Directors' remuneration report

Dear Shareholder

As the Chairman of the remuneration committee, I am pleased to present the directors' remuneration report for the year ended 30 June 2013 and to highlight some of the key aspects of the committee's work during the financial year.

As I noted in the 2012 remuneration report, the committee took the opportunity this year to undertake a detailed review of our remuneration arrangements with the main focus being our long term incentive plans. The aim of the review was to ensure that the plans continue to incentivise the delivery of our performance goals through straightforward and transparent links to our strategic objectives. Recognising the increasingly global nature of Diageo's business, part of the review included an independent report into global executive pay practices. Following the review, the committee and I are satisfied that the current arrangements remain appropriate, both in terms of design and quantum, to ensure that we are able to attract and retain the highest quality global talent for Diageo.

I value the continued dialogue with our shareholders. I have engaged directly with them and their representative bodies at the earliest opportunity to set out Diageo's remuneration policy and approach, proposed base salary increases for the executive directors, targets for the 2013 long term incentive plan awards and transition arrangements for the outgoing chief executive.

As described in the 'Business review', the company has delivered good year on year organic top line growth despite a slowdown in markets such as Korea, Brazil and Nigeria. The company's commitment to the delivery of efficient growth has led to considerable margin expansion leading to strong organic operating margin growth and double digit eps growth. In addition the company has sustained its robust free cash flow. The financial performance the company has delivered in the year ended 30 June 2013 positions the business well for the future. The overall level of performance achieved resulted in an annual incentive plan award equating to 101% of base salary for Paul Walsh, 91% of base salary for Ivan Menezes and 96% of base salary for Deirdre Mahlan in respect of 2012/13. Despite the significant progress we have made during the year the bonus paid is lower than last year reflecting the challenging nature of the targets set by the committee.

The company has delivered exceptionally strong three-year total shareholder return performance relative to its peer group for the performance period that ended on 30 June 2013, resulting in Diageo achieving third place out of 16 global consumer packaged goods companies. As a result, 95% of the performance shares awarded in September 2010 will vest in September 2013. For share options awarded in September 2010, three year compound annual growth in adjusted earnings per share was 12.2% (equivalent to total growth over three years of 41.2%) which has exceeded the maximum target of 7% and, consequently, the options will vest in full in September 2013. Over the same period, Diageo's share price grew by 80%, from 1042 pence to 1880 pence, and the company paid a total dividend of 125.5 pence per share.

I am delighted that Diageo provides the opportunity for all employees to share in the company's success through our global all-employee share ownership schemes. Employees will also benefit from the significant share price growth over the last three years. In 2013, the schemes will deliver shares to individuals that will provide an estimated gain of £40 million to participants which equates to an average gain in the region of £4,000 for each participating employee.

As announced on 7 May 2013, Ivan Menezes, previously Chief Operating Officer, succeeded Paul Walsh as Chief Executive on 1 July 2013. The committee carefully considered the remuneration package for the new chief executive as well as the transition arrangements for the outgoing chief executive and I shared these with our major shareholders at the start of the shareholder consultation process. Details of the arrangements can be found in the section of the remuneration report headed chief executive arrangements.

Paul Walsh will step down from the board on 19 September 2013 and will act as Advisor to the Chairman and the Chief Executive until June 2014 to ensure a smooth and carefully managed hand-over. His main focus will be transitioning critical partner and external relationships and supporting strategic activities that will drive the future growth of the business.

Finally, this year we have maintained the improvements that we made to the structure and layout of the directors' remuneration report in 2012, including the early adoption of a 'single remuneration figure' and other relevant disclosures, to provide year-on-year consistency and transparency in our disclosure practices. Following the final publication of the new reporting regulations by the government in June 2013, the committee will now be focusing on the changes required to implement the new regulations, with the structure and content of our 2014 report fully reflecting them.

We look forward to receiving your support at the AGM in September 2013.

E. Mervyn Davies

Lord Davies of Abersoch
Senior independent Non-Executive Director and
Chairman of the remuneration committee

Executive directors' remuneration summary for the year ended 30 June 2013

Performance highlights

Short term performance

Annual incentive plan targets were higher than the previous year. The 2013 annual bonus payout is lower than in 2012, based on the year's performance, despite delivering organic top line growth of 5% and profits up by 8%.

Long term performance

Over the three year performance period 1 July 2010 to 30 June 2013, Diageo delivered outstanding total shareholder return (TSR) performance. Diageo ranked third in its peer group for TSR for the first time ever and met its commitment to achieve double digit eps growth.

In summary, over this period:

- The share price has increased by 80% resulting in an increase in Diageo's market capitalisation of over £20 billion to £47 billion.
- Diageo has paid a total dividend of 125.5 pence per share to shareholders.
- Adjusted eps increased from 74.5 pence to 104.4 pence (equivalent to growth of 12.2% per annum).
- As a result, this will be the first year in which both long term incentive plans will vest together almost in full.

Paul Walsh (Chief Executive until 30 June 2013)

- Base salary will remain flat for the outgoing chief executive in the annual salary review for the year ending 30 June 2014.
- No remuneration to be received as a result of termination of employment as chief executive. For details on arrangements for the year ending 30 June 2014, go to section headed chief executive arrangements.
- 83% of Paul Walsh's total remuneration in the year ended 30 June 2013 is linked to share price performance.

Paul Walsh	2013 (£000)	% of total pay	2012 (£000)	% of total pay	Commentary
Total fixed pay	1,276	9%	1,278	12%	Representing base salary and benefits earned in the year ended 30 June 2013. Base salary held flat since 2011.
Annual bonus	1,245	8%	1,821	16%	Based on overall company performance in F13: 80% company financial measures and 20% individual business objectives.
Sub total – short term remuneration (cash)	2,521	17%	3,099	28%	
Long term incentive plan – performance element[a]	4,508	31%	3,060	27%	Driven by exceptionally strong three year TSR performance and delivery of double digit eps growth. Both plans vest together almost in full for the first time.
Long term incentive plan – share appreciation element[b]	7,762	52%	5,055	45%	Represents the impact of the significant increase in Diageo's share price of 80% since the award in 2010.
Sub total – long term share price based remuneration (non-cash)	12,270	83%	8,115	72%	
TOTAL	14,791	100%	11,214	100%	

Ivan Menezes (Chief Operating Officer until 30 June 2013, Chief Executive from 1 July 2013)

- From 1 July 2013, following promotion to Chief Executive, Ivan Menezes will receive an annual salary of $1,520,000 (£1,000,000). This represents an 8.6% increase to his salary when he was Chief Operating Officer.
- 72% of Ivan Menezes' total remuneration is linked to share price performance.

Ivan Menezes	2013 (£000)	% of total pay	Commentary
Total fixed pay	943	12%	Representing base salary and benefits earned in the year ended 30 June 2013. The base salary increase of 8.6% on appointment is effective 1 July 2013.
Pension[c]	397	5%	
Annual bonus	838	11%	Based on overall company performance in F13: 80% company financial measures and 20% individual business objectives.
Sub total – short term remuneration (cash)	2,178	28%	
Long term incentive plan – performance element[a]	1,943	25%	Driven by exceptionally strong three year TSR performance and delivery of double digit eps growth. Both plans vest together almost in full for the first time.
Long term incentive plan – share appreciation element[b]	3,751	47%	Represents the impact of the significant increase in Diageo's share price of 80% since the award in 2010.
Sub total – long term share price based remuneration (non-cash)	5,694	72%	
TOTAL	7,872	100%	

Deirdre Mahlan (Chief Financial Officer)

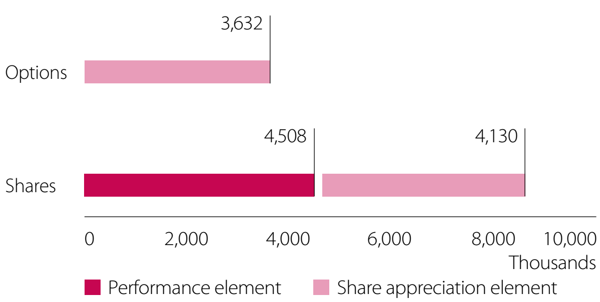
- Base salary to be increased by 5% in the annual salary review for the year ending 30 June 2014.
- 76% of Deirdre Mahlan's total remuneration is linked to share price performance.

Deirdre Mahlan		2013 (£000)	% of total pay	2012 (£000)	% of total pay	Commentary
Total fixed pay	↑	700	10%	642	20%	Representing base salary and benefits earned in the year ended 30 June 2013. The base salary increase of 5% effective 1 October 2013 recognises her contribution to date and the size and complexity of her role.
Pension[d]		238	4%	245	8%	
Annual bonus	↓	652	10%	912	28%	Based on overall company performance in F13: 80% company financial measures and 20% individual business objectives.
Sub total – short term remuneration (cash)	↓	1,590	24%	1,799	56%	
Long term incentive plan – performance element[a]	↑	1,761	26%	517	16%	Driven by exceptionally strong three year TSR performance and delivery of double digit eps growth. Both plans vest together almost in full for the first time.
Long term incentive plan – share appreciation element[b]	↑	3,384	50%	891	28%	Represents the impact of the significant increase in Diageo's share price of 80% since the award in 2010.
Sub total – long term share price based remuneration (non-cash)	↑	5,145	76%	1,408	44%	
TOTAL	↑	6,735	100%	3,207	100%	

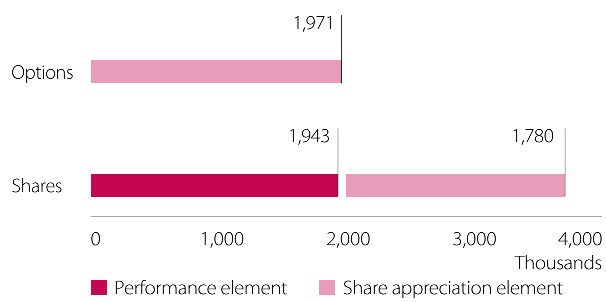
Notes to tables
(a) Performance element – The performance shares due to be released in September 2013 at the grant price after applying the performance condition.
(b) Share appreciation element – The estimated additional value generated through share price growth for options vesting and performance shares due to be released in September 2013 at the average market value of Diageo shares between 1 April and 30 June 2013 of 1968 pence.
(c) The value of the pension amount accrued in the Diageo North America Inc. pension plans over the year. This figure has been calculated in line with the 'single total figure of remuneration' methodology under the incoming remuneration reporting requirements.
(d) 2012: Cash allowance in lieu of pension (40% of base salary). 2013: The value of the pension amount accrued in the Diageo North America Inc. SERP over the year.

Proportion of LTIPs vesting attributable to share price appreciation

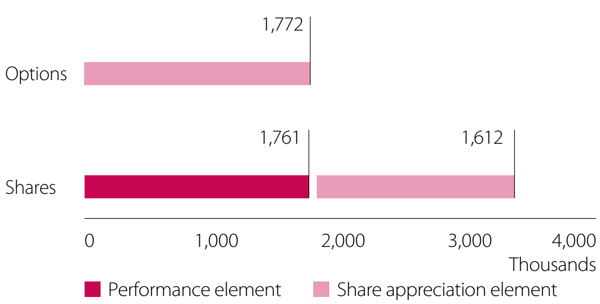
Paul Walsh



Ivan Menezes



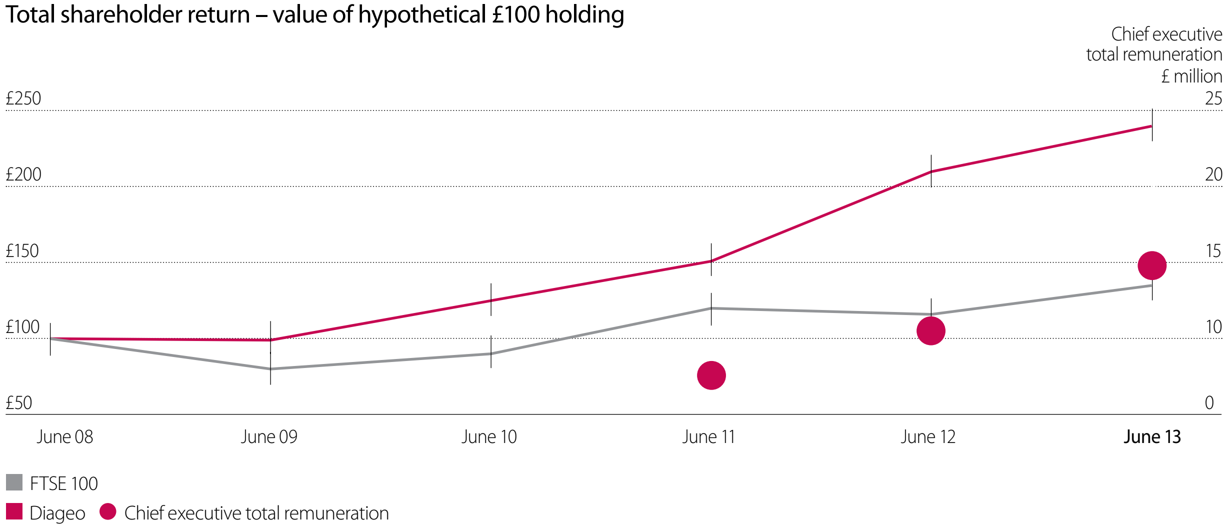
Deirdre Mahlan



Performance graph

The graph below shows the total shareholder return for Diageo and the FTSE 100 Index since 30 June 2008 and demonstrates the relationship between pay and performance for the chief executive using current and previously published single total remuneration figures. The FTSE 100 Index reflects the 100 largest quoted companies by market capitalisation in the United Kingdom and has been chosen because it is a widely recognised performance benchmark for large companies in the United Kingdom. Diageo has substantially outperformed the Index over this period.

Total shareholder return – value of hypothetical £100 holding



Chief executive total remuneration (£000)	4,449	11,214	14,791
Annual bonus actual award compared to maximum	77%	74%	51%
SESOP vesting compared to maximum opportunity	100%	100%	100%
PSP vesting compared to maximum opportunity	0%	65%	95%

Appointment of new chief executive

As announced on 7 May 2013, the company has appointed Ivan Menezes, formerly Diageo's Chief Operating Officer, as Chief Executive of Diageo with effect from 1 July 2013. Ivan Menezes will be paid a base salary of $1,520,000 (£1,000,000) per annum. No other changes are proposed to Ivan Menezes' current remuneration arrangements, which are set out in the section chief executive arrangements.

Governance

What is the role of the remuneration committee?

The remuneration committee consists of the following independent Non-Executive Directors: Peggy Bruzelius, Laurence Danon, Lord Davies, Betsy Holden, Philip Scott, Todd Stitzer and Ho KwonPing (since 1 October 2012). 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.

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 each executive director 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.

What has the remuneration committee done during the year?

The remuneration committee met five times during the year to consider and, where applicable, approve key remuneration items including the following:

Governance and forward planning	Pay	Incentive plans
• Reviewed AGM outcomes and feedback from institutional shareholders, giving consideration to implications for future remuneration policy. • Reviewed the updated UK governance requirements, including the government consultation on narrative reporting and executive remuneration and assessed Diageo's compliance. • Approved shareholder consultation approach and extended invitation for key shareholders to meet with Diageo's chairman of the remuneration committee. • Reviewed and approved the directors' remuneration report taking into account feedback from shareholder meetings.	• Approved methodology and approach to pay review and identified any benchmarking requirements. • Reviewed and approved proposals for salary reviews and any adjustments to other remuneration elements (e.g. levels of share award, pension and benefits). • Established remuneration arrangements for chief executive transition.	• Considered and approved plan design, performance measures and targets to be used in short and long term incentive plans to ensure measures are aligned with strategy and that targets are appropriately stretching. • Tracked performance for annual bonus and long term incentive measures during the year. • Detailed review of remuneration arrangements with particular focus on long term incentive plans to ensure they continue to incentivise performance goals through simple, transparent links to strategic objectives. • Reviewed year-end business performance and performance linked reward. Determined bonus payouts and vesting of long term incentives. • Reviewed global executive pay practice, recognising the increasingly global nature of Diageo's business and the need to compete for the best talent in the key developing markets.

Further information on meetings held and director attendance is disclosed in the corporate governance report.

Who provides advice to the remuneration committee?

During the year ended 30 June 2013, the remuneration committee received advice from the following independent consultants:

- Deloitte LLP (appointed by the committee) – provided advice on remuneration best practice and senior executive remuneration. Deloitte LLP is a member of the Remuneration Consultants Group and, as such, voluntarily operates 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 committee is comfortable that the Deloitte LLP 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.
- Kepler Associates (appointed by the committee) – reviewed and confirmed the TSR of Diageo and the peer group companies for the award under the September 2009 Performance Share Plan (for which the performance cycle ended on 30 June 2012) and provided periodic performance updates on all outstanding performance cycles. After 30 June 2013, they also reviewed and confirmed the TSR outcome for the award under the September 2010 Performance Share Plan (for which the performance cycle ended on 30 June 2013). They provided no other services to Diageo during the year. Kepler is a signatory to the Remuneration Consultants Group Code of Conduct.
- PricewaterhouseCoopers LLP (PwC) (appointed by the committee) – provided an independent review of compensation in some of Diageo's new high growth markets. PwC is a signatory to the Remuneration Consultants Group Code of Conduct.

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.

Diageo's human resources director and director of performance and reward were also invited by the remuneration committee to provide their views and advice. The human resources director was not present when his own remuneration was discussed. The chief financial officer may also attend to provide performance context to the committee during its discussions about target setting.

What was the outcome of the vote on the 2012 directors' remuneration report at the company's AGM?

The 2012 directors' remuneration report received a majority 'for' vote of 92.5% (2011 – 80%). The vote against was 7.5%.

How has the remuneration committee responded to shareholder feedback during the year?

The committee actively considered feedback received from shareholders prior to and following the 2012 AGM and also closely monitored guidance and directional themes emerging from institutional shareholder bodies and the UK government during the year on the subject of executive remuneration.
On the basis of this, the committee has taken the following actions:

- An in-depth review of the long term incentive arrangements to ensure that both the quantum and the design are appropriate. As a result of the review, the committee determined that the current remuneration arrangements are fit for purpose and appropriate, and no changes to the framework were proposed.
- Early consultation on proposed salary increases for executive directors and the targets for the long term incentive plans.

The remuneration committee also provided the opportunity for some of Diageo's major shareholders and their representative bodies to meet with the remuneration committee chairman during the year to discuss remuneration matters generally.

What will the remuneration committee be focused on for the year ending 30 June 2014?

- Implementing legislative changes on reporting requirements and shareholder voting rights.
- Reviewing and assessing the ongoing appropriateness of current executive remuneration plan design and target stretch.
- Ensuring that remuneration arrangements continue to attract and retain talent, and reward company performance with a focus on maintaining the link between performance and reward.
- Understanding and responding to shareholder feedback and fostering continuous open dialogue.

What is the philosophy underpinning executive remuneration?

The plans in which Diageo's executive directors and senior management participate are designed to reflect the principles detailed below:

What	Why	How
Performance-related compensation	It influences and supports performance and the creation of a high-performing organisation.	• Short and long term incentives conditional upon achieving stretching performance targets.
Rewarding sustainable performance	It is at the heart of Diageo's corporate strategy and is vital to meeting stakeholder interests.	• A combination of absolute and relative performance measures for short and long term incentives that reflect sustainable profit growth and underlying financial performance. • The majority of the total remuneration package is delivered in shares. • Shareholding requirements that align the interests of senior executives with those of shareholders and that are a condition of full participation in long term incentive plans.
Measuring performance over three years	It aligns with the time cycle over which management decisions are reflected in the creation of value in the business.	• Long term incentives that comprise a combination of share option grants and share awards in each year and vary with three year eps, TSR, organic net sales and organic operating margin performance.
Providing a balanced mix of remuneration	It enables focus on long term value creation while avoiding disproportionate risk-taking.	• Base salary, benefits, retirement savings, short term cash incentives and long term equity incentives.
Providing a competitive total remuneration opportunity	It helps Diageo attract and retain the best global talent.	• Reward levels considered in the context of total remuneration packages paid in relevant global comparators, reflecting the size, complexity and global scope of Diageo's business.
Simplicity and transparency	It allows targets to be motivating and demonstrably linked to company performance.	• Targets that are within a sphere of direct influence and that align with the company's short and long term goals.

How does executive remuneration link to business strategy?

Diageo's strategy is to drive top line growth and margin expansion in a sustainable and responsible way and to deliver consistent value creation for its shareholders over the long term. To do this Diageo will use its broad brand range, category depth and geographic reach to deliver on consumer needs. Key to achieving its strategy is the expertise of its people who share the same values.

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

Focused on sustainable 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 sustainable 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 individual and business performance so that remuneration will increase or decrease in line with performance. The fixed versus variable pay mix is illustrated on the following page.
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.

How do the incentive plan measures link to business strategy?

The following table describes the performance measures that are used in the company's short and long term executive incentive plans and the business performance that they drive:

Short term incentive plan measures	Long term incentive plan measures
Net sales – year-on-year net sales growth is a key performance measure.	**Net sales** – sustained year-on-year organic net sales growth is a key performance measure.
Profit before exceptional items and taxation – 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.	**Operating margin** – organic operating margin measures the efficiency of the business.
Free cash flow – positive cash flow is an indicator of the financial health of the business and critical to enabling infrastructure investment, marketing investment, capital expenditure and acquisition opportunities in line with Diageo's strategy. A proportion of this metric is focused on average cash performance to enhance focus on sustained cash generation throughout the year.	**Earnings per share (eps)** – reflects profitability and is a key measure for shareholders; an adjusted measure of eps is used in the share option plan.
Individual business objectives – these are measurable deliverables that are specific to the individual and are focused on supporting the delivery of key strategic objectives.	**Relative total shareholder return (TSR)** – reflects the value of share price growth plus dividends, thus measuring the value returned on shareholder investments; Diageo's performance relative to its selected peer group determines how much reward is delivered to plan participants.

How is pay for performance achieved?

The board of directors sets stretching goals for the company and its leaders, framed by Diageo's performance culture and business strategy. The combination of strong top line growth with continuing improved efficiency, delivered through the operating margin target, is designed to add significant shareholder value. Diageo delivers the highest margin in the spirits sector and among the highest in the broader alcoholic beverages industry. Based on its double digit eps growth target, Diageo is among the most ambitious companies in its sector.

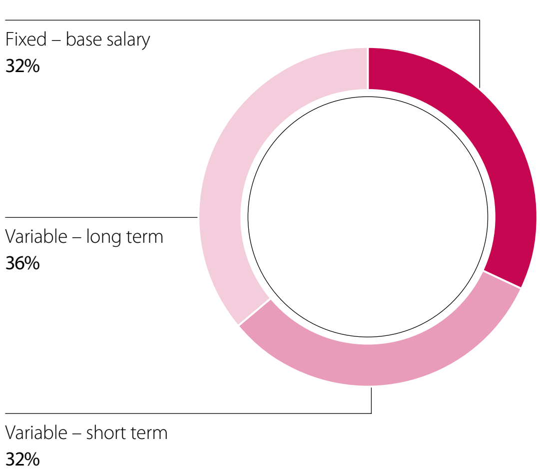
The annual incentive plan aims to reward the delivery of short term financial and individual business performance goals with commensurate levels of remuneration. Long term incentive plans aim to reward long term sustained performance and create alignment with the delivery of value for shareholders. Under both sets of plans, if the demanding targets are achieved, high levels of reward may be earned. All incentives are capped to ensure that inappropriate risk-taking is neither encouraged nor rewarded.

What is the proportion of fixed to variable pay?

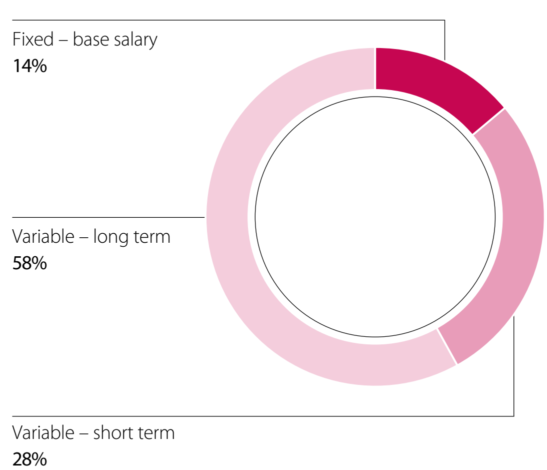
The balance between fixed and variable elements of remuneration changes with performance. Based on expected values at target and the average of remuneration elements for the executive directors, the mix between fixed and variable remuneration for executive directors is that for £100 of remuneration earned, £32 will be fixed remuneration and £68 will be performance-related remuneration, excluding pensions and other benefits. At maximum, the mix increases the weighting on variable pay (and in particular, long term variable pay) so that for £100 of remuneration earned, £14 will be fixed remuneration and £86 will be performance-related remuneration, excluding pensions and other benefits. This mix is illustrated in the following charts.

Fixed vs variable pay mix

Target



Maximum



How is risk managed in the incentive plans?

The remuneration committee considers the management of risk to be important to the process of designing and implementing sustainable remuneration structures and to setting appropriate performance targets for incentive plans. The members of the remuneration committee also constitute the membership of the audit committee, thus ensuring full oversight of any risk factors that may be relevant to remuneration arrangements and target setting specifically. Before agreeing bonus payments and approving the vesting under long term incentive plans, the remuneration committee, in conjunction with the audit committee, considers the underlying performance of the business during the relevant period to ensure that the level of reward is appropriate and aligned with shareholder interests. In 2012 a clawback condition was introduced to both short term and long term incentive plan awards.

Summary of current remuneration policy for executive directors

A breakdown of the reward programmes in which Diageo's executive directors participate, the remuneration strategy that they support and the policy governing their execution is detailed in the table below:

What	Why	How
Base salary	Reflects the value of the individual, their skills and experience, and performance.	• Reviewed annually with changes usually taking effect from 1 October. • Benchmarked against the top 30 companies in the FTSE 100 by market capitalisation excluding companies in the financial services sector. • Generally positioned at the median of the relevant market or, in certain circumstances, positioned above median if justified by the requirement to recruit or retain key executives.
Annual incentive plan	Incentivises year on year delivery of short term performance goals. Provides focus on key financial metrics including profit growth and cash performance.	• Targets set by reference to the annual operating plan. • Level of award determined by Diageo's overall financial performance. • Annual incentive plan awards based 80% on financial measures (net sales, profit and cash flow) and 20% on specific individual business objectives related to business strategy and operational targets. • Up to 100% of salary earned for on target performance with a maximum of 200% of salary payable for outstanding performance.
Share options (SESOP 2008)	Incentivises three year earnings growth above a minimum threshold. Provides focus on increasing Diageo's share price over the medium to longer term.	• A discretionary annual grant of market price share options subject to a performance test based on annual compound growth in adjusted eps over three years. • Stretching growth targets set annually by the remuneration committee. • Maximum annual grant of 375% of salary. • Threshold vesting level of 25% with pro rata vesting up to 100% maximum.
Performance share awards (PSP 2008)	Incentivises three year total shareholder return relative to a selected peer group of companies and the achievement of organic net sales and organic operating margin targets that support the delivery of the company's medium term growth ambitions. Provides focus on delivering superior returns to shareholders.	• A discretionary annual award of shares subject to a three year performance test. • Maximum annual award of 375% of salary. • Threshold vesting of 25% up to a maximum of 100%. • Based on three equally weighted measures: TSR performance against a peer group of companies, organic net sales growth (compound annual growth) and total organic operating margin improvement. • Threshold vesting for median TSR performance (ninth position), up to 100% vesting (equivalent to 33.3% of the total award) for achieving third or above in the peer group. • Organic net sales and organic operating margin targets set annually by the remuneration committee for each new award. • Notional dividends accrue on awards, delivered as shares or cash at the discretion of the remuneration committee.
Benefits	Provides market competitive non-cash benefits.	• Provision of benefits such as company car and driver, product allowance, medical insurance and financial counselling.
Pension	Provides competitive post-retirement benefits or cash alternative.	• Provision of market competitive pension arrangements or a cash alternative based on a percentage of base salary. • Bonus and other benefits excluded from calculation of cash supplement. • 'Flexible pension access' allows individuals whose benefits exceed the Lifetime Allowance and who are over the age of 55 to draw their pension early while remaining in employment.

Base salaries

How are base salaries determined?

The previous summary table sets out the policy on base salary for the executive directors. In addition to market data, base salaries are determined with reference to individual experience and performance, and the level and structure of remuneration for other employees in the group and the external environment.

How is benchmarking used?

Benchmarking is primarily referenced if there is a perceived gap between the individual's base salary positioning and relevant market peers, where there is a known retention risk or where an individual is newly appointed to the role. When used, benchmarking data is considered holistically, looking at salary in the context of total package value, and is referenced as a guide to support the committee's judgement taking into account a number of other factors including the importance of the role in delivering the company's strategy, the performance of the individual, and the pay and employment conditions of the general employee population.

The peer group that is referenced comprises the top 30 companies in the FTSE 100 by market capitalisation, excluding companies in the financial services sector. Benchmarking also makes reference to other relevant global comparators where appropriate recognising the global mobility of the senior talent pool.

What increases have been applied during the year?

In July 2013, the remuneration committee reviewed base salaries for senior management and agreed new salaries which will apply from 1 October 2013. 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 pay budget in the year ending 30 June 2014 is 3.75% of base salary for the business in the United Kingdom and 3% in North America.

Following his appointment as Advisor to the Chairman and the Chief Executive, the base salary for Paul Walsh will be held flat. Upon appointment to the Chief Executive role, Ivan Menezes will receive an annual salary of $1,520,000 (£1,000,000), with effect from 1 July 2013. This represents an 8.6% increase to his salary when he was Chief Operating Officer. Ivan Menezes' salary has been positioned below median to reflect the fact that he is new to the Chief Executive role.

Deirdre Mahlan was appointed to the board on 1 October 2010. As outlined in the 2011 and 2012 directors' remuneration reports, on her appointment, Deirdre Mahlan's salary was initially set at below typical market levels for comparable roles reflecting her level of experience at the time. In setting this initial salary level, the remuneration committee's intention was to allow scope for future increases to both recognise performance and bring her closer in line with the market with increasing experience. The remuneration committee has awarded an increase that recognises her increasingly strong performance since appointment as well as the size and complexity of her role; with effect from 1 October 2013, the base salary for the chief financial officer will increase by 5% to £714,000.

	Paul Walsh			Ivan Menezes			Deirdre Mahlan		
Salary at 1 October (£000)	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Base salary	**£1,231**	£1,231	£1,231	**$1,520**	$1,400	n/a	**£714**	£680	£625
% increase (over previous year)	**0.0%**	0.0%	4.5%	**8.6%**	n/a	n/a	**5.0%**	8.8%	8.7%

Annual incentive plan

How does the annual incentive plan work?

The annual incentive plan is designed to incentivise year on year delivery of short term performance goals that are determined by pre-set stretching targets and measures agreed by the remuneration committee with reference to the annual operating plan. The remuneration committee determines the level of performance achieved based on Diageo's overall financial performance after the end of the financial year. Since 1 July 2012 the annual incentive plan has been subject to a clawback arrangement for executive directors. Under this arrangement, the remuneration committee has discretion to clawback a bonus if exceptional circumstances, such as gross misconduct or gross negligence, are discovered to have occurred during the performance period that applied to the bonus award.

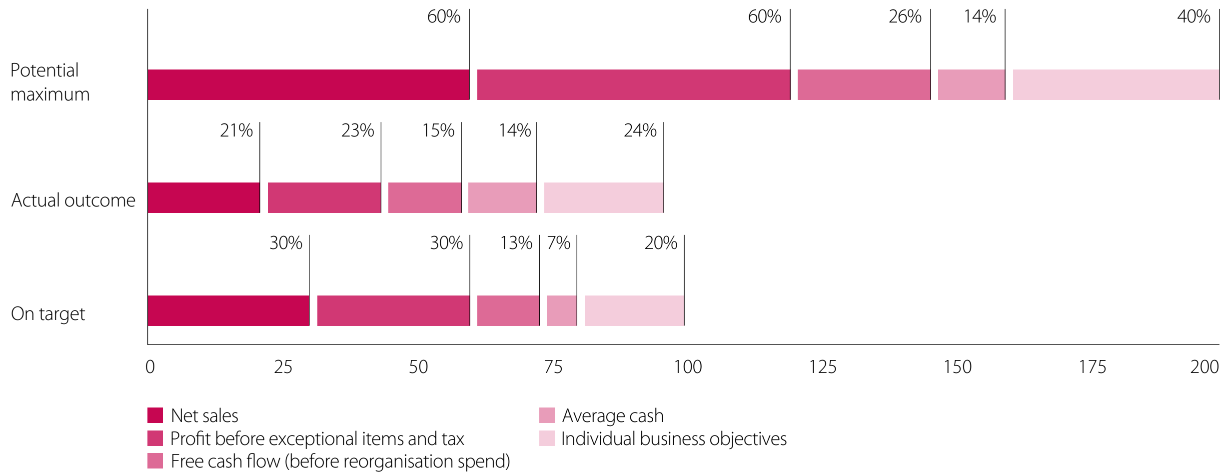
The targets for the year ended 30 June 2013 were a combination of measures including net sales, profit before exceptional items and taxation and free cash flow. As discussed earlier in the report, these measures focus on key drivers of Diageo's growth strategy while supporting sustainability and the underlying financial health of the company. The executive directors were also measured against a number of individual business objectives (IBOs) considered to be key imperatives supporting the delivery of the business plan and that were relevant to their specific area of accountability.

How did the company perform against annual incentive plan targets in the year ended 30 June 2013?

In the year under review, the company has delivered organic top line growth of 5%, and organic operating profit growth of 8% as a result of 80 basis points of operating margin improvement. The weaker economic environment in some markets adversely impacted net sales and operating profit compared to plan targets. Average cash was very strong and free cash flow was in line with expectations. The company's performance resulted in a below target outcome against stretching targets under the net sales and profit measure used in the annual incentive plan and an above target outcome in respect of the cash flow measures used in the annual incentive plan. The remuneration committee assessed the performance of Paul Walsh, Ivan Menezes and Deirdre Mahlan against their specific IBOs and concluded that the objectives were broadly met and in some cases exceeded. The overall level of performance achieved resulted in an annual incentive plan award equating to 101% of base salary for Paul Walsh, 91% of base salary for Ivan Menezes and 96% of base salary for Deirdre Mahlan. The following charts 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 IBOs for the executive directors). The actual awards received by the executive directors are shown in this report in the table 'directors' remuneration for the year ended 30 June 2013'.

Unweighted outcome

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



The business results for the year ended 30 June 2013 are described in the 'Business review'.

Long term incentive plans (LTIPs)

How do the company's LTIPs work?

Long term incentives are a combination of share options under the SESOP and performance share awards under the PSP and are designed to incentivise executive directors and senior managers to strive for long term sustainable performance. These awards are made on an annual basis with the level of award considered each year in light of individual and business performance. Awards made under both sets of plans are subject to performance conditions normally measured over a three year period. The regular review of the performance measures and the vesting schedule used in each plan are designed to ensure that the LTIPs continue to support business objectives and are in line with current best practice. All of Diageo's share plans operate within the Association of British Insurers' dilution guidelines for share-based remuneration.

Senior executive share option plan 2008 (SESOP 2008)

Options granted under the SESOP 2008 are subject to a performance condition based on compound annual growth in adjusted eps over a three year period, with growth targets set by the company's remuneration committee for each grant. For the purpose of the SESOP, an adjusted measure of eps is used to ensure that items such as exceptional items and the impact of movements in exchange rates are excluded from year on year comparisons of performance. Options will only vest when stretching adjusted eps targets are achieved. Vesting is on a pro rata basis currently ranging from a threshold level of 25% to a maximum level of 100%. The remuneration committee reviewed the targets for the SESOP awards to be made in 2013 and decided to moderate the performance schedule to align with the company's objectives over the next three years in light of the challenging business environment.

What are the targets, award levels and vesting profile for SESOP awards?

The adjusted eps growth targets for the current outstanding awards are set out below:

Performance period	Award 2013 % 1 Jul 2013 – 30 Jun 2016	Award 2012 % 1 Jul 2012 – 30 Jun 2015	Award 2011 % 1 Jul 2011 – 30 Jun 2014	Award 2010 % 1 Jul 2010 – 30 Jun 2013
Compound annual growth				
Threshold	**7**	8	6	3
Max	**11**	12	10	7
Equivalent total over three years				
Threshold	**23**	26	19	9
Max	**37**	40	33	23
Percentage of award vesting				
Threshold	**25**	25	25	25
Max	**100**	100	100	100
Compound annual growth rate to date		11.7%	11.9%	12.2%

On the basis of this performance, the 2010 award, which is due to vest in September 2013, has met the performance condition and consequently, the shares under award will vest at 100% 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.

2013 award

For the 2013 award, 62.5% of the award (the vesting midpoint) will vest for achieving compound annual growth of 9% in adjusted eps, representing almost 30% growth over the three year period. The maximum annual grant under the plan is 375% of base salary. However, the remuneration committee has the discretion to grant awards in excess of the maximum limit in exceptional circumstances. It is intended that awards equivalent to 375% of base salary will be made to Ivan Menezes and Deirdre Mahlan in September 2013. As he has stepped down from the role of Chief Executive, Paul Walsh will not receive an award under the SESOP in 2013. The remuneration committee also has discretion to extend the option exercise period from 12 to 18 months for share options awarded to qualifying leavers. The remuneration committee did not exercise this discretion during the year ended 30 June 2013.

Performance share plan (PSP 2008)

Under this plan, participants are granted a discretionary, conditional right to receive shares. All conditional rights awarded 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.

What performance measures are used in the PSP?

For outstanding awards made up to and including September 2010

The primary performance test is a comparison of Diageo's three year 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). The second performance test requires that there has been an underlying improvement in Diageo's three year financial performance, typically measured by an adjusted eps measure, for the remuneration committee to recommend the release of awards.

For awards made from September 2011 onwards
The primary performance test is split equally between three performance measures:
1) TSR, as defined above;
2) growth in organic net sales on a compound annual basis; and
3) total organic operating margin improvement.

For any of the award apportioned to the TSR condition to be released, there must be an improvement in the underlying performance of the company. 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 apportioned to these measures can be released.

What are the targets, award levels and vesting profile for PSP awards?
The targets and vesting profile are shown in the following tables:

	Total shareholder return	Organic net sales (CAGR)	Organic operating margin improvement	Vesting profile
2012 award				
– Threshold	Median ranking (ninth)	5.0%	100bpts	25%
– Mid-point	–	6.5%	150bpts	62.5%
– Maximum	Upper quintile (third or above)	8.0%	175bpts	100%
2013 award				
– Threshold	Median ranking (ninth)	5.0%	75bpts	25%
– Mid-point	–	6.5%	100bpts	62.5%
– Maximum	Upper quintile (third or above)	8.0%	125bpts	100%

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	From 2011 awards % vesting
1st	100%
2nd	100%
3rd	100%
4th	95%
5th	75%
6th	65%
7th	55%
8th	45%
9th	25%
10th or below	0%

TSR peer group
There are 16 other companies in the peer group for awards made from 2011 onwards:

AB InBev	Kraft Foods/Mondelez International (from Oct 2012)
Brown-Forman	Nestlé
Carlsberg	PepsiCo
Coca-Cola	Pernod Ricard
Colgate-Palmolive	Procter & Gamble
Groupe Danone	Reckitt Benckiser
Heineken	SABMiller
HJ Heinz	Unilever

The maximum annual award under the plan is 375% of salary. However, the remuneration committee has discretion to grant awards in excess of this maximum in exceptional circumstances. It is intended that awards equivalent to 375% of base salary will be made to the chief executive, and an award equivalent to 300% of base salary will be made to the chief financial officer in September 2013. As he has stepped down from the role of Chief Executive, Paul Walsh will not receive an award under the PSP in 2013.

How does the remuneration committee use discretion to ensure a fair outcome?
The remuneration committee will review the vesting outcome of an LTIP award to ensure that it fairly reflects the company's actual underlying performance and may adjust vesting levels if it considers it appropriate. Additionally, for awards made from September 2012 onwards, the plan rules for both SESOP and PSP provide the remuneration committee with the discretion to apply a clawback condition in order to reduce the number of shares under award in the event of a material performance failure (for example a material restatement to the accounts).

What happens in the event of a change of control?
In the event of a change of control and at the remuneration committee's discretion, outstanding PSP awards would be released and outstanding share options would become exercisable based on the extent to which the relevant performance conditions had been met and, if the remuneration committee determines, the time elapsed since the initial award or grant, respectively.

All employee share plans
Paul Walsh and Deirdre Mahlan are eligible to participate in the United Kingdom HM Revenue & Customs approved share incentive and sharesave plans that Diageo operates on the same terms as for all eligible employees. Ivan Menezes participates in the US employee stock purchase plan which provides a long term savings and investment opportunity for all US employees.

What is the shareholding requirement for the executive directors?
Senior executives are currently required to build up significant holdings of shares in Diageo from their own resources over a defined period of time. Full participation in the share option and share award plans is conditional upon meeting this requirement. This policy reflects Diageo's belief that its most senior leaders should also be shareholders. The holding requirement and the status of that requirement as at 30 June 2013 is shown in the following table. 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.

	Paul Walsh	Ivan Menezes	Deirdre Mahlan
Value of shareholdings (£000)	14,230	9,330	2,461
Minimum shareholding requirement as % of salary	300%	300%	250%
Actual shareholding as % of salary	1,157%	1,046%	370%

This information is based on the share interests disclosed in the table 'Share and other interests' in this report, base salary earned in the year ended 30 June 2013, and an average share price for the same period of 1849 pence.

What pension provision is made for executive directors?

Paul Walsh was a member of the UK Scheme (the 'Scheme') until 31 March 2011, at which point he stopped accruing pension rights. From 1 May 2011, Paul Walsh began to receive his pension benefits under the company's policy of 'flexible pension access'. The rules of the Scheme at the time that Paul 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.

Ivan Menezes – Since 1 July 2012 Ivan Menezes has been a member of the Diageo North America Inc. Supplemental Executive Retirement Plan (SERP) with an accrual rate of 40% of base salary. The SERP is an unfunded, non-qualified supplemental retirement programme. Under the plan, accrued company contributions are subject to quarterly interest credits based on the interest rate set out in the US internal revenue code. Under the rules of the SERP, Ivan Menezes can withdraw the balance of the plan in the form of five equal annual instalments or a lump sum upon reaching age 55 and 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. Ivan Menezes was also a member of the UK Scheme between 1 February 1997 and 30 November 1999. Under the Rules of the UK Scheme this benefit is payable unreduced from age 60.

Deirdre Mahlan – Until 30 June 2012 Deirdre Mahlan had not been a member of any Diageo group company pension scheme since her appointment to the board and had received a cash supplement in lieu of pension provision equivalent to 40% of base salary. With effect from 1 July 2012 the company contribution was reduced to 35% of base salary and the benefit is delivered in the form of a contribution into the SERP. Under the plan, accrued company contributions are subject to quarterly interest credits based on the interest rate set out in the US internal revenue code. Under the rules of the SERP, Deirdre Mahlan can withdraw the balance of the plan in the form of five equal annual instalments or a lump sum upon reaching age 55 and having left service with Diageo (within six months of separation from service). Upon death in service, a lump sum of four times base salary is payable.

What are the service contracts and terms of employment for the executive directors?

The executive directors have rolling service contracts which provide for six months' notice by the director or 12 months' notice by the company and contain non-compete obligations. In the event of early termination by the company without cause, the agreements provide for a termination payment to be paid (in respect of that part of the notice period not provided to the director by the company) to Paul Walsh equivalent to 12 months' base salary for the notice period and an equal amount in respect of all benefits, and to Ivan Menezes and Deirdre Mahlan equivalent to 12 months' base salary for the notice period and the cost to the company of providing contractual benefits (excluding incentive plans). The service contracts also entitle the executive directors to compensation if they are terminated following a takeover or other change of control of Diageo plc. Any such payments would be subject to tax and other statutory deductions. The remuneration committee may exercise its discretion to require half of the termination payment to be paid in monthly instalments and, upon the executive commencing new employment, to be subject to mitigation. If the board determines that the executive has failed to perform his or her duties competently, the remuneration committee may exercise its discretion to reduce the termination payment on the grounds of poor performance.

Executive Directors	Date of service
Ivan Menezes	7 May 2013
Deirdre Mahlan	1 July 2010
Paul Walsh	1 November 2005

What happens to share awards when executive directors leave?

On cessation of employment, outstanding awards under share incentive arrangements will be treated in accordance with the relevant plan rules approved by shareholders in 2008.

What external appointments are 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.

Paul Walsh – During the year ended 30 June 2013, Paul 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. At the government's request, he also served as lead Non-Executive Director and deputy chair on the board of the Department of Energy and Climate Change (DECC). Paul Walsh has committed to donating all fees that he receives for this directorship to a charitable educational trust. The total amounts of such fees paid in the year ended 30 June 2013 are set out in the table below.

	Paul Walsh £000
Unilever[(a)]	109
FedEx Corp[(a)]	62
DECC	10
Avanti	35
	216

Notes
(a) Fees paid in currencies other than sterling are converted using average exchange rates for the year ended 30 June 2013.

In line with the FedEx Corp policy for outside directors, Paul Walsh is eligible to be granted share options. During the year ended 30 June 2013, he was granted 4,720 options at an option price of $84.71. He exercised 7,000 FedEx options, during the year, which were granted at an option price of $64.38 and sold at an average price of $97.70.

Ivan Menezes – During the year ended 30 June 2013, Ivan Menezes served as a Non-Executive Director of Coach Inc and earned fees of £61,000. 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 2013, he was granted 4,419 options at an option price of $56.95 and 1,317 RSUs at a fair market value of $56.95. He exercised 10,000 Coach options during the year, which were granted at an option price of $19.35 and sold at an average price of $57.33. 1,163 RSUs vested in the same time period with a fair market value of $56.97 at vesting date.

Deirdre Mahlan – During the year ended 30 June 2013, Deirdre Mahlan served as a Non-Executive Director of Experian plc and earned fees of £91,000.

Chief executive arrangements

Appointment of new chief executive

Ivan Menezes' remuneration arrangements are in line with Diageo's remuneration policy for executive directors.

His base salary is $1,520,000 (£1,000,000) with effect from 1 July 2013 and has been positioned below median to reflect the fact that he is new to the role. No other changes are proposed to Ivan Menezes' current remuneration arrangements (set out below).

- Annual Incentive Plan (AIP): Ivan Menezes participates in Diageo's Annual Incentive Plan. Up to 100% of salary can be earned for on target performance with a maximum of 200% of salary payable for outstanding performance.
- Performance Share Plan (PSP): Ivan Menezes is eligible for an annual award under the PSP in line with the remuneration policy. The maximum award that can be made is 375% of base salary.
- Senior Executive Share Option Plan (SESOP): Ivan Menezes is eligible for an annual award under the SESOP in line with the remuneration policy. The maximum award that can be made is 375% of base salary.
- Pension: Diageo makes annual contributions of 40% of base salary into the Diageo North America Inc. Supplemental Executive Retirement Plan (SERP).

Ivan Menezes retains interests in awards that were granted to him prior to joining the board under below board plans, two-thirds of which are subject to performance conditions. These vest over varying periods up to 2019 subject to continued employment.

Termination arrangements for outgoing chief executive

Paul Walsh will step down from the role of Chief Executive from 1 July 2013. He will remain employed until 30 June 2014 supporting the new chief executive and the board to ensure an efficient and comprehensive transition. The following section provides further information relating to decisions that the committee has taken around his remuneration arrangements:

During the period from 1 July 2013 to 30 June 2014, Paul Walsh will receive his current base salary and benefits. There will be no increase in October 2013 when salaries are normally reviewed. During the first six months of transition up to 31 December 2013, he will be eligible to be considered for an annual bonus entitlement of 100% of (pro-rated) base salary at target (200% at maximum). From 1 January 2014 until 30 June 2014, any bonus earned will be capped at target. Paul Walsh will not receive any lump sum compensation payment in connection with the termination of his employment.

Paul Walsh began to receive his pension benefits under the company's policy of flexible pension access from 1 May 2011. There has been no further accrual of pension and no enhancement of his pension benefits. Upon retirement, Paul Walsh will be provided with private medical insurance for his spouse and himself until he attains age 70. The cost of this provision has been assessed based on an external quote and will be paid by Paul Walsh personally.

Paul Walsh holds outstanding awards under both the PSP and the SESOP. He will not receive any further PSP or SESOP awards, including the awards he would ordinarily have received in September 2013. The following section outlines how these awards will be treated.

- The committee has decided to enable vesting of PSPs granted to the chief executive from 2011 to be based entirely on the delivery of that performance. Accordingly, PSP awards will be capable of vesting in full at the end of the performance period, if performance goals are delivered in full, without providing time pro-rating to the point of retirement. This is in line with the approach previously disclosed to shareholders in the company's 2011 and 2012 remuneration reports.
- The committee has also decided to apply the same treatment to awards made under the SESOP. As a result, subject to achievement of the stretching performance targets under both these plans, he will remain entitled to all his shares under his 2011 and 2012 PSP awards and his 2011 and 2012 SESOP awards.

Given his unique experience, it has been agreed that Paul Walsh will be retained in a role with the Scotch whisky industry on behalf of Diageo, for a period of up to five years. He will receive a starting fee of £80,000 per annum from 1 July 2014. It is anticipated that any subsequent increase would be in line with the progression of non-executive director fees.

Full details of any amounts paid to Paul Walsh will be disclosed in the 2014 directors' remuneration report.

Chairman of the board and non-executive directors

What is the policy on chairman of the board and non-executive directors' fees?

- The fees should be sufficient to attract, motivate and retain world-class talent.
- Fee practice should be consistent with recognised best practice standards for such positions.
- The chairman and non-executive directors should not participate in any of the company's incentive plans.
- Part of the chairman's fees should be used for the purchase of Diageo shares.
- Fees for non-executive directors should be within the limits set by the shareholders from time to time, currently £1,000,000, as approved by shareholders at the October 2005 AGM. The limit excludes remuneration paid for special services performed by directors.

What terms and conditions apply to the chairman of the board?

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.

The chairman's fee is normally reviewed every two years. As recommended by the UK Corporate Governance Code, any changes to this fee have to be approved by the remuneration committee. The chairman waived the right to a fee review in December 2012 and the next review is anticipated to take place in December 2014 with any changes taking effect on 1 January 2015. Fees are reviewed in the light of market practice in large companies in the United Kingdom and anticipated workload, tasks and potential liabilities. In line with Diageo's policy, 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 for any other reason. The chairman's current fee is shown in the following summary table.

What terms and conditions apply to the non-executive directors?

All non-executive directors have letters of appointment. A summary of their terms and conditions of appointment is available at www.diageo.com.

The last scheduled review of fees for non-executive directors was undertaken in December 2011. At this time, fees were benchmarked against market practice in large companies in the United Kingdom and reviewed in light of anticipated workload, tasks and potential liabilities. As a result of this review, the base fee paid to non-executive directors was increased by £2,000 from £78,000 to £80,000 per annum and the fee for the chairman of the remuneration committee was increased by £5,000 from £15,000 to £20,000 per annum to reflect market practice in comparable companies. It was decided after this last review that fees for non-executive directors would be reviewed every two years going forward (previously, annually). Therefore, the next review of the non-executive director fees is anticipated to take place in December 2013 with any changes expected to take effect on 1 January 2014. A full summary of the current non-executive directors' fees is shown in the following summary table.

Chairman of the board and non-executive directors' remuneration for the year ended 30 June 2013

Per annum fees effective from	January 2013	January 2012
Chairman of the board	500,000	500,000
Non-executive directors		
Base fee	80,000	80,000
Senior non-executive director	20,000	20,000
Chairman of the audit committee	25,000	25,000
Chairman of the remuneration committee	20,000	20,000

The emoluments received by the chairman of the board and the non-executive directors in the year ended 30 June 2013 are shown in the table 'Directors' remuneration for the year ended 30 June 2013'.

Directors' remuneration for the year ended 30 June 2013

	Base salary £000	Annual incentive plan £000	Share incentive plan £000	Cash in lieu of pension £000	Other benefits £000[b]	2013 Total £000	2012 Total £000
Emoluments							
Chairman – fees							
Dr Franz B Humer[a]	500	–	–	–	5	505	507
Executive Directors							
Deirdre Mahlan	666	652	3	–	31	1,352	1,799
Ivan Menezes	892	838	–	–	51	1,781	–
Paul Walsh	1,230	1,245	3	–	43	2,521	3,099
Sub-total	2,788	2,735	6	–	125	5,654	4,898
Non-Executive Directors – fees							
Peggy Bruzelius	80	–	–	–	1	81	80
Laurence Danon	80	–	–	–	1	81	80
Lord Davies	120	–	–	–	1	121	106
Betsy Holden	80	–	–	–	1	81	80
Ho KwonPing	60	–	–	–	1	61	–
Philip Scott	105	–	–	–	1	106	105
Todd Stitzer	80	–	–	–	1	81	80
Former Non-Executive Directors – fees							
Lord Hollick (retired 19 October 2011)	–	–	–	–	–	–	33
Paul Walker (retired 19 October 2011)	–	–	–	–	–	–	23
Sub-total	605	–	–	–	7	612	587
Total	3,893	2,735	6	–	137	6,771	5,992

Notes
(a) £200,000 of Dr Franz B Humer's remuneration in the year ended 30 June 2013 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.
(b) Other benefits may include company car and driver, product allowance, financial counselling and medical insurance.

Long term incentive plans

Payments and gains

In the year ended 30 June 2013, the executive directors received payments and made gains under long term incentive plans as follows:

	2013 Executive share option exercises £000	2013 PSP award £000	2013 Total £000	2012 Total £000
Executive Directors				
Deirdre Mahlan[(a)]	408	1,056	1,464	126
Ivan Menezes[(a)]	2,931	2,615	5,546	–
Paul Walsh	10,197	5,954	16,151	3,208
Total	13,536	9,625	23,161	3,334

Note

(a) The awards were made in the form of American Depository Shares (ADS) and the gain value was converted from US dollars into sterling using the exchange rate as at 30 June 2013.

Directors' share options over ordinary shares

The following table shows the number of options held under all executive share option plans and savings-related schemes for the directors who held office during the year.

		30 June 2012	Granted	Exercised	Lapsed	30 June 2013	Option price in pence	Market price at date of exercise in pence	Date from which first exercisable	Expiry date
Deirdre Mahlan	DSOP 1999[(a),(b)]	1,576		(1,576)		–	815	1798	20 Sep 2008	20 Sep 2015
	DSOP 1999[(a),(b)]	45,352		(45,352)		–	930	1798	19 Sep 2009	19 Sep 2016
	DSOP 1999[(a),(b)]	37,560		(13,560)		24,000	1051	1798	18 Sep 2010	18 Sep 2017
	DSOP 1999[(a),(b)]	52,588				52,588	1035		16 Sep 2011	16 Sep 2018
	SESOP 2008[(b),(c)]	83,160				83,160	952		17 Sep 2012	17 Sep 2019
	SESOP 2008[(c)]	199,652				199,652	1080		20 Sep 2013	20 Sep 2020
	SESOP 2008	190,239				190,239	1232		22 Sep 2014	22 Sep 2021
	SAYE[(d)]	937				937	960		1 Dec 2014	31 May 2015
	SESOP 2008		146,299			146,299	1743		1 Oct 2015	1 Oct 2022
		611,064	146,299	(60,488)		696,875				
Ivan Menezes	DSOP 1999[(a),(b)]	163,252		(163,252)		–	1051	1797	18 Sep 2010	18 Sep 2017
	SESOP 2008[(a),(b)]	231,664		(231,664)		–	952	1998	17 Sep 2012	17 Sep 2019
	SESOP 2008[(a),(b),(c)]	222,048				222,048	1080		20 Sep 2013	20 Sep 2020
	SESOP 2008[(a),(b)]	206,124				206,124	1232		22 Sep 2014	22 Sep 2021
	Sharevalue[(e)]		832			832	1777		31 Dec 2013	31 Dec 2013
	SESOP 2008[(b)]		186,300			186,300	1743		1 Oct 2015	1 Oct 2022
		823,088	187,132	(394,916)		615,304				
Paul Walsh	SESOP 1999	423,387		(423,387)		–	930	1975	19 Sep 2009	19 Sep 2016
	SESOP 1999	392,483		(392,483)		–	1051	2000	18 Sep 2010	18 Sep 2017
	SESOP 2008	186,445		(186,445)		–	877	1975	27 Oct 2011	27 Oct 2018
	SESOP 2008	454,963				454,963	952		17 Sep 2012	17 Sep 2019
	SESOP 2008[(c)]	409,062				409,062	1080		20 Sep 2013	20 Sep 2020
	SAYE[(d)]	1,617				1,617	941		1 Dec 2015	31 May 2016
	SESOP 2008	374,695				374,695	1232		22 Sep 2014	22 Sep 2021
	SESOP 2008		264,845			264,845	1743		1 Oct 2015	1 Oct 2022
		2,242,652	264,845	(1,002,315)		1,505,182				

Notes

(a) Options granted prior to the executive's appointment to the board.

(b) US options were granted over ADSs at dollar prices (one ADS is equivalent to four ordinary shares); the option holdings and prices in the table are stated as ordinary share equivalents in pence. The option price is the historic ordinary share option price at date of grant.

(c) The performance condition in respect of this SESOP grant was measured after 30 June 2013. The compound annual growth in Diageo's adjusted eps over the three years ended 30 June 2013 exceeded the performance condition and 100% of these options will become exercisable in September 2013.

(d) Options granted under the UK savings-related share option scheme.

(e) Options granted under the US savings-related share option scheme.

A summary of the performance criteria in relation to the SESOP 2008 is provided in the 'Summary of current remuneration policy for executive directors' earlier in this report.

The mid-market price for ordinary shares at 30 June 2013 was 1880 pence (2012 – 1641 pence; 15 July 2013 – 2016 pence). The highest mid-market price during the year was 2085 pence and the lowest mid-market price was 1649 pence.

Directors' interests in PSP awards

The following table shows the directors' interests in the PSP. Details of executive share options are shown separately above.

			Interests at 30 June 2012	Awards made during the year		Awards released during the year		
	Performance period	Date of award	Target award[a]	Target award[a]	Number of shares vested[b]	Number of shares lapsed[b]	Market price at date of vesting in pence[c]	Interests at 30 June 2013[d]
Deirdre Mahlan	2009–2012	17 Sep 09[e),(g]	81,380		(52,896)	(28,484)	1747	–
	2010–2013	20 Sep 10	167,964					167,964
	2011–2014	22 Sep 11	159,574					159,574
	2012–2015	1 Oct 12[f]		134,653				134,653
			408,918	134,653	(52,896)	(28,484)		462,191
Ivan Menezes[h]	2009–2012	17 Sep 09[e),(g]	201,512		(130,980)	(70,532)	1747	–
	2010–2013	20 Sep 10	185,400					185,400
	2011–2014	22 Sep 11	168,884					168,884
	2012–2015	1 Oct 12[f]		219,708				219,708
			555,796	219,708	(130,980)	(70,532)		573,992
Paul Walsh	2009–2012	17 Sep 09[e]	486,111		(315,972)	(170,139)	1747	–
	2010–2013	20 Sep 10	430,172					430,172
	2011–2014	22 Sep 11	392,872					392,872
	2012–2015	1 Oct 12[f]		304,702				304,702
			1,309,155	304,702	(315,972)	(170,139)		1,127,746

Notes
(a) This is the number of shares initially awarded. In accordance with the plan rules, the number of shares awarded is determined based on the average of the daily closing price for the last six months of the preceding financial year. Of this number of shares initially awarded, threshold vesting will release 25% of the initial award and maximum vesting will release 100% of the initial award. The performance conditions and vesting profile that determines the proportion of shares that is eventually released is described in the 'Summary of current remuneration policy for executive directors' earlier in this report.
(b) The three year performance period for the September 2009 PSP award ended on 30 June 2012. The number of shares released in October 2012 was 65% of the initial award. This was based on a relative TSR ranking of position five in the peer group at the end of the performance period. Kepler Associates independently verified the TSR increase and ranking. Notional dividends accrue on awards; for the 2009 award these were paid out in shares with a gross value of £433,000 for Paul Walsh and £75,000 for Deirdre Mahlan.
(c) The price on 26 September 2012, the release date. The market price was 975 pence when the award was made on 17 September 2009.
(d) The directors' interests at 15 July 2013 were the same as at 30 June 2013.
(e) The three year performance period for the September 2010 PSP award ended on 30 June 2013. The number of shares that will be released in September 2013 is 95% of the initial award. This was based on a relative TSR ranking of position three in the peer group at the end of the performance period. Kepler Associates independently verified the TSR increase and ranking. In addition to the release of the initial award, notional dividends that have accrued on the award to the extent that it has vested will be settled in the form of shares. The gross value of the accrued notional dividends is equivalent to £596,000 for Paul Walsh, £256,000 for Ivan Menezes and £232,000 for Deirdre Mahlan. The value for Ivan Menezes is based on the ADS dividends converted to ordinary shares at a ratio of one ADS to four ordinary shares.
(f) The market price on 1 October 2012 was 1772 pence.
(g) US share awards were granted in ADS (one ADS is equivalent to four ordinary shares); the share holdings in the table are stated as ordinary share equivalents.
(h) 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 ADS (752,688 ordinary shares equivalent). Two-thirds of these awards are subject to performance conditions and will be released, subject to achievement of the performance conditions and continued employment, in phased tranches between September 2014 and March 2019. Details of this plan can be found in note 29 of the consolidated financial statements.

Executive directors' pension benefits

Paul Walsh started receiving his pension from the Scheme on 1 May 2011 and therefore has not earned any more pension benefits over the year ending 30 June 2013. The only reason for his pension changing is the guaranteed standard pension increase awarded on 1 April 2013. He has not received any discretionary pension increases since he started receiving his pension. The transfer values of the accrued pensions calculated at 30 June 2012 and 30 June 2013 are also shown below. The accrued pension figures at 30 June 2012 and 30 June 2013 for Ivan Menezes represent the annual UK pension to which he would be entitled at Normal Retirement Age. The transfer values are broadly the cost to Diageo if it had to provide the equivalent pension benefit. The transfer values shown in the table have been calculated as set by the Trustees of the Scheme.

	Age at 30 June 2013 Years	Pensionable service at 30 June 2013[(a)] Years	Accrued pension at 30 June 2012 £000 pa	Additional pension accrued in the year[(b),(c)] £000 pa	Accrued pension at 30 June 2013 £000 pa	Transfer value at 30 June 2012 £000	Change in transfer value during the year[(d),(e),(f)] £000	Transfer value at 30 June 2013 £000
Paul Walsh	58	29	578	19	597	19,179	(693)	18,486
Ivan Menezes	53	3	65	1	66	1,372	111	1,483

Notes

(a) The pensions for Paul Walsh and Ivan Menezes are provided from the Diageo Pension Scheme (DPS).

(b) Paul Walsh's pension is higher at 30 June 2013 than at 30 June 2012 by £19,000 due to receiving a standard pension increase as at 1 April 2013. The pension increase was 3.3% which was in line with the guaranteed pension increase as outlined in the Scheme Rules and which was awarded to all other pensioner members of that section of the Scheme. No discretionary pension increase was awarded to Paul Walsh.

(c) Ivan Menezes' pension is higher at 30 June 2013 than at 30 June 2012 by £1,000 due to deferred revaluations.

(d) Paul Walsh's transfer value is lower at 30 June 2013 than at 30 June 2012 by £693,000 for the following reasons:
- £647,000 **less** due to allowing for market conditions changing between June 2012 and June 2013.
- £649,000 **more** due to allowing for pension increases awarded and the expected interest in excess of the pension increases awarded.
- £583,000 **less** due to allowing for the pension payments Paul Walsh has received during the year.
- £112,000 **less** due to changes made by the Trustees of the Scheme to the way transfer values are calculated.

(e) Ivan Menezes' transfer value is higher at 30 June 2013 than at 30 June 2012 by £111,000 for the following reasons:
- £76,000 **more** due to allowing for known deferred revaluations and the expected interest in excess of the deferred revaluations.
- £37,000 **more** due to allowing for market conditions changing between June 2012 and June 2013.
- £2,000 **less** due to changes made by the Trustees of the Scheme to the way transfer values are calculated.

(f) During the year, Paul Walsh and Ivan Menezes made pension contributions of £nil (2012 – £nil).

Ivan Menezes and Deirdre Mahlan are both accruing pension benefits in the US. The pension benefits being accrued are of a similar design to a UK defined contribution plan, but with a pre-determined investment return. The balance of the plan can be withdrawn in the form of five equal annual instalments or a lump sum upon reaching age 55 and having left service with Diageo (within six months of separation from service). The transfer values of the accrued benefits calculated at 30 June 2012 and 30 June 2013 are shown, and are equal to the accrued benefits at the respective dates. The transfer value as at 30 June 2013 has changed for the reasons set out in note (b) for Ivan Menezes and (c) for Deirdre Mahlan below.

	Age at 30 June 2013 Years	Pensionable service at 30 June 2013[(a)] Years	Accrued benefit at 30 June 2012 £000	Additional benefit accrued in the year[(b),(c)] £000	Accrued benefit at 30 June 2013 £000	Transfer value at 30 June 2012 £000	Change in transfer value during the year[(b),(c),(d)] £000	Transfer value at 30 June 2013 £000
Ivan Menezes	53	16	2,744	562	3,306	2,744	562	3,306
Deirdre Mahlan	51	1	420	268	688	420	268	688

Notes

(a) Deirdre Mahlan joined the non-qualified SERP plan with effect from 1 July 2012 and has accrued one year of service to 30 June 2013. The benefit of £420,000 shown at 30 June 2012 was in respect of benefits Deirdre Mahlan earned in the qualified Cash Balance plan and the non-qualified BSP plan up until 30 June 2010 when she opted out of these plans. During the year ended 30 June 2013, Ivan Menezes accrued one year of additional service in the non-qualified SERP plan, and an additional two months of service in the qualified Cash Balance plan and the non-qualified BSP plan.

(b) Ivan Menezes' accrued benefit (and hence transfer value) is higher at 30 June 2013 than at 30 June 2012 by £562,000 for the following reasons
- £371,000 **more** due to allowing for additional pensionable service over the year.
- £85,000 **more** due to allowing for the increase due to interest earned on the accrued balance over the year.
- £106,000 **more** due to allowing for the movement in exchange rates over the year.

(c) Deirdre Mahlan's accrued benefit (and hence transfer value) is higher at 30 June 2013 than at 30 June 2012 by £268,000 for the following reasons:
- £231,000 **more** due to allowing for additional pensionable service over the year.
- £15,000 **more** due to allowing for the increase due to interest earned on the accrued balance over the year.
- £22,000 **more** due to allowing for the movement in exchange rates over the year.

(d) During the year, Deirdre Mahlan and Ivan Menezes made pension contributions of £nil (2012 – £nil).

There are no pension provisions for non-executive directors.

Share and other interests

The beneficial interests of the directors in office at 30 June 2013 in the ordinary shares of the company are shown in the table below.

	Ordinary shares		
	15 July 2013	30 June 2013	30 June 2012 or appointment
Chairman			
Dr Franz B Humer	47,295	46,883	40,533
Executive Directors			
Deirdre Mahlan[(a),(b)]	133,118	133,109	95,275
Ivan Menezes[(a),(b)]	504,605	504,605	439,246
Paul Walsh[(a)]	769,660	769,651	651,579
Non-Executive Directors			
Peggy Bruzelius	5,000	5,000	5,000
Laurence Danon	5,000	5,000	5,000
Lord Davies	5,052	5,052	5,052
Betsy Holden[(b)]	17,400	17,400	17,400
Ho KwonPing	4,000	4,000	–
Philip Scott	10,000	10,000	10,000
Todd Stitzer	8,319	8,319	8,319
	1,509,449	1,509,019	1,277,404

Notes
(a) At 30 June 2013, there were 4,685,321 shares (30 June 2012 – 7,231,200; 15 July 2013 – 4,598,439) held by trusts to satisfy grants made under Diageo incentive plans and savings-related share option schemes. Paul Walsh, Ivan Menezes and Deirdre Mahlan are among the potential beneficiaries of these trusts and are deemed to have an interest in all these shares.
(b) Ivan Menezes, Deirdre Mahlan and Betsy Holden have share interests in ADS (one ADS is equivalent to four ordinary shares); the share interests in the table are stated as ordinary share equivalents.

Additional information

Emoluments and share interests of senior management

The total emoluments for the year ended 30 June 2013 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 £16,311,231 (2012 – £17,918,855).

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 £56,715,400. In addition, they were granted 1,258,751 options under the SESOP during the year at a weighted average share price of 1744 pence, exercisable by 2022 and 20,254 options under the Diageo Executive Long Term Incentive Plan (DELTIP), which will vest in three years. They were also initially awarded 1,368,202 shares under the PSP in October 2012, which will vest in three years subject to the performance tests described above as well as 463 restricted stock units under the DELTIP, which will vest in three years.

Senior management options over ordinary shares

At 15 July 2013, the senior management had an aggregate beneficial interest in 2,173,299 ordinary shares in the company and in the following options over ordinary shares in the company:

	Number of options	Weighted average exercise price in pence	Option period
Deirdre Mahlan	696,875	1241	Sep 2010–Sep 2022
Ivan Menezes	615,304	1333	Sep 2013–Sep 2022
Paul Walsh	1,505,182	1196	Sep 2012–Sep 2022
Other*	3,554,874	1267	Oct 2006–Sep 2022
	6,372,235		

* Other members of the executive committee and the company secretary.

Key management personnel related party transactions

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 Walsh and Gareth Williams have informed the company that they have purchased seasonal developments at Gleneagles from a subsidiary of the company, Gleneagles Resort Developments Limited. The transactions were priced on the same basis as all the external seasonal development transactions and were at arm's length. The values of the transactions at the date of purchase were as follows: Paul Walsh – £43,000 and Gareth Williams – £19,400. Each director continued to hold these seasonal developments at 30 June 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 2013.

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

Statutory and audit requirements

This report was approved by a duly authorised committee of the board of directors, on 29 July 2013 and was signed on its behalf by Lord Davies of Abersoch who is Senior Non-Executive Director and Chairman of the remuneration committee. As required by the Companies Act 2006, a resolution to approve the directors' remuneration report will be proposed at the AGM and will be subject to an advisory shareholder vote.

The board has followed and complied with the requirements of the Companies Act 2006 with reference to Schedules 5 and 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and section D of the UK Corporate Governance Code in preparing this report and in designing performance-related remuneration for senior executives.

KPMG Audit Plc has audited the report to the extent required by the Regulations, being the sections headed 'Directors' remuneration for the year ended 30 June 2013', 'Long term incentive plans', 'Directors' share options over ordinary shares', 'Directors' interests in PSP and TSR plan awards', 'Executive directors' pension benefits'. In addition, the following sections form part of the audited financial statements: 'Share and other interests' and 'Key management personnel related party transactions'.

Terms defined in this remuneration report are used solely herein.

Definitions

Adjusted eps – for the purpose of the SESOP, an underlying measure of eps is used, calculated as reported eps adjusted to exclude exceptional items and the impact of changes in exchange rates, to apply a tax rate before exceptional items for each year and to exclude the impacts of IAS 19, 21 and 39 from net finance charges.

Average cash – for the purpose of the AIP, average cash is a metric where free cash flow delivery in each month is weighted by time.

Organic net sales growth – for the purpose of the PSP, the growth in the group's sales net of excise duties calculated on a constant currency basis excluding the impact of acquisitions and disposals.

Organic operating margin improvement – for the purpose of the PSP, the movement in the group's organic operating margin. Organic operating margin is the ratio calculated by dividing organic operating profit by organic net sales expressed as a percentage. Organic operating profit is calculated on a constant currency basis excluding the impact of exceptional items, acquisitions and disposals.

TSR – for the purpose of the PSP, total shareholder return is the percentage growth in Diageo's share price assuming all dividends and capital distributions are re-invested.