Annual statement by the Chairman of the Remuneration Committee

"The company is committed to emerging stronger from the pandemic. It is important that we have flexibility in our remuneration framework so that we can remain nimble in a rapidly changing world."

In this year's report

Dear Shareholder

I am pleased to present to you the Directors' remuneration report for the year ended 30 June 2020, which contains:

- The proposed Directors' remuneration policy, to be approved at the 2020 AGM; and
- The annual remuneration report, describing how the policy has been put into practice during 2020, and how the new policy will be implemented in 2021.

I had the opportunity to consult with a number of shareholders during the year as we considered our proposals for the latest Directors' remuneration policy and I want to thank you for your time and your input, which has been very helpful and constructive in shaping the final policy we are presenting here.

When I began meeting with shareholders about Diageo's remuneration policy review early in 2020, the coronavirus outbreak was in its very early stages and the severity and scale of its impact was not yet apparent. We now find ourselves in new and challenging circumstances. As for many companies, Diageo's ability to do business has been immediately and significantly impacted by the pandemic, and we recognise that it has also caused considerable uncertainty and hardship for our employees, customers, suppliers and the communities in which we not only work, but also source and sell our products.

In line with its values, Diageo's response to the Covid-19 pandemic has been focused on looking after our people, and protecting the safety, health and wellbeing of all of our employees. Diageo has also acted fast to support those in need in the communities in which we operate, donating sanitisers and wipes to local health organisations across the world, as well as pledging financial support to bartenders who are unable to work during lockdown.

Looking ahead, the company is committed to emerging stronger from the pandemic by focusing on consumers, customers, cost and cash. It is important that we have flexibility in our remuneration framework so that we can remain nimble in a rapidly changing world.

Remuneration principles

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

We need to have the right tools in place to source talent globally and the increasingly restrictive corporate governance environment in the United Kingdom presents some challenges when considered against the significantly higher pay norms in the United States and other parts of the world, particularly given the increasing international mobility of the senior talent pool. The approach to setting executive remuneration continues to be 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. This reflects the principles of the Corporate Governance Code in ensuring clarity, simplicity, appropriate management of risk, predictability, proportionality and alignment to culture (see page 105 for more detail on the role of the Remuneration Committee and how it delivers against these principles).

2020 Directors' remuneration policy review

The remuneration policy was last approved by shareholders at the 2017 AGM and is now due for review and approval by shareholders for the next three-year cycle.

On behalf of the Remuneration Committee, I have engaged with Diageo's largest shareholders to understand their views on the policy proposals, as well as continuing an open dialogue on the ongoing appropriateness of executive short- and long-term incentive plan design, performance measures and target-setting, ensuring that remuneration arrangements continue to attract and retain the highest quality global talent.

Having taken account of the viewpoints of the investor community and best practice corporate governance guidelines, the Committee decided to make a number of changes to the remuneration policy, effective 1 July 2020, subject to being approved by shareholders at the AGM on 28 September 2020.

The key changes to the remuneration policy are:

- **Maximum pension contribution for new-hire Executive Directors set at 14% of salary**, in line with the maximum offered to new-hire employees in the United Kingdom;
- **Commitment to align incumbent Executive Director pension contributions** with the maximum offered to new-hire employees in the United Kingdom by 1 January 2023;
- **Introduction of new bonus deferral share plan**, requiring Executive Directors to defer one-third of their earned annual bonus into shares for three years; and
- **Introduction of a post employment shareholding policy**, requiring Executive Directors to hold some of their Diageo shares for two years after leaving the company.

Other changes include the review of Non-Executive Director fees every year instead of every two years, an increase in the aggregate Non-Executive Director fee limit from £1.2 million to £1.75 million, the removal of the requirement for straight-line vesting between threshold and maximum under the long-term incentive plan, and, in response to feedback from shareholders, the consideration of a returns measure as one of the factors used by the Committee to assess the appropriateness of long-term incentive outcomes.

Pension

New Executive Director appointments

In accordance with the latest guidance from institutional investors in the United Kingdom, the maximum company pension contribution for new Executive Director appointments has been reduced from 20% of salary to 14% of salary, a change which has been in effect since 1 July 2019. The maximum pension contribution for Executive Directors under the remuneration policy is aligned to the offering for new-hire employees in the United Kingdom, who are eligible to receive a potential company contribution of 14% of salary under the defined contribution pension scheme, regardless of seniority or tenure.

Incumbent Executive Directors

The Chief Executive 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 followed the earlier reduction to his pension from 40% of salary to 30% of salary, implemented on 1 July 2016. The pension contributions for the incumbent Chief Executive and Chief Financial Officer are now both set at 20% of salary and this is aligned to the current average company contribution to active members of all of the current and legacy pension schemes in the United Kingdom (weighted average of 20% of salary). The company pension contribution for many longer-serving employees participating in the legacy defined benefit or final salary schemes in the United Kingdom is higher than 20% of salary. As further context, the company contribution to active retirement schemes in the United States ranges between 10% and 16.5% of salary plus target bonus.

The Committee has committed to align the company pension contributions for incumbent Executive Directors to the level applicable to new-hire employees in the United Kingdom (14% of salary) by 1 January 2023.

Diageo's remuneration principles

Delivery of business strategy

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

Creating sustainable, long-term performance

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

Winning best talent

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

Consideration of stakeholder interests

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

Annual incentive

The annual incentive plan for the financial year ended 30 June 2020 provided a bonus opportunity payable entirely in cash. In recognition of the external best practice guidelines in the United Kingdom and prevalent practice in other FTSE 100 companies, a new bonus deferral plan will be introduced for the year ended 30 June 2021, which will require Executive Directors to defer one-third of their actual earned bonus payment into Diageo shares, to be held for a minimum of three years. This further reinforces the focus on delivering long-term shareholder value, in addition to the high shareholding requirement, the level of stretch in performance targets under the incentive plans and the post-vesting holding period for long-term incentives. These measures ensure that executives are invested in managing risk appropriately for the business.

The structure of the annual incentive plan for Executive Directors in the year ending 30 June 2021 remains broadly the same, with 80% based on financial measures and 20% on individual business objectives. The average working capital measure (as a percentage of net sales value) will be replaced with a new operating cash conversion measure, in recognition of the criticality of strong cash performance and cost containment in the current challenging market conditions.

Given the global nature of the pandemic, the uncertainty around the severity and duration of impact across multiple markets in which Diageo operates, and the significant difficulties in setting meaningful targets for the year ahead, the target-setting process for the annual incentive plan for 2021 will be managed in two half-year periods, with financial targets for the first half of the year (1 July 2020-31 December 2020) approved immediately after the announcement of Diageo's final results in July 2020, and financial targets for the second half of the year (1 January 2021-30 June 2021) approved immediately following the announcement of Diageo's interim results in January 2021.

There will be no payout under the annual incentive plan until after the end of the financial year, in line with the normal timeline. The Remuneration Committee will consider Diageo's holistic performance across the full financial year in order to determine the appropriate level of payment at the end of the financial year, based on a rigorous year-end assessment to ensure that the decisions that have been taken and the financial results that have been achieved align to the interests of Diageo's shareholders and wider stakeholders over the long term. This review will consider factors such as market share, the relationship between revenue and profit performance, Diageo's performance relative to its peer group, and any other relevant context impacting the business. The Committee retains full discretion to adjust annual incentive payouts to ensure they appropriately reflect underlying business performance and the experience of shareholders. Any discretionary adjustments will be detailed in the following year's annual report on remuneration.

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 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.

As a result of very rich and productive discussions with shareholders, I am pleased to confirm that long-term incentive awards in 2020 will include a measure based on ESG (Environmental, Social and Governance) priorities, in line with Diageo's vision to make a positive impact on the environment and society. The ESG measure will cover water efficiency, carbon reduction, positive drinking and inclusion and diversity. In considering the appropriateness of ESG priorities under the long-term incentive plan, the Committee and I have been focused on selecting measures that are strategically critical to the business over the long term, as well as being measurable and able to be independently validated. The other measures under the long-term incentive award for 2020 are detailed on page 104. To those of you with whom I consulted, thank you for your extensive input and experience in assessing the design and effectiveness of the long-term incentive plan.

Due to the Covid-19 pandemic, the Committee has decided to set targets for 2020 long-term incentive awards after the interim results have been reported for the period 1 July 2020 to 31 December 2020, at which time it is envisaged that there will be better visibility of the market conditions for the company's three-year plan. We intend to consult again with shareholders before these targets are set and disclosed. Long-term incentive awards will be made as normal in September 2020. Awards are calculated on the basis of a six-month average share price for the period ending 30 June 2020. At £28.43, this award price is in line with previous years, and as a result no adjustment to award size is deemed necessary. The Committee will keep under review the targets for outstanding long-term incentive awards made in 2018 and 2019 to ensure they remain appropriate.

Shareholding requirement

The in-employment shareholding requirement is high relative to other UK listed companies at 500% of salary for the Chief Executive and 400% of salary for the Chief Financial Officer, and both incumbents have exceeded that requirement at 2,635% and 791% respectively.

In accordance with best practice guidelines under the Corporate Governance Code, a new post employment shareholding requirement policy will be implemented from 1 July 2020, under which Executive Directors leaving the company will be required to hold 100% of their in-employment shareholding requirement (or their actual shareholding, if lower) for one year after exit, reducing to 50% of their in-employment shareholding requirement in the second year after exit. This ensures that departing Executive Directors remain invested in Diageo's long-term share price performance and the appropriate management of risk.

Other decisions made during 2020

In addition to reviewing salaries, incentive awards and payments for the Executive Committee, setting targets for the annual and long-term incentive plans, and reviewing annual and long-term incentive outcomes for the Executive Committee, the Committee made other decisions during the year ended 30 June 2020, as outlined below.

Chairman's fee increase for 2020 waived until 2021

In light of the current challenges affecting the company in relation to the Covid-19 pandemic, the Chairman asked to defer his planned fee increase for 2020 until 2021. The Chairman's fee has not increased since his appointment in January 2017, and the Committee had approved an increase from £600,000 to £650,000, effective 1 January 2020. This fee increase will instead take effect on 1 January 2021.

No salary increases or bonus payments for Executive Directors in 2020

The significant and unpredictable impact of the pandemic on Diageo's performance has required the company to review its approach to reward and incentives for all employees to reflect the challenges of the current environment, including the need to increase focus on cash and cost. Many of our employees will not receive a bonus for the year ended 30 June 2020 and there will be no annual salary review implemented during 2020. In keeping with the approach taken for the majority of employees across the company in 2020, there will be no annual salary increase for Executive Directors or members of the Executive Committee during 2020. Downward discretion has been exercised so that there is no payout, irrespective of performance, against the individual business objectives under the annual incentive plan, meaning that there will be no annual incentive payout for Executive Directors or members of the Executive Committee for the year ended 30 June 2020.

Diageo has made the health and wellbeing of its employees its top priority in response to the Covid-19 pandemic. The company has safeguarded jobs, pay and benefits for its employees during the year ended 30 June 2020, has rolled out a global Employee Assistance Programme to provide personal, legal and financial advice to employees and their families, has extended emergency, bereavement leave and life insurance to all employees across the world and has provided access to learning resources on remote working, wellness and resilience through change. No doubt there will continue to be uncertain and challenging times ahead, but in focusing on emerging stronger, Diageo seeks to deliver the best possible outcomes for employees, shareholders and society.

The Directors' remuneration policy will be put forward for your consideration and approval by binding vote, and the annual remuneration report by advisory vote, at the AGM on 28 September 2020. Thank you to those shareholders that engaged with us as part of the 2020 remuneration policy review; I believe the new policy supports the business strategy, drives pay for performance and meets the needs of all our stakeholders.

In closing, I want to recognise the level of energy, agility and resilience demonstrated by our people throughout these difficult times. There is a high level of passion, pride and accountability for our heritage-rich brands at Diageo and a shared commitment to be our best, and to do the right thing at work, in life and in the wider community. Our people have been working tirelessly to drive the best results for the business, and many people have continued to do their jobs outside of their homes to keep production and supply going. To all Diageo employees – thank you for your hard work, your solidarity and your commitment to emerging stronger.

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

Remuneration at a glance

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

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

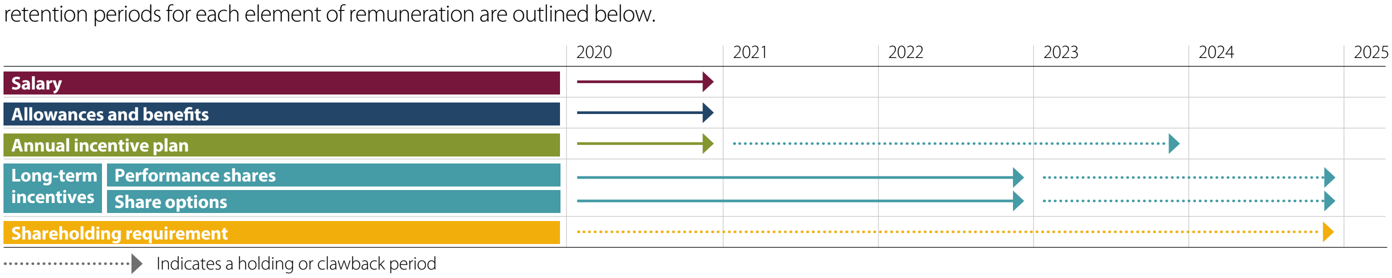
Planned for year ending 30 June 2021	– No salary increase for Executive Directors or Executive Committee members
	– Exceptional salary increases only (e.g. on promotion) for the wider workforce during 2020
		– Allowances and benefits unchanged from prior year
		– Company pension contribution:
		  – CEO 20% of salary
		  – CFO 20% of salary
			– Targets will be set over two half-year periods
			– For the year ending 30 June 2021, measures on net sales growth, operating profit growth and operating cash conversion, weighted equally, with remaining 20% on individual objectives
				– Retention of measures on NSV growth, relative TSR and cumulative free cash flow; introduction of new measures on ESG and EPS growth
				– Size of long-term incentive award opportunity is unchanged from prior year
					– New post employment shareholding requirement for Executive Directors of 100% of in-employment requirement in the first year after leaving the company and 50% in the second year after leaving the company

Implementation in year ended 30 June 2020	– Effective 1 October 2019:
	  – CEO 3% increase to $1,661,427
	  – CFO 3% increase to $1,093,044
	– In line with the pay budget for the wider workforce (3% for the UK and the US in 2019)
		– Company pension contribution:
		  – CEO 20% of salary (reduced from 30% of salary effective 1 July 2019)
		  – CFO 20% of salary
			– No annual incentive payout for Executive Directors in 2020	– Vesting of 2017 performance shares at 6.9% of maximum
				– Vesting of 2017 share options at 27.5% of maximum
					– CEO shareholding 2,635% of salary
					– CFO shareholding 791% of salary

Implementation in year ended 30 June 2019	– Effective 1 October 2018:
	– CEO 2% increase to $1,613,036
	– CFO 2% increase to $1,061,208
	– Below the pay budget for the wider workforce
		– Company pension contribution:
		  – CEO 30% of salary
		  – CFO 20% of salary
			– Payout above target:
			  – CEO 61.0% of maximum
			  – CFO 57.6% of maximum
				– Vesting of 2016 performance shares at 89.3% of maximum
				– Vesting of 2016 share options at 73.1% of maximum
					– CEO shareholding 2,620% of salary
					– CFO shareholding 563% of salary

Proportionality and management of risk

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

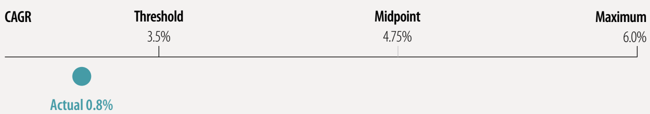


Pay for performance at a glance

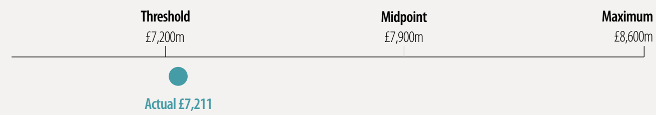
Performance against the incentive targets had been tracking well until the beginning of the Covid-19 pandemic in early 2020. The outcomes are appropriate in light of year-end performance and the shareholder experience. Targets under both incentive plans are set with reference to Diageo's strategic plan and the historical and forecasted performance of Diageo and its peers.

Long-term incentives (for the period 1 July 2017 to 30 June 2020)

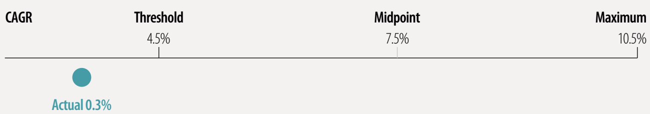
Organic growth in net sales



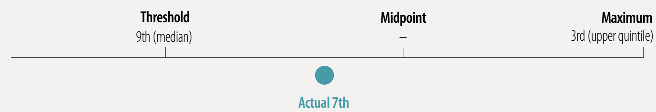
Cumulative free cash flow



Organic growth in profit before exceptional items and tax



Relative TSR ranking vs peer group



Annual incentive (for the period 1 July 2019 to 30 June 2020)

Net sales growth

Operating profit growth

Average working capital (% net sales)

Diageo's share price growth over the period 30 June 2017 to 30 June 2020

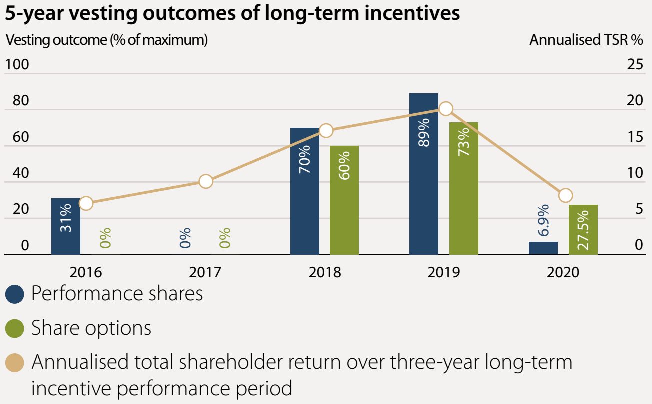
18.2%

Dividend distribution to shareholders in year ended 30 June 2020

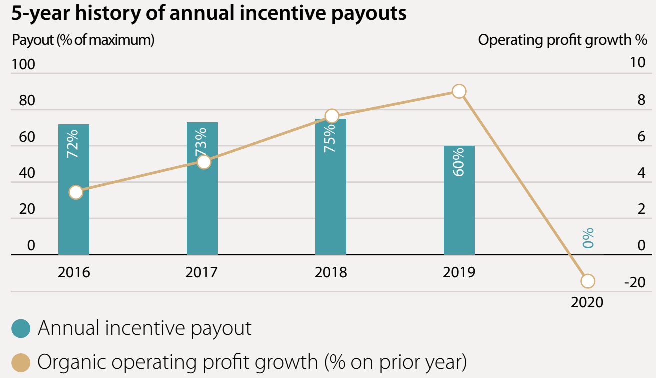
1.9%

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 2020 is shown against the vesting outcome for the 2017 long-term incentive awards vesting in 2020). Outcomes against annual incentive measures are shown against organic operating profit growth for each respective financial year, as disclosed in prior-year annual reports.

5-year vesting outcomes of long-term incentives



5-year history of annual incentive payouts



Directors' remuneration policy

This section of the report summarises the policy for the remuneration of the company's Directors. The policy will be put to a binding vote at the AGM on 28 September 2020, in accordance with section 439A of the Companies Act 2006.

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/.

The Committee discussed the details of the policy over a series of meetings, taking into account the strategic priorities of the business and evolving market practice. Input was sought from the management team whilst ensuring any conflict of interest was suitably mitigated. An external perspective was provided by major shareholder and independent advisers. These changes include: reduction of pension provision, introduction of a deferred bonus share plan, introduction of a post employment shareholding requirement, annual review of Non-Executive Director fees, increase to the Non-Executive Director fee limit, removal of the requirement for straight-line vesting between threshold and maximum under the long-term incentive plan and the consideration of a returns measure in the discretionary assessment of long-term incentive outcomes. The rationale for the changes are described on pages 84-86. The Committee reserves the right to make minor changes to the policy, where required for regulatory, tax or administrative reasons.

Base salary

Purpose and link to strategy

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

Operation

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

Opportunity

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

Benefits

Purpose and link to strategy

Provides market-competitive and cost-effective benefits.

Operation

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

Opportunity

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

Post-retirement provision

Purpose and link to strategy

Provides cost-effective, competitive post-retirement benefits.

Operation

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

Opportunity

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

Annual Incentive Plan (AIP)

Purpose and link to strategy

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

Operation

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

Opportunity

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

Performance conditions

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

Diageo Long-Term Incentive Plan (DLTIP)

Purpose and link to strategy

Provides focus on delivering superior long-term returns to shareholders.

Operation

- An annual grant of performance shares and/or market-price share options which vest subject to a performance test and continued employment, normally over a period of three years.
- Measures and stretching targets are reviewed annually by the Remuneration Committee for each new award.
- The Remuneration Committee has the authority to exercise discretion to adjust the vesting outcome based on its assessment of underlying business performance over the performance period. This may include the consideration of factors such as holistic performance relative to peers, stakeholder outcomes and significant investment projects, for example.
- Following vesting there is normally a further retention period of two years. Executive Directors are able to exercise an option or sell sufficient shares to cover any tax liability when an award vests, provided they retain the net shares arising for the two-year retention period.
- Notional dividends accrue on performance share awards to the extent that the performance conditions have been met, delivered as shares or cash at the discretion of the Remuneration Committee at the end of the vesting period.
- The Committee has discretion to reduce the number of shares which vest (subject to HMRC rules regarding approved share options), for example in the event of a material performance failure, or a material restatement of the financial statements. There is an extensive malus clause for awards made from September 2014. The Committee has discretion to decide that:
  - the number of shares subject to the award will be reduced;
  - the award will lapse;
  - retention shares (i.e. vested shares subject to the additional two-year retention period) will be forfeited;
  - vesting of the award or the end of any retention period will be delayed (e.g. until an investigation is completed);
  - additional conditions will be imposed on the vesting of the award or the end of the retention period; and/or
  - any award, bonus or other benefit which might have been granted or paid to the participant in any later year will be reduced or not awarded.
- Malus and clawback provisions will apply up to delivery of shares at the end of the retention period (as opposed to the vesting date). The company also has the standard discretion to take account of unforeseen events such as a variation to share capital.

Opportunity

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

Diageo Long-Term Incentive Plan (DLTIP) continued

Performance conditions
- The vesting of awards is linked to a range of measures which may include, but are not limited to:
  - a growth measure (e.g. net sales growth, operating profit growth);
  - a measure of efficiency (e.g. operating margin, cumulative free cash flow, return on invested capital);
  - a measure of Diageo's performance in relation to its peers (e.g. relative total shareholder return); and
  - a measure relating to ESG (environmental, social or governance) priorities.
- Measures that apply to performance shares and market-price options may differ, as is the case for current awards. Weightings of these measures may also vary year on year.
- The Remuneration Committee has discretion to amend the performance conditions in exceptional circumstances if it considers it appropriate to do so, e.g. in cases of accounting policy changes, merger and acquisition activities or disposals. Any such amendments would be fully disclosed and explained in the following year's annual report on remuneration.

All-employee share plans

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

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

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

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

Shareholding requirement

Purpose and link to strategy
- Ensures alignment between the interests of Executive Directors and shareholders.

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

Chairman of the Board and Non-Executive Directors

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

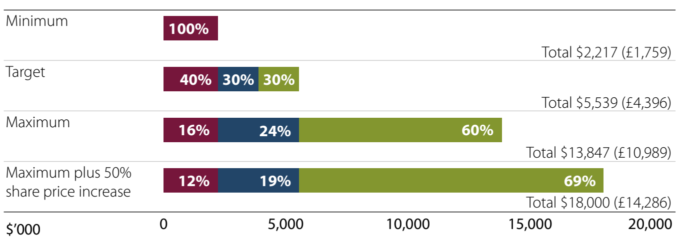
Operation
- Fees for the Chairman and Non-Executive Directors are normally reviewed every year.
- A proportion of the Chairman's annual fee is used for the monthly purchase of Diageo ordinary shares, which have to be retained until the Chairman retires from the company or ceases to be a Director.
- Fees are reviewed in the light of market practice in the FTSE 30, excluding financial services companies, and anticipated workload, tasks and potential liabilities.
- The Chairman and Non-Executive Directors do not participate in any of the company's incentive plans nor do they receive pension contributions or benefits. Their travel and accommodation expenses in connection with attendance at Board meetings (and any tax thereon) are paid by the company.
- The Chairman and the Non-Executive Directors are eligible to receive a product allowance or cash equivalent at the same level as the Executive Directors.
- All Non-Executive Directors have letters of appointment. A summary of their terms and conditions of appointment is available at www.diageo.com. The Chairman of the Board, Javier Ferrán, was 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 £1,750,000, excluding the Chairman's fees.

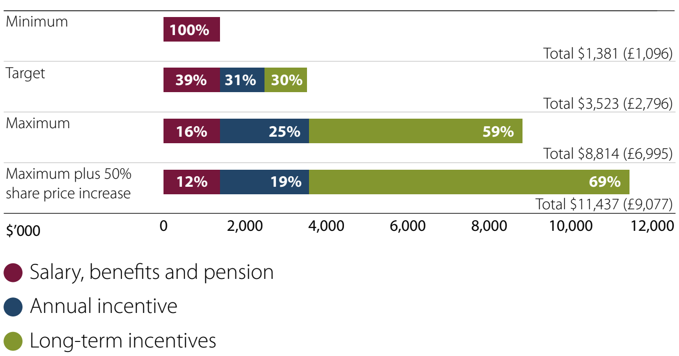
Projected total remuneration scenarios

The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at four different levels of performance: minimum, target, maximum, and maximum including assumed share price appreciation of 50% (in accordance with the Corporate Governance Code). The impact of potential share price movements is excluded from the other three scenarios. These charts reflect projected remuneration for the financial year ending 30 June 2021.

Ivan Menezes



Kathryn Mikells



Basis of calculation and assumptions:

The 'Minimum' scenario shows fixed remuneration only, i.e. base salary for the year ending 30 June 2021, total value of contractually agreed benefits for 2021, and the pension benefits to be accrued over the year ending 30 June 2021. These are the only elements of the Executive Directors' remuneration packages that are not subject to performance conditions.

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

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

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

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

The amounts shown in sterling are converted using the cumulative weighted average exchange rate for the year ended 30 June 2020 of £1 = $1.26.

Performance measures

Further details of the performance measures under the annual incentive plan for the year ending 30 June 2021 and under the long-term incentive plan for awards made in September 2020, and how they are aligned with company strategy and the creation of shareholder value, are set out in the annual report on remuneration, on page 104. Targets will be disclosed in next year's annual report on remuneration.

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

Approach to recruitment remuneration

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

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

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

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

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

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

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

Non-Executive Directors' unexpired terms of appointment

All Non-Executive Directors are on three-year terms which are expected to be extended up to a total of nine years. The date of initial appointment to the Board and the point at which the current letter of appointment expires for Non-Executive Directors are shown in the table below. Debra Crew stepped down from the Board on 24 March 2020 and Lord Davies of Abersoch retired on 30 June 2020, having extended his term in 2019 in order to ensure continuity during the recruitment of additional Directors to the Board.

Non-Executive Directors	Date of appointment to the Board	Current letter of appointment expires
Javier Ferrán	22 July 2016	AGM 2022
Susan Kilsby	4 April 2018	AGM 2021
Lord Davies of Abersoch	1 September 2010	30 June 2020
Melissa Bethell	30 June 2020	AGM 2023
Debra Crew	18 April 2019	24 March 2020
Ho KwonPing	1 October 2012	AGM 2021
Nicola Mendelsohn	1 September 2014	AGM 2020
Alan Stewart	1 September 2014	AGM 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.

Remuneration for the wider workforce

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

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

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

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

In 2020, the Remuneration Committee has considered:

– Challenges and opportunities relating to the attraction and retention of key talent and the market competitiveness of specialist and critical roles (for example, in digital and e-commerce);
– Pay philosophy and pay positioning globally;
– Review of the gender pay gap report for the UK;
– Differentiation of global reward outcomes and incentive payouts (where there is an individual element to recognise performance and potential) by gender; and
– The review of global benefits programmes to better leverage economies of scale, to provide more consistent standards across the core offering and to provide more flexibility and choice, where possible, in line with the reward philosophy and in support of the company's culture of inclusion and diversity.

The Committee also considers the annual salary increase budgets for employees in key markets as well as pay for the global senior management population. As part of the review of the Directors' remuneration policy for 2020, the Committee has considered each element of remuneration for executives and its alignment with the reward opportunity for other employees across the organisation, as an important factor in determining the appropriate balance of risk and reward to incentivise the delivery of Diageo's business strategy and Performance Ambition.

Shareholder engagement

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

This year, the company has engaged extensively with shareholders and their proxy advisors on the 2020 remuneration policy review, incentive plan design, performance measures and the approach to target setting as well as viewpoints on the Corporate Governance Code and its implications for Diageo's remuneration policy and practices. More detail on the engagement with shareholders in 2020 can be found in the Remuneration Committee Chair's letter on pages 84-86.

Workforce engagement

Diageo runs annual employee engagement surveys, as well as more recently regular 'pulse' surveys on the company's handling of the impact of the pandemic on the workforce, which give employees the opportunity to give feedback and express their views on a variety of topics including remuneration. Any comments relating to Executive Directors' remuneration are fed back to the Remuneration Committee. The Chairman was appointed to lead workforce engagement on behalf of the Board on 1 July 2019 and throughout the year has met with a range of employees across all levels and regions to hear their views on the company, culture and working environment. A workforce engagement statement has been shared with employees to feed back the key insights from all of the engagement activities during 2020.

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 2020, and how the Remuneration Committee intends to implement the proposed remuneration policy in the year ending 30 June 2021.

Single total figure of remuneration for Executive Directors (audited)

The table below details the Executive Directors' remuneration for the year ended 30 June 2020.

	Ivan Menezes[i]				Kathryn Mikells[i]			
Fixed pay	**2020 '000**	**2020 '000**	2019 '000	2019 '000	**2020 '000**	**2020 '000**	2019 '000	2019 '000
Salary	**£1,309**	**$1,649**	£1,244	$1,605	**£861**	**$1,085**	£819	$1,056
Benefits[ii]	**£99**	**$124**	£95	$123	**£42**	**$53**	£27	$34
Pension[iii]	**£281**	**$354**	£407	$525	**£176**	**$221**	£168	$217
Total fixed pay	**£1,689**	**$2,127**	£1,746	$2,253	**£1,079**	**$1,359**	£1,014	$1,307
Performance related pay								
Annual incentive[iv]	**£0**	**$0**	£1,521	$1,961	**£0**	**$0**	£946	$1,220
Long-term incentives[v]								
Value delivered through performance	**£408**	**$514**	£4,724	$6,094	**£258**	**$324**	£2,654	$3,423
Value delivered through share price growth	**£42**	**$53**	£3,785	$4,882	**£27**	**$33**	£2,891	$3,730
Other incentives[vi]	**£0**	**$0**	£0	$0	**£4**	**$5**	£4	$5
Total variable pay	**£450**	**$567**	£10,030	$12,937	**£289**	**$362**	£6,495	$8,378
Total single figure of remuneration	**£2,139**	**$2,694**	£11,776	$15,190	**£1,368**	**$1,721**	£7,509	$9,685

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 2020 the exchange rate was £1 = $1.26 and for the year ended 30 June 2019 the exchange rate was £1 = $1.29. 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 (£15k), company car allowance (£17k), contracted car service (£11k), financial counselling (£52k), product allowance, life and long-term disability cover. Kathryn Mikells' benefits include flexible benefits allowance (£18k), financial counselling (£16k), contracted car service (£3k), life cover (£4k) and product allowance.	
(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 98
(iv)	Annual incentive	Threshold performance was not achieved against the financial measures under the annual incentive plan. In view of the impact of Covid-19 on business performance and the absence of any bonus payout for many employees further down in the organisation, the Remuneration Committee exercised its discretion to waive any payout for the individual element of the annual incentive plan. As a result, there is no annual incentive payout for the Executive Directors and Executive Committee in 2020.	
(v)	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. Value delivered through performance' is calculated as the number of vested performance shares and dividend shares 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 vested performance shares and share options. For 2020, long-term incentives comprise performance shares and share options awarded in 2017 and due to vest in September 2020 at 6.9% and 27.5% of maximum respectively. No discretion was exercised by the Remuneration Committee in determining these long-term incentive outcomes. For 2019, long-term incentives comprise performance shares and share options awarded in 2016 that vested in September 2019 at 89.3% and 73.1% of maximum respectively, and dividend shares arising on performance shares that vested in September 2019. Long-term incentives have been re-stated to reflect the share price on the vesting date. No discretion was exercised by the Remuneration Committee in determining these long-term incentive outcomes.	Page 97
(vi)	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. No discretion was exercised by the Remuneration Committee in determining these long-term incentive outcomes.	

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 2020, 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 2020, he was granted 13,069 options at an option price of $27.07, 70 RSUs at a fair market value of $13.50 per share, 35 RSUs at a fair market value of $26.77, 23 RSUs in lieu of dividends at a fair market value of $25.97 and 19 RSUs in lieu of dividends at a fair market value of $31.81.

Kathryn Mikells – During the year ended 30 June 2020, Kathryn Mikells served as a Non-Executive Director of the Hartford Financial Services Group Inc. and earned fees of $105,406, which were deferred into equity.

Payments to former Directors (audited)

There were no payments to former Directors in the year ended 30 June 2020.

Payments for loss of office (audited)

There were no payments for loss of office to Executive Directors in the year ended 30 June 2020.

Looking back on 2020

Annual incentive plan (AIP) (audited)

AIP payout for the year ended 30 June 2020

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

As a direct result of the Covid-19 pandemic and the impact on business performance in the second half of the financial year, none of the performance measures were met and no AIP payouts will be made for the year ended 30 June 2020 to Executive Directors or any members of the Executive Committee. Whilst progress had been made against individual business objectives, the Committee decided that in light of the impact of the Covid-19 pandemic on business performance, no payout would be made to Executive Directors or members of the Executive Committee against this element of the annual incentive plan for the year ended 30 June 2020.

Group financial measures(i)

Measure	Weighting	**Threshold**	**Target**	**Maximum**	Actual	**Payout (% of total AIP opportunity)**
Net sales (% growth)(ii)	26.7%	**4.0%**	**5.5%**	**7.0%**	(8.4%)	**0%**
Operating profit (% growth)(ii)	26.7%	**3.9%**	**6.2%**	**8.5%**	(14.4%)	**0%**
Average working capital (% net sales)(iii)	26.7%	**(1)bps**	**39bps**	**79bps**	(22bps)	**0%**
Group financial payout	80%					**0%**

Individual business objectives

Measure (IBOs equally weighted)	Weighting	Target	Payout (% of total AIP opportunity)
Ivan Menezes Chief Executive	20%		–
Global Scotch performance		Growth in Scotch net sales Growth in Scotch CAAP (Contribution after A&P)	–
Global Reserve performance		Growth in Reserve net sales Growth in Reserve CAAP	–
Positive drinking		Lead the industry to proactively ensure the promotion of moderation and the reduction of harmful drinking.	–
Kathryn Mikells Chief Financial Officer	20%		–
Group cash performance		Deliver year-end operating cash flow outcome	–
Earnings per share performance		Deliver earnings per share target	–
Key business driver		Deliver 2020 initiatives across carbon and water and develop plan for delivery in F21 and F22	–

Payout

	Group (weighted 80%)	IBO (weighted 20%)	**Total (% max)**	Total (% salary)	Total ('000)(iv)	**Total ('000)**
Ivan Menezes	0%	–	**0%**	0%	£0	**$0**
Kathryn Mikells	0%	–	**0%**	0%	£0	**$0**

(i) Performance against the AIP measures is calculated using 2020 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 foreign exchange rates.
(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 restructuring provisions) divided by annual net sales.
(iv) AIP payments are calculated using base salary as at 30 June 2020, in line with the global policy that applies to other employees across the company.

Long-term incentive plans (LTIP) (audited)

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

Share options – granted in September 2017, vesting in September 2020 (audited)

On 4 September 2017, Ivan Menezes and Kathryn Mikells received share option awards of 51,268 ADRs and 32,380 ADRs respectively under the DLTIP, with an exercise price of $134.06. The award was subject to a performance condition assessed over a three-year period based on the achievement of the following equally weighted performance measures:

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

The vesting profile for relative TSR is shown below:

TSR ranking (out of 17)	Vesting (% max)
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

Performance shares – awarded in September 2017, vesting in September 2020 (audited)

On 4 September 2017, Ivan Menezes and Kathryn Mikells received performance share awards of 51,268 ADRs and 32,380 ADRs 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 2017 performance share awards was subject to the achievement of three equally weighted performance measures:

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

The targets and vesting outcome for performance share and share option awards granted in September 2017 are shown in the following tables:

Vesting of 2017 DLTIP	Threshold	Midpoint	Maximum	Actual	Vesting (% maximum)
Organic net sales (CAGR)(i)	3.5%	4.75%	6.0%	0.8%	0%
Adjusted profit before exceptional items and tax (CAGR)(ii)	4.5%	7.5%	10.5%	0.3%	0%
Cumulative free cash flow(iii)	£7,200m	£7,900m	£8,600m	£7,211m	20.6%
Vesting of performance shares (% maximum)					**6.9%**
Adjusted profit before exceptional items and tax (CAGR)(ii)	4.5%	7.5%	10.5%	0.3%	0%
Relative total shareholder return(iv)	9th	–	3rd	7th	55%
Vesting of share options (% maximum)					**27.5%**

(i) The compound annual growth rate (CAGR) for organic net sales is based on the application of annual organic net sales growth rates in each of the individual years ended June 2018, June 2019 and June 2020 (using the year ended 30 June 2017 as a base).

(ii) The compound annual growth rate (CAGR) for profit before exceptional items and tax is based on the application of annual adjusted PBET growth rates in each of the individual years ended June 2018, June 2019 and June 2020 (using the year ended June 2017 as a base) excluding the impact of exchange, exceptional items, share buyback programmes and the post employment net income/charges included in other financial charges.

(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 buyback programmes. As stated on page 166 of this Annual Report, Diageo believes that during the year ended 30 June 2020 an aggregate minimum dividend payment of €181 million (£166 million) should have been received in respect of its 34% investment in Moët Hennessy SAS and Moët Hennessy International SAS for their financial year ended 31 December 2019. Diageo believes that non-payment of this dividend constitutes a breach of the Partners' Agreement that governs this investment and has commenced arbitration proceedings in respect of this dispute. Had this dividend been received before 30 June 2020, it would have resulted in cumulative free cash flow of £7,377m for the three-year period ended 30 June 2020, and a vesting outcome of 10% of maximum under the 2017 performance share award, instead of 6.9% of maximum as outlined in the table above. To the extent that any amounts are received by Diageo that are referable to this missed dividend payment, the Remuneration Committee will be asked to exercise its discretion to approve the vesting and release of up to the remaining 3.1% of the 2017 performance share award, on the basis that such amounts are most appropriately attributable to free cash flow for the year ended 30 June 2020. In this event, corresponding disclosure would be made in the remuneration report for the financial year in which the remaining award vests and is released to the Executive Directors, if applicable. In line with the above, for the purpose of assessing long-term incentive outcomes, any amounts received by Diageo that are referable to the missed dividend payment would be included in free cash flow for the year ended 30 June 2020 and not for any future period, to avoid any double counting.

(iv) 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 six months, and converted to a common currency (US dollars). 20% of the part of the award based on relative total shareholder return vests if the threshold is achieved at a ranking of 9th, with full vesting for a ranking of 1st, 2nd or 3rd. As outlined in the TSR table above, the vesting profile for this measure does not operate on a straight-line basis between threshold and maximum.

Accordingly, the 2017 performance share award vested at 6.9% and the 2017 share option award vested at 27.5% of the maximum.

Pension and benefits in the year ended 30 June 2020

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

Pension arrangements (audited)

Ivan Menezes and Kathryn Mikells are members of the Diageo North America Inc. Supplemental Executive Retirement Plan (SERP) with an accrual rate of 20% of base salary during the year ended 30 June 2020. The accrual rate for Ivan Menezes was reduced from 30% to 20% of salary with effect 1 July 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 six months after leaving service (in the case of Ivan Menezes) or six months after leaving service or age 55, if later (in the case of Kathryn Mikells). The balance may be withdrawn in either a lump sum or five equal annual instalments, depending on the size of the balance.

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

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

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

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

	30 June 2020		30 June 2019	
Executive Director	**UK pension £'000 p.a.**	**US benefit £'000**	UK pension £'000 p.a.	US benefit £'000
Ivan Menezes(i)	**74**	**8,225**	73	7,543
Kathryn Mikells(ii)	**Nil**	**797**	Nil	587

(i) Ivan Menezes' US benefits are higher at 30 June 2020 than at 30 June 2019 by £682k:
  a. £368k of which is due to pension benefits earned over the year (£281k of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 95);
  b. £58k of which is due to interest earned on his deferred US benefits over the year; and
  c. £256k of which is due to exchange rate movements over the year.

(ii) Kathryn Mikells' US benefits are higher at 30 June 2020 than at 30 June 2019 by £210k:
  a. £186k of which is due to pension benefits earned over the year (£176k of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 95); and
  b. £24k of which is due to exchange rate movements over the year.

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

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

Long-term incentive awards made during the year ended 30 June 2020 (audited)

On 2 September 2019, 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 2019 to 30 June 2022.

The performance conditions for performance share awards are organic net sales growth (3.75%-6%), cumulative free cash flow (£8,600m-£9,600m) and organic profit before exceptional items and tax growth (4.5%-10.5%), equally weighted. The performance measures for share option awards are organic profit before exceptional items and tax growth (4.5%-10.5%) and relative total shareholder return (median-upper quintile), equally weighted. The targets were disclosed in full in the 2019 remuneration report.

20% of DLTIP awards will vest at threshold, with 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	02/09/2019	DLTIP – share options	ADR	38,827	$170.28	$6,230	375%
Ivan Menezes	02/09/2019	DLTIP – performance shares	ADR	38,827	–	$6,230	375%
Kathryn Mikells	02/09/2019	DLTIP – share options	ADR	24,522	$170.28	$3,935	360%
Kathryn Mikells	02/09/2019	DLTIP – performance shares	ADR	24,522	–	$3,935	360%

The proportion of the awards outlined above that will vest is dependent upon the achievement of performance conditions and continued employment, and the actual value may be nil. The vesting outcomes will be disclosed in the 2022 Annual Report.

The face value of each award has been calculated using the award price. In accordance with the Plan Rules, the number of performance shares and share options granted under the DLTIP was calculated by using the average closing share price for the last six months of the preceding financial year ($160.46). 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 ($170.28). The ADR price on the date of grant was $174.72.

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 2019[i]	Granted	Vested/ exercised	Dividends awarded and released	Lapsed	Number of shares/options at 30 June 2020
Ivan Menezes												
DLTIP – share options	Sep 2015	2015-2018	2018	ADR		$104.93	29,895					29,895
DLTIP – share options[iii]	Sep 2016	2016-2019	2019	ADR		$113.66	54,356				14,622	39,734
Total vested but unexercised share options in Ords[ii]												**278,516**
DLTIP – share options[iv]	Sep 2017	2017-2020	2020	ADR		$134.06	51,268					51,268
DLTIP – share options[v]	Sep 2018	2018-2021	2021	ADR		$140.89	42,848					42,848
DLTIP – share options	Sep 2019	2019-2022	2022	ADR		$170.28	0	38,827				38,827
Total unvested share options subject to performance in Ords[ii]												**531,772**
DLTIP – performance shares[vii]	Sep 2016	2016-2019	2019	ADR	$115.77		54,356		48,539	2,792	5,817	0
DLTIP – performance shares[iv]	Sep 2017	2017-2020	2020	ADR	$134.83		51,268					51,268
DLTIP – performance shares[v]	Sep 2018	2018-2021	2021	ADR	$139.41		42,848					42,848
DLTIP – performance shares	Sep 2019	2019-2022	2022	ADR	$174.72		0	38,827				38,827
Total unvested shares subject to performance in Ords[ii]												**531,772**
Kathryn Mikells[ix]												
DLTIP – share options[iii][vi]	Sep 2016	2016-2019	2019	Ord		2113p	128,253				34,501	93,752
Total vested but unexercised share options in Ords												**93,752**
DLTIP – share options[iv]	Sep 2017	2017-2020	2020	ADR		$134.06	32,380					32,380
DLTIP – share options[v]	Sep 2018	2018-2021	2021	ADR		$140.89	27,062					27,062
DLTIP – share options	Sep 2019	2019-2022	2022	ADR		$170.28	0	24,522				24,522
Total unvested share options subject to performance in Ords[ii]												**335,856**
DLTIP – performance shares[viii]	Sep 2016	2016-2019	2019	Ord	2127p		128,253		114,529	6,220	13,724	0
DLTIP – performance shares[iv]	Sep 2017	2017-2020	2020	ADR	$134.83		32,380					32,380
DLTIP – performance shares[v]	Sep 2018	2018-2021	2021	ADR	$139.41		27,062					27,062
DLTIP – performance shares	Sep 2019	2019-2022	2022	ADR	$174.72		0	24,522				24,522
Total unvested shares subject to performance in Ords[ii]												**335,856**

(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 10 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) The total number of share options granted under the DLTIP in September 2016 and showing as outstanding as at 30 June 2020 are vested but unexercised share options.

(iv) Awards made of performance shares and share options under the DLTIP in September 2017 and due to vest in September 2020 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 95, since the performance period ended during the year ended 30 June 2020.

(v) Details of the performance conditions attached to DLTIP awards of performance shares and share options granted in 2018 are organic net sales growth (3.75%-6%), organic growth in profit before exceptional items and tax (4.5%-10.5%), cumulative free cash flow (£7,400m-£8,700m) and relative total shareholder return (median-upper quintile). Full details of the performance conditions were disclosed in Diageo's 2018 annual report on remuneration.

(vi) 1,419 Ords of this award were delivered as tax-qualified share options.

(vii) Ivan Menezes must retain 26,583 ADRs of the 48,539 shares that vested on 5 September 2019 until 5 September 2021 under the post-vesting retention period.

(viii) Kathryn Mikells must retain 63,854 Ords of the 114,529 shares that vested on 4 September 2019 until 5 September 2021 under the post-vesting retention period.

(ix) 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.

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

The beneficial interests of the Directors in office at 30 June 2020 (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) (ix)]					
	31 July 2020[(ii)]	**30 June 2020 (or date of departure, if earlier)**	30 June 2019 (or date of appointment, if later)	Shareholding requirement (% salary)[(iii)]	Shareholding at 31 July 2020 (% salary)[(iii)]	Shareholding requirement met
Chairman	–					
Javier Ferrán[(vi)]	**250,802**	**250,496**	217,000	–	–	–
Executive Directors						
Ivan Menezes[(iv) (vi)]	**1,134,374**	**1,134,374**	1,122,042	500%	2,635%	Yes
Kathryn Mikells[(v) (vi)]	**223,964**	**223,964**	158,506	400%	791%	Yes
Non-Executive Directors						
Lord Davies of Abersoch	**–**	**5,052**	5,052	–	–	–
Ho KwonPing	**4,649**	**4,649**	4,543	–	–	–
Alan Stewart	**6,905**	**6,905**	6,751	–	–	–
Nicola Mendelsohn	**5,000**	**5,000**	5,000	–	–	–
Susan Kilsby[(vi)]	**2,600**	**2,600**	2,600	–	–	–
Debra Crew[(vi) (vii)]	**–**	**260**	260	–	–	–
Melissa Bethell[(viii)]	**–**	**–**	–	–	–	–

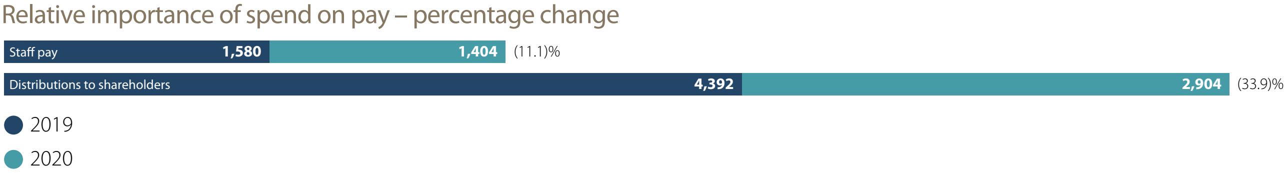
Notes

(i) Each person listed beneficially owns less than 1% of Diageo’s ordinary shares. Ordinary shares held by Directors have the same voting rights as all other ordinary shares.
(ii) Any change in shareholding between the end of the financial year on 30 June 2020 and the last practicable date before publication of this report, being 31 July 2020, 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 31 July 2020 are expressed as a percentage of base salary on 30 June 2020 and calculated using an average share price for the year ended 30 June 2020 of 3062.84 pence.
(iv) In addition to the number of shares reported in the table above, Ivan Menezes holds 69,629 number of vested but unexercised share options (over ADRs; equal to 278,516 ordinary shares).
(v) In addition to the number of shares reported in the table above, Kathryn Mikells holds 93,752 vested but unexercised share options (over ordinary shares).
(vi) Javier Ferrán, Ivan Menezes, Kathryn Mikells, Susan Kilsby and Debra Crew 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.
(vii) Debra Crew stepped down from the Board on 24 March 2020.
(viii) Melissa Bethell was appointed to the Board on 30 June 2020.
(ix) No share options were exercised by the Directors during the year ended 30 June 2020.

Relative importance of spend on pay

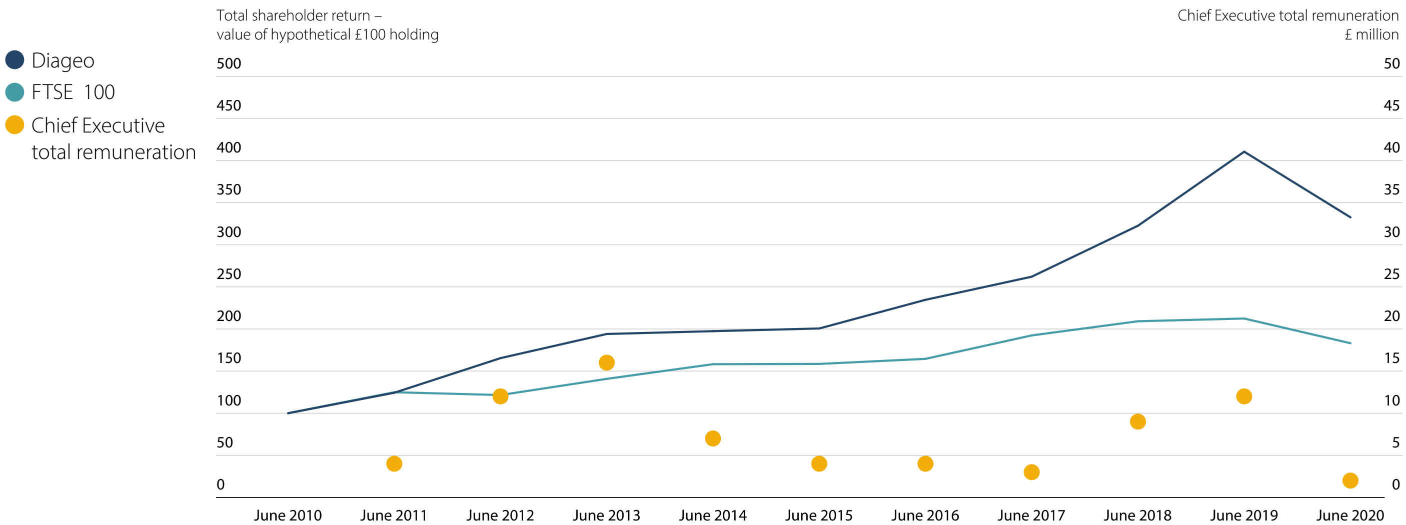
The graph below illustrates the relative importance of spend on pay (total remuneration of all group employees) compared with distributions to shareholders (total dividends plus the share buyback programme but excluding transaction costs), and the percentage change from the year ended 30 June 2019 to the year ended 30 June 2020. 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



Chief Executive total remuneration and TSR performance

The graph below shows the total shareholder return for Diageo and the FTSE 100 Index since 30 June 2010 and demonstrates the relationship between pay and performance for the Chief Executive, using current and previously published single total remuneration figures. The FTSE 100 Index has been chosen because it is a widely recognised performance benchmark for large companies in the United Kingdom.



	Paul S Walsh £'000	Paul S Walsh £'000	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	**Ivan Menezes(ii) £'000**
Chief Executive total remuneration (includes legacy LTIP awards)	4,449	11,746	15,557	7,312	3,888	4,156	3,399	8,995	11,776	**2,139**
Annual incentive(ii)	77%	74%	51%	9%	44%	65%	68%	70%	61.0%	**0%**
Share option(ii)	100%	100%	100%	71%	0%	0%	0%	60%	73.1%	**27.5%**
Performance share(ii)	0%	65%	95%	55%	33%	31%	0%	70%	89.3%	**6.9%**

(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.
(ii) % maximum opportunity.

CEO pay ratio

In accordance with the Companies (Miscellaneous Reporting) Regulations 2018, the table below sets out Diageo's CEO pay ratios for the year ended 30 June 2020. This compares the Chief Executive's total remuneration – converted into sterling – with the equivalent remuneration for the employees paid at the 25th (P25), 50th (P50) and 75th (P75) percentile of Diageo's workforce in the United Kingdom. The total remuneration for each quartile employee, and the salary component within this, is also outlined in the table below.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019(i)	Option A(ii)	265:1	208:1	166:1
2020	Option A(ii) (iii)	51:1	39:1	31:1
2020	Total pay and benefits	£41,881	£54,234	£68,112
2020	Salary	£30,866	£37,632	£52,659

(i) 2019 CEO pay ratios have been updated to reflect the value of the updated 2019 single figure of remuneration, which incorporates long-term incentives based on actual share price at vesting, rather than the average share price in the last three months of the financial year, which had been used as a proxy for the 2019 disclosure.
(ii) Only people employed in the United Kingdom and with the same number of contractual working hours throughout the full 12-month period have been included in the calculation. Inclusion of employees outside this group would require a complex simulation of full-time annual remuneration and would not have a meaningful impact on the ratio.
(iii) The total remuneration for employees is based on actual earnings for the 11 months to 31 May 2020, and a projection for June 2020 that replicates the relevant items of the previous month's earnings. This pragmatic approach provides an accurate calculation of the ratios, while mitigating the challenge of the limited timeframe between the end of the financial year and the publishing of the Annual Report. Pay changes from May to June would seldom be material. This assumption was tested by replicating the 2019 calculation using actual earnings for June 2019, which resulted in no change to the median employee total pay and benefits figure for 2019 and indicated that the maximum variance in the median pay ratio in any given year would be 1 point only.

Methodology

Consistent with the approach for Diageo's voluntary disclosure in 2019, the calculation methodology used to identify the employees at each quartile for 2020 is Option A, as defined in the regulations. We believe this is the most robust and accurate approach, and in line with shareholder expectations. Total full-time equivalent remuneration for employees reflects all pay and benefits received by an individual in respect of the relevant year and has, other than where noted below, been calculated in line with the methodology for the 'single figure of remuneration' for the Chief Executive (shown on page 95 of this report). Actual remuneration was converted into the full-time equivalent for the role and location by pro-rating earnings to reflect full-time contractual working hours and these figures were then ranked to identify the employees sitting at the percentiles. In light of financial performance outcomes being signed off close to the publishing date of the Annual Report, the Diageo Group Business Multiple – which applies to the majority of UK employees – has been used to calculate all payments under the annual incentive schemes, although specific regional or market business multiples may apply in practice. Pension values are not calculated on the same basis as the Chief Executive figure, but rather as the total of contributions made by the company during the financial year. This approach allows meaningful data for a large group of individuals to be obtained in a more efficient way.

Points to note for the year ended 30 June 2020

As indicated in last year's disclosure, Diageo's Chief Executive has a larger proportion of his total remuneration linked to business performance than other employees in the UK workforce. Last year's performance was strong, but in 2020 there will be no annual incentive payout and long-term incentives related to the three-year period ended 30 June 2020 will have limited vesting. As a result, total remuneration for the Chief Executive has changed significantly from 2019 to 2020. Total remuneration across the wider UK workforce has also reduced due to the absence of a bonus pay out and freeshares award as a result of the Covid-19 pandemic, as evidenced by the reduction in the total pay and benefits figures versus last year. However, the main driver for the reduction of the pay ratios is variable pay for the Chief Executive. The median pay ratio for 2020 is consistent with the pay and progression policies for Diageo's UK employees as a whole. As in 2019, the individual receiving median pay belongs to the group of manufacturing workers involved in the distillation, warehousing, maturation, bottling and packaging of Scotch whisky and other spirits and beer that makes up almost half of the workforce in the United Kingdom.

Looking after our people and investing in talent

Throughout the Covid-19 pandemic, our focus has been firmly on the wellbeing of our employees and providing the policies, support and guidance they need. Diageo has sought to provide stability and reassurance to its workforce by safeguarding jobs, pay and benefits, and has increased its overall benefit offering by rolling-out a global employee assistance programme and extending access to bereavement leave and life insurance to all employees across the world.

To help us emerge stronger, we continue to invest in attracting world-class talent by offering total reward packages that people value and that support them to be their best. Although most employees' salaries will remain unchanged in 2020, we still aim to offer fair and competitive rates of pay across the business and therefore we continue to carry out regular market benchmarking which allows us to intervene where required.

We are proud of being a UK Living Wage employer since 2017 and of the progress we have made towards closing the gender pay gap (more details available at www.diageo.com) . Benefits such as competitive pension schemes, the opportunity to participate in employee share-ownership schemes, a product allowance to help employees enjoy Diageo products, generous leave policies, healthcare and life insurance are key parts of our total reward offering.

Annual change in pay for Directors and all employees

In line with the requirements in The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, which implement Articles 9a and 9b of European Directive 2017/828/EC1 (commonly known as the Revised Shareholder Rights Directive or SRD), the table below shows the percentage change in Directors' remuneration and average remuneration of employees from the year ended 30 June 2019 to the year ended 30 June 2020. Given the small number of people employed by the Diageo plc entity, data for all employees of the Diageo Group has been included.

Relatively few employees will receive a bonus in 2020 and there will be no annual incentive payout for Executive Directors, the impact of which is visible in the bonus percentage change. The year-on-year movement in salary for Executive Directors and employees reflects the annual review implemented in October 2019 and changes throughout the financial year ending 30 June 2020. The impact of the announced absence of a global salary review in 2020 will be reflected in next year's disclosure. The increase in Kathryn Mikell's benefits relates to the provision of financial counselling for compliance with UK and US tax affairs, as referenced in the single figure table on page 95. On 29 January 2019 Susan Kilsby was appointed Chair of the Remuneration Committee and subsequently became Senior Independent Director on 31 October 2019. These positions were previously held by Lord Davies of Abersoch and, as a result, there is a significant change in both of their fees from 2019 to 2020.

2020	Average employee (i)	Executive Directors (ii): Ivan Menezes	Executive Directors (ii): Kathryn Mikells	Non-Executive Directors (iii): Javier Ferran	Debra Crew (iv)	Lord Davies	Susan Kilsby	Ho KwonPing	Nicola Mendelsohn	Alan Stewart
Salary	3.7%	2.7%	2.8%	0%	3.3%	(22.9%)	37.3%	3.3%	3.3%	2.5%
Bonus	(67.8%)	(100%)	(100%)	–	–	–	–	–	–	–
Benefits	6.9%	0.8%	55.9%	0%	527.7%	27.4%	68.9%	93.3%	0%	0%

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

(i) Calculated by dividing staff cost related to salaries, bonus and benefits by the average number of employees on a full-time equivalent basis, as disclosed in the financial statements under Staff cost and average number of employees (note 3c) on page 129-130, but reduced to account for the inclusion of Executive Directors in reported figures. The salary, bonus and benefits data are subsets of the Wages and Salaries figure disclosed in note 3c. In line with the approach for the Directors, bonus reflects the payout in relation to performance during the relevant financial year.
(ii) Calculated using the data from the single figure table in the annual report on remuneration (page 95) in US dollars, as both Ivan Menezes and Kathryn Mikells are paid in this currency.
(iii) Calculated using the fees and taxable benefits disclosed under Non-Executive Directors' remuneration in the table below. Taxable benefits for Non-Executive Directors comprise a product allowance as well as expense reimbursements relating to attendance at Board meetings, which may be variable year-on-year and have not exceeded £10k in total.
(iv) Debra Crew was appointed to the Board on 18 April 2019 and stood down on 24 March 2020. To enable comparison and to provide a meaningful reflection of annual percentage increase, for the purposes of this calculation, her 2019 and 2020 fees were adjusted to reflect full-year appointment to the Board.

Non-Executive Directors

Fee policy

Javier Ferrán's fee as non-executive Chairman as at 1 January 2020 is £600,000 per annum, rising to £650,000 on 1 January 2021 (the planned increase for 1 January 2020 was deferred, at the Chairman's request, due to the Covid-19 pandemic). The Chairman's fee is appropriately positioned against our comparator group of FTSE 30 companies excluding financial services.

The basic fee for Non-Executive Directors increased from £92,000 to £98,000 and the additional fee for the Senior Non-Executive Director increased from £25,000 to £30,000, both effective 1 January 2020. There was no change to the additional fees for the Chair of the Audit Committee and Chair of the Remuneration Committee in the year ended 30 June 2020. The next review is scheduled for January 2021.

	January 2020	January 2019
Per annum fees	**£'000**	£'000
Chairman of the Board	**600**	600
Non-Executive Directors		
Base fee	**98**	92
Senior Non-Executive Director	**30**	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 2020 (audited)

	Fees £'000		Taxable benefits(i) £'000		Total £'000	
	2020	2019	**2020**	2019	**2020**	2019
Chairman						
Javier Ferrán(ii)	**600**	600	**1**	1	**601**	601
Non-Executive Directors						
Lord Davies of Abersoch	**103**	134	**2**	1	**105**	135
Susan Kilsby	**144**	105	**10**	6	**154**	111
Melissa Bethell(iii)	**0**	–	**0**	–	**0**	–
Debra Crew(iv)	**71**	19	**8**	–	**79**	19
Ho KwonPing	**95**	92	**4**	2	**99**	94
Nicola S Mendelsohn	**95**	92	**1**	1	**96**	93
Alan JH Stewart	**125**	122	**1**	1	**126**	123

(i) Taxable benefits include a product allowance and expense reimbursements relating to travel, accommodation and subsistence in connection with attendance at Board meetings during the year, which are deemed by HMRC to be taxable in the United Kingdom. The amounts in the single figure of total remuneration table above include the grossed-up cost of UK tax paid by the company on behalf of the Directors. Non-taxable expense reimbursements have not been included in the single figure of remuneration table above.
(ii) £100,000 of Javier Ferrán's net remuneration in the year ended 30 June 2020 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) Melissa Bethell was appointed to the Board on 30 June 2020 and received £377 in fees for the year ended 30 June 2020.
(iv) Debra Crew stepped down from the Board on 24 March 2020.

Looking ahead to 2021

Salary increases for the year ending 30 June 2021

As outlined in the 2019 annual report on remuneration, base salaries for the Chief Executive and Chief Financial Officer were increased by 3%, effective from 1 October 2019.

In April 2020, the Remuneration Committee reviewed base salaries for senior management and agreed that no increase to salaries will apply from 1 October 2020, in light of the impact of the Covid-19 pandemic on business performance in the year ended 30 June 2020.

	Ivan Menezes		Kathryn Mikells	
Salary at 1 October ('000)	**2020**	2019	**2020**	2019
Base salary	**$1,661**	$1,661	**$1,093**	$1,093
% increase (over previous year)	**0%**	3%	**0%**	3%

Annual incentive design for the year ending 30 June 2021

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 2021 will comprise the following performance measures and weightings, with targets set for each half-year period and the final payout determined at the year-end, subject to the Committee's assessment of holistic performance over the full financial year:

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

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

Details of the targets for the year ending 30 June 2021 will be disclosed retrospectively in next year's annual report on remuneration, by which time they will no longer be deemed commercially sensitive by the Board.

Long-term incentive awards to be made in the year ending 30 June 2021

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 2020 will comprise awards of both performance shares and share options, based on stretching targets against the key performance measures outlined in the table below. The measure on profit before exceptional items and tax has been replaced by a measure on adjusted earnings per share growth to include the impact of tax. In addition, a new ESG measure has been introduced, as described 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.

Given the uncertainty of the severity and duration of the impact of the Covid-19 pandemic on the long-term business plan, the targets for this award will be set after the announcement of the interim financial results in January 2021.

	Performance shares			Share options	
	Organic net sales growth	Cumulative free cash flow	ESG measure	Growth in adjusted earnings per share	Relative total shareholder return
Weighting (% total)	40%	40%	20%	50%	50%

The ESG measure comprises four goals reflecting Diageo's vision to make a positive impact on the environment and society, with each goal weighted equally:
- carbon reduction in direct operations;
- water efficiency in direct operations;
- number of people with positive attitudinal change on the dangers of underage drinking following participation in the Smashed education programme; and
- inclusion and diversity metric (one measure on % female leaders globally, and another measure on % ethnically diverse leaders in certain geographies).

Awards are calculated on the basis of a six-month average share price for the period ending 30 June 2020, which is in line with the award price for previous years and as a result no adjustment to award size is considered necessary.

It is intended that a DLTIP award of 500% of base salary will be made to Ivan Menezes in September 2020, 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 2020, 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 2020.

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

Additional information

Remuneration Committee

Over the year, the Remuneration Committee has consisted of the following independent Non-Executive Directors: Susan Kilsby, Lord Davies of Abersoch, Melissa Bethell, Ho KwonPing, Nicola S Mendelsohn, Alan JH Stewart and Debra Crew. 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.

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

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

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

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

Predictability – the pay opportunity under different performance scenarios are set out on page 92 of this report;

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

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

External advisors

During the year ended 30 June 2020, the Remuneration Committee received advice on executive remuneration from Deloitte. Deloitte was appointed by the Committee in May 2019, following a comprehensive tendering process with several consulting firms. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting. The Committee requests Deloitte attend meetings periodically during the year and is satisfied that the advice it has received has been objective and independent.

Deloitte provides unrelated services to the company in the areas of immigration services and management consultancy. During the year, Deloitte supported the Committee in providing: remuneration benchmarking survey data to support the salary review for the Executive Committee, advice on the design of long-term incentives and the level of stretch in the long-term incentive targets and periodic updates on the TSR of Diageo and its peer companies for outstanding performance cycles. The fees paid to Deloitte in relation to advice provided to the Committee were £151,100 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 £62,095.

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

Statement of voting

The following table summarises the details of votes cast in respect of the resolutions on the Directors' remuneration policy at the 2017 AGM and the annual report on remuneration at the 2019 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	1,694,726,156	54,505,285	1,749,231,441	11,478,228
	Percentage of votes cast	96.88%	3.12%	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.

Emoluments and share interests of senior management

The total emoluments for the year ended 30 June 2020 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 £12.1 million (2019 – £21.5 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 £37.3 million. In addition, they were granted 738,490 performance-based share options under the Diageo Long-Term Incentive Plan (DLTIP) during the year at a weighted average share price of 3483 pence, exercisable by 2029 and no options were granted under DLTIP that are not subject to performance. In addition they were granted 680 options over ordinary shares under the UK savings-related share options scheme (SAYE). They were also awarded 700,279 performance shares under the DLTIP in September 2019, which will vest in three years subject to the relevant performance conditions.

Senior management options over ordinary shares

At 31 July 2020, the senior management had an aggregate beneficial interest in 2,610,138 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	810,288	2561p	2018-2029
Kathryn Mikells	429,608	2718p	2019-2029
Other(i)	2,483,620	2458p	2013-2029
	3,723,516		

(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 2020.

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

Statutory and audit requirements

This report was approved by a duly authorised Committee of the Board of Directors and was signed on its behalf on 4 August 2020 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 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 and Directors' remuneration report are subject to shareholder approval at the AGM on 28 September 2020; Terms defined in this remuneration report are used solely herein.