Diageo Capital plc
LEI: 213800L23DJLALFC4O95
Half-year results for the six months ended 31 December 2023

The Directors present their interim financial report for the six months ended 31 December 2023.

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.

The company does not anticipate any changes in its activities in the remaining six months of the financial year.

Business review

Development and performance of the business of the company during the period and position of the company as at 31 December 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 $77 million in the six months ended 31 December 2023, which is a $50 million increase from net finance income of $27 million in the six months ended 31 December 2022.

External borrowings increased by $1,134 million in the six months ended 31 December 2023 to $9,203 million from $8,069 million in the year ended 30 June 2023, mainly due to two new bond issuances during the period.

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.

$63 million profit was transferred to reserves in the six month ended 31 December 2023, (six months ended 31 December 2022 - $30 million) and the other comprehensive income is $3 million (six months ended 31 December 2022 - $31 million).

The Directors do not propose the payment of an interim dividend to be distributed to shareholders in regard to the six months ended 31 December 2023 (six months ended 31 December 2022 - $nil).

Going concern

The company’s business activities, together with the factors likely to affect its future development and position, are set out below. 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.

Going concern (continued)

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 and in a position to provide financial support for this period. 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 below may have on the company and believe that any impact would be minimal.

Principal and financial risks and uncertainties facing the company as at 31 December 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.

Principal and financial risks and uncertainties facing the company as at 31 December 2023 (continued)

In addition, given that the company performs treasury functions for the group, it is exposed to interest rate risk arising principally on changes in US dollar interest rates. The company uses derivative financial instruments to hedge its exposures to fluctuations in interest rates. Fair value hedges are carried out to manage the 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.

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.

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Independent review
This interim report has not been audited or reviewed by auditors.

Statement of Directors' responsibilities

The Directors confirm that this condensed set of interim financial information has been prepared in accordance with Financial Reporting Standard 104: Interim Financial Reporting, issued by the Financial Reporting Council, and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year, and
- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the last annual report.

The Directors of the company are listed in the company's annual report and financial statements for the year ended 30 June 2023.

James Edmunds

Director

27 March 2023

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INCOME STATEMENT (UNAUDITED)

	Notes	Six months ended 31 December 2023 $ million	Six months ended 31 December 2022 $ million
Other operating income		(14)	3
Finance income	*1*	355	345
Finance charges	*1*	(278)	(318)
Operating profit		**63**	**30**
Profit before taxation on ordinary activities		**63**	**30**
Taxation on profit on ordinary activities		—	—
Profit for the year		**63**	**30**

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Notes	Six months ended 31 December 2023 $ million	Six months ended 31 December 2022 $ million
Other comprehensive income			
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/ (expense)		—	72
-recycled to income statement		(3)	(35)
Tax charge on effective portion of changes in fair value of cash flow hedge	*2*	6	(6)
Other comprehensive income		**3**	**31**
Profit for the year		63	30
Total comprehensive income for the year		**66**	**61**

BALANCE SHEET (UNAUDITED)

	Notes	31 December 2023 $ million	30 June 2023 $ million
Non-current assets			
Other receivables		11,189	8,909
Other financial assets	*4*	—	438
		11,189	**9,347**
Current assets			
Trade and other receivables		16	23
Other financial assets	*4*	—	—
		16	**23**
Total assets		**11,205**	**9,370**
Current liabilities			
Trade and other payables		(1,308)	(612)
Other financial liabilities	*4*	—	(3)
Borrowings and bank overdrafts	*3*	(727)	(747)
		(2,035)	**(1,362)**
Non-current liabilities			
Borrowings	*3*	(8,476)	(7,322)
Other financial liabilities	*4*	(276)	(333)
Deferred tax liability		(37)	(38)
		(8,789)	**(7,693)**
Total liabilities		**(10,824)**	**(9,055)**
Net assets		**381**	**315**
Equity			
Share premium		315	315
Fair value and hedging reserves		119	116
Other reserves		88	88
Retained deficit		(141)	(204)
Total equity		**381**	**315**

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Share premium $ million	Hedging reserve $ million	Other reserves $ million	Subtotal Other reserves $ million	Retained deficit $ million	Total $ million
Balance at 30 June 2022	**302**	**57**	**85**	**142**	**(303)**	**141**
Other comprehensive loss for the period	—	54	—	54	—	54
Profit for the period	—	—	—	—	106	106
Other movements	13	5	3	8	(7)	14
CTA on SC/SP/HR/RE on opening balance	13	2	3	5	(12)	6
CTA on SC/SP/HR/RE on movement balance	—	3	—	3	5	8
Balance at 30 June 2023	**315**	**116**	**88**	**204**	**(204)**	**315**
Other comprehensive income for the period	—	3	—	3	—	3
Profit for the period	—	—	—	—	63	63
Balance at 31 December 2023	**315**	**119**	**88**	**207**	**(141)**	**381**

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

The company is incorporated and domiciled as a public limited company in the United Kingdom.

The interim financial statements of the company for the six months ended 31 December 2023 were authorised for issue in accordance with a resolution of the Directors on 27 March 2024.

Basis of preparation

The annual report and financial statements of the company for the year ended 30 June 2023 were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101 and Companies Act 2006.

The interim condensed financial statements for the six months ended 31 December 2023 have been prepared in accordance with Financial Reporting Standard 104 *Interim Financial Reporting* (FRS 104, issued by the Financial Reporting Council. The interim condensed financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the company's annual financial statements at 30 June 2023.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the company's annual report and financial statements for the year ended 30 June 2023.

These condensed interim financial statements have not been subject to a full audit or audit review and do not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The annual report and financial statements for the year ended 30 June 2023 were approved by the Directors of the company on 25 October 2023 and have been filed with the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

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.

These financial statements are separate financial statements.

Functional and presentational currency

These financial statements are presented in US dollar ($, which is the company’s functional currency.

All financial information presented in US dollar has been rounded to the nearest million.

Going concern

The financial statements have been prepared on a going concern basis as a fellow group undertaking has agreed to provide financial support for the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (continued)

1. FINANCE INCOME AND CHARGES

	Six months ended 31 December 2023 $ million	Six months ended 31 December 2022 $ million
Interest income from fellow group undertakings	293	243
Amortisation of fair value changes	3	2
Fair value gain on intra-group derivative financial instruments	59	3
Fair value adjustment on borrowings	—	97
Total finance income	**355**	**345**
Interest charge to fellow group undertakings	(36)	(82)
Interest charge on all other borrowings	(176)	(132)
Fair value loss on intra-group derivative financial instruments	—	(101)
Discount and fee amortisation	(4)	(3)
Total finance charges	**(278)**	**(318)**
Net finance income/(charges)	**77**	**27**

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (continued)

2. TAXATION

The total tax credit for the six months ended 31 December 2023 was $6 million (31 December 2022 - $6 million charge), in accordance with increase in deferred tax liability in relation to the effective portion of changes in fair value of cash flow hedges. The change in deferred tax liability is presented as part of the other comprehensive income.

3. BORROWINGS AND BANK OVERDRAFTS

	31 December 2023 $ million	**30 June 2023 $ million**
Commercial paper	127	250
US$ 600 million 2.125% bonds due 2024	600	—
US$ 500 million 3.500% bonds due 2023	—	500
Fair value adjustment to borrowings	—	(3)
Borrowings due within one year and bank overdrafts	**727**	**747**
US$ 600 million 2.125% bonds due 2024	—	598
US$ 750 million 1.375% bonds due 2025	749	748
US$ 500 million 5.20% bonds due 2025	499	499
US$ 800 million 5.375% bonds due 2026	796	—
US$ 750 million 5.30% bonds due 2027	748	748
US$ 500 million 3.875% bonds due 2028	498	498
US$ 1,000 million 2.375% bonds due 2029	992	992
US$ 1,000 million 2.000% bonds due 2030	995	994
US$ 750 million 2.125% bonds due 2032	744	743
US$ 750 million 5.50% bonds due 2033	744	744
US$ 900 million 5.625% bonds due 2033	894	—
US$ 600 million 5.875% bonds due 2036	594	594
US$ 500 million 3.875% bonds due 2043	492	492
Fair value adjustment to borrowings	(269)	(328)
Borrowings due after one year	**8,476**	**7,322**
Total external borrowings	**9,203**	**8,069**

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 $55 millions (30 June 2023 - $49 millions).

Bonds are reported at amortised cost with a fair value adjustment shown separately. All bonds issued by the company are fully and unconditionally guaranteed by Diageo plc.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (continued)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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 period ended 31 December 2023.

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

	31 December 2023	**30 June 2023**
	$ million	**$ million**
Derivative assets	—	438
Derivative liabilities	(276)	(336)
Valuation techniques based on observable market input (Level 2)	**(276)**	**102**