

## Board of Directors and Company Secretary



**Javier Ferrán**  
**Chairman**<sup>3\*</sup>  
Nationality:  
Spanish

**Appointed Chairman and Chairman of the Nomination Committee:** January 2017 (Appointed Chairman Designate and Non-Executive Director: July 2016)

**Key strengths:** Brings extensive board-level experience from the drinks and consumer products industry, including at chief executive level, and has a wealth of experience in consumer goods through his venture capital activities to draw from in his role as Chairman and leader of the Board

**Current external appointments:** Non-Executive Director, International Consolidated Airlines Group, S.A., Coca-Cola European Partners plc; Member, Advisory Board of ESADE Business School; Advisor, BlackRock Long Term Private Capital

**Previous relevant experience:** Non-Executive Director and Senior Independent Director, Associated British Foods plc; President and CEO, Bacardi Limited; Non-Executive Director, SABMiller plc



**Ivan Menezes**  
**Chief Executive**<sup>2\*</sup>  
Nationality:  
American/British

**Appointed Chief Executive:** July 2013 (Appointed Executive Director: July 2012)

**Key strengths:** Has extensive experience of over 20 years with the Diageo group at operational and leadership levels and the consumer products industry, which brings valuable insight to lead the Group and implement the strategy

**Current external appointments:** Vice Chairman of the Council, Scotch Whisky Association; Non-Executive Director, Tapestry Inc.; Member of the Global Advisory Board, Kellogg School of Management, Northwestern University; Chairman, Movement to Work; Chair, International Alliance for Responsible Drinking, CEO Group

**Previous Diageo roles:** Chief Operating Officer; President, North America; Chairman, Diageo Asia Pacific; Chairman, Diageo Latin America and Caribbean; senior management positions, Guinness and then Diageo  
**Previous relevant experience:** marketing and strategy roles, Nestlé, Booz Allen Hamilton Inc. and Whirlpool



**Kathryn Mikells**  
**Chief Financial Officer**<sup>2</sup>  
Nationality:  
American

**Appointed Chief Financial Officer and Executive Director:** November 2015

**Key strengths:** Brings skills and experience from finance-based roles to effectively manage the group's affairs relating to accounting, tax, treasury and investor relations, as well as commercial experience to the Board's discussions

**Current external appointments:** Non-Executive Director and Audit Committee Chair, The Hartford Financial Services Group, Inc.; Member of the Main Committee, 100 Group of Finance Directors

**Previous relevant experience:** Corporate Executive Vice President and Chief Financial Officer, Xerox Corporation; Senior Vice President and Chief Financial Officer, ADT Corporation; Executive Vice President and Chief Financial Officer, Nalco Holding Company; Executive Vice President and CFO, UAL Corporation



**Lord Davies of Abersoch**  
**Senior Independent Director**<sup>1,3,4</sup>  
Nationality: British

**Appointed Senior Independent Director:** October 2011 (Appointed Non-Executive Director: September 2010)

**Key strengths:** Has extensive commercial board-level experience, including at chief executive and chairman levels, as well as in emerging markets in Africa and Asia-Pacific and governmental matters as a former UK government minister

**Current external appointments:** Partner and Chairman, Corsair Capital LLC; Chairman, LetterOne Holdings S.A., Lawn Tennis Association Limited; Adviser, Teneo Holdings; Chairman, UK India Business Council, Member of Executive Committee, World Rugby

**Previous relevant experience:** Minister for Trade, Investment and Small Business for the UK Government; Chairman and Group Chief Executive, Standard Chartered PLC



**Debra Crew**  
**Non-Executive Director**<sup>1,3,4</sup>  
Nationality:  
American

**Appointed Non-Executive Director:** April 2019

**Key strengths:** Brings wide commercial experience across different consumer products businesses, including at chief executive level and in highly regulated markets

**Current external appointments:** Non-Executive Director, Stanley Black & Decker, Inc., Newell Brands, Mondelēz International  
**Previous relevant experience:** President and CEO of Reynolds American, Inc; President, PepsiCo North America Nutrition, PepsiCo Americas Beverages, Western Europe Region; various positions with Kraft Foods, Nestlé S.A., and Mars



**Susan Kilsby**  
**Non-Executive Director**<sup>1,3,4\*</sup>  
Nationality:  
American/British

**Appointed Non-Executive Director:** April 2018 (Appointed Chairman of the Remuneration Committee: January 2019)

**Key strengths:** Brings wide-ranging corporate governance and board-level experience across a number of industries, including a consumer goods sector focus, with particular expertise in mergers and acquisitions, corporate finance and transaction advisory work

**Current external appointments:** Non-Executive Director, Unilever PLC, Unilever N.V., Fortune Brands Home & Security, Inc., BHP Group PLC, BHP Group Limited; Member, the Takeover Panel

**Previous relevant experience:** Senior Independent Director, BBA Aviation plc; Chairman, Shire plc, Mergers and Acquisitions EMEA, Credit Suisse; Senior Advisor, Credit Suisse; Non-Executive Director, Goldman Sachs International, Keurig Green Mountain, L'Occitane International, Coca-Cola HBC



**Ho KwonPing**  
**Non-Executive Director**<sup>1,3,4</sup>  
 Nationality: Singaporean

**Appointed Non-Executive Director:** October 2012

**Key strengths:** Brings extensive commercial and entrepreneurial experience of operating in emerging markets, in particular in Asia-Pacific, as well as in various consumer-facing industries such as retail banking, airlines and hospitality

**Current external appointments:** Executive Chairman and Founder, Banyan Tree Holdings Limited; Chairman, Laguna Resorts & Hotels Public Company Limited (a subsidiary of Banyan Tree Holdings Limited) and Thai Wah Public Company Limited (each such company being owned or ultimately controlled by Ho KwonPing's family); Chairman of Board of Trustees, Singapore Management University

**Previous relevant experience:** Member, Global Advisory Board of Moelis & Company; Chairman, MediaCorp Pte. Ltd; Non-Executive Director, Singapore Airlines Limited, Singapore Power Limited and Standard Chartered PLC



**Alan Stewart**  
**Non-Executive Director**<sup>1,3,4</sup>  
 Nationality: British

**Appointed Non-Executive Director:** September 2014 (Appointed Chairman of the Audit Committee: January 2017)

**Key strengths:** Has a strong background in financial, investment banking and commercial matters, with particular expertise in consumer retail industries, as well as board and committee level experience at industry institutions

**Current external appointments:** Chief Financial Officer, Tesco PLC; Non-Executive Director, Tesco Bank; Member of the Advisory Board, Chartered Institute of Management Accountants; Member of the Main Committee & Chairman of Pension Committee, 100 Group of Finance Directors

**Previous relevant experience:** Chief Financial Officer, Marks & Spencer, AWAS; Non-Executive Director, Games Workshop plc; Group Finance Director, WH Smith plc; Chief Executive, Thomas Cook UK



**Nicola Mendelsohn**  
**Non-Executive Director**<sup>1,3,4</sup>  
 Nationality: British

**Appointed Non-Executive Director:** September 2014

**Key strengths:** Has specialist knowledge and understanding of consumer-facing emerging technologies, cyber security and data issues, as well as having wide experience of board and committee level appointments across diverse commercial, governmental and charitable institutions, as well as advisory roles in advertising and production of consumer goods

**Current external appointments:** Vice President, Facebook EMEA; Co-President, Norwood; Member, Mayor's Business Advisory Board; Member, HMG Industrial Strategy Council

**Previous relevant experience:** Executive Chairman, Karmarama; Deputy Chairman, Grey London; Board Director, BBH and Fragrance Foundation; President, Institute of Practitioners in Advertising; Director, Women's Prize for Fiction; Co-Chair, Creative Industries Council; Board Member, CEW; Trustee, White Ribbon Alliance; Chair of the Corporate Board, Women's Aid

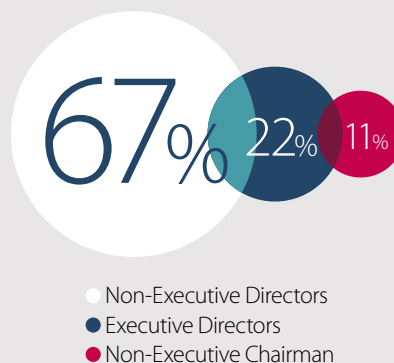
**Siobhán Moriarty**  
**General Counsel & Company Secretary**  
 See page 68 for further details.

**Departures since 1 July 2018**  
 Peggy Bruzelius and Betsy Holden ceased to be Non-Executive Directors on 20 September 2018.

**Key to committees**  
 1. Audit  
 2. Executive (comprising senior management)  
 3. Nomination  
 4. Remuneration  
 \* Chairman of the committee

**Board diversity**  
 As at 30 June 2019

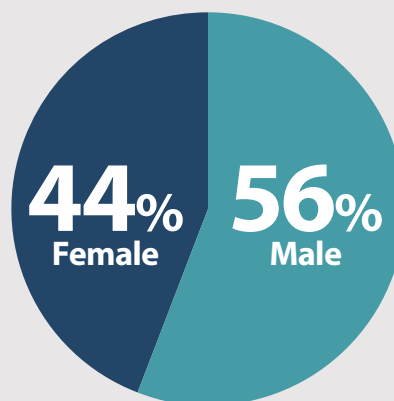
**Board composition**



**Tenure of Non-Executive Directors**



**Gender diversity**



## Executive Committee



**David Cutter**  
President, Global Supply  
and Procurement  
Appointed: July 2014  
Nationality: Australian

**Previous Diageo roles:** Supply Director, International Supply Centre; President, Supply Americas; Supply Director, Asia Pacific

**Previous relevant experience:** leadership roles, Frito-Lay and SC Johnson

**Current external appointments:** Member of the Council, Scotch Whisky Association



**Sam Fischer**  
President, Diageo  
Greater China and Asia  
Appointed: September 2014  
Nationality: Australian

**Previous Diageo roles:** Managing Director, Diageo Greater China; Managing Director of South East Asia, Diageo Asia Pacific; General Manager, Diageo IndoChina and Vietnam

**Previous relevant experience:** Senior management roles across Central Europe and Indochina, Colgate Palmolive



**Victoria Frame**  
Group Strategy Director  
Appointed: May 2017  
Nationality: British

**Previous relevant experience:** MD International and Chief Marketing Officer, Barry's Bootcamp; Partner, Bain & Company; Roles at Marakon Associates and CITI



**Brian Franz**  
Chief Productivity Officer  
Appointed: August 2015  
Nationality: American/  
British

**Previous Diageo roles:** CIO and Head of GDBS, IS Services

**Previous relevant experience:** Senior Vice President and CIO, PepsiCo International; Commercial CIO, various CIO and management roles, General Electric



**Alberto Gavazzi**  
President, Diageo Latin  
America and Caribbean,  
Global Travel &  
Sales Opex  
Appointed: July 2013  
Nationality: Brazilian/Italian

**Previous Diageo roles:** Managing Director, West Latin America and Caribbean; Global Category Director Whiskey, Gins and Reserve Brands; General Manager Brazil, Paraguay and Uruguay; Vice President Consumer Marketing, Chicago; Marketing Director, Brazil

**Previous relevant experience:** Colgate-Palmolive; Unilever PLC



**John Kennedy**  
President, Diageo  
Europe, Russia, Turkey  
and India  
Appointed: July 2016  
Nationality: American

**Previous Diageo roles:** President, Europe and Western Europe; Chief Operating Officer, Western Europe; Marketing Director, Australia; General Manager for Innovation, North America; President and Chief Executive Officer, Diageo Canada; Managing Director, Diageo Ireland

**Previous relevant experience:** brand management roles, GlaxoSmithKline and Quaker Oats



**Anand Kripalu**  
CEO, United Spirits Limited  
Appointed: September  
2014  
Nationality: Indian

**Previous Diageo roles:** CEO-designate, United Spirits Limited

**Previous relevant experience:** Various management roles at Mondelēz International, Cadbury and Unilever

**Current external appointments:** Member of the Board of Governors, Indian Institute of Management, Jammu



**Deirdre Mahlan**  
President, Diageo North  
America  
Appointed: December 2015  
Nationality: American

**Previous Diageo roles:** Chief Financial Officer and Executive Director; Deputy Chief Financial Officer; Head of Tax and Treasury

**Previous relevant experience:** Member, Main Committee, 100 Group of Finance Directors; senior finance positions, Joseph E. Seagram & Sons, Inc.; Senior manager, PricewaterhouseCoopers

**Current external appointments:** Non-Executive Director, Experian plc



**Daniel Mobley**  
Corporate Relations  
Director  
Appointed: June 2017  
Nationality: British

**Previous Diageo roles:** Corporate Relations Director, Europe

**Previous relevant experience:** Regional Head of Corporate Affairs India & South Asia, Regional Head of Corporate Affairs Africa, Group Head of Government Relations, Standard Chartered; Extensive government experience including in HM Treasury and Foreign & Commonwealth Office



**Siobhán Moriarty**  
General Counsel &  
Company Secretary  
Appointed General  
Counsel: July 2013  
Appointed Company  
Secretary: August 2018  
Nationality: Irish

**Previous Diageo roles:** General Counsel Designate; Corporate M&A Counsel; Regional Counsel Ireland; General Counsel Europe

**Previous relevant experience:** various positions in law firm private practice, Dublin and London

**Current external appointments:** Non-Executive Director, Friends Board of the Royal Academy of Arts; Board Member, European General Counsel Association



**Mairéad Nayager**  
Human Resources Director  
Appointed: October 2015  
Nationality: Irish

**Previous Diageo roles:** HR Director, Diageo Europe; HR Director, Brandhouse, South Africa; HR Director, Diageo Africa Regional Markets; Talent & Organisational Effectiveness Director, Diageo Africa; Employee Relations Manager, Diageo Ireland

**Previous relevant experience:** Irish Business and Employers' Confederation



**John O'Keeffe**  
President, Diageo Africa  
Appointed: July 2015  
Nationality: Irish

**Previous Diageo roles:** CEO and Managing Director, Guinness Nigeria; Global Head, Innovation; Global Head, Beer and Baileys; Managing Director Russia and Eastern Europe; various general management and marketing positions



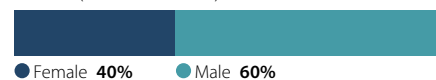
**Syl Saller**  
Chief Marketing Officer  
Appointed: July 2013  
Nationality: American/  
British

**Previous Diageo roles:** Global Innovation Director; Marketing Director, Diageo Great Britain

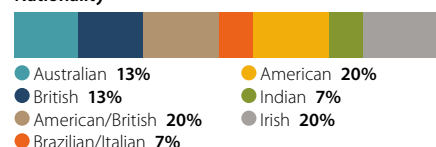
**Previous relevant experience:** brand management and marketing roles, Allied Domecq PLC, Gillette Company and Holson Burnes Group, Inc; Non-Executive Director, Domino's Pizza Group plc

### Executive Committee diversity

Gender (as at 30 June 2019)



Nationality



# Corporate governance report

## Letter from the Chairman of the Board of Directors



Dear Shareholder

On behalf of the Board I am delighted to present the corporate governance report for the year ended 30 June 2019. The Board's role is to promote the long-term sustainable success of Diageo and the delivery of long-term, sustainable value for shareholders in a manner which contributes positively to wider society. It is the responsibility of the Board to ensure that high standards of ethical behaviour and corporate governance are maintained throughout Diageo.

It is very clear from both public and private discussions that board governance, corporate behaviour and responsibility, environmental sustainability and stakeholder engagement are of critical importance to a board and its decision-making processes. Details of our governance structure and processes are set out on pages 70 and 71, but to summarise, your Board is well balanced, comprising individuals from a diverse range of experience, skills and backgrounds, and which provides independent, effective and entrepreneurial leadership within the framework of a strong company purpose and values-led culture. This was confirmed by the results of our annual Board evaluation exercise, which was conducted in November 2018 through an internal process which is further described on page 73.

The regulatory framework has continued to evolve over the year, especially with the introduction of the new UK Corporate Governance Code in July 2018 (the new Code) which places increased emphasis on corporate culture, purpose and values which are critical to ensure long-term sustainable success. In light of these developments, the Board has taken the opportunity to review and refresh its existing processes against provisions introduced by the new Code. In many respects, these additional provisions require no change to our existing practices. For example, the role of corporate purpose in ensuring effective culture and employee engagement has been a deeply engrained part of Diageo's culture for a number of years. In other areas, we are looking to develop and formalise existing practices. For example, we have considered how we interact with different stakeholder groups and it is our aim to maintain an open and positive dialogue with all of our stakeholders. To this end, I have been nominated to serve as designated non-executive director for workforce engagement, in which role I engage closely with the Diageo workforce to understand their views and present them to the Board, as principal point of contact between the Board and the workforce. I look forward immensely to developing this aspect of my role. Further details of how the Board engages with different stakeholder groups are set out on page 74.

Over the course of the year, there have been a number of changes in the Board's membership. In September 2018, Peggy Bruzelius and Betsy Holden stepped down as Non-Executive Directors after nine years of service on the Board. We are very grateful for their wise guidance and contribution to Diageo over that period. In December 2018, we announced that Ursula Burns, who had been expected to join the Board, would not take up her appointment as Non-Executive Director in light of her continuing other commitments. In April 2019, we welcomed Debra Crew as an additional Non-Executive Director, bringing her strong experience in the consumer goods business and as a former chief executive to the Board's range of skills and experience. Debra is undergoing an induction process and we look forward to her contributions to Board discussions as she settles into her role.

The Board believes that Diageo's governance structure and processes underpin our ability to deliver our strategy and create sustainable long-term value and benefit for shareholders and other stakeholders. We are firmly of the view that the benefits of good corporate governance ensure that our business practices are sustainable and of benefit to wider society.

A handwritten signature in black ink, appearing to read 'J Ferrán', written over a white background.

**Javier Ferrán**  
Chairman of the Board of Directors

The principal corporate governance rules applying to Diageo (as a UK company listed on the London Stock Exchange (LSE)) for the year ended 30 June 2019 are contained in the UK Corporate Governance Code 2016 (the Code) and the UK Financial Conduct Authority (FCA) Listing Rules, which require us to describe, in our Annual Report, our corporate governance from two points of view: the first dealing generally with our application of the Code's main principles and the second dealing specifically with non-compliance with any of the Code's provisions. The two descriptions together are designed to give shareholders a picture of governance arrangements in relation to the Code as a criterion of good practice.

A copy of the Code is publicly available on the website of the Financial Reporting Council (FRC), [www.frc.org.uk](http://www.frc.org.uk).

Diageo can confirm that it has complied with all relevant provisions set out in the Code throughout the year, except that Ho KwonPing was unable to attend the company's 2018 AGM. This resulted in partial non-compliance with code provision E.2.3.

Diageo must also comply with corporate governance rules contained in the FCA Disclosure Guidance and Transparency Rules as well as certain related provisions in the Companies Act 2006 (the Act).

As well as being subject to UK legislation and practice, as a company listed on the New York Stock Exchange (NYSE), Diageo is subject to the listing requirements of the NYSE and the rules of the US Securities and Exchange Commission (SEC), as they apply to foreign private issuers. Compliance with the provisions of the US Sarbanes-Oxley Act of 2002 (SOX), as it applies to foreign private issuers, is continually monitored.

As Diageo follows UK corporate governance practice, differences from the NYSE corporate governance standards are summarised in Diageo's 20-F filing and on our website at [www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance](http://www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance).

## Board of Directors

### Composition of the Board

The Board is comprised of the Non-Executive Chairman, two Executive Directors, the Senior Independent Director, and five independent Non-Executive Directors. The biographies of all Directors and the members of the Executive Committee are set out in this Annual Report on pages 66 to 68.

### Inclusion and diversity

Valuing inclusion and diversity is one of the core principles of Diageo's global Human Rights Policy which applies to all employees, subsidiaries and third party contractors and which has been implemented as part of our Code of Business Conduct programme. Our objective is to maintain and sustain an inclusive and diverse business in order to create a better working environment and a better performing business.

Diageo strongly supports diversity within its Board of Directors, including gender, age and professional diversity, as well as diversity of thought. The Board is comprised of individuals from a diverse range of skills, industries, backgrounds and nationalities, which enables a broad evaluation of all matters considered by the Board and contributes to a culture of collaborative and constructive discussion. In particular, women currently make up 44% of the Board and 40% of the Executive Committee. Further information is given in the sections of this Annual Report on sustainability & responsibility, our people, and on the communities section of the Chairman's statement and the trusted and respected section of the Chief Executive's statement.

## Duties of the Board

The Board manages overall control of the company's affairs with reference to the formal schedule of matters reserved for the Board for decision. The schedule was last reviewed in July 2019 and is available at [www.diageo.com/en-row/ourbusiness/aboutus/corporate-governance](http://www.diageo.com/en-row/ourbusiness/aboutus/corporate-governance).

The Board has agreed an approach and adopted guidelines for dealing with conflicts of interest and responsibility for authorising conflicts of interest is included in the schedule of matters reserved for the Board. The Board confirmed that it was not aware of any situations that may or did give rise to conflicts with the interests of the company other than those that may arise from Directors' other appointments as disclosed in their biographies.

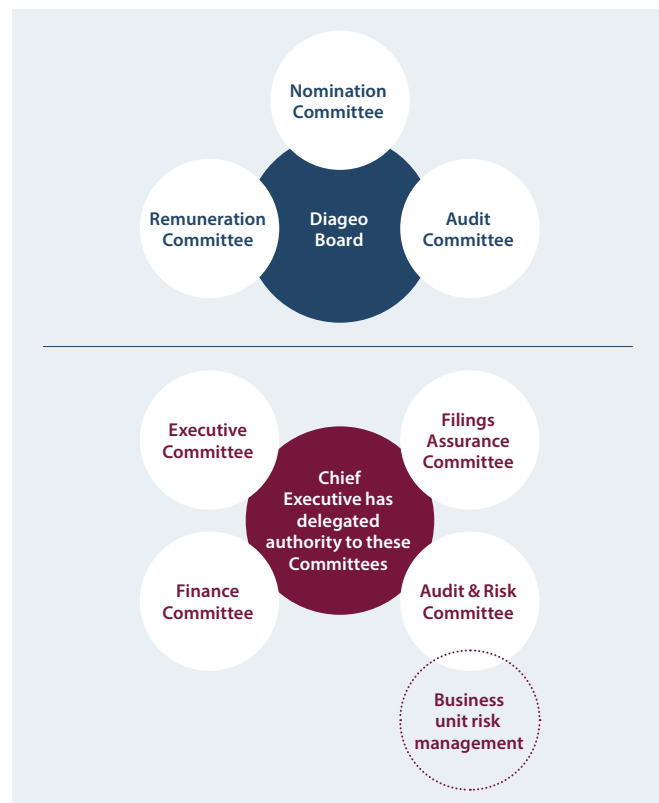
In order to fulfil their duties, procedures are in place for Directors to seek both independent advice and the advice and services of the Company Secretary who is responsible for advising the Board, through the Chairman, on all governance matters. The Non-Executive Directors meet without management present, and also meet with the Chairman without management present, on a regular basis.

The terms of reference of Board Committees are reviewed regularly, most recently in May 2019, and are available at [www.diageo.com/en/our-business/corporate-governance](http://www.diageo.com/en/our-business/corporate-governance).

## Corporate governance structure

The Board has established a corporate governance framework as shown below. This includes the three Board Committees (Audit Committee, Nomination Committee and Remuneration Committee), as well as management committees which report to the Chief Executive Officer or Chief Financial Officer (Executive Committee, Filings Assurance Committee, Finance Committee and Audit & Risk Committee).

Further details on the Board Committees can be found in the separate reports from each Committee on pages 77 to 101, and details of the Executive Committee can be found on page 74.



## Division of responsibilities

There is a clear separation of the roles of the Chairman and the Chief Executive which has been clearly established, set out in writing and agreed by the Board. No individual or group dominates the Board's decision-making processes. The following sets out the division of responsibilities of the Board:

### Leadership

#### Chairman

##### Javier Ferrán

- Responsible for the operation, leadership and governance of the Board
- Ensures all Directors are fully informed of matters and receives precise, timely and clear information sufficient to make informed judgements
- Sets Board agendas and ensures sufficient time is allocated to ensure effective debate to support sound decision making
- Ensures the effectiveness of the Board
- Engages in discussions with shareholders
- Meets with the Non-Executive Directors independently of the Executive Directors

#### Chief Executive

##### Ivan Menezes

- Develops the group's strategic direction for consideration and approval by the Board
- Implements the strategy agreed by the Board
- Manages the company and the group
- Along with the CFO, leads discussions with investors
- Is supported in his role by the Executive Committee
- Is supported by the Filings Assurance Committee in the management of financial reporting of the company

#### Chief Financial Officer

##### Kathryn Mikells

- Manages all aspects of the group's financial affairs
- Responsible for the management of the capital structure of the company
- Contributes to the management of the group's operations
- Along with the CEO, leads discussions with investors
- Is supported by the Finance Committee and Filings Assurance Committee in the management of the financial affairs and reporting of the company

### Independent oversight and rigorous challenge

#### Non-Executive Directors

##### Debra Crew, Ho KwonPing, Susan Kilsby, Nicola Mendelsohn and Alan Stewart

The Non-Executive Directors, all of whom the Board has determined are independent, experienced and influential individuals from a diverse range of industries, backgrounds and countries. The independence of Ho KwonPing, who has served on the Board for over six years, has been the subject of a rigorous review.

- Constructively challenge the Executive Directors
- Develop proposals on strategy
- Scrutinise the performance of management
- Satisfy themselves on the integrity of the financial information, controls and systems of risk management
- Set the levels of remuneration for Executive Directors and senior management
- Make recommendations to the Board concerning appointments to the Board
- Devote such time as is necessary to the proper performance of their duties

A summary of the terms and conditions of appointment of the Non-Executive Directors is available at [www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance](http://www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance).

#### Senior Independent Director

##### Lord Davies of Abersoch

- Acts as a sounding board for the Chairman and serves as an intermediary for the other Directors where necessary
- Together with the other Non-Executive Directors, leads the review of the performance of the Chairman, taking into account the views of the Executive Directors
- Available to shareholders if they have concerns where the contact through the normal channels has failed

The independence of Lord Davies, who has served on the Board for over six years, has been the subject of a rigorous review.

### Company Secretary

##### Siobhán Moriarty

- Supports the Chairman in setting the agenda for Board meetings
- Ensures information is made available to Board members in a timely fashion
  - Supports the Chairman in designing and delivering Board inductions
- Co-ordinates training requirements for the Board and individual Board members
  - Advises on corporate governance matters

## Board activities

Details of the Board's main areas of focus during the year are summarised below.

### Area of focus

<b>Strategic matters</b>	<ul style="list-style-type: none"> <li>Held the Annual Strategy Conference in Scotland at which the group's strategy was considered in-depth, including visiting distilling sites</li> <li>Regularly reviewed the group's performance against the strategy</li> <li>Received reports on the financial performance of the group</li> <li>Visited the group's operations in China, which included receiving reports from management and visiting various office and production facility sites</li> <li>Reviewed the group's tax strategic planning</li> <li>Reviewed the impact of e-commerce, US route to consumer and the future of marketing</li> </ul>
<b>Operational matters</b>	<ul style="list-style-type: none"> <li>Reviewed and approved the annual funding plan, insurance, banking and capital expenditure requirements</li> <li>Reviewed the impact of global trade developments and disputes</li> <li>Reviewed the impact of Brexit and mitigation planning for Brexit and other related risks</li> <li>Regularly reviewed the group's business development activities and projects</li> <li>Approved various significant procurement and other contracts</li> <li>Reviewed the company's innovation pipeline</li> <li>Approved significant property developments and office relocations</li> <li>Visited the company Customer Collaboration Centre in London</li> </ul>
<b>Stakeholders</b>	<ul style="list-style-type: none"> <li>Reviewed the company's Positive Drinking strategy</li> <li>Considered the company's culture</li> <li>Reviewed and approved the company's return of capital policy, including its share buyback programmes</li> <li>Approved and implemented a new framework for workforce engagement</li> <li>Reviewed the company's talent strategy, diversity policy and development programmes</li> <li>Reviewed the company's sustainability and environmental strategy</li> <li>Reviewed the company's key pensions governance and funding positions</li> <li>Received regular investor reports</li> <li>Invited Sir Jonathon Porritt to give a presentation on environmental sustainability</li> </ul>
<b>Governance, assurance and risk management</b>	<ul style="list-style-type: none"> <li>Received reports on the work of the various Board Committees</li> <li>Received regular reports in relation to material legal matters</li> <li>Agreed actions from the evaluation of the Board's performance</li> <li>Approved the appointment of a new Non-Executive Director</li> <li>Reviewed the requirements under the FRC 2018 Corporate Governance Code</li> <li>Reviewed and approved new terms of reference for the Audit Committee, Remuneration Committee, Nomination Committee and Routine Business Committee</li> <li>Reviewed and approved the schedule of matters reserved for the Board</li> <li>Reviewed and approved the company's financial reporting</li> </ul>

## Board attendance

Directors' attendance record at the AGM, scheduled Board meetings and Board Committee meetings, for the year ended 30 June 2019 is set out in the table below. For Board and Board Committee meetings, attendance is expressed as the number of meetings attended out of the number that each Director was eligible to attend. Where Directors were unable to attend a meeting, they gave their views to the Chairmen of the respective meeting ahead of that meeting being held.

	Annual General Meeting 2018	Board (maximum 6)	Audit Committee (maximum 4)	Nomination Committee (maximum 3)	Remuneration Committee (maximum 5)
Javier Ferrán	√	6/6	4/4 <sup>(i)</sup>	3/3	4/5 <sup>(i)</sup>
Ivan Menezes	√	6/6	2/4 <sup>(i)</sup>	3/3 <sup>(i)</sup>	5/5 <sup>(i)</sup>
Kathryn Mikells	√	6/6	4/4 <sup>(i)</sup>	1/3 <sup>(i)</sup>	2/5 <sup>(i)</sup>
Lord Davies <sup>(ii)</sup>	√	5/6	3/4	3/3	4/5
Debra Crew	n/a	1/1	1/1	1/1	2/2
Susan Kilsby	√	6/6	4/4	3/3	5/5
Ho KwonPing <sup>(ii)</sup>	X	5/6	4/4	2/3	4/5
Nicola Mendelsohn <sup>(ii)</sup>	√	5/6	4/4	2/3	5/5
Alan Stewart	√	6/6	4/4	3/3	5/5
<b>Former Directors</b>					
Peggy B Bruzelius <sup>(iii)</sup>	√	2/2	1/1	1/1	1/1
Betsy D Holden <sup>(iii)</sup>	√	2/2	1/1	1/1	1/1

(i) Attended by invitation.

(ii) Where Non-Executive Directors were unable to attend a meeting, they gave their views to the Chairman of the respective meeting ahead of the meeting being held.

(iii) Retired from the Board on 20 September 2018.

## Performance evaluation

In November 2018, an evaluation of the Board’s effectiveness, including the effectiveness of the Chairman and the Board’s Committees, was undertaken with the assistance of the Company Secretary. The primary focus of the 2018 evaluation was to review and evaluate how the Board and its Committees operate as measured against current best practice corporate governance principles, framed by reference to the Code and Principle L and Provisions 21, 22 and 23 of the new Code. The evaluation was also conducted with reference to the detailed guidance as to the optimal Board evaluation process set out in Section 3 of the FRC’s ‘Guidance on Board Effectiveness’ issued in July 2018. The evaluation was also designed to build on the outcome of the externally facilitated evaluation carried out in November 2017, whose findings were summarised in last year’s Corporate Governance report.

The evaluation process comprised an initial questionnaire for all Directors to complete and return, followed by individual meetings between the Chairman and each Director where required (or, in the case of the Chairman himself, a meeting between the Chairman and the Senior Independent Director). The questionnaire was sub-divided into four sections focussing respectively on Board composition and processes, Board effectiveness, behaviours and performance, individual

Directors’ performance and Committees’ performance. Responses to all questions were sent to the Chairman and responses to the specific questions in respect of the Chairman was sent to the Senior Independent Director. In addition, responses on the effectiveness of the Committees were submitted to the respective Committee chairmen. The results of the evaluation process were reviewed by the Board at its meeting in December 2018 at which various actions were agreed to be taken.

It is the Board’s intention to continue to review annually its performance and that of its Committees and individual directors, with such evaluation being carried out by an external facilitator every three years. The evaluation to be undertaken in 2019 will be undertaken internally.

The Chairman has confirmed that the Non-Executive Directors standing for re-election at this year’s AGM continue to perform effectively, both individually and collectively as a Board, and that each demonstrate commitment to their roles. With regards to the re-election of Lord Davies, further details are provided in the Nomination Committee report on page 79.

The main conclusions and key areas for focus as highlighted by the 2018 evaluation are as follows:

### Board composition and processes

#### Main conclusions

- With recent retirement of two Non-Executive Directors, there was a current imbalance between the number of Executive and Non-Executive Directors
- Need to ensure prospective new members of Board to have adequate industry experience and come from a variety of geographical backgrounds
- Clear desire to maintain and enhance Board’s positive gender diversity
- Positive induction processes noted with more focus needed on addressing Board’s ongoing development requirements
- Strong effective support is provided by Company Secretary and team, with good balance between scheduled and ad hoc meetings
- Improvements in annual strategy conference agenda and topics were noted

#### Key areas for focus

- Recruitment of at least one additional Non-Executive Director of appropriate quality, experience and background, with a view to ensuring appropriate diversity on the Board
- Review succession planning and pipeline of both executive and non-executive roles
- Identify ongoing training and development opportunities for Board members
- Review pre-read and presentation format to strike balance between adequate detail and brevity
- Provide for review and refresh of future Board agenda items through the year to enable flexibility

### Board effectiveness, behaviours and performance

#### Main conclusions

- Strong support for collective performance of the Board, its effectiveness and behaviours
- Board has been effective in anticipating emerging or external factors and trends, and needs to continue this focus over time
- Steps have been taken to adequately address conclusions of the prior year’s Board evaluation report
- Improvements noted in addressing strategic, long-term issues while maintaining oversight of performance, controls and risk
- Open and challenging discussions have had direct positive impact on decision making

#### Key areas for focus

- Continuing shaping of agenda and Board focus on highest value at stake opportunities and risks
- Continued vigilance in identifying and adapting to long-term trends and challenges
- Identifying additional opportunities for outside-in engagement, to drive more external perspectives on areas of opportunity and threat for long-term, and to provide strengthened development opportunities for Board members
- Reviewing Board papers and processes to ensure maintenance of highest standards of governance in line with latest developments in this area
- Taking steps to ensure continued culture of transparency and constructive debate within the Board following appointment of new members

### Directors’ performance and effectiveness

#### Main conclusions

- Strong support for performance, leadership tone and effectiveness of Chairman and Senior Independent Director
- There is a clear division of responsibilities between Chairman and Chief Executive with complementary experience and skill sets

#### Key areas for focus

- Ensure prospective new members of the Board fit well within the current culture of transparency and openness

### Committees’ performance and effectiveness

#### Main conclusions

- Performance of Audit and Remuneration Committees in particular is consistently strong, with clear and well defined remits and agendas
- Performance of Nomination Committee has improved with clearer understanding of talent pipeline, requisite skill set and recruitment processes, although this requires embedding over time

#### Key areas for focus

- For the Audit Committee, improved focus on risk management
- For the Remuneration Committee, maintaining close oversight of executive remuneration and reward trends internationally and in the UK
- For the Nomination Committee, ensuring and strengthening pipeline of talent and succession planning
- For Committees generally, ensuring that their remit is reviewed and refreshed periodically, as governance and best practice evolves



## Workforce engagement

At its meeting in December 2018, the Board agreed that the Chairman would be responsible for workforce engagement, given that he is best positioned to engage with the workforce frequently, through visits to the markets in which Diageo operates and at its UK work locations. In line with the new Code, it is intended that the Chairman will utilise existing engagement structures and processes to regularly engage with a broad representation of the workforce, to include, but not limited to, town hall meetings on regional and market visits, visits to manufacturing sites, attendance at employee engagement forums and employee resource group meetings from time to time in various markets, review of engagement survey results, in addition to holding 'skip level' meetings with key talent.

Accordingly, during the year, the Chairman has accompanied various members of the Diageo Executive Committee when engaging with employee representatives through the above structures. The Chairman has visited office and production facility sites in the UK, China, Brazil, South Africa, Kenya and North America. He has also conducted skip level meetings with key talent. In addition, the company has put in place appropriate reporting frameworks so that relevant feedback from existing forums such as the bi-annual engagement survey, digital sharing platforms and employee representative groups is conveyed to the Chairman via the Chief HR Officer. The Board has also agreed that workforce engagement would be discussed in detail at its meeting in July each year to commence in July 2020, which would enable engagement with the workforce in advance of executive remuneration decisions. It was also agreed that the Board will issue an annual 'workforce engagement statement' commencing in 2020, explaining how the Board has gathered and considered worker views from around the world, and how these views have been taken into account in the Board's decision making.

## Stakeholder engagement

Diageo's culture and the nature of its business encourages the development of strong and positive relationships with external stakeholders, including business partners such as suppliers and customers, but also with government, consumers and the communities in which we operate. The Chief Executive and the Presidents are in regular contact with our principal customers, with performance updates being provided at all scheduled Board meetings. At least once a year, the Board meets in a location outside the UK during which it meets and receives feedback in person from key customers. For example, in October 2018 the Board met with representatives of its key customers in China and in the previous financial year the Board met key customers in India. See page 49 for further examples of how Diageo has engaged with suppliers.

Diageo's purpose and values require that we make a positive contribution to society and the communities in which we operate. During the year, the Board has focused in particular on the company's strategy to reduce the impact of its business on the environment and communities, including the progress made towards our 2020 environmental targets, the progress made in water reuse and renewable energy in our African breweries, use of by-products from our distilleries in Scotland in energy generation, and improvements in packaging especially in relation to use of plastics. At its meeting in January 2019, the Board reviewed ambitious environmental targets beyond 2020 and hosted Sir Jonathon Porritt, who spoke to the Board on the subject. Further details of the company's initiatives to reduce environmental impact can be found on pages 52 to 57.

## Relations with shareholders

The Board's primary contact with institutional shareholders is through the Chief Executive and Chief Financial Officer. The Chief Executive and Chief Financial Officer are supported by the investor relations department, who are in regular contact with institutional shareholders and sell-side analysts. In May 2019, the Chairman, Chief Executive and Chief Financial Officer attended the company's Capital Markets Day at which they and other of the company's executives presented to approximately 130 investors and analysts. A monthly investor relations report, including coverage of the company by sell-side analysts, is circulated to the Board.

The Board also ensures that all Directors develop an understanding of the views of major institutional shareholders through an independent survey of shareholder opinion. In addition, major shareholders are invited to raise any company matters of interest to them at meetings with the Chairman of the Board and the Chairman of the Remuneration Committee. Reports on any meetings are made to the Board.

Shareholders are invited to write to the Chairman or any other Director and express their views on any issues of concern at any time and the AGM provides an opportunity for shareholders to put their questions in person.

## Executive direction and control

### Executive Committee

The Executive Committee, appointed and chaired by the Chief Executive, supports him in discharging his responsibility for implementing the strategy agreed by the Board and for managing the company and the group.

It consists of the individuals responsible for the key operational and functional components of the business: North America, Europe and Turkey, Africa, Latin America and Caribbean, Asia Pacific, International Supply Centre and Corporate.

The Executive Committee focuses its time and agenda to align with the Performance Ambition and how to achieve Diageo's financial and non-financial performance objectives. Performance metrics have been developed to measure progress. There is also focus on the company's reputation. In support, monthly performance delivery calls, involving the senior leadership group, focus on current performance.

Committees appointed by the Chief Executive and intended to have an ongoing remit, including the Audit & Risk Committee, Finance Committee and Filings Assurance Committee are shown (with their remits) at [www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance](http://www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance).

## Additional information

### Internal control and risk management

An ongoing process has been established for identifying, evaluating and managing risks faced by the group. This process, which complies with the requirements of the Code, has been in place for the full financial year and up to the date the financial statements were approved and accords with the guidance issued by the FRC in September 2014, Guidance on Risk management, Internal Control and related Financial and Business Reporting. The Board confirms that, through the activities of the Audit Committee described below, a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity has been carried out. These risks and mitigations are set out above in the section of this Annual Report dealing with principal risks.

The Board acknowledges that it is responsible for the company's systems of internal control and risk management and for reviewing their effectiveness. The Board confirms that, through the activities of the Audit Committee described below, it has reviewed the effectiveness of the company's systems of internal control and risk management.

During the year, in line with the Code, the Board considered the nature and extent of the risks it was willing to take to achieve its strategic goals and reviewed the existing internal statement of risk appetite (which was considered and recommended to the Board by both the Audit & Risk Committee and the Audit Committee). In accordance with the Code, the Board has also considered the company's longer term viability, based on a robust assessment of its principal risks. This was done through the work of the Audit Committee which recommended the Viability Statement (as set out on page 20) to the Board.

The company has in place internal control and risk management systems in relation to the company's financial reporting process and the group's process for preparation of consolidated accounts. Further, a review of the consolidated financial statements is completed by management through the Filings Assurance Committee to ensure that the financial position and results of the group are appropriately reflected. Further details of this are set out in the Audit Committee report on pages 77 and 78.

### Compliance and ethics programme

Diageo is committed to conducting its business responsibly and in accordance with all laws and regulations to which its business activities are subject. We hold ourselves to the principles in our Code of Business Conduct, which is embedded through a comprehensive training and education programme for all employees.

Our Code of Business Conduct and other Diageo global policies are available at [www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance](http://www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance).

In accordance with the requirements of the Sarbanes-Oxley Act (and related SEC rules), Diageo has adopted a code of ethics covering its Chief Executive, Chief Financial Officer, Presidents and other identifiable persons in the group, including those performing senior accounting and controller functions. No amendments to, or waivers in respect of, the code of ethics were made during the year.

The full text of the code of ethics is available at [www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance](http://www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance).

Both the Audit & Risk Committee and the Audit Committee regularly review the strategy and operation of the compliance and ethics programme through the year.

Further information is given in the 'How we protect our business' section of this Annual Report on page 21.

### Political donations

The group has not given any money for political purposes in the United Kingdom and made no donations to EU political organisations and incurred no EU political expenditure during the year.

The group made contributions to non-EU political parties totalling £0.38 million during the year (2018 – £0.3 million). These contributions were made almost exclusively to federal and state candidate committees, state political parties and federal leadership committees in North America (consistent with applicable laws), where it is common practice to make political contributions. No particular political persuasion was supported and contributions were made with the aim of promoting a better understanding of the group and its views on commercial matters, as well as a generally improved business environment.

### Going concern

The Directors confirm that, after making appropriate enquiries, they have reasonable expectation that the group has adequate resources to continue in operational existence. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Although not assessed over the same period as the going concern, the viability of the group has been assessed above.

### Management's report on internal control over financial reporting

Management, under the supervision of the Chief Executive and Chief Financial Officer, is responsible for establishing and maintaining adequate control over the group's financial reporting. The Filings Assurance Committee supports the Chief Executive and Chief Financial Officer in ensuring the accuracy of the company's financial reporting, filings and disclosures.

Management has assessed the effectiveness of Diageo's internal control over financial reporting (as defined in Rules 13(a)-13(f) and 15(d)-15(f) under the US Securities Exchange Act of 1934) based on the framework in 'Internal Control – Integrated Framework', issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in 2013. Based on this assessment, management concluded that, as at 30 June 2019, internal control over financial reporting was effective.

During the period covered by this report, there were no changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of internal control over financial reporting.

PricewaterhouseCoopers LLP (PwC), an independent registered public accounting firm, who also audit the group's consolidated financial statements, has audited the effectiveness of the group's internal control over financial reporting, and has issued an unqualified report thereon, which is included in PwC's integrated audit report below and which will be included in the company's Form 20-F to be filed with the SEC.

## Directors' responsibilities in respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report, the information filed with the SEC on Form 20-F and the group and parent company 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 group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). In preparing the group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the 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 group and company and of the profit or loss of the group and 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 IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, 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 group and company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements for the year ended 30 June 2019 are included in the Annual Report, which is published in printed form and made available on the company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the company's website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

## Responsibility statement

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 66 and 67 confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as issued by the IASB and as adopted for use in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

The responsibility statement was approved by the Board of Directors on 25 July 2019.

# Audit Committee report



Dear Shareholder

On behalf of the Audit Committee I am pleased to present its report for the year ended 30 June 2019.

The purpose of this report is to describe how the Committee has carried out its responsibilities during the year. In overview, the role of the Audit Committee is to monitor and review: the integrity of the company's financial statements; internal control and risk management; audit and risk programmes; business conduct and ethics; 'whistleblowing'; and the appointment of the external auditor.

The work of the Committee during the year gave attention to all elements of its remit. Over the year, the Committee continued to focus on particular topics within the company's risk management programme and emerging trends, including cyber security risks, global security trends, data management and migration risks, GDPR implementation, non-GAAP metrics and pensions governance.

As part of the annual Board evaluation, all members of the Audit Committee completed an evaluation of the Committee. This concluded that the performance of the Committee was consistently strong, with a clear and well defined remit and agenda. Further details of the evaluation can be found on page 73.

In discharging its duties, the Audit Committee seeks to balance independent oversight of the matters within its remit with providing support and guidance to management. I am confident that the Committee, supported by members of senior management and the external auditors, has carried out its duties in the year under review effectively and to a high standard.

**Alan Stewart**  
Chairman of the Audit Committee

## Role of the Audit Committee

The formal role of the Audit Committee is set out in its terms of reference, which are available at [www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance](http://www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance). Key elements of the role of the Committee and work carried out during the year are set out as follows.

## Composition of the Audit Committee

The Audit Committee comprises Alan Stewart (Committee Chairman), Lord Davies, Debra Crew, Susan Kilsby, Ho KwonPing and Nicola Mendelsohn.

## Financial statements

During the year, the Audit Committee met four times (and a sub-committee met twice) and reviewed both the interim results announcement, which included the interim financial statements, and the annual reports and associated preliminary year end results announcement, focusing on key areas of judgement and complexity, critical accounting policies, provisioning and any changes required in these areas or policies.

The company has in place internal control and risk management systems in relation to the company's financial reporting process and the group's process for preparation of consolidated accounts. A review of the consolidated financial statements is completed by the Filings Assurance Committee (FAC) to ensure that the financial position and results of the group are appropriately reflected therein. In addition to reviewing draft financial statements for publication at the half and full year, the FAC is responsible for examining the company's financial information and processes, the effectiveness of internal controls relating to financial reporting and disclosures, legal and compliance issues and determining whether the company's disclosures are accurate and adequate. The FAC comprises the Chief Executive, the Chief Financial Officer, the group general counsel & company secretary, the group general counsel corporate, the group financial controller, the group chief accountant, the group technical accounting director, the head of investor relations, the head of Global Audit & Risk and the company's external auditors. The Audit Committee reviewed the work of the FAC and a report on the conclusions of the FAC process was provided to the Audit Committee by the Chief Financial Officer.

Significant issues and judgements that were considered in respect of the 2019 financial statements were as follows. These include the matters relating to risks disclosed in the UK external auditor's report.

- Disclosure on the quality of the earnings and one-off items included in cash flow. The Audit Committee agreed that sufficient disclosure was made in the financial statements.
- The Audit Committee determined that exceptional items are appropriately classified considering their size and nature, and sufficient disclosure is provided in the financial statements (see note 4).
- Review of carrying value of assets, in particular intangible assets. The Audit Committee agreed that the fair value of the company's assets was in excess of their carrying value (see notes 6 and 10).
- Exchange rate used to translate operations in Venezuela. The Audit Committee agreed that the rate is reasonable for the year ended 30 June 2019 for consolidation purposes, that represents the best estimation of the rate at which capital and dividend repatriations are expected to be realised (see note 1).

- Disclosure on taxation. The Audit Committee agreed that the separate presentation of the tax risk appropriately addresses the significant change in the international tax environment and sufficient and transparent disclosures are provided for the ongoing tax discussions (see page 23 and note 7).
- Review of legal cases. The Audit Committee agreed that adequate provision and/or disclosure has been made for all material litigation and disputes, based on the currently most likely outcomes, including the litigation summarised in note 18.
- Assumptions used in respect of post employment plans. Having considered advice from external actuaries and assumptions used by companies with comparator plans, the Audit Committee agreed that the assumptions used to calculate the income statement and balance sheet assets and liabilities for post employment plans were appropriate (see note 13).
- Viability statement. The Audit Committee noted that severe but plausible risk scenarios had been identified; a robust risk assessment had been carried out; and the group's viability and going concern consideration proved with stress testing. Taking into account the company's balance sheet position, the Audit Committee expected the group to be able to meet its liabilities as they fell due over the three-year period ending 30 June 2022. The risk that the group would become insolvent during this timeframe was considered remote. The Audit Committee recommended to the Board that the Viability statement above be approved.

As part of its review of the Annual Report, the Audit Committee considered whether the report is 'fair, balanced and understandable' (noting the Code's reference to 'position' as well as 'performance, business model and strategy'). On the basis of this work, the Audit Committee recommended to the Board that it could make the required statement that the Annual Report is 'fair, balanced and understandable'.

### Internal control and risk management; audit and risk programme; business conduct and ethics (including 'whistleblowing')

At each of its meetings, the Audit Committee reviewed detailed reports from the heads of the Global Risk & Compliance (GRC) and Global Audit & Risk (GAR) teams (including coverage of the areas mentioned in the title of this section) and had sight of the minutes of meetings of the Executive Audit & Risk Committee. The work and reporting to the Committee of both GRC and GAR during the year included focus on cyber risk, data management and migration risks, data privacy risks and risks associated with discrimination and harassment, given the external profile of this topic. The Committee in turn was thus able to keep under review the operation of the controls and compliance framework in these and other areas. The Committee also received regular updates from the group general counsel on significant litigation and from the head of tax on the group's tax profile and key issues.

The GRC reporting included a consideration of key risks and related mitigations, including those set out in the section of this Annual Report dealing with principal risks. Based on this activity during the year, the Audit Committee made a recommendation to the Board covering the nature and extent of the risks it was willing to take to achieve its strategic goals and its internal statement of risk appetite (which was considered also by the Executive Audit & Risk Committee). The Board agreed this recommendation.

Through the activities of the Audit Committee described in this report and its related recommendations to the Board, the Board confirms that it has reviewed the effectiveness of the company's

systems of internal control and risk management and that there were no material failings identified and no significant failings identified which require disclosure in this Annual Report.

### External auditor

During the year, the Audit Committee reviewed the external audit strategy and the findings of the external auditor from its review of the interim results and its audit of the consolidated financial statements.

The Audit Committee reviews annually the appointment of the auditor (taking into account the auditor's effectiveness and independence and all appropriate guidelines) and makes a recommendation to the Board accordingly. Any decision to open the external audit to tender is taken on the recommendation of the Audit Committee. There are no contractual obligations that restrict the company's current choice of external auditor. Following the last tender process, PwC was appointed as auditor of the company in 2015 and the current audit partner is Ian Chambers.

The company has complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 ('CMA Order') for the year ended 30 June 2019.

The Audit Committee assesses the ongoing effectiveness and quality of the external auditor and audit process on the basis of meetings and a questionnaire-based internal review with the finance team and other senior executives.

The group has a policy on auditor independence and on the use of the external auditor for non-audit services, which is reviewed annually, most recently in July 2019. The review took into consideration effectiveness and upcoming expected changes to regulation on non-audit services. Under the group's auditor independence policy, the provision of any non-audit service must be approved by the Audit Committee, unless the proposed service is both expected to cost less than £250,000 and also falls within one of a number of service categories which the Audit Committee has pre-approved. Fees paid to the auditor for audit, audit related and other services are analysed in note 3(b) to the consolidated financial statements. The nature and level of all services provided by the external auditor are factors taken into account by the Audit Committee when it reviews annually the independence of the external auditor.

### 'Financial expert', composition and other attendees

For the purposes of the Code and the relevant rule under SOX, section 407, the Board has determined that Alan Stewart is independent and may be regarded as an Audit Committee financial expert, having recent and relevant financial experience, and that all members of the Audit Committee are independent Non-Executive Directors with relevant financial and sectoral competence.

The Chairman, the Chief Financial Officer, the group general counsel & company secretary, the group financial controller, the head of GAR, the GRC director, the group chief accountant and the external auditor regularly attend meetings of the Committee.

The Audit Committee met privately with the external auditor and with the head of GAR during the year.

### Training and deep dives

During the year, the Audit Committee had risk reviews and training sessions, presented by senior executives, on cyber security risk management processes, the company's data protection risk mitigation approach following the implementation of the EU GDPR, global security trends and risks, and pension governance and risk associated with discrimination and harassment.

## Nomination Committee report



Dear Shareholder

On behalf of the Nomination Committee I would like to present its report for the year ended 30 June 2019.

Following the announcement in December 2018 that Ursula Burns would no longer be joining the Board as a Non-Executive Director, the Committee began the search for a new Non-Executive Director. The Committee engaged Egon Zehnder (which has no other connection with the company) to identify potential candidates and following a detailed selection process, the Committee recommended the appointment of Debra Crew as a Non-Executive Director to the Board, which subsequently approved the appointment with effect from 18 April 2019. Debra's significant experience in FMCG and in executive management as a former CEO should serve Diageo well and complement the current Board.

The Committee also considered the independence of Lord Davies of Abersoch whose tenure will exceed nine years in September 2019. Lord Davies has agreed to extend his term for an additional year and to stand for re-election at the 2019 AGM in order to ensure continuity of Board membership, pending recruitment of additional Directors to the Board, and to enable the company to benefit from his experience in British politics and international trade relations at a time of particular uncertainty in these two areas. The Committee was satisfied that Lord Davies demonstrated sufficient independence of thought and challenge in his contributions to the discussions of the Board and that therefore his independence is not likely to be impaired. Accordingly the Committee recommended to the Board that it approve the continuation by Lord Davies as Senior Independent Director for the period until the conclusion of the 2020 AGM and to recommend his re-election to the Board on this basis at the 2019 AGM. The company does not intend that Lord Davies will seek re-election at the 2020 AGM.

As part of the annual Board evaluation, all members of the Nomination Committee completed an evaluation of the Committee. This concluded that the performance of the Committee had improved, with clearer understanding of the talent pipeline, requisite skill sets and recruitment processes, although this understanding requires embedding over time. Further details of the evaluation can be found on page 73.

**Javier Ferrán**  
Chairman of the Nomination Committee

### Role of the Nomination Committee

The Nomination Committee is responsible for keeping under review the composition of the Board and succession to it, and succession planning for senior leadership positions. It makes recommendations to the Board concerning appointments to the Board.

The recruitment process for Non-Executive Directors typically includes the development of a candidate profile and the engagement of a professional search agency (which has no other connection with the company) specialising in the recruitment of high calibre Non-Executive Directors. Reports on potential appointees are provided to the Committee, which, after careful consideration, makes a recommendation to the Board.

Any new Directors are appointed by the Board and, in accordance with the company's articles of association, they must be elected at the next AGM to continue in office. All existing Directors retire by rotation every year.

The formal role of the Nomination Committee is set out in its terms of reference. These were updated in April 2019 and are available at [www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance](http://www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance).

### Composition of the Nomination Committee

The Nomination Committee comprises Javier Ferrán (Committee Chairman), Lord Davies, Debra Crew, Susan Kilsby, Ho KwonPing, Nicola Mendelsohn and Alan Stewart.

### Induction, training and business engagement

There is a formal induction programme for new Directors, which includes meeting with Executive Committee members and other senior executives individually and visiting a number of operations and sites around the group. Following her appointment, the induction process for Debra Crew is ongoing and, so far, has included attending the Annual Strategy Conference where she met all members of the Board and Executive Committee and attending a presentation on the strategic plan for scotch whisky distillation held at one of the company's distilleries in Scotland. Ms Crew is also having induction meetings with senior members of management and is participating in the arranged programme to get to know the business and its operations.

Following the initial induction for Non-Executive Directors, a continuing understanding of the business is developed through appropriate business engagements. Visits to customers, engagements with employees, and brand events were arranged during the year.

In addition, Executive Committee members and other senior executives are invited, as appropriate, to Board and strategy meetings to make presentations on their areas of responsibility. The company's policy is for all Directors to attend the AGM.

All Directors are also provided with the opportunity, and encouraged, to attend regular training to ensure they are kept up to date on relevant legal and governance developments or changes and best practice and changing commercial and other risks.

### Activities of the Nomination Committee

The principal activities of the Nomination Committee during the year were: the consideration of potential new Non-Executive Directors; the review of individual Director performance; a review of the Executive Committee membership and succession planning for it and for senior leadership positions, in addition to a review of diversity within the group; and the continuing independence of Lord Davies.