

Championing our talent strategy



Dear Shareholder

On behalf of the Nomination Committee, I am pleased to present its report for the year ended 30 June 2021. The primary role of the Committee is to ensure that there is a pipeline of strong candidates for potential nomination as Non-Executive Directors and to review succession planning and talent strategy for Executive Directors and other members of the Executive Committee. There has been significant change in Board membership this year, with the Committee recommending the appointments of Sir John Manzoni, Ireena Vittal and Valérie Chapoulaud-Floquet as Non-Executive Directors and the appointment of Lavanya Chandrashekar as CFO and Executive Director. These appointments had been made following a detailed market review assisted by an independent executive search agency and, in the case of the CFO and Executive Director appointment, an internal talent review and selection process involving internal and external candidates carried out by the Committee. Given the number of changes of Board membership this year, we have taken the opportunity to refresh our Board induction programme including adapting aspects of it to be more suitable to a remote working environment such as has been experienced recently.

This year the Committee has also had oversight of the externally facilitated review and evaluation of the effectiveness of the Board, its Committees, members and processes. Further details, including the review's conclusions, recommendations and actions as presented to the Board in December 2020, are set out on pages 94 and 95.

The Committee has also been involved in reviewing talent planning and succession of a number of Executive Committee members. Over the year, Alvaro Cardenas has been appointed as President, Latin America and Caribbean, and Hina Nagarajan has been appointed as MD & CEO, United Spirits Limited. Lastly, I wish to acknowledge the contribution and support of our General Counsel and Company Secretary, Siobhán Moriarty, who will retire following the AGM in September after 24 years with the company. Siobhán will be succeeded by Tom Shropshire, who recently joined the company from international law firm Linklaters.

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

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 roles, 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 includes the development of a candidate profile and the engagement of Egon Zehnder, a professional search agency (which has no connection with the company other than acting as an executive search agency) specialising in the recruitment of high-calibre candidates for non-executive and executive roles. In the case of Executive Director or Executive Committee appointments, an executive leadership assessment is carried out by an external professional agency. Reports on potential appointees are provided to the Committee, which, after careful consideration, makes a recommendation to the Board. In determining its recommendations, the Committee has regard to a broad range of factors including the candidate's background, skillset and experience, their ability to express independent judgement and participate across a broad range of topics, their ability to devote sufficient time to the company and whether their appointment would contribute towards the Board's diversity objectives.

While the Board does not have a written policy as regards the maximum number of other appointments that Directors should have, before recommending new appointments to the Board, the Nomination Committee considers other demands on candidates' time. Once appointed, any proposed additional external appointments are also reviewed by the Nomination Committee to ensure that the additional demands on a director's time will not impact on the director's ability to perform his or her role as a director of the company before the additional appointment is recommended for approval by the Board. Directors' interests are reviewed and updated at each Board meeting. 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 and stand for re-election every year. While the company's policy is for all Directors to attend the AGM, due to the Covid-19 pandemic the 2020 AGM was held as a 'closed meeting' in accordance with the Corporate Insolvency and Governance Act 2020 and, as a result, only the Chairman attended with the Company Secretary. Details of attendance of all Board and Committee meetings by Directors are set out on page 90.

More details on the role of the Nomination Committee are 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, Valérie Chapoulaud-Floquet, Sir John Manzoni, Lady Mendelsohn, Alan Stewart and Ireena Vittal.

Induction and training

The company has adapted its induction programme for new Directors appointed during the year, to take account of social distancing requirements and restrictions on travel. As a consequence, individual meetings with Executive Committee members and other senior executives which would ordinarily have been in person have had to take place through video conference systems and visits by the newly appointed Directors to the company's production facilities, offices and other sites around the group have been postponed.

Alternative ways of facilitating thorough induction programmes have been introduced, including a number which were recommended following the externally facilitated Board effectiveness review carried

out during the first half of the year. For example instead of physical visits Directors have been provided with access to a number of recorded virtual tours of certain of the company's sites and interviews with a range of employees from different backgrounds and markets. 'Skip level' video conference meetings are also being arranged between Non-Executive Directors and employees to enable broader interactions which will enhance Directors' induction experiences as well as provide another means of engagement between the Board and the company's workforce. All Directors who have been unable to travel over this period will have the opportunity to visit key sites, including the company's production facilities in Scotland and elsewhere, and to meet executives face-to-face when travel restrictions are lifted.

It is intended that future induction programmes for new Directors will also be more tailored to suit the particular background and experience of the individual Director, with the Committee advising on priorities for that individual and tracking induction activity. This will supplement existing practices whereby, following the initial induction process, a continuing understanding of the business is developed through appropriate business engagements for Non-Executive Directors which would ordinarily include visits to customers, engagements with employees, and brand events worked into the annual cycle of Board meetings. Training on specific areas of risk and detailed reviews of strategic matters are provided by Executive Committee members, other internal senior leaders and external guest speakers and specialists through presentations, roundtable discussions and other sessions as part of the Board's Annual Strategy Conference and during the year as part of Board and Audit Committee meetings.

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. All Directors are also provided regular briefings 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 the selection and recommendation as to the appointment of new Executive Directors, Non-Executive Directors and the Company Secretary;
- the selection, scoping and appointment of an external professional consultancy to conduct a review of Board, committee and individual Director effectiveness and performance as part of the annual evaluation process, and a review of the findings of the consultancy's report and its recommendations;
- consideration and approval of the report of the Committee in the company's annual report and accounts for the year ended 30 June 2020;
- consideration and recommendation to the Board of proposed changes in Directors' outside interests and any potential conflicts of interest; and
- a review of the succession plans for Executive Committee roles, including potential candidates for such roles, their backgrounds and experience, and how such candidates would contribute towards the company's diversity objectives.

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 had continued to improve, with more formalised ways of working. The emphasis is now on ensuring adequate time and focus on developing strong succession plans and to ensure all Board members remain informed as to the work of the Committee as the Board grows. Further details of the evaluation can be found on pages 94-95.

Diversity

The Board has a long-standing commitment to prioritise diversity and supports the recommendations of the Hampton-Alexander Review on gender diversity and the Parker Review on ethnic diversity. The Board Diversity Policy sets out specific objectives with parity between male and female members of the Board being the ultimate goal in terms of gender diversity, with a commitment to have no less than 40% female representation on the Board, and having at least one Director reflecting ethnic diversity as defined in accordance with the Parker Review. The Committee is pleased to confirm that both these objectives have currently been met. The Board Diversity Policy also sets out the Board's support for management's actions to increase the proportion of senior leadership roles held by women and by people from minority backgrounds and other under-represented groups. As at 30 June 2021, the percentage of women on the Executive Committee and their direct reports is 46%.

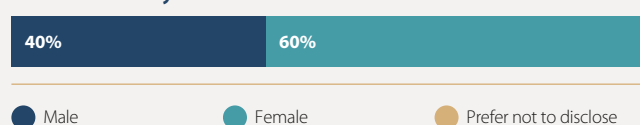
Board composition



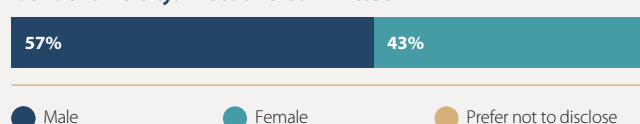
Non-Executive Director tenure



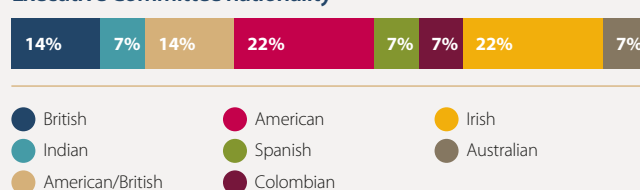
Gender diversity: Board of Directors



Gender diversity: Executive Committee



Executive Committee nationality



Ethnic diversity: Board of Directors



ETHNIC DIVERSITY DEFINITIONS

- Directors are defined as all non-executive and executive directors appointed to the Board.
- Directors of colour are defined in accordance with the Parker Review definitions as those 'who identify as or have evident heritage from African, Asian, Middle Eastern, Central and South American regions'.

All data above is given as at the last practicable date prior to publication of this report, being 27 July 2021