Annual statement by the Chairman of the Remuneration Committee

"Diageo's decisive leadership throughout the uncertainty of the past year, together with the hard work, resilience, ingenuity and commitment of our employees around the world, have enabled us to emerge from the pandemic in a strong position to drive long-term sustainable growth."

In this year's report

Dear Shareholder

I am pleased to present to you the Directors' remuneration report for the year ended 30 June 2021, which contains:

- The current Directors' remuneration policy, which was approved last year at the AGM on 28 September 2020; and
- The annual remuneration report, describing how the policy has been put into practice during 2021, and how the policy will be implemented in 2022.

Exceptional performance through exceptional times

As you've read in the statements from the Chairman and the Chief Executive, the results that have been delivered over the past year have been truly exceptional, despite continued challenging and uneven trading conditions, including the severe impact of the pandemic on Diageo's travel retail business and significant restrictions on the on-trade (pubs, bars and restaurants) in many parts of the world. Even with this backdrop, Diageo has continued to invest ahead on brands with improved marketing spend relative to pre-pandemic levels, and has capitalised on at-home occasions through strengthened e-commerce and digital capabilities to fuel further growth. As a result, Diageo has delivered robust improvement in top and bottom line performance.

At the same time, the company has continued to deliver strong returns to shareholders (~£23 billion of value in share price growth, dividends and return of capital since 1 July 2018), has delivered sustained improvements in market share (continuing the off-trade share momentum confirmed at the interim results earlier this year), while also providing unwavering support to employees, suppliers, customers and communities. You can read more about this on page 11.

Diageo's decisive leadership throughout the uncertainty of the past year, together with the hard work, resilience, ingenuity and commitment of our 27,650 employees around the world, have enabled Diageo to emerge from the pandemic in a strong position to drive long-term sustainable growth. Despite the challenges of the past year, employee engagement remains very high. Through the annual engagement survey, regular 'pulse' surveys on the company's response to the pandemic and workforce engagement sessions led by the Chairman and other Non-Executive Directors during the year, our people report a strong sense of pride and fulfilment working for Diageo and have emphasised how supported they have felt during the pandemic. Unlike many other companies, Diageo has not participated in any furloughing schemes, has not initiated any large-scale restructuring and has continued to provide practical, financial, and health and wellbeing support to employees throughout the pandemic.

Looking back at decisions made during the year

The structure of the **annual incentive plan** for Executive Directors for the year ended 30 June 2021 was designed to reflect the significant levels of uncertainty facing the business across the multiple markets in which Diageo operates. The target-setting process was managed in two half-year periods to ensure the right level of focus on critical deliverables and to enable swift response to the changing external environment. This design for the annual incentive plan was outlined in the 2020 remuneration report and communicated to participants in July 2020.

The targets for the first half of the year (1 July 2020 - 31 December 2020) were approved immediately before the announcement of Diageo's final results in July 2020, and targets for the second half of the year (1 January 2021 - 30 June 2021) were approved immediately before the announcement of Diageo's interim results in January 2021. Details of the company's performance against targets in both the first and second halves of the year, as well as total results for the full year, are described in more detail on page 118. The targets set in the second half of the year took account of better than expected performance in the first half of the year, and enabled the Remuneration Committee to set more challenging targets than would have been possible had the Committee set full-year targets at the beginning of the fiscal year.

As is the usual practice, each year the Remuneration Committee assesses Diageo's holistic performance across the full financial year, in addition to the company's performance against targets, to determine whether the level of bonus payout is appropriate, reflects underlying business performance and is aligned to the experience of shareholders. This year, the Committee undertook a comprehensive review of performance across a number of internal and external factors including:

- **Market share gains** – Diageo is holding or growing off-trade share in 85% of total net sales value in measured markets, an improvement of 20ppt on last year, with notably strong share gains in the US TBA (Total Beverage Alcohol);
- **Performance relative to peer group** – Diageo delivered broad-based outperformance at the top of the Alcoholic Beverages peer set and top quartile performance compared to our TSR peer group;
- **Strategic delivery and reputation** – Diageo has continued to provide support to customers and the communities within which it operates (see page 11) as well as making positive progress on grain-to-glass sustainability and continued progress on inclusion and diversity. Diageo was also named the top company in both the FTSE100 and in the beverages sector for representation of women at board, executive and leadership level in the 2020 Hampton Alexander Review; and
- **Employee engagement –** remains very high at an overall score of 81% in 2021, 1% above already high levels prior to the pandemic and 10ppt higher than the external benchmark for similar sized companies in our sector. 89% of respondents are proud to work for Diageo and 81% would recommend working for Diageo.

The Remuneration Committee concluded that the formulaic outcomes of 93.8% of maximum for the Chief Executive, Ivan Menezes, and 91.3% of maximum for the outgoing Chief Financial Officer during the year, Kathryn Mikells, are justified given the exceptional nature of performance in challenging circumstances. In line with the Directors' remuneration policy, one-third of the Chief Executive's annual bonus will be deferred into Diageo shares to be held for three years, with the balance paid in cash in September 2021.

Under the **long-term incentive plan**, 2018 performance share awards will vest in September 2021 at 29.3% of maximum and share option awards will vest at 10% of maximum, based on performance against the original targets set in 2018 (see page 119 for more detail), which was much higher than anticipated given the impact of the pandemic on a large proportion of the three-year performance period. At the start of 2021, on the basis that it was not clear that the awards would vest at all, the Committee explored the possibility of exercising its discretion to change the formulaic outcome of the 2018 award, considering the additional criteria that would need to be satisfied to warrant any vesting, as well as taking account of the views gathered from shareholders during consultation meetings.

The Committee was also mindful of the difficult decisions that had been taken on remuneration during fiscal 2020, with no annual salary review for employees and executives alike, no annual bonus payment for many employees (including the Executive Committee, as we exercised downward discretion to waive the earned payout against individual business objectives) as well as low long-term incentive vesting. The potential impact of such actions on motivation, engagement and retention, particularly for the wider group of senior leaders across the business who participate in the performance share element of the long-term incentive plan, continues to be a serious concern for the Remuneration Committee and will continue to be carefully monitored.

The final outcome under the 2018 long-term incentive plan based on performance against the original targets, while still relatively low in the context of the substantial returns to shareholders over the same period, is well above the level at which it was tracking earlier in the year. The Committee carefully considered financial performance under the annual incentive plan and determined that this payout, together with the level of vesting under the 2018 long-term incentive award, would provide fair recognition and reward of exceptional performance and leadership during this challenging period. As a result, the Committee decided not to apply discretion to the vesting outcome under the 2018 long-term incentive award.

Remuneration principles

The approach to setting executive remuneration continues to be guided by the remuneration principles set out below. The Committee considers these principles carefully when making decisions on executive remuneration in order to strike the right balance between risk and reward, cost and sustainability, and competitiveness and fairness.

We need to have the right tools in place to source talent globally and the increasingly restrictive corporate governance environment in the United Kingdom presents some challenges when considered against the significantly higher pay norms in the United States and other parts of the world, particularly given the increasing international mobility of the senior talent pool.

Long-term value creation for shareholders and pay for performance remains at the heart of our remuneration policy and practices. Attracting and nurturing a vibrant mix of talent with a range of backgrounds, skills and capabilities – in good times and even more so in challenging times – enables Diageo to grow and thrive, and ultimately to deliver our Performance Ambition. Remuneration remains a key part of attracting and retaining the best people to lead our business, balanced against the need to ensure our packages are appropriate and fair in the business and wider employee context, delivering market-competitive pay in return for high performance against the company's strategic objectives.

Delivery of business strategy

Short- and long-term incentive plans reward the delivery of our business strategy and Performance Ambition. Performance measures are reviewed regularly and stretching targets are set relative to the company's growth plans and peer group performance. The Committee seeks to embed simplicity and transparency in the design and delivery of executive reward.

Creating sustainable, long-term performance

A significant proportion of remuneration is delivered in variable pay linked to business and individual performance, focussed on consistent and responsible drivers of long-term growth. Performance against targets is assessed in the context of underlying business performance and the 'quality of earnings'.

Winning best talent

Market-competitive total remuneration with an appropriate balance of reward and upside opportunity allows us to attract and retain the best talent from all over the world, which is critical to our continued business success.

Consideration of stakeholder interests

Executives are focussed on creating sustainable share price growth. The requirement to build significant personal shareholdings in Diageo and hold long-term incentive awards for two years post-vesting encourages executives to think and act like owners. Decisions on executive remuneration are made with consideration of the interests of the wider workforce and other stakeholders, as well as taking account of the external climate.

CFO succession

As announced on 14 January 2021, Kathryn Mikells, Chief Financial Officer, left the company on 30 June 2021 to return to the United States after almost six years in role. Kathryn has been succeeded by Lavanya Chandrashekar, who was appointed to the Board on 1 July 2021. The remuneration arrangements for both the outgoing and incoming Chief Financial Officers have been implemented in accordance with the external announcement and the approved 2020 Directors' remuneration policy.

Kathryn Mikells' service contract provided for a 12-month notice period. As part of an orderly succession plan, notice commenced on 13 January 2021 and Kathryn remained an employee and director of the company until 30 June 2021. Details of payments on termination are outlined on page 117. Kathryn remains eligible for a payment under the annual incentive plan for the year ended 30 June 2021, subject to the performance conditions in the normal way (see page 118 for more details). The Committee also exercised its discretion, in accordance with the Plan Rules and the remuneration policy, to prorate to the leaving date all unvested long-term incentive awards. These awards remain subject to performance conditions to be assessed at the end of the original performance periods in 2021, 2022 and 2023 with a subsequent two-year holding period. The new post employment shareholding requirement policy, which was introduced as part of the 2020 remuneration policy, will be applied for a period of two years post exit, requiring Kathryn to hold Diageo shares equal to 400% of salary until 30 June 2022 and 200% of salary for the 12 months thereafter. The policy will be implemented making use of a restricted nominee account, in which vested shares are already held in trust during the two-year post-vesting retention period. As at 30 June 2021, Kathryn held shares equivalent to 868% of salary.

The salary for the new Chief Financial Officer, Lavanya Chandrashekar, is 11% lower than that of her predecessor and the annual and long-term incentive opportunity is the same. Her pension contribution at 14% of salary is in line with the policy provision for the wider workforce in the United Kingdom. Further details on Lavanya Chandrashekar's remuneration are shown on page 127.

I would like to thank Kathryn for her service and valued contributions to Remuneration Committee discussions over the past six years and I look forward to working with Lavanya in the future.

Looking forward to the year ahead

There was no fee increase for **Non-Executive Directors** in the year ended 30 June 2021. The Chairman's fee increase from £600,000 to £650,000 per annum, the first increase since his appointment in January 2017, had been approved prior to the outbreak of Covid-19 and planned to take effect on 1 January 2020. The Chairman asked to defer this fee increase until 2021 and it was implemented 18 months after the originally intended implementation date, on 1 July 2021. The fees for Non-Executive Directors will be reviewed in September 2021.

The Committee also reviewed **annual base salaries** for the Chief Executive and Executive Committee. As part of their review, the Committee considered the current position of pay relative to the external market as well as the strong performance context, the approach for the annual pay review for the wider workforce as well as wider societal and shareholder expectations. Taking account of the historical track record of modest salary increases over the years since being appointed Chief Executive in 2013 (0% in 2014 and 2015, 2% in 2016-2018, 3% in 2019 and 0% in 2020), the Committee approved a base salary increase of 3% for Ivan Menezes effective 1 October 2021, which is consistent with the merit budget for the wider workforce in the United Kingdom and the United States in 2021.

The Committee reviewed the **annual incentive plan** for Executive Directors in the year ended 30 June 2022 and decided to retain the same structure as the year before, with 80% based on financial measures (net sales, operating profit and operating cash conversion) and 20% on individual business objectives, with a return to full-year targets now that pandemic restrictions are easing in many parts of the world.

For **long-term incentive awards** to be granted in September 2021, the Committee reviewed the design and selection of performance measures and decided to retain the same measures and weightings as in 2020: net sales, profit before exceptional items and tax, cumulative free cash flow, relative total shareholder return and ESG (environmental, social and governance). These measures reflect the company's strategic priorities and key drivers of long-term growth. I had the opportunity to discuss with a number of shareholders during the year our proposals on the ESG performance conditions, and welcomed the constructive input and appreciation for the progressive stance the company is taking on its approach to ESG. As a reminder, the ESG measure covers carbon reduction, water efficiency, positive drinking and inclusion and diversity, which are all strategic areas of focus under Diageo's 'Society 2030: Spirit of Progress', our 10-year action plan to help create an inclusive and sustainable world (see pages 12-13 for more detail).

In summary, Diageo has had an exceptional year of performance and that is reflected in the decisions the Committee has made. I believe that our remuneration policy supports the business strategy, drives pay for performance and meets the needs of our stakeholders in a balanced and considered way. I would like to thank all of the shareholders and institutional advisors for their constructive input over the course of the year. I look forward to continuing to engage with shareholders in the coming months as Diageo builds on an exceptional year of performance.

I hope that you will join the Board in approving the advisory resolution on the annual report on remuneration and voting in favour of the resolution at the AGM on 30 September 2021.

Susan Kilsby
Non-Executive Director and Chair of the Remuneration Committee

Remuneration at a glance

	Salary	Allowances and benefits	Annual incentive	Long-term incentives	Shareholding requirement
Purpose and link to strategy	– Supports the attraction and retention of the best global talent with the capability to deliver Diageo's strategy	– Provision of market-competitive and cost-effective benefits supports attraction and retention of talent	– Incentivises delivery of Diageo's financial and strategic targets – Provides focus on key financial metrics and the individual's contribution to the company's performance	– Rewards consistent long-term performance in line with Diageo's business strategy – Provides focus on delivering superior long-term returns to shareholders	– Ensures alignment between the interests of Executive Directors and shareholders

Key features	– Normally reviewed annually on 1 October
	– Salaries take account of external market and internal employee context
		– Provision of competitive benefits linked to local market practice
		– Maximum company pension contribution is 14% of salary for new Executive Director appointments, which is aligned to the offering for new-hire employees in the United Kingdom
			– Target opportunity is 100% of salary and maximum is 200% of salary
			– Performance measures, weightings and stretching targets are set by the Remuneration Committee
			– Subject to malus and clawback provisions
			– Executive Directors defer one-third of earned bonus payment into Diageo shares held for three years, first taking effect on the bonus for the year ended 30 June 2021
			– Remainder paid out in cash after the end of the financial year
				– Annual grant of performance shares and share options
				  – CEO award 500% of salary
				  – CFO award 480% of salary (% of salary for both CEO and CFO described in performance share equivalents)
				– Performance measures, weightings and stretching targets are set annually
				– Three-year performance period plus two-year retention period
				– Subject to malus and clawback provisions
				– Grant price based on six-month average to 30 June preceding grant date
					– Minimum shareholding requirement within five years of appointment:
					  – CEO 500% of salary
					  – CFO 400% of salary
					– Post-employment shareholding requirement for Executive Directors of 100% of in-employment requirement in the first year after leaving the company and 50% in the second year after leaving the company

Planned for year ending 30 June 2022	– 3% salary increase for the CEO, in line with the annual salary budget for the wider workforce in the United Kingdom and the United States
	– New CFO appointment 1 July 2021 (salary 11% lower than previous incumbent)
		– Allowances and benefits unchanged from prior year
		– Company pension contribution:
		  – CEO 20% of salary
		  – CFO 14% of salary
		– Company intends to reduce CEO's pension contribution to 14% of salary by 1 January 2023
			– Targets will be set over the full year
			– For the year ending 30 June 2022, measures on net sales growth, operating profit growth and operating cash conversion, weighted equally, with remaining 20% on individual objectives
				– Performance measures on net sales growth, relative TSR, cumulative free cash flow, profit before exceptional items and tax growth, and ESG
				– Size of long-term incentive award opportunity is unchanged from prior year
					– Post-employment shareholding requirement will be maintained in line with the policy in the case of the CFO, Kathryn Mikells, who left the company on 30 June 2021

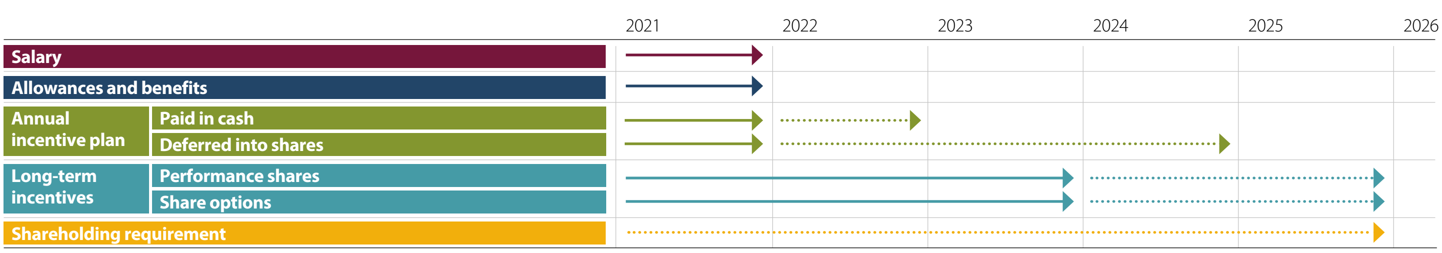
Implementation in year ended 30 June 2021	– No salary increase for Executive Directors or Executive Committee members
	– Exceptional salary increases only (e.g. on promotion) for the wider workforce during 2020
		– Allowances and benefits unchanged from prior year
		– Company pension contribution:
		  – CEO 20% of salary
		  – CFO 20% of salary
			– Targets set over two half-year periods
			– Payout of 100% of maximum for the financial element of the plan
			– Total payout of 93.8% of maximum for the CEO and 91.3% of maximum for the CFO
				– Vesting of 2018 performance shares at 29.3% of maximum
				– Vesting of 2018 share options at 10% of maximum
					– CEO shareholding 2,735% of salary
					– CFO shareholding 868% of salary[1]

Implementation in year ended 30 June 2020	– Effective 1 October 2019:
	  – CEO 3% increase to $1,661,427
	  – CFO 3% increase to $1,093,044
	– In line with the pay budget for the wider workforce (3% for the United Kingdom and the United States in 2019)
		– Company pension contribution:
		  – CEO 20% of salary (reduced from 30% of salary effective 1 July 2019)
		  – CFO 20% of salary
			– No annual incentive payout for Executive Directors in 2020	– Vesting of 2017 performance shares at 10% of maximum
				– Vesting of 2017 share options at 27.5% of maximum
					– CEO shareholding 2,635% of salary
					– CFO shareholding 791% of salary[1]

1. This relates to Kathryn Mikells, who left the company on 30 June 2021

Proportionality and management of risk

The structure of Diageo's executive remuneration package ensures that executives have a vested interest in delivering performance over the short and long term. There is a three-year deferral of part of the annual incentive payout into shares, a two-year retention period on any vested awards under the long-term incentive plan and a post-employment shareholding requirement that applies for two years after leaving the company. The performance and retention periods for each element of remuneration are outlined below.



Indicates a holding or clawback period

Pay for performance at a glance

The charts below show performance outcomes against targets for the long-term and annual incentive plans. Targets under both incentive plans are set with reference to Diageo's strategic plan and the historical and forecasted performance of Diageo and its peers.

Long-term incentives (for the period 1 July 2018 to 30 June 2021)

Organic growth in net sales

CAGR	Threshold	Midpoint	Maximum
	3.75%	4.875%	6.0%

Actual 4.1%

Cumulative free cash flow

Threshold	Midpoint	Maximum
£7,400m	£8,050m	£8,700m

Actual £7,962m

Organic growth in profit before exceptional items and tax

CAGR	Threshold	Midpoint	Maximum
	4.5%	7.5%	10.5%

Actual 3.1%

Relative TSR ranking vs peer group

Threshold	Midpoint	Maximum
9th (median)	–	3rd (upper quintile)

Actual 9th

Annual incentive

Targets and actual performance were measured over the half-year periods from 1 July 2020 to 31 December 2020 (HALF 1) and 1 January 2021 to 30 June 2021 (HALF 2).

Net sales growth Full year actual **16%**

	Threshold	Target	Maximum	Actual
HALF 1	(27.4%)	(22.9%)	(18.4%)	1.0%
HALF 2	25.5%	31.3%	37.1%	39.3%

Operating profit growth Full year actual **17.7%**

	Threshold	Target	Maximum	Actual
HALF 1	(55.3%)	(46.3%)	(37.3%)	(3.4%)
HALF 2	38.1%	53.1%	68.0%	69.7%

Operating cash conversion Full year actual **110.5%**

	Threshold	Target	Maximum	Actual
HALF 1	45%	55%	65%	100.8%
HALF 2	90%	100%	110%	110.5%

Diageo's share price growth over the period 30 June 2018 to 30 June 2021

27%

2021	£34.61
2018	£27.22

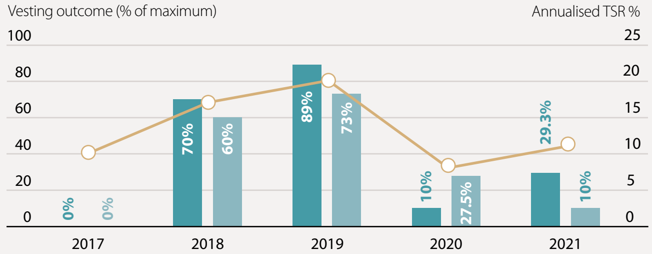
Growth in dividend distribution to shareholders in year ended 30 June 2021

4%

2021	72.55p
2020	69.88p

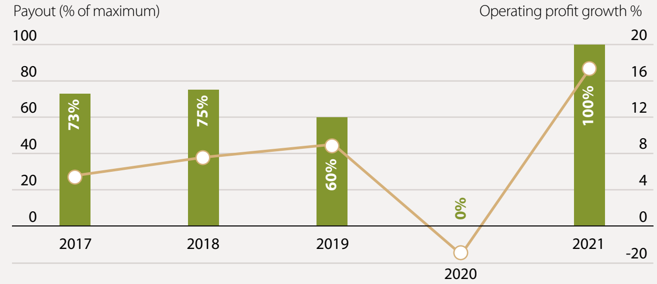
Historical reward outcomes under the annual and long-term incentive plans over the past five years are shown below. Vesting outcomes under the long-term incentive plan are shown against annualised total shareholder return for the three-year period ended in the year of vesting (i.e. annualised TSR for the three years ended 30 June 2021 is shown against the vesting outcome for the 2018 long-term incentive awards vesting in 2021). Outcomes against annual incentive financial measures are shown against organic operating profit growth for each respective financial year, as disclosed in prior-year annual reports.

5-year vesting outcomes of long-term incentives



Performance shares
Share options
Annualised total shareholder return over three-year long-term incentive performance period

5-year history of annual incentive payouts



Annual incentive payout (financial measures excluding individual business objectives)
Organic operating profit growth (% on prior year)

Remuneration Committee governance

Remuneration Committee

Over the year, the Remuneration Committee has consisted of the following independent Non-Executive Directors: Susan Kilsby, Melissa Bethell, Valérie Chapoulaud-Floquet, Ho KwonPing, Sir John Manzoni, Lady Mendelsohn, Alan Stewart and Ireena Vittal. Susan Kilsby is the Chair of the Remuneration Committee and also the Senior Independent Director. The Chairman of the Board and the Chief Executive may, by invitation, attend Remuneration Committee meetings except when their own remuneration is discussed. Diageo's Chief Human Resources Officer and Global Performance and Reward Director are also invited by the Remuneration Committee to provide their views and advice. The Chief Financial Officer may also attend to provide performance context to the Committee during its discussions about target setting. Information on meetings held and Director attendance is disclosed in the corporate governance report.

The Remuneration Committee's principal responsibilities are:

- making recommendations to the Board on remuneration policy as applied to the Executive Directors and the Executive Committee;
- setting, reviewing and approving individual remuneration arrangements for the Chairman of the Board, Executive Directors and Executive Committee members including terms and conditions of employment;
- determining arrangements in relation to termination of employment of the Executive Directors and other designated senior executives;
- making recommendations to the Board concerning the introduction of any new share incentive plans which require approval by shareholders;
- ensuring that remuneration outcomes are appropriate in the context of underlying business performance, that remuneration practices are implemented in accordance with the approved remuneration policy, and that remuneration does not raise environmental, social and governance issues by inadvertently motivating irresponsible behaviour; and
- reviewing workforce pay and related policies and the alignment of incentives with culture.

Full terms of reference for the Committee are available at and on request from the Company Secretary.

The Committee has considered the remuneration policy and practices in the context of the principles of the Corporate Governance Code, as follows:

Clarity – the Committee engages regularly with executives, shareholders and their representative bodies in order to explain the approach to executive pay;

Simplicity – the purpose, structure and strategic alignment of each element of pay has been clearly laid out in the remuneration policy;

Risk – there is an appropriate mix of fixed and variable pay, and financial and non-financial objectives, and there are robust measures in place to ensure alignment with long-term shareholder interests, including the post-vesting retention period, shareholding requirement and bonus deferral into shares;

Predictability – the pay opportunity under different performance scenarios are set out on page 114 of this report;

Proportionality – executives are incentivised to achieve stretching targets over annual and three-year performance periods, and the Committee assesses performance holistically at the end of each period, taking into account underlying business performance and the internal and external context. The Committee may exercise discretion to ensure that payouts are appropriate; and

Alignment with culture – non-financial objectives may be incentivised under the individual business objective element of the annual incentive plan and ESG priorities are incentivised under the long-term incentive plan, which reinforces the company's purpose and values.

External advisors

During the year ended 30 June 2021, the Remuneration Committee received advice on executive remuneration from Deloitte. Deloitte was appointed by the Committee in May 2019, following a comprehensive tendering process with several consulting firms. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting. The Committee requests Deloitte to attend meetings periodically during the year and is satisfied that the advice it has received has been objective and independent.

Deloitte provides unrelated services to the company in the areas of immigration services and management consultancy. During the year, Deloitte supported the Committee in providing: remuneration benchmarking survey data to support the salary review for the Executive Committee, advice on the design of long-term incentives and the level of stretch in the long-term incentive targets and periodic updates on the TSR of Diageo and its peer companies for outstanding performance cycles. The fees paid to Deloitte in relation to advice provided to the Committee were £249,355 and were determined on a time and expenses basis.

Clifford Chance provided advice on the operation of share plans during the year. Fees paid in relation to this advice, again on a time and expenses basis, were £176,789.

The Committee is satisfied that the Deloitte and Clifford Chance engagement partners and teams that provide remuneration advice to the Committee do not have connections with Diageo that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Statement of voting

The following table summarises the details of votes cast in respect of the resolutions on the Directors' remuneration policy and the annual report on remuneration at the 2020 AGM.

		For	Against	Total votes cast	Abstentions
Directors' remuneration policy	Total number of votes	1,644,443,671	121,538,951	1,765,982,622	3,321,427
	Percentage of votes cast	93.12%	6.88%	100%	n/a
Annual report on remuneration	Total number of votes	1,715,489,143	51,495,925	1,766,985,068	2,229,889
	Percentage of votes cast	97.09%	2.91%	100%	n/a

The Committee was pleased with the level of support shown for the remuneration policy and implementation report and appreciated the active participation of shareholders and their representative advisory bodies in consulting on executive remuneration matters.

Remuneration Committee governance

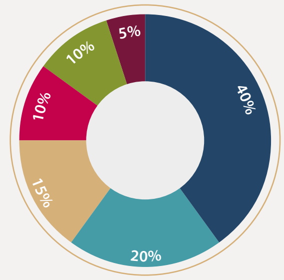
Approach to stakeholder engagement

The Committee has taken into account stakeholder views through consultation with shareholders and institutional advisors throughout the year, as well as through global workforce engagement sessions led by the Chairman, focus group sessions with other Non-Executive Directors and feedback from management and the wider workforce through employee engagement and 'pulse' surveys. A broad group of Diageo's top 20 shareholders and key proxy advisors were engaged. An overall review of wider workforce remuneration and policies is tabled as a discrete agenda item at the Committee's October meeting and relevant aspects of wider workforce remuneration are referenced in other agenda items during the year. This ensures that shareholder views and interests as well as the all-employee reward context at Diageo are appropriately considered when making executive remuneration decisions.

Further details on pages 94-96

Allocation of time

This graph reflects the allocated time for key agenda items at Remuneration Committee meetings throughout F21.



- Incentives design and target-setting
- Assessment of performance outcomes
- Shareholder consultation & feedback
- Individual remuneration decisions
- External environment and all-employee remuneration
- Directors' remuneration policy & report

Key decision	Link to Diageo remuneration principles	Link to corporate governance principles	Stakeholder engagement
Manage the annual incentive plan target-setting process in two half-year periods, to reflect the significant levels of uncertainty facing the business across multiple markets		The Committee considered the views of key shareholders and investor bodies (clarity). This decision enabled the Remuneration Committee to ensure relevant and robust incentive targets were set, aligned with shareholder interests (risk and proportionality).	The proposal was shared with a group of key shareholders, UK institutional bodies and US proxy agencies in May 2020 and the response was broadly supportive. A similar change in approach to target-setting was made for employees below the Executive Committee: annual incentive plan targets were set on a quarterly basis, in line with the financial planning cycle, with payments subject to a holistic year-end assessment process.
ESG targets for performance shares granted under the Diageo Long Term Incentive Plan (DLTIP) in September 2020		The Committee engaged shareholders on proposed ESG measures and targets ahead of publication (clarity). The purpose and strategic alignment of measures and targets have been clearly laid out on page 120 of this report (simplicity). The ESG targets ensure focus on some of Diageo's key non-financial objectives, our 'Society 2030: Spirit of Progress' ambition, with Diageo's focus on inclusion and sustainability in the future interest of shareholders (risk and alignment with culture). Payout opportunity under the ESG measures is set out in page 120 of this report (predictability).	In light of the significant impact of the pandemic on the business planning cycle and the company's ability to forecast long-term performance, the Committee had delayed target-setting for 2020 long-term incentive targets for a period of six months. Shareholders were engaged about the proposed ESG targets ahead of publication in February 2021, in line with the company's intention to consult with shareholders on 2020 targets as signposted in the 2020 annual report. As part of this, the timeline for publishing financial targets was confirmed to shareholders. Through workforce engagement sessions and surveys, employees have shared they are proud of Diageo's focus on championing inclusion and diversity, and wider societal impact.
Payout under the annual incentive plan for the Executive Committee for the year ended 30 June 2021		The company's performance has resulted in strong returns to shareholders. By ensuring that executives are recognised for strong performance, the Remuneration Committee is able to motivate and retain the very best talent, which also creates shareholder value (risk).	The Committee considers the experience of the wider workforce when making decisions on executive pay to ensure there is clear alignment in principles and practice. The annual incentive payout for employees below the Executive Committee also reflects strong holistic business performance.
Vesting of performance shares and share options granted in September 2018 in line with measured achievements, with no application of discretion		After considering carefully the company's performance, the remuneration opportunity in totality as well as that of the wider workforce, the Committee decided that the annual incentive payout would provide appropriate recognition and reward of performance and leadership (proportionality).	Through conversations during the year, shareholders acknowledged the significant impact of the pandemic on executive pay. The Committee reviewed the outlook for unvested 2018 DLTIP awards in the broader context of overall performance during the three-year vesting period ending 30 June 2021 and considered, but decided against, the application of upward discretion.

Diageo's remuneration principles

- Delivery of business strategy
- Creating sustainable, long-term performance
- Winning best talent
- Consideration of stakeholder interests

Directors' remuneration policy

This section of the report summarises the policy for the remuneration of the company's Directors. The policy was approved by shareholders at the AGM on 28 September 2020, in accordance with section 439A of the Companies Act 2006. The policy approved in September 2020 can be found on the company's website at www.diageo.com/en/investors/financial-results-and-presentations/directors-remuneration-report-2020/.

Base salary

Purpose and link to strategy

Supports the attraction and retention of the best global talent with the capability to deliver Diageo's strategy and performance goals.

Operation

- Normally reviewed annually or following a change in responsibilities with any increases usually taking effect from 1 October.
- The Remuneration Committee considers the following parameters when reviewing base salary levels:
  - Pay increases for other employees across the group.
  - Economic conditions and governance trends.
  - The individual's performance, skills and responsibilities.
  - Base salaries (and total remuneration) at companies of similar size and international scope to Diageo, with roles typically benchmarked against the FTSE 30 excluding financial services companies, or against similar comparator groups in other locations dependent on the Executive Director's home market.

Opportunity

Salary increases will be made in the context of the broader employee pay environment, and will normally be in line with those made to other employees in relevant markets in which Diageo operates, typically the United Kingdom and the United States, unless there is a change in role or responsibility or other exceptional circumstances.

Benefits

Purpose and link to strategy

Provides market-competitive and cost-effective benefits.

Operation

- The provision of benefits depends on the country of residence of the Executive Director and may include but is not limited to a company car or travel allowance, the provision of a contracted car service or equivalent, product allowance, life insurance, accidental death and disability insurance, medical cover, financial counselling and tax advice.
- The Remuneration Committee has discretion to offer additional allowances, or benefits, to Executive Directors, if considered appropriate and reasonable. These may include relocation expenses, housing allowance and school fees where a Director is asked to relocate from his/her home location as part of their appointment.

Opportunity

- The benefits package is set at a level which the Remuneration Committee considers:
  - provides an appropriate level of benefits depending on the role and individual circumstances;
  - is appropriate in the context of the benefits offered to the wider workforce in the relevant market; and
  - is in line with comparable roles in companies of a similar size and complexity in the relevant market.

Post-retirement provision

Purpose and link to strategy

Provides cost-effective, competitive post-retirement benefits.

Operation

- Provision of market-competitive pension arrangements or a cash alternative based on a percentage of base salary.

Opportunity

- The maximum company pension contribution under the 2020 remuneration policy is 14% of salary for any new Executive Director appointments.
- Current legacy company contributions for Ivan Menezes and Kathryn Mikells in the year ended 30 June 2021 were each 20% of base salary. The company contribution for Ivan Menezes was reduced from 40% to 30% effective 1 July 2016, and from 30% to 20% effective 1 July 2019.
- It is the company's intention to reduce the pension contribution for Ivan Menezes to 14% of salary, in line with the maximum company contribution to new-hire employees in the United Kingdom, by 1 January 2023.
- The new CFO, Lavanya Chandrashekar, who was appointed on 1 July 2021, receives a pension contribution of 14% of salary.

Annual Incentive Plan (AIP)

Purpose and link to strategy
Incentivises year-on-year delivery of Diageo's financial and strategic targets over the year. Provides focus on key financial metrics and the individual's contribution to the company's performance.

Operation
- Performance measures, weightings and targets are set by the Remuneration Committee. Appropriately stretching targets are set by reference to the operating plan and historical and projected performance for the company and its peer group.
- The level of award is determined with reference to Diageo's overall financial and strategic performance and individual performance.
- A minimum of one-third of the actual earned bonus payment will normally be deferred into shares under the Deferred Bonus Share Plan, to be held for a minimum period of three years, other than in exceptional circumstances. The remainder of the bonus payment will be paid out in cash after the end of the financial year.
- The Committee has discretion to adjust the level of payment if it is not deemed to reflect appropriately the individual's contribution or the overall business performance. Any discretionary adjustments will be detailed in the following year's annual report on remuneration.
- The Committee has discretion to apply malus or clawback to bonus, i.e. the company may seek to recover bonus paid or deferral into shares, in exceptional circumstances such as gross misconduct or gross negligence during the performance period.
- Notional dividends accrue on deferred bonus share awards, delivered as shares or cash at the discretion of the Remuneration Committee at the end of the vesting period.

Opportunity
- For threshold performance, up to 50% of salary may be earned, with up to 100% of salary earned for on-target performance and a maximum of 200% of salary payable for outstanding performance.

Performance conditions
Annual incentive plan awards are normally based 70%-100% on financial measures which may include, but are not limited to, measures of sales, profit and cash; and 0%-30% on broader objectives based on strategic goals and/or individual contribution.

Diageo Long-Term Incentive Plan (DLTIP)

Purpose and link to strategy
Provides focus on delivering superior long-term returns to shareholders.

Operation
- An annual grant of performance shares and/or market-price share options which vest subject to a performance test and continued employment, normally over a period of three years.
- Measures and stretching targets are reviewed annually by the Remuneration Committee for each new award.
- The Remuneration Committee has the authority to exercise discretion to adjust the vesting outcome based on its assessment of underlying business performance over the performance period. This may include the consideration of factors such as holistic performance relative to peers, stakeholder outcomes and significant investment projects, for example.
- Following vesting there is normally a further retention period of two years. Executive Directors are able to exercise an option or sell sufficient shares to cover any tax liability when an award vests, provided they retain the net shares arising for the two-year retention period.
- Notional dividends accrue on performance share awards to the extent that the performance conditions have been met, delivered as shares or cash at the discretion of the Remuneration Committee at the end of the vesting period.
- The Committee has discretion to reduce the number of shares which vest (subject to HMRC rules regarding approved share options), for example in the event of a material performance failure, or a material restatement of the financial statements. There is an extensive malus clause for awards made from September 2014. The Committee has discretion to decide that:

  - the number of shares subject to the award will be reduced;
  - the award will lapse;
  - retention shares (i.e. vested shares subject to the additional two-year retention period) will be forfeited;
  - vesting of the award or the end of any retention period will be delayed (e.g. until an investigation is completed);
  - additional conditions will be imposed on the vesting of the award or the end of the retention period; and/or
  - any award, bonus or other benefit which might have been granted or paid to the participant in any later year will be reduced or not awarded.

- Malus and clawback provisions will apply up to delivery of shares at the end of the retention period (as opposed to the vesting date). The company also has the standard discretion to take account of unforeseen events such as a variation to share capital.

Opportunity
- The maximum annual grants for the Chief Executive and Chief Financial Officer are 500% and 480% of salary in performance share equivalents respectively (where a market-price option is valued at one-third of a performance share). Included within that maximum no more than 375% of salary will be awarded in face-value terms in options to any Executive Director in any year.
- Awards vest at 20% of maximum for threshold performance and 100% of maximum if the performance conditions are met in full. The vesting schedule related to the levels of performance between threshold and maximum, including whether or not this will include an interim stretch performance level, will be determined by the Committee on an annual basis and disclosed in the relevant remuneration report for that year. There is a ranking profile for the vesting of the part of the award based on relative total shareholder return, starting at 20% of maximum for achieving the threshold.

Diageo Long-Term Incentive Plan (DLTIP) continued

Performance conditions

The vesting of awards is linked to a range of measures which may include, but are not limited to:

- a growth measure (e.g. net sales growth, operating profit growth);
- a measure of efficiency (e.g. operating margin, cumulative free cash flow, return on invested capital);
- a measure of Diageo's performance in relation to its peers (e.g. relative total shareholder return); and
- a measure relating to ESG (environmental, social or governance) priorities.
- Measures that apply to performance shares and market-price options may differ, as is the case for current awards. Weightings of these measures may also vary year on year.
- The Remuneration Committee has discretion to amend the performance conditions in exceptional circumstances if it considers it appropriate to do so, e.g. in cases of accounting policy changes, merger and acquisition activities or disposals. Any such amendments would be fully disclosed and explained in the following year's annual report on remuneration.

All-employee share plans

Purpose and link to strategy

- To encourage broader employee share ownership through locally approved plans.

Opportunity

- Limits for all-employee share plans are set by the tax authorities. The company may choose to set its own lower limits.

Operation

- The company operates tax-efficient all-employee share acquisition plans in various jurisdictions.
- Executive Directors' eligibility may depend on their country of residence, tax status and employment company.

Performance conditions

- Under the UK Share Incentive Plan, the annual award of Freeshares is based on Diageo plc financial measures which may include, but are not limited to, measures of sales, profit and cash.

Shareholding requirement

Purpose and link to strategy

- Ensures alignment between the interests of Executive Directors and shareholders.

Operation

- The minimum in-employment shareholding requirement is 500% of base salary for the Chief Executive and 400% of base salary for any other Executive Directors.
- Executive Directors are expected to build up their in-employment shareholding within five years of their appointment to the Board.
- Executive Directors will be restricted from selling more than 50% of shares which vest under the long-term incentive plan or deferred bonus share plan (excluding the sale of shares to cover tax on vesting and other exceptional circumstances to be specifically approved by the Chief Executive and/or Chairman), until the shareholding requirement is met.
- In order to provide further long-term alignment with shareholders, Executive Directors will normally be expected to maintain a holding of shares in Diageo for a two-year period after leaving the company. Executive Directors will normally be required to continue to hold 100% of the in-employment shareholding requirement (or, if lower, their actual shareholding on cessation) for the first year after leaving the company, reducing to 50% for the second year after leaving the company.

Chairman of the Board and Non-Executive Directors

Purpose and link to strategy

- Supports the attraction, motivation and retention of world-class talent and reflects the value of the individual, their skills and experience, and performance.

Operation

- Fees for the Chairman and Non-Executive Directors are normally reviewed every year.
- A proportion of the Chairman's annual fee is used for the monthly purchase of Diageo ordinary shares, which have to be retained until the Chairman retires from the company or ceases to be a Director.
- Fees are reviewed in the light of market practice in the FTSE 30, excluding financial services companies, and anticipated workload, tasks and potential liabilities.
- The Chairman and Non-Executive Directors do not participate in any of the company's incentive plans nor do they receive pension contributions or benefits. Their travel and accommodation expenses in connection with attendance at Board meetings (and any tax thereon) are paid by the company.
- The Chairman and the Non-Executive Directors are eligible to receive a product allowance or cash equivalent at the same level as the Executive Directors.
- All Non-Executive Directors have letters of appointment. A summary of their terms and conditions of appointment is available at www.diageo.com. The Chairman of the Board, Javier Ferrán, was re-appointed on 10 October 2019 for a three-year term, terminable on three months' notice by either party or, if terminated by the company, by payment of three months' fees in lieu of notice.

Opportunity

- Fees for Non-Executive Directors are within the limits set by the shareholders from time to time, with an aggregate limit of £1,750,000, excluding the Chairman's fees.

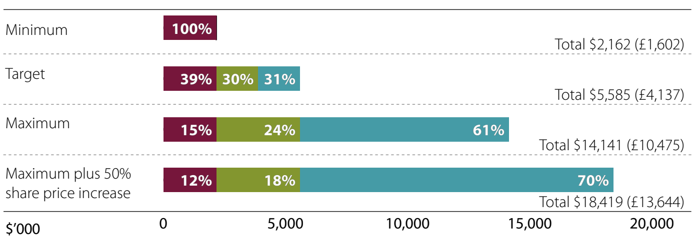
Policy considerations

Performance measures
Further details of the performance measures under the annual incentive plan for the year ending 30 June 2022 as well as targets under the long-term incentive plan for awards made in September 2021, and how they are aligned with company strategy and the creation of shareholder value, are set out in the annual report on remuneration, on page 127. Annual incentive targets will be disclosed retrospectively in next year's annual report on remuneration.

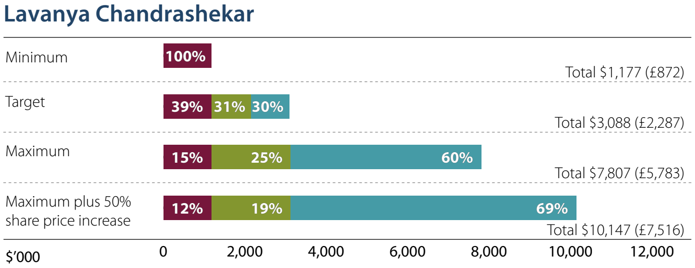
Performance targets are set to be stretching yet achievable, and take into account the company's strategic priorities and business environment. The Committee sets targets based on a range of reference points including the corporate strategy and broker forecasts for both Diageo and its peers.

Projected total remuneration scenarios
The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at four different levels of performance: minimum, target, maximum, and maximum including assumed share price appreciation of 50% (in accordance with the Corporate Governance Code). The impact of potential share price movements is excluded from the other three scenarios. These charts reflect projected remuneration for the financial year ending 30 June 2022.

Ivan Menezes



Lavanya Chandrashekar



- Salary, benefits and pension
- Annual incentive
- Long-term incentives

Basis of calculation and assumptions:
The 'Minimum' scenario shows fixed remuneration only, i.e. base salary for the year ending 30 June 2022, total value of contractually agreed benefits for 2022, and the pension benefits to be accrued over the year ending 30 June 2022. These are the only elements of the Executive Directors' remuneration packages that are not subject to performance conditions.

The 'Target' scenario shows fixed remuneration as above, plus a target payout of 50% of the maximum annual bonus and threshold performance vesting for long-term incentive awards at 20% of the maximum award.

The 'Maximum' scenario reflects fixed remuneration, plus full payout of annual and long-term incentives.

The 'Maximum plus share price growth' scenario reflects fixed remuneration, plus full payout of annual and long-term incentives, including for the latter an assumed 50% share price appreciation over the performance period.

For long-term incentives, the awards are treated as though they were granted all in performance shares.

The amounts shown in sterling are converted using the cumulative weighted average exchange rate for the year ended 30 June 2021 of £1 = $1.35.

Approach to recruitment remuneration
Diageo is a global organisation selling its products in more than 180 countries around the world. The ability to recruit and retain the best talent from all over the world is critical to the future success of the business. People diversity in all its forms is a core element of Diageo's global talent strategy and, managed effectively, is a key driver in delivering Diageo's Performance Ambition.

The Remuneration Committee's overarching principle for recruitment remuneration is to pay no more than is necessary to attract an Executive Director of the calibre required to shape and deliver Diageo's business strategy, recognising that Diageo competes for talent in a global marketplace. The Committee will seek to align any remuneration package with Diageo's remuneration policy as laid out above, but retains the discretion to offer a remuneration package which is necessary to meet the individual circumstances of the recruited Executive Director and to enable the hiring of an individual with the necessary skills and expertise. However, the maximum short and long-term incentive opportunity will follow the policy, although awards may be granted with different performance measures and targets in the first year. On appointment of an external Executive Director, the Committee may decide to compensate for variable remuneration elements the Director forfeits when leaving their current employer. In doing so, the Committee will ensure that any such compensation would have a fair value no higher than that of the awards forfeited, and would generally be determined on a comparable basis taking into account factors including the form in which the awards were granted, performance conditions attached, the probability of the awards vesting (e.g. past, current and likely future performance) as well as the vesting schedules. Depending on individual circumstances at the time, the Committee has the discretion to determine the type of award (i.e. cash, shares or options, holding period and whether or not performance conditions would apply).

Any such award would be fully disclosed and explained in the following year's annual report on remuneration. When exercising its discretion in establishing the reward package for a new Executive Director, the Committee will carefully consider the balance between the need to secure an individual in the best interests of the company against the concerns of investors about the quantum of remuneration and, if considered appropriate at the time, will consult with the company's biggest shareholders. The Remuneration Committee will provide timely disclosure of the reward package of any new Executive Director.

Service contracts and policy on payment for loss of office (including takeover provisions)

Executive Directors have rolling service contracts, details of which are set out below. These are available for inspection at the company's registered office.

Executive Director	Date of service contract
Ivan Menezes	7 May 2013
Kathryn Mikells	1 October 2015
Lavanya Chandrashekar	1 July 2021

Notice period	The contracts provide for a period of six months' notice by the Executive Director or 12 months' notice by the company, the same as would apply for any newly-appointed Executive Director. A payment may be made in lieu of notice equivalent to 12 months' base salary and the cost to the company of providing contractual benefits (including pension contributions but excluding incentive plans). The service contracts also provide for the payment of outstanding pay and bonus, if an Executive Directors leaves following a takeover, or other change of control of Diageo plc. If, on the termination date, the Executive Director has exceeded his/her accrued holiday entitlement, the value of such excess may be deducted by the company from any sums due to him/her, except to the extent that such deduction would subject the Executive Director to additional tax under section 409A of the Code (in the case of Ivan Menezes). If the Executive Director on the termination date has accrued but untaken holiday entitlement, the company will, at its discretion, either require the Executive Director to take such unused holiday during any notice period or make a payment to him/her in lieu of it, provided always that if the employment is terminated for cause then the Executive Director will not be entitled to any such payment.
Mitigation	The Remuneration Committee may exercise its discretion to require a proportion of the termination payment to be paid in instalments and, upon the Executive Director commencing new employment, to be subject to mitigation except where termination is within 12 months of a takeover, or within such 12 months the Executive Director leaves due to a material diminution in status.
Annual Incentive Plan (AIP)	Where the Executive Director leaves for reasons including retirement, death in service, disability, ill-health, injury, redundancy, transfer out of the group and other circumstances at the Remuneration Committee's discretion during the financial year, the Executive Director is usually entitled to an incentive payment pro-rated for the period of service during the performance period, which is typically payable at the usual payment date. Where the Executive Director leaves for any other reason, no payment or bonus deferral will be made. The amount is subject to performance conditions being met and is at the discretion of the Committee. The Committee has discretion to determine an earlier payment date, for example on death in service. The bonus may, if the Committee decides, be paid wholly in cash.
2020 Deferred Bonus Share Plan (DBSP)	Where the Executive Director leaves for any reason other than dismissal, they are entitled to retain any deferred bonus shares, which will vest on departure, subject to any holding requirements under the post-employment shareholding policy. It is not considered necessary for the bonus deferral to continue to apply after leaving, since the bonus is already earned based on performance, and there is a post-employment shareholding requirement that ensures the Executive Director continues to be invested in the company's longer-term interests. On a takeover or other corporate event, awards vest in full.
Diageo 2014 Long-Term Incentive Plan (DLTIP)	Where the Executive Director leaves for reasons including retirement, death in service, disability, ill-health, injury, redundancy, transfer out of the group and other circumstances at the Remuneration Committee's discretion during the financial year, awards vest on the original vesting date unless the Remuneration Committee decides otherwise (for example in the case of death in service). When an Executive Director leaves for any other reason, all unvested awards generally lapse immediately. The retention period for vested awards continues for all leavers other than in cases of disability, ill health or death in service, unless the Remuneration Committee decides otherwise. The proportion of the award released depends on the extent to which the performance condition is met. The number of shares is reduced on a pro-rata basis reflecting the length of time the Executive Director was employed by the company during the performance period, unless the Committee decides otherwise (for example in the case of death in service). On a takeover or other corporate event, awards vest subject to the extent to which the performance conditions are met and, unless the Committee decides otherwise, the awards are time pro-rated. Otherwise the Committee, in agreement with the new company, may decide that awards should be swapped for awards over shares in the new company; where awards are granted in the form of options, then on vesting they are generally exercisable for 12 months (or six months for approved options).
Repatriation/other	In cases where an Executive Director was recruited from outside the United Kingdom and has been relocated to the United Kingdom as part of their appointment, the company will pay reasonable repatriation costs for leavers at the Committee's discretion. The company may also pay for reasonable costs in relation to the termination, for example tax, legal and outplacement support, where appropriate.

Non-Executive Directors' unexpired terms of appointment

All Non-Executive Directors are on three-year terms which are expected to be extended up to a total of nine years. The date of initial appointment to the Board and the point at which the current letter of appointment expires for Non-Executive Directors are shown in the table below.

Non-Executive Directors	Date of appointment to the Board	Current letter of appointment expires
Javier Ferrán	22 July 2016	AGM 2022
Susan Kilsby	4 April 2018	AGM 2021
Melissa Bethell	30 June 2020	AGM 2023
Valérie Chapoulaud-Floquet	1 January 2021	AGM 2024
Sir John Manzoni	1 October 2020	AGM 2023
Lady Mendelsohn	1 September 2014	AGM 2023
Alan Stewart	1 September 2014	AGM 2023
Ireena Vittal	2 October 2020	AGM 2023

Payments under previous policies

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out above, where the terms of the payment were agreed (i) under a previous policy, in which case the provision of that policy shall continue to apply until such payments have been made; (ii) before the policy or the relevant legislation came into effect; or (iii) at a time when the relevant individual was not a Director of the company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the company.

Remuneration for the wider workforce

The structure of the reward package for the wider employee population is based on the principle that it should be sufficient to attract and retain the best talent and be competitive within our broader industry, remunerating employees for their contribution linked to our holistic performance. It is driven by local market practice as well as level of seniority and accountability, reflecting the global nature of Diageo's business.

There is clear alignment in the pay structures for executives and the wider workforce, in the way that remuneration principles are followed as well as the mechanics of the salary review process and incentive plan design, which are broadly consistent throughout the organisation. The performance measures under the annual incentive plan and long-term incentive plan are the same for executives and other eligible employees. There is a strong focus on performance-related pay, with appropriate levels of differentiation to ensure that reward is invested in the talent that will make the biggest contribution to the execution of Diageo's strategy. Where possible, the company also encourages employee share ownership through a number of share plans that allow employees to benefit from the company's success.

The remuneration approach for Executive Directors is consistent with the reward package for members of the Executive Committee and the senior management population. Generally speaking, a much higher proportion of total remuneration for the Executive Directors is linked to business performance, compared to the rest of the employee population, so that remuneration will increase or decrease in line with business performance and to align the interests of Executive Directors and shareholders.

Each year the Remuneration Committee is briefed on the structure and quantum of the all-employee remuneration framework as well as throughout the year being informed about the context, challenges and opportunities relating to the remuneration of the wider workforce across the world to enable the Committee to consider the broader employee context when making executive remuneration decisions.

In 2021, the Remuneration Committee has considered:

- the impact of the pandemic on business performance and reward outcomes;
- the continued focus on appropriate and competitive pay positioning around the world, with an emphasis on key markets such as the US and China;
- ongoing commitment to inclusion and diversity; and
- review of global benefits, with a consistent core benefit offering implemented across the world.

The Committee also considers the annual salary increase budgets for employees in key markets as well as pay for the global senior management population.

Shareholder engagement

The Committee greatly values the continued dialogue with Diageo's shareholders and regularly engages with shareholders and representative bodies to take their views into account when setting and implementing the company's remuneration policies.

This year, the company has engaged extensively with shareholders and their proxy advisors on the impact of the pandemic on the vesting outcome for outstanding long-term incentives, the introduction of the ESG measure under the long-term incentive plan and the setting of stretching and measurable targets under the annual and long-term incentive plans. More detail on engagement with shareholders in 2021 can be found in the Remuneration Committee governance section on page 110.

Workforce engagement

Diageo runs annual employee engagement surveys, as well as more recently regular 'pulse' surveys on the company's handling of the impact of the pandemic on the workforce, which give employees the opportunity to give feedback and express their views on a variety of topics including their own remuneration, working environment and workforce policies and practices. Any comments relating to Executive Directors' remuneration are fed back to the Remuneration Committee.

The Chairman was appointed to lead workforce engagement on behalf of the Board on 1 July 2019 and throughout the year has met with a range of employees across all levels and regions to hear their views on the company, culture and working environment. A number of Non-Executive Directors also met with employees around the world to broaden the reach of workforce engagement activities. As part of this engagement, the Chairman has taken the opportunity to explain to employees the role of the Board and its delegated Committees, including the role of the Remuneration Committee in setting executive pay. In the year ending 30 June 2022, it is intended that workforce engagement sessions will include a more detailed explanation of the executive remuneration framework.

A workforce engagement statement has been shared with employees to feed back the key insights and outcomes from all of the engagement activities during 2021, and this included information on the way in which workforce engagement discussions on the management of employee health, safety and wellbeing during the pandemic provided valuable insights and context for the Remuneration Committee's decision making on the incentive plan outcomes for the year ended 30 June 2021 for executives and the wider workforce. More detail on the approach and impact of workforce engagement in the year ended 30 June 2021 is outlined in the governance report on page 96.

Annual report on remuneration

The following section provides details of how the company's 2020 remuneration policy was implemented during the year ended 30 June 2021, and how the Remuneration Committee intends to implement the proposed remuneration policy in the year ending 30 June 2022.

Single total figure of remuneration for Executive Directors (audited)

The table below details the Executive Directors' remuneration for the year ended 30 June 2021.

	Ivan Menezes[1]				Kathryn Mikells[1]			
Fixed pay	**2021 '000**	**2021 '000**	2020 '000	2020 '000	**2021 '000**	**2021 '000**	2020 '000	2020 '000
Salary	**£1,231**	**$1,661**	£1,309	$1,649	**£810**	**$1,093**	£861	$1,085
Benefits[2]	**£82**	**$111**	£99	$124	**£47**	**$63**	£42	$53
Pension[3]	**£306**	**$413**	£281	$354	**£172**	**$232**	£176	$221
Total fixed pay	**£1,619**	**$2,185**	£1,689	$2,127	**£1,029**	**$1,388**	£1,079	$1,359
Performance related pay								
Annual incentive[4]	**£2,308**	**$3,115**	£0	$0	**£1,478**	**$1,995**	£0	$0
Long-term incentives[5]	**£1,975**	**$2,666**	£584	$736	**£1,247**	**$1,684**	£369	$465
Other incentives[6]	**£0**	**$0**	£0	$0	**£1**	**$1**	£4	$5
Total variable pay	**£4,283**	**$5,781**	£584	$736	**£2,726**	**$3,680**	£373	$470
Total single figure of remuneration	**£5,902**	**$7,966**	£2,273	$2,863	**£3,755**	**$5,068**	£1,452	$1,829

Notes

1.	Exchange rate	The amounts shown in sterling are converted using the cumulative weighted average exchange rate for the respective financial year. For the year ended 30 June 2021 the exchange rate was £1 = $1.35 and for the year ended 30 June 2020 the exchange rate was £1 = $1.26. Ivan Menezes and Kathryn Mikells are both paid in US dollars.	
2.	Benefits	Benefits is the gross value of all taxable benefits. For Ivan Menezes, these include medical insurance (£15k), company car allowance (£15k), contracted car service (£11k), financial counselling (£38k), product allowance, life and long-term disability cover. Kathryn Mikells' benefits include flexible benefits allowance (£18k), financial counselling (£19k), contracted car service (£3k), life cover (£6k) and product allowance.	
3.	Pension	Pension benefits earned during the year represent the increase in the pension fund balances over the year in the Diageo North America Inc. pension plans over and above the increase due to inflation. As Ivan Menezes has been a deferred member of the Diageo Pension Scheme (DPS) in the United Kingdom since 31 January 2012, and receives standard statutory increases in deferment the United Kingdom pension amount that accrued over the two years in excess of inflation is nil. Kathryn Mikells became a Director and started accruing benefits in the Supplemental Executive Retirement Plan (SERP) with effect from 9 November 2015.	Page 120
4.	Annual incentive	The maximum performance level for each financial measure was exceeded for the year ended 30 June 2021, resulting in an annual incentive outcome of 100% of maximum for the financial element of the plan, which represented 80% of the maximum incentive opportunity. Taking account of performance against individual objectives, the annual incentive payout is 93.8% of maximum for Ivan Menezes and 91.3% of maximum for Kathryn Mikells.	Page 118
5.	Long-term incentives	Long-term incentives represent the estimated gain delivered through share options and performance shares where performance conditions have been met in the respective financial year. It also includes the value of additional shares granted in lieu of dividends on these vested performance shares. For 2021, long-term incentives comprise performance shares and share options awarded in 2018 and due to vest in September 2021 at 29.3% and 10% of maximum respectively. £576k of the value reported above for Ivan Menezes and £364k for Kathryn Mikells related to share price appreciation over the performance period. For 2020, long-term incentives comprise performance shares and share options awarded in 2017 that vested in September 2020 at 10% and 27.5% of maximum respectively, and dividend shares arising on performance shares that vested in September 2020. Long-term incentives have been re-stated to reflect the share price on the vesting date ($133.25 compared to the average three-month share price used in last year's report of $137.21). The 2017 performance share award vested in September 2020 at 6.9% of maximum, as disclosed in the 2020 remuneration report, and a further 3.1% of the award vested in February 2021 following the resolution of the arbitration proceedings with Moët Hennessy SAS and Moët Hennessy International SAS in relation to the non-payment of a dividend payment for the year ended 31 December 2019.	Page 119
6.	Other incentives	Other incentives include the face value of awards made under the all-employee share plans (number of shares multiplied by the share price on the date of grant). Awards do not have performance conditions attached.	

Payments to former Directors (audited)

There were no payments to former Directors in the year ended 30 June 2021.

Payments for loss of office (audited)

There were no payments for loss of office to Executive Directors in the year ended 30 June 2021.

Kathryn Mikells left the company on 30 June 2021 as part of an orderly succession plan, with notice beginning on 13 January 2021 upon the announcement of her intended departure. In accordance with the approved 2020 remuneration policy and her service contract which provided for a 12-month notice period, Kathryn received half of the payment in lieu of the remainder of her notice period (six months and 12 days) in July 2021 in respect of salary, benefits and pension ($362,174). In accordance with her service contract, Kathryn was entitled to the remaining half of the payment in lieu of notice in monthly instalments over a six-month period between January and June 2022, but these payments will no longer become payable as a result of Kathryn taking up alternative employment (announced on 19 July 2021).

Kathryn remains eligible for an annual incentive payment for the year ended 30 June 2021, subject to the performance conditions in the usual way (see page 118 for more details). The Committee also exercised its discretion, in accordance with the plan rules and the remuneration policy, to prorate to the leaving date all unvested long-term incentive awards. These awards remain subject to performance conditions to be assessed at the end of the original performance periods in 2021, 2022 and 2023 with a subsequent two-year holding period. The post-employment shareholding requirement policy will be applied for a period of two years post-exit, requiring Kathryn to hold Diageo shares equal to 400% of salary until 30 June 2022 and 200% of salary until 30 June 2023. Kathryn is also entitled to receive pension payments under the SERP in line with the disclosure on page 120.

In line with internal policies and the remuneration policy, the company supported Kathryn with the cost of her repatriation back to the United States. This support amounted to £106,000 in addition to shipping costs of £23,507 and £7,640 in flights (amounts paid net of tax, with the company covering the cost of tax on top). The company has also paid £12,000 of legal support for Kathryn and will be providing tax return preparation support for a period of up to three years following her departure (up to a maximum cost of £15,000 per annum).

Looking back on 2021

Annual incentive plan (AIP) (audited)

AIP payout for the year ended 30 June 2021

AIP payouts for the Executive Directors are based 80% on performance against the group financial measures and 20% on performance against Individual Business Objectives (IBOs), as assessed by the Remuneration Committee and summarised in the table below.

Group financial measures[1]

Measure	Weighting	Threshold	Target[6]	Maximum	Actual	Payout (% of total AIP opportunity)
Payout opportunity (% maximum)		25%	50%	100%		
Net sales (% growth)[2]	13.3%	(27.4%)	(22.9%)	(18.4%)	**1.0%**	**13.3%**
Operating profit (% growth)[2]	13.3%	(55.3%)	(46.3%)	(37.3%)	**(3.4%)**	**13.3%**
Operating cash conversion[3]	13.3%	45.0%	55.0%	65.0%	**100.8%**	**13.3%**
Half-year performance for 1 July 2020 - 31 December 2020	40.0%					**40.0%**
Net sales (% growth)[2]	13.3%	25.5%	31.3%	37.1%	**39.3%**	**13.3%**
Operating profit (% growth)[2]	13.3%	38.1%	53.1%	68.0%	**69.7%**	**13.3%**
Operating cash conversion[3]	13.3%	90.0%	100.0%	110.0%	**110.5%**	**13.3%**
Half-year performance for 1 January 2021 - 30 June 2021	40.0%					**40.0%**

	Actual		Actual		Actual
Full-year net sales (% growth)[2]	**16.0%**	Full-year operating profit (% growth)[2]	**17.7%**	Full-year operating cash conversion[3]	**110.5%**

Individual business objectives

Measure (IBOs equally weighted) and target	Weighting	Result	Payout (% of total AIP opportunity)
Ivan Menezes Chief Executive	20%		**13.75%**
Global employee engagement Achieve consistent levels of employee engagement compared to 2019 levels, as measured by the Your Voice survey		The Chief Executive's strong leadership in galvanising the company through unprecedented challenges over the past year has deepened employees' sense of purpose, community and connection to Diageo, with the result that the overall employee engagement score at 81% was 1% higher than 2019. A strong response to the pandemic included regular and effective employee communications, clear protocols on the return to office and trade as well as enhanced support to employees such as additional leave, flexible working practices and wellbeing resources. Employee engagement has been driven further through the focus on sustainability ('Society 2030: Spirit of Progress' ambition) and inclusion & diversity (e.g. support for the Black Lives Matter movement and International Women's Day), all of which have been championed extensively within the organisation.	6.25%
Supporting communities and trade Support the recovery and build resilience from Covid-19 in communities and the hospitality industry		Promotion of moderation and tackling harm in the home through DRINKiQ campaign, which reached 1.4m people (vs target of 600k). Tackled hospitality unemployment through the delivery of a business and hospitality skills training programme, which reached 8.6k people (vs target of 5.5k) across 21 markets and all 6 regions, despite Covid-19 restrictions. Delivered access to enhanced hygiene, sanitation and clean water through community WASH programme, which reached 54.7k people (vs target of 17.5k).	7.50%
Kathryn Mikells Chief Financial Officer	20%		**11.25%**
Organisation effectiveness Deliver effectiveness improvements in the technology and shared services functions		Driven transformation within the technology and shared service functions, delivering operational efficiencies in areas such as the resolution of critical technology service incidents and strategic project deliverables as well as shared services effectiveness.	5.00%
Productivity Deliver productivity benefits		Productivity benefits delivered in excess of target across supply, marketing, indirects and organisation effectiveness.	6.25%

Payout

	Group (weighted 80%)	IBO (weighted 20%)	Total (% max)	Total (% salary)	Total ('000)[4]	Total ('000)
Ivan Menezes[5]	80.0%	13.75%	**93.75%**	187.5%	**£2,308**	$3,115
Kathryn Mikells	80.0%	11.25%	**91.25%**	182.5%	**£1,478**	$1,995

1. Performance against the AIP measures is calculated using 2021 budgeted exchange rates in line with management reporting and excludes the impact of exchange and any exceptional items.
2. For AIP purposes, the net sales and operating profit measures are calculated after adjustments for acquisitions and disposals at budgeted foreign exchange rates.
3. For AIP purposes, operating cash conversion is calculated by dividing cash generated from operations excluding cash inflows/outflows in respect of exceptional items, dividends, maturing inventories and post-employment payments in excess of the amount charged to operating profit by operating profit before depreciation, amortisation, impairment and exceptional items. The ratio is stated at the budgeted exchange rate for the year.
4. AIP payments are calculated using base salary as at 30 June 2021, in line with the global policy that applies to other employees across the company.
5. In accordance with the 2020 remuneration policy, one-third of Ivan Menezes' AIP payment after tax will be deferred into Diageo shares that will be held for a period of three years in a nominee account managed by the company's trustees. These shares will be acquired in September 2021. The number of shares will be disclosed in the 2022 remuneration report.
6. The targets for financial measures for the first half of the year (1 July 2020 - 31 December 2020) were set before the results announcement for fiscal 2020, at a time when there was extensive trade shutdown across many parts of the world and an unprecedented level of uncertainty for the year ahead. The targets for the first half are growth rates compared to the first half baseline of the prior year (1 July 2019 - 31 December 2019), which was unaffected by the Covid-19 pandemic. The targets for the second half of the year are growth rates compared to 1 January 2020 - 30 June 2020.

Long-term incentive plans (LTIP) (audited)

As approved by shareholders at the AGM in September 2014, long-term incentive awards are made under the Diageo Long-Term Incentive Plan (DLTIP). Awards are designed to incentivise Executive Directors and senior managers to deliver long-term sustainable performance and are subject to performance conditions normally measured over a three-year period. Awards are delivered on an annual basis in both performance shares and share options. With the exception of the TSR measure, awards vest at 20% of maximum for threshold performance, and 100% of the award will vest if the performance conditions are met in full, with a straight-line payout between threshold and maximum.

Share options – granted in September 2018, vesting in September 2021 (audited)

On 3 September 2018, Ivan Menezes and Kathryn Mikells received share option awards under the DLTIP, with an exercise price of $140.89. The award was subject to a performance condition assessed over a three-year period based on the achievement of the following equally weighted performance measures:

- Diageo's three-year total shareholder return (TSR) ranked against the TSR of a peer group of international drinks and consumer goods companies;
- growth in compound annual adjusted profit before exceptional items and tax.

The vesting profile for relative TSR is shown below:

TSR ranking (out of 17)	Vesting (% max)	TSR ranking (out of 17)	Vesting (% max)
1st, 2nd or 3rd	100	7th	55
4th	95	8th	45
5th	75	9th	20
6th	65	10th or below	0

TSR peer group (16 companies)		
AB InBev	Heineken	Pernod Ricard
Brown-Forman	Kimberly-Clark	Procter & Gamble
Carlsberg	Mondelēz International	Reckitt Benckiser
Coca-Cola	Nestlé	L'Oréal
Colgate-Palmolive	PepsiCo	Unilever
Groupe Danone		

Performance shares – awarded in September 2018, vesting in September 2021 (audited)

On 3 September 2018, Ivan Menezes and Kathryn Mikells received performance share awards under the DLTIP. Awards vest after a three-year period subject to the achievement of three equally weighted performance conditions, outlined below:

- growth in compound annual adjusted profit before exceptional items and tax;
- growth in organic net sales on a compound annual basis; and
- cumulative adjusted free cash flow.

Notional dividends accrue on awards and are paid out either in cash or shares in accordance with the vesting schedule.

Vesting outcome for 2018 performance share and share option awards in September 2021 (audited)

The 2018 performance share award vested at 29.3% and the 2018 share option award vested at 10% of the maximum, as detailed below:

Vesting of 2018 DLTIP	Weighting	Threshold	Midpoint	Maximum	Actual	Vesting (% maximum)[5]
Vesting if performance achieved (% maximum)		20%	60%	100%		
Organic net sales (CAGR)[1]	33%	3.75%	4.875%	6.0%	4.125%	11.1%
Adjusted profit before exceptional items and tax (CAGR)[2]	33%	4.5%	7.5%	10.5%	3.1%	0.0%
Cumulative free cash flow[3]	33%	£7,400m	£8,050m	£8,700m	£7,962m	18.2%
Vesting of performance shares (% maximum)						**29.3%**
Adjusted profit before exceptional items and tax (CAGR)[2]	50%	4.5%	7.5%	10.5%	3.1%	0.0%
Relative total shareholder return[4]	50%	9th	–	3rd	9th	10.0%
Vesting of share options (% maximum)						**10.0%**

1. The compound annual growth rate (CAGR) for organic net sales is based on the application of annual organic net sales growth rates in each of the individual years ended June 2019, June 2020 and June 2021 (using the year ended 30 June 2018 as a base)
2. The compound annual growth rate (CAGR) for profit before exceptional items and tax is based on the application of annual adjusted PBET growth rates in each of the individual years ended June 2019, June 2020 and June 2021 (using the year ended June 2018 as a base) excluding the impact of exchange, exceptional items, share buyback programmes and the post employment net income/charges included in other financial charges
3. Cumulative free cash flow is the aggregate of free cash flow for the three-year period excluding the impact of exchange, cash flows from exceptional items and the interest cost on share buyback programmes
4. Relative total shareholder return is measured as the percentage growth in Diageo's ordinary share price (assuming all dividends and capital distributions are re-invested) compared to the total shareholder return of the peer group of 16 other international drinks and consumer goods companies, based on an average period of six months, and converted to a common currency (US dollars). 20% of the part of the award based on relative total shareholder return vests if the threshold is achieved at a ranking of 9th, with full vesting for a ranking of 1st, 2nd or 3rd. As outlined in the TSR table above, the vesting profile for this measure does not operate on a straight-line basis between threshold and maximum.
5. No discretion was exercised by the Remuneration Committee in determining the long-term incentive outcomes
6. The value shown in the single figure of remuneration on page 117, outlined in more detail in the table below, is based on an average ADR price for the last three months of the financial year

	Award	Award Date	Awarded (ADRs)	Vesting (% Max)	Vesting (ADRs)	Option Price	ADR price	Dividend Equivalent Shares	Value ($'000)[7]	Value (£'000)[7]
Ivan Menezes	Performance shares	03/09/2018	42,848	29.3%	12,554	–	$186	740	$2,473	£1,832
	Share options	03/09/2018	42,848	10.0%	4,284	$140.89	$186	–	$193	£143
Kathryn Mikells	Performance shares	03/09/2018	27,062	29.3%	7,929	–	$186	467	$1,562	£1,157
	Share options	03/09/2018	27,062	10.0%	2,706	$140.89	$186	–	$122	£90

Pension and benefits in the year ended 30 June 2021

Benefits provisions for the Executive Directors are in accordance with the information set out in the Directors' remuneration policy table.

Pension arrangements (audited)

Ivan Menezes and Kathryn Mikells are members of the Diageo North America Inc. Supplemental Executive Retirement Plan (SERP) with an accrual rate of 20% of base salary during the year ended 30 June 2021. The accrual rate for Ivan Menezes was reduced from 30% to 20% of salary with effect 1 July 2019 and, in accordance with the 2020 remuneration policy, it is the company's intention to reduce the accrual rate further to 14% of salary by 1 January 2023. The SERP is an unfunded, non-qualified supplemental retirement programme. Under the plan, accrued company contributions are subject to quarterly interest credits. Under the rules of the SERP, employees can withdraw the balance of the plan six months after leaving service (in the case of Ivan Menezes) or six months after leaving service or age 55, if later (in the case of Kathryn Mikells). The balance may be withdrawn in either a lump sum or five equal annual instalments, depending on the size of the balance.

Ivan Menezes participated in the US Cash Balance Plan and the Benefit Supplemental Plan (BSP) until August 2012 and has accrued benefits under both plans. The Cash Balance Plan is a qualified funded pension arrangement. Employer contributions are 10% of pay capped at the Internal Revenue Service (IRS) limit. The BSP is a non-qualified unfunded arrangement; notional employer contributions are 10% of pay above the IRS limit. Interest (notional for the BSP) is credited quarterly on both plans.

Ivan Menezes was also a member of the Diageo Pension Scheme (DPS) in the United Kingdom between 1 February 1997 and 30 November 1999. The accrual of pensionable service ceased in 1999 but the linkage to salary remained until January 2012. Under the Rules of the Scheme, this benefit is payable unreduced from age 60. Ivan Menezes is able to take his UK pension benefits from age 58 without consent, and his benefit would not be subject to any actuarial reduction in respect of early payment. This is a discretionary policy Diageo offers that is not set out in the DPS Scheme Rules.

Upon death in service, a life insurance benefit of $3 million is payable for Ivan Menezes and a lump sum of four times base salary is payable for Kathryn Mikells.

The table below shows the pension benefits accrued by each Director to date. The accrued UK benefits for Ivan Menezes are annual pension amounts, whereas the accrued US benefits for Ivan Menezes and Kathryn Mikells are one-off cash balance amounts.

	30 June 2021		30 June 2020	
Executive Director	**UK pension £'000 p.a.**	**US benefit £'000**	UK pension £'000 p.a.	US benefit £'000
Ivan Menezes[1]	**75**	**7,645**	74	8,225
Kathryn Mikells[2]	**Nil**	**876**	Nil	797

1. Ivan Menezes' US benefits are lower at 30 June 2021 than at 30 June 2020 by £580k:
   - £333k of which is due to pension benefits earned over the year (£306k of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 117);
   - £45k of which is due to interest earned on his deferred US benefits over the year; and
   - (£958k) of which is due to exchange rate movements over the year.
2. Kathryn Mikells' US benefits are higher at 30 June 2021 than at 30 June 2020 by £79k:
   - £176k of which is due to pension benefits earned over the year (£172k of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 117); and
   - (£97k) of which is due to exchange rate movements over the year.

The normal retirement age applicable to each Director's benefits depends on the pension scheme, as outlined below.

Executive Director	UK benefits (DPS)	US benefits (Cash Balance Plan)	US benefits (BSP)	US benefits (SERP)
Ivan Menezes	60	65	6 months after leaving service	6 months after leaving service
Kathryn Mikells	n/a	n/a	n/a	6 months after leaving service, or age 55 if later

Long-term incentive awards made during the year ended 30 June 2021 (audited)

On 3 September 2020, Ivan Menezes and Kathryn Mikells received awards of performance shares and market-price share options under the DLTIP as outlined below. The three-year period over which performance will be measured is 1 July 2020 to 30 June 2023. The targets were not set at the time of the 2020 remuneration report due to the impact of the pandemic and were instead disclosed in full in an RNS announcement on 10 February 2021.

The performance measures and targets for awards made in September 2020 are outlined below. Net sales and profit before exceptional items and tax are key levers for driving top and bottom line growth. The free cash flow measure was selected because it represents a robust measure of cash performance consistent with typical external practice and is a key strategic priority. Total shareholder return is the only relative performance measure under the plan, provides good alignment with shareholder interests and increases the leverage based on share price growth. Finally, the environmental, social and governance (ESG) measure (20% of total performance share award), which was introduced for the first time for this award in 2020, reinforces the stretching and strategically important goals under the 'Society 2030: Spirit of Progress' ambition, Diageo's 10-year action plan to help create an inclusive and sustainable world. The definition of the ESG measures are the same as the 2021 award, outlined in more detail on page 127.

	Performance shares							Share options	
2020 DLTIP	Organic net sales value growth	Organic profit before exceptional items and tax growth	Reduction in greenhouse gas emissions	Improvement in water efficiency	Changed attitudes on dangers of underage drinking	% Female leaders	% Ethnically diverse leaders	Cumulative free cash flow	Relative TSR
Weighting	40%	40%	5%	5%	5%	2.5%	2.5%	50%	50%
Target range	4% - 8%	4.5% - 12%	6.3% - 14.3%	5.8% - 11.2%	0.75m - 1.25m	41% - 43%	38% - 40%	£6,200m - £8,200m	Median - upper quintile

20% of DLTIP awards will vest at threshold, with vesting up to 100% if the maximum level of performance is achieved. As explained in the remuneration policy table, one performance share is deemed equal in value at grant to three share options.

Executive Director	Date of grant	Plan	Share type	Awards made during the year	Exercise price	Face value '000	Face value (% of salary)
Ivan Menezes	03/09/2020	DLTIP – share options	ADR	43,377	$133.88	$6,230	375%
Ivan Menezes	03/09/2020	DLTIP – performance shares	ADR	43,377	–	$6,230	375%
Kathryn Mikells	03/09/2020	DLTIP – share options	ADR	27,396	$133.88	$3,935	360%
Kathryn Mikells	03/09/2020	DLTIP – performance shares	ADR	27,396	–	$3,935	360%

The proportion of the awards outlined above that will vest is dependent upon the achievement of performance conditions and continued employment, and the actual value may be nil. The vesting outcomes will be disclosed in the 2023 Annual Report.

The face value of each award has been calculated using the award price. In accordance with the Plan Rules, the number of performance shares and share options granted under the DLTIP was calculated by using the average closing ADR price for the last six months of the preceding financial year ($143.63). In accordance with the plan rules, the exercise price was calculated using the average closing ADR price of the three days preceding the grant date ($133.88). The ADR price on the date of grant was $133.70.

Outstanding share plan interests (audited)

Plan name	Date of award	Performance period	Date of vesting	Share type	Share price on date of grant	Exercise price	Number of shares/ options at 30 June 2020[1]	Granted	Vested/ exercised	Dividends awarded and released	Lapsed	Number of shares/options at 30 June 2021
Ivan Menezes												
DLTIP – share options[3]	Sep 2015	2015-2018	2018	ADR		$104.93	29,895					29,895
DLTIP – share options[3]	Sep 2016	2016-2019	2019	ADR		$113.66	39,734					39,734
DLTIP – share options[3]	Sep 2017	2017-2020	2020	ADR		$134.06	51,268				37,170	14,098
Total vested but unexercised share options in Ords[2]												**334,908**
DLTIP – share options[4]	Sep 2018	2018-2021	2021	ADR		$140.89	42,848					42,848
DLTIP – share options[5]	Sep 2019	2019-2022	2022	ADR		$170.28	38,827					38,827
DLTIP – share options	Sep 2020	2020-2023	2023	ADR		$133.88	0	43,377				43,377
Total unvested share options subject to performance in Ords[2]												**500,208**
DLTIP – performance shares[7]	Sep 2017	2017-2020	2020	ADR	$134.83		51,268		5,126	400	46,142	0
DLTIP – performance shares[4]	Sep 2018	2018-2021	2021	ADR	$139.41		42,848					42,848
DLTIP – performance shares[5]	Sep 2019	2019-2022	2022	ADR	$174.72		38,827					38,827
DLTIP – performance shares[11]	Sep 2020	2020-2023	2023	ADR	$133.70		0	43,377				43,377
Total unvested shares subject to performance in Ords[2]												**500,208**
Kathryn Mikells[9]												
DLTIP – share options[3,6,10]	Sep 2016	2016-2019	2019	Ord		2113p	93,752		1,037			92,715
DLTIP – share options[3]	Sep 2017	2017-2020	2020	ADR		$134.06	32,380				23,476	8,904
Total vested but unexercised share options in Ords[2]												**128,331**
DLTIP – share options[4,11]	Sep 2018	2018-2021	2021	ADR		$140.89	27,062					27,062
DLTIP – share options[5,11]	Sep 2019	2019-2022	2022	ADR		$170.28	24,522				8,167	16,355
DLTIP – share options[11]	Sep 2020	2020-2023	2023	ADR		$133.88	0	27,396			18,264	9,132
Total unvested share options subject to performance in Ords[2]												**210,196**
DLTIP – performance shares[8]	Sep 2017	2017-2020	2020	ADR	$134.83		32,380		3,237	252	29,143	0
DLTIP – performance shares[4,11]	Sep 2018	2018-2021	2021	ADR	$139.41		27,062					27,062
DLTIP – performance shares[5,11]	Sep 2019	2019-2022	2022	ADR	$174.72		24,522				8,167	16,355
DLTIP – performance shares[11]	Sep 2020	2020-2023	2023	ADR	$133.70		0	27,396			18,264	9,132
Total unvested shares subject to performance in Ords[2]												**210,196**

1. For unvested awards this is the number of shares/options initially awarded. For exercisable share options, this is the number of outstanding options. All share options have an expiry date of 10 years after the date of grant.
2. ADRs have been converted to Ords (one ADR is equivalent to four ordinary shares) for the purpose of calculating the total number of vested and unvested shares and options
3. The total number of share options granted under the DLTIP in September 2015, 2016 and 2017 and showing as outstanding as at 30 June 2021 are vested but unexercised share options
4. Performance shares and share options granted under the DLTIP in September 2018 and due to vest in September 2021 are included here as unvested share awards subject to performance conditions, although the awards have also been included in the single figure of remuneration table on page 117, since the performance period ended during the year ended 30 June 2021
5. Details of the performance conditions attached to DLTIP awards of performance shares and share options granted in 2019 are organic net sales growth (3.75%-6%), organic growth in profit before exceptional items and tax (4.5%-10.5%), cumulative free cash flow (£8,600m-£9,600m) and relative total shareholder return (median-upper quintile). Full details of the performance conditions were disclosed in Diageo's 2019 annual report on remuneration.
6. 1,037 Ords of this award were delivered as tax-qualified share options
7. Ivan Menezes must retain 2,880 ADRs of the 5,126 ADRs that vested on 4 September 2020 until 4 September 2022 under the post-vesting retention period
8. Kathryn Mikells must retain 1,844 ADRs of the 3,237 ADRs that vested on 4 September 2020 until 4 September 2022 under the post-vesting retention period
9. Kathryn Mikells also holds 1,031 outstanding options over ordinary shares under an all-employee share plan, which are not subject to performance and not included in this table
10. Kathryn Mikells exercised 1,037 tax-approved options on 24 June 2021 at a market price of £34.87 and exercise price of £21.13
11. Kathryn Mikells' retained unvested performance share and share option awards, pro-rated for employment over the performance period, when she left the company on 30 June 2021. These awards will vest, subject to the achievement of the performance conditions, on the normal vesting date, together with any accrued dividend equivalents.

Directors' shareholding requirements and share and other interests (audited)

The beneficial interests of the Directors in office at 30 June 2021 (and their connected persons) in the ordinary shares (or ordinary share equivalents) of the company are shown in the table below.

	Ordinary shares or equivalent[1,2]					
	27 July 2021	**30 June 2021 (or date of departure, if earlier)**	30 June 2020 (or date of appointment, if later)	Shareholding requirement (% salary)[3]	Shareholding at 27 July 2021 (% salary)[3]	Shareholding requirement met
Chairman						
Javier Ferrán[6]	**254,482**	**254,242**	250,496	–	–	–
Executive Directors						
Ivan Menezes[4,6]	**1,145,894**	**1,145,894**	1,134,374	500%	2,735%	Yes
Kathryn Mikells[5,6,12,13]	**239,347**	**239,732**	233,964	400%	868%	Yes
Non-Executive Directors						
Susan Kilsby[6]	**2,600**	**2,600**	2,600			
Melissa Bethell[7]	**0**	**0**	–			
Valérie Chapoulaud-Floquet[8]	**2,017**	**2,017**	–	–	–	–
Sir John Manzoni[9]	**2,816**	**2,816**	–	–	–	–
Lady Mendelsohn	**5,000**	**5,000**	5,000			
Alan Stewart	**7,069**	**7,069**	6,905			
Ireena Vittal[10]	**0**	**0**	–			
Ho KwonPing[11]	**–**	**4,649**	4,649			

Notes

1. Each person listed beneficially owns less than 1% of Diageo's ordinary shares. Ordinary shares held by Directors have the same voting rights as all other ordinary shares.
2. Any change in shareholding between the end of the financial year on 30 June 2021 and the last practicable date before publication of this report, being 27 July 2021, is outlined in the table above. The last practicable date is within one month of the AGM notice.
3. Both the shareholding requirement and shareholding at 27 July 2021 are expressed as a percentage of base salary on 30 June 2021 and calculated using an average share price for the year ended 30 June 2021 of 2938 pence
4. In addition to the number of shares reported in the table above, Ivan Menezes holds 83,727 vested but unexercised share options (over ADRs; equal to 334,908 ordinary shares)
5. In addition to the number of shares reported in the table above, Kathryn Mikells holds 92,715 vested but unexercised share options (over ordinary shares) and 8,904 share options (over ADRs, equal to 128,331 ordinary shares)
6. Javier Ferrán, Ivan Menezes, Kathryn Mikells and Susan Kilsby have share interests in ADRs (one ADR is equivalent to four ordinary shares); the share interests in the table are stated as ordinary share equivalent
7. Melissa Bethell was appointed to the Board on 30 June 2020
8. Valérie Chapoulaud-Floquet was appointed to the Board on 1 January 2021
9. Sir John Manzoni was appointed to the Board on 1 October 2020
10. Ireena Vittal was appointed to the Board on 2 October 2020
11. Ho Kwon Ping retired from the Board on 28 September 2020
12. Kathryn Mikells exercised 1,037 share options during the year ended 30 June 2020
13. Under the post-employment shareholding requirement policy, Kathryn Mikells is required to continue to hold Diageo shares equal in value to 400% of salary until 30 June 2022, reducing to 200% of salary until 30 June 2023. This requirement will be satisfied making use of a restricted nominee account, in which shares are already held in trust during the two-year post-vesting retention period.

Relative importance of spend on pay

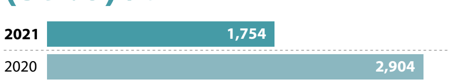
The graph below illustrates the relative importance of spend on pay (total remuneration of all group employees) compared with distributions to shareholders (total dividends plus the share buyback programme but excluding transaction costs), and the percentage change from the year ended 30 June 2020 to the year ended 30 June 2021. The Committee considers that there are no other significant distributions or payments of profit or cash flow.

Dividends have increased by 4% on the year before and the reduction in distributions to shareholders is a result of the suspension of the share buyback programme.

Relative importance of spend on pay – percentage change

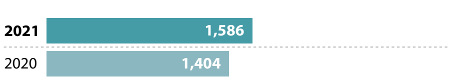
Distributions to shareholders

(39.6)%



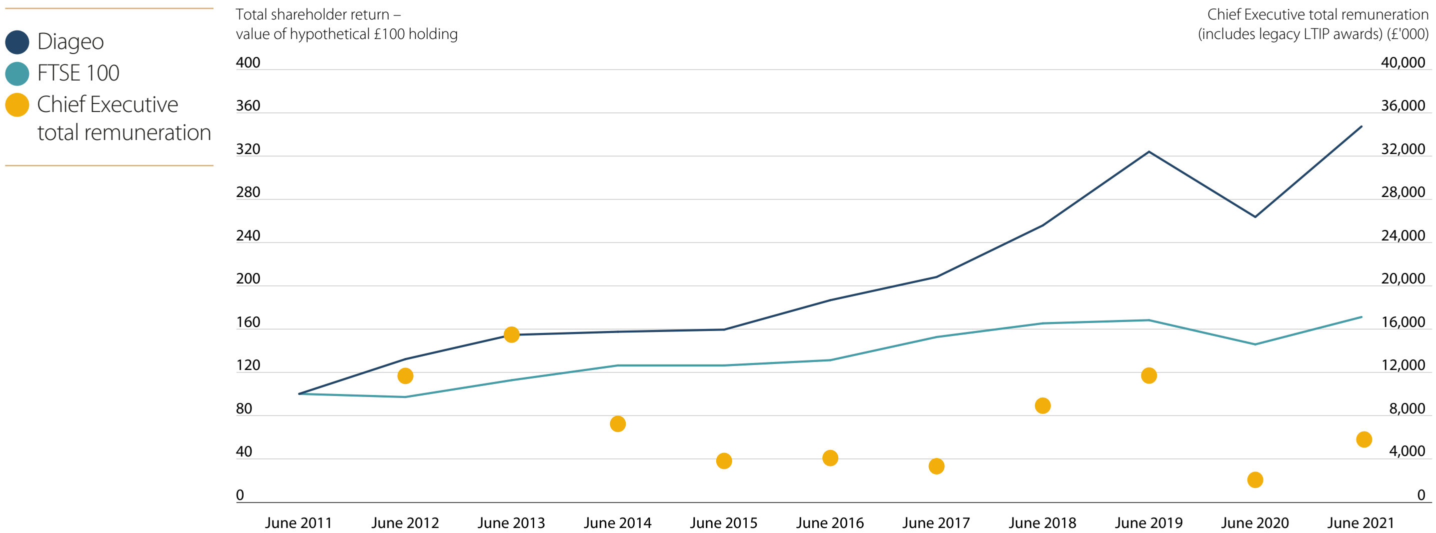
Staff pay

13.0%



Chief Executive total remuneration and TSR performance

The graph below shows the total shareholder return for Diageo and the FTSE 100 Index since 30 June 2011 and demonstrates the relationship between pay and performance for the Chief Executive, using current and previously published single total remuneration figures. The FTSE 100 Index has been chosen because it is a widely recognised performance benchmark for large companies in the United Kingdom.



	Paul S Walsh £'000	Paul S Walsh £'000	Ivan Menezes[1] £'000	Ivan Menezes[1] £'000	Ivan Menezes[1] £'000	Ivan Menezes[1] £'000	Ivan Menezes[1] £'000	Ivan Menezes[1] £'000	Ivan Menezes[1] £'000	**Ivan Menezes[2] £'000**
Chief Executive total remuneration (includes legacy LTIP awards)	11,746	15,557	7,312	3,888	4,156	3,399	8,995	11,776	2,273	**5,902**
Annual incentive[2]	74%	51%	9%	44%	65%	68%	70%	61.0%	0%	**93.75%**
Share option[2]	100%	100%	71%	0%	0%	0%	60%	73.1%	27.5%	**10.0%**
Performance share[2]	65%	95%	55%	33%	31%	0%	70%	89.3%	10%	**29.3%**

1. To enable comparison Ivan Menezes' single total figure of remuneration has been converted into sterling using the average weighted exchange rate for the relevant financial year
2. % maximum opportunity

Pay for Directors in the context of wider workforce remuneration

There is clear alignment in the approach to pay for executives and the wider workforce, in the way that remuneration principles are followed as well as the mechanics of the salary review process and incentive plan design, which are broadly consistent throughout the organisation. There is a strong focus on performance-related pay and the performance measures under the annual incentive plan and long-term incentive plan are the same for executives and other eligible employees. The reward package for Executive Directors is consistent with that of the senior management population, however, a much higher proportion of total remuneration for the Executive Directors is linked to business performance, compared to the rest of the employee population.

The structure of the reward package for the wider employee population is based on the principle that it should enable Diageo to attract and retain the best talent within our broader industry. It is driven by local market practice as well as level of seniority and accountability, reflecting the global nature of our business. Diageo is committed to fostering an inclusive and diverse workplace and creating a culture where every individual can thrive. Reflective of this, pay parity and consistency of treatment for all employees are critical to the reward practices across the organisation. The reward framework is regularly reviewed to ensure employees are rewarded fairly and appropriately, in line with the business strategy, performance outcomes, competitive market practice and our diversity agenda.

CEO pay ratio

In accordance with The Companies (Miscellaneous Reporting) Regulations 2018, the table overleaf sets out Diageo's CEO pay ratios for the year ended 30 June 2021. These CEO pay ratios provide a comparison of the Chief Executive's total remuneration – converted into Sterling – with the equivalent remuneration for the employees paid at the 25th (P25), 50th (P50) and 75th (P75) percentile of Diageo's workforce in the United Kingdom. A second table outlines the total remuneration for each quartile employee, and the salary component within this.

CEO pay ratio

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option A[2]	265:1	208:1	166:1
2020[1]	Option A[2]	50:1	38:1	31:1
2021	**Option A[2,3]**	**125:1**	**98:1**	**77:1**
2021	Total pay and benefits	£47,240	£60,093	£76,321
2021	Salary	£32,141	£42,578	£48,550

1. 2020 CEO pay ratios have been updated to reflect the value of the updated 2020 single figure which incorporates long-term incentives based on actual share price at vesting, rather than the average share price in the last three months of the financial year which had been used as a proxy for the 2020 disclosure
2. Only people employed in the United Kingdom and with the same number of contractual working hours throughout the full 12-month period have been included in the calculation. Inclusion of employees outside of this group would require a complex simulation of full-time annual remuneration based on a number of assumptions and would not have a meaningful impact on the ratio.
3. The total remuneration for employees is based on actual earnings for the 11 months to 31 May 2021, and a projection for June 2021 which replicates the relevant items of the previous month's earnings. This pragmatic approach allows us to calculate the ratios accurately, while mitigating the challenge of the limited timeframe between our year-end and the publishing of the Annual Report, and has been tested following our first disclosure of the CEO pay-ratios in 2019: analysis showed that the maximum resulting variance in the median pay ratio in any given year would be only 1 point, since pay changes from May to June would seldom be material.

Methodology
Consistent with the approach for Diageo's disclosure in previous years, the methodology used to identify the employees at each quartile for 2021 is Option A, as defined in the regulations. We believe this is the most robust and accurate approach, and in line with shareholder expectations. Total full-time equivalent remuneration for employees reflects all pay and benefits received by an individual in respect of the relevant year and has, other than where noted below, been calculated in line with the methodology for the 'single figure of remuneration' for the Chief Executive (shown on page 117 of this report). Actual remuneration was converted into the full-time equivalent for the role and location by pro-rating earnings to reflect full-time contractual working hours and these figures were then ranked to identify the employees sitting at the percentiles. In light of financial performance outcomes being signed off close to the publication of the Annual Report, the Diageo Group Business Multiple – applicable to the majority of UK employees – has been used to calculate all payments under the annual incentive, although some employees may receive a variation on this multiple in practice. Pension values for each employee are not calculated on an actuarial basis as for the Chief Executive, but rather as the notional cost of the company's pension contribution during the financial year, according to the relevant section of the pension scheme for each individual. This approach allows meaningful data for a large group of people to be obtained in a more efficient way.

Points to note for the year ended 30 June 2021
Strong business performance in the year ended 30 June 2021 is reflected in the payout under the annual incentive plans both for Diageo's Chief Executive and the wider UK workforce. The annual incentive plan outcome is directly linked to awards made under the freeshares scheme – in which all UK employees participate – and this further contributes to the 10% increase in median employee pay versus last year. In addition, the Manufacturing Incentive Plan was introduced for 2021, giving 1,800 manufacturing workers in Scotland and Northern Ireland an opportunity to participate in a bonus scheme incentivising and rewarding team and site performance. The median remuneration and resulting pay ratio for 2021 are consistent with the pay and progression policies for Diageo's UK employees as a whole and reflect the impact of performance-related pay on total remuneration for the year. As the Chief Executive has a larger proportion of his total remuneration linked to business performance than other employees in the UK workforce, the ratio has increased versus last year. However, vesting of long-term incentive awards is limited – reflecting the impact of the pandemic – and as a result the ratios remain lower than when first disclosed in 2019.

Looking after our people and investing in talent
Our focus remains firmly on the wellbeing of our employees and in the year ended 30 June 2021, we continued to provide stability and support to our workforce by safeguarding jobs, pay and benefits. In line with this focus, Diageo's benefits offering in the health and wellbeing space has been significantly upgraded in the past few years to include, for example, access to cancer-screening, health care cash plans and health-assessment for the wider workforce. The unionised population in Scotland will get access to private medical insurance in 2022, as part of a newly negotiated agreement.

We remain committed to attracting and retaining the right talent. Although there was a need to exercise restraint in the year ended 30 June 2021, we continued to review our approach to remuneration and have made some bold changes to reward structures and principles that will enable us to invest in top talent in priority areas going forward. Benefits such as competitive pension schemes, the opportunity to participate in employee share-ownership schemes, a product allowance to help employees enjoy Diageo products, generous leave policies, healthcare and life insurance remain key parts of our total reward offering. All UK employees can now also access their total reward statement through the new benefits portal launched at the end of 2020, which provides people with a better understanding of their benefits package and the choices available to them.

Championing inclusion and diversity is one of Diageo's strategic priorities and we want to leverage the broadest range of backgrounds and skills to create a fully inclusive, high-performing culture. Although we recognise that gender parity is just one measure of an inclusive workplace, we are proud that we have further reduced the gender pay gap across our UK businesses to +2.8%, among the lowest in the FTSE.

Change in pay for Directors compared to wider workforce
In line with the requirements in The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, which implement Articles 9a and 9b of European Directive 2017/828/EC1 (commonly known as the Revised Shareholder Rights Directive or SRD), the table on the next page shows the percentage change in Directors' remuneration and average remuneration of employees from the financial year 2020 to the financial year 2021, as well as an update on last year's disclosure. Given the small size of Diageo plc's workforce, data for all employees of the Group has also been included.

In the past year, limited salary increases have been implemented across the world, with changes implemented through a focussed approach in high-inflation markets or in other exceptional individual situations to support retention and business change. Although the table shows no change in the average global employee salary, this is in fact the result of the impact of currency conversion rates on calculations and, based on constant exchange rates, the year-on-year change in salary is +4.11%. The small number of people employed by the Diageo plc entity makes the reported year-on-year movement for this group more sensitive to individual anomalies and may be more volatile over time.

The year-on-year bonus increase for the average global employee is significant, as relatively few of our employees received a bonus for the year ended 30 June 2020 and many employees will be rewarded for their contributions to business performance through a strong bonus payout in the year ended 30 June 2021. We are focussed on making our benefit offering more inclusive and consistent globally and have reviewed our benefits landscape against newly established Standards of Care, to ensure we have best in class offerings supporting our diverse workforce. We continue to work with regional brokers to support us with driving improvements and efficiencies in our benefit offering. To support our employees during the pandemic we have focussed on employee assistance provision and consistent life insurance provision, as well as a more local focus on wellbeing. The year-on-year movement in salary for Executive Directors reflects the fact that for the first three months of the year ended 30 June 2020 they received a lower salary than in the year ended 30 June 2021, and the absence of a salary increase thereafter. Note that no year-on-year change in pay has been reported for Melissa Bethell, Valérie Chapoulaud-Floquet, Sir John Manzoni and Ireena Vittal as there is no comparable remuneration data for the year ended 30 June 2020. In previous years, benefits for Non-Executive Directors mostly related to travel expenses and the reported year-on-year decrease is therefore driven by the travel restrictions in place throughout 2020 and 2021.

Year-on-year change in pay for Directors compared to the global average employee

	2021			2020		
	Salary	**Bonus**	**Benefits**	Salary	Bonus	Benefits
Plc employee average[1]	**5.1%**	**N/A[6]**	**38.8%**	7.5%	-100%	9.0%
Average global employee[2]	**0.0%**	**278.8%**	**12.6%**	5.3%	-67.8%	6.9%
Calculated with constant FX rate	**4.11%**			5.1%		
Executive Directors[3]						
Ivan Menezes	**0.7%**	**N/A[6]**	**-10.7%**	2.7%	-100%	0.8%
Kathryn Mikells	**0.7%**	**N/A[6]**	**17.9%**	2.8%	-100%	55.9%
Non-Executive Directors[4]						
Melissa Bethell	–	–	–	–	–	–
Valérie Chapoulaud-Floquet	–	–	–	–	–	–
Javier Ferrán (Chairman)	**0.0%**	–	**0.0%**	0.0%	–	0.0%
Susan Kilsby	**9.6%**	–	**-87.7%**	37.3%	–	68.9%
Ho KwonPing[5]	**3.2%**	–	**-67.7%**	3.3%	–	93.3%
Sir John Manzoni	–	–	–	–	–	–
Lady Mendelsohn	**3.2%**	–	**0.0%**	3.3%	–	0.0%
Alan Stewart	**2.4%**	–	**0.0%**	2.5%	–	0.0%
Ireena Vittal	–	–	–	–	–	–

1. Around 50 UK-based employees are employed by Diageo plc. Their remuneration has been calculated in line with the approach used for the CEO pay-ratio calculation and the average year-on-year change has been reported. Only those employed during the full financial year have been included in calculations.
2. Calculated by dividing staff cost related to salaries, bonus and benefits by the average number of employees on a full-time equivalent basis, as disclosed in note 3c to the financial statement under staff costs and average number of employees (note 3c) on page 150, but reduced to account for the inclusion of Executive Directors in reported figures. The salary, bonus and benefits cost data used for calculation are subsets of the Wages and salaries figure disclosed in this note. The salary data used for calculation has been adjusted to exclude costs related to severance payments which are included in staff costs, and last year's disclosure has been updated in line with this for consistency. In line with the approach for Directors, the bonus values used for the calculation reflect the bonus earned in relation to performance during the relevant financial year.
3. Calculated using the data from the single figure table in the annual report on remuneration (page 117) in US dollars, as both Ivan Menezes and Kathryn Mikells are paid in this currency.
4. Calculated using the fees and taxable benefits disclosed under Non-Executive Directors' remuneration in the table below. Taxable benefits for Non-Executive Directors comprise a product allowance as well as expense reimbursements relating to attendance at Board meetings, which may be variable year-on-year. In the year ended 30 June 2021, no travel expenses were incurred as travel was restricted as a result of the pandemic.
5. Ho KwonPing retired as Non-Executive Director on 28 September 2020. To provide a meaningful reflection of annual percentage increase for the year ended 30 June 2021, his 2021 fee was adjusted to reflect full-year appointment to the Board.
6. N/A refers to a nil value in the previous year, meaning that the year-on-year change cannot be calculated.

Non-Executive Directors

Fee policy

Javier Ferrán's fee as non-executive Chairman was increased from £600,000 per annum to £650,000 on 1 July 2021. This was a planned increase for 1 January 2020 that was deferred, at the Chairman's request, due to the Covid-19 pandemic. There had been no prior increase since his appointment on 1 January 2017. The Chairman's fee is appropriately positioned against our comparator group of FTSE 30 companies excluding financial services.

There was no change to Non-Executive Director fees in the year ended 30 June 2021. The next review is scheduled for October 2021.

	January 2021	January 2020
Per annum fees	£'000	£'000
Chairman of the Board	**600**	600
Non-Executive Directors		
Base fee	**98**	98
Senior Non-Executive Director	**30**	30
Chairman of the Audit Committee	**30**	30
Chairman of the Remuneration Committee	**30**	30

Non-Executive Directors' remuneration for the year ended 30 June 2021 (audited)

	Fees £'000		Taxable benefits[1] £'000		Total £'000	
	2021	2020	**2021**	2020	**2021**	2020
Chairman						
Javier Ferrán[2]	**600**	600	**1**	1	**601**	601
Non-Executive Directors						
Susan Kilsby	**158**	144	**1**	10	**159**	154
Melissa Bethell	**98**	0	**1**	0	**99**	0
Valérie Chapoulaud-Floquet[5]	**49**	–	**1**	–	**50**	–
Sir John Manzoni[3]	**74**	–	**1**	–	**75**	–
Lady Mendelsohn	**98**	95	**1**	1	**99**	96
Alan Stewart	**128**	125	**1**	1	**129**	126
Ireena Vittal[4]	**73**	–	**1**	–	**74**	–
Ho KwonPing[6]	**24**	95	**–**	4	**24**	99

1. Taxable benefits include a product allowance and expense reimbursements relating to travel, accommodation and subsistence in connection with attendance at Board meetings during the year, which are deemed by HMRC to be taxable in the United Kingdom. The amounts in the single figure of total remuneration table above include the grossed-up cost of UK tax paid by the company on behalf of the Directors. Non-taxable expense reimbursements have not been included in the single figure of remuneration table above.
2. £100,000 of Javier Ferrán's net remuneration in the year ended 30 June 2021 was used for the monthly purchase of Diageo ordinary shares, which must be retained until he retires from the company or ceases to be a Director for any other reason
3. Sir John Manzoni was appointed to the Board on 1 October 2020
4. Ireena Vittal was appointed to the Board on 2 October 2020
5. Valérie Chapoulaud-Floquet was appointed to the Board on 1 January 2021
6. Ho KwonPing retired from the Board on 28 September 2020

Looking ahead to 2022

Salary increases for the year ending 30 June 2022

As outlined in the 2020 annual report on remuneration, in light of the impact of the Covid-19 pandemic, there was no change to base salaries for the Chief Executive and Chief Financial Officer during the year ended 30 June 2021.

In April 2021, the Remuneration Committee reviewed base salaries for senior management and agreed the following increase for the Chief Executive, in line with the merit budget for the wider workforce for the United Kingdom and the United States, effective 1 October 2021:

	Ivan Menezes		Lavanya Chandrashekar	
Salary at 1 October ('000)	**2021**	2020	**2021**	2020
Base salary	**$1,711**	$1,661	**$975**	–
% increase (over previous year)	**3%**	0%	**–**	–

Annual incentive design for the year ending 30 June 2022

The measures and targets for the annual incentive plan are reviewed annually by the Remuneration Committee and are carefully chosen to drive financial and individual business performance goals related to the company's short-term strategic operational objectives. The plan design for Executive Directors in the year ending 30 June 2022 will comprise the following performance measures and weightings, with targets set for the full financial year:

- operating profit (% growth) (26.67% weighting): stretching profit targets drive operational efficiency and influence the level of returns that can be delivered to shareholders through increases in share price and dividend income not including exceptional items or exchange;
- net sales (% growth) (26.67% weighting): a key performance measure of year-on-year top line growth;
- operating cash conversion (26.67% weighting): ensures focus on efficient cash delivery by the end of the year; and
- individual business objectives (20% weighting): measurable deliverables that are specific to the individual and are focussed on supporting the delivery of key strategic objectives.

The Committee has discretion to adjust the payout to reflect underlying business performance and any other relevant factors.

Details of the targets for the year ending 30 June 2022 will be disclosed retrospectively in next year's annual report on remuneration, by which time they will no longer be deemed commercially sensitive by the Board.

Long-term incentive awards to be made in the year ending 30 June 2022

The long-term incentive plan measures are reviewed annually by the Remuneration Committee and are selected to reward long-term consistent performance in line with Diageo's business strategy and to create alignment with the delivery of value for shareholders. The Committee has ensured that the incentive structure for senior management does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour.

As last year, DLTIP awards made in September 2021 will comprise awards of both performance shares and share options, based on stretching targets against the key performance measures as outlined in the table below, assessed over a three-year performance period. The relative total shareholder return measure is based on the same constituent group and vesting schedule as outlined on page 119.

The performance share element of the DLTIP applies to the Executive Committee and the top cadre of senior leaders across the organisation worldwide, whilst the share option element is applicable to a much smaller population comprising only members of the Executive Committee. One market price option is valued at one-third of a performance share.

The ESG measure comprises four goals reflecting the 'Society 2030: Spirit of Progress' strategy, to make a positive impact on the environment and society, as referenced on pages 38-41. Each goal is weighted equally:

- reduction in greenhouse gas emissions;
- improvement in water efficiency;
- number of people who confirmed changed attitudes to the dangers of underage drinking, after participating in a Diageo supported education programme; and
- inclusion and diversity metric (one measure on % female leaders globally, and another measure on % ethnically diverse leaders globally).

Awards are calculated on the basis of a six-month average share price for the period ending 30 June 2021.

It is intended that a DLTIP award of 500% of base salary will be made to Ivan Menezes in September 2021, comprising 375% of salary in performance shares and 125% of salary in market-price share options (in performance share equivalents; one market price option is valued at one-third of a performance share).

It is intended that a DLTIP award of 480% of salary will be made to Lavanya Chandrashekar in September 2021, comprising 360% of salary in performance shares and 120% of salary in market price share options (in performance share equivalents).

The table below summarises the annual DLTIP awards to Ivan Menezes and Lavanya Chandrashekar in September 2021.

	Chief Executive	Chief Financial Officer
Grant value (% salary)	Performance share equivalents (1 share: 3 options)	
Performance shares	375%	360%
Share options	125%	120%
Total	**500%**	**480%**

Performance conditions for long-term incentive awards to be made in the year ending 30 June 2022

	Performance shares								Share options		
			Environmental, social & governance (ESG)								
	Organic net sales (CAGR)	Organic profit before exceptional items and tax (CAGR)	Greenhouse gas reduction	Water efficiency	Positive drinking	% Female leaders	% Ethnically diverse leaders	Vesting schedule	Relative Total Shareholder Return	Cumulative free cash flow (£m)	Vesting schedule
Weighting (% total)	40%	40%	5%	5%	5%	2.5%	2.5%	100%	50.0%	50.0%	100%
Maximum	9.0%	13.5%	27.1%	12.1%	3.7m	46%	41%	100%	3rd and above	£9,250	100%
Midpoint	7.0%	10.0%	23.1%	9.2%	3.0m	45%	40%	60%	–	£8,350	60%
Threshold	5.0%	6.5%	19.1%	6.3%	2.3m	44%	39%	20%	9th and above	£7,450	20%

Additional information

Emoluments and share interests of senior management
The total emoluments for the year ended 30 June 2021 of the Executive Directors, the Executive Committee members and the Company Secretary (together, the senior management) of Diageo comprising base salary, annual incentive plan, share incentive plan, termination payments and other benefits were £24.9 million (2020 – £12.1 million).

The aggregate amount of gains made by the senior management from the exercise of share options and from the vesting of awards during the year was £9.4 million. In addition, they were granted 819,702 performance-based share options under the Diageo Long-Term Incentive Plan (DLTIP) during the year at a weighted average share price of 2493 pence, exercisable by 2030, and 29,522 options not subject to performance. In addition they were granted 597 options over ordinary shares under the UK savings-related share options scheme (SAYE). They were also awarded 882,321 performance shares under the DLTIP in September 2020, which will vest in three years subject to the relevant performance conditions, and 13,779 restricted shares not subject to performance.

Senior management options over ordinary shares
At 27 July 2021, the senior management had an aggregate beneficial interest in 1,474,626 ordinary shares in the company and in the following options over ordinary shares in the company:

	Number of options	Weighted average exercise price	Option period
Ivan Menezes	835,116	25.15	2015-2025
Lavanya Chandrashekar	19,584	27.15	2018-2028
Other[1]	1,742,559	25.60	2012-2030

1. Other members of the Executive Committee, which includes the Company Secretary

Key management personnel related party transactions (audited)
Key management personnel of the group comprises the Executive and Non-Executive Directors, the members of the Executive Committee and the Company Secretary.

Diageo plc has granted rolling indemnities to the Directors and the Company Secretary, uncapped in amount, in relation to certain losses and liabilities which they may incur in the course of acting as Directors or Company Secretary (as applicable) of Diageo plc or of one or more of its subsidiaries. These indemnities continue to be in place at 30 June 2021.

Other than disclosed in this report, no Director had any interest, beneficial or non-beneficial, in the share capital of the company. Save as disclosed above, no Director has or has had any interest in any transaction which is or was unusual in its nature, or which is or was significant to the business of the group and which was effected by any member of the group during the financial year, or which having been effected during an earlier financial year, remains in any respect outstanding or unperformed. There have been no material transactions during the last three years to which any Director or officer, or 3% or greater shareholder, or any spouse or dependent thereof, was a party. There is no significant outstanding indebtedness to the company from any Directors or officer or 3% or greater shareholder.

Statutory and audit requirements
This report was approved by a duly authorised Committee of the Board of Directors and was signed on its behalf on 28 July 2021 by Susan Kilsby who is Chair of the Remuneration Committee.

The Board has followed the principles of good governance as set out in the UK Corporate Governance Code and complied with the regulations contained in the Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules of the Financial Conduct Authority and the relevant schedules of the Companies Act 2006.

The Companies Act 2006 and the Listing Rules require the company's auditor to report on the audited information in their report and to state that this section has been properly prepared in accordance with these regulations.

PwC has audited the report to the extent required by the Regulations, being the sections headed Single total figure of remuneration for Executive Directors (and notes), Annual incentive plan (AIP), Long-term incentive plans (LTIPs), Pension arrangements, Directors' shareholding requirements and share and other interests, Outstanding share plan interests, Non-Executive Directors' remuneration and Key management personnel related party transactions.

The annual report on remuneration is subject to shareholder approval at the AGM on 30 September 2021; terms defined in this remuneration report are used solely herein.