DIRECTORS' REMUNERATION REPORT

Annual statement by the Chairman of the Remuneration Committee

Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the year ended 30 June 2015. This report complies with the UK executive remuneration reporting guidelines and contains:

- The Directors' remuneration policy, as approved by shareholders at the AGM in September 2014;
- The annual remuneration report, describing how the remuneration policy has been put into practice over the year ended 30 June 2015;
- There have been no changes to the Directors' remuneration policy, as approved by shareholders at the 2014 AGM, and it is reproduced in full for both ease of reference and to provide context to the decisions taken by the Committee during the year. The annual remuneration report will be put forward for your consideration and approval by advisory vote at the AGM on 23 September 2015.

Diageo's remuneration principles

The principles underpinning executive remuneration remain fundamentally unchanged, with sustainable performance and long term value creation for shareholders at the heart of our remuneration policies and practices:

- **Delivery of business strategy:** Short and long term incentive plans for Executive Directors and senior managers reward the achievement of Diageo's business strategy and performance goals.
- **Consistent performance:** The focus is on the delivery of performance in a consistent and responsible way which also creates long term value for our shareholders. Alignment between the interests of Executive Directors and shareholders remains a key principle, with Executive Directors required to acquire and hold Diageo shares over the long term.
- **Performance-related compensation:** Reward components offer a balanced mix of short and long term incentives conditional upon achieving stretching performance targets. Performance measures such as organic net sales, organic operating margin, cash efficiency, relative total shareholder return (TSR) and earnings per share (eps) growth are key drivers of growth for the business that are aligned with the creation of shareholder value.
- **Competitive total remuneration:** Reward levels are framed in the context of total remuneration packages paid by relevant global comparators. In competition with similar global companies, the ability to recruit and retain the best talent from all over the world is critical to Diageo's continued business success.
- **Simplicity and transparency:** The Committee seeks to embed simplicity and transparency in the design and delivery of executive reward programmes. Performance targets clearly align with the company's short and long term goals.

Focus and highlights in 2015

The Committee continued its focus on:

- Understanding and responding to shareholder feedback and fostering continuous open dialogue;
- Reviewing and assessing the ongoing appropriateness of the current remuneration policy, executive plan design and target stretch; and
- Ensuring that remuneration arrangements continue to attract and retain the highest quality global talent with a clear link between performance and reward.

The Committee undertook a comprehensive review of total remuneration for Executive Directors and Executive Committee members ahead of the 2015 annual salary review, and, supported by Kepler Associates (a brand of Mercer), were satisfied that the shape and levels of our remuneration practice are appropriately positioned against those of comparator companies of similar size and global scope.

During the year, the Committee also reviewed the Chairman's fee and, at the Chairman's request, recommended no increase, as was the case at the last review in December 2013. As agreed with the Chairman, the next review is scheduled for December 2016, subject to the Chairman's letter of appointment.

The Committee has also approved the extension of the clawback provisions that currently apply to Executive Directors for their annual and long term incentives to the other members of the Executive Committee, in addition to the existing malus provisions that apply to everyone under the Diageo Long Term Incentive Plan.

DIRECTORS' REMUNERATION REPORT CONTINUED

Reward in 2015 at a glance

As a reflection of the company's performance against very stretching performance targets in the context of challenging market conditions (see key performance indicators on pages 12-13), total variable pay to the Executive Directors in respect of the year ended 30 June 2015 is lower than in respect of the year ended 30 June 2014.

Base salary	No increase for the Chief Executive or the Chief Financial Officer in October 2015
Allowances and benefits	Unchanged from last year
Retirement benefits	Unchanged from last year
Annual incentive	Pay-out below target, delivering 28% and 29% of maximum opportunity for the Chief Executive and Chief Financial Officer respectively
Long term incentives	33% vesting of performance shares and nil vesting of share options

Over the period 1 July 2012 to 30 June 2015 (the performance period for this year's long term incentive plan), Diageo's share price grew by 11%, from 1658 pence to 1841 pence, and the company paid a total dividend of 147.5 pence per share. Dividend distribution to shareholders in the year ended 30 June 2015 was increased by 9% compared to the previous year.

Planned for 2016

Looking ahead to the year ending 30 June 2016, we will continue to operate executive remuneration arrangements in line with the approved remuneration policy and to maintain an active and positive dialogue with shareholders and their advisory bodies. We anticipate putting the policy to shareholder vote next at the 2017 AGM.

The Committee has refined the design of the Annual Incentive Plan (AIP) to apply for the year ending 30 June 2016. To drive a sustained improvement in the efficient conversion of profits into cash, the weighting on operating cash conversion will be increased from 25% to 30% of the maximum opportunity and there will be a subsequent reduction in the weighting on net sales growth and profit growth from 30% and 35% respectively to 25% on each. These changes create a greater focus on the generation of cash whilst maintaining a significant incentive to increase net sales and profit. The remaining 20% will be based on individual business objectives (IBOs) to ensure focus on the delivery of defined quantitative measures relating to the individual's key areas of responsibility.

The Committee has also reviewed the performance measures under the Diageo Long Term Incentive Plan (DLTIP) with the result that the operating margin measure will be replaced by a measure based on cumulative free cash flow. The intention is that this will incentivise management to deliver efficiency in capital expenditure and working capital, which will in turn create greater value for shareholders. This change will take effect for awards made from September 2015 onwards. The weightings will be retained at one third of the performance share element of the DLTIP based on cumulative free cash flow alongside one third on net sales value (NSV) growth and one third on TSR. For share options, the measure that will continue to apply is adjusted eps growth.

As you read our remuneration policy and report on the following pages, I hope it is clear how the Committee's decisions support the business strategy and the delivery of Diageo's performance ambition.

We were very pleased to receive a very strong vote in favour of both our remuneration policy and report last year. I highly value the direct engagement and feedback from our shareholders and their representative bodies on Diageo's remuneration policy and look forward to welcoming you and receiving your support again at the AGM this year.

E. Mervyn Davies

Lord Davies of Abersoch
Senior independent Non-Executive Director and
Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION POLICY

This section of the report sets out the policy for Executive Directors' remuneration, in accordance with section 439A of the Companies Act 2006. The policy was put to shareholders for approval in a binding vote at the AGM in 2014, and formally came into effect from 18 September 2014, the date of the AGM. The report below is as disclosed in the 2014 Directors' remuneration report, with the exception of the reference to the number of employees across Diageo, and a minor addition to the DLTIP section of the policy table to reflect the clarification note released following publication of the 2014 Directors' remuneration report.

Remuneration policy framework

The remuneration structures and performance measures used in executive incentive plans are designed to support Diageo's business strategy as follows:

- *Focused on consistent growth drivers:* As a public limited company, Diageo has a fiduciary responsibility to maximise long term value for shareholders. Thus, variable elements of remuneration are dependent upon the achievement of performance measures that are identified as key consistent and responsible growth drivers for the business and that are aligned with the creation of shareholder value.
- *Variable with performance:* A significant proportion of total remuneration for the Executive Directors is linked to business and individual performance so that remuneration will increase or decrease in line with performance.
- *Share ownership:* Full participation in incentives is conditional upon building up a significant personal shareholding in Diageo to ensure the company's leaders think and act like owners.
- *Cost effectiveness:* Fixed elements of remuneration are determined by reference to the median of the market, individual experience and performance, and other relevant factors to ensure efficiency.

Future policy table

Set out below, is the remuneration policy for Executive Directors which has been applied from the date of shareholder approval at the AGM on 18 September 2014.

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 changes usually taking effect from 1 October.
- The Remuneration Committee considers the following parameters when reviewing base salary levels:
  - Pay increases for other employees across the group;
  - Economic conditions and governance trends;
  - The individual's performance, skills and responsibilities; and
  - Base salaries (and total remuneration) at companies of similar size and international scope to Diageo, with roles typically benchmarked against the top 30 companies in the FTSE100 by market capitalisation excluding companies in the financial services sector, or against similar comparator groups in other locations dependent on the Executive Director's home market.

Opportunity

Salary increases will normally be in line with increases awarded 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 the need to align an Executive Director's salary to market level over time (provided the increase is merited by the individual's contribution and performance).

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 a company car or car allowance, the provision of a car and contracted car service or equivalent, product allowance, life insurance, accidental death & disability insurance, medical cover for the Executive Director and family and financial counselling.
- 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 has 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; and
- Is in line with comparable roles in companies of a similar size and complexity in the relevant market.

POST-RETIREMENT PROVISIONS

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.
- Further detail on current pension provisions for Executive Directors is disclosed in the annual report on remuneration.

Opportunity

- The maximum company pension contribution is 30% of base salary for any new external appointments to an Executive Director position.
- Current legacy company contributions for Ivan Menezes and Deirdre Mahlan remain 40% and 35% of base salary, respectively.

ANNUAL INCENTIVE PLAN (AIP)

Purpose and link to strategy

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

Operation

- Performance measures and stretching targets are set annually by the Remuneration Committee by reference to the annual operating plan.
- The level of award is determined with reference to Diageo's overall financial and strategic performance and individual performance and is paid out in cash after the end of the financial year.
- The Committee has discretion to amend the level of payment if it is not deemed to reflect appropriately the individual's contribution or the overall business performance. Any discretionary adjustments will be detailed in the following year's annual report on remuneration.
- The Committee has discretion to apply clawback to bonus, i.e. the company may seek to recover bonus paid, in exceptional circumstances such as gross misconduct or gross negligence during the performance period.
- Details of the AIP are set out in the annual report on remuneration on page 72.

Opportunity

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

Performance conditions

Annual incentive plan awards are based 70%-90% on financial measures which may include, but are not limited to, measures of revenue, profit and cash and 10%-30% on broader objectives based on individual contribution and medium term strategic goals. Details of the measures and weightings applicable for the year ending 30 June 2016 are set out on page 72. Details of the targets will be disclosed retrospectively in next year's annual report on remuneration, when they are no longer deemed commercially sensitive by the Board.

DIAGEO LONG TERM INCENTIVE PLAN (DLTIP)

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. Details of the measures, weightings and targets applicable for the financial year under review are provided in the annual report on remuneration.
- Following vesting there is a further retention period of two years. Executive Directors are able to exercise an option or sell sufficient shares to cover any tax liability when an award vests, provided they retain the net shares arising for the two-year retention period.
- Notional dividends accrue on performance share awards to the extent that the performance conditions have been met, delivered as shares or cash at the discretion of the Remuneration Committee at the end of the vesting period.
- The Committee has discretion to reduce the number of shares which vest (subject to HMRC rules regarding approved share options), for example in the event of a material performance failure, or a material restatement of the accounts. 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 provisions will apply up to delivery of shares at the end of the retention period (as opposed to the vesting date).

- Further details of the DLTIP are set out in the annual report on remuneration on pages 73-75.

Opportunity

- The maximum annual grant is 500% of salary in performance share equivalents (where a market price option is valued at one-third of a performance share). As clarified in the statement of further information on 15 August 2014, under the DLTIP no more than 375% of salary will be awarded in face value terms in options to any Executive Director in any year.
- Threshold vesting level of 20% of maximum with straight line vesting up to 100% at maximum for financial metrics and a ranking profile for relative total shareholder return.

DIAGEO LONG TERM INCENTIVE PLAN (DLTIP)

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, eps);
  - a measure of efficiency (e.g. operating margin, operating cash conversion, return on invested capital (ROIC)); and
  - a measure of Diageo's relative performance in relation to its peers (e.g. relative total shareholder return).

Measures that apply to performance shares and market price options may differ, as is the case for current awards. Weightings may vary year-on-year, subject to a minimum weighting of 25% of the total award. Details of the measures, including targets for the awards to be made in September 2015 are set out on page 75.

- 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 changes, M&A activities and disposals. Any such amendments would be fully disclosed and explained in the following year's annual report on remuneration.

ALL-EMPLOYEE SHARE PLANS

Purpose and link to strategy

To encourage broader employee share ownership through locally approved plans.

Operation

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

Opportunity

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

Performance conditions

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

SHAREHOLDING REQUIREMENT

Purpose and link to strategy

Ensures alignment between the interests of Executive Directors and shareholders.

Operation

- The minimum shareholding requirement is 300% of base salary for the Chief Executive and 250% of base salary for any other Executive Directors.
- Executive Directors have five years from their appointment to the Board in which to build up their shareholding.
- Full participation in the DLTIP is conditional upon meeting this requirement beyond the five-year timeframe.

NOTES TO THE POLICY TABLE

Performance measures and targets

Further details of AIP performance measures and DLTIP performance measures and targets that will apply for awards made in September 2015, and how they are aligned with company strategy and the creation of shareholder value, are set out in the annual report on remuneration, on pages 72 and 75.

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.

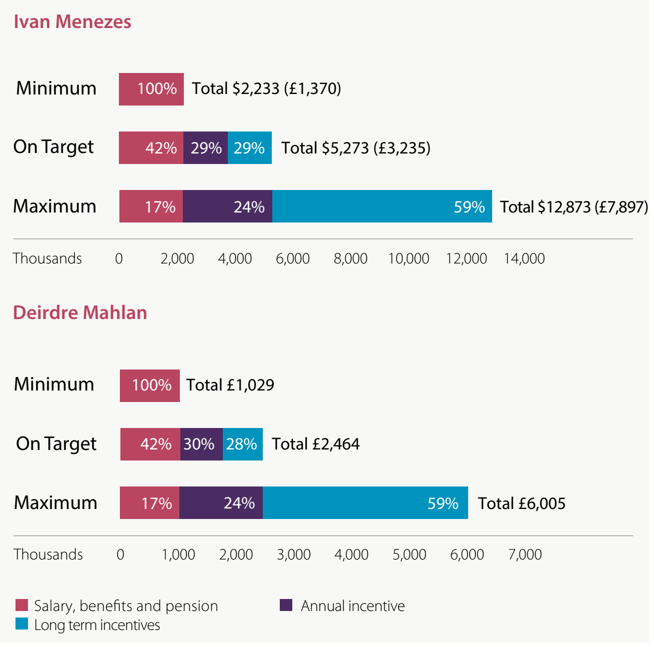
Differences in remuneration policy for other employees

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. 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 whilst mindful not to over-pay. It is driven by local market practice as well as level of seniority and accountability, reflecting the global nature of Diageo's business.

Illustrations of application of the remuneration policy

The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at three different levels of performance: minimum, on-target and maximum. Note that the projected values exclude the impact of any share price movements. These charts are unchanged from the 2014 Directors' remuneration report and reflect projected remuneration for the year ended 30 June 2015 as at the date when the policy was first presented.



Basis of calculation and assumptions:

The 'Minimum' scenario shows fixed remuneration only, i.e. base salary for the year ended 30 June 2015, total value of contractually agreed benefits for 2015, and pension. The pension value is based on company contributions applied to 2015 base salary. These are the only elements of the Executive Directors' remuneration packages which are not at risk.

The 'On-target' scenario shows fixed remuneration as above, plus a target pay-out of 50% of the maximum annual bonus and threshold performance vesting for DLTIP awards.

The 'Maximum' scenario reflects fixed remuneration, plus full pay-out of all incentives.

Approach to recruitment remuneration

The Remuneration Committee's overarching principle for recruitment remuneration is to pay no more than is necessary to attract an Executive Director of the calibre required to shape and deliver Diageo's business strategy in recognition that Diageo competes for talent in a global marketplace. The Committee will seek to align the remuneration package with Diageo's remuneration policy as laid out above, but retains the discretion to offer a remuneration package which is necessary to meet the individual circumstances of the recruited Executive Director and to enable the hiring of an individual with the necessary skills and expertise. However, except as described below, variable pay will follow the policy.

Diageo is a global organisation operating in more than 180 countries around the world. The ability, therefore, 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 that will deliver Diageo's performance ambition.

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 very 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 in the remuneration and, if considered appropriate at the time, will consult with the company's biggest shareholders. The Remuneration Committee will provide timely disclosure of the reward package of any new Executive Director.

In the event that an internal candidate was promoted to the Board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.

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
Deirdre Mahlan	1 July 2010

Notice period	The contracts provide for a period of six months' notice by the Executive Director or 12 months' notice by the company. A payment may be made in lieu of notice equivalent to 12 months' base salary and the cost to the company of providing contractual benefits (excluding incentive plans). The service contracts also provide for the payment of outstanding pay and bonus, if Executive Directors are terminated following a takeover, or other change of control of Diageo plc. If, on the termination date, the Executive Director has exceeded his/her accrued holiday entitlement, the value of such excess may be deducted by the company from any sums due to him/her, except to the extent that such deduction would subject the Executive Director to additional tax under Section 409A of the Code (in the case of Ivan Menezes). If the Executive Director on the termination date has accrued but untaken holiday entitlement, the company will, at its discretion, either require the Executive Director to take such unused holiday during any notice period or make a payment to him/her in lieu of it, provided always that if the employment is terminated for cause then the Executive Director will not be entitled to any such payment. For these purposes, salary in respect of one day of holiday entitlement will be calculated as 1/261 of salary.
Mitigation	The Remuneration Committee may exercise its discretion to require a proportion of the termination payment to be paid in instalments and, upon the Executive Director commencing new employment, to be subject to mitigation except where termination is within 12 months of a takeover, or within such 12 months the Executive Director leaves due to a material diminution in status, or (in the case of Deirdre Mahlan) is located permanently outside the United Kingdom and Ireland.
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 ("Good Leaver Reasons") during the financial year, they are usually entitled to an incentive payment pro-rated for the period of service during the performance period, which is typically payable at the usual payment date. Where the Executive Director leaves for any other reason, no payment will be made. The amount is subject to performance conditions being met and at the discretion of the Committee. The Committee has discretion to determine an earlier payment date, for example on death in service.
Diageo 2014 long term incentive plan (DLTIP)	When an Executive Director leaves for any reason other than Good Leaver Reasons, all unvested awards generally lapse immediately. In cases where Good Leaver Reasons apply, awards vest on the original vesting date unless the Remuneration Committee decides otherwise (for example in the case of death in service). The retention period for vested awards continues for all leavers other than in cases of disability, ill health or death in service, unless the Remuneration Committee decides otherwise. The proportion of the award released depends on the extent to which the performance condition is met. The number of shares is reduced on a pro-rata basis reflecting the length of time the Executive Director was employed by the company during the performance period, unless the Committee decides otherwise (for example in the case of death in service). On a takeover or other corporate event, awards vest subject to the extent to which the performance conditions are met and, unless the Committee decides otherwise, the awards are time pro-rated. Otherwise the Committee, in agreement with the new company, may decide that awards should be swapped for awards over shares in the new company; where awards are granted in the form of options then on vesting they are generally exercisable for 12 months (or six months for approved options). Awards may be adjusted on a variation of share capital, demerger or other similar event. The Remuneration Committee may amend the plans, except that any changes to the advantage of participants require shareholder approval, unless the change relates to the administration, or taxation of the plan or participants, or is needed to ensure that the plans operate effectively in another jurisdiction. Details of existing awards are set out in the annual report on remuneration.
Repatriation	In cases where an Executive Director was recruited from outside the United Kingdom and has been relocated to the United Kingdom as part of their appointment, the company will pay reasonable costs for the repatriation of Good Leavers.

Existing arrangements

The Remuneration 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) before the policy or the relevant legislation came into effect or (ii) at a time when the relevant individual was not a Director of the company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment which are "agreed" at the time the award is granted (including awards under the PSP and SESOP). Details of outstanding share awards are set out in the annual report on remuneration. For the purposes of section 226D(6) of the Companies Act, the effective date is the end of the financial year starting in 2014.

External appointments

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.

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 annually.
- 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 top 30 companies in the FTSE100 by market capitalisation (excluding companies in the financial services sector) and anticipated workload, tasks and potential liabilities.
- The Chairman and Non-Executive Directors do not participate in any of the company's incentive plans or receive pension contributions or benefits.
- 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, Dr Franz B Humer, commenced his appointment on 1 July 2008. Dr Humer had a letter of appointment for an initial five year term from 1 July 2008 which has been extended to 30 June 2016. It is 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, currently an aggregate of £1,000,000, as approved by shareholders at the October 2005 AGM. This limit excludes the Chairman's fees.
- Current fee levels are disclosed in the annual report on remuneration.

Consideration of employment conditions elsewhere in the company

When reviewing and determining pay for Executive Directors, the Committee takes into account the level and structure of remuneration as well as salary budgets for other employees in the group. More specifically, the Committee reviews annual salary increase budgets for the general employee population in the United Kingdom and North America as well as the remuneration structure and policy for the global Senior Management population.

Diageo employs 33,000 employees and operates in more than 180 countries around the world. Given its global scale and complexity, the Committee has not consulted directly with employees when designing the remuneration policy for its Executive Directors. Diageo runs annual employee surveys which give employees the opportunity to give feedback and express their views on a variety of topics, including remuneration. Any comments relating to Executive Directors' remuneration are fed back to the Remuneration Committee.

Consideration of shareholder views

The Committee values the continued dialogue with Diageo's shareholders and engages directly with them and their representative bodies at the earliest opportunity when setting out Diageo's remuneration policy and approach, proposed base salary increases for the Executive Directors and targets for the long term incentive plan award. Last year, feedback from shareholders resulted in the simplification of the company's long term incentive vehicles with an enhanced malus provision and an additional retention period. More recently, the company has engaged with shareholders about the base salary proposals for 2015, the change in weightings under the annual incentive plan for the year ending 30 June 2016, long term incentive plan targets for awards to be made in 2015 and the introduction of free cash flow in replacement of the operating margin improvement measure, as well as the vesting of legacy long term incentive awards to the Chief Executive Officer.

ANNUAL REPORT ON REMUNERATION

Single total figure of remuneration for Executive Directors (audited)

The table below details the Executive Directors' remuneration for the year ended 30 June 2015.

	Ivan Menezes[i]				Deirdre Mahlan	
Fixed pay	**2015 '000**	**2015 '000**	2014 '000	2014 '000	**2015 '000**	2014 '000
Salary	**£968**	**$1,520**	£933	$1,520	**£727**	£706
Benefits[ii]	**£155**	**$243**	£456	$744	**£34**	£40
Pension[iii]	**£458**	**$720**	£411	$670	**£275**	£258
Total fixed pay	**£1,581**	**$2,483**	£1,800	$2,934	**£1,036**	£1,004
Performance related pay						
Annual incentive	**£535**	**$840**	£170	$277	**£428**	£130
Long term incentives [iv]						
Value delivered through performance	**£1,451**	**$2,278**	£1,158	$1,887	**£872**	£1,120
Value delivered through share price growth	**£1**	**$2**	£1,620	$2,640	**£35**	£1,406
Total long term incentives	**£1,452**	**$2,280**	£2,778	$4,527	**£907**	£2,526
Other incentives[v]	**–**	**–**	–	–	**£4**	£4
Total remuneration for Executive Director appointment	**£3,568**	**$5,603**	£4,748	$7,738	**£2,375**	£3,664
Other performance related pay						
(Granted prior to appointment as Executive Director)						
Long term incentives [vi]	**£354**	**$555**	£2,583	$4,211	**–**	–
TOTAL SINGLE FIGURE	**£3,922**	**$6,158**	£7,331	$11,949	**£2,375**	£3,664

Notes

(i) 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 2015 the exchange rate was £1 = $1.57 and for the year ended 30 June 2014, the exchange rate was £1 = $1.63.

(ii) Benefits is the gross value of all benefits. Ivan Menezes relocated to the United Kingdom on 1 January 2014 and the taxable benefits include company-paid assistance, fees and the tax gross-up on the benefit in respect of the sale of his home in the United States (£96k), which completed in the year ended 30 June 2015. Other taxable benefits include financial counselling (£16k), medical insurance (£16k), company car allowance (£16k), contracted car service (£4k), product allowance, flexible benefits allowance and life and long term disability cover. Deirdre Mahlan's benefits include company car allowance (£16k), contracted car service (£5k), financial counselling (£7k), product allowance, medical insurance and life cover.

(iii) 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 UK Diageo Pension Scheme (DPS) since 31 January 2012, and receives standard statutory increases to his deferred pension the UK pension amount that accrued over the two years in excess of inflation is nil.

(iv) Long term incentives represent the estimated gain delivered through options and performance shares where performance conditions have been met in the financial year. For 2015, 'Value delivered through performance' represents performance shares awarded in 2012 under the PSP due to be released in October 2015, calculated using the share price at grant after applying the performance condition. This also includes the value of accrued dividend shares. 'Value delivered through share price growth' is the estimated additional value generated through share price growth for performance shares due to be released in October 2015. Though the outcome of the performance conditions is known, the share price on the vesting date is estimated, using the average market value of Diageo shares between 1 April and 30 June 2015 (1851 pence for ordinary shares and $113.74 for ADRs) for the purpose of this calculation. There is no gain on share options awarded in 2012 under the SESOP as the performance condition was not met. Long term incentives for 2014 have been adjusted for the share price on 22 September 2014 (1817 pence for ordinary shares and $118.58 for ADRs). For further information on the SESOP and PSP performance conditions and vesting outcomes please refer to the 'LTIPs awards vesting in the year ended 30 June 2015' section of the report on page 73.

(v) Other incentives include the face value of awards made under all-employee share plans. Awards do not have performance conditions attached.

(vi) Ivan Menezes retains interests in long term incentive awards that were granted to him in 2012, prior to joining the board under 'below-board' plans (Discretionary Incentive Plan), details of which are shown on page 74. The value of the part of the award based on performance for the year ended 30 June 2015 is shown in the table above and calculated on the basis of the average market value of Diageo shares between 1 April and 30 June 2015 ($113.74). The value of the part of the award based on continuing employment for the year ended 30 June 2015 is not included in the table above and amounts to 14,642 ADRs. For 2014, long term incentives refers to an award made in 2011 under the Discretionary Incentive Plan, prior to joining the Board, and the value has been restated to account for the share price on 22 September 2014 (1817 pence for ordinary shares and $118.58 for ADRs). Details of the performance conditions that applied to the 2011 award were disclosed in the 2014 Directors' remuneration report.

Salary

Salary increases to be applied in the year ending 30 June 2016

In July 2015, the Remuneration Committee reviewed base salaries for senior management and agreed new salaries which will apply from 1 October 2015. In determining these salaries, the Remuneration Committee took into consideration a number of factors including general employee salary budgets and employment conditions, individual performance and experience, and salary positioning relative to internal and external peers. The overall budgeted salary increase for the year ended 30 June 2016 is 2.5% of base salary for the business in the United Kingdom and 3% in North America.

The Committee considered very carefully the total remuneration positioning of the Chief Executive and Chief Financial Officer, the salary budget for all employees in the United Kingdom and the expectations of shareholders with respect to pay restraint. As a result, and for the second consecutive year for the Chief Executive, the Chief Executive and the Chief Financial Officer agreed that their base salaries would remain unchanged in October 2015.

	Ivan Menezes		Deirdre Mahlan	
Salary at 1 October ('000)	2015	2014	2015	2014
Base salary	$1,520	$1,520	£732	£732
% increase (over previous year)	0%	0%	0%	2.5%

Annual incentive plan (AIP) (audited)

AIP payout for the year ended 30 June 2015

The Remuneration Committee assessed the performance of Ivan Menezes and Deirdre Mahlan against their specific objectives and concluded that the objectives were partially met. The overall level of performance achieved resulted in an AIP award equating to 55% of base salary for Ivan Menezes and 59% of base salary for Deirdre Mahlan. The following table illustrates how the outcomes for the different bonus measures contribute to the overall bonus payout. The actual awards received by the Executive Directors are shown in the table 'single total figure of remuneration' on page 71.

AIP outcome

Measures(i)	Weight (% of maximum)	Target	Actual	Payout (% of maximum)
Organic net sales (% growth)	30%	4.0%	0.2%	0.0%
Profit before exceptional items and tax (% growth)	35%	6.0%	0.9%	0.0%
Operating cash conversion(ii)	25%	100.0%	109.3%	25.0%
Individual business objectives (IBOs)	10%	A range of objectives linked to individual contribution, medium term strategic goals and the delivery of the Performance Ambition.	partially met(iii)	3.4%
	100%			28.4%

(i) Performance measures under the AIP are calculated using 2015 budget exchange rates in line with management reporting and exclude the impact of of IAS 21 in respect of short term intercompany funding balances and IAS 39 in respect of market value movements as recognised in net finance charges and any exceptional items. USL has been excluded from both the AIP targets and actuals for the year ended 30 June 2015.

(ii) Operating cash conversion is calculated by dividing operating profit before depreciation, amortisation, impairment and exceptional items by cash generated from operations adjusted for cash inflows/outflows in respect of exceptional items, dividends, maturing inventories and post employment payments in excess of the amount charged to operating profit. The ratio is stated at the budget exchange rate of the respective year in line with management reporting.

(iii) For Ivan Menezes, the IBO outcome was driven by the successful delivery of key financial measures in USL, strengthening routes to consumer in key markets and building corporate reputation through critical initiatives such as responsible drinking and employee engagement. For Deirdre Mahlan, the IBO outcome was driven by her contribution to the delivery of a strong performance in cash conversion, progress against the supply chain and route to customer enhancements, delivery of the USL financial plan and strengthening the global finance and business services function.

AIP design for the year ending 30 June 2016

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 the year ending 30 June 2016 will comprise of a four-measure structure (weightings in brackets):

- Profit before exceptional items and tax (% growth) (25%): 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;
- Net sales (25%): year-on-year net sales growth is a key performance measure;
- Operating cash conversion (30%): ensures focus on efficient conversion of profits into cash; and
- Individual business objectives (20%): are measurable deliverables that are specific to the individual and are focused on supporting the delivery of key strategic objectives.

Details of the targets for this performance period will be disclosed retrospectively in next year's annual report on remuneration, as soon as they are no longer deemed commercially sensitive by the Board.

Long term incentive plans (LTIPs) (audited)

LTIP awards vesting in the year ended 30 June 2015

Until 30 June 2014, long term incentives were a combination of share options under the Senior Executive Share Option Plan 2008 (SESOP) and share awards under the Performance Share Plan 2008 (PSP). Awards were designed to incentivise Executive Directors and senior managers to deliver long term sustainable performance. Awards made under both sets of plans were subject to performance conditions normally measured over a three-year period. As approved by shareholders at the AGM in September 2014, these plans were replaced by the Diageo Long Term Incentive Plan (DLTIP) for awards from 2014 onwards.

SESOP

On 1 October 2012, Ivan Menezes and Deirdre Mahlan received awards of 46,575 (ADRs) and 146,299 (ordinary shares) market price options, respectively, under the SESOP. Awards were subject to a performance condition based on compound annual growth in adjusted eps over a three-year period. For the purpose of the SESOP, an adjusted measure of eps is used to ensure that elements such as exceptional items and the impact of movements in exchange rates are excluded from year on year comparisons of performance. Options only vest when stretching adjusted eps targets are achieved. Vesting is on a pro rata basis ranging from a threshold level of 25% to a maximum level of 100%.

The adjusted eps growth targets and actual performance for the 2012 SESOP awards are set out below:

Vesting of 2012 SESOP awards	Target	Vesting (% maximum)
Threshold	8%	25%
Maximum	12%	100%
Actual compound annual adjusted eps growth over 1 July 2012 – 30 June 2015	**4.1%**	**0.0%**

Accordingly, the 2012 award, which is due to vest in October 2015, has not met the performance condition and none of the shares under the award will vest.

PSP

On 1 October 2012, Ivan Menezes and Deirdre Mahlan received awards of 54,927 (ADRs) and 134,653 (ordinary shares) performance shares, respectively, under the PSP. Awards vest after a three-year period subject to the achievement of specified performance tests. Notional dividends accrue on awards and are paid out either in cash or shares in accordance with the vesting schedule.

For the 2012 awards, the primary performance test is split between three equally weighted performance measures:

1) A comparison of Diageo's three-year total shareholder return (TSR) – the percentage growth in Diageo's share price (assuming all dividends and capital distributions are re-invested) – with the TSR of a peer group of international drinks and consumer goods companies. TSR calculations are converted to a common currency (US dollar);
2) Growth in organic net sales on a compound annual basis; and
3) Total organic operating margin improvement.

For the part of the award subject to the TSR condition to vest, there must be an improvement in the underlying financial performance of the company (i.e. growth in organic net sales and total organic operating margin improvement). In addition, the Remuneration Committee must be satisfied that a minimum level of performance in both organic net sales and organic operating margin has been met before any of the award under either measure can be released.

The targets and vesting profile for the PSP awards granted in October 2012 are shown in the following table:

Vesting of 2012 PSP awards	Threshold	Mid-point	Maximum	Actual	Vesting (% maximum)
Organic net sales (CAGR)	5%	6.5%	8.0%	**1.8%**	**0.0%**
Organic operating margin improvement	100bps	150bps	175bps	**177bps**	**100.0%**
Relative total shareholder return	Medium ranking (ninth)	–	Upper quintile (third or above)	**13th**	**0.0%**
Vesting (% of maximum)	25%	62.5%	100%		**33.3%**

For operating margin and net sales, there is straight line vesting between threshold and the mid-point, and between the mid-point and the maximum. The full vesting profile for TSR is shown below:

TSR ranking (out of 17)	Vesting profile for PSP awards	Vesting profile for DLTIP performance share awards from 2015
1st, 2nd or 3rd	**100%**	**100%**
4th	**95%**	**95%**
5th	**75%**	**75%**
6th	**65%**	**65%**
7th	**55%**	**55%**
8th	**45%**	**45%**
9th	**25%**	**20%**
10th or below	**0%**	**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	SABMiller
Kimberly-Clark	Unilever

On the basis of this performance, the 2012 PSP award, which is due to vest in October 2015, has partially met the performance conditions and, consequently, the shares under award will vest at 33.3% of the initial award.

The Committee has taken into consideration all factors regarding the quality of the underlying performance of the business at the end of the performance period, including the company's underlying level of sell out performance, the holding of market share across total brands in each year of the performance period and the maintenance of brand investment, and is satisfied that the level of vesting is warranted.

DIP

Ivan Menezes retains interests in awards that were granted to him in 2012 prior to his appointment as Executive Director under the DIP, totalling 117,142 ADRs. 50% of the 2012 DIP award is subject to meeting performance conditions based on the financial measures under the long term incentive plan over the three-year periods ending 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018 and the remaining 50% is subject to continued satisfactory employment. The financial measures under the performance part of the award are equally weighted. Actual performance for the first tranche of the 2012 DIP award (i.e. the tranche based on performance over the three years to 30 June 2015) versus target is set out below:

Vesting of performance-based tranche 1 of March 2012 DIP award

Performance measures (equally weighted)	Target	Actual	Vesting (% of maximum)
Organic net sales growth (CAGR)	6.50%	1.8%	0%
Organic operating margin improvement	150 bps	177 bps	33.3%
Compound annual adjusted eps growth	10%	4.1%	0%
Vesting (% of maximum)			33.3%

As the table shows, 33.3% of the performance related ADRs under the first tranche of the 2012 DIP award will vest in March 2016, subject to continuing employment. The total award that will vest to Ivan Menezes in March 2016 will therefore be 66.6% of the first tranche (including the ADRs that vest on time only), or 19,523 ADRs, provided he remains employed at the time of vesting. The Committee has assessed the underlying performance of the business at the end of the performance period and is satisfied that this level of vesting is warranted. The value of the part of the award based on performance and vesting in March 2016 is included in the single total figure of remuneration.

DLTIP awards made during the year ended 30 June 2015 (audited)

On 25 September 2014, Ivan Menezes and Deirdre Mahlan received awards of 45,447 (ADRs) and 140,590 (ordinary shares) performance shares, respectively, and 45,447 (ADRs) and 140,590 (ordinary shares) market price options, respectively under the DLTIP; details are provided in the table on the following page. The three-year period over which performance will be measured is 1 July 2014 to 30 June 2017. The performance measures are the same as for the 2012 awards. 20% of the award will vest at threshold, with straight-line vesting up to 100% if the maximum level of performance is achieved.

Executive Director	Date of grant	Plan	Share type	Awards made during the year	Award/ exercise price	Face value '000	Face value (% of salary)
Ivan Menezes	25/09/2014	DLTIP – share options	ADR	45,447	$117.55	$5,342	375%
Ivan Menezes	25/09/2014	DLTIP – performance shares	ADR	45,447	$125.42	$5,700	375%
Deirdre Mahlan	25/09/2014	DLTIP – share options	Ord	140,590	1796p	£2,525	360%
Deirdre Mahlan	25/09/2014	DLTIP – performance shares	Ord	140,590	1874p	£2,635	360%

The table above specifies the number of performance shares and share options initially awarded under the DLTIP. The proportion of the awards that will vest is dependent upon the achievement of performance conditions, and the actual value may be nil. The vesting outcomes will be disclosed in the 2017 report.

The face value of each award has been calculated using the award/exercise price at time of grant. In accordance with the rules, the number of performance shares granted under the DLTIP was calculated by using the average closing share price for the last six months of the preceding financial year (1874 pence for ordinary shares and $125.42 for ADRs). In accordance with the plan rules, the exercise price and the number of options granted under the SESOP was calculated using the average closing share price of the three days preceding the grant date (1796 pence for ordinary shares and $117.55 for ADRs). The share price on the date of grant was 1779 pence for ordinary shares and $115.80 for ADRs.

Details of the operation of the DLTIP are provided under the section on long term incentive plans.

DLTIP awards to be made in the year ending 30 June 2016

The long term incentive plan (DLTIP) was approved by shareholders at the AGM in September 2014.

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 DLTIP measures for awards to be granted in September 2015 are:

- Relative total shareholder return: reflects the value of share price growth plus dividends, thus measuring the value returned on shareholder investments;
- Organic net sales: sustained year-on-year organic net sales growth is a key performance measure;
- Cumulative free cash flow: measures the efficiency of cash management; and
- Adjusted eps growth: reflects profitability and is a key measure for shareholders.

The table below outlines the targets and the vesting profile for these awards. The measures are equally weighted, with performance shares subject to performance against total shareholder return, net sales and cumulative free cash flow, and share options subject to performance against adjusted eps growth. Performance will be tested over three financial years, beginning with the year ending 30 June 2016.

	Performance shares			Share options	
	Relative total shareholder return (25%)	Organic net sales (CAGR) (25%)	Cumulative free cash flow (25%)	Adjusted eps growth (CAGR) (25%)	Vesting profile
Threshold	Median ranking (ninth)	3.0%	£5,000m	4.0%	20%
Mid-point	–	4.5%	£6,000m	6.5%	60%
Maximum	Upper quintile (third or above)	6.0%	£7,000m	9.0%	100%

It is intended that a performance share award of 375% of base salary and an award of market price share options of 125% of base salary (in performance share equivalents; one market price option is valued at one-third of a performance share) will be made to Ivan Menezes in September 2015.

It is intended that Deirdre Mahlan will be awarded a performance share award of 360% of base salary and an award of market price share options of 120% of base salary (in performance share equivalents) in September 2015.

Pension and benefits in the year ended 30 June 2015

Benefits

Benefits provisions for the Executive Directors continue to be in line with the information set out in the future policy table.

Pension arrangements (audited)

Ivan Menezes and Deirdre Mahlan are members of the Diageo North America Inc. Supplemental Executive Retirement Plan (SERP) with an accrual rate of 40% and 35% of base salary, respectively. 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, they can withdraw the balance of the plan in the form of five equal annual instalments or a lump sum upon reaching age 55 (Deirdre Mahlan) and after having left service with Diageo (within six months of separation from service).

Ivan Menezes and Deirdre Mahlan participated in the US Cash Balance Plan and the Benefit Supplemental Plan (BSP) until August 2012 and June 2010, respectively and have 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.

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

The table below shows the pension benefits accrued by each Director to date. Note that the accrued UK benefits for Ivan Menezes are annual pension amounts, whereas the accrued US benefits for both Ivan Menezes and Deirdre Mahlan are a one-off cash balance amount.

	30 June 2015		30 June 2014	
Executive Director	UK pension £'000 p.a.	US benefit £'000	UK pension £'000 p.a.	US benefit £'000
Ivan Menezes(i)	69	4,218	68	3,409
Deirdre Mahlan(ii)	nil	1,239	nil	874

(i) Ivan Menezes' US benefits are higher at 30 June 2015 than at 30 June 2014 by £809k; £505k of which is due to pension benefits earned over the year (£458k of which is over and above the increase due to inflation, see page 71) and £304k more due to exchange rate movements over the year.
(ii) Deirdre Mahlan's US benefits are higher at 30 June 2015 than at 30 June 2014 by £365k; £287k of which is due to pension benefits earned over the year (£275k of which is over and above the increase due to inflation, see page 71) and £78k more due to exchange rate movements over the year.

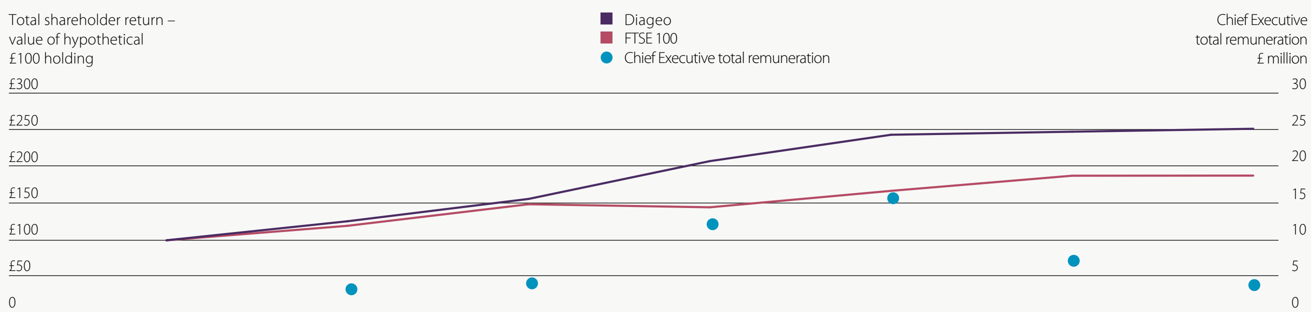
The Normal Retirement Age applicable to each Director's benefits depends on the pension scheme, as outlined below.

Executive Director	UK benefits (DPS)	US benefits (Cash balance)	US benefits (BSP)	US benefits (SERP)
Ivan Menezes	60	65	6 months after age of leaving service	6 months after age of leaving service
Deirdre Mahlan	n/a	65	6 months after age of leaving service	6 months after age of leaving service, or age 55 if later

Ivan Menezes is able to take his UK pension benefits from age 58 without consent, and his benefits would not be subject to any actuarial reduction in respect of early payment. However, this is a discretionary policy Diageo offers that is not set out in the DPS Scheme Rules.

Performance graph and table

The graph below shows the total shareholder return for Diageo and the FTSE 100 Index since 30 June 2009 and demonstrates the relationship between pay and performance for the Chief Executive, using current and previously published single total remuneration figures. The FTSE 100 Index has been chosen because it is a widely recognised performance benchmark for large companies in the United Kingdom.



	June 2009	June 2010	June 2011	June 2012	June 2013	June 2014	June 2015
		Paul S Walsh £'000	Paul S Walsh £'000	Paul S Walsh £'000	Paul S Walsh £'000	Ivan Menezes(i) £'000	**Ivan Menezes(i) £'000**
Chief Executive total remuneration (includes legacy LTIP awards)		3,231	4,449	11,746	15,557	7,331	**3,922**
Annual incentive (% maximum opportunity)		86%	77%	74%	51%	9%	**28%**
Long term incentives – SESOP (% maximum opportunity)		100%	100%	100%	100%	71%	**0%**
Long term incentives – PSP (% maximum opportunity)		0%	0%	65%	95%	55%	**33%**

(i) To enable comparison Ivan Menezes' single total figure of remuneration has been converted into sterling using the cumulative average weighted exchange rate for the relevant financial year.

Percentage change in remuneration of the Chief Executive

The table below shows a comparison of the percentage change in the Chief Executive's remuneration to the average percentage change in remuneration for the UK and US population from 2014 to 2015. The chosen population represents the most appropriate comparator group for the Chief Executive, as the Committee considers salary increase budgets in these countries when reviewing Executive Directors' base salaries. Furthermore, the majority of Executive Committee members as well as the Executive Directors are on UK or US reward packages.

	Salary	Benefits	Bonus
Chief Executive percentage change from 2014 to 2015	0%	(67%)	203%
Average % change for the UK and US workforce from 2014 to 2015	2%	0%	60%

The percentage change for the Chief Executive is based on the remuneration of Ivan Menezes from 2014 to 2015. Benefits in both 2014 and 2015 included one-off relocation payments.

UK salary, benefits and bonus data have been converted into US dollars using the cumulative weighted average exchange rate for the respective financial year. For the year ended 30 June 2015 the exchange rate was £1 = $1.57, and for the year ended 30 June 2014 the exchange rate was £1 = $1.63.

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

The beneficial interests of the Directors in office at 30 June 2015 (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)					
	17 July 2015	30 June 2015	30 June 2014 (or date of appointment, if later)	Shareholding requirement (% salary)(iv)	Shareholding at 17 July 2015 (% salary)(iv)	Shareholding requirement met
Chairman						
Dr Franz B Humer	60,532	60,097	53,197	–	–	–
Executive Directors						
Ivan Menezes(ii)	749,518	749,518	634,810	300%	1430%	Yes
Deirdre Mahlan(ii)	281,163	281,153	228,507	250%	710%	Yes
Non-Executive Directors						
Peggy B Bruzelius	5,000	5,000	5,000	–	–	–
Laurence M Danon	5,000	5,000	5,000	–	–	–
Lord Davies of Abersoch	5,052	5,052	5,052	–	–	–
Betsy D Holden(ii)	17,400	17,400	17,400	–	–	–
Ho KwonPing	4,223	4,223	4,103	–	–	–
Philip G Scott	10,000	10,000	10,000	–	–	–
Nicola S Mendelsohn(iii)	5,000	5,000	–	–	–	–
Alan JH Stewart(iii)	1,500	1,500	–	–	–	–

Notes
(i) Each person listed beneficially owns less than one percent of Diageo's ordinary shares. Ordinary shares held by Directors have the same voting rights as all other ordinary shares.
(ii) Ivan Menezes, Deirdre Mahlan and Betsy D Holden have share interests in ADRs (one ADR is equivalent to four ordinary shares); the share interests in the table are stated as ordinary share equivalents.
(iii) Nicola S Mendelsohn and Alan JH Stewart were appointed to the Board on 1 September 2014.
(iv) Both the shareholding requirement and shareholding at 17 July 2015 are expressed as a percentage of base salary as at 30 June 2015 and calculated using an average share price for the year ended 30 June 2015 of 1847 pence.

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 2014(i)	Granted	Vested/ exercised	Dividends awarded and released	Lapsed	Number of shares/ options at 30 June 2015	Total number of shares/ options in Ords(ii)
Ivan Menezes													
SESOP(iii)	Sep 2010	2010-2013	2013	ADR		$67.84	55,512					55,512	
SESOP(iii)	Sep 2011	2011-2014	2014	ADR		$76.70	51,531				14,944	36,587	
Total number of vested but unexercised share options													368,396
SESOP(v)	Oct 2012	2012-2015	2015	ADR		$112.72	46,575					46,575	
SESOP(vi)	Sep 2013	2013-2016	2016	ADR		$123.27	46,239					46,239	
DLTIP – share options	Sep 2014	2014-2017	2017	ADR		$117.55		45,447				45,447	
Total number of unvested share options subject to performance													553,044
PSP(iii)	Sep 2011	2011-2014	2014	ADR	$74.11		42,221		23,221	1,981	19,000	–	
DIP(iv)	Sep 2011	2011-2014	2014-2015	ADR	$74.11		71,030		14,206		35,515	21,309	
DIP(iv)	Mar 2012	2012-2019	2016-2019	ADR	$96.44		58,571					58,571	
PSP(v)	Oct 2012	2012-2015	2015	ADR	$113.62		54,927					54,927	
PSP(vi)	Sep 2013	2013-2016	2016	ADR	$123.08		47,484					47,484	
DLTIP – performance shares	Sep 2014	2014-2017	2017	ADR	$115.80			45,447				45,447	
Total number of unvested shares subject to performance													910,952
DIP(iii),(iv)	Mar 2012	2012-2019	2016-2019	ADR	$96.44		58,571					58,571	
Total number of unvested shares not subject to performance													234,284
Deirdre Mahlan													
SESOP(iii)	Sep 2009	2009-2012	2012	ADR		$63.13	20,790					20,790	
SESOP	Sep 2010	2010-2013	2013	Ord		1080p	199,652					199,652	
SESOP	Sep 2011	2011-2014	2014	Ord		1232p	190,239				55,170	135,069	
Total number of vested but unexercised share options													417,881
SESOP(v)	Oct 2012	2012-2015	2015	Ord		1743p	146,299					146,299	
SESOP(vi)	Sep 2013	2013-2016	2016	Ord		1983p	135,022					135,022	
DLTIP – share options	Sep 2014	2014-2017	2017	Ord		1796p		140,590				140,590	
Total number of unvested share options subject to performance													421,911
PSP	Sep 2011	2011-2014	2014	Ord	1204p		159,574		87,765	7,607	71,809	–	
PSP(v)	Oct 2012	2012-2015	2015	Ord	1772p		134,653					134,653	
PSP(vi)	Sep 2013	2013-2016	2016	Ord	1978p		110,241					110,241	
DLTIP – performance shares	Sep 2014	2014-2017	2017	Ord	1779p			140,590				140,590	
Total number of unvested shares subject to performance													385,484
SAYE(vii)	Sep 2011		2014	Ord		960p	937		937			–	

(i) For unvested awards this is the number of shares/options initially awarded. For exercisable share options, this is the number of outstanding options. All share options have an expiry date of ten years after the date of grant.
(ii) ADRs have been converted to Ords (one ADR is equivalent to four ordinary shares) for the purpose of calculating the total number of vested and unvested shares and options at 30 June 2015.
(iii) Shares/options granted prior to the Executive's appointment to the Board.
(iv) Ivan Menezes retains interests in awards that were granted to him prior to joining the Board under 'below-board' plans (Discretionary Incentive Plan). A total of 188,172 ADRs was granted in 2011 and 2012. 50% of the initial 2011 award of 71,030 ADRs lapsed in September 2014, as disclosed in the 2014 remuneration report. Of the remainder, 40% vested in September 2014, with the remaining portion due to vest in September 2015. The 2012 award is subject to performance conditions and continuing employment and the first tranche is due to vest in March 2016, with the remaining tranches vesting in March 2017, March 2018 and March 2019.
(v) Awards made under the PSP and SESOP in October 2012 and due to vest in October 2015 are included here as unvested share awards subject to performance conditions, although the awards have also been included under long term incentives in the single figure of total remuneration on page 71, since the performance period ended during the year ended 30 June 2015.
(vi) Details of the performance conditions attached to PSP and SESOP awards granted in 2013 are available in Diageo's 2014 Directors' remuneration report.
(vii) Options granted under the UK savings-related share options scheme.

Payments to former directors

As set out in the annual remuneration report for 2013, on retirement from the Board on 19 September 2013, Paul S Walsh was retained in a role with the Scotch whisky industry on behalf of Diageo for a period of up to five years. Paul retained interests in both the 2011 and 2012 PSP and SESOP.

The vesting outcome under the 2011 PSP and SESOP, based on performance over the period 1 July 2011 to 30 June 2014, was disclosed in detail in the 2014 annual remuneration report. In the case of Paul S Walsh, 234,810 shares (including 18,730 shares in respect of accrued dividend shares) and 267,221 share options vested in September 2014. The share price on the vesting date was 1817p and the total value of awards on vesting was £5,829,735.

In October 2012, Paul was awarded 304,702 shares under the PSP and 264,845 share options under the SESOP, subject to performance over the period 1 July 2012 to 30 June 2015. As disclosed elsewhere in this report, the vesting outcome under the 2012 PSP will be 33.3% of the original award and under the 2012 SESOP will be 0% of the initial award. As a result, in the case of Paul Walsh, 101,567 shares will vest and all of his share options will lapse in October 2015.

Paul Walsh has no other outstanding interests under the long term incentive plan or any other share plan of the company.

Non-Executive Directors' fees

The Chairman's fee was reviewed in December 2014 and, at the Chairman's request, there was no increase to his fee in January 2015. As agreed with the Chairman, the next review of his fee is anticipated to take place in December 2016, subject to his letter of appointment, with any changes taking effect on 1 January 2017.

The last scheduled review of fees for Non-Executive Directors was undertaken in December 2013.

	January 2015	January 2014
Per annum fees	£'000	£'000
Chairman of the Board	500	500
Non-Executive Directors		
Base fee	84	84
Senior Non-Executive Director	20	20
Chairman of the Audit Committee	30	30
Chairman of the Remuneration Committee	25	25

Non-Executive Directors' remuneration for the year ended 30 June 2015 (audited)

	Fees £'000		Benefits[i] £'000		Total £'000	
	2015	2014	2015	2014	2015	2014
Chairman						
Dr Franz B Humer[ii]	500	500	12	5	512	505
Non-Executive Directors						
Peggy B Bruzelius	84	82	13	6	97	88
Laurence M Danon	84	82	6	9	90	91
Lord Davies of Abersoch	129	125	3	2	132	127
Betsy D Holden	84	82	35	8	119	90
Ho KwonPing	84	82	1	1	85	83
Philip G Scott	114	110	5	11	119	121
Nicola S Mendelsohn[iii]	70	–	1	–	71	–
Alan JH Stewart[iii]	70	–	1	–	71	–

(i) Benefits include a contracted car service, product allowance and expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance of Board meetings during the year, which are deemed by HMRC to be taxable in the United Kingdom. The amounts in the single figure of total remuneration table above include the grossed-up cost of UK tax paid by the company on behalf of the directors. Benefits and total remuneration for the year ended 30 June 2014 have been revised to include these taxable expenses. Directors who are not resident in the United Kingdom for five years or more have been treated as fully taxable in the United Kingdom on all of their expense reimbursements and this accounts for the increase in the taxable benefits cost in the year ended 30 June 2015 compared to the year ended 30 June 2014.

(ii) £200,000 of Dr Franz B Humer's remuneration in the year ended 30 June 2015 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) Nicola S Mendelsohn and Alan JH Stewart were appointed to the board on 18 September 2014.

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.

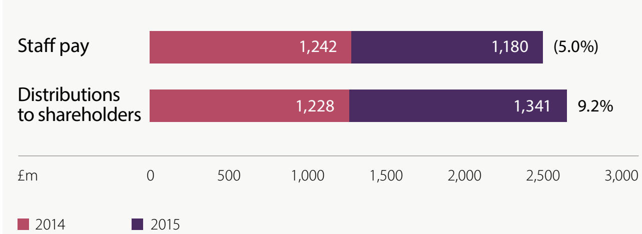
Ivan Menezes – During the year ended 30 June 2015, Ivan Menezes served as a Non-Executive Director of Coach Inc and earned fees of $75,000, which he retained. In line with the Coach Inc policy for outside directors, Ivan Menezes is eligible to be granted share options and restricted share units (RSUs). During the year ended 30 June 2015, he was granted 11,321 options at an option price of $33.46 and 2,301 RSUs (including dividends received) at a fair market value of $33.46 per share.

Deirdre Mahlan – During the year ended 30 June 2015, Deirdre Mahlan served as a Non-Executive Director of Experian plc and earned fees of £118,675, which she retained.

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, and the percentage change from the year ended 30 June 2014 to the year ended 30 June 2015. Distributions to shareholders are total dividends. 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



Spend on pay includes exceptional restructuring costs, which were significantly higher in the year ended 30 June 2014 than in the year ended 30 June 2015. Spend on pay for the year ended 30 June 2015 includes the cost of USL employees.

Remuneration Committee

The Remuneration Committee consists of the following independent Non-Executive Directors: Peggy B Bruzelius, Laurence M Danon, Lord Davies of Abersoch, Betsy D Holden, Ho KwonPing, Philip G Scott, Nicola S Mendelsohn and Alan JH Stewart. Lord Davies is the Chairman 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 Global Human Resources Director and Capability, Performance and Reward Director are also invited from time to time by the Remuneration Committee to provide their views and advice. The Global Human Resources Director is not present when her 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; and
- Making recommendations to the Board concerning the introduction of any new share incentive plans which require approval by shareholders.

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

External advisors

During the year ended 30 June 2015, the Remuneration Committee received advice from Kepler Associates (a brand of Mercer), appointed by the Committee in December 2013 following a tendering process, who provided independent advice on remuneration best practice and senior executive remuneration.

Kepler Associates is a signatory to, and abides by, the Remuneration Consultants Group Code of Conduct. Further details can be found at www.remunerationconsultantsgroup.com. Kepler's parent company, Mercer, provides unrelated services to the company in the areas of all-employee reward and retirement benefits. The Remuneration Committee is satisfied that the advice it receives from Kepler is independent. During the year, Kepler supported the Committee in preparing this Directors' remuneration report, provided advice on the design of the long term incentives, and calculated the TSR of Diageo and its peer companies for the 2011 and 2012 PSP awards and provided periodic updates on all outstanding performance cycles. The fees paid to Kepler Associates in relation to advice provided to the Committee were £86,618.

During the year, Linklaters provided advice on the AIP and the Directors' remuneration report. Fees paid in relation to this advice were £26,298. Linklaters also provide other legal advice on certain corporate matters.

The Committee is satisfied that the Kepler Associates and Linklaters 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.

Additional remuneration survey data published by Aon Hewitt, Towers Watson, Mercer and PwC were presented to the Remuneration Committee during the year; Clifford Chance provided advice on the operation of share plans.

Statement of voting

The following table summarises the details of votes cast in respect of the resolutions on the directors' remuneration policy and annual report on directors' remuneration at the 2014 AGM.

	For	Against	Total votes cast	Abstentions
Directors' remuneration policy				
Total number of votes	1,663,866,061	43,275,688	1,707,141,749	18,288,488
Percentage of votes cast	97.47%	2.53%	100%	n/a
Annual report on remuneration				
Total number of votes	1,643,966,601	50,619,135	1,694,585,736	30,844,578
Percentage of votes cast	97.01%	2.99%	100%	n/a

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

ADDITIONAL INFORMATION

Emoluments and share interests of senior management

The total emoluments for the year ended 30 June 2015 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 £14.0 million (2014 – £10.4 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 £16.7 million. In addition, they were granted 917,764 performance-based share options under the Diageo Long Term Incentive Plan (DLTIP) during the year at a weighted average share price of 1792 pence, exercisable by 2024 and 25,376 options not subject to performance under the DLTIP, which will vest in three years. In addition they were granted 4,677 options over ordinary shares under the UK savings-related share options scheme (SAYE). They were also awarded 860,111 performance shares under the DLTIP in September 2014, which will vest in three years subject to the performance tests described in the section on DLTIP awards made during the year ended 30 June 2015, 99,244 shares under the DIP, which will vest in September 2017, and 6,344 shares not subject to performance under the DLTIP, which will vest in September 2017.

Senior management options over ordinary shares

At 17 July 2015, the senior management had an aggregate beneficial interest in 1,572,131 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	921,440	1561p	2010 – 2024
Deirdre Mahlan	839,792	1473p	2009 – 2024
Other(i)	1,809,328	1782p	2008 – 2025
Total	**3,570,560**		

(i) Other members of the Executive Committee and 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 2015.

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

Statutory and audit requirements

This report was approved by a duly authorised Committee of the Board of Directors, on 29 July 2015 and was signed on its behalf by Lord Davies of Abersoch who is senior Non-Executive Director and 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) (Amendment) Regulations 2013, 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.

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

The annual report on remuneration is subject to shareholder approval at the AGM on 23 September 2015; the directors' remuneration policy was approved by shareholders at the 2014 AGM.

Terms defined in this remuneration report are used solely herein.