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 **10.3% ↑** 2021: 9.9% ↑	Volume movement **10.3% ↑** 2021: 11.2% ↑
Reported net sales movement **21.4% ↑** 2021: 8.3% ↑	Net sales movement **21.4% ↑** 2021: 16.0% ↑
Reported operating profit movement **18.2% ↑** 2021: 74.6% ↑	Operating profit movement **26.3% ↑** 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.

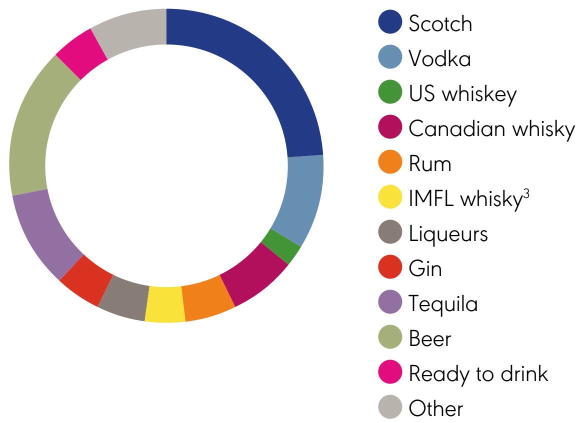
Reported and organic net sales were up across all key categories, with particularly strong growth in scotch, tequila and beer. Our global giants grew organic net sales by 22%, with all brands in growth and Johnnie Walker up 34%. Our Reserve brands grew 31%, largely driven by Casamigos, up 90%, Don Julio, 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 607,374Δ 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.

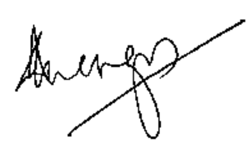
We are proud that, in June 2022, we captured eight of the top ten positions in the Drinks International 'Millionaires' Club' – an annual list featuring the fastest growing spirits brands around the world, which achieve annual sales volumes exceeding one million nine-litre cases. Consistent investment 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.