Directors' remuneration report

"Long-term value for shareholders and pay for performance is at the heart of our remuneration policy."

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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 2018. This report complies with Schedule 8 of the Large and Medium-sized Companies and Groups (Account and Reports) Regulations 2008 and contains:

- The current directors' remuneration policy, which was approved at the AGM on 20 September 2017; and
- The annual remuneration report, describing how the remuneration policy has been put into practice during the year ended 30 June 2018, and how it will be implemented in the year ending 30 June 2019.

In this section you will find the remuneration principles that have guided the Remuneration Committee in their decision making throughout the year. Fundamentally, this is about balance: ensuring that remuneration structures are designed in a way that enables the right outcomes for the business in line with its long-term strategy, making sure that we have the best people in place to deliver on that strategy and ensuring that executive pay is appropriate in the wider context in which the business operates.

Like many multinational companies, we source talent globally and we need to attract and retain the best people to lead our business in an increasingly competitive marketplace. Remuneration is a key part of our offering and the significant market pay differential between executives in the United States and in the United Kingdom and the rest of Europe continues to be challenging. This is particularly an issue for Diageo since a significant part of our business is based in the United States, and this is a critical talent market for our senior leadership group. We continue to monitor external practices across our key strategic markets and set our remuneration policy and practices in a way that provides appropriate balance between risk and reward, delivering market competitive packages in return for high performance against the company's strategic objectives and stretching performance targets.

The key decisions that have been made by the Remuneration Committee during the past year in relation to pay outcomes for Executive Directors are highlighted in the 'at a glance' table overleaf, together with an explanation of how each element of pay supports the business strategy, and a comparison of pay outcomes for the past year against the prior year. You will note that strong performance against very stretching targets over the past three years has led to long-term incentive awards vesting at 60% of maximum for 2015 performance shares and 70% of maximum for 2015 share options (0% for both schemes last year), and this underlines our principle of pay for performance.

Diageo's remuneration principles

At Diageo, long-term value creation for shareholders and pay for performance is at the heart of our remuneration policy and practices. The principles for setting executive remuneration are outlined below and in more detail in the remuneration policy on page 74.

1 Delivery of business strategy

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

2 Sustainable, long-term performance

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

3 Competitive total remuneration

Market competitive total remuneration with an appropriate balance of reward and upside opportunity allows us to attract and retain the best talent from all over the world, which is critical to our continued business success. Executive remuneration decisions are made in the context of the broader all-employee and external climate.

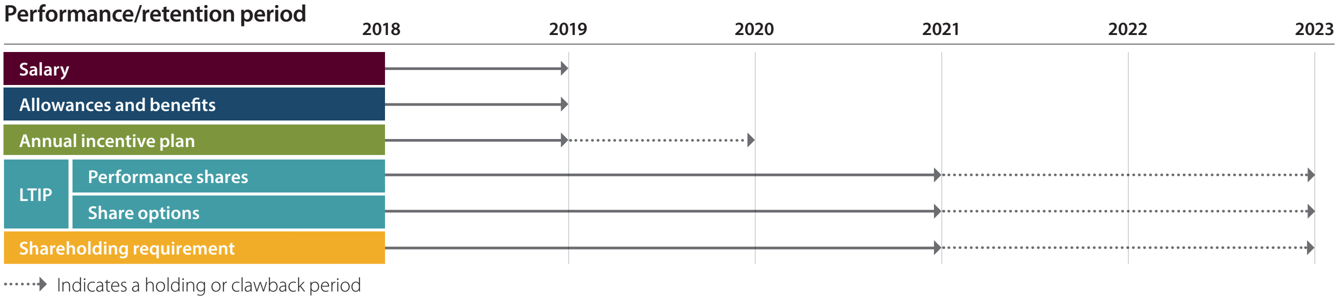
4 Alignment with shareholder interests

Executives are required to build significant personal shareholdings in Diageo to encourage leaders of the business to think and act like owners. Long-term incentives are held for two years following vesting to provide further focus on sustainable share price growth.

Remuneration in 2018 at a glance

	Key features	Purpose and link to strategy	Implementation in 2018	Implementation in 2017
Salary	• Reviewed annually on 1 October • Salaries take account of external market and internal employee context	• Supports the attraction and retention of the best global talent with the capability to deliver Diageo's strategy	• Effective 1 October 2018: – CEO 2% increase to $1,613,036 – CFO 2% increase to $1,061,208 • Supported by a comprehensive review of total target remuneration versus the external market • Salary increases are below the pay budget for the wider workforce Page 86	• Effective 1 October 2017: – CEO 2% increase to $1,581,408 – CFO 2% increase to $1,040,400
Allowances and benefits	• Provision of competitive benefits based on country • Maximum company pension contribution is 20% of base salary for new appointments	• Provision of market competitive and cost-effective benefits supports attraction and retention of talent	• Unchanged from prior year: – CEO 30% of salary – CFO 20% of salary	• Unchanged from prior year • CEO's company contribution was reduced from 40% to 30% effective 1 July 2016
Annual incentive	• Target opportunity is 100% of salary and maximum is 200% of salary • Paid out in cash after the end of the financial year • Discretion to apply clawback	• Incentivises 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	• F18 pay-out above target: – CEO 70% of maximum – CFO 72% of maximum Page 81 • For F19, measures on net sales growth, operating profit and average working capital weighted equally, with remaining 20% on individual objectives Page 86 • Opportunites are unchanged	• F17 pay-out above target: – CEO 68% of maximum – CFO 70% of maximum
Long-term incentives	• Annual grant of performance shares and share options – CEO award 500% of salary – CFO award 480% of salary • Performance measures, weightings and stretching targets are set annually • 3-year performance period + 2-year retention period • Malus and clawback provisions	• Rewards long-term consistent performance in line with Diageo's business strategy • Provides focus on delivering superior long-term returns to shareholders	• Vesting of 2015 performance shares at 70% of maximum • Vesting of 2015 share options at 60% of maximum Page 82 • No change to performance measures for 2018 awards as these are appropriate in line with the business strategy • Targets for net sales growth and cumulative free cash flow adjusted upwards for 2018 awards Page 86 • Opportunites are unchanged	• Nil vesting of 2014 performance shares and options
Shareholding requirement	• Minimum shareholding requirement within 5 years of appointment: – CEO 500% of salary – CFO 400% of salary	• Ensures alignment between the interests of Executive Directors and shareholders	• CEO shareholding 2115% of salary • CFO shareholding 123% of salary Page 88	• CEO shareholding 1696% of salary • CFO shareholding 123% of salary

Performance/retention period



Performance against incentive plan measures

Long-term incentives (for the period 1 July 2015 to 30 June 2018)

We are pleased to report strong performance against our targets under both the annual and long-term incentive plans this year, as summarised below.

Organic net sales growth (25% weighting)

CAGR	Threshold	Midpoint	Maximum
Target	3.0%	4.5%	6.0%
Actual	4.0%		

Cumulative free cash flow (25% weighting)

	Threshold	Midpoint	Maximum
Target	£5,000m	£6,000m	£7,000m
Actual	£6,969m		

Adjusted earnings per share growth (25% weighting)

CAGR	Threshold	Midpoint	Maximum
Target	4.0%	6.5%	9.0%
Actual	6.5%		

Relative TSR ranking vs peer group (25% weighting)

	Threshold	Midpoint	Maximum
Target	9th	–	3rd
Actual	6th		

Annual incentive (for the period 1 July 2017 to 30 June 2018)

Net sales growth (25% weighting)

	Threshold	Target	Maximum
Target	2.25%	4.5%	6.75%
Actual	5.2%		

Operating profit (25% weighting)

	Threshold	Target	Maximum
Target	4.1%	8.2%	12.3%
Actual	8.5%		

Average working capital (30% weighting)
(% net sales)

	Threshold	Target	Maximum
Target	30bps	120bps	210bps
Actual	220bps		

Diageo's share price growth over the period 1 July 2015 to 30 June 2018

↑ 46%

2018	2722p
2015	1860p

Total dividend of 181.2 pence per share paid.

Dividend distribution to shareholders in year ended 30 June 2018

↑ 5%

2018	63.4p
2017	60.3p

Looking ahead

The remuneration policy was approved by 96% of shareholders at the AGM held on 20 September 2017. There are no changes to the remuneration policy proposed for the year ending 30 June 2019 and the performance measures applicable to Executive Directors under both the annual and long-term incentive plans will remain the same as the year before, with the only exception being that the weighting of financial performance measures under the annual incentive plan will be equalised (in the year ended 30 June 2018, 30% of the annual incentive plan was based on average working capital performance and 25% on each of net sales growth and operating profit growth, with the remaining 20% based on individual business objectives).

We will continue to operate executive remuneration arrangements in line with the approved remuneration policy. Whilst arrangements that defer part of the annual bonus into shares are common in the FTSE 100, the Committee is satisfied that the company's current annual bonus structure (payable entirely in cash) remains appropriate. The high shareholding requirement, which was increased significantly last year as part of the policy review, the level of stretch in the performance targets under the long-term incentive plan, and the post-vesting holding period together provide appropriate alignment of executives with the interests of shareholders in fostering sustainable share price growth over the long term. There are also robust clawback and malus provisions under both the annual and long-term incentive plans, which apply to all members of the Executive Committee.

The Committee remains confident that the mix of performance shares and share options is an appropriate long-term incentive for the leaders of the business, and the share options element provides an additional stretch in that the share price has to grow materially in addition to the performance condition being achieved in order for the award to provide value for executives. This further strengthens the alignment between the interests of executives and shareholders. Share option plans remain majority practice within Diageo's international peer group, against which the company needs to remain competitive in order to attract and retain the highest calibre of talent.

The annual remuneration report will be put forward for your consideration and approval by advisory vote at the AGM on 20 September 2018.

We were very pleased to receive a strong vote in favour of our remuneration policy and report last year. I highly value the direct engagement and feedback from our shareholders and their representative bodies on Diageo's remuneration policy and practices 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 formally came into effect at the AGM on 20 September 2017, in accordance with section 439A of the Companies Act 2006, after being approved in a binding vote.

The policy approved in September 2017 can be found on the company's website at **www.diageo.com**.

Policy table

Set out below is the remuneration policy for Executive Directors, which applied from the date of the AGM on 20 September 2017.

There have been no changes to the policy since last year, other than to update the number of employees during 2018 and the pay for performance scenario charts for the year ending 30 June 2019.

Base salary

More detail on **p86**

Purpose and link to strategy

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

Operation

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

Opportunity

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

Benefits

More detail on **p80**

Purpose and link to strategy

Provides market competitive and cost effective benefits.

Operation

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

Opportunity

The benefits package is set at a level which the Remuneration Committee considers:

- Provides an appropriate level of benefits depending on the role and individual circumstances;
- Is appropriate in the context of the benefits offered to the wider workforce in the relevant market, and
- Is in line with comparable roles in companies of a similar size and complexity in the relevant market.

Post-Retirement Provisions

More detail on **p83-84**

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 20% of base salary for any new external appointments to an Executive Director position.
- Current legacy company contributions for Ivan Menezes and Kathryn Mikells in the year ended 30 June 2018 were 30% and 20% of base salary respectively. At his request, Ivan Menezes' company contribution was reduced from 40% to 30% effective 1 July 2016.

Annual Incentive Plan (AIP)

More detail on **p81 and 86**

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

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

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

Performance conditions
Annual incentive plan awards are based 70%-100% on financial measures which may include, but are not limited to, measures of revenue, profit and cash and 0%-30% on broader objectives based on strategic goals and/or individual contribution. Details of the targets will be disclosed retrospectively in next year's annual report on remuneration, when they are no longer deemed commercially sensitive by the Board.

DIAGEO Long-Term Incentive Plan (DLTIP)

More detail on **p82-84 and 86-87**

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 financial statements. There is an extensive malus clause for awards made from September 2014. The Committee has discretion to decide that:
  - the number of shares subject to the award will be reduced;
  - the award will lapse;
  - retention shares (i.e. vested shares subject to the additional two-year retention period) will be forfeited;
  - vesting of the award or the end of any retention period will be delayed (e.g. until an investigation is completed);
  - additional conditions will be imposed on the vesting of the award or the end of the retention period; and/or
  - any award, bonus or other benefit which might have been granted or paid to the participant in any later year will be reduced or not awarded.

Malus and clawback provisions will apply up to delivery of shares at the end of the retention period (as opposed to the vesting date). The company also has the standard discretion to take account of unforeseen events such as a variation to share capital.

Opportunity
- The maximum annual grants for the CEO and CFO are 500% and 480% of salary in performance share equivalents respectively (where a market price option is valued at one-third of a performance share). 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 attaining financial metrics and a ranking profile for relative total shareholder return.

Performance conditions
- The vesting of awards is linked to a range of measures which may include, but are not limited to:
  - a growth measure (e.g. net sales growth, profit before exceptional items and taxation (PBET) growth);
  - a measure of efficiency (e.g. operating margin, cumulative free cash flow, 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 of these measures may vary year-on-year.
- The Remuneration Committee has discretion to amend the performance conditions in exceptional circumstances if it considers it appropriate to do so, e.g. in cases of accounting policy changes, merger and acquisition activities and disposals. Any such amendments would be fully disclosed and explained in the following year's annual report on remuneration.

All-employee share plans

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

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

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

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

Shareholding requirement

More detail on **p88**

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

Operation
- The minimum shareholding requirement is 500% of base salary for the Chief Executive and 400% of base salary for any other Executive Directors.
- Executive Directors are expected to build up their shareholding within five years of their appointment to the Board.
- Executive Directors will be restricted from selling more than 50% of shares which vest under the long-term incentive plan (excluding the sale of shares to cover tax on vesting and other exceptional circumstances to be specifically approved by the Chief Executive and/or Chairman), until the shareholding requirement is met.

Chairman of the Board and Non-Executive Directors

More detail on **p89**

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

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

All Non-Executive Directors have letters of appointment. A summary of their terms and conditions of appointment is available at www.diageo.com. The Chairman of the Board, Javier Ferrán, was appointed on 1 January 2017, under a letter of appointment for an initial three-year term, terminable on six months' notice by either party or, if terminated by the company, by payment of six months' fees in lieu of notice.

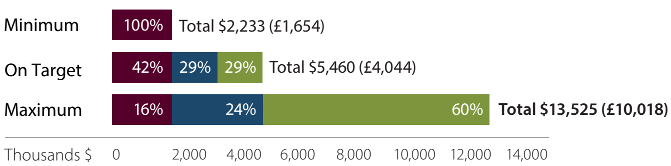
Opportunity
- Fees for Non-Executive Directors are within the limits set by the shareholders from time to time, with an aggregate limit of £1,200,000, excluding the Chairman's fees.

Notes to the policy table

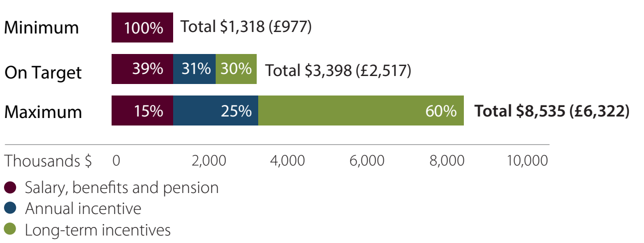
Illustrations of application of the remuneration policy

The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at 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 2019.

Ivan Menezes



Kathryn Mikells



Basis of calculation and assumptions:
The 'Minimum' scenario shows fixed remuneration only, i.e. base salary for the year ending 30 June 2019, total value of contractually agreed benefits for 2019, and the pension benefits to be accrued over the year ending 30 June 2019. 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 of 20% of maximum award.

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

Performance measures and targets

Further details of AIP performance measures and DLTIP performance measures and targets that will apply for awards made in September 2018, 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 81-83.

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

Approach to remuneration 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.

Approach to recruitment remuneration

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 in delivering Diageo's performance ambition.

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

On appointment of an external Executive Director, the Committee may decide to compensate for variable remuneration elements the Director forfeits when leaving their current employer. In doing so, the Committee will ensure that any such compensation would have a fair value no higher than that of the awards forfeited, and would generally be determined on a comparable basis taking into account factors including the form in which the awards were granted, performance conditions attached, the probability of the awards vesting (e.g. past, current and likely future performance) as well as the vesting schedules. Depending on individual circumstances at the time, the Committee has the discretion to determine the type of award (i.e. cash, shares or options, holding period and whether or not performance conditions would apply).

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

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

Notice period	The contracts provide for a period of six months' notice by the Executive Director or 12 months' notice by the company. A payment may be made in lieu of notice equivalent to 12 months' base salary and the cost to the company of providing contractual benefits (excluding incentive plans). The service contracts also provide for the payment of outstanding pay and bonus, if Executive Directors are terminated following a takeover, or other change of control of Diageo plc. If, on the termination date, the Executive Director has exceeded his/her accrued holiday entitlement, the value of such excess may be deducted by the company from any sums due to him/her, except to the extent that such deduction would subject the Executive Director to additional tax under Section 409A of the Code (in the case of Ivan Menezes). If the Executive Director on the termination date has accrued but untaken holiday entitlement, the company will, at its discretion, either require the Executive Director to take such unused holiday during any notice period or make a payment to him/her in lieu of it, provided always that if the employment is terminated for cause then the Executive Director will not be entitled to any such payment. For these purposes, salary in respect of one day of holiday entitlement will be calculated as 1/261 of salary.
Mitigation	The Remuneration Committee may exercise its discretion to require a proportion of the termination payment to be paid in instalments and, upon the Executive Director commencing new employment, to be subject to mitigation except where termination is within 12 months of a takeover, or within such 12 months the Executive Director leaves due to a material diminution in status.
Annual incentive plan (AIP)	Where the Executive Director leaves for reasons including retirement, death in service, disability, ill-health, injury, redundancy, transfer out of the group and other circumstances at the Remuneration Committee's discretion ('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.

Non-Executive Directors' unexpired terms of appointment

All Non-Executive Directors are on three-year terms which are expected to be extended up to a total of nine years. The date of initial appointment to the Board and the point at which the current letter of appointment expires for Non-Executive Directors are shown in the table below. Philip G Scott stepped down from the Board on 20 September 2017.

Non-Executive Directors	Date of appointment to the Board	Current letter of appointment expires
Javier Ferrán	22 July 2016	AGM September 2019
Peggy B Bruzelius	24 April 2009	AGM September 2018
Lord Davies of Abersoch	1 September 2010	AGM September 2019
Betsy D Holden	1 September 2009	AGM September 2018
Susan Kilsby	4 April 2018	AGM September 2021
Ho KwonPing	1 October 2012	AGM September 2018
Nicola S Mendelsohn	1 September 2014	AGM September 2020
Alan JH Stewart	1 September 2014	AGM September 2020

Payments under previous policies

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out above, where the terms of the payment were agreed (i) under a previous policy, in which case the provision of that policy shall continue to apply until such payments have been made; (ii) before the policy or the relevant legislation came into effect; or (iii) at a time when the relevant individual was not a director of the company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the company. For these purposes, 'payments' include the satisfaction of awards of variable remuneration and, in relation to awards of shares, the terms of the payment which are agreed at the time the award is granted.

Consideration of 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 United States as well as the remuneration structure and policy for the global senior management population.

Diageo employs c.30,000 employees and operates in more than 180 countries around the world. 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 to take their views into account when setting and implementing the company's remuneration policies. This year, the company has engaged with shareholders and their proxy advisers on the base salary proposals for 2018, short and long-term incentive plan design and target setting for long-term incentive awards to be made in 2018.

Annual report on remuneration

The following section provides details of how the company's 2017 remuneration policy was implemented during the year ended 30 June 2018, and how the Remuneration Committee intends to implement the proposed remuneration policy in the year ending 30 June 2019.

Single total figure of remuneration for Executive Directors (audited)

The table below details the Executive Directors' remuneration for the year ended 30 June 2018.

				Ivan Menezes(i)				Kathryn Mikells(i)(ii)
Fixed pay	2018 '000	2018 '000	2017 '000	2017 '000	2018 '000	2018 '000	2017 '000	2017 '000
Salary	£1,166	$1,574	£1,215	$1,543	£767	$1,035	£671	$853
Benefits(ii)	£69	$94	£92	$117	£30	$40	£198	$251
Pension(iii)	£351	$474	£432	$549	£157	$212	£135	$171
Total fixed pay	£1,586	$2,142	£1,739	$2,209	£954	$1,287	£1,004	$1,275
Performance related pay								
Annual incentive	£1,640	$2,214	£1,660	$2,109	£1,105	$1,492	£1,120	$1,422
Long-term incentives(iv)								
Value delivered through performance	£2,966	$4,004	–	–	£3,584	$4,838	–	–
Value delivered through share price growth	£1,836	$2,479	–	–	£1,289	$1,740	–	–
Other incentives(v)	–	–	–	–	£4	$5	£4	$5
Total remuneration for Executive Director appointment	£8,028	$10,839	£3,399	$4,318	£6,936	$9,362	£2,128	$2,702
Other performance related pay								
(Granted prior to appointment as Executive Director)								
Long-term incentives(vi)	£1,035	$1,398	–	–	–	–	–	–
TOTAL SINGLE FIGURE	£9,063	$12,237	£3,399	$4,318	£6,936	$9,362	£2,128	$2,702

Notes

(i) Exchange rate — The amounts shown in sterling are converted using the cumulative weighted average exchange rate for the respective financial year. For the year ended 30 June 2018 the exchange rate was £1 = $1.35 and for the year ended 30 June 2017 the exchange rate was £1 = $1.27. Ivan Menezes and Kathryn Mikells are both paid in US dollars. Kathryn Mikells' remuneration was previously set in sterling prior to 1 June 2017, as disclosed in the 2017 remuneration report.

(ii) Benefits — Benefits is the gross value of all taxable benefits. For Ivan Menezes, these include medical insurance (£19k), company car allowance (£17k), contracted car service (£7k), financial counselling (£23k), product allowance, flexible benefits allowance and life and long-term disability cover. Kathryn Mikells' benefits include flexible benefits allowance (£18k), financial counselling (£6k), contracted car service (£2k), life cover and product allowance. 2017 remuneration included one-off relocation costs in relation to Kathryn Mikells' move from the United States to the United Kingdom, grossed up for tax (£162k). Page 74

(iii) Pension — Pension benefits earned during the year represent the increase in the pension fund balances over the year in the Diageo North America Inc. pension plans over and above the increase due to inflation. As Ivan Menezes has been a deferred member of the Diageo Pension Scheme (DPS) in the United Kingdom since 31 January 2012, and receives standard statutory increases in deferment the United Kingdom pension amount that accrued over the two years in excess of inflation is nil. Kathryn Mikells became a director and started accruing benefits in the Supplemental Executive Retirement Plan (SERP) with effect from 9 November 2015. Pages 83-84

(iv) Long-term incentives — Long-term incentives represent the estimated gain delivered through share options and performance shares where performance conditions have been met in the respective financial year. For Ivan Menezes in 2018, this includes performance shares and share options awarded in 2015 and due to vest in September 2018 at 70% and 60% of maximum respectively. For Kathryn Mikells in 2018, this includes performance shares vesting under the final tranche of the replacement share award made on 9 November 2015 in recognition of share awards forfeited from her former employer, and granted in accordance with the remuneration policy on recruitment remuneration. The average closing share price of an ordinary share over the three dealing days prior to the date of grant was 1892.0 pence. The performance measures, targets and weightings that applied to this award are the same as the 2015 PSP award, details of which are disclosed on page 82. The award will vest on 9 November 2018, based on performance over the three-year period ending 30 June 2018, at 70% of the shares granted. There are no other long-term incentive awards vesting based on performance in the year ended 30 June 2018 to report for Kathryn Mikells. Page 82

'Value delivered through performance' is calculated as the number of performance shares and dividend shares vesting in September/November 2018 multiplied by the share price on the date of grant.

'Value delivered through share price growth' is calculated as the difference between the average share price in the last three months of the financial year and the share price on the date of grant multiplied by the number of performance shares and share options vesting in September 2018.

Long-term incentives due to vest in 2017 all lapsed due to the performance measures not being met.

(v) Other incentives — Other incentives include the face value of awards made under the all-employee share plans (number of shares multiplied by the share price on the date of grant). Awards do not have performance conditions attached.

(vi) Discretionary incentive plan — Ivan Menezes 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). For 2018, the amount disclosed in the table above is the part of the fourth and final tranche of the award based on performance for the year ended 30 June 2018, which is due to vest at 67% of maximum. The part of the award based on continuing employment for the year ended 30 June 2018 is not required to be reported in the table above and amounts to 14,643 ADRs, which will vest on 8 March 2019. For 2017, the part of the third tranche of the award based on performance for the year ended 30 June 2017 lapsed in full due to the performance conditions not being met. Page 83

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 2018, other than payments that have been disclosed in previous remuneration reports.

Payments for loss of office (audited)

There were no payments for loss of office to Executive Directors for the year ended 30 June 2018.

Annual incentive plan (AIP) (audited)

AIP payout for the year ended 30 June 2018

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

The overall level of performance achieved resulted in an AIP award equating to 70% of base salary for Ivan Menezes and 71.7% of base salary for Kathryn Mikells. The actual awards received by the Executive Directors are shown in the 'single total figure of remuneration' table on page 80.

Group financial measures(i)

Measure	Weighting	Threshold	Target	Maximum	Actual	**Payout** (% of total AIP opportunity)
Net sales (% growth)(ii)	25%	2.25%	4.5%	6.75%	5.2%	16.5%
Operating profit (% growth)(iii)	25%	4.1%	8.2%	12.3%	8.5%	13.5%
Average working capital (% net sales)(iv)	30%	30bps	120bps	210bps	220bps	30.0%
Group financial payout	80%					**60.0%**

Individual business objectives

Measure	Weighting	Outcome	**Payout** (% of total AIP opportunity)
Ivan Menezes Chief Executive	20%		**10.0%**
Delivery of F18 productivity outcomes		Diageo productivity savings were marginally ahead target in F18	
Delivery of key business performance driver		Diageo operating cash conversion exceeded 100% but was slightly below target Adjusted earnings per share growth at 9.3% for the year was ahead of the target	
Deliver a key business performance driver		Delivered in whole or in part against key financial metrics on the North America business	
Kathryn Mikells Chief Financial Officer	20%		**11.7%**
Delivery of F18 productivity outcomes		Diageo productivity savings were marginally ahead target in F18	
Delivery of key business performance driver		Diageo operating cash conversion exceeded 100% but was slightly below target Adjusted earnings per share growth at 9.3% for the year was ahead of the target	
Deliver a key business performance driver		Delivered end-to-end cost savings across the Global Finance function in line with target. Progress made on strengthening of diverse talent within the finance function Delivered end-to-end process simplification in the business planning cycle that has improved the effectiveness of the organisation	

Payout

	Group (weighted 80%)	IBO (weighted 20%)	Total (% max)	Total (% salary)	Total (£)(v)	Total ($)(v)
Ivan Menezes	60.0%	10.0%	**70.0%**	140.0%	£1,640	$2,214
Kathryn Mikells	60.0%	11.7%	**71.7%**	143.4%	£1,105	$1,492

(i) Performance against the AIP measures is calculated using 2018 budgeted exchange rates in line with management reporting and excludes the impact of exchange and any exceptional items.
(ii) For AIP purposes, the net sales measure is calculated after adjustments for acquisitions and disposals.
(iii) For AIP purposes, the operating profit measure is calculated after adjustments for acquisitions and disposals.
(iv) For AIP purposes, average working capital as a percentage of net sales is calculated as the average of the last 12 months of operating working capital (excluding maturing inventories and provisions) divided by annual net sales.
(v) AIP payments are calculated using base salary as at 30 June 2018, in line with the global policy that applies to other employees across the company.

Long-term incentive plans (LTIPs) (audited)

As approved by shareholders at the AGM in September 2014, long-term incentive awards are made under the Diageo Long-Term Incentive Plan (DLTIP) for awards from 2014 onwards. Awards are designed to incentivise Executive Directors and senior managers to deliver long-term sustainable performance and are subject to performance conditions normally measured over a three-year period. Awards are delivered on an annual basis in both performance shares and share options.

Share options – granted in September 2015, vesting in September 2018 (audited)

On 3 September 2015, Ivan Menezes received a share option award of 49,825 (ADRs) under the DLTIP, with an exercise price of $104.93. The award was subject to a performance condition based on compound annual adjusted eps growth at constant exchange rates, with a straight-line payout between threshold and maximum. Vesting is on a pro rata basis ranging from a threshold level of 20% to a maximum level of 100%.

Performance shares – awarded in September 2015, vesting in September 2018 (audited)

On 3 September 2015, Ivan Menezes received a performance share award of 49,825 (ADRs) under the DLTIP. Awards vest after a three-year period subject to the achievement of specified performance conditions. Notional dividends accrue on awards and are paid out either in cash or shares in accordance with the vesting schedule.

The vesting of 2015 performance share awards was subject to the achievement of three equally weighted performance measures:

1. 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) – ranked against 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. Cumulative adjusted free cash flow – the cumulative year-end free cash flow outcome for each year within the three-year performance period, measured before exceptional spend.

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

The vesting profile for relative TSR is shown below:

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

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

The targets and vesting outcome for performance share and share option awards granted in September 2015 are shown in the following tables:

Vesting of 2015 DLTIP awards	Threshold	Midpoint	Maximum	Actual	Vesting (% maximum)
Organic net sales growth(i)	3.0%	4.5%	6.0%	4.0%	46.3%
Relative total shareholder return(ii)	9th	–	3rd	6th	65.0%
Cumulative free cash flow(iii)	£5,000m	£6,000m	£7,000m	£6,969m	98.8%
Vesting of performance shares (% maximum)					**70%**
Eps growth(iv)	4.0%	6.5%	9.0%	6.5%	
Vesting of share options (% maximum)					**60%**

(i) Organic net sales growth is calculated as the compound annual growth rate for the three-year period for net sales growth excluding the impact of exchange and acquisitions and disposals.
(ii) Relative total shareholder return is measured as the percentage growth in Diageo's ordinary share price (assuming all dividends and capital distributions are re-invested) compared to the total shareholder return of the peer group of 16 international drinks and consumer goods companies, based on an average period of 6 months, and converted to a common currency (US dollars). SABMiller was acquired by AB Inbev on 10 October 2016. For the 2015 vesting outcome, the total shareholder return of SABMiller has been tracked up to the date of acquisition, after which the total shareholder return tracks that of AB Inbev.
(iii) Cumulative free cash flow is the aggregate of free cash flow for the three-year period excluding the impact of exchange, cash flows from exceptional items and interest on share buy back programmes.
(iv) Earnings per share growth is calculated as the compound annual growth rate for the three-year period for earnings per share excluding the impact of exchange, exceptional items, share buy back programmes and the post employment net charges included in other financial charges.

Accordingly, the 2015 performance share award vested at 70% and the 2015 share option award vested at 60% of the maximum.

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 was 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 fourth and final tranche of the 2012 DIP award (i.e. the tranche based on performance over the three years to 30 June 2018) versus target is set out below:

Vesting of final performance-based tranche of 2012 DIP award

Performance measures (equally weighted)	Target	Actual	Vesting (% of maximum)
Organic net sales growth (CAGR)(i)	4.5% p.a.	4.0%	0%
Cumulative free cash flow (£m)(i)	£6,000m	£6,969m	100%
Compound annual adjusted eps growth(i)	6.5% p.a.	6.5% p.a.	100%
Vesting of DIP award (% maximum)			67%

(i) These measures are calculated in accordance with the methodology described for 2015 performance share and share option awards on page 82.

9,761 performance related ADRs under the fourth tranche of the 2012 DIP award will vest in March 2019. The part based on continuing employment only (50% of the fourth tranche), which is 14,643 ADRs, will also vest in March 2019, provided Ivan Menezes remains employed at the time of vesting.

Pension and benefits in the year ended 30 June 2018

Benefits

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

Pension arrangements (audited)

Ivan Menezes and Kathryn Mikells are members of the Diageo North America Inc. Supplemental Executive Retirement Plan (SERP) with an accrual rate of 30% and 20% of base salary respectively during the year ended 30 June 2018.

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 after having left service with Diageo (within six months of separation from service).

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

Ivan Menezes was also a member of the Diageo Pension Scheme (DPS) in the United Kingdom between 1 February 1997 and 30 November 1999. The accrual of pensionable service ceased in 1999 but the linkage to salary remained until January 2012. Under the Rules of the Scheme, this benefit is payable unreduced from age 60.

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.

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

	30 June 2018		30 June 2017	
Executive Director	UK pension £'000 p.a.	US benefit £'000	UK pension £'000 p.a.	US benefit £'000
Ivan Menezes(i)	71	6,680	69	6,236
Kathryn Mikells(ii)	Nil	391	Nil	227

(i) Ivan Menezes' US benefits are higher at 30 June 2018 than at 30 June 2017 by £444k
(a) £458k of which is due to pension benefits earned over the year (£351k of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 80);
(b) £69k of which is due to interest earned on his deferred US benefits over the year; and
(c) (£83k) of which is due to exchange rate movements over the year.
(ii) Kathryn Mikells' US benefits are higher at 30 June 2018 than at 30 June 2017 by £164k
(a) £164k of which is due to pension benefits earned over the year (£157k of which is over and above the increase due to inflation – as reported in the single figure of remuneration, see page 80); and
(b) (£0k) 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

(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. This is a discretionary policy Diageo offers that is not set out in the DPS Scheme Rules.

DLTIP awards made during the year ended 30 June 2018 (audited)

On 4 September 2017, Ivan Menezes and Kathryn Mikells received awards of 51,268 (ADRs) and 32,380 (ADRs) performance shares respectively, and 51,268 (ADRs) and 32,380 (ADRs) 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 2017 to 30 June 2020. The targets were disclosed in full in the 2017 remuneration report.

The performance measures for performance share awards are organic net sales growth, cumulative free cash flow and organic profit before exceptional items and tax growth, equally weighted. The performance measures for share option awards are organic profit before exceptional items and tax growth and relative total shareholder return, equally weighted.

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

Executive Director	Date of grant	Plan	Share type	Awards made during the year	Exercise price	Face value '000	Face value (% of salary)
Ivan Menezes	04/09/2017	DLTIP – share options	ADR	51,268	$134.06	$5,930	375%
Ivan Menezes	04/09/2017	DLTIP – performance shares	ADR	51,268	–	$5,930	375%
Kathryn Mikells	04/09/2017	DLTIP – share options	ADR	32,380	$134.06	$3,745	360%
Kathryn Mikells	04/09/2017	DLTIP – performance shares	ADR	32,380	–	$3,745	360%

The proportion of the awards outlined above that will vest is dependent upon the achievement of performance conditions and continued employment, and the actual value may be nil. The vesting outcomes will be disclosed in the 2020 Annual Report.

The face value of each award has been calculated using the award price at the time of grant. In accordance with the rules, the number of performance shares and share options granted under the DLTIP was calculated by using the average closing share price for the last six months of the preceding financial year ($115.67 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 ($134.06 ADRs). The share price on the date of grant was $134.83 ADRs.

Outstanding share plan interests (audited)

Plan name	Date of award	Performance period	Date of vesting	Share type	Share price on date of grant	Exercise price	Number of shares/ options at 30 June 2017[i]	Granted	Vested/ exercised	Dividends awarded and released	Lapsed	Number of shares/ options at 30 June 2018
Ivan Menezes												
SESOP[iii]	Sep 2011	2011 – 2014	2014	ADR		$76.70	36,587					36,587
DLTIP – share options	Sep 2014	2014 – 2017	2017	ADR		$117.55	45,447				45,447	–
Total vested but unexercised share options in Ords[ii]												**146,348**
DLTIP – share options[v]	Sep 2015	2015 – 2018	2018	ADR		$104.93	49,825					49,825
DLTIP – share options[vi]	Sep 2016	2016 – 2019	2019	ADR		$113.66	54,356					54,356
DLTIP – share options	Sep 2017	2017 – 2020	2020	ADR		$134.06	–	51,268				51,268
Total unvested share options subject to performance in Ords[ii]												**621,796**
DIP[iv]	Mar 2012	2012 – 2019	2016 – 2019	ADR	$96.44		29,286				14,643	14,643
DLTIP – performance shares	Sep 2014	2014 – 2017	2017	ADR	$115.80		45,447				45,447	–
DLTIP – performance shares[v]	Sep 2015	2015 – 2018	2018	ADR	$104.30		49,825					49,825
DLTIP – performance shares[vi]	Sep 2016	2016 – 2019	2019	ADR	$115.77		54,356					54,356
DLTIP – performance shares	Sep 2017	2017 – 2020	2020	ADR	$134.83		–	51,268				51,268
Total unvested shares subject to performance in Ords[ii]												**680,368**
DIP[iv]	Mar 2012	2012 – 2019	2016 – 2019	ADR	$96.44		29,286		14,643			14,643
Total unvested shares not subject to performance in Ords[ii]												**58,572**
Kathryn Mikells												
DLTIP – share options[vi]	Sep 2016	2016 – 2019	2019	Ord		2113p	128,253					128,253
DLTIP – share options	Sep 2017	2017 – 2020	2020	ADR		$134.83	–	32,380				32,380
Total unvested share options subject to performance in Ords[ii]												**257,773**
DBOP – performance shares[vii]	Nov 2015	2015 – 2018	2018	Ord	1866p		246,300					246,300
DLTIP – performance shares[viii] [vi]	Sep 2016	2016 – 2019	2019	Ord	2127p		128,253					128,253
DLTIP – performance shares	Sep 2017	2017 – 2020	2020	ADR	$134.83		–	32,380				32,380
Total unvested shares subject to performance in Ords[ii]												**504,073**
DBOP – restricted shares	Nov 2015	2015 – 2018	2018	Ord	1866p		43,868					43,868
Total unvested shares not subject to performance in Ords[ii]												**43,868**

(i) For unvested awards this is the number of shares/options initially awarded. For exercisable share options, this is the number of outstanding options. All share options have an expiry date of ten years after the date of grant.
(ii) ADRs have been converted to Ords (one ADR is equivalent to four ordinary shares) for the purpose of calculating the total number of vested and unvested shares and options.
(iii) Options granted prior to the Executive's appointment to the Board.
(iv) Ivan Menezes retains interests in an award that was granted to him prior to joining the Board under 'below-board' plans (Discretionary Incentive Plan), amounting to a total of 117,142 ADRs, granted in 2012 (29,286 of award remains unvested). The award is subject to performance conditions and continuing employment. 66.67% of the first tranche vested in March 2016, 66.67% of the second tranche vested in March 2017, 50% of the third tranche vested in March 2018 and 66.67% of the fourth and final tranche is due to vest in March 2019.
(v) Awards made of performance shares and share options under the DLTIP in September 2015 and due to vest in September 2018 are included here as unvested share awards subject to performance conditions, although the awards have also been included in the single figure of remuneration table on page 80, since the performance period ended during the year ended 30 June 2018.
(vi) Details of the performance conditions attached to DLTIP awards of performance shares and share options granted in 2016 were disclosed in Diageo's 2016 Annual Report.
(vii) Replacement shares awarded to Kathryn Mikells on her appointment as Chief Financial Officer on 9 November 2015, in recognition of share awards she forfeited from her previous employer. These awards were made under the Diageo Buy Out Plan (DBOP).
(viii) 1,419 Ords of this award were delivered as tax-qualified share options.

Salary

Salary increases to be applied in the year ending 30 June 2019

As outlined in the 2017 annual report on remuneration, base salaries for the Chief Executive and Chief Financial Officer were increased by 2%, effective from 1 October 2017.

In June 2018, the Remuneration Committee reviewed base salaries for senior management and agreed new salaries which will apply from 1 October 2018. 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 2018 is 3% of base salary for employees in the United Kingdom and 3% in North America.

The Committee considered very carefully the total remuneration positioning of the Chief Executive and Chief Financial Officer, the salary budget for all employees in the United Kingdom and the expectations of shareholders with respect to continuing pay restraint. As a result, it was agreed that there would be a 2% salary increase for both the Chief Executive and the Chief Financial Officer, effective from 1 October 2018.

	Ivan Menezes		Kathryn Mikells	
Salary at 1 October ('000)	**2018**	2017	**2018**	2017
Base salary	**$1,613**	$1,581	**$1,061**	$1,040
% increase (over previous year)	**2%**	2%	**2%**	2%

AIP design for the year ending 30 June 2019

The measures and targets used in the AIP are reviewed annually by the Remuneration Committee and are chosen to drive financial and individual business performance goals related to the company's short term strategic operational objectives. The AIP design for Executive Directors in the year ending 30 June 2019 will comprise of the following performance measures and weightings:

- Operating profit (% growth) (26.67% weighting): stretching profit targets drive operational efficiency and influence the level of returns that can be delivered to shareholders through increases in share price and dividend income not including exceptional items or exchange;
- Net sales (% growth) (26.67% weighting): a key performance measure of year-on-year top line growth;
- Average working capital as a proportion of net sales (26.67% weighting): ensures focus on working capital management throughout the year and incentivises sustainable actions that are beneficial for the business in the long term;
- Individual business objectives (20% weighting): measurable deliverables that are specific to the individual and are focused on supporting the delivery of key strategic objectives.

This is the same structure as applied in the year ended 30 June 2018, except that the weightings across the financial measures have been equalised to ensure an appropriate focus on both profit and loss and balance sheet measures.

Details of the targets for the year ending 30 June 2019 will be disclosed retrospectively in next year's annual report on remuneration, by which time they will no longer be deemed commercially sensitive by the Board.

DLTIP awards to be made in the year ending 30 June 2019

The long-term incentive plan measures are reviewed annually by the Remuneration Committee and are selected to reward long-term consistent performance in line with Diageo's business strategy and to create alignment with the delivery of value for shareholders. The Committee has ensured that the incentive structure for senior management does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour.

As last year, DLTIP awards made in September 2018 will comprise awards of both performance shares and share options, based on stretching targets against key performance measures as outlined in the table below. The performance share element of the DLTIP applies to the Executive Committee and the top cadre of Senior Leaders across the organisation worldwide, whilst the share option element is applicable to a much smaller population comprising only members of the Executive Committee. One market price option is valued at one-third of a performance share.

The table below outlines the targets and the vesting profile for these awards to the Executive Directors and the relative weightings of each performance measure as a percentage of the total award in performance share equivalents. Performance will be tested over three financial years, beginning with the year ending 30 June 2019.

	Performance shares			Share options		
	Profit before exceptional items and tax (CAGR)	Organic net sales (CAGR)	Cumulative free cash flow (£m)	Relative total shareholder return	Profit before exceptional items and tax (CAGR)	Vesting profile
Weighting (% total)	25%	25%	25%	12.5%	12.5%	100%
Threshold	4.5% p.a.	3.75% p.a.	£7,400m	Median ranking (ninth)	4.5% p.a.	20%
Midpoint	7.5% p.a.	4.875% p.a.	£8,050m	–	7.5% p.a.	60%
Maximum	10.5% p.a.	6% p.a.	£8,700m	Upper quintile (third or above)	10.5% p.a.	100%

It is intended that a DLTIP award of 500% of base salary will be made to Ivan Menezes in September 2018, comprising 375% of salary in performance shares and 125% of salary in market price share options (in performance share equivalents; one market price option is valued at one-third of a performance share).

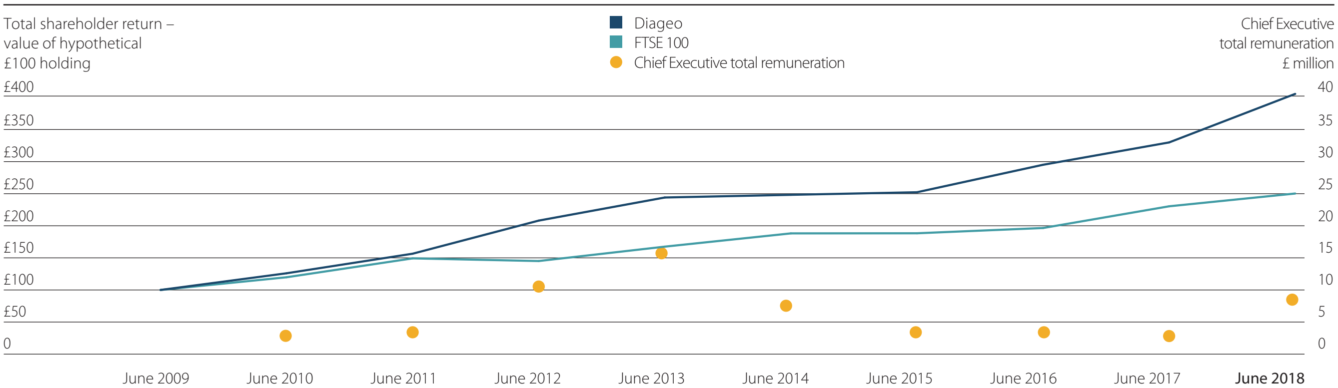
It is intended that a DLTIP award of 480% of salary will be made to Kathryn Mikells in September 2018, comprising 360% of salary in performance shares and 120% of salary in market price share options (in performance share equivalents).

The table below summarises the DLTIP awards to Ivan Menezes and Kathryn Mikells in September 2018.

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

Performance graph and table

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



	June 2010	June 2011	June 2012	June 2013	June 2014	June 2015	June 2016	June 2017	**June 2018**
	Paul S Walsh £'000	Paul S Walsh £'000	Paul S Walsh £'000	Paul S Walsh £'000	Ivan Menezes[i] £'000	Ivan Menezes[i] £'000	Ivan Menezes[i] £'000	Ivan Menezes[i] £'000	**Ivan Menezes[i] £'000**
Chief Executive total remuneration (includes legacy LTIP awards)	3,231	4,449	11,746	15,557	7,312	3,888	4,156	3,399	**9,063**
Annual incentive (% maximum opportunity)	86%	77%	74%	51%	9%	44%	65%	68%	**70%**
Share options (% maximum opportunity)	100%	100%	100%	100%	71%	0%	0%	0%	**60%**
Performance shares (% maximum opportunity)	0%	0%	65%	95%	55%	33%	31%	0%	**70%**

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

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

The beneficial interests of the Directors in office at 30 June 2018 (and their connected persons) in the ordinary shares (or ordinary share equivalents) of the company are shown in the table below.

	Ordinary shares or equivalent(i)					
	11 July 2018	30 June 2018 (or date of departure, if earlier)	30 June 2017 (or date of appointment, if later)	Shareholding requirement (% salary)(ii)	Shareholding at 13 July 2018 (% salary)(ii)	Shareholding requirement met
Chairman						
Javier Ferrán(iii)	148,714	148,415	48,323	–	–	–
Executive Directors						
Ivan Menezes(iv)	973,586	973,586	943,854	500%	2115%	Yes
Kathryn Mikells(iv) (vii)	37,254	37,245	37,028	400%	123%	No
Non-Executive Directors						
Peggy B Bruzelius	5,000	5,000	5,000	–	–	–
Lord Davies of Abersoch	5,052	5,052	5,052	–	–	–
Betsy D Holden(iv)	17,400	17,400	17,400	–	–	–
Susan Kilsby(v)	–	–	–	–	–	–
Ho KwonPing	4,463	4,463	4,397	–	–	–
Nicola S Mendelsohn	5,000	5,000	5,000	–	–	–
Philip G Scott(vi)	–	2,000	2,000	–	–	–
Alan JH Stewart	6,660	6,660	2,560	–	–	–

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 11 July 2018 are expressed as a percentage of base salary on 30 June 2018 and calculated using an average share price for the year ended 30 June 2018 of 2544.16 pence.
(iii) Javier Ferrán joined the Board on 22 July 2016, initially in the role of a non-executive director, and was appointed as Chairman on 1 January 2017.
(iv) Ivan Menezes, 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.
(v) Susan Kilsby was appointed to the Board on 4 April 2018.
(vi) Philip G Scott stepped down from the Board on 20 September 2017.
(vii) Kathryn Mikells has five years from the date of her appointment, that is, until 9 November 2020, to meet the shareholding requirement.

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

The table below shows a comparison of the percentage change in the Chief Executive's remuneration to the average percentage change in remuneration for the UK and US population from 2017 to 2018. 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 2017 to 2018	2%	(20)%	5%
Average % change for the UK and US workforce from 2017 to 2018	4.5%	0%	6%

The percentage change for the Chief Executive is based on the remuneration of Ivan Menezes from 2017 to 2018.

UK salary, benefits and bonus data for both 2017 and 2018 have been converted into US dollars using the cumulative weighted average exchange rate for the year ended 30 June 2018 of £1 = $1.35.

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 2018, Ivan Menezes served as a Non-Executive Director of Tapestry Inc and earned fees of $90,000, which he retained. In line with the Tapestry Inc policy for outside directors, Ivan Menezes is eligible to be granted share options and restricted share units (RSUs). During the year ended 30 June 2018, he was granted 9,338 options at an option price of $40.16 and 1,894 RSUs (including dividends received) at a fair market value of $40.16 per share.

Kathryn Mikells – During the year ended 30 June 2018, Kathryn Mikells served as a Non-Executive Director of Hartford Financial Services Group Inc. and earned fees of $100,000 for the full year, which were deferred into equity.

Non-Executive Directors

Non-Executive Directors' fees

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

The basic fee for Non-Executive Directors was increased from £87,000 to £92,000 effective 1 January 2018 and the additional fee for the Chairman of the Remuneration Committee was increased from £25,000 to £30,000. There was no change to the additional fee for the Chairman of the Audit Committee in the year ended 30 June 2018. The next review is scheduled for January 2020.

	January 2018	January 2017
Per annum fees	£'000	£'000
Chairman of the Board	600	600
Non-Executive Directors		
Basic fee	92	87
Senior Non-Executive Director	25	25
Chairman of the Audit Committee	30	30
Chairman of the Remuneration Committee	30	25

Non-Executive Directors' remuneration for the year ended 30 June 2018 (audited)

	Fees £'000		Taxable benefits[i] £'000		Total £'000	
	2018	2017	2018	2017	2018	2017
Chairman						
Javier Ferrán[ii]	600	338	2	1	602	339
Non-Executive Directors						
Lord Davies of Abersoch	142	137	3	2	145	139
Peggy B Bruzelius	90	87	5	3	95	90
Betsy D Holden	90	87	11	6	101	93
Susan Kilsby[iv]	22	–	1	–	23	–
Ho KwonPing	90	87	1	1	91	88
Nicola S Mendelsohn	90	87	1	1	91	88
Philip G Scott[iii]	19	102	4	13	23	115
Alan JH Stewart	120	102	2	1	122	103

(i) Taxable benefits include a contracted car service, product allowance and expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance of Board meetings during the year, which are deemed by HMRC to be taxable in the United Kingdom. The amounts in the single figure of total remuneration table above include the grossed-up cost of UK tax paid by the company on behalf of the directors. Non-taxable expense reimbursements have not been included in the single figure of remuneration table above.

(ii) £50,000 of Javier Ferrán's net remuneration in the year ended 30 June 2018 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.

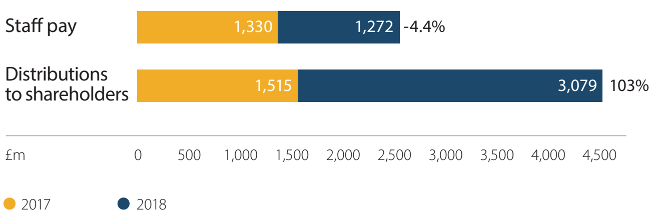
(iii) Philip G Scott stepped down from the Board on 20 September 2017.

(iv) Susan Kilsby was appointed to the Board on 4 April 2018.

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 (including the share buyback programme but excluding transaction costs), and the percentage change from the year ended 30 June 2017 to the year ended 30 June 2018. 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, Nicola S Mendelsohn, Alan JH Stewart and Susan Kilsby. Philip G Scott was a member of the Remuneration Committee until he stepped down from the Board on 20 September 2017. 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 Global Performance and Reward Director are also invited from time to time by the Remuneration Committee to provide their views and advice. The Chief Executive and Global Human Resources Director are not present when their own remuneration is discussed. The Chief Financial Officer may also attend to provide performance context to the Committee during its discussions about target setting. Information on meetings held and director attendance is disclosed in the corporate governance report.

The Remuneration Committee's principal responsibilities are:

- Making recommendations to the Board on remuneration policy as applied to the Executive Directors and the Executive Committee;
- Setting, reviewing and approving individual remuneration arrangements for the Chairman of the Board, Executive Directors and Executive Committee members including terms and conditions of employment;
- Determining arrangements in relation to termination of employment of the Executive Directors and other designated senior executives;
- Making recommendations to the Board concerning the introduction of any new share incentive plans which require approval by shareholders; and
- Ensuring that remuneration outcomes are appropriate in the context of underlying business performance, that remuneration practices are implemented in accordance with the approved remuneration policy, and that remuneration does not raise environmental, social and governance issues by inadvertently motivating irresponsible behaviour.

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

External advisors

During the year ended 30 June 2018, the Remuneration Committee received advice from Mercer, (appointed by the Committee in December 2013 following a tendering process), who provided independent advice on remuneration best practice and senior executive remuneration.

Mercer is a signatory to, and abides by, the Remuneration Consultants Group Code of Conduct. Further details can be found at **www.remunerationconsultantsgroup.com**. Mercer, provides unrelated services to the company in the areas of all-employee reward and retirement benefits. The Remuneration Committee is satisfied that the advice it receives from Mercer is independent. During the year, Mercer supported the Committee in 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 TSR of Diageo and its peer companies for the 2014 PSP and 2015 DLTIP awards and provided periodic updates on all outstanding performance cycles. The fees paid to Mercer in relation to advice provided to the Committee were £77,059 and are determined on a time and expenses basis.

Clifford Chance provided advice on the operation of share plans during the year. Fees paid in relation to this advice, again on a time and expenses basis, were £5,969.

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

Statement of voting

The following table summarises the details of votes cast in respect of the resolutions on the directors' remuneration policy and Directors' remuneration report at the 2017 AGM.

		For	Against	Total votes cast	Abstentions
Directors' remuneration policy	Total number of votes	1,905,251,510	75,507,013	1,980,758,523	2,048,247
	Percentage of votes cast	96.19%	3.81%	100%	n/a
Annual report on remuneration	Total number of votes	1,915,370,899	54,745,724	1,970,116,623	12,690,154
	Percentage of votes cast	97.22%	2.78%	100%	n/a

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

Additional information

Emoluments and share interests of senior management

The total emoluments for the year ended 30 June 2018 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 £20.3 million (2017 – £21.8 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 £4.2 million. In addition, they were granted 1,056,527 performance-based share options under the Diageo Long-Term Incentive Plan (DLTIP) during the year at a weighted average share price of 2580 pence, exercisable by 2027 and no options were granted under DLTIP that are not subject to performance. In addition they were granted 3,769 options over ordinary shares under the UK savings-related share options scheme (SAYE). They were also awarded 1,001,495 performance shares under the DLTIP in September 2017, which will vest in three years subject to the performance tests described in the section on DLTIP awards made during the year ended 30 June 2018 and 51,451 shares under the DIP, which will vest in September 2020 subject to individually assigned performance conditions.

Senior management options over ordinary shares

At 13 July 2018, the senior management had an aggregate beneficial interest in 2,017,696 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	768,144	1,965p	2014 – 2027
Kathryn Mikells	258,804	2,346p	2019 – 2027
Other(i)	2,560,991	1,979p	2012 – 2027
	3,587,939		

(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 2018.

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 24 July 2018 and was signed on its behalf by Lord Davies of Abersoch who is senior Non-Executive Director and Chairman of the Remuneration Committee.

The Board has followed the principles of good governance as set out in the UK Corporate Governance Code and complied with the regulations contained in the Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules of the Financial Conduct Authority and the relevant schedules of the Companies Act 2006.

The Companies Act 2006 and the Listing Rules require the company's auditor to report on the audited information in their report and to state that this section has been properly prepared in accordance with these regulations.

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

The annual report on remuneration is subject to shareholder approval at the AGM on 20 September 2018; the directors' remuneration policy was approved by shareholders at the 2017 AGM.

Terms defined in this remuneration report are used solely herein.