

Volume share is a brand's retail volume expressed as a percentage of the retail volume of all brands in its segment. Value share is a brand's retail sales value expressed as a percentage of the retail sales value of all brands in its segment. Unless otherwise stated, share refers to value share.

Net sales are sales less excise duties. Diageo incurs excise duties throughout the world. In the majority of countries, excise duties are effectively a production tax which becomes payable when the product is removed from bonded premises and is not directly related to the value of sales. It is generally not included as a separate item on external invoices; increases in excise duties are not always passed on to the customer and where a customer fails to pay for a product received, the group cannot reclaim the excise duty. The group therefore recognises excise duty as a cost to the group.

Price/mix is the number of percentage points difference between the organic movement in net sales and the organic movement in volume. The difference arises because of changes in the composition of sales between higher and lower priced variants/markets or as price changes are implemented.

Shipments comprise the volume of products sold to Diageo's immediate (first tier) customers. Depletions are the estimated volume of the onward sales made by Diageo's immediate customers. Both shipments and depletions are measured on an equivalent units basis.

References to emerging markets include Poland, Eastern Europe, Turkey, Africa, Latin America and Caribbean, and Asia Pacific (excluding Australia, Korea and Japan).

References to reserve brands include, but are not limited to, Johnnie Walker Blue Label, Johnnie Walker Green Label, Johnnie Walker Gold Label Reserve, Johnnie Walker Aged 18 Years, John Walker & Sons Collection and other Johnnie Walker super premium brands; The Singleton, Cardhu, Talisker, Lagavulin, Oban and other malt brands; Buchanan's Special Reserve, Buchanan's Red Seal; Haig Club whisky; Copper Dog whisky; Roe & Co; Bulleit Bourbon, Bulleit Rye; Orphan Barrel whiskey; Tanqueray No. TEN, Tanqueray ready to drink, Tanqueray Malacca Gin; Aviation, Chase, Jinzu and Villa Ascenti gin; Cîroc, Ketel One vodka, Ketel One Botanical; Don Julio, Casamigos and DeLeón tequila; Zacapa, Bundaberg Master Distillers' Collection and Pampero Aniversario rum; Shui Jing Fang, Seedlip, Belsazar and Pierde Almas.

References to global giants include the following brand families: Johnnie Walker, Smirnoff, Captain Morgan, Baileys, Tanqueray and Guinness. Local stars include Buchanan's, Bundaberg, Crown Royal, JεB, McDowell's, Old Parr, Yenì Raki, Black & White, Shui Jing Fang, Windsor and Ypióca. Global giants and local stars exclude ready to drink, non-alcoholic variants and beer except Guinness. References to Shui Jing Fang represent total Chinese white spirits of which Shui Jing Fang is the predominant brand.

References to ready to drink also include ready to serve products, such as pre-mixed cans in some markets.

References to beer include cider, flavoured malt beverages and some non-alcoholic products such as Malta Guinness.

The results of Hop House 13 Lager are included in the Guinness figures.

There is no industry-agreed definition for price tiers and for data providers such as IWSR, definitions can vary by market. Diageo bases internal price tier definitions on a segmentation most consistent with IWSR as the IWSR taxonomy is widely accepted and provides the industry with a common point of reference.

References to the group include Diageo plc and its consolidated subsidiaries.

**This Strategic 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 27 July 2022.**