Directors' remuneration report

Annual statement by the Chairman of the Remuneration Committee

"Continuing to attract and nurture a vibrant mix of talent enables our business to grow and thrive"

Contents

Dear Shareholder

I am pleased to present to you the Directors' remuneration report for the year ended 30 June 2019, which contains:

- The current directors' remuneration policy, approved at the 2017 AGM; and
- The annual remuneration report, describing how the policy has been put into practice during 2019, and how it will be implemented in 2020.

At Diageo, long-term value creation for shareholders and pay for performance are at the heart of our remuneration policy and practices. The approach to setting executive remuneration is guided by the following remuneration principles:

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

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.

Delivery of business strategy

Short- and long-term incentive plans are closely linked to the core growth and efficiency drivers that underpin our business strategy. These performance measures are reviewed every year to ensure we are incentivising the right behaviours and creating the most value. More detail on KPIs can be found in the strategic report on pages 12 to 13.

Creating sustainable, long-term performance

Performance against the key financial metrics that has driven the remuneration outcomes under the annual and long-term incentive plans is summarised in the 'pay for performance at a glance' section on page 83.

Diageo has delivered a strong set of results against stretching targets over the last three years, which has led to an above-target annual incentive payout in 2019 as well as long-term incentive awards vesting at 89.3% of maximum for 2016 performance shares and 73.1% of maximum for 2016 share options. This is the second consecutive year in which long-term incentives have vested above the midpoint of the target range, compared with nil to low vesting outcomes in the three prior years.

Total remuneration to the Chief Executive increased by 29% in 2019 compared to the year before. 2019 was a year where Diageo delivered total returns to shareholders of £18b through a combination of share price growth, dividends and our share buy back programme, demonstrating our principle of pay for performance.

Winning best talent

People at Diageo feel a deep connection to the company's purpose of 'celebrating life every day everywhere'. There is a high level of passion, pride and accountability for our heritage-rich brands and there is a shared commitment to be the best and do the right thing at work, in life and in the wider community that underpins everything we do. Continuing to attract and nurture a vibrant mix of talent with a range of backgrounds, skills and capabilities enables our business to grow and thrive. It is this ongoing investment in people that ultimately drives the delivery of our performance ambition.

We source talent globally and remuneration is a key part of securing the best people to lead our business in an increasingly competitive marketplace. The significant market pay differential between executives in the United States, the United Kingdom and the rest of Europe continues to be challenging, particularly given the increasing international mobility of the senior talent pool. Regional pay differentials present particular issues for us since a large proportion of our business is based in the United States. We continue to monitor external practices across our strategic markets and set remuneration to deliver market competitive packages in return for high performance against the company's strategic objectives and stretching targets.

Consideration of stakeholder interests

The Committee recognises the complexity of the world in which we operate, with multiple stakeholders representing, at times, conflicting viewpoints. Treating people fairly, with respect and dignity, continues to be very important to us – it is embedded in our culture at Diageo, and is a fundamental part of the work we do to promote inclusion and diversity in the workplace, in our customer base and in the local communities around us. In keeping with our focus on fairness, we have made some changes to remuneration practices this year, including the launch of a market-leading policy on family leave for a majority of Diageo employees around the world, the alignment of executive and employee pension arrangements in the United Kingdom, and renewed efforts to engage the workforce and hear their views on the company's strategy, performance ambition, culture and working environment, as described in the governance report on page 74. Furthermore, we are delighted that the sustained growth in Diageo's share price has benefited many of our employees who are also Diageo shareholders – we enjoy high participation rates in the tax-efficient all-employee share plans that we offer in certain locations and the average growth in value under these plans ranges from 31%-70% over a five-year period.

Diageo's remuneration principles

❶ 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.

❷ 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'.

❸ 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.

❹ Consideration of stakeholder interests

Executives are focused 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 in consideration of the interests of the wider workforce and other stakeholders, as well as taking account of the external climate.

Remuneration policy

The remuneration policy was approved by 96% of shareholders at the AGM held on 20 September 2017. We will continue to operate executive remuneration arrangements in the forthcoming financial year in line with the approved remuneration policy. We are reviewing our remuneration policy ahead of the 2020 AGM and will consider a broad range of stakeholder views as well as the new corporate governance code in assessing the effectiveness of the policy against our remuneration principles.

Decisions made during 2019

In addition to reviewing salaries, incentive awards and payments for the Executive Committee, setting targets for the annual and long-term incentive plans, reviewing all-employee reward outcomes and considering shareholder consultation, the Committee made other decisions as outlined below.

Annual incentive

The Committee reviewed the design of the annual incentive plan and remains satisfied that the company's current annual incentive structure – payable entirely in cash – remains appropriate. The high shareholding requirement, the level of stretch in the performance targets under the long-term incentive plan and the post-vesting holding period provide appropriate alignment of the interests of executives and shareholders in fostering sustainable share price growth over the long term. There are also robust clawback and malus provisions under both the annual and long-term incentive plans, which apply to all members of the Executive Committee. There are no changes to the performance measures or weightings under the annual incentive plan for Executive Directors for the year ending 30 June 2020.

Long-term incentives

The Committee remains confident that the mix of performance shares and share options is an appropriate long-term incentive for the leaders of the business, and the share options element provides an additional stretch in that the share price has to grow materially in addition to the performance condition being achieved in order for the award to deliver any value to executives. This further strengthens the alignment between the interests of executives and shareholders. Share option plans remain majority practice within Diageo's international peer group, against which the company needs to remain competitive in order to attract and retain the highest calibre of talent. There are no changes to the performance measures or weightings for awards made under the long-term incentive plan in 2019.

Pension

The Committee has considered the implications of the new corporate governance code for Diageo's policy on pension for its Executive Directors. As a result, the Committee has decided, ahead of the 2020 remuneration policy review, to reduce the maximum company pension contribution for new Executive Director hires from 20% of salary to 14% of salary, effective 1 July 2019. This is aligned to the offering for new hire employees in the United Kingdom, who are eligible to participate in a defined contribution pension scheme, with a potential company contribution of 14% of salary for all employees regardless of seniority or tenure.

The Chief Executive has also agreed to a reduction in the company's contribution to his pension scheme from 30% of salary to 20% of salary, effective 1 July 2019. This follows the earlier reduction to the company's pension contribution for the Chief Executive from 40% of salary to 30% of salary, implemented on 1 July 2016. The pension contributions for the Chief Executive and Chief Financial Officer are now aligned at 20% of salary and this is broadly at the same level (or lower) than the company pension contributions for many longer-serving employees participating in the legacy defined benefit or cash balance schemes in the United Kingdom.

Shareholding requirement

A post-employment shareholding requirement policy is expected to be implemented effective 1 July 2020, in accordance with the requirements under the new corporate governance code. This will be reviewed and discussed in consultation with shareholders as part of the 2020 remuneration policy review.

CEO pay ratio

We are committed to good corporate governance and transparency. Ahead of the new disclosure requirements which come into effect for Diageo in 2020, the Committee has chosen to disclose the CEO pay ratio for the year ended 30 June 2019 and you can find more information on this on page 95.

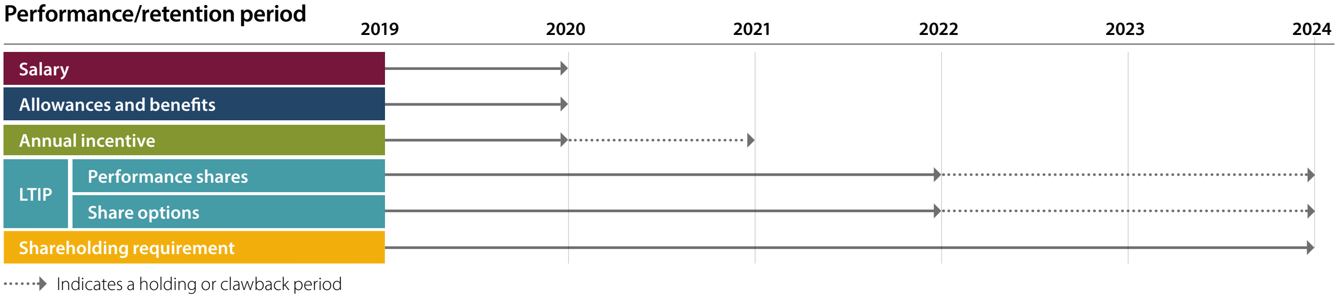
We were very pleased to receive a strong vote in favour of our remuneration report last year and our remuneration policy the year before last. This year's annual remuneration report will be put forward for your consideration and approval by advisory vote at the AGM on 19 September 2019. I highly value the direct engagement and feedback from our shareholders and their representative bodies on Diageo's remuneration policy and practices and look forward to welcoming you at the AGM this year.

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

Remuneration at a glance

	Purpose and link to strategy	Key features	Planned for 2020	Implementation in 2019	Implementation in 2018
Salary	• Supports the attraction and retention of the best global talent with the capability to deliver Diageo's strategy	• Reviewed annually on 1 October • Salaries take account of external market and internal employee context	• Effective 1 October 2019: – CEO 3% increase to $1,661,427 – CFO 3% increase to $1,093,044 • Salary increases in line with the pay budget for the wider workforce (3% for the UK and the US in 2019) **Page 96**	• Effective 1 October 2018: – CEO 2% increase to $1,613,036 – CFO 2% increase to $1,061,208 • Supported by a comprehensive review of total target remuneration versus the external market • Salary increases below the pay budget for the wider workforce **Page 96**	• Effective 1 October 2017: – CEO 2% increase to $1,581,408 – CFO 2% increase to $1,040,000
Allowances and benefits	• Provision of market-competitive and cost-effective benefits supports attraction and retention of talent	• Provision of competitive benefits linked to local market practice • Maximum company pension contribution is 20% of salary for new Executive Director hires (reduced to 14% of salary effective 1 July 2019)	• Company pension contribution: – CEO 20% of salary (reduced from 30% of salary effective 1 July 2019) – CFO 20% of salary	• Allowances and benefits unchanged from prior year • Company pension contribution: – CEO 30% of salary – CFO 20% of salary	• Unchanged from prior year • Company pension contribution to the CEO was reduced from 40% to 30% of salary effective 1 July 2016
Annual incentive	• 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	• Target opportunity is 100% of salary and maximum is 200% of salary • Performance measures, weightings and stretching targets are set annually • Paid out in cash after the end of the financial year • Subject to clawback provisions	• For the year ending 30 June 2020, measures on net sales growth, operating profit growth and average working capital weighted equally, with remaining 20% on individual objectives **Page 96**	• Pay-out above target: – CEO 61.0% of maximum – CFO 57.6% of maximum **Page 91**	• Pay-out above target: – CEO 70% of maximum – CFO 72% of maximum
Long-term incentives	• Rewards long-term consistent performance in line with Diageo's business strategy • Provides focus on delivering superior long-term returns to shareholders	• Annual grant of performance shares and share options – CEO award 500% of salary – CFO award 480% of salary (in performance share equivalents) • Performance measures, weightings and stretching targets are set annually • 3-year performance period plus 2-year retention period • Subject to malus and clawback provisions	• No change to performance measures and weightings as these are appropriate in line with the business strategy • Size of long-term incentive award opportunity is unchanged from prior year **Page 96**	• Vesting of 2016 performance shares at 89.3% of maximum • Vesting of 2016 share options at 73.1% of maximum **Page 92**	• Vesting of 2015 performance shares at 70% of maximum • Vesting of 2015 share options at 60% of maximum
Shareholding requirement	• Ensures alignment between the interests of Executive Directors and shareholders	• Minimum shareholding requirement within 5 years of appointment: – CEO 500% of salary – CFO 400% of salary		• CEO shareholding 2,620% of salary • CFO shareholding 563% of salary **Page 98**	• CEO shareholding 2,115% of salary • CFO shareholding 123% of salary

Performance/retention period



The structure of Diageo's executive remuneration package ensures that executives have a vested interest in delivering performance over the short and long term, including a one-year clawback provision following any payout under the annual incentive plan and a two-year retention period on any vested awards under the long-term incentive plan.

Pay for performance at a glance

We are pleased to report strong performance against our targets under both the annual and long-term incentive plans this year. 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 2016 to 30 June 2019)

Organic net sales growth (25% weighting)

CAGR	Threshold	Midpoint	Maximum
Target	3.5%	4.75%	6.0%
Actual	5.1%		

Cumulative free cash flow (25% weighting)

	Threshold	Midpoint	Maximum
Target	£5,700m	£6,400m	£7,100m
Actual	£7,036m		

Adjusted earnings per share growth (25% weighting)

CAGR	Threshold	Midpoint	Maximum
Target	4.0%	6.75%	9.5%
Actual	7.7%		

Relative TSR ranking vs peer group (25% weighting)

	Threshold	Midpoint	Maximum
Target	9th (median)	–	3rd (upper quintile)
Actual	2nd		

Annual incentive (for the period 1 July 2018 to 30 June 2019)

Net sales growth (26.7% weighting)

	Threshold	Target	Maximum
Target	3.5%	5.0%	6.5%
Actual	5.9%		

Operating profit (26.7% weighting)

	Threshold	Target	Maximum
Target	4.5%	8.0%	11.5%
Actual	8.6%		

Average working capital (26.7% weighting) (% net sales)

	Threshold	Target	Maximum
Target	30bps	120bps	210bps
Actual	81bps		

Diageo's share price growth over the period 30 June 2016 to 30 June 2019

↑ 62.2%

2019 3384p
2016 2087p

Total dividends of 190.2 pence per share paid.

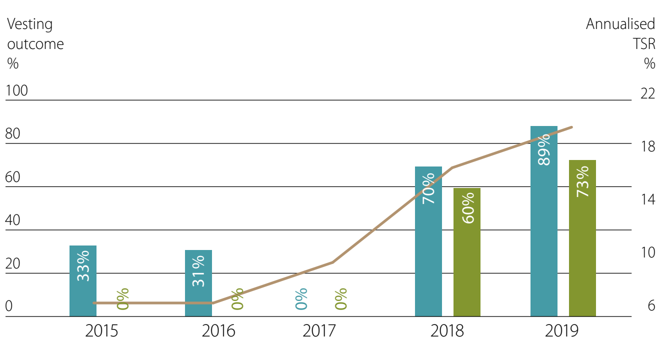
Dividend distribution to shareholders in year ended 30 June 2019

↑ 5.0%

2019 68.57p
2018 65.3p

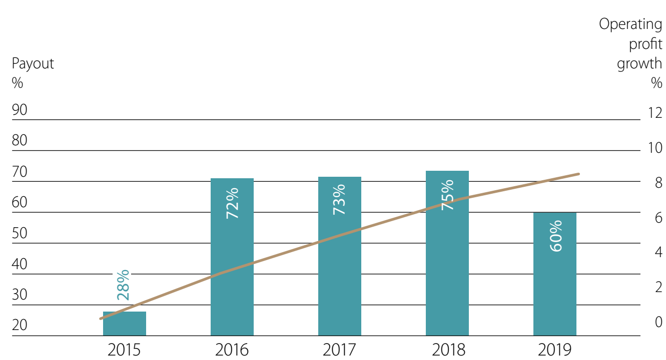
Historical reward outcomes under the annual and long-term incentive plans over the past five years are shown below. Vesting outcomes under the long-term incentive plan are shown against annualised total shareholder return for the three-year period ended in the year of vesting (i.e. annualised TSR for the three years ended 30 June 2019 is shown against the vesting outcome for the 2016 long-term incentive awards vesting in 2019). Annual incentive payouts 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 (% maximum)
● Share options (% maximum)
● Annualised TSR over 3- year long-term incentive performance period

5-year history of annual incentive payouts



● Payout (% maximum)
● Organic operating profit growth (% on prior year)

Directors' remuneration policy

This section of the report summarises the policy for the remuneration of the company's Directors. The policy formally came into effect at the AGM on 20 September 2017, in accordance with section 439A of the Companies Act 2006, after being approved in a binding vote by shareholders.

Policy table

The policy has been updated to reflect the change to the company's pension contribution for new Executive Director appointments and the change to the Chief Executive's pension effective 1 July 2019, as well as the inclusion of share price appreciation in the pay for performance scenario charts for the year ending 30 June 2020, in line with the new corporate governance requirements.

The policy approved in September 2017 can be found on the company's website at **www.diageo.com/en/investors/financial-results-and-presentations/directors-remuneration-report-2017/**.

Base salary

More detail on **p96**

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; and
  - 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

More detail on **p90**

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 car allowance, the provision of a car and 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 Provisions

More detail on p93

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 approved 2017 remuneration policy is 20% of base salary for any new external appointments to an Executive Director position. This has been reduced to 14% of salary effective 1 July 2019.
- Current legacy company contributions for Ivan Menezes and Kathryn Mikells in the year ended 30 June 2019 were 30% and 20% of base salary respectively. 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.

Annual Incentive Plan (AIP)

More detail on p91

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

Operation
- Performance measures, weightings and targets are set annually by the Remuneration Committee. Appropriately stretching targets are set by reference to the annual 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 and is 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 clawback to bonus, i.e. the company may seek to recover bonus paid, in exceptional circumstances such as gross misconduct or gross negligence during the performance 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 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. Details of the targets will be disclosed retrospectively in next year's annual report on remuneration, when they are no longer deemed commercially sensitive by the Board.

Diageo Long-Term Incentive Plan (DLTIP)

More detail on p92

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.
- Following vesting there is 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 CEO and CFO 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.
- Threshold vesting level of 20% of maximum with straight-line vesting up to 100% at maximum for attaining financial metrics and a ranking profile for relative total shareholder return.

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); and
  - a measure of Diageo's relative performance in relation to its peers (e.g. relative total shareholder return).
- 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 and 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.

Operation

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

Opportunity

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

Performance conditions

UK Freeshares: based on Diageo plc financial measures which may include, but are not limited to, measures of sales, profit and cash.

Shareholding requirement

More detail on **p98**

Purpose and link to strategy

Ensures alignment between the interests of Executive Directors and shareholders.

Operation

- The minimum 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 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 (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.
- Subject to the remuneration policy review, which will be tabled at the 2020 AGM for shareholder approval, it is anticipated that a post-employment shareholding requirement will be introduced effective 1 July 2020.

Chairman of the Board and Non-Executive Directors

More detail on **p99**

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 two years.
- 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 the attendance of 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 appointed on 1 January 2017, under a letter of appointment for an initial three-year term, terminable on six months' notice by either party or, if terminated by the company, by payment of six months' fees in lieu of notice.

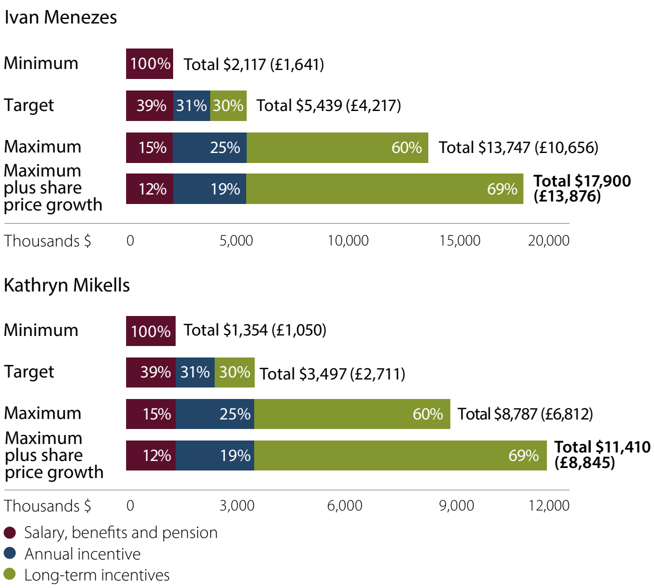
Opportunity

- Fees for Non-Executive Directors are within the limits set by the shareholders from time to time, with an aggregate limit of £1,200,000, excluding the Chairman's fees.

Notes to the Policy Table

Illustrations of application of the remuneration policy

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 new corporate governance requirements). 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 2020.



Basis of calculation and assumptions:
The 'Minimum' scenario shows fixed remuneration only, i.e. base salary for the year ending 30 June 2020, total value of contractually agreed benefits for 2020, and the pension benefits to be accrued over the year ending 30 June 2020. 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 assumed 50% share price appreciation over the performance period.

The amounts shown in sterling are converted using the cumulative weighted average exchange rate for the year ended 30 June 2019 of £1 = $1.29.

Performance measures and targets

Further details of AIP performance measures for the year ending 30 June 2020 and DLTIP performance measures and targets that will apply for awards made in September 2019, and how they are aligned with company strategy and the creation of shareholder value, are set out in the annual report on remuneration, on pages 96-97.

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.

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 in recognition that Diageo competes for talent in a global marketplace. The Committee will seek to align the 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, except as described below, variable pay will follow the policy.

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.

In the event that an internal candidate is promoted to Executive Director, legacy terms and conditions would normally be honoured.

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

Notice period	The contracts provide for a period of six months' notice by the Executive Director or 12 months' notice by the company. 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 (excluding incentive plans). The service contracts also provide for the payment of outstanding pay and bonus, if Executive Directors are terminated 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. For these purposes, salary in respect of one day of holiday entitlement will be calculated as 1/261 of salary.
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, they are 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 will be made. The amount is subject to performance conditions being met and at the discretion of the Committee. The Committee has discretion to determine an earlier payment date, for example on death in service.
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). Awards may be adjusted on a variation of share capital, demerger or other similar event. The Remuneration Committee may amend the plans, except that any changes to the advantage of participants require shareholder approval, unless the change relates to the administration, or taxation of the plan or participants, or is needed to ensure that the plans operate effectively in another jurisdiction.
Repatriation	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.

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. Betsy Holden and Peggy Bruzelius stepped down from the Board on 20 September 2018.

Non-Executive Directors	Date of appointment to the Board	Current letter of appointment expires
Javier Ferrán	22 July 2016	AGM September 2019
Debra Crew	18 April 2019	AGM September 2022
Lord Davies of Abersoch	1 September 2010	AGM September 2019
Susan Kilsby	4 April 2018	AGM September 2021
Ho KwonPing	1 October 2012	AGM September 2021
Nicola Mendelsohn	1 September 2014	AGM September 2020
Alan Stewart	1 September 2014	AGM September 2020

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. For these purposes, 'payments' include the satisfaction of awards of variable remuneration and, in relation to awards of shares, the terms of the payment which are agreed at the time the award is granted.

Consideration of remuneration for other employees

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 holisitic performance whilst mindful not to over-pay. 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 reward outcomes across the company globally as well as the provision of all-employee share plans. The Remuneration Committee has an understanding of the remuneration structures and policies in place for the broader employee population and takes this context, together with the external climate, into account when making decisions on executive pay. More specifically, the Committee also reviews annual salary increase budgets for the general employee population in the United Kingdom and United States as well as the remuneration structure and policy for the global senior management population.

Diageo runs annual employee engagement surveys, which give employees the opportunity to give feedback and express their views on a variety of topics including remuneration. Any comments relating to Executive Directors' remuneration are fed back to the Remuneration Committee.

Consideration of shareholder views

The Committee values the continued dialogue with Diageo's shareholders and engages directly with them and their representative bodies at the earliest opportunity to take their views into account when setting and implementing the company's remuneration policies. This year, the company has engaged with shareholders and their proxy advisers on the base salary proposals for 2019, short and long-term incentive plan design, target setting for long-term incentive awards to be made in 2019 and viewpoints on the corporate governance code and its implications for Diageo's remuneration policy and practices.

The Committee will be reviewing the remuneration policy over the course of 2020 and will engage extensively with shareholders as part of that review.

Annual report on remuneration

The following section provides details of how the company's 2017 remuneration policy was implemented during the year ended 30 June 2019, and how the Remuneration Committee intends to implement the remuneration policy in the year ending 30 June 2020.

Single total figure of remuneration for Executive Directors (audited)

The table below details the Executive Directors' remuneration for the year ended 30 June 2019.

	Ivan Menezes[i]				Kathryn Mikells[i]			
Fixed pay	**2019 '000**	**2019 '000**	2018 '000	2018 '000	**2019 '000**	**2019 '000**	2018 '000	2018 '000
Salary	**£1,244**	**$1,605**	£1,166	$1,574	**£819**	**$1,056**	£767	$1,035
Benefits[ii]	**£95**	**$123**	£69	$94	**£27**	**$34**	£30	$40
Pension[iii]	**£407**	**$525**	£351	$474	**£168**	**$217**	£157	$212
Total fixed pay	**£1,746**	**$2,253**	£1,586	$2,142	**£1,014**	**$1,307**	£954	$1,287
Performance related pay								
Annual incentive	**£1,521**	**$1,961**	£1,640	$2,214	**£946**	**$1,220**	£1,105	$1,492
Long-term incentives[iv]								
Value delivered through performance	**£3,725**	**$4,805**	£2,964	$4,001	**£2,421**	**$3,123**	£3,589	$4,845
Value delivered through share price growth	**£4,662**	**$6,013**	£1,658	$2,239	**£2,645**	**$3,411**	£1,473	$1,989
Other incentives[v]	**–**	**–**	–	–	**£4**	**$5**	£4	$5
Total remuneration for Executive Director appointment	**£11,654**	**$15,032**	£7,848	$10,596	**£7,030**	**$9,066**	£7,125	$9,618
Other performance related pay								
(Granted prior to appointment as Executive Director)								
Long-term incentives[vi]	**–**	**–**	£1,147	$1,549	**–**	**–**	–	–
TOTAL SINGLE FIGURE	**£11,654**	**$15,032**	£8,995	$12,145	**£7,030**	**$9,066**	£7,125	$9,618

Notes

(i) 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 2019 the exchange rate was £1 = $1.29 and for the year ended 30 June 2018 the exchange rate was £1 = $1.35. Ivan Menezes and Kathryn Mikells are both paid in US dollars.

(ii) Benefits – Benefits is the gross value of all taxable benefits. For Ivan Menezes, these include medical insurance (£18k), company car allowance (£18k), contracted car service (£8k), financial counselling (£48k), product allowance, life and long-term disability cover. Kathryn Mikells' benefits include flexible benefits allowance (£18k), contracted car service (£3k), life cover (£5k) and product allowance. Page 84

(iii) 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 93

(iv) 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. Page 92

'Value delivered through performance' is calculated as the number of performance shares and dividend shares vesting in September 2019 multiplied by the share price on the date of grant.

'Value delivered through share price growth' is calculated as the difference between the average share price in the last three months of the financial year and the share price on the date of grant multiplied by the number of performance shares and share options vesting in September 2019.

For 2019, long-term incentives comprise performance shares and share options awarded in 2016 and due to vest in September 2019 at 89.3% and 73.1% of maximum respectively, and dividend shares awarded in September 2019 in relation to performance shares vesting in September 2019.

For 2018, long-term incentives comprise performance shares and share options awarded in 2015 that vested in September 2018 at 70% and 60% of maximum respectively, and dividend shares arising on performance shares that vested in September 2018. Long-term incentives have been re-stated to reflect the share price on the vesting date (whereas in the 2018 remuneration report long-term incentives were calculated using the average share price over the last three months of the financial year). For Kathryn Mikells in 2018, long-term incentives included performance shares that vested under the final tranche of the replacement share award made on 9 November 2015 in recognition of share awards forfeited from her former employer, and granted in accordance with the remuneration policy on recruitment remuneration. The performance measures, targets and weightings that applied to this award were the same as the 2015 performance share award, as disclosed in the 2018 remuneration report.

(v) 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.

(vi) Discretionary Incentive Plan – Ivan Menezes retained interests in long-term incentive awards that were granted to him in 2012 under the Discretionary Incentive Plan, prior to joining the Board. For 2018, the amount disclosed in the table above was the part of the fourth and final tranche of the award based on performance for the year ended 30 June 2018, which vested at 67% of the maximum. The part of the award based on continuing employment for the year ended 30 June 2018 is not required to be reported in the table above and amounts to 14,643 ADRs, which vested on 8 March 2019.

Payments to former directors (audited)

There were no payments to former directors in the year ended 30 June 2019, other than payments that have been disclosed in previous remuneration reports.

Payments for loss of office (audited)

There were no payments for loss of office to Executive Directors in the year ended 30 June 2019.

Annual incentive plan (AIP) (audited)

AIP payout for the year ended 30 June 2019

AIP payouts for the Executive Directors are based 80% on performance against the group financial measures and 20% on performance against the Individual Business Objectives (IBOs), as assessed by the Remuneration Committee and summarised in the table below. The Committee assessed the Executive Directors' performance against each of the IBOs separately and awarded a rating based on whether they had partially met, achieved or over-achieved each goal. The average of all IBO ratings (weighted equally) is shown as the IBO outcome in the table below.

The overall level of performance achieved resulted in an AIP award equating to 122% of base salary for Ivan Menezes and 115% of base salary for Kathryn Mikells. The actual payments received by the Executive Directors are shown in the 'single total figure of remuneration' table on page 90.

Group financial measures(i)

Measure	Weighting	Threshold	Target	Maximum	Actual	**Payout** (% of total AIP opportunity)
Net sales (% growth)(ii)	26.7%	3.50%	5.0%	6.50%	5.9%	21.5%
Operating profit (% growth)(ii)	26.7%	4.5%	8.0%	11.5%	8.6%	15.6%
Average working capital (% net sales)(iii)	26.7%	30bps	120bps	210bps	81bps	10.5%
Group financial payout	80%					**47.6%**

Individual business objectives(v)

Measure	Weighting	Target	Outcome	**Payout** (% of total AIP opportunity)
Ivan Menezes Chief Executive	20%			**13.4%**
Deliver global Scotch performance		Growth in Scotch net sales Growth in Scotch CAAP (Contribution After Advertising & Promotions) Growth in Johnnie Walker net sales Growth in Johnnie Walker CAAP	Achieved (6% organic growth) Achieved Over-achieved (7% organic growth) Over-achieved	4.2%
Deliver global Reserve performance		Growth in Reserve net sales Growth in Reserve CAAP	Achieved (11% organic growth) Over-achieved	4.2%
Deliver performance in North America		Growth in net sales for North America Growth in operating profit for North America	Over-achieved (5% organic growth) Over-achieved (3% organic growth)	5.0%
Kathryn Mikells Chief Financial Officer	20%			**10.0%**
Implement inorganic portfolio strategy		Deliver merger & acquisition outcomes Achieve improvement in US spirits growth rate	Achieved Over-achieved	4.2%
Deliver efficiencies across the global finance function		Deliver end-to-end efficiencies in the cost of the global finance function Achieve organisation effectiveness targets for global finance function	Achieved Achieved	3.3%
Deliver a key business driver		Deliver 103% OCC (Operating Cash Conversion)	Partly achieved	2.5%

Payout

	Group (weighted 80%)	IBO (weighted 20%)	Total (% max)	Total (% salary)	Total ('000)(iv)	Total ('000)(iv)
Ivan Menezes	47.6%	13.4%	**61.0%**	122%	£1,521	$1,961
Kathryn Mikells	47.6%	10.0%	**57.6%**	115%	£946	$1,220

(i) Performance against the AIP measures is calculated using 2019 budgeted exchange rates in line with management reporting and excludes the impact of exchange and any exceptional items.
(ii) For AIP purposes, the net sales and operating profit measures are calculated after adjustments for acquisitions and disposals at budgeted FX rates. For the year ended 30 June 2019, net sales have been adjusted by (0.2)ppts and operating profit by (0.4)ppts to include the impact of the disposal of 19 brands in an arrangement with Sazerac on 20 December 2018.
(iii) For AIP purposes, average working capital as a percentage of net sales is calculated as the average of the last 12 months of operating working capital (excluding maturing inventories and provisions) divided by annual net sales.
(iv) AIP payments are calculated using base salary as at 30 June 2019, in line with the global policy that applies to other employees across the company.
(v) The targets and actuals for some of the market or category objectives have not been disclosed as they are considered commercially sensitive.

Long-term incentive plans (LTIPs) (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.

Share options – granted in September 2016, vesting in September 2019 (audited)
On 5 September 2016, Ivan Menezes and Kathryn Mikells received share option awards of 54,356 (ADRs) and 128,253 (ORDs) respectively under the DLTIP, with an exercise price of $113.66 and 2113p respectively. The award was subject to a performance condition assessed over a three-year period based on compound annual adjusted eps growth, with a straight-line payout between threshold and maximum. Vesting is on a pro rata basis ranging from a threshold level of 20% to a maximum level of 100%.

Performance shares – awarded in September 2016, vesting in September 2019 (audited)
On 5 September 2016, Ivan Menezes and Kathryn Mikells received performance share awards of 54,356 (ADRs) and 128,253 (ORDs) respectively under the DLTIP. Awards vest after a three-year period subject to the achievement of specified performance conditions. Notional dividends accrue on awards and are paid out either in cash or shares in accordance with the vesting schedule.

The vesting of 2016 performance share awards was subject to the achievement of three equally weighted performance measures:

1. Diageo's three-year total shareholder return (TSR) ranked against the TSR of a peer group of international drinks and consumer goods companies;
2. Growth in organic net sales on a compound annual basis; and
3. Cumulative adjusted free cash flow.

For cumulative free cash flow and net sales, there is straight-line vesting between threshold and the midpoint, and between the midpoint and the maximum.

The vesting profile for relative TSR is shown below:

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

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

The targets and vesting outcome for performance share and share option awards granted in September 2016 are shown in the following tables:

Vesting of 2016 DLTIP	Threshold	Midpoint	Maximum	Actual	Vesting (% maximum)
Organic net sales growth (CAGR)(i)	3.5%	4.75%	6.0%	5.1%	71.5%
Relative total shareholder return(ii)	9th	–	3rd	2nd	100.0%
Cumulative free cash flow (CAGR)(iii)	£5,700m	£6,400m	£7,100m	£7,036m	96.3%
Vesting of performance shares (% maximum)					**89.3%**
Adjusted eps growth(iv)	4.0%	6.75%	9.5%	7.7%	
Vesting of share options (% maximum)					**73.1%**

(i) The compound annual growth rate (CAGR) for organic net sales growth is based on the application of annual organic net sales growth rates in each of the individual years ended June 2017, June 2018 and June 2019 (using the year ended June 2016 as a base).
(ii) 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 international drinks and consumer goods companies, based on an average period of 6 months, and converted to a common currency (US dollars). SABMiller was acquired by AB Inbev on 10 October 2016. SABMiller is replaced by L'Oreal for the full performance period for the 2016 vesting outcome.
(iii) 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 buy back programmes.
(iv) The compound annual growth rate (CAGR) for earnings per share growth is based on the application of annual adjusted eps growth rates in each of the individual years ended June 2017, June 2018 and June 2019 (using the year ended June 2016 as a base) excluding the impact of exchange, exceptional items, share buy back programmes and the post employment net income/charges included in other financial charges.

Accordingly, the 2016 performance share award vested at 89.3% and the 2016 share option award vested at 73.1% of the maximum.

Pension and benefits in the year ended 30 June 2019

Benefits

Benefits provisions for the Executive Directors are in accordance with the information set out in the future 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 30% and 20% of base salary respectively during the year ended 30 June 2019.

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 6 months after leaving service (in the case of Ivan Menezes) or 6 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 United Kingdom 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 2019		30 June 2018	
Executive Director	UK pension £'000 p.a.	US benefit £'000	UK pension £'000 p.a.	US benefit £'000
Ivan Menezes(i)	73	7,543	71	6,680
Kathryn Mikells(ii)	Nil	587	Nil	391

(i) Ivan Menezes' US benefits are higher at 30 June 2019 than at 30 June 2018 by £863k
(a) £510k of which is due to pension benefits earned over the year (£407k of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 90);
(b) £80k of which is due to interest earned on his deferred US benefits over the year; and
(c) £273k of which is due to exchange rate movements over the year.
(ii) Kathryn Mikells' US benefits are higher at 30 June 2019 than at 30 June 2018 by £196k
(a) £178k of which is due to pension benefits earned over the year (£168k of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 90); and
(b) £18k 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)	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

DLTIP awards made during the year ended 30 June 2019 (audited)

On 3 September 2018, Ivan Menezes and Kathryn Mikells received awards of performance shares and market price share options under the DLTIP; details are provided in the table below. The three-year period over which performance will be measured is 1 July 2018 to 30 June 2021.

The performance measures for performance share awards are organic net sales growth, cumulative free cash flow and organic profit before exceptional items and tax growth, equally weighted. The performance measures for share option awards are organic profit before exceptional items and tax growth and relative total shareholder return, equally weighted. The targets were disclosed in full in the 2018 remuneration report.

20% of DLTIP awards will vest at threshold, with straight-line vesting up to 100% if the maximum level of performance is achieved.

Executive Director	Date of grant	Plan	Share type	Awards made during the year	Exercise price	Face value '000	Face value (% of salary)
Ivan Menezes	03/09/2018	DLTIP – share options	ADR	42,848	$140.89	$6,049	375%
Ivan Menezes	03/09/2018	DLTIP – performance shares	ADR	42,848	–	$6,049	375%
Kathryn Mikells	03/09/2018	DLTIP – share options	ADR	27,062	$140.89	$3,820	360%
Kathryn Mikells	03/09/2018	DLTIP – performance shares	ADR	27,062	–	$3,820	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 2021 Annual Report.

The face value of each award has been calculated using the award price at the time of grant. In accordance with the rules, the number of performance shares and share options granted under the DLTIP was calculated by using the average closing share price for the last six months of the preceding financial year ($141.17 ADRs). In accordance with the plan rules, the exercise price was calculated using the average closing share price of the three days preceding the grant date ($140.89 ADRs). The share price on the date of grant was $139.41 ADRs.

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 2018[i]	Granted	Vested/ exercised	Dividends awarded and released	Lapsed	Number of shares/ options at 30 June 2019
Ivan Menezes												
SESOP[iii]	Sep 2011	2011-2014	2014	ADR		$76.70	36,587		36,587			–
DLTIP – share options	Sep 2015	2015-2018	2018	ADR		$104.93	49,825				19,930	29,895
Total vested but unexercised share options in Ords[ii]												**119,580**
DLTIP – share options[v]	Sep 2016	2016-2019	2019	ADR		$113.66	54,356					54,356
DLTIP – share options[vi]	Sep 2017	2017-2020	2020	ADR		$134.06	51,268					51,268
DLTIP – share options	Sep 2018	2018-2021	2021	ADR		$140.89	–	42,848				42,848
Total unvested share options subject to performance in Ords[ii]												**593,888**
DIP[iv]	Mar 2012	2012-2019	2016-2019	ADR	$96.44		14,643		9,761		4,882	–
DLTIP – performance shares[x]	Sep 2015	2015-2018	2018	ADR	$104.30		49,825		34,877	2,451	14,948	–
DLTIP – performance shares[v]	Sep 2016	2016-2019	2019	ADR	$115.77		54,356					54,356
DLTIP – performance shares[vi]	Sep 2017	2017-2020	2020	ADR	$134.83		51,268					51,268
DLTIP – performance shares	Sep 2018	2018-2021	2021	ADR	$139.41		–	42,848				42,848
Total unvested shares subject to performance in Ords[ii]												**593,888**
DIP[iv]	Mar 2012	2012-2019	2016-2019	ADR	$96.44		14,643		14,643			–
Total unvested shares not subject to performance in Ords[ii]												**–**
Kathryn Mikells												
DLTIP – share options[v][viii]	Sep 2016	2016-2019	2019	Ord		2113p	128,253					128,253
DLTIP – share options[vi]	Sep 2017	2017-2020	2020	ADR		$134.06	32,380					32,380
DLTIP – share options	Sep 2018	2018-2021	2021	ADR		$140.89	–	27,062				27,062
Total unvested share options subject to performance in Ords[ii][xi]												**366,021**
DBOP – performance shares[vii][ix]	Nov 2015	2015-2018	2018	Ord	1866p		246,300		172,410	11,913	73,890	–
DLTIP – performance shares[v]	Sep 2016	2016-2019	2019	Ord	2127p		128,253					128,253
DLTIP – performance shares[vi]	Sep 2017	2017-2020	2020	ADR	$134.83		32,380					32,380
DLTIP – performance shares	Sep 2018	2018-2021	2021	ADR	$139.41		–	27,062				27,062
Total unvested shares subject to performance in Ords[ii]												**366,021**
DBOP – restricted shares[vii][ix]	Nov 2015	2015-2018	2018	Ord	1866p		43,868		43,868			–
Total unvested shares not subject to performance in Ords[ii]												**–**

(i) 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 ten years after the date of grant.
(ii) 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.
(iii) Options granted prior to the Executive's appointment to the Board. Ivan Menezes exercised these options on 27 July 2018, with a market value of $148.25.
(iv) Ivan Menezes retained interests in an award that was granted to him prior to joining the Board under the Discretionary Incentive Plan, amounting to a total of 117,142 ADRs, granted in 2012. The award was subject to performance conditions and continuing employment. 66.67% of the first tranche vested in March 2016, 66.67% of the second tranche vested in March 2017, 50% of the third tranche vested in March 2018 and 66.67% of the fourth and final tranche vested in March 2019.
(v) Awards of performance shares and share options awarded under the DLTIP in September 2016 and due to vest in September 2019 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 90, since the performance period ended during the year ended 30 June 2019.
(vi) Details of the performance conditions attached to DLTIP awards of performance shares and share options granted in 2017 were disclosed in Diageo's 2017 Annual Report.
(vii) Replacement shares awarded to Kathryn Mikells on her appointment as Chief Financial Officer on 9 November 2015, in recognition of share awards she forfeited from her previous employer. These awards were made under the Diageo Buy Out Plan (DBOP).
(viii) 1,419 Ords of this award were delivered as tax-qualified share options.
(ix) Kathryn Mikells must retain 97,474 Ords of the DBOP shares that vested on 9 November 2018 until 9 November 2020.
(x) Ivan Menezes must retain 19,317 ADR of the 37,328 shares that vested on 4 September 2018 until 4 September 2020.
(xi) 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.

CEO pay ratio

Diageo is committed to good corporate governance and transparency in the reporting of remuneration. Ahead of the new disclosure requirement coming into effect for Diageo in 2020, the CEO pay ratio for the year ended 30 June 2019 is outlined below.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option A	255:1	199:1	159:1
	Option A excluding long-term incentives	71:1	56:1	45:1
	Total pay and benefits	£45,782	£58,448	£73,179
	Salary	£31,586	£40,325	£52,459

Methodology

The CEO pay ratio provides a comparison of the total remuneration paid to the Chief Executive in the year ended 30 June 2019 with the total remuneration paid to three employees at the 25th, 50th and 75th percentile of Diageo's workforce in the United Kingdom.

The three employees at these percentiles have been identified using 'Option A' of the three methodologies provided under the new regulations, which we believe is the most statistically accurate approach. Total full-time equivalent remuneration for people employed for the full 12-month period in the United Kingdom has been calculated in line with the methodology for the 'single figure of remuneration' for the Chief Executive (shown on page 90 of this report) and then ranked to identify the employees sitting at the percentiles. Total remuneration for employees is based on actual earnings for the 11 months to 31 May 2019, added to estimated pay for June 2019. Annual incentive payments for employees have been calculated using the Diageo Group financial performance outcome, rather than any regional or market business multiples, to ensure a like-for-like comparison across remuneration structures. Pension is calculated as the total cost of contributions made by the company during the financial year. Employees on inbound and outbound international assignments to and from the United Kingdom have been excluded from the analysis as their remuneration structures are not representative of the norm in the United Kingdom.

Points to note for 2019

The median pay ratio for 2019 of 199:1 reflects the impact of annual and long-term incentives, since a much greater proportion of the Chief Executive's total remuneration is made up of performance-based pay, and in 2019 performance has been very strong.

Ratios will differ significantly between companies as a result of the business model and composition of the workforce. The structure of our business means that we employ a large number of manufacturing workers (almost half of our workforce in the United Kingdom), who are involved in the distillation, warehousing, maturation, bottling and packaging of Scotch whisky and other spirits and beer.

Attracting world-class talent across our United Kingdom business

Under our reward philosophy, we seek to attract world-class talent in an increasingly competitive market by offering total reward packages that people value and that support them to be their best.

- We have a robust approach to salary management which is underpinned by regular market benchmarking to ensure that we offer competitive rates of pay across the business. We undertake regular reviews to maintain appropriate positioning against the market-linked salary ranges, with a particular focus on those individuals who are expected to progress into more stretching roles over time.
- Diageo has been a Living Wage employer in the United Kingdom since 2017.
- We offer a competitive pension scheme which provides a top-rate employer contribution of 14% of salary for all employees in the United Kingdom. Currently, many employees in the United Kingdom are members of legacy pension schemes and enjoy more generous employer contribution levels.
- We are proud of the progress we have already made towards gender equality in our business and have a clear ambition to deliver more. Diageo Great Britain and Diageo Scotland reported a median pay gap of +5.4% for the year to April 2018, with women holding 34% of senior leadership roles, and our goal is to increase women senior leaders to 40% by 2025. We are proud of the work we have done towards closing the gender pay gap and are actively engaged in a range of initiatives to further improve how we attract, engage and develop women, as well as other under-represented groups. Attracting the broadest talent is crucial to our future growth and the sustainability of our business.
- We recently launched a new market-leading global family leave policy, which provides a minimum of 26 weeks' of fully paid maternity leave to all women and a minimum of 4 weeks (with many of our markets moving to 26 weeks) of fully paid paternity leave to all men.
- We firmly believe in the value of employee share ownership and encourage people to participate in our Sharesave and Share Incentive Plan (SIP) offering, which are tax-efficient plans in the United Kingdom that allow employees to share in the success of Diageo. Each year all employees receive up to 10% of salary in Freeshares under the SIP as well as being able to purchase additional shares and be eligible to receive matching shares from Diageo. Around 75% of employees in the United Kingdom participate in Sharesave and around 70% participate in the share purchase/share match feature of the SIP.
- All employees in the United Kingdom also benefit from a product allowance, which allows them to enjoy (and be ambassadors for) Diageo products.

Salary

Salary increases to be applied in the year ending 30 June 2020

As outlined in the 2018 annual report on remuneration, base salaries for the Chief Executive and Chief Financial Officer were increased by 2%, effective from 1 October 2018.

In June 2019, the Remuneration Committee reviewed base salaries for senior management and agreed new salaries which will apply from 1 October 2019. In determining these salaries, the Remuneration Committee took into consideration a number of factors including general employee salary budgets and employment conditions, individual performance and experience, and salary positioning relative to internal and external peers. The overall budgeted salary increase for the salary review in October 2019 is 3% of base salary for employees in the United Kingdom and 3% in North America.

The Committee considered very carefully the total remuneration positioning of the Chief Executive and Chief Financial Officer, the salary budget for all employees in the United Kingdom and the expectations of shareholders with respect to continuing pay restraint. As a result, it was agreed that there would be a 3% salary increase for both the Chief Executive and the Chief Financial Officer, effective from 1 October 2019.

	Ivan Menezes		Kathryn Mikells	
Salary at 1 October ('000)	**2019**	2018	**2019**	2018
Base salary	**$1,661**	$1,613	**$1,093**	$1,061
% increase (over previous year)	**3%**	2%	**3%**	2%

AIP design for the year ending 30 June 2020

The measures and targets used in the AIP are reviewed annually by the Remuneration Committee and are chosen to drive financial and individual business performance goals related to the company's short-term strategic operational objectives. The AIP design for Executive Directors in the year ending 30 June 2020 will comprise of the following performance measures and weightings:

- 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;
- Average working capital as a proportion of net sales (26.67% weighting): ensures focus on working capital management throughout the year and incentivises sustainable actions that are beneficial for the business in the long term;
- Individual business objectives (20% weighting): measurable deliverables that are specific to the individual and are focused on supporting the delivery of key strategic objectives.

This is the same structure and weightings as applied in the year ended 30 June 2019, to ensure continued focus on both profit and loss and balance sheet measures.

Details of the targets for the year ending 30 June 2020 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.

DLTIP awards to be made in the year ending 30 June 2020

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 2019 will comprise awards of both performance shares and share options, based on stretching targets against key performance measures as outlined in the table below. 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 table below outlines the targets and the vesting profile for these awards to the Executive Directors and the relative weightings of each performance measure as a percentage of the total award in performance share equivalents. Performance will be tested over three financial years, beginning with the year ending 30 June 2020.

	Performance shares			Share options		
	Profit before exceptional items and tax (CAGR)	Organic net sales (CAGR)	Cumulative free cash flow (£m)	Relative total shareholder return	Profit before exceptional items and tax (CAGR)	Vesting profile
Weighting (% total)	25%	25%	25%	12.5%	12.5%	100%
Threshold	4.5% p.a.	3.75% p.a.	£8,600m	Median ranking (ninth)	4.5% p.a.	20%
Midpoint	7.5% p.a.	4.875% p.a.	£9,100m	–	7.5% p.a.	60%
Maximum	10.5% p.a.	6.00% p.a.	£9,600m	Upper quintile (third or above)	10.5% p.a.	100%

It is intended that a DLTIP award of 500% of base salary will be made to Ivan Menezes in September 2019, 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).

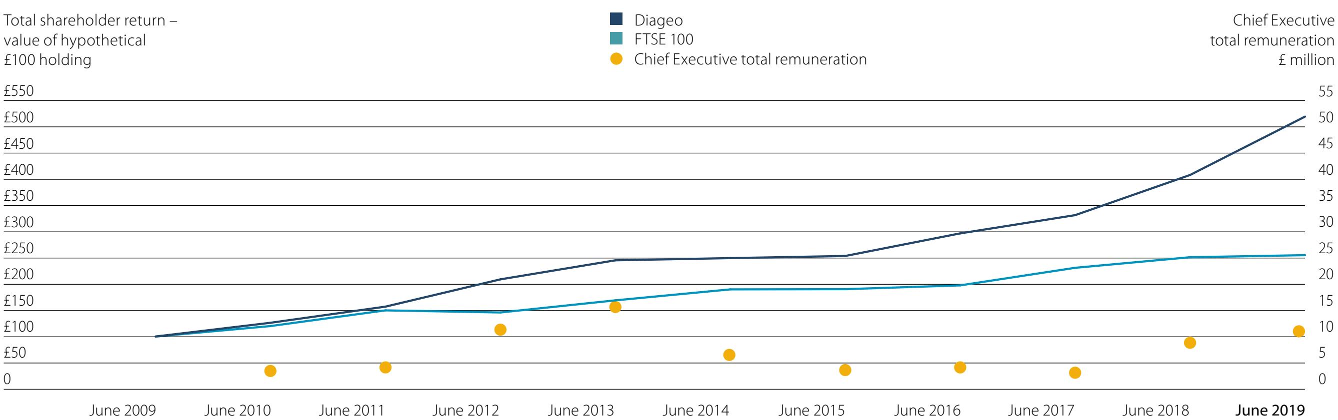
It is intended that a DLTIP award of 480% of salary will be made to Kathryn Mikells in September 2019, comprising 360% of salary in performance shares and 120% of salary in market price share options (in performance share equivalents).

The table below summarises the annual DLTIP awards to Ivan Menezes and Kathryn Mikells in September 2019.

	Chief Executive Officer	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 graph and table

The graph below shows the total shareholder return for Diageo and the FTSE100 Index since 30 June 2009 and demonstrates the relationship between pay and performance for the Chief Executive, using current and previously published single total remuneration figures. The FTSE100 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	Paul S Walsh £'000	Paul S Walsh £'000	Ivan Menezes[(i)] £'000	Ivan Menezes[(i)] £'000	Ivan Menezes[(i)] £'000	Ivan Menezes[(i)] £'000	Ivan Menezes[(i)] £'000	**Ivan Menezes[(i)] £'000**
Chief Executive total remuneration (includes legacy LTIP awards)	3,231	4,449	11,746	15,557	7,312	3,888	4,156	3,399	8,995	**11,654**
Annual incentive (% maximum opportunity)	86%	77%	74%	51%	9%	44%	65%	68%	70%	**61.0%**
Share option (% maximum opportunity)	100%	100%	100%	100%	71%	0%	0%	0%	60%	**73.1%**
Performance share (% maximum opportunity)	0%	0%	65%	95%	55%	33%	31%	0%	70%	**89.3%**

(i) 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.

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

The beneficial interests of the Directors in office at 30 June 2019 (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(i)					
	11 July 2019(ii)	30 June 2019 (or date of departure, if earlier)	30 June 2018 (or date of appointment, if later)	Shareholding requirement (% salary)(iii)	Shareholding at 11 July 2019 (% salary)(iii)	Shareholding requirement met
Chairman						
Javier Ferrán(iv)	217,243	217,000	148,415	–	–	–
Executive Directors						
Ivan Menezes(iv)	1,122,042	1,122,042	973,586	500%	2,620%	Yes
Kathryn Mikells(iv)(vii)	158,513	158,506	37,245	400%	563%	Yes
Non-Executive Directors						
Peggy Bruzelius(vi)	–	5,000	5,000	–	–	–
Lord Davies of Abersoch	5,052	5,052	5,052	–	–	–
Betsy Holden(iv)(vi)	–	17,400	17,400	–	–	–
Ho KwonPing	4,543	4,543	4,463	–	–	–
Alan Stewart	6,751	6,751	6,660	–	–	–
Nicola Mendelsohn	5,000	5,000	5,000	–	–	–
Susan Kilsby(iv)	2,600	2,600	–	–	–	–
Debra Crew(iv)(v)	260	260	–			

Notes
(i) Each person listed beneficially owns less than one percent of Diageo's ordinary shares. Ordinary shares held by Directors have the same voting rights as all other ordinary shares.
(ii) Any change in shareholding between the end of the financial year on 30 June 2019 and the last practicable date before publication of this report, being 11 July 2019, is outlined in the table above. The last practicable date is within one month of the AGM notice.
(iii) Both the shareholding requirement and shareholding at 11 July 2019 are expressed as a percentage of base salary on 30 June 2019 and calculated using an average share price for the year ended 30 June 2019 of 2919.66 pence.
(iv) Javier Ferrán, Ivan Menezes, Kathryn Mikells, Susan Kilsby, Debra Crew and Betsy D Holden 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.
(v) Debra Crew was appointed to the Board on 18 April 2019.
(vi) Peggy Bruzelius and Betsy Holden stepped down from the Board on 20 September 2018.
(vii) Kathryn Mikells has five years from the date of her appointment, that is, until 9 November 2020, to meet the shareholding requirement.

Percentage change in remuneration of the director undertaking the role of Chief Executive

The table below shows a comparison of the percentage change in the Chief Executive's remuneration to the average percentage change in remuneration for the UK and US population from 2018 to 2019. The chosen population represents the most appropriate comparator group for the Chief Executive, as the Committee considers salary increase budgets in these countries when reviewing Executive Directors' base salaries. Furthermore, the majority of Executive Committee members as well as the Executive Directors are on UK or US reward packages.

	Salary	Taxable benefits	Bonus
	% change	% change	% change
Chief Executive percentage change from 2018 to 2019	2%	31%	(11%)
Average % change for the UK and US workforce from 2018 to 2019	5%	0%	23%

The percentage change for the Chief Executive is based on the remuneration of Ivan Menezes from 2018 to 2019.

UK salary, benefits and bonus data for both 2018 and 2019 have been converted into US dollars using the cumulative weighted average exchange rate for the year ended 30 June 2019 of £1 = $1.29.

External appointments held by the Executive Directors

Executive Directors may accept external appointments as Non-Executive Directors of other companies and retain any related fees paid to them, subject to the specific approval of the Board in each case.

Ivan Menezes – During the year ended 30 June 2019, Ivan Menezes served as a Non-Executive Director of Tapestry Inc and earned fees of $90,000. In line with the Tapestry Inc policy for outside directors, Ivan Menezes is eligible to be granted share options and restricted share units (RSUs). During the year ended 30 June 2019, he was granted 7,712 options at an option price of $43.03, 1,743 RSUs at a fair market value of $43.03 per share, 18 RSUs in lieu of dividends at a fair market value of $33.09 per share and 17 RSUs in lieu of dividends at a fair market value of $33.70 per share.

Kathryn Mikells – During the year ended 30 June 2019, Kathryn Mikells served as a Non-Executive Director of Hartford Financial Services Group Inc. and earned fees of $100,000 for the full year, which were deferred into equity.

Non-Executive Directors

Non-Executive Directors' fees

Javier Ferrán's fee as non-executive Chairman effective 1 January 2018 is £600,000 per annum. The Chairman's fee is appropriately positioned against our comparator group of FTSE 30 companies excluding financial services.

There was no change to the basic fee for Non-Executive Directors or to the additional fees for the Senior Non-Executive Director, Chair of the Audit Committee and Chair of the Remuneration Committee in the year ended 30 June 2019. The next review is scheduled for January 2020.

	January 2019	January 2018
Per annum fees	£'000	£'000
Chairman of the Board	600	600
Non-Executive Directors		
Basic fee	92	92
Senior Non-Executive Director	25	25
Chairman of the Audit Committee	30	30
Chairman of the Remuneration Committee	30	30

Non-Executive Directors' remuneration for the year ended 30 June 2019 (audited)

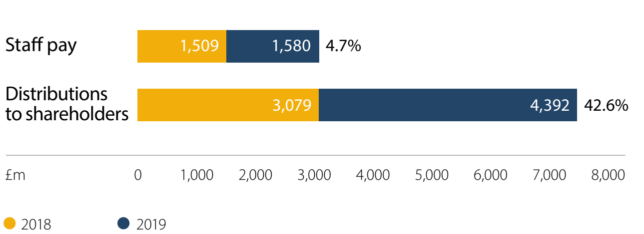
	Fees £'000		Taxable benefits(i) £'000		Total £'000	
	2019	2018	2019	2018	2019	2018
Chairman						
Javier Ferrán(ii)	600	600	1	2	601	602
Non-Executive Directors						
Lord Davies of Abersoch	134	142	1	3	135	145
Peggy Bruzelius(iii)	20	90	4	5	24	95
Betsy Holden(iii)	20	90	7	11	27	101
Susan Kilsby(iv)	105	22	6	1	111	23
Debra Crew(v)	19	–	–	–	19	–
Ho KwonPing	92	90	2	1	94	91
Nicola Mendelsohn	92	90	1	1	93	91
Alan Stewart	122	120	1	2	123	122

(i) Taxable benefits include a contracted car service, product allowance and expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance of 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.
(ii) £100,000 of Javier Ferrán's net remuneration in the year ended 30 June 2019 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.
(iii) Peggy Bruzelius and Betsy Holden stepped down from the Board on 20 September 2018.
(iv) Susan Kilsby was appointed as Chair of the the Remuneration Committee on 29 January 2019.
(v) Debra Crew was appointed to the Board on 18 April 2019.

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 2018 to the year ended 30 June 2019. The Committee considers that there are no other significant distributions or payments of profit or cash flow.

Relative importance of spend on pay – percentage change



Remuneration committee

The Remuneration Committee consists of the following independent Non-Executive Directors: Susan Kilsby, Lord Davies of Abersoch, Ho KwonPing, Nicola S Mendelsohn, Alan JH Stewart and Debra Crew. Peggy B Bruzelius and Betsy D Holden were members of the Remuneration Committee until they stepped down from the Board on 20 September 2018. Susan Kilsby is the Chair of the Remuneration Committee. 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 from time to time by the Remuneration Committee to provide their views and advice. The Chief Executive and Chief Human Resources Officer are not present when their own remuneration is discussed. 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; and
- 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.

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

External advisors

During the year ended 30 June 2019, the Remuneration Committee received independent advice on executive remuneration from Mercer who was appointed by the Committee in December 2013. Following a tendering process, Deloitte was appointed by the Committee in May 2019 and provided advice for the remainder of the financial year.

Mercer is a signatory to, and abides by, the Remuneration Consultants Group Code of Conduct. Further details can be found at **www.remunerationconsultantsgroup.com**. Mercer provides unrelated services to the company in the areas of all-employee reward and retirement benefits. The Remuneration Committee is satisfied that the advice it receives from Mercer is independent. During the year, Mercer supported the Committee in providing remuneration benchmarking survey data to support the salary review for the Executive Committee, providing advice on the design of long-term incentives and the level of stretch in the long-term incentive targets and providing periodic updates on the TSR of Diageo and its peer companies for outstanding performance cycles. The fees paid to Mercer in relation to advice provided to the Committee were £58,458 and were determined on a time and expenses basis.

Deloitte is also a signatory to, and abides by, the Remuneration Consultants Group Code of Conduct. During the past year, separate Deloitte teams provided consultancy support to Diageo in relation to services including mergers and acquisitions, analytics transformation, tax, immigration and net revenue management. The Remuneration Committee is satisfied that the advice it receives from Deloitte is independent. During the year, Deloitte supported the Committee in preparing this Directors' remuneration report, providing advice on the design of the annual and long-term incentives, assessing the level of stretch in the annual and long-term incentive targets, calculating the TSR of Diageo and its peer companies for the 2016 DLTIP awards and an update on other outstanding performance cycles. The fees paid to Deloitte in relation to advice provided to the Committee during the year ended 30 June 2019 were £26,600 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 £20,912.

The Committee is satisfied that the Mercer, 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 at the 2017 AGM and the annual report on remuneration at the 2018 AGM.

		For	Against	Total votes cast	Abstentions
Directors' remuneration policy	Total number of votes	1,905,251,510	75,507,013	1,980,758,523	2,048,247
	Percentage of votes cast	96.19%	3.81%	100%	n/a
Annual report on remuneration	Total number of votes	1,873,234,182	67,057,068	1,940,291,250	11,728,553
	Percentage of votes cast	96.54%	3.46%	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.

Additional information

Emoluments and share interests of senior management

The total emoluments for the year ended 30 June 2019 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 £21.5 million (2018 – £20.3 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 £37 million. In addition, they were granted 914,727 performance-based share options under the Diageo Long-Term Incentive Plan (DLTIP) during the year at a weighted average share price of 2715 pence, exercisable by 2028 and no options were granted under DLTIP that are not subject to performance. In addition they were granted 1,211 options over ordinary shares under the UK savings-related share options scheme (SAYE). They were also awarded 1,211,885 performance shares under the DLTIP and Diageo Exceptional Stock Award Plan (DESAP) in September 2018, which will vest in three years subject to the relevant performance conditions.

Senior management options over ordinary shares

At 11 July 2019, the senior management had an aggregate beneficial interest in 2,365,736 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	713,468	2324p	2018 – 2028
Kathryn Mikells	367,052	2455p	2019 – 2028
Other[i]	2,524,566	2297p	2013 – 2028
	3,605,086		

(i) 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 2019.

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, on 23 July 2019 and was signed on its behalf by Susan Kilsby who is Chairman 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 LLP 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 19 September 2019; the directors' remuneration policy was approved by shareholders at the 2017 AGM.

Terms defined in this remuneration report are used solely herein.

Directors' report

The Directors present the Directors' report for the year ended 30 June 2019.

Annual General Meeting

The AGM will be held at etc.venues St Paul's, 200 Aldersgate, London EC1A 4HD at 2.30pm on Thursday, 19 September 2019.

Directors

The Directors of the company who served during the year are shown in the section 'Board of Directors and Company Secretary' on pages 66 and 67.

In accordance with the UK Corporate Governance Code, all the Directors will retire by rotation at the AGM and offer themselves for re-election.

Further details of Directors' contracts, remuneration and their interests in the shares of the company at 30 June 2019 are given in the Directors' remuneration report.

The Directors' powers are determined by UK legislation and Diageo's articles of association. The Directors may exercise all the company's powers provided that Diageo's articles of association or applicable legislation do not stipulate that any powers must be exercised by the members.

Auditor

The auditor, PricewaterhouseCoopers LLP, is willing to continue in office and a resolution for its re-appointment as auditor of the company will be submitted to the AGM.

Disclosure of information to the auditor

In accordance with section 418 of the Companies Act 2006, the Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each Director has taken all reasonable steps to ascertain any relevant audit information and to ensure that the company's auditor is aware of that information.

Corporate governance statement

The corporate governance statement, prepared in accordance with rule 7.2 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, comprises the following sections of the Annual Report: the 'Corporate governance report', the 'Report of the Audit Committee' and the 'Additional information for shareholders'.

Significant agreements – change of control

The following significant agreements contain certain termination and other rights for Diageo's counterparties upon a change of control of the company.

Under the partners agreement governing the company's 34% investment in Moët Hennessy SAS (MH) and Moët Hennessy International SAS (MHI), if a Competitor (as defined therein) directly or indirectly takes control of the company (which, for these purposes, would occur if such competitor acquired more than 34% of the voting rights or equity interests in the company), LVMH Moët Hennessy – Louis Vuitton SA (LVMH) may require the company to sell its interests in MH and MHI to LVMH.

The master agreement governing the operation of the group's market level distribution joint ventures with LVMH states that if any person acquires interests and rights in the company resulting in a Control Event (as defined) occurring in respect of the company, LVMH may within 12 months of the Control Event either appoint and remove the chairman of each joint venture entity governed by such master agreement, who shall be given a casting vote, or require each distribution joint venture entity to be wound up. Control Event for these purposes is defined as the acquisition by any person of more than 30% of the outstanding voting rights or equity interests in the company, provided that no other person or entity (or group of affiliated persons or entities) holds directly or indirectly more than 30% of the voting rights in the company.

Related party transactions

Transactions with other related parties are disclosed in note 20 to the consolidated financial statements.

Major shareholders

At 30 June 2019, the following substantial interests (3% or more) in the company's ordinary share capital (voting securities) had been notified to the company.

Shareholder	Number of ordinary shares	Percentage of issued ordinary share capital (excluding treasury shares)	Date of notification of interest
BlackRock Investment Management (UK) Limited (indirect holding)	147,296,928	5.89%	3 December 2009
Capital Research and Management Company (indirect holding)	124,653,096	4.99%	28 April 2009

The company has not been notified of any other substantial interests in its securities since 30 June 2019. The company's substantial shareholders do not have different voting rights. Diageo, so far as is known by the company, is not directly or indirectly owned or controlled by another corporation or by any government. Diageo knows of no arrangements, the operation of which may at a subsequent date result in a change of control of the company.

Employment policies

A key strategic imperative of the company is to attract, retain and grow a pool of diverse, talented employees. Diageo recognises that a diversity of skills and experiences in its workplace and communities will provide a competitive advantage. To enable this the company has various global employment policies and standards, covering such issues as resourcing, human rights, health, safety and wellbeing. These policies and standards seek to ensure that the company treats current or prospective employees justly, solely according to their abilities to meet the requirements and standards of their role and in a fair and consistent way. This includes giving full and fair consideration to applications from prospective employees who are disabled, having regard to their aptitudes and abilities, and not discriminating against employees under any circumstances (including in relation to applications, training, career development and promotion) on the grounds of any disability.

Other information

Other information relevant to the Directors' report may be found in the following sections of the Annual Report:

Information (including that required by UK Listing Authority Listing Rule 9.8.4)	Location in Annual Report
Agreements with controlling shareholders	Not applicable
Amendment of articles of association	Additional information for shareholders – Articles of association
Contracts of significance	Not applicable
Details of long-term incentive schemes	Directors' remuneration report
Directors – appointment and powers	Additional information for shareholders – Articles of association – Directors
Directors' indemnities and compensation	Directors' remuneration report – Additional information; Financial Statements – note 20 Related party transactions
Dividends	Financial Statements – Unaudited financial information and group financial review
Employment policies	Strategic report – How we protect our business; our principal risks and risk management; Strategic report – Sustainability & Responsibility review
Events since 30 June 2019	Financial statements – note 22 Post balance sheet events
Financial risk management	Financial statements – note 15 Financial instruments and risk management
Future developments	Chairman's statement; Chief Executive's statement; Market dynamics
Greenhouse gas emissions	Strategic report – Sustainability & Responsibility review – Reducing our environmental impact; Additional information for shareholders – External limited assurance of selected Sustainability & Responsibility performance data
Interest capitalised	Not applicable
Non-pre-emptive issues of equity for cash (including in respect of major unlisted subsidiaries)	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Political donations	Corporate governance report
Provision of services by a controlling shareholder	Not applicable
Publication of unaudited financial information	Unaudited financial information
Purchase of own shares	Additional information for shareholders – Articles of association – Repurchase of shares; Financial statements – note 17 Equity
Research and development	Financial statements – note 3 Operating costs
Restrictions on transfer of securities	Additional information for shareholders – Articles of association – Restrictions on transfer of shares
Review of the business & principal risks and uncertainties	Chief Executive's statement; Strategic report: How we protect our business: our principal risks and risk management
Share capital – structure, voting and other rights	Additional information for shareholders – Articles of association; Financial statements – note 17 Equity
Share capital – employee share plan voting rights	Financial statements – note 17 Equity
Shareholder waivers of dividends	Financial statements – note 17 Equity
Shareholder waivers of future dividends	Financial statements – note 17 Equity
Sustainability & responsibility	Strategic report – How we protect our business: our principal risks and risk management; Strategic report – Sustainability & Responsibility review
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable

The Directors' report of Diageo plc for the year ended 30 June 2019 comprises these pages and the sections of the Annual Report referred to under 'Directors', 'Corporate governance statement' and 'Other information' above, which are incorporated into the Directors' report by reference. In addition, certain disclosures required to be contained in the Directors' report have been incorporated into the 'Strategic report' as set out in 'Other information' above.

The Directors' report, which has been approved by a duly appointed and authorised committee of the Board of Directors, was signed on its behalf by Siobhán Moriarty, the Company Secretary, on 25 July 2019.