

Diageo plc - Remuneration Committee Terms of Reference

Membership

1. The committee and the chair shall be appointed by the board on the recommendation of the nominations committee. The committee shall consist of all the independent non-executive directors of the company. Normally the chair of the committee shall have at least 12 months' experience of serving on a remuneration committee, either at Diageo or at another company, prior to taking up the appointment as chair. The committee shall consist of not less than three members. A quorum shall be two members.

Attendance at meetings

2. The chair of the board, the CEO and the chief human resources officer may be invited to attend meetings, except when their own remuneration or performance are being considered.

3. The global performance and reward director and other individuals shall attend meetings if invited by the committee.

4. The chief human resources officer, or another delegated designate, shall be secretary of the committee but the committee will have access to the services of the company secretary and deputy company secretary as required.

Frequency of meetings

5. Meetings shall be held not less than three times a year. The committee chair shall report to the board on its proceedings after each meeting on all material matters within its duties and responsibilities and all recommendations to the board and any decisions made by the committee under its delegated authority.

Notice of meetings

6. The agenda and copies of all committee papers shall be sent to all members of the committee, and to other attendees as appropriate, normally at least five working days before the meeting.

Authority

7. The committee is authorised by the board to:

(a) seek any information it requires from any employee of the company in order to perform its duties;

(b) obtain, at the company's expense, outside legal or other professional advice in connection with its duties; and such advisors may attend meetings as necessary;

(c) incur any expenditure it considers appropriate in connection with the above (the company to make available the necessary funds); and

(d) 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

8. The responsibilities of the committee shall be to:

(a) determine and agree with the board the framework or broad policy for the remuneration of the executive directors, the chair of the company, senior management (being the executive committee and the company secretary) and such other senior executives it is designated to consider, having due regard for the provisions in the UK Corporate Governance Code and the UK Listing Authority Listing Rules and any additional applicable laws or regulations. The remuneration of non-executive directors shall be a matter for decision by the chair of the board and executive directors of the company. No director or executive shall be involved in any decisions as to their own remuneration;

(b) review the ongoing appropriateness and relevance of the remuneration policy for which it is responsible to ensure:

- alignment with the company's purpose, values, strategy and approach to risk management;
- alignment with the principles that guide broader workforce remuneration and related policies across the company as a whole; and
- delivery of the intention of the policy;

(c) make recommendations to the board concerning the introduction of any new share incentive plans which require approval by shareholders;

(d) determine pension benefit entitlements for each executive director and other designated senior executives, having regard to the existing contractual arrangements and pensions policies elsewhere in the group and to corporate governance guidance and any applicable laws and regulations;

(e) determine arrangements in relation to termination of employment of each executive director and other designated senior executives;

(f) in consultation with the chair and/or CEO as appropriate, having regard to corporate governance guidance and any applicable laws and regulations, determine the total individual remuneration package of each executive director, each member of the executive committee and other designated senior executives, including:

- (i) remuneration, including bonuses;
- (ii) bonus objectives and criteria by which performance will be measured;
- (iii) long term incentives, including grants of options, awards or other rights over shares; and
- (iv) terms and conditions of employment; including allowances, benefits and related employment policies such as expense reimbursements;

(g) exercise the powers of the board or, where the committee considers it appropriate, make recommendations to the board, in relation to the following aspects of the company's existing or future executive share option, restricted stock and other material long- and short-term incentive schemes ("Schemes"):

- (i) approval of proposed grant policy for Schemes;
- (ii) establishment of performance criteria as a precondition to the granting, vesting or exercising of rights under Schemes;
- (iii) approval of any change to the rules or performance criteria of Schemes;

(iv) exercise or recommending the exercise of discretion where allowed or required by the rules of Schemes including discretion to reduce awards and/or claw back amounts previously paid out; and

(v) approval of the shareholding requirement policy;

(h) review any major changes in employee benefit structures throughout the company;

(i) produce a report of the company's directors' remuneration policy and annual report on remuneration to be included in the company's annual report as required by the Large & Medium-sized Companies & Groups (Accounts & Reports) Regulations 2008, the UK Corporate Governance Code and any other relevant and appropriate guidance and any applicable laws and regulations and ensure that it is put to shareholders for consideration at the AGM;

(j) establish the selection criteria and select, appoint and set the terms of reference for any remuneration consultants who advise the committee;

(k) through the board chair, or designated non-executive director, and collaboration with other board committees, maintain a dialogue with the workforce and the company's principal shareholders in order to ensure the committee understands the views of the company's stakeholders on issues relating to remuneration, and that the workforce understands the alignment between executive director remuneration and the broader workforce remuneration context; and

(l) review any other matter that the board deems appropriate.

Although the committee may receive input and advice from internal management, external professional advisors and/or external remuneration consultants, the committee should exercise independent judgement when carrying out its duties, having regard to their directors' duties and the company's wider circumstances.

Reporting Procedures

9. The secretary of the committee shall circulate the minutes of meetings of the committee to all members of the board except where the committee determines it to be inappropriate to do so for reasons of confidentiality.

10. The committee shall produce an annual report of the company's remuneration policy and practices which will form part of the company's annual report and ensure each year that it is put to shareholders for approval at the AGM.

11. The committee members shall conduct an annual review of the performance of the committee and a periodic review of these terms of reference and make recommendations to the board.

12. The chair of the committee shall attend the AGM and shall answer questions, through the chair of the board, on the remuneration committee's activities and its responsibilities and any questions at the AGM on the company's remuneration policy and practices in the annual report.

Approved by the Diageo plc board of Directors on 4 December 2018