

# Governance report

## Contents

Letter from the Chairman of the Board of Directors	98
Governance at a glance	99
Board of Directors	100
Executive Committee	104
Corporate governance report	106
Audit Committee report	117
Nomination Committee report	123
Directors' remuneration report	126
Directors' report	154

# Enabling our Ambition *through Leadership*



## Dear Shareholder

On behalf of the Board, I am pleased to present the corporate governance report for the year ended 30 June 2023, which summarises how the Board and our governance has provided leadership over the year in support of the long-term sustainable success of Diageo.

Diageo's business has grown consistently over the last few years under the leadership of Sir Ivan Menezes, despite the challenges of the pandemic, instability in the global political and economic environment and continued inflationary pressures. We remain deeply grateful for his transformational leadership as we reflect on his sad passing.

Delivering our ambition in such a challenging and turbulent environment requires leadership which is agile and creative,

evolving to changing circumstances, as well as resilient and committed to our strategy, values and purpose. It is the responsibility of the Board to provide direction for management, setting the strategic aims and performance ambition of the company, centred on Diageo's strong culture. The Board is also responsible for ensuring that the company has effective operational leadership to implement its strategy of investing for long-term sustainable growth. We were therefore very pleased to welcome Debra Crew back to the Board as Chief Executive in June.

A particular focus of the Board this past year has been on ensuring that Diageo is well-positioned for future growth. This includes managing appropriate allocation of capital such as investing in fast-growing categories, actively managing our footprint and brand portfolio through selective acquisitions and disposals, and investing in the capacity and environmental sustainability of our facilities and supply chain. It also includes ensuring that Diageo is resourced adequately, with performance enabled by highly engaged and motivated employees and a collaborative, values-based and inclusive culture.

We know that achieving this is dependent on the Board providing effective leadership, enabling swift execution of our clear strategy, and we look forward to working with Debra in guiding Diageo to move towards the next phase of delivering sustainable long-term value for our shareholders and other stakeholders.

Javier Ferrán (Chairman)

## Compliance with the UK Corporate Governance Code

The Board considers that for the year ended 30 June 2023, Diageo has fully applied the Principles and complied with the Provisions of the UK Corporate Governance Code 2018 (the Code) except for the pension alignment required under Provision 38, where full compliance was achieved from 1 January 2023 when company pension contributions for the then Chief Executive were aligned to that of the wider workforce as explained on page 143.

The table below details where key content on the compliance with the Code can be found in this report.

### Board Leadership & Company Purpose

- Section 172 statement - **page 6**
- Board of Directors - **pages 100-103**
- 2023 Governance at a glance - **page 99**
- Purpose, values and culture - **page 114**
- Board activities - **page 109**

### Division of Responsibilities

- Corporate governance structure and division of responsibilities - **pages 106 and 108**
- Board and committee attendance - **page 99**
- Director independence - **page 108**

### Composition, Succession and Evaluation

- Leadership and experience - **pages 100-103**
- Performance evaluation - **page 113**
- Nomination Committee report - **pages 123-125**

### Audit, Risk and Internal Controls

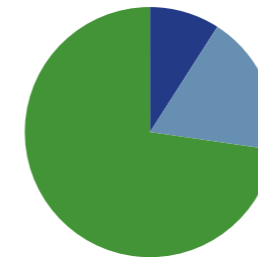
- Audit Committee report - **pages 117-122**

### Remuneration

- Remuneration Committee report - **pages 126-153**

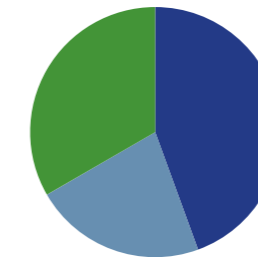
# Governance *at a glance*

## Board composition



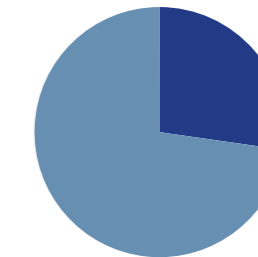
- Chairman
- Executive director
- Non-executive director

## Non-executive director tenure



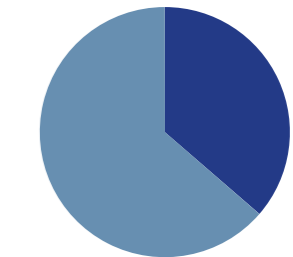
- 0 - 3 years
- 3 - 6 years
- 6 - 9 years

## Board gender diversity



- Male
- Female

## Board ethnic diversity



- Directors of colour
- White European

## Fiscal 23 highlights

### Board composition and changes

- Diageo ranked as the leading FTSE 100 company in the FTSE Women Leaders Review in February 2023 for the third year running, with 63.6% female representation on the Board.
- Debra Crew rejoined the Board as Chief Executive and Executive Director on 8 June 2023 following the sad passing of Sir Ivan Menezes.

### Board attendance

- During fiscal 23, there were seven scheduled meetings of the Board which Directors attended either physically or remotely using video conference facilities.
- Directors' attendance record at the last AGM, scheduled Board and Board Committee meetings, for fiscal 23 is set out in the table below. Attendance is expressed as the number of scheduled meetings attended out of the number that each Director was eligible or invited to attend.

### Annual General Meeting

- This year's AGM was held on 6 October 2022 at etc.venues St Paul's, 200 Aldersgate, London.
- It was held as a hybrid meeting with over 130 people attending physically, including shareholders, proxies, corporate representatives and guests, and with the ability for others to attend remotely or by virtual means using an online platform.
- All Directors attended the AGM either physically or remotely.
- During the AGM, the Chief Executive gave a review of the performance of the company during fiscal 22, following which the Chairman took questions from shareholders which were responded to by the Chairman and other Directors.
- The vote procedure was carried out by way of poll as authorised by the Articles of Association. All resolutions contained in the Notice of Meeting were passed.

	Annual General Meeting 2022	Board (maximum 7)	Audit Committee (maximum 5)	Nomination Committee (maximum 6)	Remuneration Committee
Javier Ferrán	✓	7/7	5/5 <sup>(1)</sup>	6/6	7/7 <sup>(1)</sup>
Debra Crew <sup>(2)</sup>	N/A	0/0	0/0	0/0	1/1 <sup>(1)</sup>
Lavanya Chandrashekar	✓	6/6	5/5 <sup>(1)</sup>	0/0	1/1 <sup>(1)</sup>
Susan Kilsby	✓	7/7	5/5	6/6	7/7
Melissa Bethell	✓	7/7	4/5	6/6	7/7
Karen Blackett	✓	6/7	4/5	6/6	7/7
Valérie Chapoulaud-Floquet	✓	6/7	4/5	6/6	7/7
Sir John Manzoni	✓	7/7	5/5	6/6	7/7
Lady Mendelsohn	✓	7/7	5/5	6/6	6/7
Alan Stewart	✓	7/7	5/5	6/6	7/7
Ireena Vittal	✓	7/7	4/5	6/6	7/7
<b>Former Directors</b>					
Sir Ivan Menezes <sup>(3)</sup>	✓	5/6	2/5 <sup>(1)</sup>	4/5 <sup>(1)</sup>	4/6 <sup>(1)</sup>

(1) Attended by invitation.

(2) Appointed to the Board on 8 June 2023.

(3) Ceased being a director on 6 June 2023.

# Leadership and *experience*



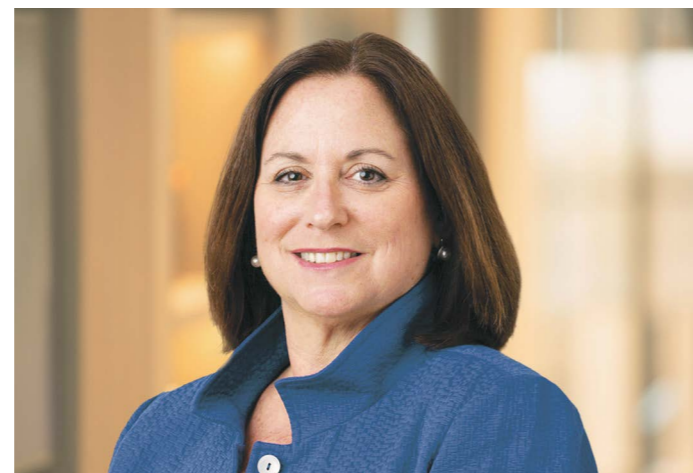
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## 1. Javier Ferrán N

**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:** Chairman, International Consolidated Airlines Group, S.A.; Senior Advisor and chairman of investee company board, BlackRock Long Term Private Capital  
**Previous relevant experience:** Non-Executive Director and Senior Independent Director, Associated British Foods plc; Non-Executive Director, Coca-Cola European Partners plc; Member, Advisory Board of ESADE Business School; President and CEO, Bacardi Limited; Non-Executive Director, SABMiller plc

## 2. Debra Crew E

**Chief Executive**  
**Nationality:** American  
**Appointed:** Chief Executive and Executive Director: June 2023  
**Key strengths:** Has broad experience in various consumer products sectors at board, chief executive and management leadership levels, as well as over four years' experience in non-executive and executive roles at Diageo  
**Current external appointments:** Non-Executive Director, Stanley, Black & Decker, Inc.  
**Previous Diageo roles:** Chief Operating Officer; President, North America; Non-Executive Director, Diageo plc  
**Previous relevant experience:** Non-Executive Director, Newell Brands, Mondelēz International Inc.; 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

## 3. Lavanya Chandrashekar E

**Chief Financial Officer**  
**Nationality:** American  
**Appointed:** Chief Financial Officer and Executive Director: July 2021  
**Key strengths:** Brings broad financial expertise, commercial skills and strong consumer goods experience to manage the group's affairs relating to financial controls, accounting, tax, treasury and investor relations  
**Previous Diageo roles:** Chief Financial Officer, Diageo North America and Global Head of Investor Relations  
**Previous relevant experience:** Vice President Finance, Global Cost Leadership and Supply Chain, Mondelēz International; VP Finance, North America, Mondelēz International; VP Finance, Eastern Europe, Middle East and Africa, Mondelēz International; various senior finance roles at Procter & Gamble

## 4. Susan Kilsby A N R

**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 Chair, Fortune Brands Innovations, Inc.; Non-Executive Director, Unilever PLC, NHS England; Member, the Takeover Panel  
**Previous relevant experience:** Senior Independent Director and Chair of Remuneration Committee, BHP Group Plc, BHP Group Limited; Senior Independent Director, BBA Aviation plc; Chairman, Shire plc; Chairman, 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

## 5. Melissa Bethell A N R

**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:** Non-Executive Director, Tesco PLC, Exor N.V.; Chair, Ocean Outdoor Limited; Senior Advisor, Atairos  
**Previous relevant experience:** Managing Director and Senior Advisor, Private Equity, Bain Capital; Non-Executive Director, Atento S.A., Worldpay plc, Samsonite S.A.

## 6. Karen Blackett A N R

**Non-Executive Director**  
**Nationality:** British  
**Appointed:** Non-Executive Director: June 2022  
**Key strengths:** Brings expertise in marketing, media and the creative industries, as well as broad experience in public policy and strategic initiatives through a number of different government, industry and public bodies  
**Current external appointments:** UK President, WPP plc; Chancellor, University of Portsmouth; Founding Trustee, BEO (Black Equity Organisation); Non-Executive Director, Creative UK, Non-Executive Director, The Pipeline  
**Previous relevant experience:** UK Race Equality Business Champion, HM Government; Business Ambassador, Department for International Trade, HM Government; Chairwoman, MediaCom UK & Ireland; Chief Executive Officer, GroupM UK; Chief Executive Officer, MediaCom UK; Chief Operations Officer, MediaCom EMEA; Marketing Director, MediaCom; UK Country Manager, WPP plc

**Board committees**

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



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**7. Valérie Chapoulaud-Floquet**

A N R

**Non-Executive Director**

**Nationality:** French

**Appointed:** Non-Executive Director: January 2021

**Key strengths:** Brings strong experience and expertise in the luxury consumer goods sector, having spent her career in the industry working in a number of international markets, including developed and emerging markets, and as a former CEO in the premium drinks industry

**Current external appointments:** Non-Executive Director, Lead Independent Director and Chair of Governance Committee, Danone S.A.; Non-Executive Director, Acné Studios A.B., Agrolimen S.A., Nextstage S.C.A., Jacobs Holding AG; Vice Chairman, Sofisport

**Previous relevant experience:** Chief Executive Officer, Rémy Cointreau S.A.; President and CEO for the Americas, Louis Vuitton, LVMH Group; President and CEO for North America, Louis Vuitton, LVMH Group; President South Europe, Louis Vuitton, LVMH Group; President and CEO, Louis Vuitton Taiwan, LVMH Group; President, Luxury Product Division for the USA, L'Oréal Group

**8. Sir John Manzoni**

A N R

**Non-Executive Director**

**Nationality:** British

**Appointed:** Non-Executive Director: October 2020

**Key strengths:** Has strong commercial executive experience as a former CEO in the energy sector and non-executive board level experience, including in the alcoholic beverage industry, as well as more recent expertise in public policy and government affairs

**Current external appointments:** Chairman, SSE plc; Chairman, Atomic Weapons Establishment; Non-Executive Director, KBR Inc.

**Previous relevant experience:** Chief Executive of the Civil Service and Permanent Secretary of the Cabinet Office, HM Government; President and Chief Executive Officer, Talisman Energy; Chief Executive, Refining & Marketing, BP p.l.c.; Chief Executive, Gas & Power, BP p.l.c.; Non-Executive Director, SABMiller plc

**9. Lady Mendelsohn**

A N R

**Non-Executive Director**

**Nationality:** British

**Appointed:** Non-Executive Director: September 2014

**Key strengths:** Has specialist knowledge and understanding of consumer-facing emerging technologies, privacy 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:** Head of the Global Business Group, Meta Platforms Inc.; Co-President, Norwood; Member, Mayor's Business Advisory Board; Chair, Follicular Lymphoma Foundation

**Previous relevant experience:** Executive Chairman, Karmarama; Deputy Chairman, Grey London; Board Director, BBH, Fragrance Foundation; President, Institute of Practitioners in Advertising; Director, Women's Prize for Fiction; Co-Chair, Creative Industries Council; Member, HMG Industrial Strategy Council; Board Member, CEW; Trustee, White Ribbon Alliance; Chair, Corporate Board, Women's Aid

**10. Alan Stewart**

A N R

**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:** Non-Executive Director and Chair of the Remuneration Committee, Reckitt Benckiser Group PLC; Non-Executive Director and Chair of Audit Committee, Burberry Group plc

**Previous relevant experience:** Chief Financial Officer, Tesco PLC; Non-Executive Director, Tesco Bank; Chief Financial Officer, Marks & Spencer Group plc, AWAS; Non-Executive Director, Games Workshop plc; Group Finance Director, WH Smith PLC; Chief Executive, Thomas Cook UK

**11. Ireena Vittal**

A N R

**Non-Executive Director**

**Nationality:** Indian

**Appointed:** Non-Executive Director: October 2020

**Key strengths:** Brings a wealth of FMCG experience from a career in executive consulting with a focus on consumer sectors and emerging markets, including India, as well as broad experience in non-executive board roles in the UK and India

**Current external appointments:** Non-Executive Director, Compass Group PLC; Non-Executive and Lead Independent Director, Godrej Consumer Products Limited; Non-Executive Director, Asian Paints Limited

**Previous relevant experience:** Head of Marketing and Sales, Hutchinson Max Telecom; Partner, McKinsey and Company; Non-Executive Director, Wipro Limited, Housing Development Finance Corporation Limited, Titan Company Limited, Tata Global Beverages Limited, Tata Industries, GlaxoSmithKline Consumer Healthcare

**Board committees**

A Audit Committee

E Executive Committee

N Nomination Committee

R Remuneration Committee

● Chairman of the committee

# Expertise and *diversity*



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Debra Crew and Lavanya Chandrashekar are also members of the Executive Committee. Their biographies can be found on page 101.

## 1. Ewan Andrew

President, Global Supply Chain & Procurement and Chief Sustainability Officer

Nationality: British

Appointed: September 2019

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

**Current external appointments:** Member, Scotch Whisky Association Council, Scottish Business Climate Collaboration Board, One Planet Business for Biodiversity Board

## 2. Soraya Benchikh

President, Europe

Nationality: French

Appointed: January 2023

**Previous Diageo roles:** Managing Director, Northern Europe

**Previous relevant experience:** Brand CEO and Area Director, East and Southern Africa, President, France and Regional Finance Director, Europe, British American Tobacco

## 3. Alvaro Cardenas

President, Latin America and Caribbean

Nationality: Colombian

Appointed: January 2021

**Previous Diageo roles:** Managing Director, Andean Region; Director, End-to-End Global Commercial Processes; Finance Director, South East Asia Region, PUB (Paraguay, Uruguay and Brazil) Region, Andean Region, Colombia

## 4. 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

## 5. Daniel Mobley

Global 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

## 6. Hina Nagarajan

Managing Director and CEO of United Spirits Limited

Nationality: Indian

Appointed: July 2021

**Previous Diageo roles:** CEO-Designate, United Spirits Limited; Managing Director, Africa Regional Markets

**Previous relevant experience:** Managing Director, China & SVP North Asia, Reckitt Benckiser; General Manager, Malaysia & Singapore, Reckitt Benckiser; CEO & MD Mary Kay India; senior marketing and general management roles, ICI Paints India and Nestlé India

## 7. Dayalan Nayager

President, Africa

Nationality: South African/British

Appointed: July 2022

**Previous Diageo roles:** Managing Director, Great Britain and Justerini & Brooks, Ireland and France, Global Travel; Regional Director, Global Travel Europe; Commercial Director, South Africa; Customer Marketing Director, South Africa; Key Account Director, South Africa

**Previous relevant experience:** Various positions, Heinz, Mars and Pick n Pay Retailers

## 8. John O'Keeffe

President, Asia Pacific & Global Travel

Nationality: Irish

Appointed: July 2015

**Previous Diageo roles:** President, Africa & Beer; CEO and Managing Director, Guinness Nigeria; Global Head, Innovation; Global Head, Beer and Baileys; Managing Director, Russia and Eastern Europe; various management and marketing positions

## 9. Louise Prashad

Chief HR Officer

Nationality: British

Appointed: January 2022

**Previous Diageo roles:** Global Talent Director; Talent Director, Africa; HR Director, Europe, West Latin America and Caribbean, Global Functions

**Previous relevant experience:** various HR roles, Stakis Group and Hilton Hotels

## 10. Claudia Schubert

President, North America

Nationality: American

Appointed: October 2022

**Previous Diageo roles:** President, US Spirits and Canada; General Manager, Continental Europe; President, US Controls States and Canada; President, Diageo Chateau & Estate Wines

**Previous relevant experience:** Boston Consulting Group

## 11. Tom Shropshire

General Counsel & Company Secretary

Nationality: American/British

Appointed: July 2021

**Current external appointments:** Member of the Court (Non-Executive Director), The Bank of England; Trustee, New York University School of Law; Member of the Steering Committee, The Parker Review; Trustee, Charity Projects Limited (Comic Relief); Director, Comic Relief Limited

**Previous relevant experience:** Partner & Global US Practice Head, Linklaters LLP

# Enabling our *ambition*

## Corporate governance structure and division of responsibilities

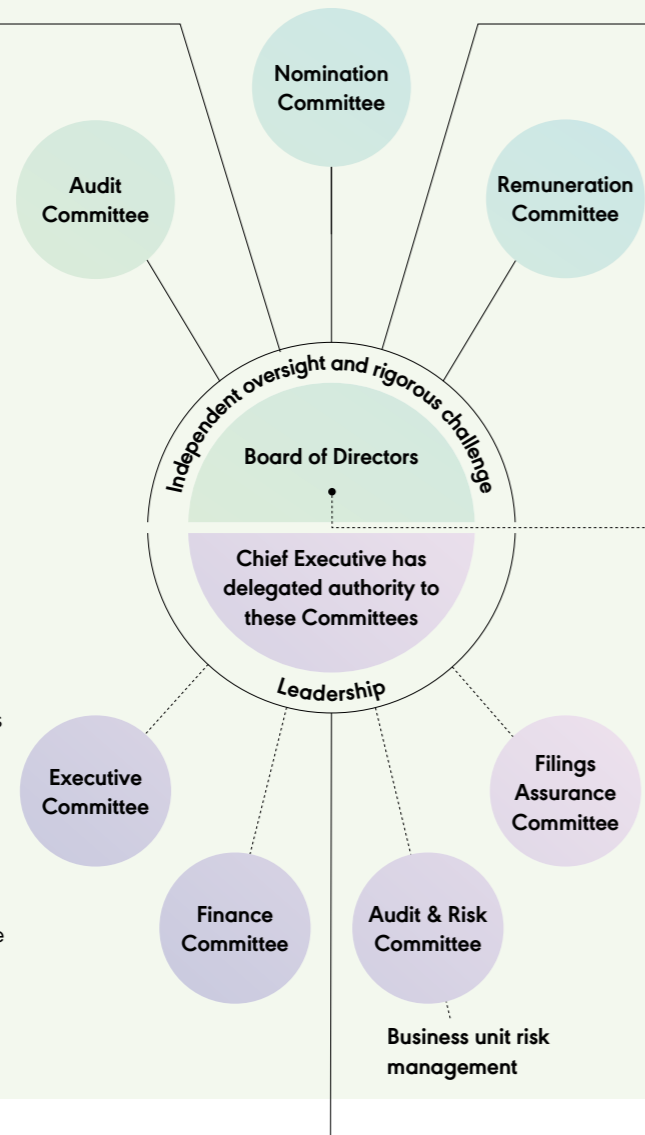
### Non-Executive Directors

**Melissa Bethell, Valérie Chapoulaud-Floquet, Sir John Manzoni, Lady Mendelsohn, Alan Stewart, Ireena Vittal and Karen Blackett**

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.

- 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

**Tom Shropshire**

- 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
- Is a member of the Executive Committee as General Counsel

### Chief Executive

**Debra Crew**

- Develops the group's strategic direction for consideration and approval by the Board
- Implements the strategy agreed by the Board
- Leads the Executive Committee
- Manages the company and the group
- Along with the Chief Financial Officer, leads discussions with investors
- Is supported in her role by the Executive Committee
- Is supported by the Finance Committee and 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

### Chief Financial Officer

**Lavanya Chandrashekar**

- 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
- Is a member of the Executive Committee

### Board of Directors

#### Composition of the Board

The Board comprises the Non-Executive Chairman, two Executive Directors, the Senior Independent Director, and seven independent Non-Executive Directors. The biographies of all Directors are set out in this Annual Report on pages 101 and 103. Debra Crew was appointed Chief Executive and Director, effective 8 June 2023.

#### Inclusion and diversity

The Board sees championing inclusion and diversity as one of the key enablers for achieving Diageo's ambition. It is also a core principle of the company'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, across all levels, functions and geographies, in order to create a better working environment and a better performing business. As part of this, the Board has adopted a written Board Diversity Policy 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, ethnicity, 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 a minority ethnic group. As at 26 July 2023, women make up 73% of the Board and there are four Directors (36%) who self-disclose as being from minority ethnic groups. Further information about diversity at Board and senior executive levels can be found on page 125 and in the 'Our people and culture' and 'Champion inclusion and diversity' sections of the Strategic Report on pages 63-64 and 67-70 respectively. The Board's Diversity Policy is available at <https://www.diageo.com/en/our-business/corporate-governance/board-diversity>.

#### Outside interests and conflicts

The Board has adopted guidelines for dealing with conflicts of interest, with Directors' outside interests being regularly reviewed and responsibility for authorising conflicts of interest reserved for the Board. In the case of a potential conflict, the Nomination Committee considers the circumstances, appropriate controls and protocols, and makes a recommendation to 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.

#### Duties of the Board

The Board manages overall control of the company's affairs with reference to the formal schedule of matters reserved for the Board for decision. The schedule was last reviewed in July 2023 and is available at <https://www.diageo.com/en/our-business/corporate-governance>. 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 on all governance matters. The Board considers a number of factors when making decisions, including the potential impact of those decisions on various stakeholder groups and on the Company's 'Society 2030: Spirit of Progress' and other non-financial targets, including in respect of environmental sustainability. Further information on the Board and the Audit Committee's roles in climate risk governance can be found on page 72. The terms of reference of Board Committees are reviewed regularly, most recently in July 2023, and are available at <https://www.diageo.com/en/our-business/corporate-governance>.

### Corporate governance requirements

The principal corporate governance rules applying to Diageo (as a UK company listed on the London Stock Exchange) for the year ended 30 June 2023 are contained in the 2018 UK Corporate Governance Code (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](http://www.frc.org.uk). Diageo's statement as to compliance with the Code during the year ended 30 June 2023 can be found on page 98. 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). Diageo is also listed on the New York Stock Exchange (NYSE), and as such is subject to the applicable rules of this exchange and jurisdiction. For example, Diageo is subject to the listing requirements of the NYSE and the rules of the US Securities and Exchange Commission (SEC), as they apply to foreign private issuers. Compliance with the provisions of the US Sarbanes-Oxley Act of 2002 (SOX), as it applies to foreign private issuers, is continually monitored.

#### Compliance with US corporate governance rules

Under applicable SEC rules and the NYSE's corporate governance rules for listed companies, Diageo must disclose any significant ways in which its corporate governance practices differ from those followed by US companies under NYSE listing standards. Diageo believes the following to be the significant areas in which there are differences between its corporate governance practices and NYSE corporate governance rules applicable to US companies. This information is also provided on the company's website at [www.diageo.com](http://www.diageo.com).

- Basis of regulation: UK listed companies are required to include in their annual report a narrative statement of (i) how they have applied the principles of the Code and (ii) whether or not they have complied with the best practice provisions of the Code. NYSE listed companies must adopt and disclose their corporate governance guidelines. Certain UK companies are required to include in their annual report statements as to (i) how directors have complied with Section 172 of the Act, which requires directors to promote the success of the company for the benefit of the members as a whole, having regard to the interests of stakeholders and (ii) how directors have engaged with and taken account of the views of the company's workforce and other stakeholder groups. Diageo complied throughout the year with the best practice provisions of the Code and the disclosure requirements noted above, other than as described on page 98.
- Director independence: The Code requires at least half the Board (excluding the Chairman) to be independent Non-Executive Directors, as determined by affirmatively concluding that a Director is independent in character and judgement and determining whether there are relationships and circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Code requires the Board to state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination. NYSE rules require a majority of independent directors, according to the NYSE's own 'brightline' tests and an affirmative determination by the Board that the Director has no material relationship with the listed company. Diageo's Board has determined that, in its judgement and without taking into account the NYSE brightline tests, all of the Non-Executive Directors are independent. As such, currently nine of Diageo's eleven Directors are independent. Further details of this determination in relation to Alan Stewart, Non-Executive Director and Chairman of the Audit Committee, are set out on page 108.

- Chairman and Chief Executive: The Code requires these roles to be separate. There is no corresponding requirement for US companies. Diageo has a separate Chairman and Chief Executive.
- Non-Executive Director meetings: NYSE rules require Non-Management Directors to meet regularly without management and independent directors to meet separately at least once a year. The Code requires Non-Executive Directors to meet without the Chairman present at least annually to appraise the Chairman's performance. During the year, Diageo has complied with these requirements with independent Non-Executive Directors, including the Chairman, meeting without the Executive Directors present four times and independent Non-Executive Directors meeting without the Chairman or Executive Directors present twice.
- Board committees: Diageo has a number of Board committees that are similar in purpose and constitution to those required by NYSE rules. Diageo's Audit, Remuneration and Nomination Committees consist entirely of independent Non-Executive Directors. Under NYSE standards, companies are required to have a nominating/corporate governance committee, which develops and recommends a set of corporate governance principles and is composed entirely of independent directors. The terms of reference for Diageo's Nomination Committee, which comply with the Code, do not contain such a requirement. In accordance with the requirements of the Code, Diageo has disclosed on page 113 the results and means of its annual evaluation of the Board, its Committees and the Directors, and it provides extensive information regarding the Directors' compensation in the Directors' remuneration report on pages 126-153.
- Code of ethics: NYSE rules require a Code of Business Conduct and Code of Ethics to be adopted for directors, officers and employees and disclosure of any waivers for executive directors or officers. Diageo has adopted a Code of Business Conduct for all Directors, officers and employees, as well as a Code of Ethics for Senior Financial Officers in accordance with the requirements of SOX. See page 121 for further details.
- Compliance certification: NYSE rules require chief executives to certify to the NYSE their awareness of any NYSE corporate governance violations. Diageo is exempt from this as a foreign private issuer but is required to notify the NYSE if any executive officer becomes aware of any non-compliance with NYSE corporate governance standards. No such notification was necessary during the period covered by this report.

**Structure and division of responsibilities**

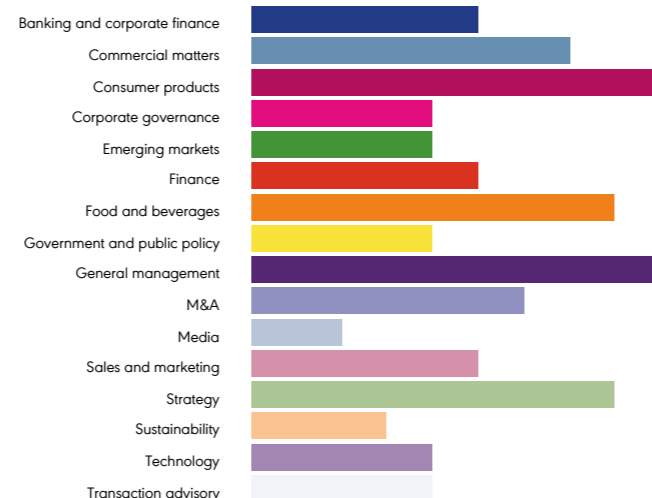
The Board is committed to the highest standards of corporate governance and risk management, which is demonstrated in its established corporate governance framework, illustrated on page 106. This includes the three Board Committees (Audit Committee, Nomination Committee and Remuneration Committee), as 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 approved by the Board. A copy of this is available at <https://www.diageo.com/en/our-business/corporate-governance>. 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 117-153, and details of the Executive Committee can be found on pages 104-105

**Board skills and experience**

Having an appropriate mix of experience, expertise, diversity and independence is essential for Diageo's Board. Such diverse attributes enable the Board as a whole to provide informed opinions and advice on strategy and relevant topics, thereby discharging its duty of

oversight. The Board skills matrix helps to identify the experience and expertise of existing Directors, required skill sets or competencies, and the strategic requirements of the company. Key strengths and relevant experience of each Director are set out on pages 101 and 103, and a matrix of the Board's current skills and experience is set out below.



**Independence**

The Code requires the Board to state its reasons for concluding that a director is independent notwithstanding the existence of certain relationships or circumstances which are likely to impair or appear to impair the director's independence. A non-exhaustive list of such circumstances is set out in provision 10 of the Code and include, amongst other things, the fact that a director has served on the board for more than nine years. In September 2023, Alan Stewart will have served for nine years on the Board since he was first appointed in September 2014. Alan has also served as Chairman of the Audit Committee since January 2017. The Board has requested and Alan has agreed to extend the term of his appointment to enable a smooth transition of the role of Chair of the Audit Committee at a time when the company is commencing a significant business change programme to upgrade its financial systems and technology in order to enhance the company's reporting and controls environment, as further described on page 112. The Board believes that, given the critical role of the Audit Committee in supervising this programme, this additional period will help preserve the level of knowledge and experience on and help support a successful transition to a successor, who is expected to be appointed prior to the 2024 AGM. It was further considered to be in the best interests of the company that Alan continues in this role to provide further continuity in light of other changes to the Board and, in particular, the recent transition in Chief Executive. The Board has also considered the matter of Alan's independence in light of this extension and concluded that, notwithstanding his serving for more than nine years, he continues to make high-quality contributions to Board and committee meetings, providing effective and constructive challenge to management and demonstrating objective and independent judgment. In light of this assessment, the Board has determined that Alan Stewart remains independent.

**Board and Committee attendance**

Directors' attendance record at the last AGM, scheduled Board meetings and Board Committee meetings, for the year ended 30 June 2023 is set out in the table shown on page 99. Directors are expected to attend all meetings of the Board and its Committees and the AGM, but if unable to do so they are encouraged to give their views to the Chair of the meeting in advance. The 2022 AGM was held as a combined physical and electronic meeting via a live webcast with all Directors attending either physically or by video link. For Board and Board Committee meetings, attendance is expressed as the number of meetings attended of the number that each Director was eligible to attend.

**Re-appointment at AGMs**

The Chairman has confirmed that the Non-Executive Directors standing for re-appointment at this year's AGM continue to perform effectively, both individually and collectively as a Board, and that each Non-Executive Director demonstrates commitment to their roles and continues to provide constructive challenge, strategic guidance and

offer specialist advice, as well as holding management to account. As can be seen from the attendance records set out on page 99, Directors' attendance levels have been consistently high throughout the year ended 30 June 2023.

**Board activities**

Details of the main areas of focus of the Board and its Committees during the year include those summarised below:

Areas of focus		Strategic priority	Strategic outcome	Stakeholders
<b>Strategic matters</b>	<ul style="list-style-type: none"> <li>Held a two-day Annual Strategy Conference (ASC) focussing on key strategic matters, including implementation of strategy across regions, convenience, China, ESG performance and supply chain strategy</li> </ul>	1	EG	People
	<ul style="list-style-type: none"> <li>Regularly reviewed the group's performance against the strategy</li> <li>Received reports on the financial performance of the group as against the annual plan</li> <li>Reviewed the group's tax strategy and policy</li> <li>Received reports on the macro-economic environment, socio-political matters and emerging trends</li> </ul>	2	CVC	Consumers
	<ul style="list-style-type: none"> <li>Carried out deep dives into key strategic topics including the group's scotch whisky portfolio and strategy, tequila strategy, consumer insights, Latin America and Caribbean region, culture and capabilities, China, health and wellness, and volatility scenario planning</li> </ul>	3	EP	Suppliers
		6	CT	Communities
<b>Operational matters</b>	<ul style="list-style-type: none"> <li>Reviewed and approved the group's three-year plan and annual funding plan, insurance, banking and capital expenditure requirements</li> <li>Reviewed the group's long-term demand forecasting processes, global business operations and shared service centre arrangements</li> <li>Regularly reviewed and approved the group's M&amp;A and business development activities, reorganisations and various other projects</li> <li>Reviewed the group's supply chain activities, including supply footprint</li> <li>Approved capital expenditure investments, and various significant procurement, systems and other contracts, having taken into consideration financial, operational, sustainability and other ESG related factors</li> </ul>	1	EG	People
	<ul style="list-style-type: none"> <li>Initiated a global business transformation programme and systems upgrade</li> <li>Reviewed the company's capital allocation, funding and liquidity positions, and those of its pension schemes, and approved interim and final dividends</li> <li>Reviewed and approved the company's share buyback programme</li> <li>Approved the appointment of a new Chief Executive, including as an Executive Director</li> <li>Acting through the Nomination Committee, reviewed the company's succession planning and talent strategy</li> </ul>	2	CVC	Consumers
		3	EP	Suppliers
		6	CT	Communities
<b>ESG matters</b>	<ul style="list-style-type: none"> <li>Increased focus on ESG matters throughout the year, including conducting a deep dive in relation to the company's approach to ESG matters and its 'Society 2030: Spirit of Progress' programme at the ASC</li> <li>Reviewed approach and methodologies used in relation to non-financial targets</li> <li>Received reports on workforce engagement over the year</li> <li>Received regular investor reports</li> <li>Received regular updates on ESG matters and progress towards 'Society 2030: Spirit of Progress' targets</li> <li>Completed actions identified following the previous evaluation of the Board's performance and carried out an internal evaluation of the Board's performance</li> <li>Reviewed schedule of matters reserved for the Board and terms of reference of its Committees</li> </ul>	1	CVC	People
		4	CT	Consumers
		5	EP	Suppliers
		6	CT	Communities
<b>Assurance and risk management</b>	<ul style="list-style-type: none"> <li>Received reports in relation to material legal matters, including disputes, regulatory and governance developments, and areas of legal or regulatory risk</li> <li>On the recommendation of the Audit Committee, approved the company's risk footprint, including reviewing and updating the principal risks</li> <li>On the recommendation of the Audit Committee, approved the company's filings, financial and non-financial reporting including interim and preliminary results announcements, US filings and Annual Report</li> </ul>	2	EG	People
		3	CVC	Consumers
		6	CT	Communities

**Key**

Strategic priorities	Strategic outcomes	Stakeholders
1 Sustain quality growth	EG Efficient growth	People
2 Embed everyday efficiency	CVC Consistent value creation	Consumers
3 Invest smartly	CT Credibility and trust	Customers
4 Promote positive drinking	EP Engaged people	Suppliers
5 Champion inclusion and diversity		Communities
6 Pioneer grain-to-glass sustainability		Investors
		Governments and regulators

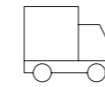
# Stakeholder engagement

We aim to maintain open and positive dialogue with all our stakeholders, considering their key interests in our decision-making and communicating with them on a regular basis. This dialogue helps us build trust and respect and make choices as a business that help shape the role we play in society.

The development of strong and positive relationships between Diageo and its external stakeholders is an intrinsic part of our purpose and culture. Our stakeholders include not only business partners such as suppliers and customers, our people and workforce, but also government, consumers and the wider communities in which we operate. As noted in the company's statement on Section 172 of the Companies Act 2006 set out on page 9, in making their decisions and in discharging their duties to promote the success of the company, the Directors must have regard to the interests of its stakeholders. We have summarised below why our stakeholders are important to us, what we believe their principal interests are and how the Board and company seeks to engage and respond.

Stakeholder and why we engage		
	<p><b>Our people</b></p> <ul style="list-style-type: none"> <li>• People are at the core of our business</li> <li>• We aim to build a trusting, respectful and inclusive culture where people feel engaged and fulfilled</li> <li>• We want our people to be treated with dignity at work and their human rights respected</li> </ul>	<p><b>What we believe matters most to them</b></p> <ul style="list-style-type: none"> <li>• Prioritisation of health, safety and well-being</li> <li>• Learning and development opportunities</li> <li>• Purpose, culture and benefits</li> <li>• Contributing to the growth of our brands and performance</li> <li>• Promotion of inclusion and diversity</li> <li>• Sustainability and societal credentials</li> </ul> <p><b>How the Board seeks to engage</b></p> <ul style="list-style-type: none"> <li>• Active dialogue maintained throughout the year as part of the Board's ongoing workforce engagement programme</li> <li>• Direct engagement through visits to offices, production and supply chain sites during the year</li> <li>• Indirect engagement through feedback from works councils, employee and workforce forums, community groups, Your Voice and pulse surveys and townhall meetings</li> </ul> <p><b>Reporting to the Board</b></p> <ul style="list-style-type: none"> <li>• Regular reports from workforce engagement activities</li> <li>• Feedback through employee surveys, including annual group-wide Your Voice survey</li> <li>• Culture and capabilities session at Board meeting led by Chief HR Officer</li> </ul> <p><b>Upcoming priorities</b></p> <ul style="list-style-type: none"> <li>• Maintaining focus on simplifying internal processes, including upgrading and transforming business operations and systems</li> <li>• Evolving workforce engagement programme</li> </ul>
	<p><b>Consumers</b></p> <ul style="list-style-type: none"> <li>• Understanding our consumers is critical for our business' long-term growth</li> <li>• Consumer motivations, attitudes and behaviours form the basis of our business strategy, brand marketing and innovation</li> <li>• We want consumers to enjoy our products responsibly and for them to 'drink better, not more'</li> </ul>	<p><b>What we believe matters most to them</b></p> <ul style="list-style-type: none"> <li>• Choice of brands for different occasions, including no- and lower-alcohol</li> <li>• Innovation in heritage brands and creation and nurturing of new brands</li> <li>• Responsible marketing</li> <li>• Great experiences</li> <li>• Product quality</li> <li>• Sustainability and societal credentials</li> <li>• Price</li> </ul> <p><b>How the Board seeks to engage</b></p> <ul style="list-style-type: none"> <li>• Monitoring consumer behaviours, motivations and insights</li> <li>• Responding to and anticipating emerging consumer trends as part of strategic sessions, including the Annual Strategy Conference</li> <li>• Regular review of business development opportunities, including active brand portfolio management</li> <li>• Review of innovation pipeline as part of the Annual Strategy Conference</li> </ul> <p><b>Reporting to the Board</b></p> <ul style="list-style-type: none"> <li>• Regular performance updates by the Chief Executive, including on key consumer trends</li> <li>• Papers prepared by strategy team on evolving consumer behaviours in advance of Annual Strategy Conference</li> <li>• Regular updates by Business Development and Innovation teams on organic and inorganic opportunities and portfolio choices</li> </ul> <p><b>Upcoming priorities</b></p> <ul style="list-style-type: none"> <li>• Ongoing review of portfolio and category participation opportunities</li> <li>• Developing pipeline of innovation informed by consumer insights</li> <li>• Enhancing marketing effectiveness through detailed understanding of consumer motivation</li> </ul>
	<p><b>Customers</b></p> <ul style="list-style-type: none"> <li>• Our customers are a broad range of businesses, large and small, on-trade and off-trade, retailers, wholesalers and distributors, digital and e-commerce</li> <li>• We want to nurture mutually beneficial relationships to deliver joint value and great consumer experiences</li> </ul>	<p><b>What we believe matters most to them</b></p> <ul style="list-style-type: none"> <li>• A portfolio of leading brands that meets evolving consumer preferences</li> <li>• Identification of opportunities that offer profitable growth</li> <li>• Insights into consumer behaviour and shopper trends</li> <li>• Trusted product quality</li> <li>• Innovation, promotional support and merchandising</li> <li>• Availability and reliable supply and stocking</li> <li>• Technical expertise</li> <li>• Joint risk assessment and mitigation</li> <li>• Sustainability and societal credentials</li> </ul> <p><b>How the Board seeks to engage</b></p> <ul style="list-style-type: none"> <li>• Regular review of innovation pipeline and inorganic opportunities to ensure a broad portfolio at multiple price points</li> <li>• Review of supply chain footprint to ensure efficient delivery of products to customers</li> <li>• Direct engagement with key customers during market visits</li> </ul> <p><b>Reporting to the Board</b></p> <ul style="list-style-type: none"> <li>• Regular performance updates by the Chief Executive, including customer and route-to-consumer concerns</li> <li>• Deep dive reviews on key regions or markets, including for example during fiscal 23 in relation to Latin America and Caribbean, include consideration of customer relationships</li> </ul> <p><b>Upcoming priorities</b></p> <ul style="list-style-type: none"> <li>• Scheduling face-to-face meetings for Directors to meet representatives of key customers during market visits</li> <li>• Enhancing relationships between the company and its customers through engagement opportunities</li> </ul>

## Stakeholder and why we engage



### Suppliers

- Our suppliers, service providers and agencies are experts in their fields
- We rely on them to deliver high-quality products and market responsibly
- We collaborate with them to improve our collective impact, ensure sustainable and resilient supply chains, and make positive contributions to society

#### What we believe matters most to them

- Strong, mutually beneficial partnerships
- Strategic alignment and growth opportunities
- Fair contract and payment terms
- Collaboration to realise innovation
- Consistent performance measures
- Joint risk assessment and mitigation
- Sustainability and societal credentials

#### How the Board seeks to engage

- Periodic review of supply chain footprint in key markets to ensure resilience and flexibility, monitoring environmental impacts and efficiencies
- Review and approval of material supply and procurement contracts including for critical raw materials
- Supporting management in improving supplier relationships through fair contract and payment terms, compliance with Diageo's 'Partnering with Suppliers Standard' and working collaboratively to mitigate environmental impacts and achieve ESG goals

#### Reporting to the Board

- Terms of material contracts with suppliers are reviewed by the Board
- Periodic updates provided to the Board in relation to supply chain agility programme rollout
- Supply chain sustainability and other ESG data included in quarterly 'Society 2030: Spirit of Progress' reports provided to the Board

#### Upcoming priorities

- Continued focus on rollout of supply chain agility programme
- Monitoring impact of supply chain disruption on operations, including through Audit Committee risk reviews
- Supporting management in improving supplier relationships through fair contract and payment terms, compliance with Diageo's 'Partnering with Suppliers Standard' and working collaboratively to mitigate environmental impacts and achieve ESG goals



### Communities

- We aim to create long-term value for the communities in which we live, work, source and sell
- We can help build thriving communities and strengthen our business through empowering people, increasing access to opportunities and championing inclusion and diversity

#### What we believe matters most to them

- Impact of our operations on the local economy
- Access to skills development, employment and supplier opportunities
- Inclusion, diversity and tackling inequality in all forms
- Responsible use of natural resources, biodiversity and sustainability
- Transparency and engagement

#### How the Board seeks to engage

- Setting targets and monitoring progress on broader societal matters, including promoting positive drinking, inclusion and diversity
- Considering the environmental and social consequences for communities of its key decisions, including encouraging inclusion and diversity, equal employment opportunities, skills development and support for communities and through wider value chains

#### Reporting to the Board

- Quarterly reports provided to Board on progress made in relation to 'Society 2030: Spirit of Progress' targets
- Reports on macro-economic and socio-political events provided to Board by management

#### Upcoming priorities

- Monitoring progress in relation to positive drinking programmes, including SMASHED and similar initiatives
- Supporting management in advocacy in relation to water stewardship ambitions



### Investors

- We want to enable equity and debt investors to have an in-depth understanding of our strategy, our operational, financial and holistic performance, so that they can more accurately assess the value of our business and the opportunities and risks of investing in it

#### What we believe matters most to them

- Strategic priorities, opportunities and risks
- Financial performance
- Corporate governance
- Leadership credentials, experience and succession
- Executive remuneration policy
- Shareholder returns
- Environmental, inclusion and diversity, and social commitments and progress

#### How the Board seeks to engage

- Regular engagement between key investors and Chief Executive and Chief Financial Officer through Investor Relations programme of events
- Participation in investor conferences such as the Consumer Analyst Group of New York meeting in February 2023
- Hosting investor events such as the Diageo Scotch day in June 2023
- Attendance at the Annual General Meeting in October 2022, including responding to questions from shareholders

#### Reporting to the Board

- Monthly reports compiled by Investor Relations team provided to the Board, providing details on engagement sessions with investors and key trends
- Biennial survey of investor sentiment carried out by external consultancy and report provided to the Board

#### Upcoming priorities

- Continued proactive engagement with investors through structured programme of engagement activities over the year
- Preparing for the Annual General Meeting to be held in September 2023
- Engaging directly with investors through roadshow following announcement of fiscal 23 results



### Governments and Regulators

- The regulatory environment is critical to the success of our business
- We share information and perspectives with those who influence policy and regulation to enable them to understand our views on areas that can impact public health and our business

#### What we believe matters most to them

- Compliance with applicable laws and regulations
- Contribution to national and local economic development and public health priorities
- International trade, excise, regulation and tackling illicit trade
- Tackling harmful drinking and the impact of responsible drinking initiatives
- Climate change and water sustainability agendas, including carbon reduction, human rights, environmental impacts, sustainable agriculture, biodiversity and support for communities

#### How the Board seeks to engage

- Indirect engagement through periodic updates from Chief Executive and corporate relations executives
- Review of macro-economic and geopolitical developments as part of strategy sessions
- Updates on regulatory developments, including in relation to non-financial reporting, corporate governance and public policy

#### Reporting to the Board

- Reports on socio-political events and issues periodically provided to the Board
- Developments in regulatory matters, including governance and reporting obligations, are included in biannual reports to the Board prepared by management

#### Upcoming priorities

- Monitoring developments in regulation and best practice in respect of non-financial reporting requirements, corporate governance and audit regime
- Supporting management's advocacy in relation to key public policy matters including water stewardship, positive drinking, inclusion and diversity



## Principal Board decision – Transforming our business processes and systems

In May 2022, the Board approved the commencement of a multi-year project with the aim of improving Diageo's internal processes and upgrading its financial systems and technology. This project is expected to be a significant business change programme introducing more intuitive business processes, powered by technology, to provide better access to data and information in order to enable quicker and more informed decision-making. The project, which is expected to be implemented over a five-year period, has been designed to enhance Diageo's business resilience and controls environment through simplifying and standardising the group's ways of working across its functional domains. A key part of the project will be a transition to a new cloud-based enterprise resource planning platform, SAP S/4 HANA, which will be used to manage Diageo's day-to-day business activities, enabling the flow of data between the group's business processes in a way which minimises duplication and provides data integrity. During the course of fiscal 23, the progress of the project has been monitored by both the Board and Audit Committee due to its importance to the company's controls and reporting capabilities. For example, at its meetings in January 2023 and April 2023 the Audit Committee reviewed reports from the project team and supervised key decisions. These included the appropriate timing and phasing of rollout of the project, the need to ensure standardisation of end-to-end process ownership through a global process ownership model, the establishment of appropriate governance structures for the project, and the selection and engagement of key third-party suppliers and partners for implementation.

The Board has also considered a number of broader interdependencies between this project and other matters, including its relationship with the company's culture and workforce capabilities, and the impact of the project on the scope of work of certain other functions. One related matter was the impact of the change in the company's functional currency to US dollar which took effect from 1 July 2023, as noted on page 36. As it was important to ensure that the company's reporting systems were capable of operating in a different currency, the Board was kept informed of the work being undertaken to prepare the company's reporting systems to minimise any disruption and ensure a smooth transition. As a result, when the functional currency change took effect, the Board approved go live of the systems change and approved a change in the company's presentation currency to US dollar to provide a better alignment of the reporting of Diageo's performance with its business exposures. The Board has also decided that commencing with the interim dividend to be declared in January 2024 and paid in April 2024, it intends to declare future dividends denominated in US dollar but that, subject to the relevant resolutions being passed at the forthcoming AGM, holders of ordinary shares will continue to receive their dividends in sterling and will be offered the option to elect to receive their dividends in US dollar instead while holders of the company's ADRs will continue to receive dividends in US dollar as is currently the case.

The potential implications of the project on key stakeholder groups have been important factors in these considerations, as required under Section 172 of the Companies Act. These have included:

- the impact of this project on the day-to-day activities and experience of employees and the wider workforce, including in particular the importance of simplification and streamlining of internal processes, as noted by feedback consistently received through the various engagement structures used by the Board to understand workforce views;
- the improved capabilities in terms of accessibility and robustness of data as a result of implementing the new platform, which should enable quicker reporting both internally but also to external stakeholders including regulators and authorities;

- the benefits for investors and analysts in better understanding business performance by minimising foreign exchange volatility through the presentation of results and declaration of dividends in US dollars, consistent with the company's functional currency and more representative of its underlying business;
- the ability to offer choice to shareholders as to which currency in which to receive payment of dividends; and
- the implications of the new platform for supply chain third parties and customers, including customer and vendor lifecycle management processes, product sales reporting and returnable packaging management.

## Wider stakeholder engagement

Diageo has ambitious goals across a variety of social and environmental targets and has a long track record of working with stakeholders to achieve these goals. Our ambition to be one of the best performing, most trusted and respected consumer products companies in the world can only be achieved through engagement and partnership with our stakeholders. The Board and its members have engaged directly and indirectly with a number of its key stakeholders during fiscal 23, which has seen continued volatility and uncertainty in many markets and has sought to understand and respond to stakeholder considerations in making its decisions and determining the company's strategy and goals. These include the following activities:

- During fiscal 23, the Board met and engaged with the company's key customers in North America, discussing their experience of working with Diageo including over the period of the Covid-19 pandemic, how the company's 'Raising the Bar' programme and other support measures assisted them during this period and the impact of inflation and cost-of-living pressures on current consumer trends. Feedback received from customers in different markets is also reported to the Board by the Chief Executive in her regular performance summaries. Customer feedback about market trends and consumer activity, as well as the performance of the company's portfolio, is an important input into the company's consumer insights tools which are used as guidance for innovation, product development and marketing initiatives.
- The Board has continued its annual cycle of visits to different Diageo offices and production sites during fiscal 23. Directors met in Scotland in November 2022 for a multi-day meeting including an immersion into our production processes and facilities and a deep dive into the commercial and marketing aspects of our scotch whisky business. Meeting a broad group of employees supporting our production and scotch businesses enabled a deep understanding of the complexity of long-term forecasting and demand planning on production and maturation timelines for aged liquids. This is particularly relevant to recent decisions in relation to significant capital investment in our supply chain including in distillation and maturation capacity, where learnings from our supply sites in Scotland can be applied in relation to developing our supply capacity in other markets, including for example in respect of tequila production in Mexico.
- The Board's workforce engagement programme is a well-established process with regular engagement sessions held with different parts of the global workforce over the course of the year, involving all Non-Executive Directors. These sessions provide Non-Executive Directors with insights into the company's culture which are then fed back to the company's engagement teams and used to shape our approach to people. See page 114 for this year's workforce engagement statement which includes further details of the programme.
- Engagement with investors and analysts has remained a focus during fiscal 23, with a programme of regular meetings, calls and other engagement activities coordinated by the Investor Relations function. Highlights include participation by Board members,

including the former and current Chief Executives and the CFO, alongside other senior executives at the annual Consumer Analyst Group of New York meeting held in February 2023 in Florida. Investor representatives and analysts were also invited to attend a presentation at Johnnie Walker Princes Street in Edinburgh which focussed on the company's scotch whisky portfolio and business led by the current Chief Executive supported by the Chief Marketing Officer and the Chief Financial Officer, which was also webcast. Materials from these sessions are available on <https://www.diageo.com/en/investors/results-reports-and-presentations>.

Further information on our stakeholders, what we think is important to them and how the Board engages and responds to them can be found on pages 110-111. A case study summarising how stakeholder considerations were taken into account by the Board during fiscal 23, as required by Section 172 of the Companies Act, in respect of one of its principal decisions is set out on page 112.

## Executive direction and control

### Executive Committee

The Executive Committee, appointed and chaired by the Chief Executive, supports her in discharging her 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, Africa, Latin America and Caribbean, Asia Pacific, Supply Chain and Procurement and Corporate. The Executive Committee focusses 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>.

## Performance evaluation

With the assistance of the Company Secretary, the evaluation of the Board's effectiveness, including the effectiveness of the Board's Committees and Directors, was undertaken from December 2022 to January 2023. 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.

This year's evaluation was an internally managed process, comprising an online questionnaire for all Directors to complete, designed to gather an assessment of the level of satisfaction with specific areas and to enable each Director to express their views on them. The evaluation focused on Directors' views on three areas, being (i) Board composition, balance and performance, (ii) Board and Committee topics, support and provision of information, and (iii) Committees' effectiveness and performance. Responses to questions were sent to the Chairman of the Board and responses on the effectiveness of the Committees were also submitted to the respective Committee Chairmen. Following receipt of responses on the evaluation on the Chairman, the Senior Independent Director held a meeting with the Directors without the Chairman present to provide feedback in relation to the Chairman, consistent with the requirements of the Code. The results of the evaluation process were reviewed by the Board at its meeting in January 2023 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 2023 will be carried out by the end of the calendar year with the assistance of an external facilitator, which will be engaged in due course following completion of a tender process. 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 demonstrates commitment to their roles. The main conclusions and key areas for focus highlighted by the December 2022 evaluation are set out in the table below.

Main conclusions	Key actions for focus
<b>General feedback</b> <ul style="list-style-type: none"> <li>Broad satisfaction with the composition, expertise and performance of the Board and content of its meetings</li> <li>Diversity, inclusivity and openness of the Board are strengths</li> <li>Performance of the Committees was felt to be strong and led well by the respective Chairs</li> </ul>	<ul style="list-style-type: none"> <li>Continue to encourage culture of open discussion amongst Board members and with Executive Committee members</li> <li>There remain opportunities for improvement in the interactions between management and Board members</li> </ul>
<b>Board composition</b> <ul style="list-style-type: none"> <li>Board members feel well integrated into the Board and company</li> <li>Strong focus on succession planning, particularly over the short to mid term</li> <li>Transition in Board composition will require continued focus on key areas of expertise and experience</li> </ul>	<ul style="list-style-type: none"> <li>Continue focus on Board and management succession planning and on ensuring pipeline of high-quality, diverse talent</li> <li>Identify key areas for additional expertise and focus recruitment and talent pipeline on these areas in particular</li> </ul>
<b>Strategic focus</b> <ul style="list-style-type: none"> <li>Continued focus on medium and longer-term issues, including tracking of key strategic decisions and investments</li> <li>Regular discussions of culture and values are welcomed</li> <li>Continued focus on 'Society 2030: Spirit of Progress' programme including approach to reporting in light of changing regulatory environment</li> <li>Opportunities to enhance strategic focus of Board discussions, including in respect of emerging trends over the medium and long term</li> <li>The workforce engagement process has been effective and beneficial</li> </ul>	<ul style="list-style-type: none"> <li>Increase focus on key strategic matters, emerging trends and medium to long-term issues, ensuring appropriate allocation of time and resources</li> <li>Schedule post-completion reviews of key strategic decisions</li> <li>Identify alternative ways of reporting progress in relation to ongoing initiatives and projects</li> </ul>
<b>Company secretarial support</b> <ul style="list-style-type: none"> <li>Broad recognition of an effective Company Secretarial function and the support provided to the Board</li> <li>Re-design of the Board induction process has been very positive</li> <li>Pre-read materials have improved significantly; however, there is a desire for even greater focus on key issues</li> </ul>	<ul style="list-style-type: none"> <li>Continue to find opportunities for Board to engage with workforce in different geographies and to visit production facilities, sites and offices</li> <li>Continue to develop and enhance induction process for new Directors</li> <li>Continue focus on ensuring high-quality pre-read materials, action closure and time allocation</li> </ul>

## Workforce Engagement statement

At Diageo, creating an inclusive culture and an environment where people can openly share their views and feel listened to is key to sustaining high levels of engagement and remaining a great place to work.

To help us understand colleagues' experience at Diageo, we listen to their views using formal and informal channels. Diageo's Workforce Engagement programme is an important way for the Board to gather employee insights and feedback on key topics, including culture, strategy and ways of working. It is also a valued opportunity for teams to have direct access to members of the Board.

Diageo's Chairman has acted as Non-Executive Director designated to workforce engagement over the past four years. In fiscal 23, together with all Non-Executive Directors, twelve sessions were held with 948 colleagues across all regions, functions and organisational levels.

Sessions have been highly engaging, with the Chairman and Non-Executive Directors valuing open conversations. These have highlighted many positive aspects of Diageo's culture, as well as areas of opportunity.

The themes emerging from these workforce engagement discussions are:

- Colleagues shared their pride in working for Diageo and attributed this to the company's advantaged culture, which connects them with Diageo's purpose and brands, as well as the quality of leadership and management's focus on performance.
- Diageo's ongoing commitment to 'Society 2030: Spirit of Progress' targets, including a leading approach to inclusion and diversity, as well as an embedded approach to doing business in the right way were positive highlights in the discussions.
- The calibre of talent across the business is seen as a strength and colleagues spoke positively about opportunities for learning and career development.
- Overly complex systems and processes were highlighted as barriers that can at times prevent colleagues from operating in the most efficient way. Improvements are being felt, and colleagues spoke positively of Diageo's commitment to invest further in this area, including Diageo's recently announced five-year investment into global digital transformation.
- Colleagues acknowledged positive shifts that are helping to speed up decisions, such as stronger cross-market collaboration, freedom to test and learn and quicker decision-making.

These themes were also reflected in this year's strong engagement results seen in the global employee survey, Your Voice, where engagement levels grew a further 1% to 84%, and pride in working for Diageo is at an all-time high at 91%.

Insights gathered from workforce engagement sessions held by the Board, alongside broader listening tools such as Your Voice survey, have helped to listen and respond to the perspectives of our employees, as well as identify specific areas to further enhance our employee experience.

In this coming year, Karen Blackett has taken over accountability as the designated Non-Executive Director for workforce engagement. Karen, along with all other Non-Executive Directors, will continue to engage in meaningful conversation with a wide range of colleagues to help shape our culture, policies and ways of working, and ensure these insights help to inform the Board's decision-making.

## Purpose, values and culture

The Board is responsible for establishing Diageo's purpose, values and culture and for monitoring how embedded that culture is within our business. Diageo has a long-established purpose and set of values which resonate strongly with our employees, as indicated by the Board's engagement sessions with Diageo's workforce and our employee surveys. We are very conscious that Diageo must operate with the highest standards of governance, doing business the right way, from grain to glass. This principle is embedded in our Code of Business Conduct and global policies, aligned with our 'Society 2030: Spirit of Progress' goals, and reflected in our ways of working. We are pleased that we have a strong reputation for inclusion and diversity which reflects our values, attracts the best talent and enables our people to succeed. In order to improve our pace, agility and resilience, we continue to look to simplify and streamline our internal processes including through the launch of a significant business process and systems transformation project which is implemented in phases over the next few years, further details of which are set out on page 112.

There are a number of ways in which the Board monitors and assesses culture, including:

### Site visits

Directors are encouraged to visit the group's offices, production facilities and sites in different markets and regions so that they can get a better understanding of the business and interact with employees and the wider workforce. Over the last year, Directors have visited the company's headquarters in London on a number of occasions as well as our offices in New York, meeting and interacting with employees. There have also been visits to our spirits production facilities, scotch brand homes and visitor centres in Scotland and a number of Directors have also travelled or are planning to travel to other locations, including our tequila operations in Mexico. At these locations, Directors get the opportunity to meet and discuss issues with employees, to see how Diageo's safety and sustainability processes work in practice, to talk with local management and workforce and to assess how effectively Diageo's culture is communicated and embedded at all levels. As part of the Board's workforce engagement programme, Non-Executive Directors regularly hold in-person and virtual meetings, townhalls and question and answer sessions with Diageo employees in different locations over the course of the year.

### Employee surveys

The Board receives reports from the Chief HR Officer on the results of the company's global annual 'Your Voice' survey, including levels of employee engagement, employee perceptions of Diageo's purpose and of their line managers (including net promoter scores), and any themes raised. The survey results also give visibility of areas on which management must continue to focus, including continued simplification and process improvement work across the business. Results of this year's 'Your Voice' survey are indicated on pages 40-41.

### SpeakUp allegation reporting

The Business Integrity team provides regular reports to the Audit Committee of allegations of breaches of the Code of Business Conduct and other group policies, including those received through our confidential and independent whistleblowing service SpeakUp. These reports also include analyses of emerging trends, investigation status reports and closure rates, and summaries of actions taken. These reports enable the Directors to gain an understanding of common issues and action planning, as well as providing insights into how embedded Diageo's purpose, values and culture are across its markets and functions.

For more details of the SpeakUp service, see pages 39 and 120.

## Workforce engagement programme

Insights drawn from the Board's annual programme of workforce engagement are used by the Board to monitor and assess the culture of the company, with recommendations being fed back to management regularly with workforce engagement being discussed at Board meeting sessions twice a year. Over the past few years, the engagement programme has expanded to enable all Non-Executive Directors to participate by directly engaging with employees from a variety of regions, functions and levels in the business. From 1 July 2023, the role of Non-Executive Director with responsibility for workforce engagement transitioned from the Chairman to Karen Blackett. For more on workforce engagement, see pages 114.

## 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 consolidated 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 and emerging 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 and emerging risks on pages 88-93.

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 in its report, it has reviewed the effectiveness of the company's systems of internal control and risk management. During the year, the Audit Committee considered the nature and extent of the risks that the Board was willing to take to achieve its strategic goals and reviewed the existing internal statement of risk appetite, which had been updated this year by the Executive Audit & Risk Committee, following which the Audit Committee made a recommendation to the Board which was then approved. The Audit Committee reviews the company's principal risks regularly throughout the year in accordance with a schedule proposed by management with each such risk being reviewed by management in the Audit & Risk Committee prior to it being considered by the Audit Committee. The Board also regularly reviews emerging and disruptive risks as part of its Annual Strategy Conference, held this year in April in New York, from which a number of topics are identified for more detailed review by either the Board or the Audit Committee over the following 12 months. 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 contents of the company's public filings and disclosures, including its consolidated financial statements and non-financial disclosures, is completed by management through the Filings Assurance Committee to ensure that the contents of the company's interim and preliminary results announcements, Annual Report and Form 20-F appropriately reflect the non-financial and financial position and results of the group. Further details of this are set out in the Audit Committee report on pages 117-122.

## Viability statement

In accordance with the Code, the Board has also considered the company's longer-term viability, based on a robust assessment of its principal and emerging risks. This was done through the work of the Audit Committee which recommended the Viability statement to the Board. For further information about how the Board has reviewed the long-term prospects of the group, see page 94.

## Going concern

Management prepared cash flow forecasts which were also sensitised to reflect severe but plausible downside scenarios taking into consideration the group's principal risks. In the base case scenario, management included assumptions for mid-single digit net sales growth, operating margin improvement and global TBA market share growth. In light of the ongoing geopolitical volatility, the base case outlook and severe but plausible downside scenarios incorporated considerations for a prolonged global recession, supply chain disruptions, higher inflation and further geopolitical deterioration. Even under these scenarios, the group's liquidity is still expected to remain strong, as it was protected by issuing €500 million of fixed rate euro and \$2 billion of fixed rate dollar-denominated bonds in the year ended 30 June 2023. Mitigating actions, should they be required, are all within management's control and could include reductions in discretionary spending such as acquisitions and capital expenditure, as well as a temporary suspension of the share buyback programme and dividend payments in the next 12 months, or drawdowns on committed facilities. Having considered the outcome of these assessments, the Directors are comfortable that the company is a going concern for at least 12 months from the date of signing the group's consolidated financial statements.

## 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 £0.83 million during the year (2022 - £0.64 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.

### Directors' responsibilities in respect of the Annual Report, Form 20-F 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 consolidated financial statements in accordance with UK-adopted international accounting standards and the parent 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 consolidated financial statements, the Directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by 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 parent company and of the profit or loss of the group and parent 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 UK-adopted international accounting standards, IFRSs issued by IASB have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework' and applicable law have been followed for the parent 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 safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' confirmations

The Directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and parent company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed on pages 101 and 103 confirm that, to the best of their knowledge:

- the group consolidated financial statements, which have been prepared in accordance with UK-adopted international accounting standards, IFRSs issued by IASB, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the parent company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework' and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the parent company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that it faces.

In accordance with section 418 of the Companies Act 2006, each of the Directors who held office at the date of the approval of the Directors' report confirm that, so far as the Director is aware, there is no relevant audit information of which the group's and parent company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the group's and parent company's auditors are aware of that information.

The responsibility statement was approved by a duly appointed and authorised committee of the Board of Directors on 31 July 2023.

## Ensuring integrity across the business



### Dear Shareholder

On behalf of the Audit Committee, I am delighted to present the Committee's report for the year ended 30 June 2023.

The Audit Committee has discharged its responsibilities over the year by providing effective independent oversight, with the support of management and the external auditors. The Committee has carried out its role of monitoring and reviewing the integrity of the company's financial statements and reporting, its internal control and risk management processes, its audit and risk activities, business conduct and integrity, whistleblowing and breach allegation investigations, and the appointment and performance of the external auditor. Regular reports on internal audit findings, business integrity and controls assurance work, breach allegation and investigation processes were given to and reviewed by the Committee. The Committee has also reviewed the company's principal and emerging risks, its approach to risk appetite and mitigations and has reviewed deep dives into key areas of potential risk including supply chain disruption, pension funding, cyber security and IT resilience, climate change, counterfeit and product quality, pandemics and business interruption, business ethics and integrity, and international taxation.

The Committee has also supervised progress in relation to a business transformation project which the company has commenced this year and which, once implemented, will enhance the company's internal reporting, systems and data management capabilities. Further details of this project are set out on page 112.

Over the past few years, we have been closely following proposed regulatory and reporting changes, including changes to the UK corporate governance and audit regimes, implications of future EU reporting requirements with regard to corporate sustainability and supply chain due diligence, and developments in US disclosure requirements including in relation to climate change. This year the Committee has supervised how the company is responding to and preparing for these changes, in particular focussing on its approach as to the development of internal processes and capabilities for the validation and assurance of externally reported information in anticipation of drafting an audit and assurance policy. The company has also taken further steps this year to integrate its financial and non-financial disclosure processes to improve consistency and robustness in reporting with oversight by the Committee. We have also commenced an audit services tender process during fiscal 23 which we expect to complete before the end of the current year.

The performance of the Audit Committee was again evaluated this year and I am pleased to note that feedback from Directors indicated very strong satisfaction with the Committee's performance.

The Committee remains committed to continuing to discharge its duties effectively and diligently during fiscal 24.

Alan Stewart  
Chairman of the Audit Committee

### Role and composition of the Audit Committee

The role of the Audit Committee is fully described in its terms of reference, which are available at <https://www.diageo.com/en/our-business/corporate-governance>. The members of the Audit Committee are independent Non-Executive Directors being Alan Stewart (Committee Chairman), Melissa Bethell, Karen Blackett, Susan Kilsby, Valérie Chapoulard-Floquet, Sir John Manzoni, Lady Mendelsohn and Ireena Vittal. The Chairman of the Board, the Chief Financial Officer, the General Counsel & Company Secretary, the Group Controller, the Head of Global Audit & Risk (GAR), the Chief Business Integrity Officer, the General Counsel Corporate, the Group 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 and the Head of GAR regularly during the year. During the course of the year, the Committee met five times and its duly appointed subcommittee met once. Details of attendance of all Board and Committee meetings by Directors are set out on page 99.

### Reporting and financial statements

During the year, the Audit Committee reviewed the interim results announcement, including the interim financial statements, the Annual Report and associated preliminary results announcement and Form 20-F, focussing on key areas of judgement and complexity, critical accounting policies, disclosures (including those relating to contingent liabilities, climate change and principal risks), viability and going concern assessments, provisioning and any changes required in these areas or policies. The Audit Committee has also focussed in particular on the company's approach to assurance and internal approvals processes. The company has again looked to develop its non-financial reporting in a manner that enhances consistency with the financial reporting and throughout the Strategic Report, including in relation to compliance with the recommendations of the Task Force on Climate-related Financial Disclosures.

This year the Committee has also had oversight of management's transformation project to improve Diageo's internal processes and upgrading its financial systems and technology, with a particular focus on its impact on the company's controls and reporting capabilities. The impact of the change in the company's functional and presentation currency, which took effect in July 2023, was also considered by the Committee. Further details of this project are set out on page 112.

The company has in place internal control and risk management systems in relation to the company's financial and non-financial reporting process including the group's process for the preparation of consolidated financial statements. A review of the consolidated financial statements and the draft Annual Report 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 and non-financial information and disclosures, the effectiveness of internal controls relating to financial and non-financial reporting and disclosures, legal and compliance issues and determining whether the company's disclosures are accurate and adequate. The FAC comprises senior executives such as the Chief Executive, the Chief Financial Officer, the General Counsel & Company Secretary, the General Counsel Corporate & Deputy Company Secretary, the Group Controller, the Group Chief Accountant, the Head of Investor Relations, the Head of GAR and the Chief Business Integrity Officer. The company's external auditor also attends meetings of the FAC. 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.

Diageo has carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive and Chief Financial Officer, of the effectiveness of the design and operation of Diageo's disclosure controls and procedures (as defined in the US Securities Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Annual Report. Based upon that evaluation, Diageo's Chief Executive and Chief Financial Officer concluded that, as of 30 June 2023, Diageo's disclosure controls and procedures were effective.

As part of its review of the company's Annual Report and associated disclosures, the Audit Committee has considered whether the report is 'fair, balanced and understandable' and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy, as required by Principle N of the Code. In doing so, the Committee has noted the guidance issued by the FRC on this subject as well as best practice recommendations from external advisors. The Committee has considered factors such as whether the report includes descriptions of the business model, strategy and principal risks which are sufficiently clear and detailed to enable users to understand their importance to the company, whether the report is consistent throughout with the narrative reflecting the financial statements and understanding of directors during the year, that information is presented fairly, without omission of material information and not in a manner which might mislead users.

The Committee has also considered the presentation of GAAP and non-GAAP measures to ensure appropriate prominence is given to GAAP measures and that non-GAAP measures are presented consistently and can be clearly reconciled. The Audit Committee has also considered the governance and processes undertaken by management in drafting, developing and reviewing the contents of the Annual Report, which have been designed to ensure the robustness and adequacy of the information contained in it, including review by and input from senior executives, the company's advisors and through the work of the FAC. On this basis, the Audit Committee recommended to the Board that it could make the required statement that the Annual Report is 'fair, balanced and understandable'.

### FRC correspondence

The Committee reviewed a letter to the company from the FRC following their review of the company's interim results announcement for the six months ended 31 December 2022. The Committee was pleased to note that the FRC had no questions or queries to raise following their review, although their letter did include some matters which the FRC believed could be improved for the benefit to users. In its reply to the FRC, the company noted those comments and confirmed that they would be taken into consideration in future reporting. The Committee notes that the FRC's review does not provide assurance that the interim results were correct in all material respects as the FRC's role is not to verify information but to consider compliance with reporting requirements.

### 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. Richard Oldfield became the lead audit partner for the year ended 30 June 2021, following the rotation of the previous partner, and has been the lead audit partner during the year ended 30 June 2023. After three years in role, Richard is stepping down as the lead audit partner at PwC on the conclusion of the audit for the year ended 30 June 2023. We thank Richard for his conduct of the audit during his tenure. Richard will be replaced by Scott Berryman. The selection process for the new lead audit partner was designed to identify the best qualified partner for the role, to ensure audit quality. A shortlist of candidates was identified and interviewed by the Chairman of the Audit Committee and the Chief Financial Officer. The final selection was based on feedback from those interviews as well as an assessment of the candidates' experience and expertise. We look forward to working with Scott, who has extensive knowledge of UK and US reporting requirements, and who we believe will continue to ensure the quality of the audit.

As the company is required to have a mandatory audit tender after 10 years, management has initiated an audit services tender process which is expected to complete during the year ending 30 June 2024. The Audit Committee considers that it is appropriate to initiate such a process at this time in order to prepare for an adequate transition during 2025 in the event that a new audit firm is selected. 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 2023.

### External auditor effectiveness and quality

The Audit Committee assesses the ongoing effectiveness and quality of the external auditor and audit process through a number of methods, commencing with identification of appropriate risks by the external auditor as part of its detailed audit plan presented to the Audit Committee at the start of the audit cycle. These risks were reviewed by the Committee and the work performed by the auditor was used to test management's assumptions and estimates relating to such risks. The effectiveness of the audit process in addressing these matters was assessed through reports presented by the auditor to the Audit Committee which were discussed by the Committee at both the half-year, in January, and year-end, in July. Following completion of the audit process, feedback on its effectiveness was provided through review meetings with the company's finance team and management and completion of questionnaires, in advance of management and the auditor providing assessments of auditor effectiveness and quality to the Audit Committee for consideration at its meeting in December. This year the questionnaire was updated to ensure more focus on the extent to which the auditor had challenged management. The auditor assessment is undertaken based on guidance issued to audit committees by the FRC in April 2016 and draft Minimum Standards for Audit Committees published by the FRC in November 2022, and includes consideration of the findings of the FRC's Audit Quality Review team which published its report on PwC in July 2022, periodic regulatory review carried out by the PCAOB and the Quality Assurance Department of the Institute of Chartered Accountants in England and Wales, as well as benchmarking of the auditor as against its peers. In this year's assessment, the overall satisfaction with PwC's performance was rated as solid, remaining broadly flat as compared to the prior year. Decreases from the prior year resulted from two issues, being the audit process in relation to hyperinflation in Turkey and the audit of certain UK subsidiaries. Consistent strong feedback was provided as to auditor independence, quality control processes, professional expertise, business knowledge and quality communication between auditors and management, which was consistent with the prior year's assessment. Areas where continued focus was required included timely review and feedback on audit matters, better alignment in internal communication, resource continuity and use, pro-activity in driving efficiencies, provision of best practice examples of processes and controls, and transparency on audit activities throughout the year. It was concluded that the relationship between the auditor and management was strong and open, with open and clear communications on areas and views which are considered significant. During the external audit, the auditor challenged management on its approach taken as to impairment testing, including in relation to the impact of business projects across a number of markets and economic conditions in India and Turkey, and other judgemental matters such as pension valuations and tax assessments. The auditor also challenged management while preparing the Annual Report in relation to whether disclosures as to the impact of certain risks in the financial statements were sufficiently consistent with and linked to the risks and disclosures set out in the Strategic Report and whether there was sufficient balance in the Strategic Report. These challenges were assessed by the Audit Committee which sought additional evidence from management in support of their assessments, including requesting that independent legal opinions were provided as to certain tax positions.

### External auditor independence

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 2023. When last reviewed, minor changes were agreed to be made to the policy's contents, reflecting the change in functional currency of the company and certain other administrative changes. Under the auditor independence policy, 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 and US Public Company Accounting Oversight Board rules. These services are set out in full in the policy and are generally those which the external auditor is best placed to provide, which may include reporting required by law or regulation to be performed by the auditor and services where the services are closely linked to audit work and where the auditor's understanding of the group is relevant to the services. 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 (being the Chairman of the Audit Committee) based on a defined scope of pre-approved services. The policy explicitly specifies the auditor independence review and approval mechanism process by the Committee for permissible engagements above the specified threshold of £100,000. 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. During the year, no non-assurance related services were provided by the external auditor to the company, its subsidiaries or any related entity other than personal tax services provided to two Non-Executive Directors and the provision of services in connection with the issuance of senior notes by a group company.

### 'Financial expert', recent and relevant financial experience

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. 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. See pages 101 and 103 for details of relevant experience of Directors.

### Internal audit, controls assurance and risk

The company's internal GAR team undertakes an annual audit and risk plan by delivering a series of internal assurance and audit assignments across a variety of markets, processes, business units and functions. On the conclusion of each assignment, GAR issues a report on its findings which may also include an overall rating as to the status of the market, process or function being audited, detailed reasons for the rating and actions to be taken within a specific timetable. The Audit Committee receives regular reports from the Head of GAR on the latest reports issued.

This year GAR has undertaken a number of audits of the group's end-to-end processes and procedures in addition to market and functional audits. The Audit Committee assesses the effectiveness of GAR by reviewing its annual audit plan at the start of the financial year, monitoring its ongoing quality throughout the year, and assessing completion rates and feedback provided following completion of the annual audit plan. Having carried out this assessment, the Audit Committee is of the view that the quality, experience and expertise of GAR is appropriate for the business. The company operates a global controls assurance programme for controls in each market and function, which monitors compliance with and effective operation of the company's controls framework. The Audit Committee receives regular reports on the status of the controls assurance plan, actions taken to enhance controls design and effectiveness, awareness training provided to employees, testing results and trends analysis derived from the company's integrated risk management system. The Committee also reviewed and approved changes to the principal risk descriptions and risk footprint, as well as receiving regular presentations and reviews of the status of its principal and emerging risks. This year, these reviews have covered areas including cyber security and IT resilience, climate change, counterfeit and product quality, pandemics and business interruption, business ethics and integrity, and international taxation.

**Business Integrity programmes**

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 employees are expected to act in accordance with our values, the Code of Business Conduct and in compliance with applicable laws and regulations. The Audit Committee monitors compliance with the company's ethical standards through the Business Integrity framework, which helps enhance and protect all aspects of the company's business. Regular reports are provided to the Audit Committee by the Chief Business Integrity Officer on progress in providing guidance, training and tools for all levels in the business, completion rates for training modules, launch and rollout of new programmes or policies, monitoring use of whistleblowing mechanisms and investigating allegations of breaches.

Our Code of Business Conduct, available in 20 languages, sets out what Diageo stands for as a company and how Diageo operates, enabling all employees to understand what is required of them in working for Diageo. Annual training on the Code of Business Conduct and associated policies is mandatory for all managers and their direct

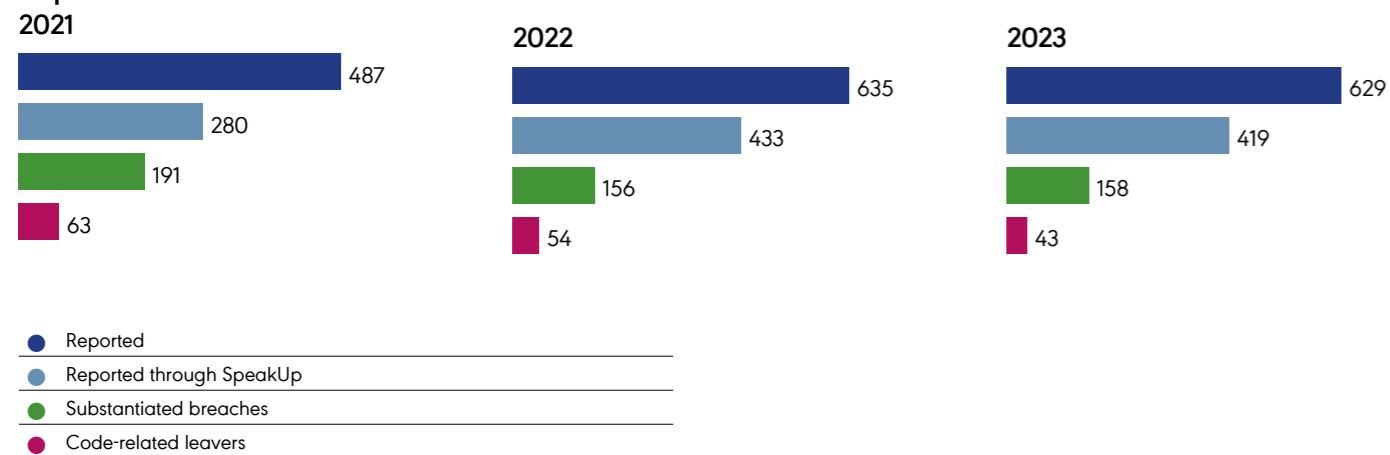
reports globally, encompassing over 21,000 eligible employees during the year ended 30 June 2023. Training is delivered in an easily accessible e-learning format, with classroom training delivered to those employees who do not have regular access to a computer. The Code of Business Conduct and other global policies are available at <https://www.diageo.com/en/our-business/corporate-governance>.

Third-party risk is also managed through our Know Your Business Partner programme, which is designed to help the company evaluate the risk of doing business with a third-party before entering and during a contractual relationship. Business partners are assessed for potential risks including economic sanctions, bribery and corruption, money laundering, facilitation of tax evasion, data privacy and other reputational issues.

Employees and third-party business partners are encouraged to raise concerns about potential breaches of the Code of Business Conduct or policies, either to line managers, legal or HR colleagues, risk, compliance and Business Integrity teams, or to SpeakUp, a confidential whistleblowing mechanism. SpeakUp is a global service administered by an independent provider, accessible online or by telephone. Where legally permitted, it can be used anonymously and reports kept confidential. Allegations are investigated by independent Diageo teams, with progress being monitored by the Business Integrity team. When allegations are substantiated, appropriate disciplinary and corrective actions are taken. The Audit Committee receives and reviews regular reports on allegations, including trends information, root cause analysis and investigation closure rates. Since all of Diageo's Non-Executive Directors attend the Audit Committee, all Non-Executive Directors who make up the Board routinely review the findings of the company's whistleblowing processes in accordance with the UK Corporate Governance Code.

During the year ended 30 June 2023, 629 allegations of breaches were reported which was broadly consistent with the prior year. The substantiation rate of allegations has also remained broadly consistent compared to last year, with 32% of cases confirmed as breaches (versus 30% in fiscal 22). As of the end of fiscal 23, 43 people exited the business as a result of breaches of our Code of Business Conduct or policies (fiscal 22: 54 people). This is due to a reduction in severity and type of breaches this year. The number of leavers for fiscal 22 has been restated due to a number of open cases from fiscal 22 being concluded this year. At the end of fiscal 23, we had 137 open cases, which may lead to more people exiting the business. See below a summary of reported and substantiated breaches over the past three years.

**Reported and substantiated breaches**



**Senior financial officers' code of ethics and dealing code**

In accordance with the requirements of SOX and related SEC rules, Diageo has adopted a code of ethics covering its Chief Executive, Chief Financial Officer, and other senior financial officers. During the year, no waivers were granted in respect of, this code of ethics. The full text of the code of ethics is available at <https://www.diageo.com/en/our-business/corporate-governance/compliance>. Both the Audit & Risk Committee and the Audit Committee regularly review the strategy and operation of the Business Integrity programme through the year.

The company has also adopted a dealing code setting out requirements in relation to dealings in Diageo securities by Directors, Executive Committee members and certain other employees, which is designed to ensure compliance with applicable insider trading and market abuse regulations, in particular the UK Market Abuse Regulation.

**Audit and Assurance Policy**

During the year management has reviewed its approach to assurance in preparation for drafting and adopting an audit and assurance policy, consistent with the reporting requirements set out in draft legislation proposed by the UK Department for Business and Trade in July 2023. The Committee has reviewed and discussed the principles on which such policy will be based and will continue to monitor management's development of the policy.

**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. As summarised on page 118, prior to interim reporting and preliminary reporting each year, the Filings Assurance Committee examines the company's financial information and processes, the effectiveness of its controls in respect of financial reporting, and the contents of its 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 2023, 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. The same independent registered public accounting firm which audits 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 the integrated audit report which is included in the company's Form 20-F to be filed with the SEC.

**Committee activities**

Details of the main areas of focus of the Audit Committee during the year include those summarised below:

Areas of focus		Strategic priority	Strategic outcome
<b>Corporate reporting</b>	<ul style="list-style-type: none"> <li>Half and full year external reporting updates</li> <li>Interim and preliminary results review and approval</li> <li>Annual Report and consolidated financial statements, Form 20-F review and approval</li> <li>Implications of group functional and presentation currency change on reporting</li> </ul>	1 6	EG CVC CT
<b>Internal controls</b>	<ul style="list-style-type: none"> <li>GAR updates</li> <li>Business Integrity updates including breach and reporting update</li> <li>Controls testing update and Section 404 assessment</li> <li>Implications on controls environment of systems and process changes</li> </ul>	1	CT
<b>External audit and assurance</b>	<ul style="list-style-type: none"> <li>Report on external audit at half and full year periods</li> <li>Insights and observations on reporting review</li> <li>Auditor independence and non-audit work reviews</li> <li>Auditor independence policy review</li> <li>Review of management representation letters</li> <li>Appointment of auditor and review of terms of engagement and fees</li> <li>Auditor performance and effectiveness review and assessment</li> <li>Commencement of auditor tender process</li> <li>Audit regime reform and approach to assurance, preparatory to drafting an audit and assurance policy</li> </ul>	1	CT
<b>Risk management</b>	<ul style="list-style-type: none"> <li>Principal and emerging risk reviews and tracking</li> <li>Risk updates, including group risk footprint and risk appetite review and approvals</li> <li>Supply chain disruption, counterfeit, product quality, climate change and sustainability, energy, pandemics and business interruption, cyber and IT resilience, pension funding, business transformation and tax risk reviews</li> </ul>	1 6	EG CVC CT

**Key**

**Strategic priorities**

- 1 Sustain quality growth
- 2 Embed everyday efficiency
- 3 Invest smartly
- 4 Promote positive drinking
- 5 Champion inclusion and diversity
- 6 Pioneer grain-to-glass sustainability

**Strategic outcomes**

- EG Efficient growth
- CVC Consistent value creation
- CT Credibility and trust
- EP Engaged people

Significant issues and judgements

Significant issues and judgements that were considered in respect of the 2023 financial statements are set out below. Our consideration of issues included discussion of the key audit matters as outlined in the appendix to the independent auditors' report.

Matter considered	How the Audit Committee addressed the matter
The nature and size of any one-off items impacting the quality of the earnings and cash flows.	The Audit Committee assessed whether the related presentation and disclosure of those items in the financial statements were appropriate based on management's analysis, and concluded that they were.
Items that were to be presented as exceptional. Refer to note 4 of the Financial Statements.	The Audit Committee assessed whether the reporting of those items as exceptional, was in line with the group's accounting policy, and that sufficient disclosure was provided in the financial statements, and concluded that they were.
Whether the carrying value of assets, in particular intangible assets, was supportable. Refer to notes 6, 9, 10 and 13 of the Financial Statements.	The Audit Committee reviewed the methodology applied in conducting impairment assessments and result of management's impairment assessments that were performed during the year. The Committee was provided with information about the carrying amounts and the key assumptions incorporated in management's estimate of discounted cash flows of significant assets that are sensitive to key assumptions. The Committee reviewed the key assumptions used in the impairment testing, including management's cash flow forecasts, growth rates and the discount rate used in value in use calculations and agreed they were appropriate. The Committee agreed with management's judgements and conclusions, whereby McDowell's, some smaller other brands and investments in associates and certain fixed assets have been impaired by £549 million in the year ended 30 June 2023, out of which £520 million was reported as exceptional operating charge. The Committee agreed that the recoverable amount of the company's other assets was in excess of their carrying value and that appropriate disclosure was provided with respect to assets impaired, and whose value is more sensitive to changes in assumptions.
The group's more significant tax exposures and the appropriateness of any related provisions and financial statement disclosures. Refer to page 91 of 'Our principal risks and risk management' and note 7 of the Financial Statements.	The Audit Committee agreed that disclosure of tax risk appropriately addresses the significant change in the international tax environment, and that appropriate provisions and other disclosure with respect to uncertain tax positions were reflected in the financial statements.
The appropriateness of the valuation of post employment liabilities, and the recognition of any surplus. Refer to note 14 of the Financial Statements.	The measurement of post employment liabilities is sensitive to changes in long-term interest rates, inflation and mortality assumptions. Having reviewed management's papers setting out key changes to actuarial assumptions, the Audit Committee agreed that the assumptions used in the valuation are appropriate. The Committee reviewed management's assessment of the economic benefit available as a refund of the surplus or as a reduction of contribution and the key judgements made in respect of the surplus restriction and concluded that those judgements were appropriate. The Committee reviewed and concluded that sufficient disclosures were provided in the financial statements.
Significant legal matters impacting the group. Refer to note 19 of the Financial Statements.	The Committee agreed that adequate provision and/or disclosure have been made for all material litigation and disputes, based on the current most likely outcomes, including the litigation summarised in note 19 of the Financial Statements.
Accounting for business combinations. Refer to note 8 of the Financial Statements.	Diageo acquired Kanlaon Limited and Chat Noir Co. Inc. on 10 March 2023 and completed a number of other smaller acquisitions during the year ended 30 June 2023, for an aggregate consideration of £397 million. As at the completion date of these acquisitions, Diageo performed valuations of the identifiable assets and liabilities and the resulting goodwill. The purchase price allocation exercises are subject to management's judgement and estimates, including forecast cash flows, buyer specific synergies and the applicable discount rates used in valuations. The Committee reviewed management's purchase price allocations and the disclosures provided in the Financial Statements and concluded they were appropriate.
Functional currency of Diageo plc and presentation currency of Diageo group.	The Audit Committee agreed that in line with reporting requirements the functional currency of Diageo plc has changed from sterling to US dollar which is applied prospectively from fiscal 24. This is because the group's share of net sales and expenses in the US and other countries whose currencies correlate closely with the US dollar has been increasing over the years, and that trend is expected to continue in line with the group's strategic focus. Diageo has also decided to change its presentation currency to US dollar with effect from 1 July 2023, applied retrospectively, as it believes that this change will provide better alignment of the reporting of performance with its business exposures.
Whether the Annual Report is fair, balanced and understandable.	The Audit Committee concluded that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy and that there is an appropriate balance between statutory (GAAP) and adjusted (non-GAAP) measures ensuring equal prominence.
The impact of climate change on the group's financial reporting and financial statements. Refer to pages 71-87 of 'Pioneer grain-to-glass sustainability' and note 1 and note 9 of the Financial Statements.	The Audit Committee agreed that the disclosures on pages 71-87 made in response to the recommendations of the Task Force on Climate-related Financial Disclosures are appropriate and that the assumptions used in the financial statements are consistent with these disclosures.

# Championing our talent strategy



**Dear Shareholder**  
I am pleased to provide the report of the Nomination Committee for the year ended 30 June 2023.

A key responsibility for the Committee is to ensure adequate succession planning for Board appointments, maintenance of a pipeline of strong candidates for potential nomination as directors, and supervising transitions for new appointments. During this year, the Committee had oversight of the transition of Chief Executives with Debra Crew succeeding Sir Ivan Menezes after ten years of dedicated leadership of the company. This transition was well underway when Ivan sadly passed away following a brief illness, with Debra taking over earlier than expected.

We welcome Debra back to the Board and congratulate her on her appointment. The Committee was unanimous in deciding that Debra is the right person to lead Diageo into the next phase of growth, with her deep understanding of the company and its stakeholders coupled with her broad experience in other consumer goods industries.

This year the Committee also managed the 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 January 2023, are set out on page 113.

The Committee has also been involved in reviewing talent planning and succession of Executive Committee membership, with two changes being implemented or approved during the year. Claudia Schubert was appointed as President, North America in October 2022 and Soraya Benchikh assumed the role of President, Europe in January 2023. I congratulate Claudia and Soraya on their appointments and look forward to working with them.

**Javier Ferrán**  
Chairman of the Nomination Committee

**Role and composition 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. 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>.

The Nomination Committee comprises Javier Ferrán (Committee Chairman), Melissa Bethell, Karen Blackett, Susan Kilsby, Valérie Chapoulard-Floquet, Sir John Manzoni, Lady Mendelsohn, Alan Stewart and Ireena Vittal.

**Recruitment and election procedures**

The recruitment process for Non-Executive Directors includes the development of a candidate profile and the engagement of a professional search agency specialising in the recruitment of high-calibre candidates. We have engaged executive search companies Egon Zehnder and Russell Reynolds Associates (neither of which have a connection with the company other than acting as an executive search agency) to assist with our current recruitment and pipelining requirements.

In the case of Executive Director or Executive Committee appointments, an executive leadership assessment may be 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, including on sustainability and societal matters, their ability to devote sufficient time to the company and whether their appointment would contribute towards the Board's diversity objectives which are set out in the Board Diversity Policy. This policy, which applies to the Board and its Committees, reflects the Board's belief that it is critical that Board membership includes a diverse range of skills, professional and industry backgrounds, geographical experience and expertise, gender, tenure, ethnicity and diversity of thought.

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. The company's policy is for all Directors to attend the AGM, either physically or by video conference as permitted by the company's Articles of Association. Details of attendance of all Board and Committee meetings by Directors are set out on page 99.

**External appointments**

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. As a general principle, the Committee takes the view that Non-Executive Directors should have no more than four, and Executive Directors no more than one, listed mandates in addition to their role as a director of the company. 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. The Board has concluded that each Non-Executive Director has sufficient time to discharge their duties as a director of the company, taking into consideration their external appointments and commitments.

**CEO succession**

It is the role of the Nomination Committee to have oversight of the company's senior leadership development and succession plans, ensuring that the company has a pipeline of high-quality candidates for senior roles which is aligned with the company's long-term strategic ambitions and diverse leadership requirements. In March 2023, it was announced that, after ten years in role, Sir Ivan Menezes would retire as Chief Executive and step down from the Board on 30 June 2023 and that Debra Crew, then Chief Operating Officer, would take over as Chief Executive effective 1 July 2023. Sir Ivan, who was one of the UK's longest serving FTSE 100 chief executives, had led the company through an outstanding period of change, growth and performance.

As succession planning is an ongoing process, the Nomination Committee had an established process for identifying the most suitable person for the role of Chief Executive including a shortlist of potential successors which was kept under review in anticipation of a transition. As part of this process, the Nomination Committee conducted a review of potential candidates including a number of internal candidates on the company's internal succession plan as well as external candidates. The review included candidates who had different backgrounds and experience, and included diverse candidates. Following this review, the Nomination Committee made a recommendation to the Board that Debra Crew was the most suitable successor to Sir Ivan, having been a highly valued member of the Executive Committee with an impressive track record at both Diageo and other global consumer goods companies. Acting on the recommendation of the Nomination Committee, the Board approved her appointment and announced the transition on 28 March 2023. With the sad passing of Sir Ivan in early June 2023 after a brief illness, Debra's appointment as Chief Executive and Executive Director took effect earlier than expected, on 8 June 2023.

Set out below are the principal steps taken in relation to the announcement of the appointment of a new Chief Executive on 28 March 2023:

Prior to fiscal 21 and ongoing thereafter:

- A preliminary assessment of potential internal candidates and their development plans was reviewed, as part of annual talent and succession review with the Board.

During fiscal 21:

- An updated role specification for the Chief Executive was prepared, reviewed and approved by the Nomination Committee. Amongst other things, this set out the requirements for the role with regards to leadership capabilities, personal characteristics and key experiences, within the context of the performance and culture needed in Diageo.

- The Nomination Committee reviewed the results of an external talent benchmarking exercise conducted by an executive search firm, alongside continued assessment of the development of candidates on Diageo's internal succession plan.

Commencing during fiscal 21 and subject to ongoing review thereafter:

- A focussed longlist of external candidates was reviewed by the Nomination Committee, together with internal candidates.
- Internal candidates were invited to take part in a formal assessment process overseen by the Chairman supported by the Chief HR Officer.
- A panel of Nomination Committee members met shortlisted candidates for formal panel interviews with the Chairman and the Non-Executive Directors.
- Development plans were drawn up for internal candidates to enable the Nomination Committee to review progress on a periodic basis.

During fiscal 22:

- Periodic regular review of the development progress of internal candidates was undertaken by the Nomination Committee.
- The role specification was kept under ongoing review to ensure it reflected developments in Diageo's business context and any emerging requirements.

During fiscal 23:

- Proposed remuneration arrangements for the incoming and outgoing Chief Executives were reviewed and approved by the Remuneration Committee.
- The Nomination Committee recommended that the Board approve the appointment of Debra Crew as Diageo's next Chief Executive. The Remuneration Committee approved remuneration arrangements for the appointment of Debra Crew and the retirement of Sir Ivan Menezes.
- The Board unanimously approved the appointment and a regulatory announcement was released on 28 March 2023.

**Activities of the Nomination Committee**

The principal activities of the Nomination Committee during the year were:

- the consideration, selection and recommendation as to the appointment of and transition plan for a new Chief Executive;
- the consideration of the talent pipeline for potential new Non-Executive Directors and other appointments to the Board;
- the design and conduct of the annual review of Board, Committee and individual Director effectiveness and performance and a review of the findings of the review and recommended actions;
- consideration and approval of the report of the Committee in the company's Annual Report and consolidated financial statements for the year ended 30 June 2023;
- 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. Feedback indicated that the Committee was effective and that Directors were satisfied with its performance, that it had managed the Chief Executive succession during the year well and that its processes were robust, transparent and effective. Further details of the evaluation can be found on page 113.

**Induction and training**

Our customary induction processes for newly appointed Directors includes individual meetings with Executive Committee members and other senior executives, visits to the company's production facilities and offices including the company's head office in London and the group's spirits production facilities, scotch brand homes, visitor centres and archives in Scotland.

Induction programmes for new Directors are 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. These induction processes supplement existing practices whereby a continuing understanding of the business is developed through appropriate business engagements for Non-Executive Directors such as 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 with 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.

**Diversity**

The Board has a longstanding commitment to prioritise diversity and supports the recommendations of the FTSE Women Leaders Review (previously 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 2023, the percentage of women on the Executive Committee and their direct reports is 43%.

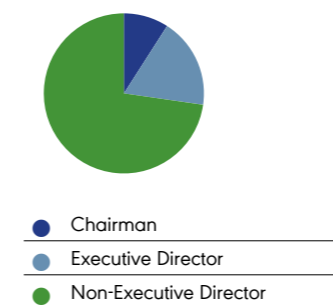
**Board and Executive Committee reporting on gender identity or sex**

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	3	27.3 %	1	7	50.0 %
Women	8	72.7 %	3	7	50.0 %
Not specified/prefer not to say	–	–	–	–	–

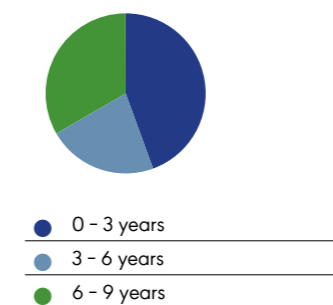
**Board and Executive Committee reporting on ethnic background**

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	7	63.6 %	3	8	57.1 %
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	3	27.3 %	1	3	21.4 %
Black/African/Caribbean/Black British	1	9.1 %	–	1	7.2 %
Other ethnic group, including Arab	–	–	–	2	14.3 %
Not specified/prefer not to say	–	–	–	–	–

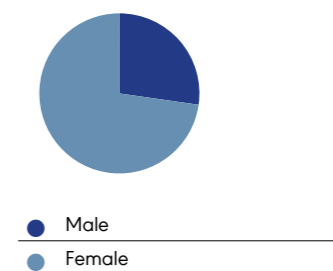
**Board composition**



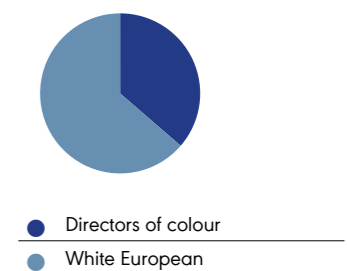
**Non-Executive Director tenure**



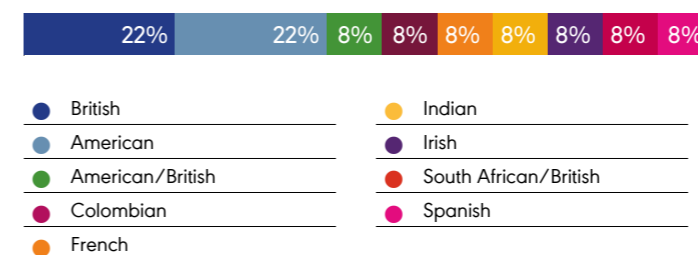
**Board gender diversity**



**Board ethnic diversity**



**Executive committee nationality**



**Board diversity data**

- Directors are defined as all Non-Executive and Executive Directors appointed to the Board. Board diversity related data are collated directly from each Director annually using a questionnaire and are given on a self-identifying basis.
- 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 Board diversity data above are given as at 30 June 2023.