# Diageo Capital plc

# Annual report and financial statements
# 30 June 2023

Registered number: SC040795

**Diageo Capital plc**
**Registered number: SC040795**
**Year ended 30 June 2023**

**CONTENTS** **PAGE**

## STRATEGIC REPORT

The Directors present their strategic report for the year ended 30 June 2023.

### Principal activities

Diageo Capital plc (the "company") is engaged in the provision of treasury risk and cash management for Diageo plc and its subsidiary undertakings (the "group"). Diageo Capital plc's principal activity is to raise external funds, principally using the London and New York financial markets. The company finances other companies of the group via intragroup loans and deposits. Foreign exchange translation hedging, interest rate risk management and cash management are also performed by the company.

### Business review

*Development and performance of the business of the company during the financial year and position of the company as at 30 June 2023.*

The results of the company and the development of its business are influenced to a considerable extent by group financing requirements. Further information on the risk management policies of the group is included in the Annual Report 2023 of Diageo plc (see note 16 of the consolidated financial statements of Diageo plc).

Net finance income was £84 million in the year ended 30 June 2023, which is a £89 million increase from net finance charge of £5 million in the year ended 30 June 2022.

External borrowings increased by £407 million at year ended 30 June 2023 to £6,404 million from £5,997 million at year ended 30 June 2022, which was mainly driven by the company issuing bonds in the amount of £1,788 million and repaying bonds of £1,083 million during fiscal 23.

*Financial and other key performance indicators*

As the company forms part of the group's treasury operations, the company's performance is measured at the group level.

The company receives management fee income from Diageo plc to reimburse the expenses incurred in relation to treasury services provided to the group.

*Principal and financial risks and uncertainties facing the company as at 30 June 2023*

The principal risks identified by the group are disclosed on page 88 to 93 of the Diageo plc Annual Report 2023. The most relevant of the group risks to this entity are the ones we have selected and articulated below, together with specific considerations relating to the company's operations and environment. If any of these risks occur, the company's business, financial condition and operational results could suffer. As the company forms part of the group's financial operations, the financial risk management measures used by management to analyse the development, performance and position of the company's business are mainly similar to those facing the group as a whole and are managed by the group's treasury department.

## STRATEGIC REPORT (continued)

**Business review (continued)**

*Principal and financial risks and uncertainties facing the company as at 30 June 2023 (continued)*

In addition, given that the company performs treasury functions for the group, as set out in the detailed description under note 10 'Financial instruments and risk management', it is exposed to foreign currency risk associated with certain foreign currency denominated bonds and interest rate risk arising principally on changes in US dollar and sterling interest rates. The company uses derivative financial instruments to hedge its exposures to fluctuations in interest and exchange rates. Cash flow hedges are carried out to hedge the currency risk of highly probable future foreign currency cash flows, as well as the cash flow risk from changes in interest rates. Fair value hedges are carried out to manage the currency and/or interest rate risks to which the fair value of certain assets and liabilities are exposed.

Starting in fiscal 24, in line with reporting requirements the functional currency of Diageo plc changed from sterling to US dollar. Diageo Capital has also changed its presentation currency to US dollar. For further details please refer to Note 14 of the financial statements.

The Directors have assessed the potential risk of the increasing interest rates and resulting potential increase in cost of borrowing on the operation and the financial statements of the company. Considering the company forms part of the group's financial operations and as such it will be reimbursed for any potential increase in the charges of its financial instruments therefore the impact of this risk is considered to be very limited.

*Geopolitical and macroeconomic volatility*

Geopolitical forces, primarily driven by the Russia / Ukraine conflict, coupled with macro-economic stress, increase the likelihood of international and domestic tensions, disputes and conflict that might impact the business. Macroeconomic conditions include inflationary pressures, unemployment and global trade tensions. Financial volatility risk could arise from variability in financial markets, interest rate fluctuations and currency instability. 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 the freedom to operate in a market and could adversely impact financial performance.

The group monitors key business drivers and performance, to prepare for rapid changes in the external environment and there are an enhanced group-level strategic analysis and scenario planning to strengthen market strategies and risk management.

The group has continued to improve long-term forecasting and planning capabilities, to better assess and respond to long-term opportunities and risks. The group has 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 multi-country investment strategy with a central hedging and currency monitoring to manage volatility.

During the year ended 30 June 2023, the group introduced advanced analytics to scenario plan volume ranges over a longer time period, allowing better mitigation against changes in the external landscape. Scenario-planning has been embedded into Executive and Board meetings and integrated into the strategic planning cycle. Inflation has remained high and has reduced more slowly than expected in many countries. High levels of inflation are expected to continue in the short to medium term. Foreign exchange volatility has increased across several markets. There are dedicated cross-functional steering groups to manage acute issues including inflation and foreign exchange volatility.

## STRATEGIC REPORT (continued)

**Business review (continued)**

*Cyber and IT resilience*

Cyber-attacks are becoming more prevalent, and there is an increased dependency on third-party IT services and solutions. As geopolitical tensions are growing, there is a rise in more sophisticated cyber threats affecting all organisations, therefore the risk of a cyber-attack is heightened.

The group has strong enterprise-wide cyber risk management processes and policies and next generation security technologies to tackle advanced attacks. There is an IT and Operations Technology ("OT") disaster recovery and business continuity testing across the key systems. The group continue to enhance and deploy next generation security technologies to tackle advanced attacks and upgrade the enterprise resource planning system and associated processes to ensure they remain resilient.

*Climate Risk*

Considering that the company forms part of the group's treasury operations, the probability of climate change related risks having a significant and direct impact on the activities and operation of the company is remote. The Directors believe that the risk mitigation actions taken in relation to climate risk by the group are appropriate measures in managing direct or indirect risks posed by climate change. Including the risk to the company of being able to access financing at competitive rates where borrowings could become sustainability linked. Based on the climate risk assessment performed by the group, the risk attached to the recoverability of intercompany balances is considered to be remote.

*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.

The Company is a member of the group of companies (the "Group") whose ultimate holding company is Diageo plc ("Diageo"). In accordance with the requirements of UK company law, Diageo has included in its 2023 Annual Report and Accounts on page 9 a statement as to how the directors of Diageo have had regard to the matters set out in Section 172 of the Companies Act 2006.

In order to ensure consistency in how the Group operates with regard to its wider stakeholders, the Group has adopted an internal Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure, amongst other things, that all companies throughout the Group, including the Company, have regard to its wider stakeholders in a consistent manner.

The Company has therefore had regard to the matters set out in Section 172 of the Act in a manner that is consistent with the approach adopted by Diageo, while at the same time ensuring the directors of the Company are fulfilling their duties.

## STRATEGIC REPORT (continued)

**Business review (continued)**

*Main activities of the Board*

The principal activities of the Board during the year include:

- Approval of a change in the company's functional and reporting currency from sterling to US dollar;
- Extension of existing credit facilities; and
- Approval of the financial statements for the year ended 30 June 2022.

On behalf of the Board

J M C Edmunds
*Director*

11 Lochside Place
Edinburgh
Scotland
EH12 9HA

25 October 2023

**Diageo Capital plc**
**Registered number: SC040795**
**Year ended 30 June 2023**

# DIRECTORS' REPORT

The Directors have pleasure in submitting their Directors' report and audited financial statements for the year ended 30 June 2023.

The Directors foresee no changes in the company's activities. The company is incorporated and domiciled as a public company limited by shares in Scotland, United Kingdom. The registered address is 11 Lochside Place, Edinburgh, Scotland, EH12 9HA.

## Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the strategic report on pages 2-5. The company is expected to continue to generate profit for its own account and to remain in a positive net asset position for the foreseeable future. The company is in net current liability position, however the company participates in the group's centralised treasury arrangements and the parent will provide financial support for the foreseeable future. The Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company to continue as a going concern. On the basis of their assessment, the company's Directors have a reasonable expectation that the company will be able to continue in operational existence for a period of at least 12 months from the date the financial statements are approved and signed as the ultimate parent undertaking has agreed its policy is to provide financial support for a period of at least 12 months from the date the financial statements are approved and signed. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In arriving at this conclusion, the Directors have also considered the potential impact that the principal risks outlined on the Strategic report may have on the company and believe that any impact would be minimal.

## Financial performance

The result for the year ended 30 June 2023 is shown on page 15.

The profit for the year transferred to reserves was £89 million (2022 - £1 million loss) and the other comprehensive income for the year is £45 million (2022 - £4 million loss).

No dividend was paid during the year (2022 - £nil) and there was no dividend proposed to be distributed to the shareholders in regard to the financial year (2022 - £nil).

Net financial assets were £281 million at 30 June 2023 (2022 - £132 million). More details on financial instruments and risk management can be found under note 10.

## Directors

The Directors of the company who were in office during the year and up to the date of signing the financial statements were:

M Pais
J M C Edmunds
K E Major
I Thrustle
C-L Jordan (appointed 26 September 2022)
Cs Hajos (resigned 26 September 2022)

## DIRECTORS' REPORT (continued)

### Directors' remuneration

None of the Directors received any remuneration during the year in respect of their services as directors of the company (2022 - £nil). The Directors were paid by fellow group undertakings, and no cost was recharged to the company.

### Directors' indemnity

The Articles of Association permit qualifying third-party indemnities for the directors as defined by Section 234 of the Companies Act 2006. No such indemnity was in force during the last financial year, nor is any currently in force.

### Secretary

The secretary of the company who was in office during the year and up to the date of signing the financial statements was:

J M C Edmunds

### Internal control and risk management over financial reporting

The company operates under the financial reporting processes and controls of the group. Diageo plc's internal control and risk management systems including its financial reporting process, which include those of the company, are discussed in the group's Annual Report 2023 on page 115 at www.diageo.com, which does not form part of this report.

### Independent auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors, PricewaterhouseCoopers LLP, have been reappointed and will continue in office as auditors of the company.

### Disclosure of information to the independent auditors'

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board

J M C Edmunds
*Director*

11 Lochside Place
Edinburgh
Scotland
EH12 9HA

25 October 2023

# DIRECTORS' REPORT (continued)

## Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

## Directors' confirmations

Each of the directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

# Independent auditors' report to the directors of Diageo Capital plc

## Report on the audit of the financial statements

### Opinion

In our opinion, Diageo Capital plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements, which comprise: the Balance Sheet as at 30 June 2023; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

### Our audit approach

#### Context

We conducted a full scope audit of the financial statements of Diageo Capital plc.

#### Overview

Audit scope

- We focused on the most significant areas, being the hedging activity and assessment of hedge effectiveness, and valuation of derivative transactions.

Key audit matters

- Hedge effectiveness and valuation of derivatives

Materiality

- Overall materiality: £74,300,000 (2022: £85,000,000) based on approximately 1% of total assets.
- Performance materiality: £55,700,000 (2022: £63,000,000).

## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Hedge effectiveness and valuation of derivatives*<br>Refer to Note 1 (Accounting policies) and Note 10 (Financial instruments and risk management) to the financial statements. The company is exposed to treasury risk and is responsible for cash management for Diageo plc (the "Group"). As a part of its risk management activities, the company trades in derivative transactions to hedge the Group's foreign currency exchange and interest rate risk implicit in its borrowings. The company applies hedge accounting in its financial statements. The accounting framework applied by the company requires certain pre-conditions to be met upon designation of a hedge relationship and throughout the term of the relationship, some of which can be subject to management judgement, while the valuation of hedging instruments includes estimates associated with data inputs. The nature of the hedging relationships are typically straightforward and noncomplex, and the methods applied to valuing derivatives are typically non-judgemental and can be independently validated. We include hedge effectiveness and valuation of certain derivatives as a focus area given the underlying audit work requires a high level of audit effort and forms a large proportion of our overall audit work of the company. | Our audit procedures included understanding and evaluating the controls and systems related to hedge accounting and determining the fair value of hedging instruments. We obtained audit evidence through testing the operating effectiveness of management's relevant controls, together with substantive audit procedures. Testing of management's controls and other substantive tests with respect to hedge accounting included obtaining evidence to support whether:<br>· pre-conditions of hedge accounting had been met;<br>· hedge designation documentation was appropriate;<br>· a prospective hedge effectiveness assessment had been performed;<br>· deal tickets and contracts had been properly authorised;<br>· hedge accounting was accurately reflected in the ledger and all relevant transactions were included. On a sample basis, we also performed independent recalculations of qualitative hedge effectiveness tests. Our testing procedures with respect to the valuation of derivative instruments included:<br>· obtaining independent valuations from our specialists who tested the accuracy and valuation of derivatives using independent data feeds;<br>· circularising counterparties to confirm the existence and completeness of derivatives;<br>· assessing the counterparty and company's own credit risk incorporated into the fair value of derivatives, particularly in light of the broader economy and credit risk. We also evaluated whether the derivative transactions and hedge relationships were appropriately disclosed in the financial statements. Based on all of the above procedures, we consider the company's accounting and disclosure with respect to hedge relationships and valuation of derivatives to be appropriate. |

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| *Overall company materiality* | £74,300,000 (2022: £85,000,000). |
| *How we determined it* | approximately 1% of total assets |
| *Rationale for benchmark applied* | We consider the total assets measure to reflect the nature of the company, which primarily acts as a funding and cash management company for the group's investments and enters into derivatives to hedge the group's financial risks. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £55,700,000 (2022: £63,000,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the directors that we would report to them misstatements identified during our audit above £3,700,000 (2022: £4,000,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Understanding and assessing the appropriateness of the key assumptions used in the going concern assessment;
- Corroborating key assumptions to underlying documentation and ensured this was consistent with our audit work;
- Obtaining and reviewing the letter of support from the parent company, Diageo plc and corroborating the capability of the parent company to provide support;
- Reviewing the disclosures provided relating to the going concern basis of preparation.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 30 June 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Companies Act 2006 and the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate manual journal entries to manipulate results and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management and internal audit, including consideration of known and suspected instances of non-compliance with laws and regulation and fraud;
- Enquiry of those charged with governance and the Diageo Group's in-house legal team around actual and potential litigations and claims;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Reading the minutes of Board meetings;
- Reviewing financial statements disclosures to supporting documentation to assess compliance with applicable laws and regulations; and
- Challenging management's significant judgements and estimates in particular those related to hedge effectiveness and valuation of derivatives.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the company's directors as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Other required reporting

## Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## Appointment

We were appointed by the members on 1 September 2015 to audit the financial statements for the year ended 30 June 2016 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 30 June 2016 to 30 June 2023.

# Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

CASchroeder

Catherine Schroeder (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 October 2023

**Diageo Capital plc**
**Registered number: SC040795**
**Year ended 30 June 2023**

## INCOME STATEMENT

| | Note | Year ended 30 June 2023 £ million | Year ended 30 June 2022 £ million |
|---|---|---|---|
| Other operating income | *2* | 5 | 4 |
| Finance income | *4* | 528 | 450 |
| Finance charges | *4* | (444) | (455) |
| **Operating profit/(loss)** | | **89** | **(1)** |
| **Profit/(loss) before taxation on ordinary activities** | | **89** | **(1)** |
| Tax on profit/(loss) | *5* | — | — |
| **Profit/(loss) for financial year** | | **89** | **(1)** |

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

**Diageo Capital plc**
**Registered number: SC040795**
**Year ended 30 June 2023**

## STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 30 June 2023 £ million | Year ended 30 June 2022 £ million |
|---|---|---|---|
| **Other comprehensive income/(loss)** | | | |
| **Items that may be recycled subsequently to the income statement** | | | |
| Effective portion of changes in fair value of cash flow hedges | | | |
| -gains taken to other comprehensive income/(loss) | *12* | 6 | 233 |
| -recycled to income statement | *12* | 54 | (239) |
| Tax credit on effective portion of changes in fair value of cash flow hedge | *12* | (15) | 2 |
| **Total other comprehensive income/(loss)** | | **45** | **(4)** |
| Profit/(Loss) for the year | | 89 | (1) |
| **Total comprehensive income/(loss) for the year** | | **134** | **(5)** |

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

## BALANCE SHEET

| | Note | 30 June 2023 £ million | 30 June 2022 £ million |
|---|---|---|---|
| **Non-current assets** | | | |
| Other receivables | *7* | 7,071 | 8,137 |
| Other financial assets | *6* | 348 | 325 |
| | | **7,419** | **8,462** |
| **Current assets** | | | |
| Trade and other receivables | *7* | 18 | 92 |
| Other financial assets | *6* | — | 45 |
| | | **18** | **137** |
| **Total assets** | | **7,437** | **8,599** |
| **Current liabilities** | | | |
| Trade and other payables | *11* | (486) | (2,256) |
| Other financial liabilities | *6* | (2) | (2) |
| Borrowings and bank overdrafts | *9* | (593) | (1,113) |
| | | **(1,081)** | **(3,371)** |
| **Non-current liabilities** | | | |
| Borrowings | *9* | (5,811) | (4,884) |
| Other financial liabilities | *6* | (264) | (212) |
| Deferred tax liability | *8* | (30) | (15) |
| | | **(6,105)** | **(5,111)** |
| **Total liabilities** | | **(7,186)** | **(8,482)** |
| **Net assets** | | **251** | **117** |
| **Equity** | | | |
| Called up share capital | *12* | — | — |
| Share premium | | 250 | 250 |
| Cash flow hedging reserves | *12* | 92 | 47 |
| Other reserves | | 70 | 70 |
| Accumulated losses | | (161) | (250) |
| **Total equity** | | **251** | **117** |

The accounting policies and accompanying notes on pages 18 to 41 are an integral part of these financial statements.

These financial statements on pages 14 to 41 were approved by the Board of Directors on 25 October 2023 and were signed on its behalf by:

J M C Edmunds
*Director*

**Diageo Capital plc**
**Registered number: SC040795**
**Year ended 30 June 2023**

## STATEMENT OF CHANGES IN EQUITY

ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

| | Share premium £ million | Hedging reserve £ million | Other reserves £ million | Subtotal Other reserves £ million | Accumulated losses £ million | Total £ million |
|---|---|---|---|---|---|---|
| **Balance at 30 June 2021** | **250** | **51** | **70** | **121** | **(249)** | **122** |
| Other comprehensive loss for the year | — | (4) | — | (4) | — | **(4)** |
| Loss for the year | — | — | — | — | (1) | **(1)** |
| **Balance at 30 June 2022** | **250** | **47** | **70** | **117** | **(250)** | **117** |
| Other comprehensive income for the year | — | 45 | — | 45 | — | **45** |
| Profit for the year | — | — | — | — | 89 | **89** |
| **Balance at 30 June 2023** | **250** | **92** | **70** | **162** | **(161)** | **251** |

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

## NOTES TO THE FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES

### Basis of preparation

These financial statements are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (IFRS) but makes amendments where necessary in order to comply with Companies Act 2006 and sets out below where the FRS 101 disclosure exemptions have been taken.

These financial statements are prepared on a going concern basis under the historical cost convention, except that certain financial instruments are stated at their fair value.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available.

The company has taken advantage of the following exemptions from the requirements of IFRS in the preparation of these financial statements, in accordance with FRS 101:

- A cash flow statement and related notes as per IAS 1 and IAS 7
- Disclosures in respect of transactions with wholly owned subsidiaries within the Diageo plc group;

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1. ACCOUNTING POLICIES (continued)

### New accounting standards and interpretations

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

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

The following standard and amendments issued by the IASB have been endorsed by the UK and have not been adopted by the company:

- IFRS 17 – Insurance contracts (effective from the year ending 30 June 2024) is ultimately intended to replace IFRS 4. Based on a preliminary assessment, the company believes that the adoption of IFRS 17 will not have a significant impact on its results or financial position.
- Amendments to IAS 12 - Income taxes (effective from the year ending 30 June 2024) requires an entity to recognise deferred tax on initial recognition of particular transactions to the extent that the transaction gives rise to equal amounts of deferred tax assets and liabilities. The proposed amendments would apply to transactions such as leases and decommissioning obligations for which an entity recognises both an asset and a liability. The company believes that the adoption of these amendments will not have a significant impact on its results and financial position.

There are a number of other amendments and clarifications to IFRSs, effective in future years, which are not expected to significantly impact the company's consolidated results or financial position.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. ACCOUNTING POLICIES (continued)

**Functional and presentational currency**

These financial statements are presented in sterling (£), which is the company's functional currency.

All financial information presented in sterling has been rounded to the nearest million unless otherwise stated.

**Finance costs**

Finance costs are recognised in the income statement based on the effective interest method.

**Going concern**

The financial statements have been prepared on a going concern basis as the ultimate parent undertaking has agreed its policy is to provide financial support for a period of at least 12 months from the date the financial statements are approved and signed.

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the financial year end exchange rates and these foreign exchange differences are recognised in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1. ACCOUNTING POLICIES (continued)

### Financial assets and liabilities

Financial assets and liabilities are initially recorded at fair value including, where permitted by IFRS 9, any directly attributable transaction costs. For those financial assets that are not subsequently held at fair value, the company calculates allowance losses by reviewing lifetime expected credit losses using historic and forward-looking data on credit risk. The company classifies its financial assets and liabilities into the following categories: financial assets and liabilities at amortised cost, financial assets and liabilities at fair value through profit and loss and financial assets at fair value through other comprehensive income. Under IFRS 9, classification and measurement of financial assets depend on the company's business model for managing the asset and the cash flow characteristics of the assets. The business model and cash flow characteristics assessment is carried out on an instrument by instrument basis. Financial assets measured at amortised cost recognise finance income using effective interest method.

***Trade and other receivables*** Amounts owed by other group companies are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade receivables are stated at their nominal value as they are due on demand. Allowance for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward-looking data. Such allowances are measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

***Borrowings*** Borrowings are initially measured at fair value net of transaction costs and are subsequently reported at amortised cost. Certain bonds are designated as being part of a fair value hedge and/or a cash flow hedge relationship. In case of FV hedge relationships, the amortised cost is adjusted for the fair value of the risk being hedged, with changes in value recognised in the income statement. The fair value adjustment is calculated using a discounted cash flow technique based on unadjusted market data.

***Trade and other payables*** Amounts owed to other group companies are initially measured at fair value and are subsequently reported at amortised cost.

### Derivative financial instruments

Derivative financial instruments are carried at fair value using a discounted cash flow technique based on market data applied consistently for similar type of instruments. Gains and losses on derivatives that do not qualify for cash flow hedge accounting treatment are taken to the income statement as they arise.

The company designates and documents certain derivatives as hedging instruments against changes in fair value of recognised assets and liabilities (fair value hedges) and the cash flow risk from a change in exchange or interest rates (cash flow hedges). The effectiveness of such hedges is assessed at inception and at least on a quarterly basis, using prospective testing. Methods used for testing effectiveness include dollar offset, critical terms, regression analysis and hypothetical derivative method. Fair value movements of foreign exchange derivatives are included other operating income line and fair value movements of interest instruments and interest payments of interest instruments are included within finance charges.

***Fair value hedges*** are used to manage the currency and/or interest rate risks to which the fair value of certain assets and liabilities are exposed. Changes in fair value of the derivatives are recognised in the income statement, along with any changes in the relevant fair value of the underlying hedged asset or liability.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1. ACCOUNTING POLICIES (continued)

If such a hedge relationship is de-designated or no longer meets hedge accounting criteria, fair value movements on the derivative continue to be taken to the income statement while any fair value adjustments made to the underlying hedged item to that date are amortised through the income statement over its remaining life using the effective interest rate method.

*Cash flow hedges* are used to hedge the foreign currency risk of highly probable future foreign currency cash flows, as well as the cash flow risk from changes in exchange or interest rates. The effective portion of the gain or loss on the hedges is recognised in the other comprehensive income, while any ineffective part is recognised in the income statement. Amounts recorded in the other comprehensive income are recycled to the income statement in the same period in which the underlying foreign currency or interest exposure affects the income statement.

Derivative financial instruments are presented in the financial statements as 'Intra-group derivative assets/(liabilities)'as these transactions are entered into by Diageo Finance plc, a fellow group undertaking, and subsequently passed to the company.

### Taxation

Current tax is based on taxable profit for the year. Taxable profit is different from accounting profit due to temporary differences between accounting and tax treatments, and due to items, that are never taxable or tax deductible. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, tax benefits are reviewed each year to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. Tax provisions are included in current liabilities. Penalties and interest on tax liabilities are included in profit before taxation.

Full provision for deferred tax is made for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their value for tax purposes. The amount of deferred tax reflects the expected recoverable amount and is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the basis of taxation enacted or substantively enacted by the balance sheet date. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future.

### Judgements in applying accounting policies and key sources of estimation uncertainty

The Directors make estimates and judgements concerning the future of the company. The resulting accounting estimates will, by definition, seldom equate to actual results. The company's Directors are of the opinion that there are no estimates and assumptions, nor significant judgements that have a significant risk of casting material adjustment to the carrying value of the assets and liabilities for the company within the next financial year due to the nature of the business other than those discussed below.

The critical accounting policy, which the Directors consider is of greater complexity and particularly subject to estimates, is set out in detail in the accounting policy for derivative financial instruments. A critical accounting estimate, specific to the company, is the estimation of fair valuation of derivative assets and liabilities (see detailed description under note 10. Financial instruments and risk management (f) Fair value measurements).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 2. OTHER OPERATING INCOME

| | Year ended 30 June 2023 £ million | Year ended 30 June 2022 £ million |
|---|---|---|
| Intercompany management income | 6 | 5 |
| Foreign exchange loss on operations | (1) | (1) |
| | **5** | **4** |

The auditors' remuneration of £11,378 (2022 - £9,831) was paid on behalf of the company by a fellow group undertaking. There were no fees payable to the auditors in respect of non-audit services (2022 - £nil).

## 3. EMPLOYEES

The company did not employ any staff during either the current or prior year.

None of the Directors received any remuneration during the financial year in respect of their services as directors of the company (2022 - £nil) as the directors are paid by fellow group undertakings and no cost was recharged to the company.

## 4. FINANCE INCOME AND CHARGES

| | Year ended 30 June 2023 £ million | Year ended 30 June 2022 £ million |
|---|---|---|
| Finance income from fellow group undertakings | 466 | 194 |
| Amortisation of fair value changes | 2 | — |
| Fair value gain on intra-group derivative financial instruments | 4 | 19 |
| Fair value adjustment on borrowings | 56 | 237 |
| **Total finance income** | **528** | **450** |
| | | |
| Finance charge to fellow group undertakings | (141) | (29) |
| Finance charge on all other borrowings | (238) | (162) |
| Fair value loss on intra-group derivative financial instruments | (58) | (260) |
| Discount and fee amortisation | (7) | (4) |
| **Total finance charges** | **(444)** | **(455)** |
| | | |
| **Net finance income/(charges)** | **84** | **(5)** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

## 5. TAXATION

| | Year ended 30 June 2023 £ million | Year ended 30 June 2022 £ million |
|---|---|---|
| **(a) Analysis of taxation for the year** | | |
| Current tax | — | — |
| Deferred tax | — | — |
| **Taxation on profit on ordinary activities** | — | — |

| | Year ended 30 June 2023 £ million | Year ended 30 June 2022 £ million |
|---|---|---|
| **(b) Tax included in other comprehensive income** | | |
| Current tax | — | — |
| Deferred tax - current year | (15) | 2 |
| Deferred tax - rate change | — | — |
| **Total tax credit included in other comprehensive income/ (loss)** | (15) | 2 |

| | Year ended 30 June 2023 £ million | Year ended 30 June 2022 £ million |
|---|---|---|
| **(c) Factors affecting total tax for the year** | | |
| Profit/(Loss) before tax | 89 | (1) |
| Taxation on profit/(loss) at UK corporation tax rate of 20.50% (2022 - 19%) | (18) | — |
| Group relief received for nil consideration | 18 | — |
| **Total tax charge for the year** | — | — |

At 30 June 2022 the corporation tax rate was 19% which had been effective since 1 April 2017. The UK corporation tax rate increased from 19% to 25% on 1 April 2023 and so an average tax rate of 20.50% is applied for the year ended 30 June 2023.
Deferred taxes at 30 June 2023 have been measured using this increased tax rate and reflected in these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

## 6. OTHER FINANCIAL ASSETS AND LIABILITIES

| | Assets due after one year £ million | Assets due within one year £ million | Liabilities due within one year £ million | Liabilities due after one year £ million |
|---|---|---|---|---|
| **30 June 2023** | | | | |
| **Intra-group derivative assets/(liabilities)** | | | | |
| Designated in cash flow hedge | 348 | — | — | — |
| Designated in fair value hedge | — | — | (2) | (264) |
| **Total derivative assets/(liabilities)** | **348** | **—** | **(2)** | **(264)** |

Diageo Finance plc, a fellow group undertaking, entered into external cross currency interest rate swaps on behalf of Diageo Capital plc, market value of which amounted to net £348 million at the balance sheet date (2022 - £367 million). The external deals are mirrored through Diageo plc to Diageo Capital plc, the ultimate beneficiary.

| | Assets due after one year £ million | Assets due within one year £ million | Liabilities due within one year £ million | Liabilities due after one year £ million |
|---|---|---|---|---|
| **30 June 2022** | | | | |
| **Intra-group derivative assets/(liabilities)** | | | | |
| Designated in cash flow hedge | 324 | 43 | — | — |
| Designated in fair value hedge | 1 | — | — | (212) |
| Not designated in a hedge relationship | — | 2 | (2) | — |
| **Total derivative assets/(liabilities)** | **325** | **45** | **(2)** | **(212)** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

## 7. TRADE AND OTHER RECEIVABLES

| | 30 June 2023 | | 30 June 2022 | |
|---|---|---|---|---|
| | Due within one year | Due after one year | Due within one year | Due after one year |
| | £ million | £ million | £ million | £ million |
| Amounts owed by fellow group undertakings | 17 | 7,071 | 91 | 8,137 |
| Prepayments | 1 | — | 1 | — |
| | **18** | **7,071** | **92** | **8,137** |

Amounts owed by fellow group undertakings include accrued and capitalised interest on the underlying balances at 30 June 2023 and at 30 June 2022. These balances bear interest at fixed and variable rates from 0.2659% to 8.11% for the year ended 30 June 2023 (2022 - from 0.0465 % to 8.11%).

Amounts owed by fellow group undertakings represent transactions with companies in the group with which the company has a long-term financing relationship. These financing relationships are expected to continue for the foreseeable future. Certain amounts owed by fellow group undertakings are repayable on demand, but reclassified to non-current assets as they are not expected to be repaid in the foreseeable future. Amounts owed by group undertakings are considered to have a fair value which is not materially different to the book value. Expected credit loss is immaterial for amounts owed by fellow group undertakings.

## 8. DEFERRED TAX LIABILITY

| | Fair value and hedging reserves | Total |
|---|---|---|
| | £ million | £ million |
| **At 30 June 2021** | **17** | **17** |
| Recognised in other comprehensive income/(loss) | (2) | (2) |
| **At 30 June 2022** | **15** | **15** |
| Recognised in other comprehensive income/(loss) | 15 | 15 |
| **At 30 June 2023** | **30** | **30** |

The deferred tax liability arose from temporary timing differences on cross currency swaps designated as a cash flow hedge relationship. The amount of deferred tax liability on temporary differences is £30 million (2022 - £15 million).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 9. BORROWINGS AND BANK OVERDRAFTS

| | 30 June 2023 £ million | 30 June 2022 £ million |
|---|---|---|
| Commercial paper | 198 | — |
| US$ 1,350 million 2.625% bonds due 2023 | — | 1,115 |
| US$ 500 million 3.500% bonds due 2023 | 397 | — |
| Fair value adjustment to borrowings | (2) | (2) |
| **Borrowings due within one year and bank overdrafts** | **593** | **1,113** |
| US$ 500 million 3.500% bonds due 2023 | — | 413 |
| US$ 600 million 2.125% bonds due 2024 | 475 | 495 |
| US$ 750 million 1.375% bonds due 2025 | 594 | 618 |
| US$ 500 million 3.875% bonds due 2028 | 395 | 411 |
| US$ 1,000 million 2.375% bonds due 2029 | 787 | 819 |
| US$ 1,000 million 2.000% bonds due 2030 | 789 | 821 |
| US$ 750 million 2.125% bonds due 2032 | 590 | 614 |
| US$ 600 million 5.875% bonds due 2036 | 472 | 491 |
| US$ 500 million 3.875% bonds due 2043 | 391 | 407 |
| US$ 750 million 5.30% bonds due 2027 | 593 | — |
| US$ 500 million 5.20% bonds due 2025 | 396 | — |
| US$ 750 million 5.50% bonds due 2033 | 590 | — |
| Fair value adjustment to borrowings | (261) | (205) |
| **Borrowings due after one year** | **5,811** | **4,884** |
| **Total external borrowings** | **6,404** | **5,997** |

The interest rates of external borrowings shown in the table above are those contracted on the underlying borrowings before taking into account any interest rate hedges. Bonds are stated net of unamortised finance costs of £38 million (2022 - £36 million). Bonds are reported at amortised cost with a fair value adjustment shown separately. These fair value adjustments are determined using discounted cash flow method based on observable market input (Level 2). All bonds, medium-term notes and commercial paper issued by the company are fully and unconditionally guaranteed by Diageo plc.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company's funding, liquidity and exposure to foreign currency and interest rate risks are managed at group level by the group's treasury department.

The treasury department uses a range of financial instruments to manage these underlying risks.

Treasury operations are conducted within a framework of Board-approved policies and guidelines, which are recommended and monitored by the finance committee, chaired by the Chief Financial Officer. The policies and guidelines include benchmark exposure and/or hedge cover levels for key areas of treasury risk, which are periodically reviewed by the Board following, for example, significant business, strategic or accounting changes. The framework provides for limited defined levels of flexibility in execution to allow for the optimal application of the Board-approved strategies. Transactions arising from the application of this flexibility are carried at fair value, gains or losses are taken to the income statement as they arise and are separately monitored on a daily basis using Value at Risk analysis. In the years ended 30 June 2023 and 30 June 2022, gains and losses on these transactions were not material. The company does not use derivatives for speculative purposes. All transactions in derivative financial instruments are initially undertaken to manage the risks arising from underlying business activities.

The finance committee receives monthly reports on the key activities of the treasury department, including any exposures different from the defined benchmarks.

### (a) Currency risk

The company presents its financial statements in sterling (which is the functional currency of the entity) and conducts business in several currencies. As a result, it is subject to foreign currency risk due to exchange rate movements, which will affect the company's transactions. To manage the currency risk, the company uses certain financial instruments. Where hedge accounting is applied, hedges are documented and tested for effectiveness on an ongoing basis. The company expects hedges entered into to continue to be effective and therefore does not expect the impact of ineffectiveness on the income statement to be material.

***Hedge of foreign currency debt***

The company uses cross currency interest rate swaps to hedge the foreign currency risk associated with certain foreign currency denominated borrowings.

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (b) Interest rate risk

The group has an exposure to interest rate risk, arising principally on changes in US dollar, euro and sterling interest rates. To manage interest rate risk, the group manages its proportion of fixed to floating rate borrowings within limits approved by the Board, primarily through issuing fixed and floating rate borrowings, and by utilising interest rate swaps. These practices aim to minimise the group's net finance charges with acceptable year-on-year volatility. To facilitate operational efficiency and effective hedge accounting, for the year ended 30 June 2023, the group's policy was to maintain fixed rate borrowings within a band of 40% to 90%. For these calculations, net borrowings exclude interest rate related fair value adjustments. The majority of the group's existing interest rate derivatives are designated as hedges and are expected to be effective. Fair value of these derivatives is recognised in the income statement, along with any changes in the relevant fair value of the underlying hedged asset or liability. The potential risk of the increasing interest rates and resulting potential increase in cost of borrowing is considered to be limited as the company forms part of the group's financial operations and as such it will be reimbursed for any potential increase in the charges of its financial instruments.

**IBOR reform**
In accordance with the UK Financial Conduct Authority's announcement on 5 March 2021, LIBOR benchmark rates were discontinued after 31 December 2021, except for the majority of the US dollar settings which are discontinued from 30 June 2023. There have been amendments to the contractual terms of IBOR-referenced interest rates and the corresponding update of the hedge designations. By 30 June 2022, changes required to systems and processes in relation to the fair valuation of financial instruments were implemented and the transition had no material tax or accounting implications. The company also evaluated the implications of the reference rate changes in relation to other valuation models and credit risk, and concluded that they were not material.

In line with the relief provided by the amendment, the group assumes that the interest rate benchmark on which the cash flows of the hedged item, the hedging instrument or the hedged risk are based are not altered by the IBOR reform. The derivative hedging instruments provide a close approximation to the extent and nature of the risk exposure the group manages through hedging relationships.

Included in floating rate net borrowings are interest rate swaps designated in fair value hedges, with a notional amount of £2,063 million (2022 – £2,355 million) whose interest rates are based on USD LIBOR. In preparation for the discontinuation of USD LIBOR, the company have amended these agreements to reference the Secured Overnight Financing Rate (SOFR) resulting in economically equivalent trades upon transition. The floating legs of the transitioned trades will become SOFR based subsequent to the last USD LIBOR based interest payments.

### (c) Market risk sensitivity analysis

The company uses a sensitivity analysis that estimates the impacts on the income statement and other comprehensive income of either an instantaneous increase or decrease of 0.5% in market interest rates or a 10% strengthening or weakening in sterling against all other currencies, from the rates applicable at 30 June 2023 and 30 June 2022, for each class of financial instruments with all other variables remaining constant. The sensitivity analysis excludes the impact of market risks on the corporate tax

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

payable. This analysis is for illustrative purposes only, as in practice interest and foreign exchange rates rarely change in isolation.

The sensitivity analysis estimates the impact of changes in interest and foreign exchange rates. All hedges are expected to be highly effective for this analysis and it considers the impact of all financial instruments, including financial derivatives, cash and cash equivalents, borrowings and other financial assets and liabilities. The results of the sensitivity analysis should not be considered as projections of likely future events, gains or losses as actual results in the future may differ materially due to developments in the global financial markets which may cause fluctuations in interest and exchange rates to vary from the hypothetical amounts disclosed in the table below.

| | 0.5 % decrease in interest rates £ million | 0.5 % increase in interest rates £ million | 10 % weakening of sterling £ million | 10 % strengthening of sterling £ million |
|---|---|---|---|---|
| **30 June 2023** | | | | |
| Impact on income statement - gain/(loss) | 54 | (54) | 6 | (5) |
| Impact on other comprehensive income - gain/(loss) | 20 | (19) | 39 | (32) |
| **30 June 2022** | | | | |
| Impact on income statement - gain/(loss) | 44 | (44) | 2 | (2) |
| Impact on other comprehensive income - gain/(loss) | 18 | (17) | 41 | (33) |

Impact on the statement of comprehensive income includes the impact on the income statement.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. Credit risk arises on cash balances (including bank deposits and cash and cash equivalents), derivative financial instruments, trade and other receivables, loans, financial guarantees and committed transactions. The carrying amount of financial assets represents the company's exposure to credit risk at the balance sheet date as disclosed in section (h), excluding the impact of any collateral held or other credit enhancements. A financial asset is in default when the counterparty fails to pay its contractual obligations. Financial assets are written-off when there is no reasonable expectation of recovery. The gross carrying amount of the financial asset has to be reduced (written-off) in case there is no reasonable expectation of recovering the contractual cash flows on the asset in its entirety or its portion only. Expected recovery of contractual cash flows is assessed individually, on instrumental basis. Credit risk is managed separately for financial and business related credit exposures.

***Financial credit risk***

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

***Business related credit risk***

Since trade and other receivables principally include balances with fellow group undertakings, the risk of non-performance is considered remote. Under IFRS 9, the significant increase in credit risk of financing relationships with fellow group undertakings is determined based on the group's internal credit rating assessment. The assessment practice takes into account as inputs the historical default of the financial instruments, currently available information about fellow group undertakings' financial performance and forward-looking information. The total balance of trade and other receivables is qualified as performing in accordance with internal credit rating assessment. As a result of low risk

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

credit risk these financial assets have a very low risk of default (probability of default (PD)) and the 12-months expected credit loss is considered to be immaterial.

### (e) Liquidity risk

Liquidity risk is the risk that the company may encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The company uses short term commercial paper to finance its day-to-day operations. The group's policy with regard to the expected maturity profile of borrowings is to limit the amount of such borrowings maturing within 12 months to 50% of gross borrowings less money market demand deposits, and the level of commercial paper to 30% of gross borrowings less money market demand deposits. In addition, the group's policy is to maintain backstop facilities with relationship banks to support commercial paper obligations. The following tables provide an analysis of the anticipated contractual cash flows including interest payable for the company financial liabilities and derivative instruments on an undiscounted basis. Where interest payments are on a floating rate basis, rates of each cash flow until maturity of the instruments are calculated based on the forward yield curve prevailing at 30 June 2023 and 30 June 2022. The gross cash flows of cross currency swaps are presented for the purposes of this table. All other derivative contracts are presented on a net basis.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### *Contractual cash flows*

| | Due within 1 year £ million | Due between 1 and 3 years £ million | Due between 3 and 5 years £ million | Due after 5 years £ million | Total £ million | Carrying amount at balance sheet date^ £ million |
|---|---|---|---|---|---|---|
| **2023** | | | | | | |
| Borrowings | (595) | (1,468) | (992) | (3,651) | (6,706) | (6,404) |
| Interest on borrowings | (216) | (389) | (325) | (743) | (1,673) | (59) |
| Trade and other financial liabilities | (427) | — | — | — | (427) | (427) |
| **Non-derivative financial liabilities** | **(1,238)** | **(1,857)** | **(1,317)** | **(4,394)** | **(8,806)** | **(6,890)** |
| Cross currency swaps (gross) | | | | | | |
| - Receivable | 43 | 87 | 87 | 1,341 | 1,558 | — |
| - Payable | (28) | (56) | (56) | (930) | (1,070) | — |
| Other derivative instruments (net) | (95) | (101) | (55) | (48) | (299) | — |
| **Derivative instruments** | **(80)** | **(70)** | **(24)** | **363** | **189** | **82** |
| **2022** | | | | | | |
| Borrowings | (1,116) | (909) | (620) | (3,595) | (6,240) | (5,997) |
| Interest on borrowings | (173) | (261) | (225) | (714) | (1,373) | (34) |
| Trade and other financial liabilities | (2,222) | — | — | — | (2,222) | (2,222) |
| **Non-derivative financial liabilities** | **(3,511)** | **(1,170)** | **(845)** | **(4,309)** | **(9,835)** | **(8,253)** |
| Cross currency swaps (gross) | | | | | | |
| - Receivable | 851 | 90 | 90 | 1,442 | 2,473 | — |
| - Payable | (783) | (56) | (56) | (958) | (1,853) | — |
| Other derivative instruments (net) | 51 | 36 | (1) | (20) | 66 | — |
| **Derivative instruments** | **119** | **70** | **33** | **464** | **686** | **156** |

*^ Difference between total contractual cash flow amount and carrying amount at balance sheet date is due to the unamortized discount and fee balances and fair value adjustments of bonds in fair value hedge relationships.*

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

On 30 June 2023 the group had available undrawn committed bank facilities of £2,678 million (2022 - £2,789 million).

The facilities can be used for general corporate purposes and, together with cash and cash equivalents, support the group's commercial paper programmes. There are no financial covenants on either of the group's or the company's material short- and long-term borrowings. Certain of these borrowings contain cross default provisions and negative pledges. The committed bank facilities are subject to a single financial covenant, being minimum interest cover ratio of two times (defined as the ratio of operating profit before exceptional items, aggregated with share of after tax results of associates and joint ventures, to net interest). They are also subject to pari passu ranking and negative pledge covenants. Any non-compliance with covenants underlying group's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain borrowings and the inability to access committed facilities. Both the group and the company were in full compliance with its financial, pari passu ranking and negative pledge covenants in respect of its material short- and long-term borrowings throughout each of the years presented.

### (f) Fair value measurements

Fair value measurements of financial instruments are presented through the use of a three-level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.

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

Foreign currency forwards and swaps, cross currency swaps and interest rate swaps are valued using discounted cash flow techniques. These techniques incorporate inputs at levels 1 and 2, such as foreign exchange rates and interest rates. These market inputs are used in the discounted cash flow calculation incorporating the instrument's term, notional amount and discount rate, and taking credit risk into account. As significant inputs to the valuation are observable in active markets, these instruments are categorised as level 2 in the hierarchy. There were no significant changes in the measurement and valuation techniques, or significant transfers between the levels of the financial assets and liabilities in the year ended 30 June 2023.

The company's financial assets and liabilities measured at fair value are categorised as follows:

| | **30 June 2023** | **30 June 2022** |
|---|---|---|
| | **£ million** | **£ million** |
| Derivative assets | 348 | 370 |
| Derivative liabilities | (266) | (214) |
| Valuation techniques based on observable market input (Level 2) | **82** | **156** |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (g) Results of hedge relationships

The company targets a one-to-one hedge ratio. Strengths of the economic relationship between the hedged item and the hedging instrument is analysed on an ongoing basis. Ineffectiveness can arise from subsequent change in the forecast transactions as a result of timing, cash flows or value except when the critical terms of the hedging instrument and hedged item are closely aligned. The change in the credit risk of the hedging instruments or the hedged items is not expected to be the primary factor in the economic relationship.

The notional amounts, contractual maturities and rates of the hedging instruments designated in hedging relationship as of 30 June 2023 and 30 June 2022 by the main risk categories are as follows:

| | Notional amounts £ million | Maturity | Range of hedged rates |
|---|---|---|---|
| **2023** | | | |
| **Cash flow hedges** | | | |
| Derivatives in cash flow hedge (foreign currency debt) | 873 | September 2036 - April 2043 | US dollar 1.6 - 1.88 |
| **Fair value hedges** | | | |
| Derivatives in fair value hedge (interest rate risk) | 2,460 | September 2023 - April 2030 | 1.375 - 3.093% |
| **2022** | | | |
| **Cash flow hedges** | | | |
| Derivatives in cash flow hedge (foreign currency debt) | 1,694 | April 2023 - April 2043 | US dollar 1.22 - 1.88 |
| **Fair value hedges** | | | |
| Derivatives in fair value hedge (interest rate risk) | 2,769 | April 2023 - April 2030 | 1.375 - 3.093% |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

With respect to hedges of the cash flow risk from a change in forward foreign exchange rates using cross currency interest rate swaps, the retranslation of the related bond principal to closing foreign exchange rates and recognition of interest on the related bonds will affect the income statement in each year until the related bonds mature in 2036 and 2043. Foreign exchange retranslation and the interest on the hedged bonds in the income statement are expected to offset those on the cross currency swaps in each of the years.
In respect of cash flow hedging instruments, a gain of £6 million (2022 - £233 million) has been recognised in other comprehensive income due to changes in fair value driven by movements in foreign exchange and interest rates. A loss of £54 million has been transferred out of comprehensive income to total finance charges (2022 - a gain of £239 million).

| | At the beginning of the year £ million | Income statement £ million | Comprehensive income £ million | Cash movement £ million | At the end of the year £ million |
|---|---|---|---|---|---|
| **2023** | | | | | |
| **Cash flow hedges** | | | | | |
| Derivatives in cash flow hedge (foreign currency debt) | 367 | (54) | 60 | (25) | 348 |
| **Fair value hedges** | | | | | |
| Derivatives in fair value hedge (interest rate risk) | (212) | (54) | — | — | (266) |
| Fair value hedge hedged item | 207 | 56 | — | — | 263 |
| Instruments in fair value hedge relationship | (5) | 2 | — | — | (3) |
| **2022** | | | | | |
| **Cash flow hedges** | | | | | |
| Derivatives in cash flow hedge (foreign currency debt) | 154 | 239 | (6) | (20) | 367 |
| **Fair value hedges** | | | | | |
| Derivatives in fair value hedge (interest rate risk) | 29 | (241) | — | — | (212) |
| Fair value hedge hedged item | (30) | 237 | — | — | 207 |
| Instruments in fair value hedge relationship | (1) | (4) | — | — | (5) |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (h) Reconciliation of financial instruments

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

| | Fair value through income statement £ million | Assets and liabilities at amortised cost £ million | Not categorised as a financial instrument £ million | Total £ million | Current £ million | Non-current £ million |
|---|---|---|---|---|---|---|
| **2023** | | | | | | |
| Trade and other receivables | — | 7,088 | 1 | **7,089** | 18 | 7,071 |
| Intra-group derivatives in cash flow hedge | 348 | — | — | **348** | — | 348 |
| **Total financial assets** | **348** | **7,088** | **1** | 7,437 | **18** | **7,419** |
| Borrowings | — | (6,404) | — | **(6,404)** | (593) | (5,811) |
| Trade and other payables | — | (486) | — | **(486)** | (486) | — |
| Intra-group derivatives in fair value hedge | (266) | — | — | **(266)** | (2) | (264) |
| **Total financial liabilities** | **(266)** | **(6,890)** | — | (7,156) | **(1,081)** | **(6,075)** |
| **Total net financial assets/(liabilities)** | **82** | **198** | **1** | 281 | **(1,063)** | **1,344** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (h) Reconciliation of financial instruments (continued)

| | Fair value through income statement £ million | Assets and liabilities at amortised cost £ million | Not categorised as a financial instrument £ million | Total £ million | Current £ million | Non-current £ million |
|---|---|---|---|---|---|---|
| **2022** | | | | | | |
| Trade and other receivables | — | 8,228 | 1 | **8,229** | 92 | 8,137 |
| Intra-group derivatives in cash flow hedge | 367 | — | — | **367** | 43 | 324 |
| Intra-group derivatives in fair value hedge | 1 | — | — | **1** | — | 1 |
| Intra-group derivatives not designated in a hedge relationship | 2 | — | — | **2** | 2 | — |
| **Total financial assets** | **370** | **8,228** | **1** | **8,599** | **137** | **8,462** |
| Borrowings | — | (5,997) | — | **(5,997)** | (1,113) | (4,884) |
| Trade and other payables | — | (2,256) | — | **(2,256)** | (2,256) | — |
| Intra-group derivatives in fair value hedge | (212) | — | — | **(212)** | — | (212) |
| Intra-group derivatives not designated in a hedge relationship | (2) | — | — | **(2)** | (2) | — |
| **Total financial liabilities** | **(214)** | **(8,253)** | — | **(8,467)** | **(3,371)** | **(5,096)** |
| **Total net financial assets/(liabilities)** | **156** | **(25)** | **1** | **132** | **(3,234)** | **3,366** |

At 30 June 2023 and 30 June 2022, the carrying values of cash and cash equivalents, other financial assets and liabilities approximate to fair values. At 30 June 2023, the fair value of borrowings, based on unadjusted quoted market data (Level 1 sources as categorised by IFRS 13), was £6,297 million (2022 - £5,880 million).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (i) Capital management

The group's management is committed to enhancing shareholder value in the long term, both by investing in the businesses and brands so as to deliver continued improvement in the return from those investments and by managing the capital structure. The group manages its capital structure to achieve capital efficiency, provide flexibility to invest through the economic cycle and give efficient access to debt markets at attractive cost levels.

## 11. TRADE AND OTHER PAYABLES

| | 30 June 2023<br>£ million | 30 June 2022<br>£ million |
|---|---|---|
| Amounts owed to fellow group undertakings | 427 | 2,222 |
| Interest payable | 59 | 34 |
| | **486** | **2,256** |

Amounts owed to fellow group undertakings include accrued and capitalised interest on the underlying balances at 30 June 2023 and at 30 June 2022. These balances are repayable on demand and bear interest at fixed and variable rates from 0% to 4.2013% for the year ended 30 June 2023 (2022 - from 0.0465% to 3.8175%).

Amounts owed to fellow group undertakings represent transactions with companies in the group with which the company has a long-term financing relationship. These financing relationships are expected to continue for the foreseeable future. Amounts owed to group undertakings are considered to have a fair value which is not materially different to the book value.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

## 12. CALLED UP SHARE CAPITAL AND RESERVES

### (a) Share capital

| | 30 June 2023 | 30 June 2022 |
|---|---|---|
| | £ | £ |
| **Authorised allotted, called up and fully paid:** | | |
| 200,000 ordinary shares of £1 each | 200,000 | 200,000 |

### (b) Hedging reserve

| | Hedging reserve £ million |
|---|---|
| **At 30 June 2021** | **51** |
| Effective portion of changes in fair value of cash flow hedges | |
| - gains taken to other comprehensive income | 233 |
| - recycled to income statement | (239) |
| Tax credit on effective portion of changes in fair value of cash flow hedge | 2 |
| **At 30 June 2022** | **47** |
| Effective portion of changes in fair value of cash flow hedges | |
| - gains taken to other comprehensive income | 6 |
| - recycled to income statement | 54 |
| Tax charge on effective portion of changes in fair value of cash flow hedge | (15) |
| **At 30 June 2023** | **92** |

## 13. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking of the company is Diageo plc which is the ultimate controlling party of the group. The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Diageo plc. Diageo plc is incorporated and registered in England, United Kingdom. The consolidated financial statements of Diageo plc can be obtained from the registered office at Diageo, 16 Great Marlborough Street, London, W1F 7HS, United Kingdom.

## 14. POST BALANCE SHEET EVENTS

Starting 1 July 2023, the direct parent of the company, Diageo plc is required to change its functional currency from sterling to US dollar which is applied prospectively. Diageo plc has also decided to change its presentation currency to US dollar with effect from 1 July 2023, applied retrospectively.
The company is a treasury entity of the Diageo group carrying out treasury activities as an extension of the direct parent. In line with reporting requirements the company followed its direct parent and

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 14. POST BALANCE SHEET EVENTS (continued)

changed functional currency from sterling to US dollar starting 1 July 2023 which is applied prospectively. The company also decided to change its presentation currency to US dollar with effect from 1 July 2023, applied retrospectively.

As a result of the functional and presentational currency change of the company from 1st July 2023, the Group Treasury and management has taken the following actions to manage the changed foreign currency exposures of the company. Sterling denominated intercompany loan of the entity has been converted from sterling to US dollar on transition date with no material fair value impact and no cash settlement. The amount of denominated intercompany loan is £818,738 million, which has been converted to $1,031,609 million. Internal cross currency interest rate swaps of $1,100 million held by the entity, previously cash flow hedging the US dollar denominated borrowings, have been terminated and the related hedges has been discontinued. External deals in Diageo Finance Plc are unchanged only the internal deals have been terminated. These actions are effective from 1 July 2023. Risk management policies have also been reviewed and amended to manage the risks post transition, but these changes will not have any material impact in fiscal 24 and going forward aside from the changes described above.

The company launched and priced a $1.7 billion SEC-registered bond offering, consisting of $800 million 5.375% fixed rate notes due 2026 and $900 million 5.625% fixed rate notes due 2033.

The company repaid $500 million 3.5% fixed rate bonds on 18 September 2023.