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Dear Mr Hodge

Review of the effectiveness of The Combined Code (the "Code")

Thank you for the opportunity to comment on the Code; I hope you find our views helpful.

We have essentially considered the review from two points of view. Firstly, whether, since the last review, there has been anything that has become evident to us from the running of our Board or from feedback from investors, that suggests the Code and its related guidance (the "Code") is not functioning as it should. Secondly, in light of the current economic downturn, whether there is any way in which the Code could be amended which would prevent a recurrence of any of the things that have caused and contributed to the downturn.

1. With regard to the first of these, from our perspective, we believe that the Code is functioning reasonably well and is serving the purpose for which it was created. We believe it still continues to set the standard for corporate governance and, whilst we support evolutionary changes to the Code, we would be concerned that changes were made to it for political expediency. Other thoughts that we would note in this connection are as follows.

    - There are no specific parts of Code that are not working and nothing that is not being addressed.

    - We support the 'comply and explain' principle and, although we believe that the expectation is usually on comply rather than explain, believe that it is working satisfactorily, as are the provisions on internal control and risk analysis.

    - We have no evidence that the remuneration of Diageo's executives incentivises them to take inappropriate risks. Indeed, there is evidence that Diageo's management continue to put the Company's long term interests ahead of all other considerations.

    - Since high level corporate failures earlier in the decade (Enron etc), the attention devoted by our CFO and internal audit function to protecting against risks by ensuring a 'no surprises' culture has continued to increase and we have observed an enhanced level of focus on governance matters, at the Board and Audit Committee as well as within the company generally.

- We do not envisage, at present, any fundamental change to the way in which the Diageo Board works. A concern would be that changes to the Code to further add to the governance monitoring role of non-executive directors would be counter-productive.

- Finally, as a practical comment, in line many other companies, our Corporate Governance Report has become rather long and clogged with detail, making it difficult to read and difficult to get a 'big picture' from. We favour shortening and simplifying the report (perhaps with some of the more technical detail cross referenced to the website) and it would be helpful if the Code explicitly supported this approach.

2. As far as the second point is concerned, we think that it is unlikely either that the Code, or the nature or degree of its application, could have prevented or lessened the current economic crisis or that there are any obvious changes to it which would prevent a recurrence. The following considerations have influenced our thinking in forming this opinion.

   - Sir Christopher Hogg has observed recently that the basic principles of good corporate governance are: accountability, transparency, objectivity and putting the company's long term interests ahead of all other considerations. Whilst he has credited the Code with translating these principles into actual standards, he has also remarked that they frequently go against the grain of human nature and that, ultimately, good governance is about behaviour (and by implication cannot be guaranteed by any set of rules).

   - Behaviours in this context are set from the top and are inevitably driven first and foremost by the need for substantial long-term economic success.

   - Sir Christopher's observations appear to be aligned with our perception of the general stance of our investors, to the effect that they pay relatively little attention to 'tick box' reporting but place greater emphasis on their own judgement of the character, trustworthiness and track record of board members. In particular, they are interested in whether non-executive directors are strong enough to question and influence strategy.

   - We are aware that research undertaken in the US suggests that the link between reported compliance on corporate governance matters and economic success is limited. This is our view too.

   - History indicates that codes of practice in business tend to be reactive (e.g. to Maxwell, BCCI, Polly Peck, Enron and now the bank-created crisis) and therefore address problems of the past rather than anticipating and preventing the problems of the future. Successive scandals and adverse economic outcomes have continued to occur despite measures introduced in reaction to past events.

   - Given the nature of the origin of the current crisis within the banking industry, we do not believe that (leaving the banks aside), any company board could reasonably have been expected to have foreseen the extent of the outcomes or could have successfully managed them as a risk if they had done so. Thus, we do not see how compliance measures and their disclosure would have made a significant difference. The banks are clearly a separate case and their supervision should not influence the governance applicable to companies generally.

3. To conclude, despite our general view expressed above, we do think that there are a small number of areas that are worthy of further thought for the possible future

development of the Code. These are suggested by the influencing factors mentioned above.

Firstly, provide some requirement to state in the corporate governance report the ways in which a company believes that its compliance with the Code is linked to the behaviours that boards (and non-executive directors in particular) wish to see in the management of companies. This might give investors a sense of what the Code is trying to achieve and compel companies to undergo the thought process necessary to identify these behaviours.

Secondly, more encouragement towards forward looking reporting (especially for risk management) as opposed to reporting on the past might help to steer corporate governance towards a more proactive rather than reactive position.

Yours sincerely

J Nicholls

John Nicholls
Deputy Company Secretary