Dear Shareholder

I am pleased to present the Directors’ remuneration report for the year ended 30 June 2023, which contains:

• The updated Directors’ remuneration policy, which shareholders are being asked to approve at the Annual General Meeting (AGM) on 28 September 2023; and

• The annual remuneration report, describing how the current Directors’ remuneration policy has been implemented during 2023 and how the policy will be implemented in 2024.

Proposed Directors’ Remuneration Policy

The Committee has reviewed the current Directors’ remuneration policy and determined that it continues to support the company’s strategy and will do so for the next three years. The Committee is therefore asking shareholders to approve our current policy, largely unchanged except for a governance enhancement to the post-cessation shareholding requirement, which further improves shareholder alignment. Executive Directors will now be required to hold 100% of their in-service shareholding level [50% of salary for the CEO and 400% of salary for the CFO] for two years post-exit. We have also improved the level of disclosure of our bonus and clawback policy.

As well as submitting an updated Directors’ remuneration policy for approval at the AGM in September 2023, shareholders are also being asked to approve the rules of the new Diageo Long Term Incentive Plan (LTIP), as it is close to its 10-year expiry. No significant changes are being proposed to the rules.

During the year, the Committee reviewed the current Directors’ remuneration policy. In doing so, it sought to ensure continued alignment with the achievement of business strategy, our ongoing ability to recruit and retain high-quality, international talent and to meet the expectations of our shareholders and the governance community. Consideration was given to the global nature of the business, which includes a large presence in North America and, therefore, the need to compete for talent in a global pool. Attracting and retaining key talent in an increasingly competitive talent pool is critical for our business and, at all levels, Diageo’s talent strategy involves a global approach to internal talent mobility. Remuneration is an important aspect of being able to meet our talent objectives.

On behalf of the Committee, I engaged with our largest shareholders and their representatives on the new policy and considered the feedback received, which was positive. We also reviewed market practice trends in the FTSE 30 (excluding financial services) and our global consumer goods peer group. Further, and in line with our remuneration principles, the Committee considered the remuneration arrangements for the workforce globally when reviewing the policy for Executive Directors.

We value the views we have received from our shareholders and the strong support we have had in recent years. Maintaining both the dialogue and the support continue to be important to the Committee.

In this year’s report

Remuneration at a glance
129
Pay for performance at a glance
130
Remuneration Committee governance
131
Directors’ remuneration policy
132
Annual report on remuneration
139
Looking back on 2023

Single figure of remuneration table
139
Annual incentive payouts for 2023
140
Long-term incentives vesting in 2023
141
Personnel and benefits in 2023
143
Long-term incentives awarded in 2023
143
Outstanding share plan interests
145
Non-Executive Director pay
151
Looking ahead to 2024

Salary increases for the year ahead
152
Annual incentive design for the year ahead
152
Long-term incentives for the year ahead
152

CEO transition

On 28 March 2023, we announced that Sir Ivan Menezes would retire on 30 June 2023 and Debra Crew would be appointed as the next CEO from the start of fiscal 2024. Following the announcement on 7 June 2023 that Sir Ivan had sadly passed away, Debra Crew was appointed to the Board as CEO and Executive Director on 8 June 2023, having taken over as interim CEO on 5 June due to Sir Ivan’s deteriorating health.

We set the salary for Debra Crew at $1,750,000, slightly below Sir Ivan’s salary. The Committee determined that this salary level reflects Debra’s significant relevant experience, which includes a prior CEO position in the United States and four years with Diageo, including time on the Diageo Board as a Non-Executive Director. The Committee considered both the FTSE 30 pay practices, as well as those of our global peer group when determining the appropriate level of pay for our Chief Executive.

The remuneration arrangements for Sir Ivan were approved within the terms of the Directors’ remuneration policy and application of the plan rules on death in service. Further details, including exercises of discretion by the Committee, can be found on page 150.

Business performance and employees

As mentioned elsewhere in the Annual Report, Diageo delivered a strong set of 2023 results during a period of economic volatility and continued inflationary pressures. Both organic net sales and organic operating profit growth were within our medium-term guidance and follow two consecutive years of double-digit growth and are reflected in lower annual incentive outcomes this year relative to the prior two years. Over the year, we gained or held market share in markets that total 70% of our net sales value, delivered further expansion of organic operating profit margin through productivity savings and return on invested capital was 15.7%.

Colleagues across the business have continued to show resilience, agility and commitment during this period of sustained uncertainty. Diageo continues to focus on being market competitive and proactive in the ways it supports the wellbeing of employees. Employee engagement has remained high again this year at 84%, two points higher than in 2021. Early in fiscal 23, Diageo made a one-time payment of £1,000 gross (capped at 15% of local equivalent annual salary) to all employees below Executive Committee level to recognize their commitment through challenging times. In addition, ongoing monitoring of the cost of living in all our geographies has resulted in office salary increases in countries experiencing the highest inflation.

Other measures, such as financial education and progressive benefit policies have been implemented and more detail can be found on page 148.

Incentive outcomes

In determining annual and long-term incentive outcomes, the Remuneration Committee reviews not only the financial outcomes against targets set but also considers Diageo’s wider business performance. It is assessed market share gains, financial returns relative to our Alcoholic Beverages and TSR peer groups, progress made towards our ‘Society 2030: Spirit of Progress’ goals and employee engagement, among other factors. It also considers the experience of shareholders over the applicable performance period, in particular the company’s TSR performance relative to our peer group.

Annual incentive

For the annual incentive, outcomes under the Net Sales (NS) and Operating Profit (OP) measures were at and just under target respectively and Operating Cash Conversion (OCC) performance fell short of the minimum threshold required. Further detail is provided on page 140. Following a holistic review of business performance in the year, the Committee concluded that the outcome was fair and did not require any adjustment. Our annual incentive also includes Individual Business Objectives (IBO) and the outcomes are described on page 140.

Once IBO outcomes are included, overall annual incentive payouts for fiscal 23 were 37% of maximum for Sir Ivan Menezes, 35% of maximum for Debra Crew and 36% of maximum for Lavanya Chandrashekar.

Long-term incentives

Strong financial performance over the three-year period, particularly in respect of growth in organic net sales and profit before exceptional items and tax (PBIT), free cash flow (FCF) and share price growth of 26% resulted in a vesting outcome of 99% of maximum for the 2020 performance share awards for the prior CEO, the CEO and the CFO and 78% of maximum for the 2020 share options granted to the prior CEO and the CFO. The 2020 performance share awards were the first Diageo awards which included an Environmental, Social and Governance (ESG) component and the outcomes against these measures show solid progress towards Diageo’s ‘Society 2030: Spirit of Progress’ ambition over this first three-year period.

Prior to confirming the vesting of DLTIP awards, the Committee considered whether there was a compelling case to change the formulaic outcome by reviewing overall business performance and the targets set for these awards. For the 2020 DLTIP awards, the Committee was especially cognisant of investor concerns around the potential for windfall gains given the timing of the grant during the Covid-19 pandemic. The Committee considered various factors, including the share price used to calculate the 2020 awards relative to the prior year’s price, the stretch of the targets and the performance relative to peers (see page 142 for more detail).

The Committee determined that the outcomes were appropriate and aligned to the assessment of Diageo’s underlying business performance over the three-year period and made no adjustment to the vesting levels.

The Committee believes that the incentive plans continue to drive the desired behaviours to support the company’s values and strategy and that the Directors’ remuneration policy has operated as intended in 2023.

The year ahead and alignment of incentives with strategy

The Committee approved a base salary increase of 4% for the CFO, effective 1 October 2023, having reviewed market practice in the FTSE 30 and our global consumer goods peer group. This increase is below the 2023 salary increase budget for employees in the UK, which was 5%. There will be no increase for the CEO, whose next salary increase will be for 2024.
Allowances and benefits

- Normalised annual 1 October salary reflection of external market and internal employee sentiment
- Focus of competitive benefits linked to local marketplace
- Maximum company pension contribution 14% of salary, which is aligned to the offering for the wider workforce 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 and based on the Executive Directors’ Executive Director’s remuneration framework and executive bonus plan

Implementation in year ended 30 June 2023

- 4% salary increase for the CFO, below the annual salary budgets for the wider workforce: For the CFO, 1 January 2023, which was reduced to 100% of salary
- All allowances and benefits unchanged from prior year
- All share options vesting date 1 January 2022
- Size of annual incentive award opportunity is unchanged from prior year
- For fiscal 2023, maximum for CFO 480% of salary
- Total payout of 37.25% of salary
- Total payout of 32.5% of salary
- Total payout of 100% of CFO award
- Performance measure for CFO salary growth, relative TSR, cumulative free cash flow, profit before exceptional items, and total shareholder return (TSR) (organic) measures: Performance measure for CFO salary growth is calculated using reported profits and cash flows, with a 2:1 weighting

In summary

Diageo’s consistent performance in another period of broad and sustained uncertainty is reflected in the incentive outcomes and the decision taken by the Committee, which it considers is in line with the company’s philosophy of delivering market competitive pay in return for high performance against the company’s strategic objectives.

Creating sustainable, long-term performance

A significant proportion of remuneration is delivered in variable pay linked to business and individual performance, focused 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

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

Consideration of stakeholder interests

Executives are focused on creating sustainable share price growth. The requirement to build significant personal shareholdings in Diageo, and to hold shares obtained from long-term incentive awards for two years post-vesting aligns executives and shareholders.

Decisions on executive remuneration are made with consideration of the interests of the wider workforce and other stakeholders, as well as the external climate.
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 2020 to 30 June 2023)

Organic growth in net sales

Cumulative free cash flow

Relative TSR ranking vs peer group

Executive Director vesting outcome (% of maximum)

Operating cash conversion

5-year history of annual incentive payouts

5-year year over three-year incentive performance period

Annual incentive (for the period 1 July 2022 to 30 June 2023)

Net sales growth

Operating profit growth

Diageo’s share price growth over the period 30 June 2020 to 30 June 2022

Growth in dividend distribution to shareholders in year ended 30 June 2022

Remuneration Committee Governance

Remuneration Committee

The Remuneration Committee consists of the following independent Non-Executive Directors: Susan Kilsby, Melissa Bethell, Valerie Chapovalov-Hughes and Sir John Manzoni. Lady Mendelsohn, Alan Stewart, Ireneu Vidal and Karen Blackett. Susan Kilsby is the Chair of the Remuneration Committee and also the Senior Independent Director. The Chairman of the Board and the Chief Executive are invited to attend Remuneration Committee meetings, except when their own remuneration is being discussed. The 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 and incentive outcomes. The Remuneration Committee’s terms of reference are available in the corporate governance section of the company’s website and on request from the Company Secretary.

The Remuneration Committee is responsible for all executive remuneration decisions throughout the year, which includes setting financial targets for the annual and long-term incentive plans and the outcomes under these plans. During fiscal 23, the Remuneration Committee also reviewed the Directors’ remuneration policy and consulted with Diageo’s largest investors in preparation for seeking shareholder approval at the 2023 AGM, as well as the CEO transition arrangements and the death-in-service remuneration arrangements following the sad passing of Sir Ivan Menezes. The Committee 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 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 DLTP, past-vesting retention period, shareholding requirement, bonus deferral into shares and malus and clawback provisions. The Committee also considers the impact on behaviour of both the measures and targets set;

Predictability - the pay opportunity under different performance scenarios is set out on page 138 of this report.

Propportionality - 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 pay outcomes are appropriate; and

Alignment with culture - non-financial objectives may be incentivised under the independent business objective element of the annual incentive plan and ‘Society 2030: Spirit of Progress’ (ESG) criteria are incentivised under the long-term incentive plan, which reinforces the company’s purpose and values. The design of remuneration and the measures used, reflect Diageo’s culture.

External advisors

During the year ended 30 June 2023, the Remuneration Committee received advice on Directors’ remuneration from both Deloitte and FIT. FIT was appointed as the Committee’s new external advisor in October 2022. The fees paid to Deloitte in fiscal 23 [until the end of their appointment] for advice and reports to the Committee were £31,900. The fees paid to FIT in fiscal 23 since their date of appointment were £114,265. All fees were determined on a time and expenses basis.

The Committee is satisfied that FIT’s (and previously Deloitte’s) engagement partners, and the teams that provide remuneration advice to the Committee, have no 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. Deloitte provided and continues to provide unrelated services to the company in the areas of immigration and management consultancy. FIT does not provide Diageo with any other services.

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Statement of voting

The following table summarises the details of votes cost in respect of the resolutions on the Directors’ remuneration policy at the 2020 AGM and the Directors’ remuneration report (excluding the policy) at the 2022 AGM.

<table>
<thead>
<tr>
<th>Resolution</th>
<th>For</th>
<th>Against</th>
<th>Total votes</th>
<th>Percentage of votes cost</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors’ remuneration policy(1)</td>
<td>Total number of votes</td>
<td>£1,644,443,671</td>
<td>121,538,951</td>
<td>76.18p</td>
<td>For</td>
</tr>
<tr>
<td>Directors’ remuneration report (excluding the policy)(2)</td>
<td>Total number of votes</td>
<td>£1,632,245,424</td>
<td>88,630,650</td>
<td>70.16p</td>
<td>For</td>
</tr>
</tbody>
</table>

The remuneration policy and the Directors’ remuneration report (excluding the policy) were both approved.

(1) As shown on pages 89-94 of the 2020 Annual Report.
(2) As shown on pages 96-102 and 99-103 of the 2022 Annual Report.
Directors’ remuneration policy

This section of the report sets out the 2023 Directors’ remuneration policy which will be discussed in the AGM at 28 September 2023 and, if approved, will apply with effect from 1 July 2023.

The current policy, which was approved by shareholders in September 2020, can be found on the company’s website at https://www.diageo.com/en/our-business/corporate-governance/ remuneration-at-diageo.

The Remuneration Committee discussed the details of the policy over a series of meetings, taking into account the strategic priorities of the business and evolving market practice. An external perspective was provided by the Remuneration Committee’s advisers. The Remuneration Committee Chair engaged with the company’s 20 largest shareholders and their representatives regarding the policy proposals. As referenced in the Remuneration Committee Chair’s letter, the Committee believes the current policy continues to support the business strategy and that the new policy being put forward for shareholder approval remains largely the same. The key change from the current policy relates to the increase in post-cessation shareholding requirements which requires 100% of the in-service shareholding requirement (or, if lower, their actual shareholding on cessation) to be held for two years after leaving (from 100% in the first year and 50% in the second year under the current policy). We have improved disclosures by providing more detail on our malus and clawback policy, the shareholding requirements and the enforcement mechanism for the post-cessation shareholding requirements. Some minor editorial changes have been made.

The Committee reserves the right to make minor changes to the policy, where required for regulatory, tax or administrative reasons.

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 as well as global consumer goods companies.

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 the 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 as part of remuneration packages designed to attract and retain the best global talent.

Operation

• The provision of benefits typically depends on the country of residence of the Executive Director and may include but is not limited to a company car or travel allowance contracted to the service or equivalent, product allowance, life insurance, accidental death and disability insurance, medical and dental cover, tax support and tax return preparation costs.

• The Remuneration Committee has discretion to offer additional allowances, or benefits, to Executive Directors, if considered appropriate and reasonable. These may include, but are not limited to, relocation expenses, housing allowance and school fees where a Director is asked to relocate from his/her home location as part of their appointment. Where appropriate, for example in relation to relocation benefits, the company may also meet the tax costs associated with the benefit provision.

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 competitive post-retirement benefits which are part of remuneration packages designed to attract and retain the best global talent.

Operation

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

Opportunity

• The maximum pension contribution, or cash alternative allowance, for Executive Directors is 14% of salary. The current CEO and CFO receive a pension contribution of 14% of salary, in line with the UK workforce.

Annual Incentive Plan (AIP)

Purpose and link to strategy

Incentives deliver Diageo’s annual financial targets and the achievement of key individual objectives which are chosen to align with the business strategy and create a platform for sustainable long-term performance. Compulsory deferral of a minimum of one-third of any annual incentive earned into shares for three years promotes longer-term alignment of Executive Directors’ interests with shareholders’ interests.

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 personal performance.
• A minimum of one-third of the actual earned bonus payment is normally deferred into a share award (pre-tax deferred) or owned shares (post-tax deferred) 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 is paid out in cash after the end of the financial year.
• The Remuneration 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 Remuneration Committee has discretion to apply malus or clawback to bonus as detailed in the ‘Malus and Clawback’ section below.
• In the case of pre-tax deferral, national dividends accrued on deferred bonus share awards, delivered as shares or cash at the discretion of the Remuneration Committee at the end of the vesting period (on post-tax deferral into owned shares, actual dividends are payable).

Performance conditions

Annual incentive plan awards are annually 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. The Remuneration Committee has discretion to amend the performance measures 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.

Diageo Long-Term Incentive Plan (DLTIP)

Purpose and link to strategy

Provides a long-term incentive to achieve key performance measures which support the company’s strategy, and to align interests with 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 the overall 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.
• National dividends accrued 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 Remuneration Committee has discretion to apply malus or clawback to bonus as detailed in the ‘Malus and Clawback’ section below.

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, with the balance awarded in performance shares, 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 if performance reaches above threshold, will be determined by the Remuneration 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% for 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 our ‘Society 2030: Spirit of Progress’ (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.

Malus and Clawback
Under the AIP and DLTIP, the Remuneration Committee has discretion to apply malus and clawback in the circumstances specified in the applicable malus and clawback policy from time to time in place, for example:

• Material misstatement of results or an error resulting in overpayment.
• Risk failure resulting in material financial loss or any business area being the subject of a regulatory investigation or in breach of regulation.
• Employee misconduct/disciplinary action.
• Employee accountability for material reputational damage to the group which could have been avoided.
• Risk failure resulting in material financial loss or any business area being the subject of a regulatory investigation or in breach of regulation.
• Material misstatement of results or an error resulting in overpayment.

The malus and clawback provisions may be invoked for one year following an AIP cash payment and two years following a DLTIP vesting. Where the Remuneration Committee determines that malus and/or clawback will apply, the Remuneration Committee has discretion to determine the basis of application and the means by which malus and/or clawback will be implemented.

The malus and clawback policy will be reviewed from time to time to ensure that the policy is compliant with any regulatory requirements, such as the NYSE listing rules.

All-employee share plans
Purpose and link to strategy
To encourage broader employee share ownership through locally approved plans.

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.

Opportunity
• 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 may be 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 normally expected to build up their in-employment shareholding within five years of their appointment to the Board.
• Shares that count towards these minimum shareholding requirements are shares beneficially held by the Executive Director and their connected persons, including Deferred Bonus Share Plan (DBSP) shares within the three-year deferral period, on a net (if post-tax deferral)/notional net (if pre-tax deferral) of tax basis.
• Executive Directors are 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 Diageo shareholding of 500% of the in-employment shareholding requirement (or, if lower, their actual shareholding on cessation) for two years after leaving the company.
• The Executive Directors enter into a deed undertaking to comply with the requirement and committing to hold the required number of shares in a specified nominee account.

Chairman of the Board and Non-Executive Directors’ fees
Purpose and link to strategy
• Supports the attraction and retention of world-class talent and reflects the value of the individual, their skills and experience.

Operation
• Fees for the Chairman and Non-Executive Directors are normally reviewed every year.
• A proportion of the Chairman’s annual fee may be 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 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 Fernández, was re-appointed on 6 October 2022 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.
The 'Target' scenario shows fixed remuneration as described above, plus a target payout of 50% of the maximum annual incentive and a midpoint payout of 50% of the maximum long-term incentive awards. 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 entirely as performance share awards. The amounts shown in sterling are converted using the cumulative weighted average exchange rate for the year ended 30 June 2023 of £1 = $1.20.

**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, but retains the discretion to offer a remuneration package which is necessary to meet the individual circumstances of the recruitment of new Executive Director and to enable the hiring of an individual with the necessary skills and expertise. However, the maximum short-term 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 individual forfeits when leaving their current employer. In doing so, the Committee will ensure that any such compensation is valued 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 earned, the 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 retaining 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.

Basis of calculation and assumptions:

The ‘Minimum’ scenario shows fixed remuneration only, i.e. base salary for the year ending 30 June 2023, value of benefits received in the year ended 30 June 2023, the projected annual benefit value for year ending 30 June 2024 in the case of the newly appointed CEO, and the pension benefits to be accrued by year ending 30 June 2024. These are the only elements of the Executive Directors’ remuneration packages that are not subject to performance conditions.

**Diageo Long-Term Incentive Plan (DLTIP)**

Where the Executive Director leaves for any reason other than dismissal, they are entitled to retain any deferred bonus shares, which vest in full on departure, subject to any holding requirements under the post-employment shareholding policy. It is not considered necessary for the bonus deferred to continue to apply after leaving, since the bonus has 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, awards vest in full. On other corporate events, the Remuneration Committee may allow awards to vest in full.

**2020 Deferred Bonus Share Plan (DBSP)**

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 prorated for the period of service during the performance period, which is typically payable at the usual payment date unless the Committee decides otherwise. Where the Executive Director leaves for any other reason, no payment or bonus deferred will be made. The amount is subject to performance measures 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.

**Meditation**

The Remuneration Committee requires (or 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 negotiation.

**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 prorated for the period of service during the performance period, which is typically payable at the usual payment date unless the Committee decides otherwise. Where the Executive Director leaves for any other reason, no payment or bonus deferred will be made. The amount is subject to performance measures 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.

**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 may pay reasonable repatriation costs for leavers at the Remuneration 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.
Employee engagement on executive remuneration

The Committee directed the team of professional experts to engage high-level stakeholders, including executive directors, to contribute to the development of the remuneration policy for the next financial year. The feedback received from the stakeholders was considered in the process of formulating the new remuneration policy.

Consideration of wider workforce remuneration

When reviewing Executive Directors’ salaries, the Committee takes into account the company’s salary budget and market data. Each year, the Committee has a session to consider various aspects of executive remuneration. This includes an assessment of the performance-related pay, long-term incentives, and other elements of remuneration. The aim is to ensure that there is an appropriate balance between fixed and variable components, and that the remuneration packages are competitive and fair.

Performance-related pay

Performance-related pay is a critical component of executive remuneration. The Committee ensures that it is closely aligned with the company’s strategic objectives and performance. The executive remuneration principles and structure and how executive pay aligns with the pay for the wider workforce is also considered.

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Diageo Annual Report 2023

Looking back on 2023

Annual incentive plan (AIP) payouts for 2023 (audited)

AIP payouts for the year ended 30 June 2023

AIP payouts for all of the Executive Directors serving during the year 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:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Weighting</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
<th>Payout (% of total AIP opportunity)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (% growth)</td>
<td>35%</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
<td>6.5%</td>
<td>12.34%</td>
</tr>
<tr>
<td>Operating profit (% growth)</td>
<td>25%</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
<td>12.67%</td>
</tr>
<tr>
<td>Operating cash conversion</td>
<td>20%</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
<td>5.2%</td>
<td>10.40%</td>
</tr>
<tr>
<td>Net cash/conversion ratio</td>
<td>10%</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
<td>6.5%</td>
<td>10.70%</td>
</tr>
</tbody>
</table>

Notes:

1. Performance against the AIP measures is calculated using 2022 budgeted exchange rates and other assumptions.
2. For AIP purposes, Net Sales Value (NSV) growth and Operating Profit (OP) growth are calculated on budgeted currency exchange rates, after adjustments for acquisitions and disposals and incorporates the organic treatment of hyperinflationary economies.
3. For AIP purposes, Operating Cash Conversion (OCC) is calculated by dividing cash generated from operations excluding cash inflows/outflows in respect of exceptional items, dividends, including insurance and post-employment payments in excess of the amount charged to operating profit by operating profit before depreciation, amortisation, impairment and exceptional items. The measure incorporates the organic treatment of hyperinflationary economies. The ratio is stated at the budgeted exchange rate for the year.
4. AIP payments are calculated using base salary as at 30 June 2022, in line with the global policy that applies to other employees across the company. For Ivan Menezes, the payment reflects time employed in fiscal 23 up to and including 30 June 2022. For Debra Crew, the payment disclosed reflects the period 5 to 30 June, covering the period from appointment as interim CEO on 5 June 2023 to the end of the fiscal year as stated in the 2023 interim result which applied from 5 June 2023.
5. In accordance with the 2020 remuneration policy and their individual elections to defer pay, one-third of Debra Crew’s and Lavanya Chandrasekar’s other tax AIP payout disclosed in the table above will be deferred into Diageo shares, which will be held for three years or a number of shares. These shares will be acquired in September 2023 and the number of shares will be disclosed in the 2024 remuneration report. The Committee reserved the deferral requirement in respect of Ivan Menezes.
6. Market share reflects internal estimates incorporating Nielsen, Association of Canadian Distillers, CSA, Diageo and other third-party providers.
7. No discretion was exercised by the Remuneration Committee in determining the AIP outcome.

Long-term incentive plans (LTIP) vesting in 2023 (audited)

Long-term incentive awards are made under the Diageo Long-Term Incentive Plan (DLTIP), which was approved by shareholders at the AGM in September 2014, which has been prevalent for performance based shares and share options. Awards granted to Executive Directors 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 2020, vesting in September 2023 (audited)

In September 2020, Ivan Menezes and Debra Crew (although not an Executive Director at the time of grant) received share option awards over ADRs under the DLTIP, with an exercise price of $133.88. 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:

- Relative total shareholder return (TSR) ranked against the TSR of a peer group of international drinks and consumer goods companies; and
- Cumulative free cash flow (FCF)

The vesting profile for grants to Executive Directors for relative TSR is shown below:

Performance shares – awarded in September 2020, vesting in September 2023 (audited)

In September 2020, Ivan Menezes, Debra Crew and Lavanya Chandrasekar (Ms Crew and Ms Chandrashekar were not Executive Directors at the time of grant) received performance share awards under the DLTIP. Awards vest after a three-year period subject to the achievement of the following equally weighted performance measures:

- Organic Net Sales Value (NSV) growth (weighted 40%)
- Profit Before Exceptional items and Tax (PBET) growth (weighted 40%); and
- ESG measures (water efficiency, carbon reduction, positive drinking & diversity & inclusion) weighted 20%.

Notes:

1. The AIP payout for Debra Crew is based 80% on performance against the group financial measures as noted in the table at the top of this page and 20% on performance against Individual Business Objectives (IBOs). Debra Crew’s IBOs for fiscal 23 related to her role as Chief Operating Officer (COO), prior to appointment as CEO late in the financial year following the death in service of Ivan Menezes. The first two equally weighted SOOs for the COO role (growing or holding total trade market share in 2/3rds of total net sales in measured markets) was aligned to Ivan Menezes’ goal and was achieved. Ms Crew’s second SOO for the COO role was to grow value market share in North America Total Beverage Alcohol, while driving operating margin in line with Annual Operating Plan (AOP) targets and there was satisfactory delivery under this IBO. The resulting overall IBO outcome was 9.38% out of a total of 20%.
## DIRECTORS’ REMUNERATION REPORT continued

### Performance Share Awards

The performance share awards for the fiscal year ended 30 June 2023 ("Fiscal Year") consist of performance share awards granted to Executive Directors in recognition of their contribution to the Company’s performance. The performance share awards are subject to performance conditions that are based on the Company’s performance over a three-year period ending 30 June 2023. The performance conditions are as follows:

- **Net Sales Value (NSV) growth**
- **Relative TSR** of a peer group of 16 international drinks and consumer goods companies.
- **Positive drinking (ESG)**

### Vesting Conditions

- **Cumulative FCF is based on the outcome for each of the three years within the performance period, measured before exceptional items and on an FX neutral basis by adjusting actual**
- **Profit before exceptional items and tax growth is presented on a constant currency basis and it excludes the impact of acquisitions and disposals. The impact of hyperinflation on operating**
- **At the time of grant of the 2020 awards, Debra Crew and Lavanya Chandrashekar were not Executive Directors. The vesting schedule for awards granted to executives below the Board**

### Vesting Schedule

- **Vesting of share options (Maximum)**

### Share Options

- **Share options were granted to Ivan Menezes and Lavanya Chandrashekar n/a 65 6 months after leaving service, or age 55 if later**

### Summary of performance share awards and options vested (audited)

### Executive Directors’ Remuneration

- **Net Sales Value (NSV) growth**
- **Relative TSR of a peer group of 16 international drinks and consumer goods companies**
- **Positive drinking (ESG)**

### Performance: PiS2

- **142 Diageo**

### Notes

1. **NSV growth** is calculated on budgeted currency exchange rates, after adjustments for acquisitions and disposals and incorporates the organic treatment of exchange rate movements.
2. **Relative TSR** is calculated on an average ADR price ($178.52).
3. **Vesting** is calculated on budgeted currency exchange rates, after adjustments for acquisitions and disposals and incorporates the organic treatment of exchange rate movements.
4. **Positive drinking (ESG)** is based on the outcome for each of the three years within the performance period, measured before exceptional items and on an FX neutral basis by adjusting actual

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**Executive Directors’ Remuneration Report**

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**Performance Share Awards**

- **Ivan Menezes’ US benefits are higher at 6 June 2023 than at 30 June 2022 by £312k. The breakdown of this relates to £41k of which is due to pension benefits earned over the year (none of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 169), £249k of which is due to increased earned on his deferred US benefits until his death in service and a reduction of £19k which is due to exchange rate movements over the year.**

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**Executive Directors’ Remuneration Report**

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**Executive Directors’ Remuneration Report**

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**Executive Directors’ Remuneration Report**

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**Executive Directors’ Remuneration Report**

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4. **Positive drinking (ESG)** is based on the outcome for each of the three years within the performance period, measured before exceptional items and on an FX neutral basis by adjusting actual
Long-term incentive awards made during the year ended 30 June 2023 (audited)

On 3 September 2022, Ivan Menezes, Debra Crew and Lavanya Chandrasekher received awards of performance shares and market-priced share options under the DLTIP based on a percentage of base salary as outlined below. Ms Crew was not an Executive Director at the time of grant. The three-year period over which performance will be measured is 1 July 2022 to 30 June 2025.

The performance measures and targets for awards made in September 2022 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, 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 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 was set out on page 150 of the annual remuneration report for fiscal 22.

<table>
<thead>
<tr>
<th>Performance shares</th>
<th>Share options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighting</td>
<td>40%, 40%, 5%, 5%, 2.5%, 2.5%, 2.5%</td>
</tr>
<tr>
<td>(% female leaders, % ethically diverse leaders)</td>
<td>40%, 5%</td>
</tr>
<tr>
<td>Cumulative free cash flow(1)</td>
<td>100, 150, 200, 250, 300, 350</td>
</tr>
<tr>
<td>Relative (%)</td>
<td>30%</td>
</tr>
<tr>
<td>Target range</td>
<td>4.5% - 8.5%</td>
</tr>
<tr>
<td>Organic profit before exceptional items and tax</td>
<td>40%</td>
</tr>
<tr>
<td>Reduction in greenhouse gas emissions</td>
<td>40%</td>
</tr>
<tr>
<td>Share efficiency</td>
<td>5%</td>
</tr>
</tbody>
</table>

(1) The cumulative free cash flow (CFF) targets have been restated in USD following the change in reporting currency from fiscal 24 onwards (original GBP target range was £7,650m - £8,650m). More details can be found on page 34.

20% (25% for Ms Crew as the awards were made before she became an Executive Director) of DLTIP awards will vest at threshold, with vesting in a straight line up to 100% if the maximum level of performance is achieved. As explained in the remuneration policy, one performance share is deemed equal in value at grant to three share options.

Executive Director | Date of grant | Plan | Shares授予 | Years of vesting | Share price | Shares granted at date of grant | Share price | Shares granted at vesting | Shares released at vesting | Shares lapsed |
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ivan Menezes</td>
<td>02/09/2022</td>
<td>DLTIP - share options</td>
<td>ADR</td>
<td>33,845</td>
<td>2022-2025</td>
<td>$195.29</td>
<td>22,574</td>
<td>11,271</td>
<td>5,567</td>
<td>15,211</td>
</tr>
<tr>
<td>Debra Crew</td>
<td>02/09/2022</td>
<td>DLTIP - performance shares</td>
<td>ADR</td>
<td>26,629</td>
<td>2022-2025</td>
<td>$176.95</td>
<td>26,629</td>
<td>26,629</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Lavanya Chandrasekher</td>
<td>02/09/2022</td>
<td>DLTIP - share options</td>
<td>ADR</td>
<td>18,512</td>
<td>2022-2025</td>
<td>$185.29</td>
<td>18,512</td>
<td>18,512</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

The proportion of the awards outlined above that will vest is dependent on the achievement of performance conditions and continued employment, and the actual value received may be nil. The vesting outcomes will be disclosed in the 2025 annual remuneration report. 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 ($195.29). This price is used to determine the face value in the table above. 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 ($176.95).

Outstanding share plan interests (audited)

<table>
<thead>
<tr>
<th>Plan</th>
<th>Date of grant</th>
<th>Performance</th>
<th>Shares granted at date of grant</th>
<th>Shares granted at vesting</th>
<th>Shares released at vesting</th>
<th>Shares lapsed</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLTIP - share options</td>
<td>Sep 2017</td>
<td>2017-2020</td>
<td>$134.06</td>
<td>14,098</td>
<td>14,098</td>
<td>—</td>
</tr>
<tr>
<td>DLTIP - share options</td>
<td>Sep 2018</td>
<td>2018-2021</td>
<td>$160.46</td>
<td>4,284</td>
<td>4,284</td>
<td>—</td>
</tr>
<tr>
<td>DLTIP - share options</td>
<td>Sep 2019</td>
<td>2019-2022</td>
<td>$176.95</td>
<td>28,827</td>
<td>28,827</td>
<td>14,949</td>
</tr>
<tr>
<td>Total vested but unvested share options in Ordinary shares(2)</td>
<td>Dec 2020</td>
<td>2020-2023</td>
<td>$133.88</td>
<td>43,377</td>
<td>43,377</td>
<td>—</td>
</tr>
<tr>
<td>Total vested but unvested share options in Ordinary shares(2)</td>
<td>Sep 2021</td>
<td>2021-2024</td>
<td>$194.75</td>
<td>36,675</td>
<td>36,675</td>
<td>12,248</td>
</tr>
<tr>
<td>DLTIP - share options</td>
<td>Sep 2017</td>
<td>2017-2020</td>
<td>$134.06</td>
<td>14,098</td>
<td>14,098</td>
<td>—</td>
</tr>
</tbody>
</table>

(1) For unvested awards, this is the number of shares/options initially awarded for exerciseable 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 shares options granted under the DLTIP in September 2016 and 2017, as shown in the above table, are vesting on 30 June 2023 are vested but unexercised share options.

(4) Performance shares and share options granted under the DLTIP in September 2020 and due to vest in September 2023 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 139, since the performance period ended during the year ended 30 June 2023.

(5) Details of the performance conditions attached to DLTIP and DESAP awards of performance shares and share options granted in 2020 are: organic net sales growth (4%-8%), organic growth in profit before exceptional items and tax (6.5%-13.5%), reduction in greenhouse gas emissions (19.1%-27%), improvements in water efficiency (6.3%-12.1%), changing attitudes on dangers of underage drinking (0.75m-1.25m), % of female leaders (41%-43%), % of ethnically diverse leaders (38%-40%), cumulative free cash flow (£6,200m-£8,200m) and relative total shareholder return (median-upper quintile).

(6) Details of the performance conditions attached to DLTIP awards of performance shares and share options granted in 2021 are: organic net sales growth (4.5%-12%), organic growth in profit before exceptional items and tax (5.0%-12%), reduction in greenhouse gas emissions (5.0%-17.0%), improvements in water efficiency (3.0%-12.1%), changing attitudes on dangers of underage drinking (2.5m-7.5m), % of female leaders (15%-47%), % of ethnically diverse leaders (25%-46%), cumulative free cash flow (£5,550m-£7,580m) and relative total shareholder return (median-upper quintile).

(7) Details of the performance conditions attached to DLTIP awards of performance shares and share options granted in 2022 are: organic net sales growth (5.5%-12.5%), organic growth in profit before exceptional items and tax (5.0%-12%), reduction in greenhouse gas emissions (5.0%-14.3%), improvements in water efficiency (5.8%-11.2%), changing attitudes on dangers of underage drinking (2.5m-10m), % of female leaders (15%-47%), % of ethnically diverse leaders (25%-46%), cumulative free cash flow (£5,750m-£10,560m) and relative total shareholder return (median-upper quintile).

(8) The performance shares awarded to Debra Crew in 2020 under the Diageo Exceptional Stock Award Plan (DESAP) were granted in recognition of equity which was forfeited on joining Diageo in 2020 and have the same performance measures and targets as the 2020 DLTIP performance shares (see footnote 5). Debra Crew was granted a number of performance shares and restricted stock units under the DESAP in March 2022 to incentivise and retain her. The DESAP performance shares will vest based on a performance hurdle of winning relative total shareholder return (RTR) of at least 2.50% or total F127 for awards due to vest in September 2026, 2.50% or total F217 for awards due to vest in September 2027 and 2.50% or total F277 for awards due to vest in September 2028. The DESAP restricted stock units vest subject to continued employment up to the vesting date.

(9) In accordance with the policy and plan rules treatment on death-in-service, the 2020, 2021 and 2022 awards for Ivan Menezes vested early on 2 August 2023 based on an assessment of performance as at 30 June 2023. Further information can be found on page 139.

(10) Lavanya Chandrashekar was granted a number of restricted stock units prior to her appointment as CFO and joining the Board.

The beneficial interests of the Directors who held office during the year ended 30 June 2023 (and their connected persons) in the ordinary shares (or ordinary share equivalents) of the company are shown in the table below.

<table>
<thead>
<tr>
<th>Ordinary shares or equivalent(1)</th>
<th>Shareholding requirement (1% salary)(2)</th>
<th>Shareholding at 31 July 2023 (1% salary)(2)</th>
<th>Shareholding requirement met</th>
<th>Shareholding at 30 June 2023 (or date of appointment if later)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Javier Ferrer(7)</td>
<td>310,720</td>
<td>310,468</td>
<td>307,288</td>
<td></td>
</tr>
<tr>
<td>Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ivan Menezes(1),(2),(3),(4),(5),(6),(7)</td>
<td>1,141,234</td>
<td>1,141,234</td>
<td>1,078,566</td>
<td>500% 1,279% Yes</td>
</tr>
<tr>
<td>Debra Crew(2),(5)</td>
<td>260</td>
<td>260</td>
<td>n/a</td>
<td>500% 1% No - to be met by June 2028</td>
</tr>
<tr>
<td>Lavanya Chandrashekar(1),(2),(3),(4),(5),(6),(7)</td>
<td>11,113</td>
<td>11,109</td>
<td>6,228</td>
<td>400% 47% No - to be met by July 2026</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Susan Kiplly</td>
<td>2,600</td>
<td>2,600</td>
<td>2,600</td>
<td></td>
</tr>
<tr>
<td>Melissa Behrell</td>
<td>2,668</td>
<td>2,668</td>
<td>2,668</td>
<td></td>
</tr>
<tr>
<td>Valérie Chapouloud-Riquet</td>
<td>2,098</td>
<td>2,098</td>
<td>2,098</td>
<td></td>
</tr>
<tr>
<td>Sir John Mannock</td>
<td>2,092</td>
<td>2,092</td>
<td>2,092</td>
<td></td>
</tr>
<tr>
<td>Lady Nicola Mendelstern</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Alan Stewart</td>
<td>7,269</td>
<td>7,269</td>
<td>7,120</td>
<td></td>
</tr>
<tr>
<td>Inessa Vidal</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Karen Blackett</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

Note:
(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 2023 and the last practicable date before publication of this report, being 28 June 2023, is outlined in the table above.

(3) Both the shareholding requirement and shareholding at 31 July 2023 are expressed as a percentage of base salary on 30 June 2023 and calculated using a three-month average share price for period ending 30 June 2022 of £25.5.

(4) In addition to the number of shares reported in the table above, Ivan Menezes’ estate holds 159,540 vested but unexercised share options.

(5) Lavanya Chandrashekar’s 2022 Deferred Bonus Plan Shares (1,068,626) are included in the total share interests shown above.

(6) In addition to the number of shares reported in the table above, Lavanya Chandrashekar holds 15,166 vested but unexercised share options.

(7) Javier Ferrer, Ivan Menezes, Debra Crew, Lavanya Chandrashekar and Susan Kiplly have share interests in ADRs (one ADR is equivalent to four ordinary shares). The share interests in the table are stated as ordinary share equivalents.

(8) Debra Crew joined Diageo in 2020 and her first tranche of Diageo shares awards will vest in September 2021.

Relative importance of spend on pay
The graphs below illustrate 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 2022 to the year ended 30 June 2023. There are no other significant distributions or payments of profit or cash flow.
Supporting our employees
We continue to focus on all aspects of the wellbeing of our employees. Early in fiscal 2023, we made a one-time recognition payment of £1,000 gross (staged at 15% of fiscal equivalent annual salary) to thank employees for their ongoing efforts and support them with the rising cost of living in many locations. Since then, the Executive Committee has continued to monitor the cost-of-living in all our geographies using a formal monitoring process and has implemented actions as required, for example off-cycle salary increases in high inflation geographies. We have also provided financial education to all employees to support them in managing their personal finances more effectively.

Other reward-based initiatives include the roll out of a new recognition platform into North America and the UK, with more regions planned for fiscal 24. We have deployed global support for menopause, including an online help for employees. We also have provided financial support to enable employees to make better decisions about their personal finances.

The renewed focus on our employee assistance programmes continued with the deployment of a global mental health online tool in November 2022. This enables employees to proactively manage their mental health and covers key topics like sleep, diet, relationships and managing stress. To date the tool has been downloaded by over 4.7 employees, which is 19% of the global population.

**CEO pay ratio**
In accordance with The Companies (Miscellaneous Reporting) Regulations 2018, the table below sets out Diageo’s CEO pay ratios for the year ended 30 June 2023. These CEO pay ratios provide a comparison of the Chief Executive’s total remuneration, comprising the sum of both Ivan Menezes and Debra Crew’s total single figures paid at the 25th (P25), 50th (P50) and 75th (P75) percentile of Diageo’s workforce in the United Kingdom. Also shown are the salary and total remuneration for each quartile employee.

**Remuneration for the wider workforce and CEO pay ratio**
Alignment of Executive pay with the wider workforce
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 Chairman also explains the Directors’ remuneration policy to employees and seeks their feedback as part of the wider engagement sessions.

The structure of our reward packages is based on the principle that it should enable Diageo to attract and retain the best talent globally within our broader industry. It is driven by local market practice, as well as the 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 for treatment of 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 dividend policy.

During the year, the Chairman explained the Directors’ remuneration policy to employees with wider workforce pay to employees as part of the workforce engagement sessions.

**Remuneration Committee report**
Each year, the Remuneration Committee has a detailed session reviewing wider workforce remuneration. In fiscal 23, the review focused on the prior year’s annual review cycle outcomes, including improvements made to base pay competitive positions, the level of differentiation across our reward programmes, gender pay gap equity analysis, how cost of living challenges were addressed and how we have used reward structures to attract talent to the business. The all-employees reward priorities for the coming year were also reviewed by the Committee. Information on wider workforce reward is also provided as required throughout the year to enable the Committee to consider the broader employee context when making executive remuneration decisions, for example the annual salary increase budgets by country.
which reached its highest level to date in the previous year. The table shows the amount of remuneration paid to Directors and average remuneration of employees on an annual basis. Given the small size of Diageo plc’s workforce, data for all employees of the group has also been included.

Change in pay for Directors compared to wider workforce

The table above shows the percentage change in Directors’ remuneration and average remuneration of employees on an annual basis. Given the small size of Diageo plc’s workforce, data for all employees of the group has also been included.

Non-Executive Directors

Sir Ivan Menezes (6), Javier Ferrán (7), Debra Crew (5), Lavanya Chandrashekar

Executive Directors

Melissa Bethell (6), Karen Blackett (5), Susan Kirby (4), Sir John Manzoni (7), Lavanya Chandrashekar, Javier Ferrán (Chairman)

Payments to former Directors (audited)

There were no payments to former Directors in the year ended 30 June 2023.

Payments for loss of office (audited)

Details of Sir Ivan Menezes’ salary, benefits and bonus payable up to and including the date of his death, which was also his last day of employment (6 June 2023) are set out in the single total figure table on page 139. The table also shows the amount of remuneration paid to Directors and average remuneration of employees on an annual basis. Given the small size of Diageo plc’s workforce, data for all employees of the group has also been included.
The Remuneration Committee reviewed base salaries for Executive Committee members and agreed the following increase for the Chief Financial Officer, effective 1 October 2023:

Debra Crew’s salary for the CEO role became effective when she was appointed as interim CEO on 5 June 2023. Her next salary review will be in October 2024.

Debra Crew

<table>
<thead>
<tr>
<th>Salary at 1 October ('000)</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>$1,750</td>
<td>$1,800</td>
<td>$1,850</td>
</tr>
<tr>
<td>% increase (over previous year)</td>
<td>2.9%</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

Annual incentive design for the year ending 30 June 2024

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 for the year ending 30 June 2024 will comprise the following performance measures and weightings (no change from last year), with targets set for the full financial year:

• net sales (% growth) (26.6% weighting): a key performance measure of year-on-year trading progress
• operating profit (% growth) (26.6% 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 items of a one-off nature
• operating cash conversion (26.6% 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 focused on supporting the delivery of key strategic objectives.

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

Details of the targets for the year ending 30 June 2024 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.

The annual incentive opportunity for Executive Directors will remain consistent with prior years, equal to 100% of base salary target, with a maximum opportunity of 200% of base salary.

Long-term incentive awards to be made in the year ending 30 June 2024

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 per last year, 31TP awards to be made in September 2023 will comprise awards of both performance shares and share options, based on stretching targets against the key performance measures as outlined in the table on page 153, 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 141.

The performance share element of the DTIP applies to the Executive Committee and the top level 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 performance-based option is valued at onethird of a performance share.

The ESG measures in the DTIP comprise four goals reflecting the ‘Society 2030: Spirit of Progress’ strategy, to make a positive impact on the environment and society. Each goal is weighted equally:

• reduction in greenhouse gas emissions in our direct operations (scope 1&2);
• improvement in the water efficiency index;
• number of people who confirm changed attitudes to the dangers of underage drinking after participating in a Diageo-supported education programme; and
• inclusion and diversity (percentage of female leaders globally and percentage of ethnically diverse leaders globally).

From fiscal 24, the water efficiency KPI under the ‘Society 2032: Spirit of Progress’ goals will use an index approach which links directly to the underlying water efficiency of the two production pillars of distillation and brewing & packaging. This methodology is described further on page 79 and the water efficiency component of the 2023 DTIP awards reflects the updated Society 2032: Spirit of Progress KPI.

Awards are calculated on the basis of a six-month average share price for the period ending 30 June 2023.

It is intended that a DTIP award to the equivalent of 500% of base salary will be made to Debra Crew in September 2023, comprising 37.5% of salary in performance shares and the equivalent of 125% of salary in market price performance-based share options. It is intended that a DTIP award to the equivalent of 480% of salary will be made to Lavanya Chandrashekar in September 2023, comprising 360% of salary in performance shares and the equivalent of 120% of salary in market price share options. In performance share equivalents, one market price option is valued at one-third of a performance share.

The table below summarises the annual DTIP awards to Debra Crew and Lavanya Chandrashekar to be made in September 2023.

<table>
<thead>
<tr>
<th>Performance share opportunities [1 share = 1 option]</th>
<th>Chief Executive</th>
<th>Chief Financial Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross value [‘000]</td>
<td>$1,044</td>
<td>$1,044</td>
</tr>
<tr>
<td>Performance shares</td>
<td>375%</td>
<td>360%</td>
</tr>
<tr>
<td>Share options</td>
<td>120%</td>
<td>120%</td>
</tr>
<tr>
<td>Total</td>
<td>500%</td>
<td>480%</td>
</tr>
</tbody>
</table>

Additional information

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 2023.

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 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 affected by any member of the group during the financial year, or which having been affected 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 31 July 2023 by Susan Kildby 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 B 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], Payments to former Directors, Payments for loss of office, Annual incentive plan (AIP) payouts for 2023, Long-term incentive plans (DTIPs) vesting in 2023, Pensions and benefits, Director’s shareholding requirements and share interests, Outstanding share plan interests, Non-Executive Directors’ remuneration and Key management personnel related party transactions.

The annual remuneration report is subject to an advisory vote by shareholders at the AGM on 28 September 2023. The Directors’ remuneration policy is subject to a binding vote by shareholders at the AGM on 28 September 2023. Terms defined in this Directors’ remuneration report are used solely herein.