Board of Directors and Company Secretary

Javier Ferrán
Chairman, Non-Executive Director
Nationality: Spanish
Appointed Chairman: January 2017 (Appointed Chairman Designate and Non-Executive Director July 2016)
Current external appointments: Partner, Lion Capital LLP; Non-Executive Director and Senior Independent Director, Associated British Foods plc; Non-Executive Director, Coca-Cola European Partners plc; Member, Advisory Board of ESASDE Business School
Previous relevant experience: President and CEO, Bacardi Limited; Non-Executive Director, SABMiller plc

Peggy B Brzelius
Non-Executive Director
Nationality: Swedish
Appointed Non-Executive Director: April 2009
Current external appointments: Chairman, Lancelot Asset Management; Non-Executive Director, Akzo Nobel NV, Lundin Petroleum AB and Skandia Liv AB
Previous relevant experience: Non-Executive Director, Axford AB, Husqvarna AB, Syngenta AG and Scania AB; Vice Chairman, Electrolyt AB, CEO, ABF Financial Services AB; Executive Vice President, Skandinaviska Enskilda Banken AB

Ivan Menezes
Chief Executive, Executive Director
Nationality: American/British
Appointed Chief Executive: July 2013 (Appointed Executive Director July 2012)
Current external appointments: Member 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
t
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

Ho Kwon Ping
Non-Executive Director
Nationality: Singaporean
Appointed Non-Executive Director: October 2012
Current external appointments: Executive Chairman and Founder, Banyan Tree Holdings Limited; Chairman, Laguna Resorts & Hotels Public Company Limited and Thai Wah Public Company Limited; Chairman of Board of Trustees, Singapore Management University; Chairman of School Advisory Committee, School of Hotel and Tourism Management of the Hong Kong Polytechnic University
Previous relevant experience: Member, Global Advisory Board of Moët & Chandon, Chairman, MediaCorp Pte Ltd; Non-Executive Director, Singapore Airlines Limited, Singapore Power Limited and Standard Chartered PLC

Kathryn Mikells
Chief Financial Officer, Executive Director
Nationality: American
Appointed Chief Financial Officer and Executive Director: November 2015
Current external appointments: Non-Executive Director, The Hartford Financial Services Group, Inc; 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, Naico Holding Company and UAL Corporation

Betsy D Holden
Non-Executive Director
Nationality: American
Appointed Non-Executive Director: September 2009
Current external appointments: Senior Advisor, McKinsey & Company; Non-Executive Director, Dentsply Sirona, Inc; Lyons Magnus and Western Union Company; Member of the Executive Committee, Board of Trustees, Duke University; Member of the Executive Committee of the Global Advisory Board, Kellogg School of Management
Previous relevant experience: Non-Executive Director, Catamaran Corporation, MediaBank LLC, Tribune Company and Time Inc; President, Global Marketing and Category Development and Co-Chief Executive Officer, Kraft Foods, Inc

Lord Davies of Abersoch
Senior Non-Executive Director
Nationality: British
Appointed Senior Non-Executive Director and Chairman of the Remuneration Committee: October 2011 (Appointed Non-Executive Director September 2010)
Current external appointments: Partner and Chairman, Consair Capital LLC; Chairman, LetterOne Holdings S.A and Cyder Limited; Chair of Trustees, Royal Academy of Arts; Member of Advisory Committee, Native Land Limited; Adviser, Teneo Holdings; Chairman, UK India Business Council; Member, Executive Committee, World Rugby
Previous relevant experience: Chairman, Chime Communications PLC; Jack Wills, Minister for Trade, Investment and Small Business for the UK Government; Chairman and Group Chief Executive, Standard Chartered PLC

Nicola S Mendelsohn
Non-Executive Director
Nationality: British
Appointed Non-Executive Director: September 2014
Current external appointments: Vice president, Facebook EMEA; Director, Women’s Prize for Fiction; Co-Chair, Creative Industries Council; Co-President, Norwoord; Member, Mayor’s Business Advisory Board
Previous relevant experience: Executive Chairman, Karirma; Deputy Chairman, Grey London; Board Director, BBH and Fragrance Foundation; President, Institute of Practitioners in Advertising; Board Member, CEW, Trustee, White Ribbon Alliance; Chair of the Corporate Board, Women’s Aid

Alan JH Stewart
Non-Executive Director
Nationality: British
Appointed Chairman of the Audit Committee: January 2017 (Appointed Non-Executive Director September 2014)
Current external appointments: Director and Chief Financial Officer, Tesco PLC; 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 and AWS; Non-Executive Director, Games Workshop plc; Group Finance Director, WH Smith plc; Chief Executive, Thomas Cook UK

David Harlock
Company Secretary and General Counsel
Corporate Centre Nationality: British
Appointed Company Secretary and General Counsel Corporate Centre: July 2016
Previous Diageo roles: General Counsel Corporate, Africa, Russia and Turkey; General Counsel M&A and Global Functions; Regional Counsel International
Previous relevant experience: Hogan Lovells

Philip G Scott ceased to be a Non-Executive Director on 20 September 2017

Ursula Burns has been appointed as a Non-Executive Director with effect from a date to be confirmed.

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

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

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

Siobhan Moriarty
General Counsel
Nationality: Irish
Appointed General Counsel: July 2013
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

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

Anand Kripalu
CEO, United Spirits Limited
Nationality: Indian
Appointed CEO, United Spirits Limited: September 2014
Previous Diageo roles: Executive Director; Deputy Chief Financial Officer, Head of Tax and Treasury
Previous relevant experience: Various management roles at Mondelez International, Cadbury and Unilever
Current external appointments: Non-Executive Director, Marico

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

Victoria Frame
Group Strategy Director
Nationality: British
Appointed Group Strategy Director: May 2017
Previous relevant experience: MD International and Chief Marketing Officer, Barry’s Bootcamp; Partner, Bain & Company; Roles at Marakon Associates and CITI

Deirdre Mahlan
President, Diageo North America
Nationality: American
Appointed President, Diageo North America: December 2015
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 & Jons, Inc.; Senior manager, PricewaterhouseCoopers
Current external appointments: Non-Executive Director, Experian plc

Syl Saller
Chief Marketing Officer
Nationality: American/British
Appointed Chief Marketing Officer: July 2013
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 Hôtion Burns Group, Inc; Non-Executive Director, Domino’s Pizza Group plc

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

Daniel Mobley
Corporate Relations Director
Nationality: British
Appointed Corporate Relations Director: June 2017
Previous Diageo roles: Corporate Relations Director, Europe
Previous relevant experience: Regional Head of Corporate Affairs India & South Asia, Standard Chartered; Regional Head of Corporate Affairs Africa, Standard Chartered; Group Head of Government Relations, Standard Chartered; Extensive government experience including in HM Treasury and Foreign & Commonwealth Office

Alberto Gavazzi
President, Diageo Latin America and Caribbean, Global Travel & Sales Opex
Nationality: Brazilian/Italian
Appointed President, Latin America and Caribbean: July 2013
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 O’Keeffe
President, Diageo Africa
Nationality: Irish
Appointed President Africa: July 2015
Previous Diageo roles: CEO and Managing Director, Guinness Nigeria, Global Head of Innovation and Beer and Baileys; Managing Director Russia and Eastern Europe; various management and marketing positions

Siobhan Moriarty
General Counsel
Nationality: Irish
Appointed General Counsel: July 2013
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Letter from the Chairman of the Board of Directors and the Company Secretary

Dear Shareholder

On behalf of the Board, we are pleased to present the corporate governance report for the year ended 30 June 2018. The purpose of the report is to set out Diageo’s corporate governance structures and procedures, and to describe how the Board, its committees and the Executive Committee work.

The Board has ultimate responsibility for the corporate governance of Diageo, being the way in which the company is directed and controlled. The Board’s responsibilities include: setting strategic aims and values; providing the leadership to put them into effect; supervising and constructively challenging management, who have responsibility for day to day operational running of the business; and reporting to shareholders on their stewardship. We continue to believe that Diageo’s Board demonstrates suitable and appropriate behaviours and independence, and that its composition includes a diverse range of experience, skills and backgrounds, which as a whole enables the Board to discharge its duties.

There has been continued debate over the past twelve months on the need for effective corporate governance in the interests of shareholders and other stakeholders. The Board strongly believes that the maintenance of strong corporate governance is critical in enabling sustainable long-term business performance as well as in enhancing the reputation and standing of Diageo.

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 2018 are contained in The UK Corporate Governance Code as updated and published by the Financial Reporting Council (FRC) in April 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.

Throughout the year, Diageo has complied with all relevant provisions set out in the Code, which is publicly available under the heading ‘Corporate Governance’ at the website of the FRC, www.frc.org.uk.

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.

J Ferrán  
Chairman

D Harlock  
Company Secretary
Board of directors

Membership of the Board and Board Committees
The Chairmen, Senior Non-Executive Director and other members of the Board, Audit Committee, Nomination Committee and Remuneration Committee are as set out in this Annual Report in the biographies of Directors and members of the Executive Committee.

There is a clear separation of the roles of the Chairman and the Chief Executive. The Chairman, Javier Ferrán, is responsible for the running of the Board and for ensuring all Directors are fully informed of matters, sufficient to make informed judgements. As Chief Executive, Ivan Menezes has responsibility for implementing the strategy agreed by the Board and for managing the company and the group. He is supported in this role by the Executive Committee.

The Non-Executive Directors, all of whom the Board has determined are independent, are experienced and influential individuals from a diverse range of industries, backgrounds and countries. No individual or group dominates the Board’s decision-making processes.

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.

Activities and 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 2018 and is available at www.diageo.com/en-row/ourbusiness/aboutus/corporategovernance.

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 aware of no 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 the management present, and also meet with the Chairman without management present, on a regular basis.


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 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 developments or changes and best practice and changing commercial and other risks.

Performance evaluation
During the year an externally facilitated evaluation of the Board’s effectiveness, including the effectiveness of the Chairman and the Board’s committees, was undertaken. The external facilitator, Consilium Board Review, has no other connection with the company.

Consilium Board Review prepared and presented a report to the Board, which concluded that the Board and its Committees continued to operate in an effective, thoughtful and robust manner, meeting the requirements and spirit of the Code. The report noted the positive role played by the Chairman and his deep industry knowledge, as well as complementary roles played by the Non-Executive Directors and their interaction with the Chief Executive and the Chief Financial Officer. Also noted were the high quality of the Board’s processes and practices, its broad range of agenda items and its productive leadership and internal dynamics.

While noting that the Board was top performing and that there was no need for significant changes, the report did include some suggestions designed to ensure that the Board continues to perform to a high level of effectiveness, including in respect of future composition of the Board, its development and dynamics, and the provision of adequate focus and time to emerging external factors. The Board discussed the report and its suggestions, and have taken various actions to address these suggestions. It is the Board’s intention to continue to review annually its performance and that of its committees and individual directors. The evaluation later in 2018 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.

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.

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.

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.

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.

In respect of the appointment of Susan Kilsby the recruitment process included the development of a candidate profile and the engagement of a professional search agency (JCA Group, which has no other connection with the company) specialising in the recruitment of high calibre Non-Executive Directors. Reports on potential appointees were provided to the committee, which, after careful consideration, made a recommendation to the Board. The Board approved her appointment.
Diversity
Diageo strongly supports diversity within its Board of Directors, including gender, age and professional diversity. 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 50% of the company’s Board and 40% of its Executive Committee. Further information is given in the sections of this Annual Report on sustainability & responsibility, our people, and on our role in society in the Chairman’s Statement.

Remuneration Committee
Role of the Remuneration Committee
The role of the Remuneration Committee and details of how the company applies the principles of the Code in respect of Directors’ remuneration are set out in the directors’ remuneration report.

The Chairman and the Chief Executive may, by invitation, attend Remuneration Committee meetings, except when their own remuneration is discussed. No Director is involved in determining his or her own remuneration.

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 progress against the six performance drivers.

To support the market visits made by the presidents in the ordinary course of their business, a small group led by the Chief Executive makes regular market visits focused on the execution of strategy and designed to assist in continuing the development of strategy and in the delivery of performance against the Performance Ambition.

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.

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 above) 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 to ensure that the financial position and results of the group are appropriately reflected.

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.


In accordance with the requirements of SOX (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.

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 section of this Annual Report on sustainability and responsibility, governance and ethics.

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. 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,
Governance

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 £0.3 million during the year (2017 – £0.4 million). These contributions were made 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.

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 2018, 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 regulations.

Responsibility statement

Each of the Directors, whose names are set out in the Board of Directors and Executive Committee section of this Annual Report, confirms that to the best of his or her knowledge:

- the Annual Report and Accounts for the year ended 30 June 2018, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the group’s position and performance, business model and strategy;
- the consolidated financial statements contained in the Annual Report and Accounts for the year ended 30 June 2018, which have been prepared in accordance with IFRS as issued by the IASB and as adopted for use in the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the management report represented by the Directors’ Report contained in the Annual Report and Accounts for the year ended 30 June 2018 includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that the group faces.

The responsibility statement was approved by the Board of Directors on 25 July 2018.

Directors’ attendance record at the AGM, scheduled Board meetings and Board committee meetings, for the year ended 30 June 2018 was as 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.

<table>
<thead>
<tr>
<th>Name</th>
<th>Annual General Meeting 2017</th>
<th>Board Committee (maximum 6)</th>
<th>Audit Committee (maximum 4)(ii)</th>
<th>Nomination Committee (maximum 3)(iii)</th>
<th>Remuneration Committee (maximum 5)(iv)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Javier Ferrán</td>
<td>✓</td>
<td>6/6</td>
<td>4/4</td>
<td>3/3</td>
<td>5/5(i)</td>
</tr>
<tr>
<td>Ivan Menezes</td>
<td>✓</td>
<td>6/6</td>
<td>2/2</td>
<td>2/2</td>
<td>5/5(i)</td>
</tr>
<tr>
<td>Kathryn Mikells</td>
<td>✓</td>
<td>6/6</td>
<td>4/4</td>
<td>1/1(iv)</td>
<td>3/3(i)</td>
</tr>
<tr>
<td>Lord Davies</td>
<td>✓</td>
<td>6/6</td>
<td>3/4</td>
<td>3/3</td>
<td>5/5</td>
</tr>
<tr>
<td>Peggy Bruzelius</td>
<td>✓</td>
<td>6/6</td>
<td>4/4</td>
<td>3/3</td>
<td>5/5</td>
</tr>
<tr>
<td>Betsy Holden</td>
<td>✓</td>
<td>6/6</td>
<td>4/4</td>
<td>3/3</td>
<td>5/5</td>
</tr>
<tr>
<td>Ho KwonPing</td>
<td>✓</td>
<td>6/6</td>
<td>4/4</td>
<td>3/3</td>
<td>5/5</td>
</tr>
<tr>
<td>Nicola Mendelsohn</td>
<td>✓</td>
<td>6/6</td>
<td>3/4</td>
<td>3/3</td>
<td>4/5</td>
</tr>
<tr>
<td>Alan Stewart</td>
<td>✓</td>
<td>6/6</td>
<td>4/4</td>
<td>3/3</td>
<td>5/5</td>
</tr>
<tr>
<td>Philip Scott</td>
<td>x</td>
<td>1/2</td>
<td>1/1</td>
<td>1/2</td>
<td>1/1</td>
</tr>
<tr>
<td>Susan Kilsby</td>
<td>n/a</td>
<td>1/1</td>
<td>1/1</td>
<td>1/1</td>
<td>2/2</td>
</tr>
</tbody>
</table>

(i) Attended by invitation.
(ii) Attended by invitation, for part only.
(iii) Where Non-Executive Directors were unable to attend a meeting they gave their views to the Chairmen of the respective meetings ahead of the meetings being held.
(iv) One Sub-Committee meeting of the Audit Committee was also held involving Mr Stewart and Ms Bruzelius.

Mr Scott was unable to attend the 2017 AGM as a result of a prior engagement.
Report of the Audit Committee

Letter from the Chairman of the Audit Committee

Dear Shareholder

On behalf of the Audit Committee, I am pleased to present its report for the year ended 30 June 2018.

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, including in particular detailed reviews of the changing global tax environment and emerging risks in relation to technology, including a review of the company’s IT platforms and systems.

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
Report 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. Key elements of the role of the committee and work carried out during the year are set out as follows.

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 management (through the work of its filings assurance committee (FAC)) to ensure that the financial position and results of the group are appropriately reflected therein. 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 2018 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 committee agreed that sufficient disclosure was made in the financial statements.
- The 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 committee assessed the impairment charge recognised and agreed that at 30 June 2018 the fair value of the company’s assets was in excess of their carrying value (see notes 6 and 10).
- Adoption of new accounting standards – IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers were adopted from the start of the year. The committee agreed that the adoption of IFRS 9 and IFRS 15 did not require a restatement of prior year figures and that the amount recorded in other retained earnings in the year in respect of the adoption of IFRS 9 and IFRS 15 was appropriate (see note 1).
- Exchange rate used to translate operations in Venezuela. The committee determined an appropriate rate used for the year ended 30 June 2018 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 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 21 and note 7).
- Review of legal cases. The committee agreed that adequate provision 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 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 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 committee expected the group to be able to meet its liabilities as they fell due over the three-year period ending 30 June 2021. The risk that the group would become insolvent during this timeframe was considered remote. The Committee recommended to the Board that the Viability statement above be approved.

As part of its review of the Annual Report, the 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 and Risk Committee. The work and reporting to the Committee of both GRC and GAR during the year included focus on the impact of a challenging environment and public policy change, cyber risk and information management. The Committee in turn were 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 and 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 2018.

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 2018. The review took into consideration the new regulations on non-audit services. Under this 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 is a factor 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, 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 as appropriate.

**Training and deep dives**

During the year, the Audit Committee had risk reviews and training sessions, presented by senior executives, on indirect tax and restrictions on marketing and availability of alcoholic products, preparation for implementation of the GDPR, the company’s current and future technology infrastructure, and its cyber security risk management processes.