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 2016. This report complies with the UK Directors' Remuneration Reporting Regulations 2013 and contains:

- The Directors' remuneration policy, as approved by shareholders at the AGM in September 2014.
- The annual report on remuneration, describing how the remuneration policy has been put into practice during the year ended 30 June 2016.

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 21 September 2016.

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 2016

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 2016 annual salary review, and, supported by the Committee's third party remuneration advisers, Kepler (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.

The Chief Executive, Ivan Menezes, requested that the company contribution to his retirement benefit plan be reduced from 40% to 30% of salary. This change was implemented on 1 July 2016. There was no compensatory payment or benefit in exchange for this reduction in contribution.

On 9 November 2015, Kathryn Mikells joined the company and was appointed Chief Financial Officer. In accordance with the approved remuneration policy, the Committee agreed a remuneration package that was in line with current practice at the Executive Committee level in terms of the mix of fixed and variable remuneration and also appropriately positioned against the external market.

During the year, the Committee also reviewed and increased the Chairman's fee from £500,000 to £600,000 per annum effective from 1 January 2016, following five successive years of no increases. The Chairman's fee is appropriately positioned against our comparator group of FTSE30 companies excluding financial services. The next review is scheduled for December 2017. Dr Franz B Humer will step down as Chairman of the Board on 1 January 2017 and will be succeeded by Javier Ferrán, who joined the Board on 22 July 2016. Javier Ferrán's fee from 1 January 2017 will be £600,000 per annum.

Following a comprehensive review of competitive market data, the Board also reviewed the fees for Non-Executive Directors and increased the basic fee from £84,000 to £87,000 per annum and the additional Senior Non-Executive Director fee from £20,000 to £25,000 per annum, also effective from 1 January 2016.

The clawback provisions in respect of annual incentive and long-term incentive awards to the Executive Directors have now been extended to all members of the Executive Committee, in addition to the existing malus provisions that apply to all participants under the Diageo Long-term Incentive Plan, as approved by the Committee last year.

Reward in 2016 at a glance

Base salary	2% increase for both the Chief Executive and the Chief Financial Officer in October 2016 (versus budgeted 2.2% in the United Kingdom and 3% in North America for the wider workforce)
Allowances and benefits	Unchanged from last year
Retirement benefits	Unchanged from last year
Annual incentive	Pay-out above target, delivering 64.8% and 69.8% of maximum opportunity for the Chief Executive and Chief Financial Officer respectively
Long-term incentives	30.6% vesting of performance shares and nil vesting of share options

As a reflection of the company's delivery of a good set of results in the year (see key performance indicators on pages 8 and 9), total variable pay to the Executive Directors in respect of the year ended 30 June 2016 is higher than the year ended 30 June 2015.

Over the period 1 July 2013 to 30 June 2016 (the performance period for long-term incentive awards that vest this year in September 2016), Diageo's share price grew by 7.9%, from 1933.5 pence to 2086.5 pence, and the company paid a total dividend of 160.0 pence per share. Dividend distribution to shareholders in the year ended 30 June 2016 increased by 7.6% compared to the previous year.

Planned for 2017

Looking ahead to the year ending 30 June 2017, we will continue to operate executive remuneration arrangements in line with the approved remuneration policy. No changes are proposed to the design of the annual or long-term incentive plan for the year ahead.

We will be reviewing our remuneration policy and actively engaging with shareholders and their advisory bodies in advance of putting the policy to shareholder vote at the 2017 AGM.

As you read our remuneration policy and annual remuneration 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 our remuneration 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. The policy was put to shareholders for approval in a binding vote at the AGM in 2014, in accordance with section 439A of the Companies Act 2006, and formally came into effect from 18 September 2014, the date of the AGM. The policy section of 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, 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, updates to the illustrations of remuneration policy charts to reflect projected remuneration for 2017 and amendments to reflect the change in incumbent for the Chief Financial Officer role. The remuneration policy as disclosed in the 2014 Directors' remuneration report can be found on the Diageo website at: http://www.diageo.com/en-row/newsmedia/Pages/resource.aspx?resourceid=2320.

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 competitiveness while controlling fixed costs to maximise 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;
  - 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 in the year ended 30 June 2016 were 40% and 35% of base salary, respectively. At his request, Ivan Menezes' company contribution was reduced from 40% to 30% effective 1 July 2016. Kathryn Mikells' company contribution in the year ended 30 June 2016 was 20% of base salary.

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 pages 75 and 76.

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 2017 are set out on page 76. 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 76-79.

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 2016 are set out on page 79.

- 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 2016, 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 76 and 79.

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.

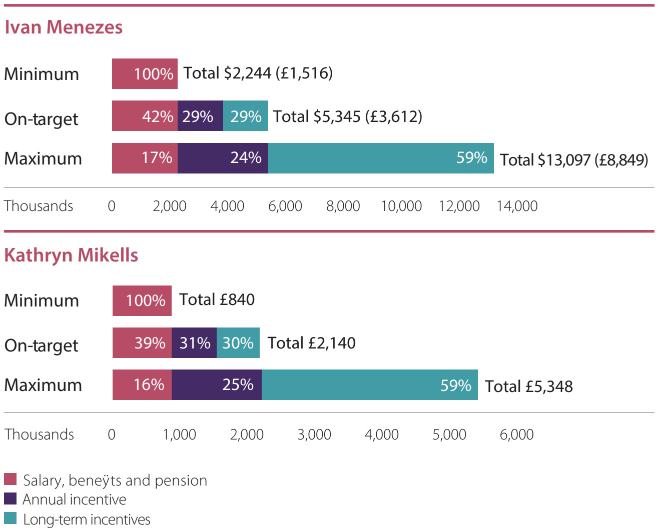
Differences in remuneration policy for other employees

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 reflect projected remuneration for the financial year ending 30 June 2017.



Basis of calculation and assumptions:

The 'Minimum' scenario shows fixed remuneration only, i.e. base salary for financial year 2017, total value of contractually agreed benefits for 2017, and pension. The pension value is based on the estimated pension benefits accrued over the financial year ending 30 June 2017. These are the only elements of the Executive Directors' remuneration packages which are not subject to performance conditions.

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 long-term incentive awards.

The 'Maximum' scenario reflects fixed remuneration, plus full pay-out of annual and long-term 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
Kathryn Mikells	1 October 2015
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. In the case of Deirdre Mahlan, the mitigation provision may be excluded in the event of termination as a result of being 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' include 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.

Chairman of the Board and Non-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 31 December 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. Dr Humer will step down as Chairman of the Board on 1 January 2017 and will be replaced by Javier Ferrán, who joined the Board on 22 July 2016.

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 32,078 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. This year, the company has engaged with shareholders about the base salary proposals for 2016, the fee review for the Chairman and Non-Executive Directors, long-term incentive plan targets for awards to be made in 2016 as well as the buy-out share award to the Chief Financial Officer on appointment to the company.

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 2016.

	Ivan Menezes[(i)]				Kathryn Mikells[(ii)]		Deirdre Mahlan[(iii)]	
Fixed pay	**2016 '000**	**2016 '000**	2015 '000	2015 '000	**2016 '000**	2015 '000	**2016 '000**	2015 '000
Salary	**£1,027**	**$1,520**	£968	$1,520	**£419**	–	**£258**	£727
Benefits[(iv)]	**£78**	**$115**	£155	$243	**£64**	–	**£102**	£34
Pension[(v)]	**£486**	**$719**	£424	$666	**£83**	–	**£105**	£267
Total fixed pay	**£1,591**	**$2,354**	£1,547	$2,429	**£566**		**£465**	£1,028
Performance related pay								
Annual incentive	**£1,330**	**$1,969**	£535	$840	**£585**	–	**£363**	£428
Long-term incentives [(vi)]	**£1,162**	**$1,720**	£1,380	$2,167	**£1,660**	–	**£245**	£870
Other incentives[(vii)]	**–**	**–**	–	–	**–**	–	**£3**	£4
Total remuneration for Executive Director appointment	**£4,083**	**$6,043**	£3,462	$5,436	**£2,811**	–	**£1,076**	£2,330
Other performance related pay								
(Granted prior to appointment as Executive Director – performance conditions relate to previous role)								
Long-term incentives [(viii)]	**£357**	**$528**	£330	$518	**–**	–	**–**	–
TOTAL SINGLE FIGURE	**£4,440**	**$6,571**	£3,792	$5,954	**£2,811**	–	**£1,076**	£2,330

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 2016 the exchange rate was £1 = $1.48.

(ii) Kathryn Mikells was appointed as Chief Financial Officer on 9 November 2015, replacing Deirdre Mahlan.

(iii) Deirdre Mahlan stepped down from the board and was appointed President, North America on the Executive Committee on 9 November 2015. Deirdre Mahlan's remuneration has been pro-rated to reflect the period 1 July 2015 to 9 November 2015.

(iv) Benefits is the gross value of all taxable benefits. For Ivan Menezes, these include medical insurance (£17k), company car allowance (£17k), chauffeur (£8k), financial counselling (£33k), product allowance, flexible benefits allowance and life and long-term disability cover. Deirdre Mahlan's benefits include flexible benefits allowance (£6k), contracted car service (£6k), financial counselling (£7k), medical insurance, life cover, product allowance and the cost of relocating her from the United Kingdom to the United States (£81k). Kathryn Mikells' benefits include flexible benefits allowance (£13k), financial counselling (£24k), contracted car service, life cover, product allowance and relocation costs in relation to her move from the United States to the United Kingdom (£25k).

(v) 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 UK 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. The pension input amount for the year ended 30 June 2016 only reflects the period from 9 November 2015 and Kathryn Mikells did not build up any pension benefits prior to that point. Deirdre Mahlan's accrued benefits over the year ended 30 June 2016 have been pro-rated to reflect the period of time she was an Executive Director from 1 July 2015 to 9 November 2015. In previous years, Ivan Menezes' and Deirdre Mahlan's deferred pension benefits in the US Cash Balance Plan and the Benefits Supplemental Plan (BSP) have been disclosed although benefits accrual ceased in August 2012 and June 2010 respectively. On further review, and in line with the disclosure requirements, these deferred benefits have been excluded from 2016 remuneration and 2015 has been restated in line with this revised methodology.

(vi) Long-term incentives represent the estimated gain delivered through options and performance shares where performance conditions have been met in the respective financial year. For 2016, this includes performance shares awarded under the PSP in 2013 and due to be released in September 2016 and the estimated value of accrued dividend shares on this award. 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 2016 (1875.1 pence for ordinary shares and $108.14 for ADRs) for the purpose of this calculation. Share options awarded under the SESOP in 2013 all lapsed due to the performance condition not being met. Long-term incentives for 2015 have been adjusted to reflect the actual share price on the date of vesting on 1 October 2015 (1765.5 pence for ordinary shares and $107.50 for ADRs). For further information on the SESOP and PSP performance conditions and vesting outcomes please refer to the 'LTIP awards vesting in the year ended 30 June 2016' section of the report on pages 76 and 77. For Kathryn Mikells, long-term incentives represents the face value of 87,736 time-vesting replacement share awards (not subject to performance conditions) made on 9 November 2015 in recognition of share awards forfeited from her former employer. The average closing share price of an ordinary share over the three dealing days prior to the date of grant was 1892.0 pence.

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

(viii) 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 78. The value of the second tranche of the award based on performance for the year ended 30 June 2016 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 2016 ($108.14 for ADRs). The value of the part of the award based on continuing employment for the year ended 30 June 2016 is not included in the table above and amounts to 14,642 ADRs. The second tranche of the award will vest on 8 March 2017. For 2015, the value of the first tranche of the award that vested on 8 March 2016 has been restated to account for the share price on the date of vesting ($106.14 for ADRs).

Salary

Salary increases to be applied in the year ending 30 June 2017

In June 2016, the Remuneration Committee reviewed base salaries for senior management and agreed new salaries which will apply from 1 October 2016. In determining these salaries, the Remuneration Committee took into consideration a number of factors including general employee salary budgets and employment conditions, individual performance and experience, and salary positioning relative to internal and external peers. The overall budgeted salary increase for the salary review in October 2016 is 2.2% 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 continuing pay restraint. As a result, it was agreed that there would be a 2% salary increase for both the Chief Executive and the Chief Financial Officer, effective from 1 October 2016.

	Ivan Menezes		Kathryn Mikells[(i)]	
Salary at 1 October ('000)	**2016**	2015	**2016**	2015
Base salary	**$1,550**	$1,520	**£663**	£650
% increase (over previous year)	**2%**	0%	**2%**	–

(i) For Kathryn Mikells, the 2015 salary refers to her salary on appointment on 9 November 2015.

Annual incentive plan (AIP) (audited)

AIP payout for the year ended 30 June 2016

Performance against the group financial measures and the Individual Business Objectives (IBOs), as assessed by the Remuneration Committee, is described below.

The overall level of performance achieved resulted in an AIP award equating to 129.6% of base salary for Ivan Menezes and 139.6% of base salary for both Kathryn Mikells and Deirdre Mahlan (pro-rated to reflect the period of their appointments on the Board). The actual awards received in respect of their Executive Director appointments are shown in the 'single total figure of remuneration' table on page 74.

Annual incentive plan (AIP) outcome in the year ended 30 June 2016

Diageo group[(i)] (80% of total AIP opportunity)		Threshold	Target	Maximum	Payout (% of total AIP opportunity)
Net sales measure[(ii)] (% growth) (25% of total)	Performance target	1.9%	3.9%	5.8%	
	Actual performance	3.2%			
	AIP opportunity	6.25%	12.50%	25.00%	**10.4%**
Profit before exceptional items and tax measure[(iii)] (% growth) (25% of total)	Performance target	4.6%	7.0%	9.2%	
	Actual performance	9.6%			
	AIP opportunity	6.25%	12.50%	25.00%	**25.0%**
Operating cash conversion measure[(iv)] (%) (30% of total)	Performance target	97.0%	102.0%	107.0%	
	Actual performance	104.3%			
	AIP opportunity	7.5%	15.0%	30.0%	**21.9%**
Total Diageo group AIP outcome		20%	40%	80%	**57.3%**

(i) Performance against the AIP measures is calculated using 2016 budgeted exchange rates in line with management reporting and excludes the impact 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.
(ii) For AIP purposes, the net sales value measure is calculated after adjustments for acquisitions and disposals.
(iii) For AIP purposes, the profit before exceptional items and tax measure is calculated as operating profit plus earnings from associated companies less net interest, IAS 21/39 adjustments, adjustments for acquisitions and disposals and year-on-year foreign exchange on interest.
(iv) The operating cash conversion measure is calculated by dividing cash generated from operations excluding cash inflows/outflows in respect of exceptional items, dividends, maturing inventories and post-employment payments in excess of the amount charged to operating profit by operating profit before depreciation, amortisation, impairment and exceptional items. The ratio is stated at the budgeted exchange rate for the respective year in line with management reporting and is expressed as a percentage.

		Payout					
Individual	Individual Bonus Objectives (IBOs)[v]	IBOs	Group	Total (% max)	Total (% salary)	Total (£'000)	Total ($'000)
Maximum AIP opportunity		20%	80%	**100%**	200%		
Ivan Menezes CEO	– Delivery of investor critical growth priorities – Deliver a transformation in commercial standards and sales capabilities – Enhance our Corporate Reputation	7.5%	57.3%	**64.8%**	129.6%	£1,330	$1,969
Kathryn Mikells CFO	– Deliver cash targets versus plan – Drive improvements in Working Capital through focus on supply chain interventions – Build support for Diageo investment story of good sustainable performance, including demonstration of commitment to cost	12.5%	57.3%	**69.8%**	139.6%	£585	
Deirdre Mahlan Former CFO	– Deliver cash targets versus plan – Drive improvements in Working Capital through focus on supply chain interventions – Build support for Diageo investment story of good sustainable performance, including demonstration of commitment to cost	12.5%	57.3%	**69.8%**	139.6%	£363	

(v) The Committee assessed the Executive Directors' performance against each of the IBOs and awarded a rating based on whether they had partially met, achieved or exceeded each goal. The average of all IBO ratings (weighted 50% on the first goal and 25% on each of the second and third goals) is shown as the final payout against the IBO element in the table above.

AIP design for the year ending 30 June 2017

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 2017 will comprise of four measures (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 profit 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 the performance period ending 30 June 2017 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 plans (LTIPs) (audited)

LTIP awards vesting in the year ended 30 June 2016 (audited)

Until 30 June 2014, long-term incentives were a combination of share options under the Senior Executive Share Option Plan 2008 (SESOP) and performance 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 – granted in September 2013, vesting in September 2016 (audited)

On 5 September 2013, Ivan Menezes and Deirdre Mahlan received awards of 46,239 (ADRs) and 135,022 (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 2013 SESOP awards are set out below:

Vesting of 2013 SESOP awards	Target	Vesting (% maximum)
Compound annual adjusted eps growth over 1 July 2013 – 30 June 2016		
Threshold	7%	25%
Maximum	11%	100%
Actual	**1.8%**	**0.0%**

Accordingly, the 2013 SESOP award, which is due to vest in September 2016, has not met the threshold under the performance condition and the options under the award will lapse.

PSP – awarded in September 2013, vesting in September 2016 (audited)

On 5 September 2013, Ivan Menezes and Deirdre Mahlan received awards of 47,484 (ADRs) and 110,241 (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 2013 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 is calculated on a common currency (US dollar) basis;
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 also be an improvement in the underlying financial performance of the company. In addition, the Remuneration Committee must be satisfied that performance in both organic net sales and organic operating margin is above an appropriate level before any of the award under either measure can be released.

The targets and vesting profile for the PSP awards granted in September 2013 are shown in the following table:

Vesting of 2013 PSP awards	Threshold	Mid-point	Maximum	Actual	Vesting (% maximum)
Organic net sales (CAGR)	5.0%	6.5%	8.0%	1.0%	0.0%
Organic operating margin improvement	75bps	100bps	125bps	120bps	91.9%
Relative total shareholder return	Median ranking (ninth)	–	Upper quintile (third or above)	15th	0.0%
Vesting (% maximum)	25.0%	62.5%	100%		30.6%

The three conditions are weighted equally. For operating margin and net sales, there is straight-line vesting between threshold and the midpoint, 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 2014
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 2013 PSP award, which is due to vest in September 2016, has partially met the performance conditions and, consequently, the shares under award will vest at 30.6% of the initial award.

The Committee has taken into consideration all factors regarding the underlying quality of the performance of the business at the end of the performance period and is satisfied that the level of vesting is warranted.

Diageo Incentive Plan (DIP) (audited)

Ivan Menezes retains interests in awards under the Diageo Incentive Plan that were granted to him in 2012, prior to his appointment as Executive Director. The number of shares granted to him on 8 March 2012 was 117,142 ADRs. 50% of this award is subject to meeting the midpoint of the targets for the financial measures under the long-term incentive plan over the three-year performance periods ending 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018. 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 second tranche of the 2012 DIP award (i.e. the tranche based on performance over the three years to 30 June 2016) versus target is set out below:

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

Performance measures (equally weighted)	Target	Actual	Vesting (% of maximum)
Organic net sales growth (CAGR)	6.50%	1.0%	0%
Organic operating margin improvement	100bps	120bps	100.0%
Compound annual adjusted eps growth	9%	1.8%	0%
Total			33.3%

As the table shows, 33.3% of the performance related ADRs under the second tranche of the 2012 DIP award will vest in March 2017, subject to continuing employment. The total award that will vest to Ivan Menezes in March 2017 will therefore be 66.6% of the second 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 2017 is included in the single total figure of remuneration.

DLTIP awards made during the year ended 30 June 2016 (audited)

On 3 September 2015, Ivan Menezes and Deirdre Mahlan received awards of 49,825 (ADRs) and 140,515 (ordinary shares) performance shares, respectively and 49,825 (ADRs) and 140,515 (ordinary shares) market price share options, respectively, under the DLTIP; details are provided in the table below. The three-year period over which performance will be measured is 1 July 2015 to 30 June 2018. The performance measures are relative total shareholder return, organic net sales growth, cumulative free cash flow and adjusted eps growth, equally weighted. 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	Exercise price	Face value '000	Face value (% of salary)
Ivan Menezes	03/09/2015	DLTIP – share options	ADR	49,825	$104.93	$5,700	375%
Ivan Menezes	03/09/2015	DLTIP – performance shares	ADR	49,825	–	$5,700	375%
Deirdre Mahlan	03/09/2015	DLTIP – share options	Ord	140,515	1709p	£2,635	360%
Deirdre Mahlan	03/09/2015	DLTIP – performance shares	Ord	140,515	–	£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 2018 annual report.

The face value of each award has been calculated using the share price at the time of grant. In accordance with the rules, the number of performance shares and share options granted under the DLTIP was calculated by using the average closing share price for the last six months of the preceding financial year (1875 pence for ordinary shares and $114.40 for ADRs). In accordance with the plan rules, the exercise price was calculated using the average closing share price of the three days preceding the grant date (1709 pence for ordinary shares and $104.93 for ADRs). The share price on the date of grant was 1713.5 pence for ordinary shares and $104.30 for ADRs.

DLTIP awards to be made in the year ending 30 June 2017

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 2016 are the same as those that applied to awards made in September 2015 and 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;
- Compound annual 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 relative total shareholder return, organic 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 2017.

	Performance shares			Share options	
	Relative total shareholder return (25%)	Organic net sales (CAGR) (25%)	Cumulative free cash flow (£m) (25%)	Adjusted eps growth (CAGR) (25%)	Vesting profile
Threshold	Median ranking (ninth)	3.5%	£5,700m	4.0%	20%
Midpoint	–	4.75%	£6,400m	6.75%	60%
Maximum	Upper quintile (third or above)	6.0%	£7,100m	9.5%	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 2016.

It is intended that Kathryn Mikells 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 2016.

Award on appointment in the year ended 30 June 2016 (audited)

On her appointment as Chief Financial Officer on 9 November 2015, Kathryn Mikells was awarded shares in Diageo plc in recognition of the share awards forfeited under the terms of her previous employer's long-term incentive plans. As prescribed by the approved remuneration policy, the fair value of the replacement award in Diageo shares was no higher than the estimated fair value of the awards being forfeited.

The share awards that Kathryn forfeited on leaving her previous employer had a combined face value of £9.1 million (based on the share price at the time of valuing the forfeited stock) and comprised a number of time-vesting shares vesting on 1 July 2016 and a number of performance shares vesting on 1 January 2017, 1 July 2017 and 1 July 2018. The fair value of awards was estimated at £3.9 million.

Replacement awards in Diageo shares were delivered in a mixture of time-vesting and performance-based restricted shares with vesting staggered over a three-year period, to take account of the vesting schedule of the forfeited stock and to ensure appropriate retention value for the company. The face value of replacement awards was £6.3 million and the fair value was £3.9 million on grant.

As was disclosed to the market at the time, Kathryn Mikells was awarded:

- 43,868 ordinary shares, which will vest on 9 May 2017, subject to continuing employment;
- 43,868 ordinary shares, which will vest on 9 November 2018, subject to continuing employment; and
- 246,300 ordinary shares, which will vest on 9 November 2018, subject to the achievement of performance conditions based on net sales growth, cumulative free cash flow and relative total shareholder return over the three-year period ending 30 June 2018 (the same performance conditions and targets that apply to performance share awards granted in September 2015 under the DLTIP. The share price on award, being the average closing price of an ordinary share over the three dealing days prior to the date of grant, was 1892 pence and the face value noted above is based on this price.

Pension and benefits in the year ended 30 June 2016

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, Kathryn Mikells and Deirdre Mahlan are members of the Diageo North America Inc. Supplemental Executive Retirement Plan (SERP) with an accrual rate of 40%, 20% and 35% of base salary, respectively during the year ended 30 June 2016. On his request, the accrual rate for Ivan Menezes was reduced from 40% to 30% of salary, effective from 1 July 2016. There will be no compensatory payment or benefit in exchange for this reduction in contribution.

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 in the form of five equal annual instalments or a lump sum upon reaching age 55 (Kathryn Mikells and 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 Kathryn Mikells and 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 Ivan Menezes, Kathryn Mikells and Deirdre Mahlan are one-off cash balance amounts.

	30 June 2016		30 June 2015	
Executive Director	UK pension £'000 p.a.	US benefit £'000	UK pension £'000 p.a.	US benefit £'000
Ivan Menezes[i]	69	5,588	69	4,218
Kathryn Mikells[ii]	Nil	92	n/a	n/a
Deirdre Mahlan[iii]	Nil	1,808	Nil	1,239

(i) Ivan Menezes' US benefits are higher at 30 June 2016 than at 30 June 2015 by £1,370k:
(a) £486k of which is due to pension benefits earned over the year (all of which is over and above the increase due to inflation) – as reported in the single figure of remuneration, see page 74;
(b) £61k of which is due to interest earned on his deferred US benefits over the year; and
(c) £823k of which is due to exchange rate movements over the year.
(ii) Kathryn Mikells' US benefits are higher at 30 June 2016 than on her appointment date on 9 November 2015 by £92k:
(a) £83k of which is due to pension benefits earned over the year (all of which is over and above the increase due to inflation) – as reported in the single figure of remuneration, see page 74; and
(b) £9k of which is due to exchange rate movements over the year.
(iii) Deirdre Mahlan's US benefits are higher at 30 June 2016 than at 30 June 2015 by £569k:
(a) £296k of which is due to pension benefits earned over the year (all of which is over and above the increase due to inflation) – which equates to £105k pro-rated for the period 1 July 2015 – 9 November 2015 when she was a Director, as reported in the single figure of remuneration, see page 74;
(b) £14k of which is due to interest earned on her deferred US benefits over the year; and
(c) £259k of which is due to exchange rate movements over the year.

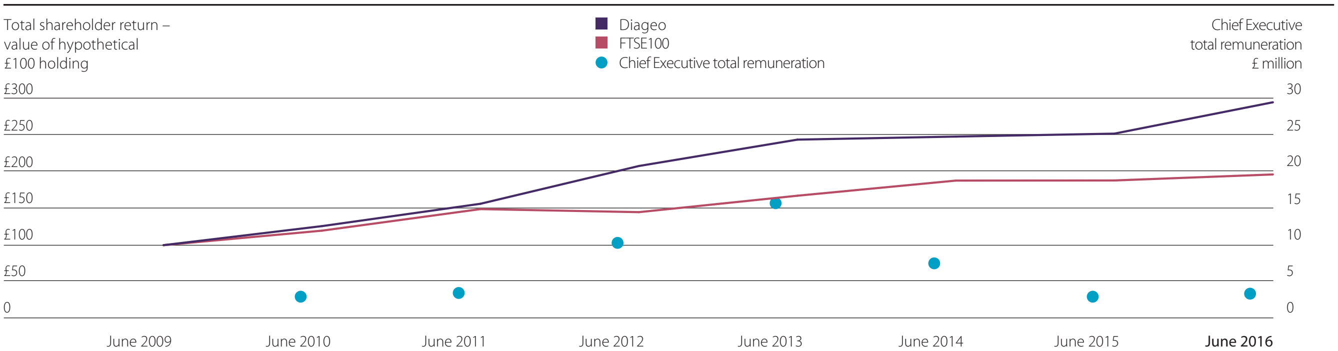
The Normal Retirement Age applicable to each Director's benefits depends on the pension scheme, as outlined below.

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

(i) 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 FTSE100 Index since 30 June 2009 and demonstrates the relationship between pay and performance for the Chief Executive, using current and previously published single total remuneration figures. The FTSE100 Index has been chosen because it is a widely recognised performance benchmark for large companies in the United Kingdom.



	Paul S Walsh £'000	Paul S Walsh £'000	Paul S Walsh £'000	Paul S Walsh £'000	Ivan Menezes[i] £'000	Ivan Menezes[i] £'000	**Ivan Menezes[i] £'000**
Chief Executive total remuneration (includes legacy LTIP awards)	3,231	4,449	11,746	15,557	7,312	3,792	**4,440**
Annual incentive (% maximum opportunity)	86%	77%	74%	51%	9%	28%	**65%**
LT – SESOP (% maximum opportunity)	100%	100%	100%	100%	71%	0%	**0%**
LTI – PSP (% maximum opportunity)	0%	0%	65%	95%	55%	33%	**31%**

(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 director undertaking the role of Chief Executive

The table below shows a comparison of the percentage change in the Chief Executive's remuneration to the average percentage change in remuneration for the UK and US population from 2015 to 2016. The chosen population represents the most appropriate comparator group for the Chief Executive, as the Committee considers salary increase budgets in these countries when reviewing Executive Directors' base salaries. Furthermore, the majority of Executive Committee members as well as the Executive Directors are on UK or US reward packages.

	Salary	Taxable benefits	Bonus
	% change	% change	% change
Chief Executive percentage change from 2015 to 2016	0%	(53%)	134%
Average % change for the UK and US workforce from 2015 to 2016	3%	0%	101%

The percentage change for the Chief Executive is based on the remuneration of Ivan Menezes from 2015 to 2016. Taxable benefits in 2015 included one-off relocation payments.

UK salary, benefits and bonus data for both 2015 and 2016 have been converted into USD using the cumulative weighted average exchange rate for the year ended 30 June 2016 of £1 = $1.48.

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

The beneficial interests of the Directors in office at 30 June 2016 (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)					
	14 July 2016	30 June 2016 (or date of departure, if earlier)	30 June 2015 (or date of appointment, if later)	Shareholding requirement (% salary)(ii)	Shareholding at 14 July 2016 (% salary)(ii)	Shareholding requirement met
Chairman						
Dr Franz B Humer	67,699	67,316	60,097	–	–	–
Executive Directors						
Ivan Menezes(iii)	864,714	864,714	749,518	300%	1552%	Yes
Kathryn Mikells(iii) (vi)	13,589	13,580	–	250%	39%	No
Deirdre Mahlan(iii)	308,447	308,447	281,153	250%	777%	Yes
Non-Executive Directors						
Peggy B Bruzelius	5,000	5,000	5,000	–	–	–
Laurence M Danon(iv)	–	5,000	5,000	–	–	–
Lord Davies of Abersoch	5,052	5,052	5,052	–	–	–
Betsy D Holden(iii)	17,400	17,400	17,400	–	–	–
Ho KwonPing	4,353	4,353	4,223	–	–	–
Philip G Scott	10,000	10,000	10,000	–	–	–
Nicola S Mendelsohn	5,000	5,000	5,000	–	–	–
Alan JH Stewart	2,560	2,560	1,500	–	–	–
Emma Walmsley(v)	5,094	5,094	–	–	–	–

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) Both the shareholding requirement and shareholding at 14 July 2016 are expressed as a percentage of base salary earned in the year ended 30 June 2016 and calculated using an average share price for the year ending 30 June 2016 of 1843.5 pence.
(iii) Ivan Menezes, Deirdre Mahlan, Kathryn Mikells 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.
(iv) Laurence M Danon ceased to be a Non-Executive Director on 23 September 2015 and therefore her shareholding is not disclosed at 14 July 2016.
(v) Emma Walmsley was appointed to the Board on 1 January 2016.
(vi) Kathryn Mikells has five years from the date of her appointment, that is, until 9 November 2020, to build up the required shareholding in Diageo shares.

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 2015[i]	Granted	Vested/ exercised	Dividends awarded and released	Lapsed	Number of shares/ options at 30 June 2016	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	36,587					36,587	
SESOP	Oct 2012	2012–2015	2015	ADR		$112.72	46,575				46,575	–	
Total number of vested but unexercised share options													368,396
SESOP[v]	Sep 2013	2013–2016	2016	ADR		$123.27	46,239					46,239	
DLTIP – share options[vi]	Sep 2014	2014–2017	2017	ADR		$117.55	45,447					45,447	
DLTIP – share options	Sep 2015	2015–2018	2018	ADR		$104.93		49,825				49,825	
Total number of unvested share options subject to performance													566,044
DIP[iv]	Sep 2011	2011–2014	2014–2015	ADR	$74.11		21,309		21,309			–	
DIP[iv]	Mar 2012	2012–2019	2016–2019	ADR	$96.44		58,571		4,880		9,763	43,928	
PSP	Oct 2012	2012–2015	2015	ADR	$113.62		54,927		18,309	1,853	36,618	–	
PSP[v]	Sep 2013	2013–2016	2016	ADR	$123.08		47,484					47,484	
DLTIP – performance shares[vi]	Sep 2014	2014–2017	2017	ADR	$115.80		45,447					45,447	
DLTIP – performance shares	Sep 2015	2015–2018	2018	ADR	$104.30			49,825				49,825	
Total number of unvested shares subject to performance													746,736
DIP[iv]	Mar 2012	2012–2019	2016–2019	ADR	$96.44		58,571		14,642			43,929	
Total number of unvested shares not subject to performance													175,716
Deirdre Mahlan[viii]													
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	135,069					135,069	
SESOP	Oct 2012	2012–2015	2015	Ord		1743p	146,299				146,299	–	
Total number of vested but unexercised share options													417,881
SESOP[v]	Sep 2013	2013–2016	2016	Ord		1983p	135,022					135,022	
DLTIP – share options[vi]	Sep 2014	2014–2017	2017	Ord		1796p	140,590					140,590	
DLTIP – share options	Sep 2015	2015–2018	2018	Ord		1709p		140,515				140,515	
Total number of unvested share options subject to performance													416,127
PSP	Oct 2012	2012–2015	2015	Ord	1772p		134,653		44,884	4,380	89,769	–	
PSP[v]	Sep 2013	2013–2016	2016	Ord	1978p		110,241					110,241	
DLTIP – performance shares[vi]	Sep 2014	2014–2017	2017	Ord	1779p		140,590					140,590	
DLTIP – performance shares	Sep 2015	2015–2018	2018	Ord	1714p			140,515				140,515	
Total number of unvested shares subject to performance													391,346
Kathryn Mikells													
DBOP – performance shares[vii]	Nov 2015	2015–2018	2018	Ord	1866p			246,300				246,300	
Total number of unvested shares subject to performance													246,300
DBOP – restricted shares[vii]	Nov 2015	2015–2017	2017	Ord	1866p			43,868				43,868	
DBOP – restricted shares[vii]	Nov 2015	2015–2018	2018	Ord	1866p			43,868				43,868	
Total number of unvested shares not subject to performance													87,736

(i) For unvested awards this is the number of shares/options initially awarded. For exercisable share options, this is the number of outstanding options. All share options have an expiry date of ten years after the date of grant.
(ii) ADRs have been converted to Ords (one ADR is equivalent to four ordinary shares) for the purpose of calculating the total number of vested and unvested shares and options.
(iii) 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), amounting to a total of 188,172 ADRs, 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, and the remaining portion vested in September 2015. The 2012 award is subject to performance conditions and continuing employment. 66.67% of the first tranche vested in March 2016 and 66.7% of the second tranche is due to vest in March 2017, with the remaining tranches vesting in March 2018 and March 2019.
(v) Awards made under the PSP and SESOP in September 2013 and due to vest in September 2016 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 74, since the performance period ended during the year ended 30 June 2016.
(vi) Details of the performance conditions attached to PSP and SESOP awards granted in 2014 were disclosed in Diageo's 2015 Annual Report.
(vii) Replacement shares awarded to Kathryn Mikells on her appointment as Chief Financial Officer on 9 November 2015, in recognition of share awards she forfeited from her previous employer. These awards were made under the Diageo Buy Out Plan (DBOP).
(viii) Awards granted to Deirdre Mahlan after she stepped down from the Board on 9 November 2015 have not been disclosed as she was no longer an Executive Director.

Payments to former directors (audited)

There were no payments to former directors above the de minimis level of £3k in the year ended 30 June 2016. This does not apply to Deirdre Mahlan, who stepped down from the Board on 9 November 2015.

Payments for loss of office (audited)

There were no payments for loss of office to Executive Directors in relation to the year ended 30 June 2016.

Non-Executive Directors' fees

The Chairman's fee was reviewed in December 2015 and increased from £500,000 to £600,000 per annum, effective from 1 January 2016, following five successive years of no increases. The Chairman's fee is appropriately positioned against our comparator group of FTSE30 companies excluding financial services. The next review is scheduled for December 2017.

Following a comprehensive review of competitive market data, the Board also reviewed the fees for Non-Executive Directors and increased the basic fee from £84,000 to £87,000 per annum and the Senior Non-Executive Director fee from £20,000 to £25,000 per annum, also effective from 1 January 2016. There are no changes to the additional fees for the Chairman of the Audit Committee and the Remuneration Committtee.

	January 2016	January 2015
Per annum fees	£'000	£'000
Chairman of the Board	600	500
Non-Executive Directors		
Base fee	87	84
Senior Non-Executive Director	25	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 2016 (audited)

	Fees £'000		Taxable benefits[i] £'000		Total £'000	
	2016	2015	2016	2015	2016	2015
Chairman						
Dr Franz B Humer[ii]	550	500	6	12	556	512
Non-Executive Directors						
Peggy B Bruzelius	86	84	6	13	92	97
Laurence M Danon[iii]	21	84	1	6	22	90
Lord Davies of Abersoch	133	129	3	3	136	132
Betsy D Holden	86	84	10	35	96	119
Ho KwonPing	86	84	1	1	87	85
Philip G Scott	116	114	12	5	128	119
Nicola S Mendelsohn	86	70	1	1	87	71
Alan JH Stewart	86	70	1	1	87	71
Emma Walmsley[iv]	44	–	1	–	45	–

(i) Other benefits include a contracted car service, product allowance and expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance of Board meetings during the year, which are deemed by HMRC to be taxable in the United Kingdom. The amounts in the single figure of total remuneration table above include the grossed-up cost of UK tax paid by the company on behalf of the directors. Non-taxable expense reimbursements have not been included in the single figure of remuneration table above.
(ii) As in the previous year, £96,000 of Dr Franz B Humer's net remuneration in the year ended 30 June 2016 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) Laurence M Danon ceased to be a Non-Executive Director on 23 September 2015.
(iv) Emma Walmsley was appointed to the Board on 1 January 2016.

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 2016, 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 2016, he was granted 11,734 options at an option price of $32.28 and 2,367 RSUs (including dividends received) at a fair market value of $32.28 per share.

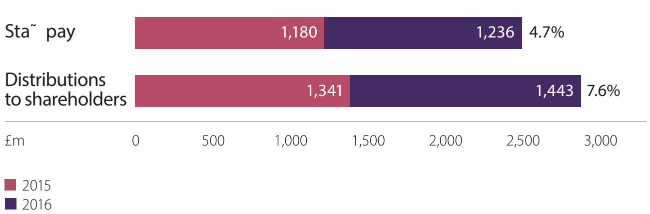
Kathryn Mikells – During the year ended 30 June 2016, Kathryn Mikells served as a Non-Executive Director of Hartford Financial Services Group Inc. and earned fees of $100,000 for the full year, which were deferred into equity.

Deirdre Mahlan – During the year ended 30 June 2016, Deirdre Mahlan served as a Non-Executive Director of Experian plc and earned fees of €68,864, 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 2015 to the year ended 30 June 2016. 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



Remuneration committee

The Remuneration Committee consists of the following independent Non-Executive Directors: Peggy B Bruzelius, Lord Davies of Abersoch, Betsy D Holden, Ho KwonPing, Philip G Scott, Nicola S Mendelsohn, Alan JH Stewart and Emma Walmsley. 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 2016, the Remuneration Committee received advice from Kepler (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 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 remuneration benchmarking survey data to support the salary review for the Executive Committee, provided advice on the design of the long-term incentives, and calculated the total shareholder return of Diageo and its peer companies for the 2012 and 2013 PSP awards and provided periodic updates on all outstanding performance cycles. The fees paid to Kepler in relation to advice provided to the Committee were £137,935 and are determined on a time and expenses basis.

During the year, Linklaters provided advice on the Directors' remuneration report. Fees paid in relation to this advice, again on a time and expenses basis, were £6,000. Linklaters also provide other legal advice from time to time on certain corporate matters.

The Committee is satisfied that the Kepler 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.

Clifford Chance provided advice on the operation of share plans during the year.

Statement of voting

The following table summarises the details of votes cast in respect of the resolutions on the Directors' remuneration policy at the 2014 AGM and annual report on remuneration at the 2015 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	1,767,690,112	64,973,516	1,832,663,628	35,221,124
Percentage of votes cast	96.45%	3.55%	100%	n/a

The Committee was pleased with the level of support shown for the remuneration policy and annual report on remuneration 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 2016 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 £20.5 million (2015 – £14.0 million).

The aggregate amount of gains made by the senior management from the exercise of share options and from the vesting of awards during the year was £9.5 million. In addition, they were granted 968,293 performance-based share options under the DLTIP during the year at a weighted average share price of 1709 pence, exercisable by 2025 and 43,444 options not subject to performance under the DLTIP, which will vest in three years. In addition they were granted 212 options over ordinary shares under the UK savings-related share options scheme (SAYE). They were also awarded 901,720 performance shares under the DLTIP in September 2015, which will vest in three years subject to the performance test described in the section on DLTIP awards made during the year ended 30 June 2016, and 4,250 shares not subject to performance under the DLTIP. They were also awarded 146,904 shares under the DIP, which will vest in September 2018, subject to the performance conditions being met. This excludes the replacement share awards made to Kathryn Mikells on 9 November 2015.

Senior management options over ordinary shares

At 14 July 2016, the senior management had an aggregate beneficial interest in 1,743,277 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	934,440	1535p	2013 – 2025
Deirdre Mahlan	834,008	1488p	2012 – 2025
Other[i]	1,862,324	1731p	2011 – 2025
	3,630,772		

(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 2016.

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 27 July 2016 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 (with the exception that the directors were unable to attend the 2015 AGM) 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.

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

The annual report on remuneration is subject to shareholder approval at the AGM on 21 September 2016; the Directors' remuneration policy was approved by shareholders at the 2014 AGM.

Terms defined in this remuneration report are used solely herein.