

Diageo plc Audit Committee Terms of Reference

Membership

1. The committee and its chairman shall be appointed by the board on the recommendation of the nomination committee, in consultation with the chair of the audit committee. The committee shall comprise a majority of the company's independent non-executive directors and in any event shall have not less than three members, it being recognised that current practice is that all independent non-executive directors are appointed to the committee. The chair of the board shall not be a member of the committee.
2. The board has determined that each member of the committee has no material relationship with the company and is otherwise "independent" under the rules of the New York Stock Exchange, Inc. and Rule 10A-3 under the US Securities Exchange Act of 1934, as amended (the "Exchange Act of 1934").
3. Appointments of independent non-executive directors to the committee shall:
 - a) be for a period of up to three years (extendable by up to two additional three-year periods); and
 - b) unless otherwise agreed by the board, be co-terminus with their respective terms of appointment as a non-executive director on the board,provided in each case that the member still meets the criteria for membership of the committee.
4. The board shall appoint the chair of the committee, who shall be an independent non-executive director with recent and relevant financial experience. All members of the committee shall have sufficient financial management expertise, and competence relevant to the sectors in which the company operates, to fulfil their roles effectively. In the absence of the committee chair or an appointed deputy, the remaining members present at the meeting shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the board.
5. The chairman of the committee shall, taking into account the recommendations of the Nomination Committee of the board, review membership of the committee annually, as part of the annual performance evaluation of the committee.

Quorum

6. The quorum necessary for the transaction of business shall be at least two members.

Attendance at meetings

7. Only members of the committee have the right to attend committee meetings, however the chief financial officer, the head of global audit and risk, the chief business integrity officer, the group chief accountant, the controls assurance director, the financial controller, the general counsel and a representative of the external auditor may attend meetings if invited by the committee, it being current practice that they are normally invited to attend.
8. The chairman of the board, the CEO and other individuals may attend meetings (or parts of meetings) if invited by the committee.
9. The committee shall, at least once each year, meet privately and separately with the head of global audit, the chief business integrity officer and the controls assurance director without any other member of management present.

Frequency of meetings

10. Committee meetings shall be held not less than four times per year and, where appropriate, should coincide with key dates in the company's financial reporting and audit cycle.

11. Outside of the formal meeting programme, the committee chair will maintain a dialogue with key individuals involved in the company's governance, including the board chair, the CEO, the chief financial officer, the head of global audit and risk and the external audit lead partner.
12. The external auditor, the head of global audit and risk, the controls assurance director and the chief business integrity officer may request a meeting at any time.

Secretary

13. The company secretary or the deputy company secretary shall be secretary of the committee.
14. The secretary of the committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

Notice of meetings

15. Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair or any of its members, or pursuant to paragraph 12.
16. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with the agenda and copies of all committee papers shall be sent to all members of the committee, and to other attendees as appropriate, at least five working days before the meeting.

Minutes of meetings

17. The secretary of the committee shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance.
18. The secretary of the committee shall circulate draft minutes to all members of the committee after each committee meeting. Once approved, the minutes shall be circulated to all members of the board except where, exceptionally, the committee determines it to be inappropriate to do so.

Authority

19. The committee is authorised by the board to:
 - a) investigate any activity within its terms of reference;
 - b) seek any information that it requires from any company employee in order to perform its duties and to call any employee to be questioned at a meeting of the committee as and when required;
 - c) obtain, at the company's expense, independent legal, accounting or other professional advice in connection with its duties (and such advisors may be invited to attend meetings as necessary);
 - d) incur any expenditure it considers appropriate in connection with the matters described above, with compensation of the external auditor or with ordinary administrative expenses of the committee that are necessary or appropriate in carrying out its duties (the company to make available the necessary funds);
 - e) publish in the company's annual report details of any issues that cannot be resolved between the committee and the board. If the board has not accepted the committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the committee's recommendation and the reasons why the board has taken a different position; and
 - f) delegate its powers in relation to particular matters to a sub-committee consisting of independent non-executive directors or to a person who is an independent non-executive director.

Responsibilities

20. The committee is responsible for discharging governance responsibilities in respect of audit, risk and internal controls, and will report to the board as appropriate. In discharging this responsibility, the committee shall:

Financial Reporting:

- a) monitor the integrity of the company's financial and narrative statements, including its interim and annual financial statements, preliminary results announcements and any other formal announcement relating to its financial performance, before submission to the board for its consideration;
- b) review and report to the board on significant financial reporting issues and adjustments which the financial statements, interim reports, preliminary results announcements and related formal statements contain having regard to matters communicated to it by the external auditor;
- c) in connection with the financial statements, review, and challenge where necessary, the actions and judgements of management, paying particular attention to:
 - (i) the application and appropriateness of significant accounting policies and practices, and any changes in them;
 - (ii) decisions requiring a major element of judgement and whether such judgement has been made appropriately, taking into account the external auditor's view;
 - (iii) the extent to which the financial statements are affected by any significant or unusual transactions in the year and how they are disclosed, and the methods used to account for such transactions where different approaches are possible;
 - (iv) the clarity and completeness of financial reporting disclosures and the context in which statements are made, along with any changes to those disclosures, including the review of any relevant correspondence between the company and the external auditor with respect to such disclosures;
 - (v) significant adjustments resulting from the audit;
 - (vi) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the company looking forwards over an appropriate and justified period);
 - (vii) compliance with accounting standards, including in particular as to whether the company has adopted appropriate accounting policies and made appropriate estimates and judgments, taking into account the external auditor's views on the financial statements;
 - (viii) compliance with stock exchange and other legal requirements; and
 - (ix) review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to audit and risk management;
- d) review first any other statements that contain financial information and require board approval, if carrying out a review before board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the UK Financial Conduct Authority's Listing, Prospectus, Disclosure and Transparency Rules; and
- e) where the committee is not satisfied with any aspect of the proposed financial reporting by the company, report its views to the board.

- f) where requested by the board, review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy and whether it informs the board's statement in the annual report on these matters that is required under Provision 25 of the UK Corporate Governance Code;
- g) where requested by the board, provide advice on how, taking into account the company's position and principal risks, the company's prospects have been assessed, over what period and why the period is regarded as appropriate, and on whether there is a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary;

Business Integrity, Controls & Risk Management:

- h) review the effectiveness of internal control and risk management (including in particular the company's internal financial control systems that identify, assess, manage and monitor financial risks), and of control over financial reporting, propose wording relating to these in the annual financial statements, and meet the controls assurance director without the presence of management;
- i) review and approve the statements to be included in the annual report concerning internal control, risk management, including the assessment of principal risks and emerging risks, and the viability statement;
- j) ensure that a robust assessment of the emerging and principal risks facing the company has been undertaken (including those risks that would threaten the company's business model, future performance, solvency or liquidity and reputation) and that procedures are in place to identify emerging risks so that the committee can provide advice on the management and mitigation of these risks;
- k) consider any necessary disclosure implications of the process that has been applied by the board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts;
- l) consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting, or misconduct and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate;
- m) review the company's policies and practices concerning business conduct and ethics, including bribery, fraud, anti-money laundering, global sanctions, cyber security and data protection, with a view to satisfying itself that these are appropriate and adequately enforced, and oversee the overall approach to securing compliance with laws, regulations and company policies in areas of risk, including monitoring the effectiveness of the global compliance programme and meeting the chief business integrity officer without the presence of management;
- n) establish, and monitor the implementation of, policies on:
 - (i) the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters;
 - (ii) the confidential, anonymous submission by company employees, contractors and external parties of concerns regarding questionable accounting or auditing matters; and
 - (iii) the handling of other "whistleblowing" allegations. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action;
- o) review any other matter that the board deems appropriate in relation to business integrity, controls and risk management.

Internal Auditors:

- p) approve the appointment or dismissal of the head of global audit and risk;
- q) in the event that the tenure of the head of global audit and risk exceeds seven years, annually review the committee chair's assessment as to the independence and objectivity of the head of global audit and risk as part of its annual assessment of the effectiveness of the internal audit function;
- r) review the company's audit and risk programme including the remit, work plans, findings and major recommendations and management's response thereto, including in particular:
 - (i) review and approve the role and mandate of the internal audit function and monitor and review the effectiveness of its work and annually approve the internal audit charter ensuring that it is appropriate for the company's current needs;
 - (ii) review and approve the annual internal audit plan to ensure it is aligned to business's key risks and receive regular reports on work carried out;
 - (iii) ensure that the internal audit function has unrestricted scope, necessary resources and appropriate access to information to enable it to perform its function effectively and in accordance with appropriate professional standards for internal auditors;
 - (iv) ensure that there is open communication between different functions and that the internal audit function evaluates the effectiveness of the risk, compliance and finance functions as part of its internal audit plan;
 - (v) ensure that the function has adequate standing and is free from management or other restrictions; and
 - (vi) ensure the internal audit function has direct access to the board chair and to the committee chair and is accountable to the committee;
- s) in carrying out its annual assessment of the effectiveness of the internal audit function:
 - (vii) meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
 - (viii) review and assess the adequacy of the annual internal audit work plan;
 - (ix) receive a report on the results of the internal auditor's work;
 - (x) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
 - (xi) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- t) monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system and the work of compliance, finance and the external auditor and consider whether an independent, third party review of processes is appropriate;

External Auditors:

- u) taking into account any applicable law and legislation, including Rule 10A-3(b)(2) under the Exchange Act of 1934, other professional requirements and the Financial Reporting Council's Revised Ethical Standard 2016, or any other ethical standard that may from time to time supplement or replace this document (together, the "**Ethical Standard**"), consider, and make recommendations to the board on, and be directly responsible for, the appointment or re-appointment of the external auditor, or any issues concerning their independence, possible resignation or dismissal, or the selection of new external auditor. In particular to:

- (i) ensure that at least once every ten years the audit services contract is put out to tender to enable the committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and, in respect of such tender, conduct such tender process and develop and oversee the selection process, ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process;
 - (ii) annually obtain and review information on the qualification, expertise, resources, independence, objectivity and effectiveness of the external auditor and the effectiveness of the external audit process (which shall include obtaining and reviewing a report from the external auditor on their own internal quality procedures), taking into account the Ethical Standard and other relevant professional and regulatory requirements, along with the group's relationship with the external auditor as a whole. In particular, the committee shall take into account any threats to the external auditor's independence and the safeguards applied to mitigate those threats;
 - (iii) satisfy itself that there are no relationships between the auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
 - (iv) at least annually, obtain and review information from the external audit firm about, and monitor, the external audit firm's policies and processes for maintaining independence and its compliance with the relevant UK law, regulation and other professional requirements and the Ethical Standard, including guidance on the rotation of the audit partner and staff;
 - (v) monitor the level of fees paid by the company to the external auditor compared to the overall fee income of the audit firm, office or partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
 - (vi) establish and monitor the implementation of a policy for the employment of former employees of the external auditor, taking into account the Ethical Standard and legal requirements;
 - (vii) approve the audit fee and the terms of engagement of the external auditor, or any proposed change in the latter. The committee shall ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
 - (viii) establish, and monitor the implementation of, a policy on the engagement of the external auditor to supply non-audit services taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm. The policy should include assessment of: (A) threats to the external auditor's independence and objectivity and any safeguards in place to eliminate or reduce threats; (B) the nature of the non-audit services; (C) in light of the external audit firm's skills and experience, whether it is the most suitable supplier of the non-audit service; (D) the fees for the non-audit services, both for individual services and in aggregate, relative to the audit fee, including special terms and conditions; and (E) the criteria governing compensation of the individuals performing the audit;
 - (ix) in accordance with the above policy, pre-approve (or delegate to one or more members of the committee the power to pre-approve, provided that any such approvals are presented to the committee at its next scheduled meeting) the supply of non-audit services by the external auditor and, if appropriate, related fees; and
 - (x) in the event of resignation by the external auditor, examine the reasons for that resignation and decide whether any action is required;
- v) regularly, and in any event at least four times each year, meet with the external auditor in private without management present (including once before the audit commences and once after the audit is completed). At these meetings the committee and the external auditor shall review and discuss, among other things, the nature and scope of the audit, any issues arising from the audit, the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;

- w) discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement having regard to the planned levels of materiality and proposed resources to execute the plan, and the seniority, expertise and experience of the audit team;
- x) review the findings and assess the effectiveness of the audit with the external auditor including, without limitation, consideration of the following matters: (A) any major resolved or unresolved issues that arose during the audit (including resolution of disagreements between senior management and the external auditor regarding financial reporting), (B) the auditor's explanation of how risks to audit quality were addressed, (C) key accounting and audit judgements, (D) the auditor's view of their interactions with senior management, (E) levels of errors identified during the audit and (F) the auditor's response to questions from the committee;
- y) consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between the company and the external auditor in relation to these matters;
- z) review any representation letter requested by the external auditor before it is signed by management;
- aa) review the external auditor's management letter and management's response to this, and to any other major external audit recommendations;
- bb) make any recommendations to the board it deems appropriate in any area within its remit where action or improvement is needed; and
- cc) oversee the coordination of the internal and external auditors.

Reporting procedures

21. The committee chair shall report formally to the board on all significant matters considered by the committee and on how the committee has discharged its duties and responsibilities. This report shall include:
 - a) the significant issues that it considered in relation to the financial statements and how these were addressed; and
 - b) its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a retender was last conducted and advance notice of any retendering plans,and the committee shall, if requested by any member of the committee or of the board, report to the board on any other specific matter considered by the committee at any meeting.
22. The secretary shall circulate the minutes of meetings of the committee to all members of the board. The chairman of the committee or, as a minimum, another member of the committee, shall attend the board meeting at which the accounts are approved.
23. The committee shall prepare a formal report on its activities and how the committee has discharged its responsibilities, to be included in the company's annual report, which shall include:
 - a) details of the membership of the committee, the number of meetings held and attendance over the course of the year;
 - b) a summary of the role and work of the committee;
 - c) how the committee's performance evaluation has been conducted;

- d) the significant issues that the committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor, the nature and extent of any interaction with the Financial Reporting Council's Corporate Reporting Review team and any significant findings of a review of the company's audit conducted by the Financial Reporting Council's Audit Quality Review team;
 - e) a confirmation that the board has carried out a robust assessment of the principal and emerging risks facing the company, a description of its principal risks, the procedures in place to identify emerging risks and an explanation as to how they are being managed and mitigated;
 - f) an explanation of its assessment of the independence and effectiveness of the external audit process (including the provision of non-audit services and an explanation of how, if the auditors provide non-audit services to the company, auditor objectivity and independence is safeguarded) and its approach taken to the appointment or reappointment of the external auditor, length of incumbent auditor's tenure, when a tender was last conducted, advance notice of any retendering plans (and reasons why completing the process in that proposed financial year is in the best interests of the company's members) and any contractual provisions restricting the committee's choice of auditor, and the amount of fees paid to the auditor for any of its services;
 - g) the committee's policy for approval of non-audit services, how auditor objectivity and independence is safeguarded, the audit fees for the statutory audit for audit related services and other non-audit services, including the ratio of audit to non-audit work, and for each significant engagement, or category of engagements, what the services are and why the committee concluded that it was in the company's interests to purchase them from the external auditor;
 - h) an explanation of how the committee has addressed the effectiveness of the internal audit process and if there is no internal audit function, an explanation for the absence, how internal assurance is achieved and how this affects the work of external audit;
 - i) all other information requirements set out in the UK Corporate Governance Code; and
 - j) any other issues on which the board has requested the committee's opinion.
24. In compiling the reports referred to in paragraphs 21 and 23 above, the committee should exercise judgment in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the board's assessment of whether the company is a going concern and the inputs to the board's viability statement. The report to shareholders to be included in the annual report need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references as appropriate.
25. The committee shall keep under review and report to the board annually on those of its members who, in addition to the chair of the committee, have recent and relevant financial experience.
26. The chair of the committee shall attend the annual general meeting and shall answer questions, through the chair of the board, on the committee's activities and its responsibilities. In addition, the committee chair should seek engagement with shareholders on significant matters related to the committee's areas of responsibility.

General matters

27. The committee shall:
- (a) oversee any investigation of activities which are within these terms of reference;
 - (b) have access to sufficient resources to carry out its duties, including access to the company secretary and deputy company secretary for assistance as required;
 - (c) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;

- (d) give consideration to all relevant laws and regulations, in particular, the directors' duties in the Companies Act 2006, the provisions of the UK Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules, the Exchange Act of 1934, and any other applicable rules, as appropriate;
- (e) arrange for periodic reviews of its own performance and shall regularly review (at least annually) its constitution and terms of reference in the context of the emerging governance and regulatory landscape, to ensure it is operating at maximum effectiveness and recommend any changes necessary for board approval; and
- (f) Work and liaise as necessary with all other board committees ensuring interaction between committees and with the board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees.

Approved by the Diageo plc board of Directors on 23 April 2020