

Diversity, balance and experience



Javier Ferrán
Chairman
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; Advisor, BlackRock Long Term Private Capital

Previous relevant experience: Non-Executive Director and Senior Independent Director, Associated British Foods plc; Member, Advisory Board of ESADE Business School; President and CEO, Bacardi Limited; Non-Executive Director, SABMiller plc



Ivan Menezes
Chief Executive
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 within 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; Trustee, Movement to Work; Member, 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
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



Susan Kilsby
Senior Independent Director
Nationality: American/British

Appointed Senior Independent Director: October 2019 (Appointed Non-Executive Director: April 2018 and 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

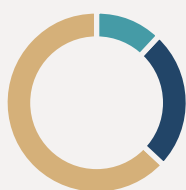
Previous relevant experience: Senior Independent Director, BBA Aviation plc; Chairman, Shire plc, Mergers and Acquisitions EMEA, Credit Suisse; Senior Advisor, Credit Suisse; Non-Executive Director, Goldman Sachs International, Keurig Green Mountain, L'Occitane International, Coca-Cola HBC

Board Committees

- A Audit Committee
- E Executive Committee
- N Nomination Committee
- R Remuneration Committee
- Chairman of the committee

Board diversity

Board composition



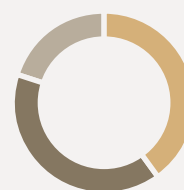
● Chairman **12%**
● Executive Directors **25%**
● Non-Executive Directors **63%**

Gender diversity

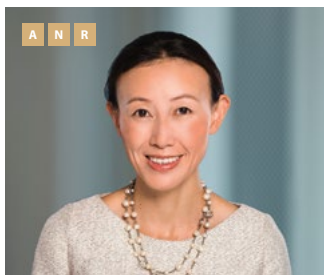


● Male **50%**
● Female **50%**

Non-Executive Director tenure



● 0-3 years **40%**
● 3-6 years **40%**
● 6-9 years **20%**



Melissa Bethell

Non-Executive Director
Nationality: American/British

Appointed Non-Executive Director:
June 2020

Key strengths: Has extensive international corporate and financial experience, including in relation to private equity, financial sectors, strategic consultancy and advisory services, as well as having strong non-executive experience at board and committee levels across a range of industries, including retail, consumer goods and financial services

Current external appointments: Managing Partner, Atairos Europe; Non-Executive Director, Tesco plc, Exor N.V.

Previous relevant experience: Managing Director and Senior Advisor, Private Equity, Bain Capital; Non-Executive Director, Atento S.A., Worldpay plc, Samsonite S.A.



Ho KwonPing

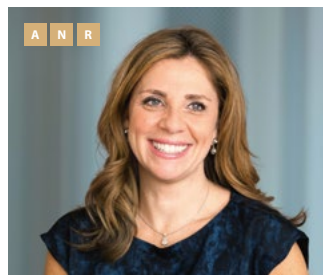
Non-Executive Director
Nationality: Singaporean

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, Standard Chartered PLC



Lady Mendelsohn

Non-Executive Director
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 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, Corporate Board, Women's Aid



Alan Stewart

Non-Executive Director
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; Co-Chair, A4S CFO Network
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

Changes since 1 July 2019

- Debra Crew ceased to be Non-Executive Director on 24 March 2020 and became President, Diageo North America from 1 July 2020.
- Melissa Bethell was appointed as Non-Executive Director with effect from 30 June 2020.
- Lord Davies of Abersoch retired from the Board on 30 June 2020.

Future appointments

- Sir John Manzoni has been appointed as a Non-Executive Director with effect from 1 October 2020.
- Valérie Chapoulaud-Floquet has been appointed as a Non-Executive Director with effect from 1 January 2021.



Siobhán Moriarty
General Counsel &
Company Secretary
Nationality: Irish

Appointed General Counsel: July 2013
Appointed Company Secretary:
August 2018

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

Broad skills and expertise

Ewan Andrew

President, Global Supply and Procurement

Nationality: British

Appointed:

September 2019

Previous Diageo roles: Supply Director, International Supply Centre; Senior Vice President, Supply Chain & Procurement, Latin America & Caribbean; Senior Vice President Manufacturing & Distilling, North America; various supply chain, operational management and procurement roles

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



Alberto Gavazzi

President, Diageo Latin America & Caribbean, Global Travel & Sales Opex

Nationality: Brazilian/Italian

Appointed:

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



Daniel Mobley

Corporate Relations Director

Nationality: British

Appointed:

June 2017

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



Debra Crew

President, Diageo North America

Nationality: American

Appointed:

July 2020

Previous Diageo roles: Non-Executive Director, Diageo plc

Previous relevant experience: Non-Executive Director, Newell Brands; President and CEO, Reynolds American, Inc; President, PepsiCo North America Nutrition, PepsiCo Americas Beverages, Western Europe Region; various positions with Kraft Foods, Nestlé, S.A., and Mars

Current external appointments: Non-Executive Director, Stanley Black & Decker, Inc., Mondelēz International



John Kennedy

President, Diageo Europe, Turkey and India

Nationality: American

Appointed:

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



Mairéad Nayager

Chief HR Officer

Nationality: Irish

Appointed:

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



Cristina Diezhandino

Chief Marketing Officer

Nationality: Spanish

Appointed:

July 2020

Previous Diageo roles: Global

Category Director Scotch & Managing Director Reserve Brands; Managing Director, Caribbean and Central America; Marketing & Innovation Director, Diageo Africa; Category Director, Scotch Portfolio & Gins; Global Brand Director, Johnnie Walker

Previous relevant experience: Corporate Marketing Director, Allied Domecq Spain; marketing roles, Unilever HPC US, UK and Spain



Anand Kripalu

CEO, United Spirits Limited

Nationality: Indian

Appointed:

September 2014

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



John O'Keeffe

President, Diageo Africa

Nationality: Irish

Appointed:

July 2015

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



Sam Fischer

President, Diageo Greater China and Asia Pacific

Nationality: Australian

Appointed:

September 2014

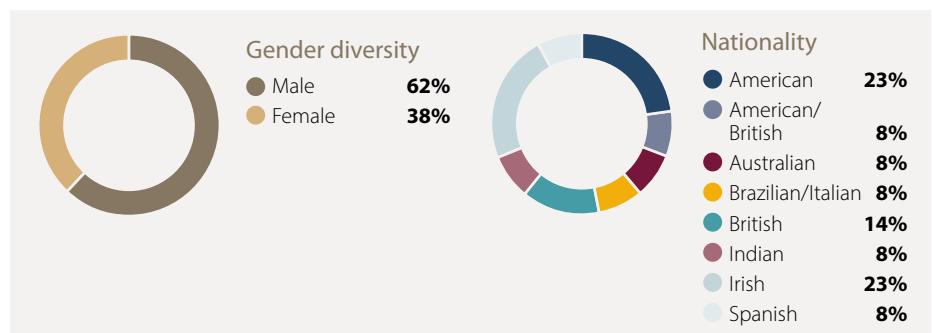
Previous Diageo roles: Managing Director, Diageo Greater China; Managing Director of South East Asia, Diageo Asia Pacific; General Manager, Diageo IndoChina and Vietnam

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

Current external appointments: Non-Executive Director, Burberry PLC



Ivan Menezes, Kathryn Mikells and Siobhán Moriarty are also members of the Executive Committee. Their biographies are found on pages 68 and 69.



Solid governance principles



Dear Shareholder

I am pleased, on behalf of the Board, to present the corporate governance report for the year ended 30 June 2020. It is the Board's role to provide effective leadership to promote the long-term sustainable success of Diageo and to deliver long-term, sustainable value for shareholders. It is the responsibility of the Board to ensure that Diageo conducts its business with high standards of ethical behaviour and in a manner which contributes positively to wider society, having regard to the interests of its different stakeholders. In challenging and fast-moving environments, particular emphasis is placed on the Board's ability to exercise good judgement as to the management of risk, the allocation of capital and other resources, while always adhering to uncompromising ethical standards. Underpinned by a strong purpose, values and culture, and led by a high-functioning Board and experienced Executive Committee, I am proud of the resilience and commitment shown by Diageo and its people during the year, and in particular during this recent difficult period.

Good corporate governance is a key factor in achieving effective leadership and sustainable corporate behaviour, irrespective of the external environment. It means ensuring that there is an effective framework of internal controls, practices, policies and systems which together define clear levels of accountability and authority for decision-making, enabling management to take appropriate levels of risk within a culture of openness, ethics and values. The Board sets the tone for Diageo, guided by our deeply engrained corporate purpose and values, in achieving our Performance Ambition. Details of our governance structure and processes are set out on pages 72 and 73.

Compliance with the UK Corporate Governance Code

During the financial year ended 30 June 2020, Diageo has applied the Principles and complied with the Provisions of the UK Corporate Governance Code 2018 (the Code). Below are highlights of Diageo's compliance with certain areas of the Code, together with cross-references to other sections of this Annual Report where further information can be found.

- **Independence:** Over half of our Directors are independent non-executive directors and the composition of all Board Committees complies with the Code. The Chairman was considered independent on his appointment. Susan Kilsby is our Senior Independent Director. Further information about the Board is set out on pages 68 and 69.
- **Governance framework:** Diageo's governance framework includes a clear separation of duties between the Chairman, the Chief Executive and the Senior Independent Director, as well as reserving certain matters to the Board for consideration and approval. The governance framework also sets out the role and scope of the various Board Committees and management committees. Further details are set out on page 73.

Throughout this year, there has been much focus on considering the impact of decisions on different stakeholder groups and on ensuring that decisions are made in light of the impact they may have on those stakeholders. In my role as designated non-executive director for workforce engagement, I have benefitted greatly from my interactions with the Diageo workforce across different locations and have sought to understand their views, present them to the Board and ensure that they are considered in our decision-making. Further details of how the Board engages with different stakeholder groups are set out on pages 76 and 77.

A good board is formed of a diverse group of individuals, each contributing different experiences, skills and backgrounds, and which enables independent and effective leadership coalescing around a common purpose and performance ambition. Inclusion and diversity remains a vital priority for us as a Board and for the wider company, and with that in mind, we are delighted to have announced the appointments of Melissa Bethell who joined the Board on 30 June 2020, as well as Sir John Manzoni and Valérie Chapoulaud-Floquet who will be joining the Board in October 2020 and January 2021 respectively. I am also excited that Debra Crew, formerly a non-executive director, has made the transition into executive management, being appointed President, Diageo North America. Finally, I am deeply grateful to Lord Davies, who has recently retired after more than nine years' service on the Board, and to Ho KwonPing, who will shortly retire from the Board after eight years' service. Further details of our Diversity Policy and recent changes to the Board are set out on pages 72 and 69.

We are clear that Diageo's ability to deliver our strategy and to create sustainable long-term value for shareholders and other stakeholders is predicated on robust and efficient governance structures and processes, whatever the external environment. We remain firmly of the view that good corporate governance contributes to a sustainable business over the long term for the benefit of society as a whole.

A handwritten signature in black ink, appearing to read 'Javier Ferrán', written over a light-colored background.

Javier Ferrán
Chairman

- **Diversity:** The Board believes diversity is an important factor in enabling good decision-making and considers diversity an essential part of its nomination and succession planning processes. It therefore formalised the diversity principles applicable to the Board into a formal written Diversity Policy. Information about the diversity of the Board and the Board's Diversity Policy is set out on page 72.
- **Workforce engagement:** The Chairman has been designated non-executive director for workforce engagement and has interacted with Diageo's workforce directly and indirectly through multiple channels. Diageo's workforce engagement statement for the year is set out on page 77.
- **Performance-related pay:** Diageo places a strong focus on performance-related pay, with clear alignment between pay structures for executives and the wider workforce. Further details on executive reward are set out on pages 84 to 106.

Enabling our ambition

Compliance statement

The principal corporate governance rules applying to Diageo (as a UK company listed on the London Stock Exchange) for the year ended 30 June 2020 are contained in 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.

Diageo can confirm that it has complied with all relevant provisions set out in the Code throughout the year. Details of changes to pension contributions for Executive Directors as required under the Code can be found in the Directors' remuneration report on page 85.

Diageo must also comply with corporate governance rules contained in the FCA Disclosure Guidance and Transparency Rules and 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 U.S. 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 <https://www.diageo.com/en/our-business/corporate-governance>.

Board of Directors

Composition of the Board

The Board comprises the Non-Executive Chairman, two Executive Directors, the Senior Independent Director, and four independent Non-Executive Directors. The biographies of all Directors are set out in this Annual Report on pages 68 and 69.

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.

The Board has adopted a written Diversity Policy which is applicable to the Board only and sits alongside Diageo's Code of Business Conduct and associated global policies, which set out Diageo's broader commitment to inclusion and diversity. 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. The Board's objective, as set out in its Diversity Policy, is that it shall include no less than 40% female representation (with the ultimate goal being parity between males and females on the Board) and at least one director from an ethnic

minority background. Currently, women make up 50% of the Board and there are three directors from ethnic minority backgrounds.



Further information can be found in the 'Champion inclusion and diversity' and 'Our people' sections of 'Our strategic priorities' on pages 26 and 27.

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 April 2020 and is available at <https://www.diageo.com/en/our-business/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 April and June 2020, and are available at <https://www.diageo.com/en/our-business/corporate-governance>.

Corporate governance structure and division of responsibilities

The Board has established a corporate governance framework as shown on page 73. This includes the three Board Committees (Audit Committee, Nomination Committee and Remuneration Committee), as well as management committees which report to the Chief Executive or Chief Financial Officer (Executive Committee, Finance Committee, Audit & Risk Committee and Filings Assurance Committee).

There is a clear separation of the roles of the Chairman, the Senior Independent Director 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.



Further details on the Board Committees can be found in the separate reports from each Committee on pages 81 to 106, and details of the Executive Committee can be found on page 79.

Considering stakeholders in decision-making

During the year, the Board reviewed how it was structured as regards governance of the group's environmental, social and governance (ESG) programmes. This review was considered in the light of increased expectations as to listed companies' commitment to such matters by a number of stakeholder groups, including consumers, government and employees. As part of its review, the Board considered the governance structures of peer group companies, the experience of individual Directors and feedback received directly from certain institutional investor bodies and indirectly through the company's brokers.

It was concluded that ESG was of such critical importance that all Directors should retain primary responsibility and involvement, rather than constituting a new standing committee of the Board dedicated to ESG matters.

Corporate governance structure and division of responsibilities

Non-Executive Directors

Melissa Bethell, Ho KwonPing, Lady 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, was reviewed in 2019.

- 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 <https://www.diageo.com/en/our-business/corporate-governance>.

Senior Independent Director

Susan Kilsby

- 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 contact through the normal channels has failed

Company Secretary

Siobhán Moriarty

- The Board is supported by the Company Secretary who ensures information is made available to Board members in a timely fashion
- Supports the Chairman in setting Board agendas, designing and delivering Board inductions and Board evaluations, and co-ordinates post-evaluation action plans, including risk review and training requirements for the Board
- Advises on corporate governance matters



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

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
- Designated non-executive director for workforce engagement

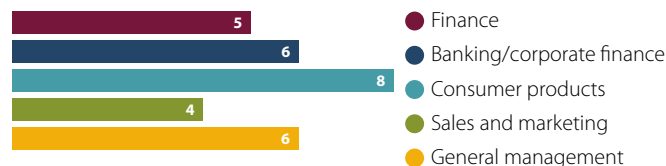
Chief Financial Officer

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 Chief Executive, 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

Board skills and experience

The Board is of the view that it is essential to have an appropriate mix of attributes amongst its Directors, in particular in relation to experience, expertise, diversity and independence. Such a mixture of attributes enables the Board as a whole to provide informed opinions and advice on strategy and relevant topics, thereby discharging its duty of oversight. Key strengths and relevant experience of each Director are set out on pages 68 and 69, and a matrix of the Board's current skills and experience is set out in the chart opposite.



Board attendance

Directors' attendance record at the AGM, scheduled Board meetings and Board Committee meetings, for the year ended 30 June 2020 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 Chairman of each respective meeting ahead of that meeting being held.

	Annual General Meeting 2019	Board (maximum 9)	Audit Committee (maximum 5)	Nomination Committee (maximum 5)	Remuneration Committee (maximum 5)
Javier Ferrán	✓	9/9	5/5 ⁽ⁱ⁾	5/5	5/5 ⁽ⁱ⁾
Ivan Menezes	✓	9/9	2/5 ⁽ⁱ⁾	5/5 ⁽ⁱ⁾	5/5 ⁽ⁱ⁾
Kathryn Mikells	✓	9/9	5/5 ⁽ⁱ⁾	0/0	4/5 ⁽ⁱ⁾
Susan Kilsby	✓	9/9	5/5	5/5	5/5
Melissa Bethell ⁽ⁱⁱ⁾	N/A	0/0	0/0	0/0	0/0
Ho KwonPing ⁽ⁱⁱⁱ⁾	✓	9/9	3/5	3/5	3/5
Nicola Mendelsohn ⁽ⁱⁱⁱ⁾	✓	8/9	4/5	4/5	4/5
Alan Stewart	✓	9/9	5/5	5/5	5/5
Former Directors					
Debra Crew ^(iv)	✓	5/5	4/4	3/3	3/3
Lord Davies ^{(iii)(v)}	✓	7/9	4/5	4/5	2/5

(i) Attended by invitation.

(ii) Appointed to the Board on 30 June 2020.

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

(iv) Retired from the Board on 24 March 2020.

(v) Retired from the Board on 30 June 2020.









Resilient and robust decision-making during the pandemic

In order better to assess the impact of the Covid-19 pandemic, to make well-informed and timely decisions and to provide strategic guidance on how the pandemic might impact Diageo's business and operations, the Board increased the frequency of its meetings during April, May and June 2020, changed the agenda for its two-day Annual Strategy Conference held in April to focus solely on the impact of the pandemic, and constituted a committee of the Board with authority to approve urgent matters with agility and speed. The Board met virtually, using audio-video conferencing, to enable Directors located in different locations and time zones to participate in meetings, with senior executives providing updates and presentations. The agendas for these additional meetings were dedicated to providing the Board with the latest information on government containment measures taken or likely to be taken in various countries, including lockdowns, trade restrictions and closures, changes in macro-economic activity, including consumer behaviour and trends over the short and long terms, and scenario planning for the potential impact on Diageo's business and that of our direct and indirect customers in different markets. The Board was also provided with information on the company's liquidity position, latest trading and financial data, and details of management's proposed actions in relation to Diageo's workforce, plants and facilities, a number of which were closed as a result of government containment measures in some

countries such as India and South Africa. Decisions were taken to manage the company's liquidity, including reducing discretionary expenditure, monitoring working capital, launching debt issuances, and to reallocate resources and A&P expenditure to address changing consumer behaviour, including significantly decreased sales in the on-trade but increased sales in off-trade and e-commerce channels. A key priority is to ensure that Diageo emerges strongly from the pandemic, with its reputation enhanced by the decisions and actions taken by the Board and management over the period. It was therefore critical for the Board to ensure that Diageo's workforce was protected through appropriate safety protocols across all production and office sites, including increased sanitation measures, safety equipment and restrictions on access, including office closures and working from home where possible. Another important consideration for the Board has been to provide appropriate support to its other stakeholders through initiatives such as the \$100 million 'Raising the Bar' fund to assist the on-trade recovery, creation of materials for consumers including the 'Virtual Good Host Guide', the donation of alcohol to be made into bottles of sanitiser for frontline healthcare workers in a number of markets, working closely with suppliers and customers to minimise business disruption and to provide support packages for bartenders and others impacted by trade restrictions and closures.

Board activities

Details of the main areas of focus of the Board and its Committees during the year are summarised below.

Area of focus	Strategic priority	Strategic outcome
<p>Strategic matters</p> <ul style="list-style-type: none"> – Held the Annual Strategy Conference through an online meeting at which the group’s strategy was considered in depth, including the potential impact of the Covid-19 pandemic on consumer behaviour and the group’s strategy and operations – Regularly reviewed the group’s performance against the strategy – Received reports on the financial performance of the group – Reviewed the group’s tax strategic planning – Reviewed the group’s e-commerce strategy, North America commercial strategy and ambition, and the Africa strategy and performance – Reviewed the group’s strategy as to media procurement, raw materials procurement and global supply footprint 		
<p>Operational matters</p> <ul style="list-style-type: none"> – Reviewed and approved the annual funding plan, insurance, banking and capital expenditure requirements – Reviewed the impact of global trade developments and disputes – Reviewed the impact of Brexit and mitigation planning for Brexit and other related risks – Regularly reviewed and approved the group’s business development activities, reorganisations and various other projects – Approved various significant procurement and other contracts and reviewed product quality risk management processes – Reviewed the company’s innovation pipeline – Reviewed significant office and supply site property developments and proposals – Visited Diageo’s new offices in New York, which included receiving reports from management and meeting employees 		
<p>Stakeholders</p> <ul style="list-style-type: none"> – Reviewed the group’s strategy in relation to environmental, social and governance policy and proposed targets – Considered the company’s culture – Reviewed and made decisions in relation to the company’s capital allocation and liquidity position, and its return of capital policy, including its dividend and share buyback programmes – Received reports on workforce engagement over the year – Reviewed the company’s succession planning and talent strategy and board diversity policy – Reviewed the company’s sustainability and environmental strategy and proposed approach as to future ambition – Reviewed the company’s key pensions governance and funding positions – Received regular investor reports and reviewed a detailed investor perceptions study – Twice yearly, received an update on ESG matters 		
<p>Governance, assurance and risk management</p> <ul style="list-style-type: none"> – Received reports on the work of the various Board Committees – Received regular reports in relation to material legal matters – Received updates on regulatory and governance developments and areas of risk – Agreed actions from the 2019 internal evaluation of the Board’s performance – Approved the approach in relation to the 2020 external Board evaluation process – Approved the appointment of new Non-Executive Directors and new Senior Independent Director – Reviewed and approved new terms of reference for the Audit Committee, Remuneration Committee and Nomination Committee – Reviewed and approved updated description of separation of duties between the Chairman, Chief Executive and Senior Independent Director – Reviewed and approved the schedule of matters reserved for the Board – Reviewed and approved the company’s financial reporting and risk footprint – Approved the constitution of a new committee of the Board authorised to approve actions to be taken in response to the Covid-19 pandemic – Approved increasing the number of Board meetings during year to ensure adequate governance in light of the Covid-19 pandemic 		

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 United Kingdom, during which it receives feedback in person from key customers. For example, in October 2019 the Board met with representatives of some of its key customers in the United States, Canada and Latin America, and, in previous financial years, the Board met key customers in India and China. See page 77 for our statement on wider stakeholder engagement.

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 next phase of the company's long-term strategy to make a positive contribution to wider society, building on the progress made in working towards its 2020 environmental targets, including in water reuse and renewable energy in our African breweries, use of by-products from our distilleries in Scotland and the United States in energy generation, and improvements in packaging especially in relation to use of plastics. At its meeting in January 2020, the Board reviewed ambitious environmental and social targets beyond 2020. Further details of the company's initiatives to reduce its environmental impact and to contribute to wider society can be found on pages 32 to 37, 42 and 43.

How the Board is kept informed about stakeholder engagement

People

The Board recognises the importance of effective engagement with Diageo's employees and wider workforce, including contractors and temporary staff. On an annual basis, the Board holds an extended meeting at one of Diageo's overseas locations. In recent years, the Board has visited the group's operations in Chengdu, China and Bangalore, India, and during this year the Board visited the company's office in New York, USA. During these visits, the Board engages directly with local management and other employees during site and trade visits, with Board presentations and Board dinners and lunches enabling the Board to meet a broad spectrum of employees from differing departments and markets. Indirect engagement with employees also takes place through works councils, employee and workforce forums, community groups, pulse surveys and town hall meetings. This year the Board has enhanced its engagement with people through the Chairman in his role as designated non-executive director for workforce engagement, which has enabled the Board to take decisions during the Covid-19 pandemic to prioritise the health, safety and well-being of the group's workforce.



Diageo's Workforce engagement statement is set out on page 77

Consumers

Our business can only be sustained by a deep understanding of our consumers, their behaviours and motivations. At its Annual Strategy Conference, the Board receives presentations from the Executive Committee and other senior leaders on emerging consumer trends which provide opportunities to the business. At this year's Annual Strategy Conference which was held in April, the Board focused on the impact of the Covid-19 pandemic on consumer behaviour, including short-term immediate activity, acceleration of existing trends and potential long-term structural changes in the industry. At other meetings during the year, the Board has reviewed and provided guidance in relation to the group's e-commerce strategy and its innovation pipeline, ensuring that the group's portfolio remains broad and relevant to consumers with brands and products at different price points, in different categories,

markets and channels. The Board takes into account that consumers are increasingly considering business reputation and ethics in their purchasing choices, underlining the importance of sustainable and responsible business practices to individual consumers as well as other stakeholders.

Customers

The Board engages with customers, primarily through the Chief Executive, who provides information about key customers in his regular report, in other business Board reports and at the annual overseas extended Board meeting, during which the Board will meet and interact directly with key customers from a particular market or region. Understanding the importance to customers of maintaining a broad portfolio with consumer offerings at a variety of price points and categories, the Board regularly reviews both innovation and inorganic opportunities to enhance its portfolio. During the year, the Board approved a number of additional investments in start-up brands as part of its Distill Ventures programme. The Board has also reviewed the group's product quality control procedures during the year, which enable the group to provide high-quality products to customers, and has reviewed and approved material distribution agreements with certain customers.

Suppliers

The Chief Executive and Chief Financial Officer provide the Board with information about key suppliers as and when relevant to Board discussions, including when approval is required for material contracts with suppliers. During the year, the Board reviewed and approved several critical procurement agreements, including in relation to raw materials such as neutral spirit, agave, glass and carried out a detailed review of the group's global media and digital agency arrangements. The Board also reviewed management's strategy in relation to sourcing certain key raw materials. The Board considers that it is important that the group remains a trusted partner for suppliers, with the relationship enhanced through fair contract and payment terms and through compliance with Diageo's 'Partnering with Suppliers Standard'.

Communities

Maintaining close relationships with the communities in which Diageo operates has always been of critical importance to the Board, shaping its discussions and guiding the company's approach to its responsibilities to wider society. The Board has had a number of discussions during the year to shape the company's ambition for its impact on communities over the long term, including shaping targets and goals in relation to environmental and social initiatives. Recognising the severity of the impact of the Covid-19 pandemic on many of the communities in which the group operates, the Board focused on actions to support those communities, including those working in the on-trade such as bar tenders and hospitality employees. A number of initiatives were approved and launched by the Board during this period, as set out in detail on page 29.

Investors

The Board is kept updated on investor sentiment through a number of different channels, including a monthly report issued by Diageo's investor relations team which frequently interacts with key investors and investor groups. In addition, the Chairman, Chief Executive and Chief Financial Officer meet on a regular basis with investors during each year. Shareholders can also contact the Chairman directly and put questions to the Board at the company's annual general meeting. This year, the Board commissioned a report to provide an independent view on the company's effectiveness in engaging with investors, the results of which were presented to the Board by the agency which compiled the report. In making decisions in relation to returns of capital, such as dividends and share buy backs, the Board has considered the views and priorities of investors recognising the importance of such return of capital to a wide range of investors, including institutional investors, pension funds

and retail shareholders. Taking those views into account, as well as considering other factors including the company's liquidity position, the potential impact of the Covid-19 pandemic, and the funding position of the company's post employment benefits schemes, the Board decided not to initiate the next phase of its three-year return of capital programme but decided that it was appropriate to pay an interim dividend in April.

Government and regulators

The Board engages indirectly with government, regulators and policy-makers through regular reports from the Chief Executive as well as periodic updates from management. In particular, the Board has received regular briefings during the year on Brexit, developments in relation to tariffs and international trade disputes. A number of Directors have experience of working in or with governments in the United Kingdom and elsewhere, and provide insights as to policy-makers' views and priorities which are then considered by the Board in making its decisions. The Board ensures that the company works closely with governmental and non-governmental bodies in relation to policy as to positive drinking, responsible advertising of alcoholic products, and education to enable consumers to make better choices about alcohol.

Wider stakeholder engagement statement

During the last few months, given the spread of Covid-19 and the impact that this has had on our business and that of our customers, we have focused on maintaining an active dialogue and engaging with our different stakeholder groups in different ways. We have prioritised the safety of our employees by managing the situation through local crisis management teams, by ensuring that those who can work from home do so, using technology and systems which the group has invested in over recent years, and by providing regular and ongoing communications and guidance to all employees and the wider workforce. We also reviewed our processes and practices to ensure a safe working environment for those of our workforce who cannot work from home, including in production facilities. We have maintained an ongoing dialogue with customers and suppliers to understand their concerns and have worked closely with them to mitigate disruption, including providing an appropriate level of support to our key suppliers and customers. In relation to our investors and shareholders, we have engaged directly through our investor relations team, our regular communications and our engagement programme. In addition, we have provided updates on developments in trading in the form of market announcements to ensure that all shareholders are informed about the impact of the pandemic on our business. As part of this, we withdrew guidance on group organic net sales growth and organic operating profit growth for the year, given the uncertain nature of the pandemic and its global impact.

We are aware that our Annual General Meeting (AGM) is a critical and valued opportunity for our shareholders to communicate directly with the Board, both in terms of asking questions during the meeting itself and also engaging less formally with management afterwards. As the safety of our shareholders and employees remain our priority, this year we will of course need to adapt how we conduct our AGM to ensure that government guidelines and restrictions are complied with while aiming to maintain the ability of shareholders to communicate directly with the Board. Further details of our AGM are set out in the accompanying Notice of Meeting.

Further information on our stakeholder considerations and activities throughout the year can be found on pages 12 and 13 and our section 172 statement is set out on page 5.

Workforce engagement statement

Our people are our most important asset and our inclusive and diverse culture is core to our purpose of 'Celebrating life, every day, everywhere', and essential to our future growth. We invest to grow and develop our people and aim to create an environment that enables everyone to thrive. We want to nurture great, diverse talent, with a range of backgrounds, skills and capabilities, while making a positive contribution to society. Diversity of thought fuels growth and innovation in our organisation and brings us closer to our consumer base. Understanding our employees' views on the way they experience life at Diageo, from what works well, to where we can improve, makes good business sense. These insights help to shape our culture and make Diageo an attractive place to work, enabling us to recruit and retain the best talent.

On 1 July 2019, the Chairman was appointed the designated non-executive director for workforce engagement on behalf of the Board, as he is best positioned to engage with our workforce through regular visits to the markets in which Diageo has a presence around the world.

During the past year, the Chairman met with over 1,200 Diageo employees, representing every level and region in the organisation. These open and constructive sessions were held both in person and virtually, due to the Covid-19 outbreak. The Chairman enjoyed and appreciated the high levels of positive engagement, curiosity and candour in each discussion and was struck by the passion and pride employees had for Diageo.

The key themes that emerged from the past year's workforce engagement discussions were:

- The strength of Diageo's culture; our brand heritage; the importance of inclusion and diversity; our leadership and transparency; our focus on wellbeing; and the investment in learning and development.
- Perspectives and ideas were also shared on the need to further simplify processes to enable even faster decision-making, greater knowledge sharing and collaboration with a recognition of the progress already made. Employees were keen to take advantage of best practice sharing of ideas across markets.

The importance of connectivity and cross-functional collaboration provided valuable affirmation to the Board on the merits of the investment in new office space in New York and planned investment in central London, which will bring people together from disparate out-of-town locations and bring us closer to our consumers. The Chairman's engagement with employees across the world in the second half of our fiscal year also served as a helpful checkpoint on the company's handling of the Covid-19 pandemic. This enabled the Board to review management's decisions to prioritise the health, safety and wellbeing of employees through these uncertain and challenging times. In our recent Your Voice survey, employees reported high levels of pride in the care and support that Diageo has provided to our people, customers, partners and communities.

The focus of this first year of workforce engagement has been to understand the broad themes surfaced by employees of their experiences working at Diageo. In the coming year, the Chairman intends to continue a varied programme including, meeting with key talent; hosting employee town halls and virtual engagement forums; and meeting with employee representative groups. Focus will be placed on the progress being made on areas of opportunity for improvement and on gathering employees' views on other challenges the Board should consider.



Read more about our engagement on page 74

Performance evaluation

In November 2019, 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 purpose of the 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 Principle L and Provisions 21, 22 and 23 of the Code. In addition to more conventional areas such as Board composition, administrative matters, performance and effectiveness, the 2019 evaluation focused on Directors' views as to corporate culture, values and stakeholder engagement. These topics had been chosen in light of the prominence given to them in the Code and in subsequent commentary by government, corporate governance institutions and the investor community.

The evaluation was also conducted with reference to the detailed guidance on 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 previous year's evaluation carried out in November 2018, whose findings were summarised in last year's Corporate governance report.

The 2019 evaluation process was an internal process, comprising a questionnaire sub-divided into the five sections highlighted in the table below. Responses to all questions were sent to the Chairman and responses on the effectiveness of the Committees were also submitted to the respective Committee chairmen. In addition, the Senior Independent Director held a meeting with Directors without the Chairman present to provide feedback in relation to the Chairman. The results of the evaluation process were reviewed by the Board at its meeting in December 2019 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 2020 will be undertaken with the assistance of an external facilitator.

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.

The main conclusions and key areas for focus highlighted by the 2019 evaluation are as follows:

Board composition, membership and appointment processes

Main conclusions

- While there was broadly an appropriate balance between the number of Executive and Non-Executive Directors, the current Board size appeared comparatively small
- Need to ensure prospective new members of the Board have adequate industry experience and come from a variety of geographical backgrounds
- Clear desire to maintain and enhance Board's positive gender diversity and to ensure that the Board diversifies in other areas, particularly in relation to ethnic origin
- Nomination Committee performance and ability to access pipeline of potential non-executive talent had improved
- Executive and senior management succession planning has had good focus

Key areas for focus

- Recruitment of additional Non-Executive Directors of appropriate quality, experience and background, with a view to ensuring appropriate gender and ethnic diversity on the Board
- Continued review of pipeline of Non-Executive Directors on an ongoing basis
- Review executive management succession planning and pipeline at least once a year in greater depth

Board administration, meetings, agendas and provision of information

Main conclusions

- Strong satisfaction with the number of meetings, topics for discussion, quality and timeliness of Board papers
- Board had benefitted from deep dives on specific topics ensuring immersion into particular areas of interest
- Improvements noted in understanding of long-term consumer trends although more time could be allocated to idea generation, opportunity identification and potential impact of challenges
- Detailed views provided in relation to topics for emerging areas to be the subject of future discussion by the Board

Key areas for focus

- Reviewing the format, timing and agenda to enable better idea generation, opportunity identification and assessment of the potential impact of challenges at future annual strategy meetings
- Continued shaping of agenda to ensure focus on highest value and identification of opportunities for deep-dive sessions and external speakers, especially in relation to areas such as environmental sustainability measures, and digital and technological developments
- Continued vigilance in identifying and adapting to long-term trends and challenges, including societal trends

Board, Committee and Directors' effectiveness and performance

Main conclusions

- Strong satisfaction with the performance of the Board as a whole, improving across a broad range of subjects and continuing to be top performing
- Various examples of discussions during the year were cited as being demonstrative of the Board's positive performance and ability to provide high-quality and robust debate
- Performance, transparency and openness of Executive Directors and Chairman noted in particular
- Broad satisfaction with the amount of time allocated to enable full discussion at Board and Committee meetings
- Flexibility provided by Board through access to specialist or technical advice, with external advisors attending meetings, establishing committees of the Board to address specific matters, and deep-dive and risk review sessions
- Strong support for the effectiveness of the Board in balancing short-term and performance matters with long-term strategic thinking

Key areas for focus

- Continue to reinforce and nurture the culture of transparency and openness in Board and Committee meetings
- Increase time allocation for Audit Committee meetings by adding a further meeting to the Board's annual cycle
- Ensure adequate time is allocated to Nomination Committee meetings

Stakeholder engagement

Main conclusions

- Seven categories of key stakeholder groups were identified: people, consumers, customers, suppliers, communities, investors and government and regulators
- Board has sufficient visibility and clarity as to wider stakeholder interests in its decision-making processes, although improvements could be made in certain areas
- Good understanding of investor perceptions and views

Key areas for focus

- Ensuring wider stakeholder interests continue to be considered as part of decision-making processes
- Increased focus on ESG matters through regular sessions at Board meetings
- Continued regular review of investor interests and developments
- Increased visibility for the Board on the company's relationships with certain stakeholder groups

Culture, values and purpose

Main conclusions

- Strong sense of connection and support amongst Directors for Diageo's purpose of 'Celebrating life, every day, everywhere'
- Board demonstrates ethical leadership and displays the behaviours expected in a manner consistent with Diageo's purpose and ambition
- Strategy of the company is consistent with its purpose, values and ambition
- Appropriate tone at the top permeates the organisation to ensure adequate focus on corporate reputation and the management of reputational risk
- Satisfaction with how values and expected behaviours have been communicated within the company and externally to stakeholders

Key areas for focus

- Continued focus on ensuring that behaviours of management throughout the organisation are consistent with the company's purpose and values, and are consistent with communications in relation to ethical business practices
- Continued emphasis on driving cultural change, ensuring agility and speed are consistently maintained throughout the organisation
- Continued emphasis on effectiveness of Diageo's contributions to society and effectiveness of the company's processes and requirements in respect of suppliers and customers

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, which is 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 a periodic 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 managing directors of each market, 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 <https://www.diageo.com/en/our-business/corporate-governance>.

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, entitled '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 their 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 41) 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 the 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 81 and 82.

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 <https://www.diageo.com/en/our-business/corporate-governance>.

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 <https://www.diageo.com/en/our-business/corporate-governance>.

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 'Our principal risks and risk management' section of this Annual Report on page 41

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 (2019 – £0.38 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 potential financial impact of the Covid-19 pandemic has been modelled in our cash flow projections and stress tested by including several severe but plausible downside scenarios which are linked to our principal risks. In our downside Covid-19 scenario, we have considered the key impacts of the pandemic for each region including the potential restrictions on the sale of our products in both on trade and off trade channels. We have then considered the expected duration of those restrictions, as well as a forecast for the length of time to recovery (a return to 2019 volumes), based on industry projections. As a result of these factors, in our severe but plausible scenarios, we do not anticipate that the on-trade business recovers to volumes experienced in the year ending 30 June 2019 within the next 18 month period. Even with these negative sensitivities for each region taken into account, the group's cash position is still considered to remain strong, as we have protected our liquidity by increasing the level of committed facilities and accelerating certain bond issuance programmes. Mitigating actions, should they be required, are all within management's control and could include reduced advertising and promotion spend, dividend cash payments, non-essential overheads and non-committed capital expenditure in the next 12 months. Having considered the outcome of these assessments, it is deemed appropriate to prepare the consolidated financial statements on a going concern basis.

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 United States Securities Exchange Act of 1934) based on the framework in the document 'Internal Control – Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management concluded that, as at 30 June 2020, 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 2020 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 68 and 69, 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 3 August 2020.



Dear Shareholder

On behalf of the Audit Committee, I am pleased to present its report for the year ended 30 June 2020.

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 and reporting; internal control and risk management; audit and risk programmes; business conduct and integrity; 'whistleblowing'; and the appointment of the external auditor.

During the year, the Committee gave attention to all elements of its remit with continued focus on particular topics within the company's risk management programme and emerging trends, including product quality risk management, cyber security and data access risks, internal and third-party data management and migration risks, pensions funding status and governance, and controls testing. During the year, the Committee also reviewed external analyses relating to the effectiveness of the company's internal audit and controls, compliance and ethics functions, as well as internal reports on the steps being taken to address internal audit findings, controls issues and investigations.

As part of the annual Board evaluation, all members of the Audit Committee completed an evaluation of the Committee. This concluded that members were very satisfied with the performance of the Committee. In order to ensure that adequate time is given to enable the Committee to continue to carry out its duties to a high standard, it was decided to increase the number of meetings which it ordinarily holds each year. Further details of the evaluation can be found on pages 78 and 79.

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 auditor, 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 <https://www.diageo.com/en/our-business/corporate-governance>. 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 members of the Audit Committee are independent non-executive directors and it comprises Alan Stewart (Committee Chairman), Melissa Bethell, Susan Kilsby, Ho KwonPing and Lady Mendelsohn. The Board has satisfied itself that the membership of the Audit Committee includes at least one Director with recent and relevant financial experience and has competence in accounting and/or auditing and in the sector which the company operates, and that all members are financially literate and have experience of corporate financial matters.

Financial statements

During the year, the Audit Committee met five times (and a subcommittee met twice) and reviewed both the interim results announcement, which included the interim financial statements, and the annual reports and associated preliminary 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 the 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 General Counsel & Company Secretary, the General Counsel Corporate, the Group Controller, the Chief Accountant, the Head of Investor Relations, the Head of Global Audit & Risk, the Controls Assurance Director, the Chief Business Integrity Officer and the company's external auditor. 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 2020 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 (material items of income or expense) 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 assessed the impairment charge recognised and agreed that, at 30 June 2020, the recoverable amount of the company's assets was in excess of their carrying value (see notes 6, 9 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 2020 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 40 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 current most likely outcomes, including the litigation summarised in note 18.

Audit Committee report *continued*

- 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 2023. 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 on page 41 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 its meetings, the Audit Committee reviewed reports from the Head of the Global Audit & Risk (GAR) team, the Controls Assurance Director and the Chief Business Integrity Officer (including coverage of the areas mentioned in the title of this section) and had sight of the minutes of meetings of management's Audit & Risk Committee. The work and reporting to the Committee of these functions during the year included focus on cyber security and data access risks, internal and third-party data management and migration risks, controls testing and steps being taken to address internal audit findings, controls issues and investigations. The Committee also reviewed reports prepared by external advisors relating to the effectiveness of the GAR team as well as the company's compliance and ethics framework and function, and implemented various changes as a result of recommendations in those reports. The Committee also received regular updates from the General Counsel on significant litigation and from the Head of Tax on the group's tax profile and key issues.

The Committee also considered 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 management's 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. The audit partner for the year ended 30 June 2020

was Ian Chambers and Richard Oldfield is the audit partner from the year ending 30 June 2021 onwards. The company is required to have a mandatory audit tender after 10 years and, as the Audit Committee considers the relationship with the auditors to be working well and remains satisfied with their effectiveness, the Audit Committee does not currently anticipate that it will conduct an audit tender before it is required to do so. The Audit Committee considers this to be in the best interests of the company's shareholders for the reasons outlined above and will continue to monitor this annually to ensure the timing for the audit tender remains appropriate, taking into account the effectiveness and independence of the auditor.

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 2020.

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 2020. The review takes into consideration effectiveness and upcoming expected changes to UK FRC regulation on non-audit services. Effective from 1 July 2020, any member of the PwC global network shall provide to the company, its subsidiaries or any related entity only permissible services, subject to the approval of the Audit Committee after it has properly assessed through its governance process the threats to independence and the safeguards applied in accordance with the FRC Ethical Standard. Any FRC permissible service to be provided by the auditor, regardless of the size of the engagement, must be specifically approved by the Audit Committee or its nominated delegate. The policy explicitly specifies the auditor independence review and approval mechanism process for permissible engagements costing more than £250,000. 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 General Counsel & Company Secretary, the Group Controller, the Head of GAR, the Chief Business Integrity Officer, the General Counsel Corporate, the Controls Assurance Director, the Chief Accountant and the external auditor regularly attend meetings of the Committee. The Audit Committee met privately with the external auditor, the Chief Business Integrity Officer, the Controls Assurance Director and the Head of GAR regularly during the year.

FRC correspondence

The Committee reviewed correspondence between the company and the FRC following their review of the company's annual report and accounts for the year ended 30 June 2019, including in respect of certain distributions and transactions related to the company's employee share schemes undertaken between 10 May 2019 and 9 August 2019 which were contrary to applicable provisions of the Companies Act 2006 as further detailed on page 107. The Committee has overseen the incorporation of reporting and controls improvements following the FRC's review and have incorporated those improvements into the company's annual report and accounts for the year ended 30 June 2020. In June 2020, the FRC confirmed that the matters raised by their review are closed. The Committee notes that the FRC's review does not provide assurance that the annual report and accounts are correct in all material respects as the FRC's role is to consider compliance with reporting requirements.



Dear Shareholder

On behalf of the Nomination Committee, I would like to present its report for the year ended 30 June 2020.

The Committee has ensured that there is a pipeline of strong candidates for potential nomination as Non-Executive Directors and reviewed succession planning and talent strategy for the Executive Committee. In order to further embed its long-standing commitment to diversity, the Committee also formalised the diversity principles applicable to the Board into a written Board Diversity Policy to promote a diverse and inclusive membership on the Board. This was approved and adopted by the Board in April 2020.

During the year, the Committee recommended that the Board appoint Melissa Bethell as Non-Executive Director, which recommendation was approved and took effect from 30 June 2020, and also recommended that the Board appoint Valérie Chapoulaud-Floquet and Sir John Manzoni as Non-Executive Directors, which recommendations were subsequently approved and will take effect from 1 January 2021 and 1 October 2020 respectively. These appointments had been preceded by a detailed market review and selection process carried out by the Committee with the assistance of Egon Zehnder, an independent consulting and recruitment agency which has no other connection with the company.

Melissa Bethell is the Managing Partner of Atairos Europe, an investment firm backed by Comcast NBC Universal, and spent over 18 years at Bain Capital, the global private equity firm, having previously worked at Goldman Sachs. Melissa is currently non-executive director on the boards of Tesco PLC and Exor, and has had considerable experience of other non-executive roles on other boards. Melissa brings her extensive expertise in international business strategy and investments to the company's Board. Valérie Chapoulaud-Floquet is the former CEO of Rémy Cointreau S.A., which she led from September 2014 to December 2019, prior to which she had worked for Louis Vuitton, LVMH Group since 2008 in a number of different roles. Valérie's extensive experience in consumer goods and premium drinks industries should serve Diageo well. Sir John Manzoni was Chief Executive of the Civil Service and Permanent Secretary to the UK Cabinet Office from 2014 to April 2020. He was previously President and Chief Executive Officer of Talisman Energy in Canada from 2007 to 2012 and had worked for BP from 1983 to 2007 in various roles. Sir John was also Non-Executive Director of SABMiller plc from 2004 to 2014. Sir John's commercial acumen and business knowledge, together with his more recent public service experience, will complement the Board. I look forward to welcoming both Valérie and Sir John to the Board in due course.

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, reviewing succession planning for key Executive Committee role succession, and succession planning and overall talent strategy for senior leadership positions, including in relation to ensuring and encouraging diversity in 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 which are available at <https://www.diageo.com/en/our-business/corporate-governance>.

Composition of the Nomination Committee

The Nomination Committee comprises Javier Ferrán (Committee Chairman), Melissa Bethell, 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 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, although these have been impacted in the second half of the year due to Covid-19 travel restrictions.

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, best practice developments 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 the talent pipeline for potential new appointments to the Board including potential new Non-Executive Directors
- the review of Board, committee and individual Director performance as part of the annual evaluation process
- a review of the Executive Committee membership and succession planning for it and for senior leadership positions
- preparation and adoption of a Board Diversity Policy
- appointment of a new Senior Independent Director.

Diversity

Details of Board diversity and its diversity policy can be found on pages 68 and 72. Details of diversity for the Executive Committee can be found on page 70. As at 30 June 2020, the percentage of women on the Executive Committee and their direct reports is 38%.

Evaluation

As part of the annual Board evaluation, all members of the Nomination Committee participated in an evaluation of the Committee. This concluded that the performance of the Committee continued to improve, with a strong pipeline of candidates resulting in excellent recent appointments to the Board and a continued focus on diversity and enhancements to the induction programme for new Directors. Further details of the evaluation can be found on pages 78 and 79.