

Understanding Freeshares 2021

(UK employees only)

We aspire to give all employees a stake in our longer-term success through our share ownership programmes, including an annual award of free shares based on company performance.

WHAT ARE FREESHARES?

Freeshares are awarded annually to employees who are employed on a UK contract with a Participating Company and paying UK income tax. The award date this year is **3 September 2021**.

Employees are awarded a number of shares calculated as a percentage of salary. The percentage varies each year and is dependent on Diageo's total performance during the financial year. It is announced when Diageo releases its annual results.

To be eligible to receive a Freeshares award employees must be employed by a Participating Company on 30 June (the Company's year-end) with a minimum 30 days continuous service and have joined Freeshares by 5 August 2021 by completing a Freeshares agreement online through their mydiageoshares portal account; and remain employed from 30 June up to and including the award date.

When you join Freeshares you are giving an evergreen instruction which means you only need to join once. There is no need to join annually and your instruction to participate will continue to apply unless you notify the company in writing that you wish to withdraw from the plan.

HOW IS THE PERCENTAGE CALCULATED?

The percentage award for Freeshares is calculated using the Diageo Group AIP Business Multiple which in F21 was based on our performance compared to plan for Operating Profit growth, Net Sales Value growth and operating cash conversion.

This year the Diageo Group AIP Business Multiple was **1.92x**. This represents above Plan performance (more information on Diageo Premium Drinks business performance will be shared during the course of Results Day). This business performance means a Freeshares payout of **9.68%** of salary (capped at a maximum of £3000 p.a.).

HOW IS THE ANNUAL AWARD CALCULATED?

The number of shares allocated depends on the employee's salary as at 30 June 2021, the Diageo Group AIP Business Multiple which drives the Freeshares percentage and the share price at the time of the award.

How the number of shares is calculated:

30 June salary x payout % = cash value (capped at a maximum of £3000 p.a.)
Cash value ÷ award price¹ = number of shares

Cash value: £30,000 x 9.68% = £2,904
Shares awarded: £2,904 ÷ ¹£34.075 = 85 shares

¹The award price used is for illustrative purposes only. The actual award price will be calculated on the award date of 3 September 2021.

WHAT IS THE VALUE TO EMPLOYEES?

The face value to employees is based on a percentage of 30 June salary (capped at a max of £3000 p.a.).

However, the real value of this benefit is the potential increase in share price between the date of award and the point at which the shares can be sold, free of income tax and National Insurance.

How the value of shares sold is calculated:

In 2016 an Employee receives 95 shares at an award price of £19.83

If they sell after 5 years:

- Value = number of shares x share price at the date of selling
- Added value = share price increase and no income tax & NI liability.
- **Value = 95x £34.075ⁱⁱⁱ= £3,237.12^{iv}** (represents approx 71% growth)

Note: The value of Diageo shares can go down as well as up.

How is the award impacted if an employee has not worked for the full financial year?:

The Freeshares award calculation is based on the number of days worked in the relevant financial year. For example, an employee who started on 14 November would have eligible earnings based on 229 days worked:

Eligible earnings: $(£35,000 \div 365) \times 229 = £21,958.90$

Cash value of award: $£21,958 \times 9.68\% = £2,125$

Note #1: The definition of salary or 'eligible earnings' for the purposes of this plan is basic pay and shift allowance as at 30 June 2021.

Note #2: Please refer to your local AIP policy or speak to your HR Business Partner for further details on any AIP bonus payment related queries.

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- i) Capped at £3,000
 - ii) Award Price = average of middle market close price 31 August 2021, 1 September, 2 September 2021
 - iii) Share Price used for illustration = close price on 24 July 2019
 - iv) Broker Commission will be payable on the transaction