DIRECTORS' REMUNERATION REPORT

Annual statement by the Chairman of the Remuneration Committee

Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the year ended 30 June 2014 including the remuneration policy on which shareholders will be asked to vote separately for the first time at the 2014 AGM in September.

In 2014, the Committee has continued to engage actively with shareholders on our executive remuneration arrangements. We have fully considered shareholder feedback and acted upon their views in drawing up our reward policy. Shareholder concern on the complexity of Diageo's long term incentive plans has been addressed in the new single plan we are proposing which simplifies our long term incentive arrangements and reinforces alignment with Diageo's business strategy and shareholders' interests.

The structure and content of our 2014 policy and annual remuneration report keeps our reporting clear and transparent, building on the improvements already made over recent years with early adoption of a "single remuneration figure" and other relevant disclosures. Whilst it was open to the Committee to make the remuneration policy effective from the start of the next financial year (1 July 2015), we believe that it should apply at the earliest opportunity. Subject to shareholder approval, it will be implemented from 18 September 2014.

Diageo's remuneration philosophy and principles

The philosophy and principles underpinning executive remuneration remain fundamentally unchanged.

- **Support business strategy delivery:** Reward for Diageo's Executive Directors and senior managers incentivises the delivery of Diageo's business strategy and performance goals.
- **Reward for consistent performance:** Focus is on performance delivery in a consistent and responsible way with long term value creation for our shareholders. Alignment between the interests of Executive Directors and shareholders remains a key principle.
- **Performance-related compensation:** Reward components offer a balanced mix of short and long term incentives conditional upon achieving stretching performance targets. Performance measures such as organic net sales, organic operating margin, relative Total Shareholder Return (TSR) and eps growth are key drivers of growth for the business that are aligned with the creation of shareholder value.
- **Competitive total remuneration:** Reward levels framed in the context of total remuneration packages paid by relevant global comparators. In competition with similar global companies, the ability to recruit and retain the best talent from all over the world is critical to Diageo's continued business success.
- **Simplicity and transparency:** The Committee seeks to deliver simplicity and transparency. Performance targets clearly align with the company's short and long term goals.

Focus and highlights of 2014

The Committee continued its focus on:

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

Benchmarking of all key reward components for Executive Directors and Executive Committee members ahead of the 2014 annual salary review (independently validated by Kepler Associates) satisfied the Committee that the shape and levels of our remuneration practice are appropriately positioned against those of comparator companies of similar size and global scope.

Looking ahead to 2015, the Committee has approved a simpler but more commercially focused design for the Annual Incentive Plan (AIP). The plan will now largely be based on delivery of three key financial measures of net sales growth, profit and cash. For this year, the free cash flow measure (FCF) will be replaced with an operating cash conversion measure which will better reward delivery of efficient conversion of profits into cash. 90% of the AIP will be based on financial performance. The remaining 10% will continue to be based on individual business objectives (IBOs) to retain scope for the continued recognition of individual objectives and contribution.

DIRECTORS' REMUNERATION REPORT CONTINUED

The Committee also approved a single "umbrella" Diageo Long Term Incentive Plan (DLTIP) for 2014 to replace the Performance Share Plan (PSP) and Senior Executive Share Option Plan (SESOP) awards, subject to approval at the 2014 AGM. This addresses past shareholder concerns regarding the complexity associated with the two different long term plans . The new plan will continue to offer flexibility of award in either performance shares and/or options with a maximum annual grant of 500% of salary in performance share equivalents with the same range of stretching performance conditions. Executive Directors will be required to retain any share awards for two years after vesting. The malus clause has been extended to provide additional clarity and strengthened provisions throughout the retention period. Simplification is delivered through one set of plan rules with common features relating to eligibility, participation, definition and treatment of leavers. The DLTIP proposal is set out in more detail in the remuneration policy and will be put for shareholder approval at the AGM. Subject to approval, awards will be made to Executive Directors under the new plan on 25 September 2014.

I highly value the direct engagement and feedback from our shareholders and their representative bodies on Diageo's remuneration policy and approach. I was delighted to meet with major shareholders on the remuneration proposals in this report and, where appropriate, their comments have been reflected.

Business performance and reward outcomes for 2014

Diageo's remuneration principles clearly link reward with performance outcomes and so the business performance achieved in this last year has resulted in a significantly lower level of total remuneration for the Executive Directors than in 2013. As described in the "business review", the company has delivered 0.4% organic top line growth reflecting growth in North America, stability in Western Europe and weakness in emerging market economies. This overall level of performance resulted in an annual incentive plan award equating to less than 10% of the maximum opportunity for Ivan Menezes, Deirdre Mahlan and Paul S Walsh.

On TSR, the company has delivered a relatively strong three-year performance in comparison to its peer group for the period ended 30 June 2014, resulting in Diageo achieving 6th place out of 17 global consumer packaged goods companies. When combined with the performance in organic net sales (3.9%) and organic operating margin improvement (214 bps), 55% of the performance shares awarded in September 2011 will vest in September 2014. For share options awarded in September 2011, three-year compound annual growth in adjusted earnings per share was 8.5%. Consequently, the options will vest at 71% of the initial award. Over the period 1 July 2011 to 30 June 2014 (the performance period), Diageo's share price grew by 45.6%, from 1,282 pence to 1,866 pence, and the company paid a total dividend of 135.5 pence per share. This is reflected in the relative spend on pay illustration in the remuneration report with the percentage increase from FY13 to FY14 in total dividend distribution to shareholders (9.2%) ahead of the increase in total employee pay (8.2%).

In its consideration, the Committee welcomes independent and expert advice. Following a formal tender process for on-going professional advisory services, Kepler Associates were appointed as independent advisers to the Committee on 7 December 2013 to replace Deloitte LLP.

As you read our remuneration policy and annual remuneration reports on the following pages, I hope it is clear how Committee decisions support the company as a high performing organisation, by rewarding long term performance which is at the heart of Diageo's corporate strategy and vital to meeting investors' goals.

Finally, in summary, we will be asking shareholders to support three resolutions on executive remuneration matters at the AGM on 18 September 2014:

- A binding vote to formally approve our Directors' Remuneration Policy for the first time;
- An advisory vote on our Annual Report on Remuneration; and
- Shareholder approval for a new 2014 Diageo Long Term Incentive Plan (DLTIP).

We look forward to welcoming you and receiving your support at the AGM.

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, in accordance with section 439A of the Companies Act 2006, which shareholders are asked to approve at the 2014 Annual General Meeting (AGM).

Remuneration policy framework

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

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

Future policy table

Set out below, is the remuneration policy for Executive Directors which is to apply, subject to shareholder approval, from the date of the AGM, 18 September 2014.

BASE SALARY

Purpose and link to strategy

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

Operation

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

Opportunity

Salary increases will normally be in line with increases awarded to other employees in relevant markets in which Diageo operates, typically the United Kingdom and the United States, unless there is a change in role or responsibility, or the need to align an Executive Director's salary to market level over time (provided the increase is merited by the individual's contribution and performance).

BENEFITS

Purpose and link to strategy

Provides market competitive and cost effective benefits.

Operation

- The provision of benefits depends on the country of residence of the Executive Director and may include a company car or car allowance, the provision of a car and contracted car service or equivalent, product allowance, life insurance, accidental death & disability insurance, medical cover for the Executive Director and family and financial counselling.
- The Remuneration Committee has discretion to offer additional allowances, or benefits, to Executive Directors, if considered appropriate and reasonable. These may include relocation expenses, housing allowance and school fees where a Director has to relocate from his/her home location as part of their appointment.

Opportunity

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

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

POST-RETIREMENT PROVISIONS

Purpose and link to strategy

Provides cost effective, competitive post-retirement benefits.

Operation

- Provision of market competitive pension arrangements or a cash alternative based on a percentage of base salary.
- Further detail on current pension provisions for Executive Directors is disclosed in the annual report on remuneration.

Opportunity

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

ANNUAL INCENTIVE PLAN (AIP)

Purpose and link to strategy

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

Operation

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

Opportunity

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

Performance conditions

Annual incentive plan awards are based 70%-90% on financial measures which may include, but are not limited to, measures of revenue, profit and cash and 10%-30% on broader objectives based on individual contribution and medium term strategic goals. Details of the measures and weightings applicable for the year ending 30 June 2015 are set out on pages 72 and 73. Details of the targets will be disclosed retrospectively in next year's annual report on remuneration, when they are no longer deemed commercially sensitive by the Board.

DIAGEO LONG TERM INCENTIVE PLAN (DLTIP)

Purpose and link to strategy

Provides focus on delivering superior long term returns to shareholders.

Operation

- An annual grant of performance shares and/or market price share options which vest subject to a performance test and continued employment normally over a period of three years.
- Performance measures and stretching targets are reviewed annually by the Remuneration Committee for each new award. Details of the measures, weightings and targets applicable for the financial year under review are provided in the annual report on remuneration.
- Following vesting there is a further retention period of two years. Executive Directors are able to exercise an option or sell sufficient shares to cover any tax liability when an award vests, provided they retain the net shares arising for the two-year retention period.
- Notional dividends accrue on performance share awards to the extent that the performance conditions have been met, delivered as shares or cash at the discretion of the Remuneration Committee at the end of the vesting period.
- The Committee has discretion to reduce the number of shares which vest (subject to HMRC rules regarding approved share options), for example in the event of a material performance failure, or a material restatement of the accounts. There is an extensive malus clause for awards made from September 2014 (subject to shareholder approval). The Committee has discretion to decide that:
  - the number of shares subject to the award will be reduced;
  - the award will lapse;
  - retention shares (i.e. vested shares subject to the additional two-year retention period) will be forfeited;
  - vesting of the award or the end of any retention period will be delayed (e.g. until an investigation is completed);
  - additional conditions will be imposed on the vesting of the award or the end of the retention period; and/or
  - any award, bonus or other benefit which might have been granted or paid to the participant in any later year will be reduced or not awarded.

  Malus provisions will apply up to delivery of shares at the end of the retention period (as opposed to the vesting date).
- Further details of the DLTIP are set out in the annual report on remuneration.

Opportunity

- The maximum annual grant is 500% of salary in performance share equivalents (where a market price option is valued at one-third of a performance share).
- Threshold vesting level of 20% of maximum with straight line vesting up to 100% at maximum for financial metrics and a ranking profile for relative total shareholder return.

DIAGEO LONG TERM INCENTIVE PLAN (DLTIP)

Performance conditions

- The vesting of awards is linked to a range of measures which may include, but are not limited to:
  – a growth measure (e.g. net sales, eps);
  – a measure of efficiency (e.g. operating margin, operating cash conversion, ROIC); and
  – a measure of Diageo's relative performance in relation to its peers (e.g. relative total shareholder return).
  Measures that apply to performance shares and market price options may differ, as is the case for current awards. Weightings may vary year-on-year, subject to a minimum weighting of 25% of the total award. Details of the measures, including targets for the awards to be made in September 2014 are set out on page 75.
- The Remuneration Committee has discretion to amend the performance conditions in exceptional circumstances if it considers it appropriate to do so, e.g. in cases of accounting changes, M&A activities and disposals. Any such amendments would be fully disclosed and explained in the following year's annual report on remuneration.

ALL-EMPLOYEE SHARE PLANS

Purpose and link to strategy

To encourage broader employee share ownership through locally approved plans.

Operation

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

Opportunity

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

Performance conditions

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

SHAREHOLDING REQUIREMENT

Purpose and link to strategy

Ensures alignment between the interests of Executive Directors and shareholders.

Operation

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

NOTES TO THE POLICY TABLE

Performance measures and targets

Further details of AIP performance measures and DLTIP performance measures and targets that will apply for awards made in September 2014, and how they are aligned with company strategy and the creation of shareholder value, are set out in the annual report on remuneration, on pages 72 and 75.

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

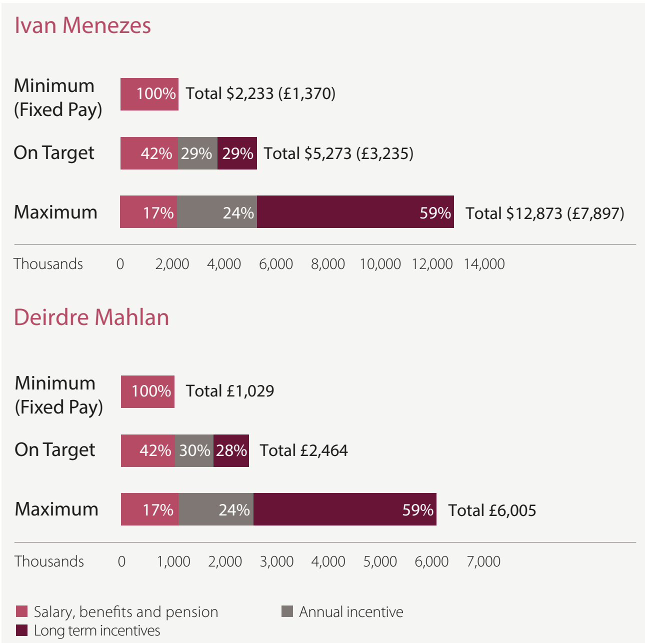
Differences in remuneration policy for other employees

The remuneration approach for Executive Directors is consistent with the reward package for members of the Executive Committee and the senior management population.

Generally speaking, a much higher proportion of total remuneration for the Executive Directors is linked to business performance, compared to the rest of the employee population, so that remuneration will increase or decrease in line with business performance and to align the interests of Executive Directors and shareholders. The structure of the reward package for the wider employee population is based on the principle that it should be sufficient to attract and retain the best talent and be competitive within our broader industry, remunerating employees for their contribution linked to our holistic performance whilst mindful not to over-pay. It is driven by local market practice as well as level of seniority and accountability, reflecting the global nature of Diageo's business.

Illustrations of application of the remuneration policy

The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at three different levels of performance: minimum, on target and maximum. Note that the projected values exclude the impact of any share price movements.



Basis of calculation and assumptions:

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

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

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

Approach to recruitment remuneration

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

Diageo is a global organisation operating in more than 180 countries around the world. The ability, therefore, to recruit and retain the best talent from all over the world is critical to the future success of the business. People diversity in all its forms is a core element of Diageo's global talent strategy and, managed effectively, is a key driver that will deliver Diageo's performance ambition.

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

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

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

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

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

Executive Director	Date of service contract
Ivan Menezes	7 May 2013
Deirdre Mahlan	1 July 2010

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

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

External appointments
Executive Directors may accept external appointments as Non-Executive Directors of other companies and retain any related fees paid to them, subject to the specific approval of the Board in each case.

CHAIRMAN OF THE BOARD AND NON-EXECUTIVE DIRECTORS

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

Operation
- Fees for the Chairman and Non-Executive Directors are normally reviewed annually.
- A proportion of the Chairman's annual fee is used for the monthly purchase of Diageo ordinary shares, which have to be retained until the Chairman retires from the company or ceases to be a Director.
- Fees are reviewed in the light of market practice in the top 30 companies in the FTSE100 by market capitalisation (excluding companies in the financial services sector) and anticipated workload, tasks and potential liabilities.
- The Chairman and Non-Executive Directors do not participate in any of the company's incentive plans or receive pension contributions or benefits.
- The Chairman and the Non-Executive Directors are eligible to receive a product allowance or cash equivalent at the same level as the Executive Directors.

All Non-Executive Directors have letters of appointment. A summary of their terms and conditions of appointment is available at www.diageo.com. The Chairman of the Board, Dr Franz B Humer, commenced his appointment on 1 July 2008. Dr Humer had a letter of appointment for an initial five-year term from 1 July 2008 which has been extended to 30 June 2016. It is terminable on six months' notice by either party or, if terminated by the company, by payment of six months' fees in lieu of notice.

Opportunity
- Fees for Non-Executive Directors are within the limits set by the shareholders from time to time, currently an aggregate of £1,000,000, as approved by shareholders at the October 2005 AGM. This limit excludes the Chairman's fees.
- Current fee levels are disclosed in the annual report on remuneration.

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

Diageo employs 28,000 employees and operates in more than 180 countries around the world. Given its global scale and complexity, the Committee has not consulted directly with employees when designing the remuneration policy for its Executive Directors. Diageo runs annual employee surveys which give employees the opportunity to give feedback and express their views on a variety of topics, including remuneration. Any comments relating to Executive Directors' remuneration are fed back to the Remuneration Committee.

Consideration of shareholder views
The Committee values the continued dialogue with Diageo's shareholders and engages directly with them and their representative bodies at the earliest opportunity when setting out Diageo's remuneration policy and approach, proposed base salary increases for the Executive Directors and targets for the long term incentive plan award. Most recently, feedback from shareholders has resulted in the simplification of the company's long term incentive vehicles with an enhanced malus provision and an additional retention period.

ANNUAL REPORT ON REMUNERATION

Single total figure of remuneration for Executive Directors (audited)

The table below details the Executive Directors' remuneration for the year ended 30 June 2014.

	Ivan Menezes[a]				Deirdre Mahlan		Paul S Walsh[b]	
Remuneration related to Executive Director appointment **Fixed pay**	**2014 '000**	**2014 '000**	2013 '000	2013 '000	**2014 '000**	2013 '000	**2014 '000**	2013 '000
Salary	**£933**	**$1,520**	£892	$1,400	**£706**	£666	**£278**	£1,230
Benefits[c]	**£456**	**$744**	£50	$79	**£40**	£34	**£15**	£43
Pension[d]	**£411**	**$670**	£397	$624	**£258**	£238	**–**	–
Total fixed pay	**£1,800**	**$2,934**	£1,339	$2,103	**£1,004**	£938	**£293**	£1,273
Performance related pay								
Annual incentive plan	**£170**	**$277**	£811	$1,274	**£130**	£652	**£48**	£1,245
Long term incentive plans[e]								
Value delivered through performance	**£1,154**	**$1,881**	£1,951	$3,063	**£1,119**	£1,755	**£2,754**	£4,493
Value delivered through share price growth	**£1,899**	**$3,096**	£4,161	$6,532	**£1,527**	£3,727	**£3,333**	£8,542
Total long term incentives	**£3,053**	**$4,977**	£6,112	$9,595	**£2,646**	£5,482	**£6,087**	£13,035
Other incentives[f]	**–**	**–**	–	–	**£4**	£4	**£1**	£4
Total Remuneration related to Executive Director appointment	**£5,023**	**$8,188**	£8,262	$12,972	**£3,784**	£7,076	**£6,429**	£15,557
Other performance related pay								
(Awards granted prior to appointment as Executive Director – performance conditions relate to previous role.)								
Long term incentive plans (staged release in 2014 and 2015)[g]	**£2,745**	**$4,475**	–	–	**–**	–	**–**	–
TOTAL SINGLE FIGURE	**£7,768**	**$12,663**	£8,262	$12,972	**£3,784**	£7,076	**£6,429**	£15,557

Notes

(a) Ivan Menezes was appointed as Chief Executive on 1 July 2013. 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 2014, the exchange rate was £1 = $1.63, and for the year ended 30 June 2013, the exchange rate was £1 = $1.57.

(b) Paul S Walsh stepped down from the Board on 19 September 2013 at the AGM, and all details in relation to his exit were disclosed at that time in the 2013 Directors' Remuneration Report. The amounts shown for 2014 in relation to salary, benefits and bonus are the amounts paid during the year, pro-rated by reference to the period that he was an Executive Director. The amounts reported above in relation to LTIP vestings are shown in full, by reference to the LTIPs performance period.

(c) Taxable benefits: is the gross value of all benefits. Ivan Menezes relocated to the United Kingdom on 1 January 2014 and the taxable benefits relate largely to a one-off contractual relocation payment (£366k). His benefits also include financial counselling (£49k), medical insurance (£14k), company car allowance (£16k), contracted car service (£9k), product allowance, and life cover. Deirdre Mahlan's benefits include company car allowance (£16k), contracted car service (£7k), financial counselling (£9k), product allowance, medical insurance and life cover. Paul S Walsh's benefits include company car allowance, contracted car service, financial counselling, product allowance, medical insurance and life cover.

(d) The company's pension contributions during the year: Includes the value of the pension amount accrued in the Diageo North America Inc. pension plans.

(e) Long term incentive plan vestings (PSP and SESOP): represents the estimated gain for options and performance shares vesting in September 2014, by reference to performance to the end of the financial year. The "value delivered through performance" represents the performance shares due to be released in September 2014 at the grant price after applying the performance condition. The "value delivered through share price growth" is the estimated additional value generated through share price growth for options vesting and performance shares due to be released in September 2014. Though the outcome of the performance conditions is known, the share price on the vesting date is estimated, using the average market value of Diageo shares between 1 April and 30 June 2014 (1870 pence for ordinary shares and $126.01 for ADRs) for the purpose of this calculation. LTIP figures for 2013 have been adjusted for the share price on the date of vesting (2061 pence for ordinary shares and $130.17 for ADRs). For further information on the SESOP and PSP performance conditions and vesting outcomes please refer to the 'Historic LTIPs – year ended 30 June 2014' section of the report.

(f) Includes the face value of awards made under all-employee share plans. Awards do not have performance conditions attached.

(g) Ivan Menezes retains interests in awards that were granted to him in 2011, prior to joining the board, under 'below-board' plans (Discretionary Incentive Plan), details of which are shown on page 74. The value of these shares is calculated on the basis of the average market value of Diageo shares between 1 April and 30 June 2014 ($126.01).

Salary increases to be applied in the year ending 30 June 2015

In July 2014, the Remuneration Committee reviewed base salaries for senior management and agreed new salaries which will apply from 1 October 2014. 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 salary increase budget in the year ending 30 June 2015 is 2.8% of base salary for the business in the United Kingdom and 3% in North America.

After careful consideration of Ivan Menezes' total remuneration positioning and the salary budget for all employees in the United Kingdom, the Committee decided that no salary increase would be awarded to the Chief Executive in October 2014. The Committee also undertook the same careful consideration in relation to Deirdre Mahlan's remuneration and considered that a modest salary increase of 2.5%, slightly below the salary budget for the broader UK employee population, was appropriate and would be applied from 1 October 2014.

	Ivan Menezes		Deirdre Mahlan	
Salary at 1 October ('000)	2014	2013	2014	2013
Base salary	$1,520	$1,520	£732	£714
% increase (over previous year)	0%	8.6%	2.5%	5%

Annual incentive plan (AIP) (audited)

Company performance against AIP targets in the year ended 30 June 2014

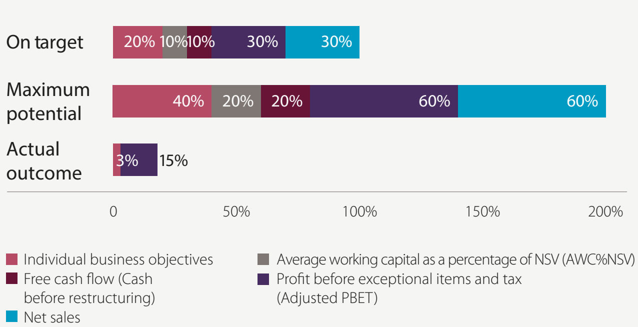
The Remuneration Committee assessed the performance of Ivan Menezes, Deirdre Mahlan and Paul S Walsh against their specific objectives and concluded that the objectives were partially met. The overall level of performance achieved resulted in an AIP award equating to 18.2% of base salary for Ivan Menezes, 18.2% of base salary for Deirdre Mahlan and 17.2% of base salary for Paul S Walsh. The following table and chart illustrate how the outcomes for the different bonus measures contribute to the overall bonus payout and compare this to the target and maximum potential outcome (based on an average of the objectives for the Executive Directors). The actual awards received by the Executive Directors are shown in the table 'single total figure of remuneration'.

AIP outcome

Measures[a]	Weight	Target set	Result achieved	% of maximum bonus paid (weighted)
Net sales (% growth)	30%	6.0%	0.8%	0.0%
Profit before exceptional items and tax (% growth)	30%	11.7%	8.3%	7.6%
Free cash flow[b]	10%	£1,840m	£1,640m	0.0%
Average working capital as percentage of net sales[c]	10%	4.7%	6.8%	0.0%
Individual business objectives (IBOs)	20%	A range of objectives linked to individual contribution and medium term strategic goals, delivery of M&A integration performance and compliance.	partially met	1.3%
	100%			8.9%

(a) All measures calculated at budgeted exchange rates for the year ended 30 June 2014.
(b) Excluding cash payments in respect of exceptional restructuring programmes and discontinued operations.
(c) Average working capital as a percentage of net sales is calculated by dividing the monthly average working capital in the year by annual net sales. Working capital comprises inventories (excluding maturing inventories), trade and other receivables and trade and other payables (excluding receivables and payables in respect of interest on borrowings and corporate tax) and provisions.

On target vs actual bonus outcome vs potential maximum as % of target opportunity



Policy implementation – year ending 30 June 2015

The measures and targets used in the AIP are reviewed annually by the Remuneration Committee and are chosen to drive financial and individual business performance goals related to the company's short term strategic operational objectives. The AIP design for the year ending 30 June 2015 will comprise of a four-measure structure (weightings in brackets):

- Profit before exceptional items and tax (35%): stretching profit targets drive operational efficiency and influence the level of returns that can be delivered to shareholders through increases in share price and dividend income;
- Net sales (30%): year-on-year net sales growth is a key performance measure;
- Operating cash conversion (25%): ensures focus on efficient conversion of profits into cash; and
- Individual business objectives (10%): are measurable deliverables that are specific to the individual and are focused on supporting the delivery of key strategic objectives.

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

There are no further changes to the AIP in the year ending 30 June 2015.

Long term incentive plans (LTIPs) (audited)

Historic LTIPs – year ended 30 June 2014

Vesting of 2011 awards

Until 30 June 2014, long term incentives were a combination of share options under the Senior Executive Share Option Plan 2008 (SESOP) and share awards under the Performance Share Plan 2008 (PSP). Awards were designed to incentivise Executive Directors and senior managers to deliver long term sustainable performance. Awards made under both sets of plans were subject to performance conditions normally measured over a three-year period. Subject to shareholder approval these plans will be replaced by a new long term incentive plan, Diageo 2014 Long Term Incentive Plan (DLTIP), as outlined in the section titled "policy implementation".

SESOP

On 22 September 2011, Ivan Menezes, Deirdre Mahlan and Paul S Walsh received awards of 51,531 (ADRs), 190,239 (ordinary shares) and 374,695 (ordinary shares) market price options, respectively, under the SESOP. Awards were subject to a performance condition based on compound annual growth in adjusted eps over a three-year period. For the purpose of the SESOP, an adjusted measure of eps is used to ensure that elements such as exceptional items and the impact of movements in exchange rates are excluded from year on year comparisons of performance. Options only vest when stretching adjusted eps targets are achieved. Vesting is on a pro rata basis ranging from a threshold level of 25% to a maximum level of 100%.

The adjusted eps growth targets and actual performance for the 2011 SESOP awards are set out below:

Performance period	1 July 2011 – 30 June 2014
Compound annual growth	
Threshold	6%
Maximum	10%
Percentage of award vesting	
Threshold	25%
Maximum	100%
Actual compound annual growth rate over the performance period	8.5%

Adjusted eps growth over the three years to the end of the year was 8.5%. Accordingly, the 2011 award, which is due to vest in September 2014, has partially met the performance condition and, consequently, the shares under award will vest at 71% of the initial award. The Committee has assessed the underlying performance of the business at the end of the performance period and is satisfied that this level of vesting is warranted.

PSP

On 22 September 2011, Ivan Menezes, Deirdre Mahlan and Paul S Walsh received awards of 42,221 (ADRs), 159,574 (ordinary shares) and 392,872 (ordinary shares) performance shares, respectively, under the PSP. Awards vest after a three-year period subject to the achievement of specified performance tests. Notional dividends accrue on awards and are paid out either in cash or shares in accordance with the vesting schedule.

For the 2011 awards, the primary performance test is split between three equally weighted performance measures:

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

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

The targets and vesting profile for the PSP awards granted in September 2011 are shown in the following table:

	Total shareholder return	Organic net sales (CAGR)	Organic operating margin improvement	Vesting profile
• Threshold	Median ranking (ninth)	4%	50bps	25%
• Mid-point	–	6%	100bps	62.5%
• Maximum	Upper quintile (third or above)	8%	150bps	100%
Actual performance over the performance period	**6th**	**3.9%**	**214bps**	
% vesting (out of maximum 33.3% for each element)	**21.7%**	**0.0%**	**33.3%**	

There is straight line vesting between 25% and 100% for both the net sales measure and the operating margin measure. The full vesting profile for TSR is shown below:

TSR ranking (out of 17)	Vesting profile for PSP awards	Vesting profile for DLTIP performance share awards from 2014
1st	100%	100%
2nd	100%	100%
3rd	100%	100%
4th	95%	95%
5th	75%	75%
6th	65%	65%
7th	55%	55%
8th	45%	45%
9th	25%	20%
10th or below	0%	0%

TSR peer group

There are 16 other companies in the peer group:

AB Inbev	Mondelez International
Brown Forman	Nestlé
Carlsberg	PepsiCo
Coca-Cola	Pernod Ricard
Colgate-Palmolive	Procter & Gamble
Groupe Danone	Reckitt Benckiser
Heineken	SABMiller
Kimberly-Clark*	Unilever

*Replaced Heinz which has been taken into private ownership.

On the basis of this performance, the 2011 award, which is due to vest in September 2014, has partially met the performance conditions and, consequently, the shares under award will vest at 55% of the initial award. The Committee has assessed the underlying performance of the business at the end of the performance period and is satisfied that a minimum level of performance in both organic net sales and organic operating margin was achieved and that this level of vesting is warranted.

DIP

Ivan Menezes retains interests in awards that were granted to him in 2011, prior to his appointment as Executive Director, under the DIP, totalling 71,030 ADRs. This award was subject to performance conditions based on net sales, operating profit, overhead costs and operating profit as percentage of net sales, in each of North America, Latin America and Caribbean and Asia Pacific over the three-year period to June 2014. The actual performance for each element of the DIP awards versus target are set out below:

	North America			Latin America and Caribbean			Asia Pacific		
Performance measure	2012	2013	2014	2012	2013	2014	2012	2013	2014
Net sales	Above	Above	Below	Above	Below	Below	Above	Below	Below
Operating profit	Above	Above	Below	Above	Above	Below	Above	Below	Below
Overheads as percentage of net sales	Achieved	Above	Above	Above	Above	Below	Above	Above	Below
Operating profit as percentage of net sales	Above	Above	Above	Above	Above	Above	Above	Above	Below

The targets and actual performance have not been disclosed as they relate to divisional performance and are considered commercially sensitive. As the table shows, the 2011 DIP awards, due to vest in September 2014 and September 2015, have partially met the performance conditions. Consequently, the ADRs under award will vest at 50% of the initial award. The Committee has assessed the underlying performance of the business at the end of the performance period and is satisfied that this level of vesting is warranted.

Scheme interests awarded during the financial year (audited)

On 5 September 2013, Ivan Menezes and Deirdre Mahlan received awards of 47,484 (ADRs) and 110,241 (ordinary shares) performance shares, respectively, under the PSP, and 46,239 (ADRs) and 135,022 (ordinary shares) market price options, respectively, under the SESOP; details are provided in the table below. The three-year period over which performance will be measured is 1 July 2013 to 30 June 2016. The performance measures are the same as for the 2011 awards.

Executive Director	Date of grant	Plan	Share type	Awards made during the year	Award/option price	Face value '000	Face value (% of salary)
Ivan Menezes	05/09/2013	SESOP	ADR	46,239	$123.27	$5,700	375%
Ivan Menezes	05/09/2013	PSP	ADR	47,484	$120.04	$5,700	375%
Deirdre Mahlan	05/09/2013	SESOP	Ord	135,022	£19.83	£2,677	375%
Deirdre Mahlan	05/09/2013	PSP	Ord	110,241	£19.43	£2,142	300%

Notes

The table above specifies the number of shares/share options initially awarded under the PSP/SESOP. The proportion of the awards that will vest is dependent upon the achievement of performance conditions, and the actual value may be nil. The vesting outcomes will be disclosed in the 2016 report.

The face value of each award has been calculated using the award/option price at time of grant. In accordance with the PSP rules, the PSP was calculated by using the average closing share price for the last six months of the preceding financial year (£19.43 for ordinary shares and $120.04 for ADRs). In accordance with the plan rules, the number of options granted under the SESOP was calculated using the average closing share price of the three days preceding the grant date (£19.83 for ordinary shares and $123.27 for ADRs).

Details of the operation of the PSP and SESOP are provided under the section on long term incentive plans.

Policy implementation – year ending 30 June 2015

The Committee has reviewed Diageo's long term incentive arrangements in light of shareholder feedback and will be seeking shareholder approval for the new long term incentive plan (DLTIP) at the AGM.

The long term incentive plan measures are reviewed annually by the Remuneration Committee and are selected to reward long term consistent performance in line with Diageo's business strategy and to create alignment with the delivery of value for shareholders. The DLTIP measures for awards to be granted in September 2014 are:

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

The table below outlines the targets and the vesting profile for these awards. The measures are equally weighted and will be tested over three financial years, beginning with the financial year 2015.

	Performance shares			Share options	
	Total shareholder return (25%)	Organic net sales (CAGR) (25%)	Organic operating margin improvement (25%)	Adjusted eps growth (CAGR) (25%)	Vesting profile
Threshold	Median ranking (ninth)	4%	125bps	6%	20%
Mid-point	–	5.5%	175bps	–	60%
Maximum	Upper quintile (third or above)	7%	225bps	11%	100%

It is intended that a performance share award of 375% of base salary and an award of market price share options of 125% of base salary (in performance share equivalents; one market price option is valued at one-third of a performance share) will be made to Ivan Menezes in September 2014.

In recognition of Deirdre Mahlan's expanded responsibilities, taking accountability for the Global Supply and Procurement function with effect from 1 July 2014, it was determined that her long term incentive opportunity should be increased (from 425% of base salary in performance share equivalents) to 480% of base salary. It is intended that she will be awarded a performance share award of 360% of base salary and an award of market price share options of 120% of base salary (in performance share equivalents) in September 2014.

Both awards are subject to shareholder approval of the new DLTIP at the AGM.

Policy implementation: pension and benefits – year ending 30 June 2015

Benefits

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

Pension arrangements (audited)

Ivan Menezes and Deirdre Mahlan are members of the Diageo North America Inc. Supplemental Executive Retirement Plan (SERP) with an accrual rate of 40% and 35% of base salary, respectively. The SERP is an unfunded, non-qualified supplemental retirement programme. Under the plan, accrued company contributions are subject to quarterly interest credits. Under the rules of the SERP, they can withdraw the balance of the plan in the form of five equal annual instalments or a lump sum upon reaching age 55 (Deirdre Mahlan) and after having left service with Diageo (within six months of separation from service).

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

Ivan Menezes was also a member of the UK Scheme (the "Scheme") between 1 February 1997 and 30 November 1999. Under the Rules of the UK Scheme, this benefit is payable unreduced from age 60.

Paul S Walsh was a member of the UK Scheme until 31 March 2011, at which point he stopped accruing pension rights. From 1 May 2011 (from age 56), Paul S Walsh began to receive his pension benefits under the company's policy of 'flexible pension access' but continued to be in active employment. As per Diageo's discretionary early retirement policy, he would have been able to take his benefits without actuarial reduction from age 57. His benefits were, therefore, subject to a 3% reduction to reflect early payment for one year. The rules of the Scheme at the time that Paul S Walsh began to receive his benefits required pensions in payment to be increased each year in line with increases in the RPI, subject to a maximum of 5% per year and a minimum of 3% per year. In the event of death in service, a lump sum of four times pensionable pay plus a spouse's pension of two-thirds of the member's pension before commutation would be payable. Upon death after leaving the company, a spouse's pension of two-thirds of the member's pension before commutation is payable.

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

	30 June 2014		30 June 2013	
Executive Director	UK pension £'000 p.a.	US benefit £'000	UK pension £'000 p.a.	US benefit £'000
Ivan Menezes	68	3,409	66	3,306
Deirdre Mahlan	nil	874	nil	688

Paul S Walsh accrued UK pension benefits of £615,000 (30 June 2013 – £597,000). This amount is not pro-rated for his length of time on the Board.

The Normal Retirement Age (NRA) applicable to each Director's benefits depends on the pension scheme. The table outlines the relevant NRAs for each Director:

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

(a) Ivan Menezes and Deirdre Mahlan participated in the US Cash Balance Plan and the Benefit Supplemental Plan (BSP) until August 2012 and June 2010, respectively. The Cash Balance Plan is a qualified funded pension arrangement. Employer contributions are 10% of pay capped at the Inland 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 is able to take his UK pension benefits from age 58 without consent, and his benefits would not be subject to any actuarial reduction in respect of early payment. However, this is a discretionary policy Diageo offers that is not set out in the Scheme Rules.

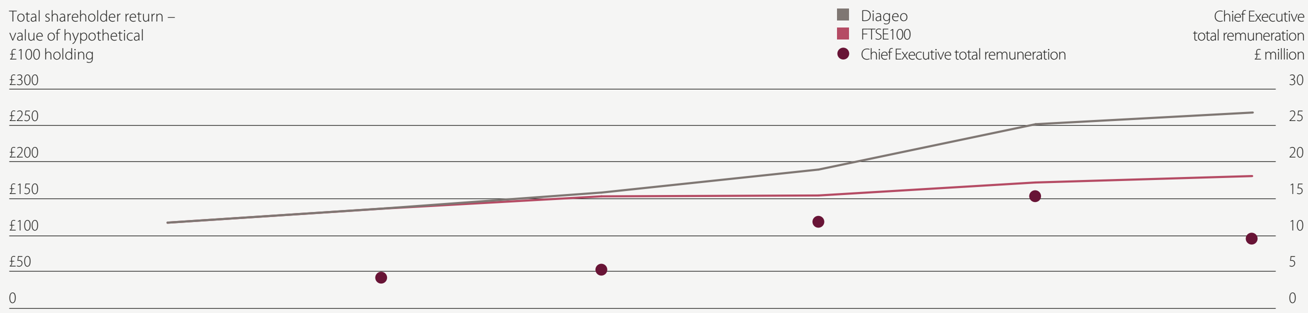
The NRA for Paul S Walsh would have been 62.

The estimated pension cost for the year ending 30 June 2015 is as follows:

	Estimated pension input amount for the year ending 30 June 2015		
Executive Director	Minimum remuneration £'000	Performance in line with expectations £'000	Maximum remuneration £'000
Ivan Menezes	480	480	480
Deirdre Mahlan	280	280	280

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 2009	June 2010	June 2011	June 2012	June 2013	**June 2014**
		Paul S Walsh £'000	Paul S Walsh £'000	Paul S Walsh £'000	Paul S Walsh £'000	**Ivan Menezes[a] £'000**
Chief Executive total remuneration (figure includes LTIP awards)		3,231	4,449	11,746	15,557	**7,768**
Annual bonus actual award compared to maximum opportunity		86%	77%	74%	51%	**9%**
SESOP vesting compared to maximum opportunity		100%	100%	100%	100%	**71%**
PSP vesting compared to maximum opportunity		0%	0%	65%	95%	**55%**

(a) To enable comparison Ivan Menezes single total figure of remuneration $12.7 miilion has been converted into sterling using the cumulative average weighted exchange rate for the financial year (£1 = $1.63).

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 2013 to 2014. 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 % change from 2013 to 2014	(24)%	109%	(86)%
Average % change for the UK and US workforce from 2013 to 2014	5%	3%	(23)%

Notes
The percentage change for the Chief Executive is based on the remuneration of Paul S Walsh in 2013, and Ivan Menezes in 2014.

Chief Executive taxable benefits for financial year ended 30 June 2014 include a one-off contractual relocation payment ($598k), which has been excluded from the table above as this does not form part of his on-going benefits package.

UK salary, benefits and bonus data have been converted into USD using the cumulative weighted average exchange rate for the respective financial year. For the year ended 30 June 2014 the exchange rate was £1 = $1.63, and for the year ended 30 June 2013 the exchange rate was £1 = $1.57.

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

Senior executives are required to build up significant holdings of shares in Diageo from their own resources over a defined period of time. The holding requirement and the status of that requirement as at 30 June 2014 are shown in the following tables. Under the company's shareholding requirement policy, Executive Directors have five years from their appointment to the Board in which to build up their shareholding to meet and maintain the new requirement. The information in the table below is based on the share interests held by the Director and their connected persons as at 30 June 2014 disclosed in the table 'Share and other interests', base salary earned in the year ended 30 June 2014, and an average share price for the same period of 1933 pence.

	Shareholding requirement (% salary)	% salary held	Owned outright/ legally owned	Shareholding requirement met?
Ivan Menezes	300%	1316%	634,810	Yes
Deirdre Mahlan	250%	604%	228,507	Yes
Paul S Walsh[(a)]	300%	1232%	784,829	Yes

Notes
US share awards were granted in ADRs (one ADR is equivalent to four ordinary shares); the share holdings in the table are stated as ordinary share equivalents.
(a) Paul S Walsh retired from the Board on 19 September 2013 and his shareholding (owned outright/legally owned) is therefore reflected as at 19 September 2013.

As at 30 June 2014, the beneficial interests of the Executive Directors in ordinary (ordinary equivalent) shares are as follows:

	Share and other interests Ordinary shares or equivalent					
	Shares					Share options
	Owned outright/ legally owned	Unvested and subject to performance conditions[(a)]	Unvested and not subject to performance conditions[(b)]	Vested but unexercised[(c)]	Unvested and subject to performance conditions[(d)]	Unvested and not subject to performance conditions[(e)]
Ivan Menezes	634,810	1,096,932	234,284	222,048	577,380	–
Deirdre Mahlan	228,507	404,468	–	282,812	471,560	937
Paul S Walsh[(f)]	784,829	1,127,746	–	154,963	1,048,602	1,617

Notes
Full details of the awards summarised above are available to view in the outstanding share plan interests table, on page 79. US share awards were granted in ADRs (one ADR is equivalent to four ordinary shares); the share holdings in the table are stated as ordinary share equivalents.

(a) Includes awards granted under the PSP and DIP.
(b) Includes awards granted under the DIP.
(c) Includes awards granted under the SESOP.
(d) Includes awards granted under the SESOP.
(e) Includes awards granted under the SAYE.
(f) Paul S Walsh retired from the Board on 19 September 2013 and his beneficial interests are therefore reflected as at 19 September 2013.

The beneficial interests of the Directors in office at 30 June 2014 in the ordinary shares of the company are shown in the table below.

	Ordinary shares or equivalent		
	18 July 2014	30 June 2014 (or retirement)	30 June 2013 (or appointment)
Chairman			
Dr Franz B Humer	53,641	53,197	46,883
Executive Directors			
Ivan Menezes[(a)]	634,810	634,810	504,605
Deirdre Mahlan[(a)]	228,518	228,507	133,109
Paul S Walsh[(b)]	N/A	784,829	769,651
Non-Executive Directors			
Peggy B Bruzelius	5,000	5,000	5,000
Laurence M Danon	5,000	5,000	5,000
Lord Davies of Abersoch	5,052	5,052	5,052
Betsy D Holden[(a)]	17,400	17,400	17,400
Ho KwonPing	4,103	4,103	4,000
Philip G Scott	10,000	10,000	10,000
H Todd Stitzer[(b)]	N/A	8,319	8,319

Notes
(a) Ivan Menezes, Deirdre Mahlan and Betsy D Holden have share interests in ADRs (one ADR is equivalent to four ordinary shares); the share interests in the table are stated as ordinary share equivalents.
(b) Paul S Walsh and H Todd Stitzer retired from the Board on 19 September 2013 and their shareholding is reflected as at that date.

Outstanding share plan interests

Date of award	Plan name	Share type	Performance period	30 June 2013[a]	Granted	Option price	Vested/ exercised	Lapsed	30 June 2014 (or retirement)	Date of vesting
Ivan Menezes										
Sep 2010	PSP[b]	ADR	2010-2013	46,350			44,032	2,318	–	2013
Sep 2010	SESOP[b]	ADR	2010-2013	55,512		$67.84			55,512	2013
Sep 2011	PSP[b]	ADR	2011-2014	42,221					42,221	2014
Sep 2011	SESOP[b]	ADR	2011-2014	51,531		$76.70			51,531	2014
Sep 2011	DIP[b],[c]	ADR	2011-2014	71,030					71,030	2014-2015
Mar 2012	DIP[b],[c]	ADR	2012-2019	117,142					117,142	2016-2019
Oct 2012	PSP[d]	ADR	2012-2015	54,927					54,927	2015
Oct 2012	SESOP[d]	ADR	2012-2015	46,575		$112.72			46,575	2015
Jan 2013	Sharevalue[e]	ADR		208		$95.81	208		–	2013
Sep 2013	PSP Dividend	ADR	2010-2013		3,093		3,093		–	2013
Sep 2013	PSP	ADR	2013-2016		47,484				47,484	2016
Sep 2013	SESOP	ADR	2013-2016		46,239	$123.27			46,239	2016
Deirdre Mahlan										
Sep 2007	DSOP[b]	ADR		6,000		$84.53	6,000		–	2010
Sep 2008	DSOP[b]	ADR		13,147		$74.16	13,147		–	2011
Sep 2009	SESOP[b]	ADR	2009-2012	20,790		$63.13			20,790	2012
Sep 2010	PSP	Ord	2010-2013	167,964			159,565	8,399	–	2013
Sep 2010	SESOP	Ord	2010-2013	199,652		£10.80			199,652	2013
Sep 2011	PSP	Ord	2011-2014	159,574					159,574	2014
Sep 2011	SESOP	Ord	2011-2014	190,239		£12.32			190,239	2014
Sep 2011	SAYE[f]	Ord		937		£9.60			937	2014
Oct 2012	PSP[d]	Ord	2012-2015	134,653					134,653	2015
Oct 2012	SESOP[d]	Ord	2012-2015	146,299		£17.43			146,299	2015
Sep 2013	PSP Dividend	Ord	2010-2013		11,286		11,286		–	2013
Sep 2013	PSP	Ord	2013-2016		110,241				110,241	2016
Sep 2013	SESOP	Ord	2013-2016		135,022	£19.83			135,022	2016
Paul S Walsh[g]										
Sep 2009	SESOP	Ord	2009-2012	454,963		£9.52	300,000		154,963	2012
Sep 2010	SESOP	Ord	2010-2013	409,062		£10.80			409,062	2013
Sep 2011	SAYE[f]	Ord		1,617		£9.41			1,617	2014
Sep 2010	PSP	Ord	2010-2013	430,172					430,172	2013
Sep 2011	SESOP	Ord	2011-2014	374,695		£12.32			374,695	2014
Sep 2011	PSP	Ord	2011-2014	392,872					392,872	2014
Oct 2012	SESOP[d]	Ord	2012-2015	264,845		£17.43			264,845	2015
Oct 2012	PSP[d]	Ord	2012-2015	304,702					304,702	2015

(a) For unvested awards this is the number of shares/options initially awarded. For exercisable share options, this is the number of outstanding options.
(b) Shares/options granted prior to the Executive's appointment to the Board. The DSOP is a 'below-board' share plan, not subject to performance conditions.
(c) Ivan Menezes retains interests in awards that were granted to him prior to joining the Board under 'below-board' plans (Discretionary Incentive Plan), totalling 188,172 ADRs. Two-thirds of these awards are subject to performance conditions and will vest, subject to achievement of the performance conditions and continued employment, in phased tranches between September 2014 and March 2019.
(d) Details of the performance conditions attached to PSP and SESOP awards granted in 2012 are available in Diageo's 2013 Annual Report.
(e) Options granted under the US savings-related share options scheme.
(f) Options granted under the UK savings-related share options scheme.
(g) Paul S Walsh retired from the Board on 19 September 2013 and his share plan interests are reflected as at 19 September 2013.

Non-Executive Directors' fees

The next review of the Chairman's fee is anticipated to take place in December 2014, with any changes taking effect on 1 January 2015.
The last scheduled review of fees for Non-Executive Directors was undertaken in December 2013. As a result of this review the base fees were increased, as follows, to reflect market practice in comparable companies.

Per annum £ fees effective from	January 2014	January 2013
Chairman of the Board	500,000	500,000
Non-Executive Directors		
Base fee	84,000	80,000
Senior Non-Executive Director	20,000	20,000
Chairman of the Audit Committee	30,000	25,000
Chairman of the Remuneration Committee	25,000	20,000

Non-Executive Directors' remuneration for the year ended 30 June 2014

	Fees £'000		Taxable benefits[(a)] £'000		Total £'000	
	2014	2013	2014	2013	2014	2013
Chairman						
Dr Franz B Humer[(b)]	500	500	5	5	505	505
Non-Executive Directors						
Peggy B Bruzelius	82	80	1	1	83	81
Laurence M Danon	82	80	1	1	83	81
Lord Davies of Abersoch	125	120	1	1	126	121
Betsy D Holden	82	80	1	1	83	81
Ho KwonPing	82	80	1	1	83	81
Philip G Scott	110	105	1	1	111	106
H Todd Stitzer[(c)]	20	80	–	1	20	81

(a) Other benefits include a contracted car service and product allowance.
(b) £200,000 of Dr Franz B Humer's remuneration in the year ended 30 June 2014 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.
(c) Retired 19 September 2013.

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 2014, Ivan Menezes served as a Non-Executive Director of Coach Inc and earned fees of $75,000, which he retained. In line with the Coach Inc policy for outside directors, Ivan Menezes is eligible to be granted share options and restricted share units (RSUs). During the year ended 30 June 2014, he was granted 6,750 options at an option price of $51.68 and 1,484 RSUs (including dividends received) at a fair market value of $51.68.

Deirdre Mahlan – During the year ended 30 June 2014, Deirdre Mahlan served as a Non-Executive Director of Experian plc and earned fees of £113,854, which she retained.

Paul S Walsh – Until he stepped down from the Board on 19 September 2013, Paul S Walsh served as a Non-Executive Director of Unilever NV and plc, FedEx Corp and Avanti. He retained the fees paid to him for his services. The total amounts of such fees paid in the year until he stepped down from the Board are set out in the table below.

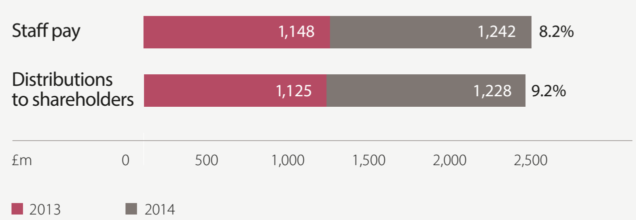
	Paul S Walsh £'000
Unilever[(a)]	19
FedEx Corp[(a)]	2
Avanti	10
	31

(a) Fees paid in currencies other than sterling are converted using average exchange rates for the year ended 30 June 2014.

Relative importance of spend on pay

The graph below illustrates the relative importance of spend on pay (total remuneration of all group employees) compared with distributions to shareholders, and the percentage change from financial year 2012/13 to financial year 2013/14. Distributions to shareholders are total dividends.

Relative importance of spend on pay – percentage change



Remuneration committee

The Remuneration Committee consists of the following independent Non-Executive Directors: Peggy B Bruzelius, Laurence M Danon, Lord Davies of Abersoch, Betsy D Holden, Ho KwonPing, Philip G Scott and H Todd Stitzer (retired on 19 September 2013). 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 Director of Performance and Reward are also invited from time to time by the Remuneration Committee to provide their views and advice. The Global Human Resources Director is not present when her own remuneration is discussed. The Chief Financial Officer may also attend to provide performance context to the Committee during its discussions about target setting. Information on meetings held and director attendance is disclosed in the corporate governance report.

The Remuneration Committee's principal responsibilities are:

- Making recommendations to the Board on remuneration policy as applied to the Executive Directors and the Executive Committee;
- Setting, reviewing and approving individual remuneration arrangements for the Chairman of the Board, Executive Directors and Executive Committee members including terms and conditions of employment;
- Determining arrangements in relation to termination of employment of the Executive Directors and other designated senior executives; and
- Making recommendations to the Board concerning the introduction of any new share incentive plans which require approval by shareholders.

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

External advisors

During the year ended 30 June 2014, the Remuneration Committee received advice from the following independent consultants:

Deloitte LLP (until 7 December 2013) and Kepler Associates (from 7 December 2013), both appointed by the Committee after consultation with the Board following a tendering process, provided advice on remuneration best practice and senior executive remuneration.

Both Kepler Associates and Deloitte LLP are members of the Remuneration Consultants Group and, as such, voluntarily operate under the Code of Conduct in relation to executive remuneration consulting in the United Kingdom. Further details can be found at www.remunerationconsultantsgroup.com. Deloitte LLP also provided a range of non-related tax, corporate finance and consulting services during the year. The fees paid to Deloitte LLP in relation to advice provided to the Committee in the year until 7 December 2013 were £20,150. Kepler Associates supported the Committee in preparing this Directors' remuneration report, provided advice on the design of the long term incentives, and calculated the TSR of Diageo and its peer companies for the 2010 and 2011 PSP awards and provided periodic updates on all outstanding performance cycles. The fees paid to Kepler Associates in relation to advice provided to the Committee were £83,150.

Linklaters were appointed by the company, with the agreement of the Committee, to provide legal advice on the new long term incentive plan and the AIP. Fees paid were £28,000. Linklaters also provide other legal advice on certain corporate matters.

The Committee is satisfied that the Deloitte LLP, Kepler Associates and Linklaters engagement partner and team, that provide remuneration advice to the Committee, do not have connections with Diageo that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

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

Statement of voting

The 2013 Directors' remuneration report received a majority "for" vote of 88.2%. The vote "against" was 11.8% and 18,126,693 of votes were withheld (total votes cast, including withheld votes: 1,827,535,266).

ADDITIONAL INFORMATION

Emoluments and share interests of senior management

The total emoluments for the year ended 30 June 2014 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 £10.4 million (2013 – £16.3 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 £38.9 million. In addition, they were granted 958,618 options under the SESOP during the year at a weighted average share price of £19.41, exercisable by 2023 and 17,303 options under the Diageo Executive Long Term Incentive Plan (DELTIP), which will vest in three years. They were also initially awarded 858,265 shares under the PSP in September 2013, which will vest in three years subject to the performance tests described in sections PSP and SESOP, and 17,751 shares under the DIP, which will vest in March 2017.

Senior management options over ordinary shares

At 18 July 2014, the senior management had an aggregate beneficial interest in 1,589,292 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	799,428	£14.83	2009-2023
Deirdre Mahlan	755,309	£13.73	2009-2023
Other*	1,478,215	£16.05	2007-2024
	3,032,952		

*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. As previously disclosed, Paul S Walsh has purchased a seasonal development at Gleneagles from a subsidiary of the company, Gleneagles Resort Developments Limited. The transaction was priced on the same basis as all the external seasonal development transactions and was at arm's length. The value of the transaction at the date of purchase was £43,000. Paul S Walsh continued to hold this seasonal development at 19 September 2013.

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 2014.

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 30 July 2014 and was signed on its behalf by Lord Davies of Abersoch who is senior Non-Executive Director and Chairman of the Remuneration Committee.

The Board has followed the principles of good governance as set out in the UK Corporate Governance Code and complied with the regulations contained in the Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Listing Rules of the Financial Conduct Authority and the relevant schedules of the Companies Act 2006.

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

KPMG LLP has audited the report to the extent required by the Regulations, being the sections headed Single Total Figure of Remuneration for Executive Directors and Non-Executive Directors (and notes), Annual Incentive Plan (AIP), Long Term Incentive Plans (LTIPs), Directors' Shareholding Requirements and Share Interests, Share Plan Interests, Pension Arrangements and Key Management Personnel Related Party Transactions.

The remuneration policy report and the annual report on remuneration are subject to shareholder approval at the AGM on 18 September 2014.

Terms defined in this remuneration report are used solely herein.