Directors' remuneration report

Dear Shareholder

I am pleased to present the Directors' remuneration report for the year ended 30 June 2011 and highlight some of the key work of the remuneration committee during the financial year.

We are committed to aligning executive remuneration with the creation of long term shareholder value. We believe that the majority of remuneration should be performance-related. We look carefully at risk management in an effort to safeguard the company's and shareholders' long-term interests. We regularly assess executive remuneration arrangements against these objectives. During financial year 2011, we addressed three main issues:

- A comprehensive analysis of the performance measures for the company's Performance Share Plan (PSP) to enhance alignment between reward and our medium-term strategic goals. This resulted in the introduction of two new financial measures, organic net sales and organic operating margin improvement, to complement relative total shareholder return (TSR). The remuneration committee believes that the three equally-weighted measures that will apply to awards beginning in September 2011 will focus senior management even more strongly on the performance drivers that we expect will deliver the company's growth ambitions and drive long term shareholder value creation. More details on the outcome of this review are described later in this report under the section 'Remuneration review during the year ended 30 June 2011'.
- Increased and more stretching performance targets have been introduced for the adjusted earnings per share (EPS) measure under the Senior Executive Share Option Plan (SESOP) for awards being made in September 2011.
- A review of UK pension policy in light of recent changes to UK pension legislation, the impact of which has meant that the personal tax liability for long-serving executives could be substantially more than the value of the benefit accruing under their existing pension arrangements. In the course of this review, the remuneration committee has sought to take steps that protect the company's ability to attract and retain key talent in the business while maintaining cost neutrality.

The remuneration committee also reviewed base salaries for executives and senior management taking into account comparable companies, individual performance, and pay and employment conditions elsewhere in the company and concluded that it was appropriate to make modest increases following a pay freeze in the preceding fiscal year.

The company's financial performance during financial year 2011, as reported in the 'Business review', has delivered sustained positive results in terms of volume growth, price/mix, gross margin expansion and cash flow and has resulted in performance ahead of target for the short term incentive plan measures. The remuneration committee is, therefore, satisfied that the financial year 2011 annual bonus outcomes for the executive directors described in the 'Remuneration summary' appropriately reflect these results and the value delivered for shareholders. Meanwhile, the performance shares that were due to vest in September 2010 lapsed in full upon failing the required TSR performance condition, and the awards due to vest in October 2011 will similarly lapse. This in part reflects the ongoing impact of recent currency volatility on the outcome for TSR measured in a common currency of US dollars (on a local currency basis returns for shareholder were above median against this group). By comparison, the company's consistent and strong TSR performance relative to the FTSE 100 can be seen in the performance graph on page 97. SESOP options for the corresponding periods vested in full in September 2010 upon exceeding the maximum adjusted EPS performance condition relative to the retail price index, while options will partially vest in October 2011 upon achieving compound annual growth in adjusted EPS of 7.6%, equivalent to a total of 24.5% growth over three years. The remuneration committee believes this level of return is appropriate given Diageo's ongoing delivery of growth while facing the challenges and opportunities characterised by the mixed performance of the global economy.

The following report provides further details about the reviews undertaken during the year ended 30 June 2011 and the reward outcomes for performance in that financial year.

The remuneration committee has enjoyed full and constructive dialogue with shareholders during the financial year, the outputs of which have positively influenced the committee's approach to the review of the PSP.

We look forward to receiving your support at the AGM in October 2011.

Lord Hollick of Notting Hill
Independent non-executive director and
chairman of the remuneration committee

Remuneration summary for the year ended 30 June 2011

Base salary

With effect from 1 October 2010, the base salary for the chief executive officer was increased by 2% to £1,178,100. Prior to this, the last salary increase for the chief executive was in October 2008. The chief financial officer was appointed to the board on 1 October 2010 on a base salary of £575,000. She has not received a salary increase since her appointment.

Summary of salary reviews for executive directors

Percentage increase in year ended 30 June	2011	2010
D Mahlan (appointed 1 October 2010)	0%	–
NC Rose (retired from the board on 14 October 2010)	0%	0%
PS Walsh	2%	0%

Annual incentive plan

In the year ended 30 June 2011, 80% of the short term incentive plan for executive directors was based on stretching financial performance targets for net sales, profit and free cash flow measures, and 20% on individual business objectives related to the delivery of ambitious strategic and operational targets. Net sales performance was ahead of target, while performance for profit before exceptional items and tax was strongly ahead of target, and the company again delivered strong free cash flow results, substantially exceeding target. The remuneration committee also assessed performance against the individual business objectives and concluded that there had been above target performance against the operational and strategic goals set. The remuneration committee determined that awards under the annual incentive plan equivalent to 160% of salary as at 30 June 2011 for the chief executive and chief financial officer were appropriate given the performance delivered in the year. The award for the former chief financial officer was pro-rated to reflect service during the year and was equivalent to 77% of salary at retirement.

Summary of short term incentive awards as a percentage of base salary for executive directors

Percentage award earned for year ended 30 June	2011	2010
D Mahlan (appointed 1 October 2010)	160%	–
NC Rose (retired from the board on 14 October 2010)	77%	173%
PS Walsh	160%	171%

Long term incentive plans

During the year ended 30 June 2011, the executive directors received option grants and were awarded performance shares in the range of 300% to 375% of their salaries. No award was made to NC Rose in light of his retirement. The vesting of these awards is subject to the achievement of stretching relative and absolute performance conditions over a three-year period.

The performance shares awarded in 2007 failed the required performance condition with Diageo's total shareholder return (TSR) ranking below the median of the TSR peer group of 14 other companies when measured on a common currency basis (increased to 15 other companies from 2008 onwards with the addition to the peer group of Kraft Foods). Consequently, the award lapsed in full in September 2010. In addition, the TSR target for awards granted in October 2008 was not met and these awards are due to lapse in October 2011.

Share options granted in 2007 vested in full in September 2010 upon exceeding the required performance condition of adjusted EPS growth of RPI plus 15 percentage points. For share options granted in 2008, the adjusted measure exceeded target at threshold and the options will partially vest in October 2011.

Summary of long term incentive awards vesting for executive directors

Percentage vesting in year ended 30 June	2011	2010
Performance shares	0%	0%
Share options	100%	100%

Shareholding requirements

The executive directors are required to hold a minimum shareholding in order to participate fully in the long term incentive plans. The status of that requirement as at 30 June 2011 for D Mahlan and PS Walsh is shown below. Under the company's shareholding requirement policy, D Mahlan has five years in which to build up her shareholding to meet and maintain her new requirement.

	D Mahlan	PS Walsh
Value of shareholdings (£000)	984	7,841
Minimum shareholding requirement as % of salary	250%	300%
Actual shareholding as % of salary	228%	669%

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 2011, and an average share price for the same period of 1175 pence.

Pensions

During the year, the executive directors, PS Walsh and NC Rose, participated in the UK Diageo Pension Scheme ('the UK Scheme'), which is a final salary pension scheme. With effect from 31 December 2010, NC Rose took early retirement from the company at the age of 53; his pension benefit was subject to actuarial reduction in line with the rules of the UK Scheme and was not augmented. Following the change to pension tax relief legislation, Mr Walsh opted out of future pension accrual as at 31 March 2011 and began to draw his pension on reaching age 56 (May 2011). This is in accordance with the company's general policy of 'flexible pension access' whereby an individual, over the age of 55, may request to draw his retirement benefits whilst continuing in employment. All impacted individuals have this option. Mr Walsh's pension benefit was subject to actuarial reduction in line with the rules of the UK Scheme and was not augmented. Savings in the future service pension cost, as a result of no longer providing Mr Walsh with any further pension provision or supplement in lieu of pension, will more than offset the cost of giving him 'flexible pension access'. No cash supplement will be payable and no other element of remuneration will be increased in lieu of further pension accrual.

At 30 June 2011, NC Rose was receiving an annual pension of £334,000 and PS Walsh was receiving an annual pension of £558,000.

D Mahlan does not participate in the UK scheme but instead receives a cash supplement of 40% of base pay in lieu of pension provision.

In the event of death whilst in employment, a lump sum of four times base salary will be paid to the beneficiaries of the executive directors.

Chairman and non-executive directors' remuneration for the year ended 30 June 2011

During the year, the annual fee payable to the chairman was increased to £500,000 per annum (a 25% increase). This is the first increase to have been applied to the chairman's fee since his appointment in July 2008. The remuneration committee reviewed the chairman's fee in the context of market practice, time commitment and the chairman's level of experience and performance, and determined that this increase was appropriate. The next review of fees is anticipated to take place in December 2012 with any changes expected to take effect on 1 January 2013.

During the year, the base fee for non-executive directors was increased by 4% to £78,000 per annum. No increase was applied to fees for the committee chairmen or senior independent director. The next review of fees is anticipated to take place in December 2011 with any changes expected to take effect on 1 January 2012.

Governance

The remuneration committee

The 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, 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.

The remuneration committee consists of Diageo's non-executive directors, all of whom are independent pursuant to the UK Corporate Governance Code: PB Bruzelius, LM Danon, Lord Davies (appointed 1 October 2010), BD Holden, Lord Hollick, PG Scott, HT Stitzer and PA Walker. Lord Hollick is 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 met seven times during the year to consider, and approve, amongst other things:

- the structure of the annual incentive plan and awards, share-based grants and vesting for executive directors and the executive committee;
- approach to salary reviews for the executive directors and executive committee;
- the performance measures used in the company's long term incentive plans;
- a review of UK pension policy in light of pension legislation changes; and
- the directors' remuneration report for the year ended 30 June 2011.

Further information on meetings held and director attendance is disclosed in the corporate governance report. The remuneration committee's terms of reference are available at www.diageo.com and on request from the company secretary.

Advice

During the year ended 30 June 2011, the remuneration committee appointed the following independent consultants:

- Deloitte LLP – who provided advice on remuneration best practice and senior executive remuneration. Deloitte LLP also provided a range of non-related tax, corporate finance and consulting services during the year.
- Kepler Associates – who reviewed and confirmed the TSR of Diageo and the peer group companies for the award under the September 2007 TSR plan (for which the performance cycle ended on 30 June 2010), provided periodic performance updates on all outstanding performance cycles and reviewed the TSR comparator group and TSR calibration for future awards. They also supported a review of the method of calculating TSR under the Performance Share Plan as part of the incentive plan review. They provided no other services to Diageo during the year.

Additional remuneration survey data published by Aon Hewitt Associates, Towers Watson, PricewaterhouseCoopers LLP and Equilar were presented to the remuneration committee during the year.

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 is not present when his own remuneration is discussed.

Executive remuneration philosophy and principles

Alignment with strategy

The remuneration structures and performance measures used are designed to align with business strategy as follows:

- Fixed elements of remuneration are determined by reference to the median of the market to ensure competitiveness with peers while controlling fixed costs.
- 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 below.
- 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.
- Full participation in incentives is conditional upon building up a significant personal shareholding in Diageo to ensure alignment with shareholder interests.

Pay for performance

The board of directors sets stretching performance targets for the business and its leaders. To achieve these targets and deliver performance requires exceptional business management and strategic execution. This approach to target setting reflects the aspirational performance environment that Diageo wishes to create.

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 in order that inappropriate business risk-taking is neither encouraged nor rewarded.

Risk management

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.

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

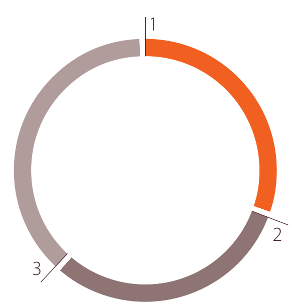
What	Why	How
Performance-related compensation	It influences and supports performance and the creation of a high-performing organisation.	• Short and long term incentives conditional upon achieving stretching performance targets.
Rewarding sustainable performance	It is at the heart of Diageo's corporate strategy and is vital to meeting investors' goals.	• A balanced mix of absolute and relative performance measures for short and long term incentives that reflect sustainable profit and underlying financial performance. • Shareholding requirements that align the interests of senior executives with those of shareholders and that are a condition of full participation in share award and share option plans.
Measuring performance over three years	It aligns with the time cycle over which management decisions are reflected in the creation of value in this business.	• Long term incentives that comprise a combination of share option grants and share awards in each year and vary with three-year EPS, and, for awards made from September 2011, TSR, organic net sales and organic operating margin performance respectively.
Providing a balanced mix of remuneration	It enables focus on long term value creation while avoiding disproportionate risk-taking.	• Base salary, benefits, pension, 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 against the total remuneration packages paid in the top 30 companies in the FTSE 100 by market capitalisation, excluding those in the financial services sector. Total remuneration positioned between the median and upper quartile of this group, 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.

Fixed and variable remuneration

The balance between fixed and variable elements of remuneration changes with performance. Based on expected values, the mix between fixed and variable remuneration for executive directors is that for £100 of remuneration earned, £31 will be fixed remuneration and £69 will be performance-related remuneration, excluding pensions and other benefits. This mix is illustrated in the following chart. The variable element may be higher or lower depending on the performance of the business.

Executive directors' remuneration mix

1 – Fixed base salary 31%
2 – Variable short term 31%
3 – Variable long term 38%



Remuneration review during 2011

During the year ended 30 June 2011, the remuneration committee undertook a review of the performance tests for the Performance Share Plan (PSP) with a view to broadening the success factors against which management is incentivised and measured to enhance the alignment between reward and the company's medium-term strategic goals. This has coincided with the board's review of the company's strategic priorities for the next few years enabling the remuneration committee to apply performance measures to future awards that are expected to fully support the delivery of the company's growth ambitions and the long term creation of shareholder value, and at the same time ensure the plan design is sustainable for the medium to long term.

With effect from awards made in September 2011, the following changes to the performance measures will apply:

From	To	Why
100% based on relative total shareholder return over three years	One-third based on relative total shareholder return over three years. One-third based on compound annual growth in organic net sales over three years. One-third based on total organic operating margin improvement over three years.	• To focus on key enablers to achieving the company's growth ambitions while maintaining alignment with shareholders' interests. • To give participants greater line of sight to the performance outcomes required to deliver rewards.

Vesting schedule and targets

Beginning with awards made in September 2011, the initial award will be apportioned equally across the three different measures and the performance outcome for each will be assessed independently of the other measures. However, an underpin will be established by the remuneration committee requiring minimum acceptable performance in organic net sales and organic operating margin before any of the award is released under either of these two measures at the end of the three-year performance period.

Under the plan, 25% of the award will be released for achieving threshold performance, up to a maximum of 100% for achieving the upper targets set by the remuneration committee. Reckitt Benckiser has been added to the TSR peer group taking the total number of companies in the group to 17 (including Diageo). The remuneration committee decided to include Reckitt Benckiser as it is one of the companies against which shareholders benchmark Diageo's performance. Given the increase in the size of the comparator group and to incentivise superior performance against peer companies, the vesting schedule has been re-calibrated. Under the TSR measure, threshold will be set at the median of the peer group (9th out of 17 companies, including Diageo), with maximum vesting occurring for achieving 3rd position or above in the peer group (changed from second in the peer group of 16 companies). The remuneration committee also determined that it would be reasonable to reduce the existing averaging period for the calculation of TSR from 12 to six months at this time. This is considered appropriate for a company of Diageo's size and relative share price stability.

For organic net sales and organic operating margin, the remuneration committee proposes to set performance targets that are in line with the company's medium-term strategic objectives. The remuneration committee recognises that shareholders typically prefer to have sight of targets at the start of the performance period but, given commercial sensitivities, the committee does not consider it appropriate to disclose specific targets for organic net sales and organic operating margin at the time of grant. However, the company will disclose how vesting outcomes relate to performance at the end of the three-year performance period in the relevant directors' remuneration report.

In addition, the remuneration committee will monitor performance throughout the performance period in order to be satisfied that the eventual outcome fairly reflects achievement against the targets as originally intended, and the creation of shareholder value over the relevant period. The remuneration committee will review the vesting outcome of an award to ensure that it fairly reflects the company's actual underlying performance and may adjust vesting levels if it considers it appropriate.

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 those in the financial services sector. • Generally positioned at the median of the relevant market or, in exceptional 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 absolute 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 30% (October 2008 awards) and 25% (September 2009 awards onwards), with pro rata vesting up to 100% maximum. • No re-test facility.
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%. • Notional dividends accrue on awards, delivered as shares or cash at the discretion of the remuneration committee. *Performance conditions for awards made up to September 2010:* • Based on TSR performance against a peer group of companies. • Threshold vesting for median TSR performance (8th position), up to 100% vesting for achieving 2nd or above in the peer group. *Performance conditions for awards made from September 2011:* • 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 (9th position), up to 100% vesting (equivalent to 33.3% of the total award) for achieving 3rd or above in the peer group. • Organic net sales and organic operating margin targets set annually by the remuneration committee for each new award.
Pension	Provides competitive post-retirement benefits.	• Accrual rate of 1⁄30 of pensionable pay. • Bonus and other benefits excluded from pensionable pay. • Maximum pension is restricted to 2⁄3 of final remuneration minus retained benefits. • Normal retirement age is 62. • Subject to company consent, no actuarial reduction applied upon early retirement from age 57. • Member's contributions of 6% of pensionable pay. • Subject to election, up to 12 April 2011, benefits in excess of the lifetime allowance provided through unfunded non-registered arrangement. • The company operates a policy of 'flexible pension access' which allows individuals over the age of 55 to draw their pension early while remaining in employment. This policy enables the ongoing retention of high-calibre individuals.
Cash supplement in lieu of pension provision	Provides competitive alternative to pension provision.	• Percentage of base pay. • Bonus and other benefits excluded from calculation of cash supplement.

Base salary

The summary table on the previous page sets out the policy on base salary for the executive directors. Base salaries are generally determined with reference to the median of the relevant market for each role taking into account the experience and performance of the individual, the level and structure of remuneration for other employees and the external environment.

The table 'Summary of salary reviews for executive directors' in the section 'Remuneration summary for the year ended 30 June 2011' at the beginning of this report shows the salary increases that have been applied to the executive directors in the years ended 30 June 2011 and 30 June 2010.

After the year-end, the remuneration committee reviewed base salaries for senior management and agreed new salaries which will apply from 1 October 2011. The remuneration committee reviewed salaries for this population in the context of the importance of each role in delivering the company's strategy, the performance of the individual, and market positioning. The remuneration committee also considered the pay and employment conditions of the general employee population with a view to determining increases for senior management that are broadly aligned with the increases for other employees.

With effect from 1 October 2011, the base salary for the chief executive officer will increase by 4.5%, to £1,231,000. In determining this salary, the remuneration committee considered the importance of the chief executive officer to the delivery of the company's key strategic goals and long term shareholder value creation, as well as his level of experience and performance. The remuneration committee also considered this increase in the context of an overall full-year budget increase of 3.5% for general staff and a collective agreement of 5.1% for negotiated groups in the UK. The remuneration committee additionally took into account historic increases for the chief executive of 0% and 2% in 2009 and 2010, respectively. On the basis of these considerations, the remuneration committee concluded that this salary level was appropriate.

The chief financial officer was appointed to the board on 1 October 2010. On her appointment, the chief financial officer'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 strong performance since appointment and that also provides progression towards a market-competitive package in line with the company's policy on base salary positioning; with effect from 1 October 2011, the base salary for the chief financial officer will increase by 8.7%, to £625,000.

Annual incentive plan

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 at the financial year end. The business results for the year ended 30 June 2011 are described in the Business review.

The targets for the year ended 30 June 2011 were a combination of measures including net sales, profit before exceptional items and tax and free cash flow. 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 set of individual business objectives (IBO) that were relevant to their specific area of accountability. These were determined with reference to a set of collective business priorities that support the long term growth and sustainability of the business. Net sales results were ahead of target and profit and cash flow targets were significantly exceeded. The remuneration committee assessed the performance of the chief executive and both the current and retired chief financial officers against their specific IBOs and concluded that the objectives were exceeded. The overall level of performance achieved resulted in an annual incentive plan award equating to 160% of base salary for both the chief executive and the chief financial officer. The pro-rated award for the former chief financial officer was equivalent to 77% of base salary. The actual awards received by the executive directors are shown in this report in the table 'Directors' remuneration for the year ended 30 June 2011'.

Long term incentive plans (LTIPs)

Current 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 underlying measure of EPS is used to ensure that items such as exceptional items and 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 2011 SESOP awards and decided to increase their stretch to ensure that they remain aligned with long-term shareholder value creation.

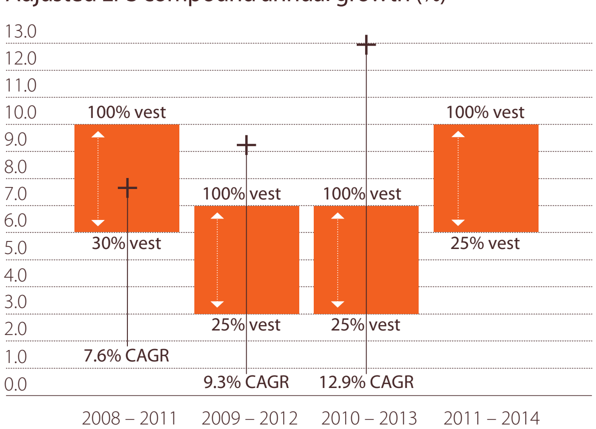
The adjusted EPS growth targets for the current outstanding awards are set out below:

	Award 2011 %	Award 2010 %	Award 2009 %	Award 2008 %
Compound annual growth				
Threshold	6	3	3	6
Max	10	7	7	10
Equivalent total over three years				
Threshold	19	9	9	19
Max	33	23	23	33
Percentage of award vesting				
Threshold	25	25	25	30
Max	100	100	100	100

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.

The following chart shows the performance targets, minimum and maximum vesting percentages for awards made in 2008, 2009, 2010 and 2011. It also shows the compound annual growth performance for adjusted EPS for the performance years ended 30 June 2009, 30 June 2010 and 30 June 2011. On the basis of this performance, the 2008 award, which is due to vest in October 2011, has met the performance condition and consequently, the shares under award will vest at 58% of the initial award.

Adjusted EPS compound annual growth (%)



Annual adjusted EPS performance

Year ending	Adjusted EPS growth
30 June 2009	4.1%
30 June 2010	5.9%
30 June 2011	**12.9%**

Senior executive share option plan 1999 (SESOP 1999)

The last grant of options made under the expired SESOP 1999 vested in September 2010. These options were subject to satisfying a performance condition based on adjusted EPS growth relative to RPI over a three-year period. The vesting schedule that applied is shown in the table below:

Adjusted EPS growth relative to RPI	% option grant released
RPI + 15%	100%
RPI + 12%	50%
Less than RPI + 12%	0%

Under both the 1999 and 2008 plans, the remuneration committee 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 2011.

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. As discussed in the 2010 Directors' Remuneration Report, and as described in the section 'Remuneration review during 2011', the remuneration committee undertook a review during the year ended 30 June 2011 of the performance tests for the PSP with a view to broadening the success factors against which management is incentivised and measured to enhance strategic alignment with the company's medium-term strategic goals. The outcome of this review has resulted in the introduction of two new measures to the performance condition for awards made from September 2011 onwards.

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 reinvested) – 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 will be split equally between three performance measures – TSR, as defined above, growth in organic net sales on a compound annual basis and 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 will require 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. For organic net sales and organic operating margin, 25% of the award will be released for achieving threshold performance up to a maximum of 100% for achieving the upper targets. The vesting schedule for the portion of the award subject to the TSR measure is shown in the table below. The company will disclose how vesting outcomes relate to performance at the end of the three-year performance period in the relevant directors' remuneration report. The remuneration committee will review the vesting outcome of an award to ensure that it fairly reflects the company's actual underlying performance and may adjust vesting levels if it considers it appropriate.

The remuneration committee has considered the strategic goals for the company over the next 3-5 years and the role of the chief executive officer in the delivery of shareholder value. In light of this the committee proposes to enable vesting of PSPs granted to the chief executive officer from 2011 to be based entirely on the delivery of that performance. Accordingly 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. Such consideration would be at the sole discretion of the remuneration committee, taking into account all the circumstances it considers relevant at the time.

Notional dividends accrue on awards and are paid out either in cash or shares in accordance with the vesting schedule shown in the table below. 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.

Total shareholder return plan (TSR 1998)
The final award of performance shares made under the expired TSR plan lapsed in full in September 2010 upon failing to meet the performance condition based on TSR performance relative to the selected peer group as described above.

Vesting schedule and TSR peer group for the PSP

TSR ranking	From 2011 awards % vesting	From 2008 awards % vesting
1st	100%	100%
2nd	100%	100%
3rd	100%	95%
4th	95%	75%
5th	75%	65%
6th	65%	55%
7th	55%	45%
8th	45%	25%
9th	25%	0%
10th or below	0%	0%

TSR peer group[(a)]	
AB InBev	Kraft Foods
Brown-Forman	Nestlé
Carlsberg	PepsiCo
Coca-Cola	Pernod Ricard
Colgate-Palmolive	Procter & Gamble
Groupe Danone	Reckitt Benckiser (2011 onwards)
Heineken	SABMiller
HJ Heinz	Unilever

Note
(a) As part of the plan review undertaken during the year, the TSR peer group was reviewed and the remuneration committee determined that it would be appropriate to add Reckitt Benckiser to the peer group from the company's reserve list of peer group companies, such that the three-year TSR performance for awards made from September 2011 onwards would be measured on the basis of a peer group of 17 companies, including Diageo. The TSR measurement for outstanding awards made up to and including September 2010 is based on a peer group of 16 companies, including Diageo.

Long term incentive plans and 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
The executive directors are eligible to participate in the UK HM Revenue & Customs approved share incentive and sharesave plans that Diageo operates on the same terms as for all eligible employees.

Share ownership
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 chief executive and chief financial officer are required to hold company shares equivalent to 300% and 250% of their base salary, respectively. The current status of their shareholding requirement is shown in the shareholding table in the remuneration summary at the beginning of this report.

Pension provision
NC Rose and PS Walsh are members of the UK Scheme. D Mahlan is not a member of the UK Scheme and instead receives a cash supplement in lieu of pension provision equivalent to 40% of base pay. During the year, NC Rose and PS Walsh accrued pension rights at the rate of one-thirtieth of pensionable pay, until the point that they stopped accruing further pension as at 31 December 2010 and 31 March 2011, respectively. Bonus payments and other benefits are not included in pensionable pay. The pension at normal retirement age may not exceed two-thirds of final remuneration minus retained benefits. Subject to the consent of the company, no actuarial reduction is currently applied upon early retirement on or after the age of 57. Under the rules of the UK Scheme, pensions in payment are 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. The minimum of 3% per year only applies to pension earned up to 31 March 2011.

On death in service, a lump sum of four times pensionable pay becomes payable, together with a spouse's pension of two-thirds of the member's prospective pension. Upon death after retirement, a spouse's pension of two-thirds of the member's pension before commutation is payable. Accordingly, D Mahlan will receive a lump sum of four times base pay and PS Walsh will receive a lump sum of four times pensionable pay in the event of death whilst employed by Diageo.

NC Rose and PS Walsh made employee contributions of 6% of pensionable pay during the year until they stopped accruing benefits and began to draw their pension benefit under early retirement and flexible pension access, respectively.

As a result of changes introduced by the UK Finance Act 2004 affecting the taxation of pensions from 6 April 2006, NC Rose and PS Walsh were offered the option of having benefits in excess of their lifetime allowance provided by an unfunded non-registered arrangement. Both opted to have part of their benefits provided from this unfunded arrangement, if appropriate. Total pension benefits remain subject to the HM Revenue & Customs limits that were in force on 5 April 2006.

As a result of the remuneration committee's review of pension provision in the light of changes in the UK pension taxation legislation applicable from 1 April 2011, the option of the unfunded non-registered arrangement was removed and no further benefits can build up in this arrangement. In addition, members directly impacted by the pension taxation legislation changes have been given the option to either remain in the UK Scheme and pay the additional tax or opt out and receive a cash supplement in lieu of future pension accrual.

Service contracts

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 PS Walsh equivalent to 12 months' base salary for the notice period and an equal amount in respect of all benefits, and to D Mahlan equivalent to 12 months' base salary for the notice period and the cost to the company of providing contractual benefits (excluding incentive plans). 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. PS Walsh's service contract with the company is dated 1 November 2005. D Mahlan's service contract with the company is dated 1 July 2010.

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.

During the year ended 30 June 2011, PS Walsh served as a non-executive director of Unilever PLC and FedEx Corporation and retained the fees paid to him for his services. On 16 February 2011, PS Walsh was also appointed as lead non-executive director and deputy chair on the board of the Department of Energy and Climate Change (DECC). PS 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 2011 are set out in the table below. D Mahlan did not hold any external appointments during the year ended 30 June 2011.

	PS Walsh £000
Unilever PLC[(a)]	77
FedEx Corporation[(a)]	65
DECC	7
	149

Note
(a) Fees paid in currencies other than sterling are converted using average exchange rates for the year ended 30 June 2011.

In line with the FedEx Corporation policy for outside directors, PS Walsh is eligible to be granted share options. During the year ended 30 June 2011, he was granted 4,600 options at an option price of $84.41. He exercised 4,000 FedEx options during the year, which were granted at an option price of $35.88 and sold at an average price of $95.78.

Chairman and non-executive directors – policy, terms, conditions and fees

Diageo's policy on chairman's and non-executive directors' fees is as follows:

- 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 Annual General Meeting. The limit excludes remuneration paid for special services performed by directors.

The chairman of the board, Dr FB Humer, commenced his appointment on 1 July 2008. Dr FB Humer has a letter of appointment for an initial five-year term from 1 July 2008. 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 and any changes would normally take effect from 1 January. As recommended by the UK Corporate Governance Code, any changes to this fee have to be approved by the remuneration committee. The last scheduled review of fees was undertaken in December 2010. At this time, fees were reviewed in the light of market practice in large UK companies and anticipated workload, tasks and potential liabilities. As a result of this review, the annual fee payable to Dr FB Humer was increased to £500,000 (a 25% increase). 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 next review of the chairman's fee is anticipated to take place in December 2012 with any changes expected to take effect on 1 January 2013.

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

The fees paid to non-executive directors are reviewed annually with any changes normally taking effect from 1 January. The last scheduled review of fees was undertaken in December 2010. At this time, fees were benchmarked against market practice in large UK companies 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 4% to £78,000 per annum. The next review of the non-executive director fees is anticipated to take place in December 2011 with any changes expected to take effect on 1 January 2012.

Per annum fees effective from	January 2011	January 2010
Base fee	**£78,000**	£75,000
Senior non-executive director	**£20,000**	£20,000
Chairman of audit committee	**£25,000**	£25,000
Chairman of remuneration committee	**£15,000**	£15,000

The emoluments received by the non-executive directors in the year ended 30 June 2011 are shown in the table 'Directors' remuneration for the year ended 30 June 2011'.

Directors' remuneration for the year ended 30 June 2011

	Base salary £000	Annual incentive plan £000	Share incentive plan £000	Cash in lieu of pension[(b)] £000	Other benefits[(c)] £000	2011 Total £000	2010 Total £000
Emoluments							
Chairman – fees							
Dr FB Humer[(a)]	450	–	–	–	9	459	406
Executive directors							
D Mahlan (appointed 1 October 2010)	431	690	3	172	57	1,353	–
NC Rose (retired from the board on 14 October 2010)	194	518	3	–	17	732	1,872
PS Walsh	1,172	1,884	3	49	75	3,183	3,178
	1,797	3,092	9	221	149	5,268	5,050
Non-executive directors – fees							
PB Bruzelius	76	–	–	–	1	77	76
LM Danon	76	–	–	–	1	77	76
Lord Davies (appointed 1 October 2010)	64	–	–	–	1	65	–
BD Holden	76	–	–	–	1	77	63
Lord Hollick	111	–	–	–	1	112	111
PG Scott	101	–	–	–	1	102	101
HT Stitzer	76	–	–	–	1	77	76
PA Walker	76	–	–	–	1	77	76
Former non-executive directors – fees							
M Lilja (retired 14 October 2009)	–	–	–	–	–	–	21
	656	–	–	–	8	664	600
Total	2,903	3,092	9	221	166	6,391	6,056

Notes
(a) £180,000 of Dr FB Humer's remuneration in the year ended 30 June 2011 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) D Mahlan does not participate in the company's pension scheme and instead receives a monthly cash supplement equivalent to 40% of base pay. For the month of April 2011 (between opting out of future pension accrual and beginning to draw his pension under the company's general policy of 'flexible pension access', as described in the 'Remuneration Summary for the year ended 30 June 2011' section of this report), PS Walsh received a cash supplement in lieu of pension provision equivalent to 50% of base pay.
(c) Other benefits may include company car and driver, fuel, product allowance, financial counselling and medical insurance.

Long term incentive plans

Payments and gains

In the year ended 30 June 2011, the executive directors received payments and made gains under long term incentive plans as follows:

	Executive share option exercises £000	September 2007 TSR award £000	2011 Total £000	2010 Total £000
Executive directors				
D Mahlan[(a)] (appointed 1 October 2010)	215	–	215	–
NC Rose (retired from the board on 14 October 2010)	–	–	–	984
PS Walsh	1,225	–	1,225	2,859
Total	1,440	–	1,440	3,843

Notes
(a) D Mahlan exercised options that were awarded in the form of American Depository Shares (ADS) and the gain value was converted from US dollars into sterling using the exchange rate on the date of exercise.

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.

	UK option plan	30 June 2010[b]	Granted	Exercised	30 June 2011[c]	Option price in pence	Market price at date of exercise in pence	Date from which first exercisable	Expiry date
D Mahlan	DSOP 1999[d],[e]	49,576		(48,000)	1,576	815	1263	20 Sep 2008	20 Sep 2015
	DSOP 1999[d],[e]	45,352			45,352	930		19 Sep 2009	19 Sep 2016
	DSOP 1999[d],[e]	37,560			37,560	1051		18 Sep 2010	18 Sep 2017
	DSOP 1999[d],[e]	52,588			52,588	1035		16 Sep 2011	16 Sep 2018
	SESOP 2008[e]	83,160			83,160	952		17 Sep 2012	17 Sep 2019
	SESOP 2008		199,652		199,652	1080		20 Sep 2013	20 Sep 2020
		268,236	199,652	(48,000)	419,888				
NC Rose	SESOP 1999	226,569			226,569	1051		18 Sep 2010	18 Sep 2017
	SESOP 2008[a]	287,770			287,770	877		27 Oct 2011	27 Oct 2018
	SESOP 2008	265,099			265,099	952		17 Sep 2012	17 Sep 2019
		779,438	–	–	779,438				
PS Walsh	SESOP 1999	270,553		(150,000)		759	1207	11 Oct 2005	11 Oct 2012
	SESOP 1999			(100,000)	20,553	759	1300	11 Oct 2005	11 Oct 2012
	SESOP 1999	455,521			455,521	815		20 Sep 2008	20 Sep 2015
	SESOP 1999	423,387			423,387	930		19 Sep 2009	19 Sep 2016
	SESOP 1999	392,483			392,483	1051		18 Sep 2010	18 Sep 2017
	SAYE[e]	2,465		(2,465)	–	653	1147	01 Dec 2010	31 May 2011
	SESOP 2008[a]	493,871			493,871	877		27 Oct 2011	27 Oct 2018
	SESOP 2008	454,963			454,963	952		17 Sep 2012	17 Sep 2019
	SESOP 2008		409,062		409,062	1080		20 Sep 2013	20 Sep 2020
	SAYE[f]		1,617		1,617	941		01 Dec 2015	31 May 2016
		2,493,243	410,679	(252,465)	2,651,457				

Notes
(a) The performance condition in respect of this SESOP grant was measured after 30 June 2011. The compound annual growth in Diageo's EPS over the three years ended 30 June 2011 met the performance condition and 58% of these options will become exercisable in October 2011.
(b) As at 1 October 2010 for D Mahlan.
(c) As at 14 October 2010 for NC Rose. These awards were subject to pro-rating after the executive retired from the company to reflect time worked between the date of grant and the date of cessation of employment. The pro-rated balance will only vest to the extent that the performance condition is met at the end of the performance period.
(d) Options granted under the Diageo Executive Share Option Plan prior to the executive's appointment to the board.
(e) 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.
(f) Options granted under the UK savings-related share option scheme.

The mid-market price for ordinary shares at 30 June 2011 was 1273 pence (2010 – 1060 pence; 15 August 2011 – 1189 pence). The highest mid-market price during the year was 1300 pence and the lowest mid-market price was 1032 pence.

Directors' interests in PSP and TSR plan awards

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

			Interests at 30 June 2010[g]		Awards made during year	Awards released during year			
	Performance period	Date of award	Target award[a]	Maximum award[b]	Maximum award[b]	Number of shares vested[c]	Number of shares lapsed	Market price at date of vesting in pence[d]	Interests at 30 June 2011[e][f]
D Mahlan[j]	2008 – 2011	27 Oct 08[h],[k]	27,056	27,056					27,056
	2009 – 2012	17 Sep 09[k]	81,380	81,380					81,380
	2010 – 2013	20 Sep 10[i]			167,964				167,964
			108,436	108,436	167,964				276,400
NC Rose	2007 – 2010	18 Sep 07	127,895	191,843		–	(127,895)	1091	–
	2008 – 2011	27 Oct 08[h]	194,321	194,321					194,321
	2009 – 2012	17 Sep 09	226,599	226,599					226,599
			548,815	612,763	–	–	(127,895)		420,920
PS Walsh	2007 – 2010	18 Sep 07	276,938	415,407		–	(276,938)	1091	–
	2008 – 2011	27 Oct 08[h]	416,867	416,867					416,867
	2009 – 2012	17 Sep 09	486,111	486,111					486,111
	2010 – 2013	20 Sep 10[i]			430,172				430,172
			1,179,916	1,318,385	430,172	–	(276,938)		1,333,150

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 preceding financial year. Of this number of shares initially awarded, 25% under the PSP and 35% under the TSR plan would be released for achieving position eight in the peer group. No shares would be released for achievement of position nine or below.
(b) This number reflects the maximum number of shares that could be awarded based on the vesting schedule. Under the PSP, the maximum would be 100% of the target award. Under the TSR plan, this would be 150% of the number of shares initially awarded. The entire amount of these shares would only be released for achieving position one or two in the peer group.
(c) The three-year performance period for the September 2007 TSR plan award ended on 30 June 2010. The number of shares released in September 2010 was 0% of the initial award. This was based on a relative TSR ranking of position 14 in the peer group at the end of the performance period. Kepler Associates independently verified the TSR increase and ranking.
(d) The price on 20 September 2010, the release date. The market price was 1069 pence when the award was made on 18 September 2007.
(e) The directors' interests at 15 August 2011 were the same as at 30 June 2011.
(f) As at 14 October 2010 for NC Rose. These awards were subject to pro-rating after the executive retired from the company to reflect time worked between the date of grant and the date of cessation of employment. The pro-rated balance will only vest to the extent that the performance condition is met at the end of the performance period.
(g) As at 1 October 2010 for D Mahlan.
(h) The three-year performance period for the October 2008 PSP award ended on 30 June 2011. The number of shares that will be released in October 2011 is 0% of the initial award. This was based on a relative TSR ranking of position 12 in the peer group at the end of the performance period. Kepler Associates independently verified the TSR increase and ranking.
(i) The market price on 20 September 2010 was 1091 pence.
(j) D Mahlan also has outstanding interests in the Discretionary Incentive Plan of 10,432 ordinary shares which are due to vest in full in September 2011.
(k) 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.

Executive directors' pension benefits

The accrued pension figures at 30 June 2010 shown in the following table represent the annual pension to which the chief executive officer, PS Walsh, and the former chief financial officer, NC Rose, would have been entitled at normal retirement age. As both are now in receipt of their pension, the pension figures at 30 June 2011 represent the annual pension they are currently receiving. The transfer values of the pensions calculated at 30 June 2010 and 30 June 2011 are also shown. The transfer value is broadly the cost to Diageo if it had to provide the equivalent pension benefit. The transfer values shown in the following table have been calculated on a basis set by the Trustee of the UK Scheme.

The current chief financial officer, D Mahlan, does not participate in the final salary pension scheme, but receives a cash supplement in lieu of pension provision equivalent to 40% of base pay. The cash in lieu supplement received between the date of D Mahlan's appointment to the board on 1 October 2010 up to 30 June 2011, was £172,500. PS Walsh also received a cash supplement in lieu of pension provision between 1 April 2011 and 30 April 2011, relating to the period from when he ceased accruing further pension to the time when he commenced drawing his pension under the company's policy of flexible pension access; the amount received was £49,088.

	Age at 30 June 2011 Years	Pensionable service at 30 June 2010 Years	Accrued pension at 30 June 2010 £000 pa	Additional pension accrued in the year[a] £000 pa	Accrued pension at 30 June 2011[a][b] £000 pa	Transfer value at 30 June 2010 £000	Change in transfer value during the year[c] £000	Transfer value at 30 June 2011[c] £000
NC Rose	53	18.6	396	(62)	334	7,310	2,581	9,891
PS Walsh	56	28.5	670	(112)	558	13,481	2,315	15,796

Notes
(a) Whilst both NC Rose and PS Walsh accrued pension in the year as a result of additional months of pensionable service, this was offset by the early retirement reduction factors applied to the pension in accordance with the Rules of the UK Scheme and the fact that both directors commuted part of their pension for a tax free cash lump sum.
(b) Part of the pension NC Rose receives is provided from the unfunded non-registered arrangement. As at 30 June 2011, the percentage of pension provided from this arrangement was 84% (2010 – 79%). PS Walsh does not receive any pension from this arrangement. In addition NC Rose received a tax free payment of £223,777 in respect of his benefits from the funded non-registered retirement benefits scheme.
(c) The change in the transfer values during the year attributable to additional pensionable service and pay rises was an increase of £203,000 for NC Rose and £593,000 for PS Walsh. The change in the transfer values during the year as a result of both directors starting to receive their pension was an increase of £1,726,000 for NC Rose and an increase of £747,000 for PS Walsh. These increases reflect the change in the calculation method used when a member retires and the impact of the early retirement terms offered under the UK Scheme. These increases have been offset by the pension payments received to date and the fact both directors commuted part of their pension for a tax free cash lump sum resulting in a lower residual pension. The remainder of the change in the transfer values was mainly attributable to changes in market conditions and interest earned on the transfer value and changes in index-linked gilt markets over the year.
(d) During the year, NC Rose made pension contributions of £20,190 (2010 – £40,380) and PS Walsh made pension contributions of £52,668 (2010 – £69,300).

Share and other interests

The beneficial interests of the directors in office at 30 June 2011 in the ordinary shares of the company are shown in the table below.

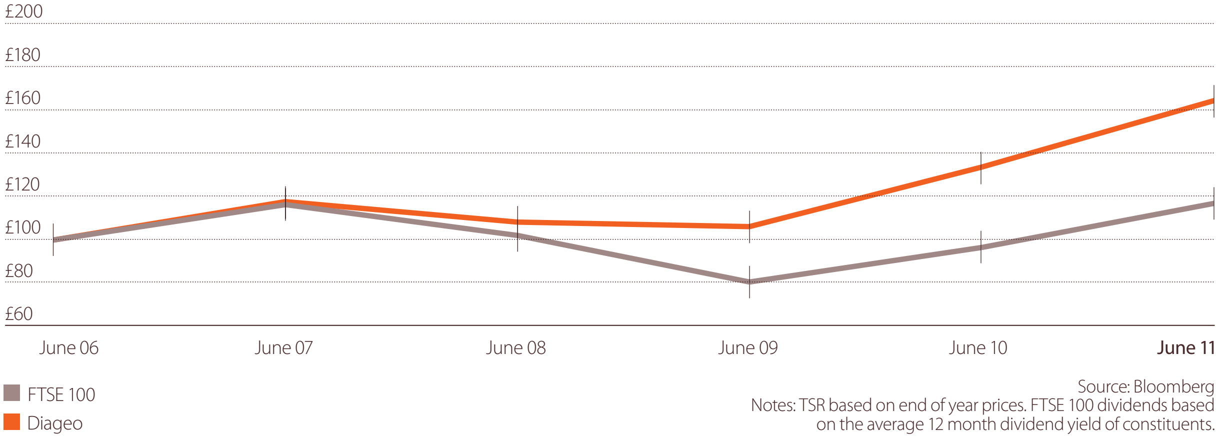
	Ordinary shares		
	15 August 2011	30 June 2011	30 June 2010 or appointment
Chairman			
Dr FB Humer	33,734	32,386	23,354
Executive directors			
D Mahlan	83,755	83,755	22,392
PS Walsh	667,377	667,346	728,413
Non-executive directors			
PB Bruzelius	5,000	5,000	5,000
LM Danon	5,000	5,000	5,000
Lord Davies	–	–	–
BD Holden	8,100	8,100	2,000
Lord Hollick	5,000	5,000	5,000
PG Scott	25,000	25,000	25,000
HT Stitzer	8,319	8,319	7,872
PA Walker	44,250	44,250	44,250
Total	885,535	884,156	868,281

Notes
(a) At 30 June 2010, NC Rose (retired from the board on 14 October 2010) held 478,878 shares.
(b) At 30 June 2011, there were 9,014,858 shares (30 June 2010 – 2,030,340; 15 August 2011 – 8,847,978) held by trusts to satisfy grants made under Diageo incentive plans and savings-related share option schemes. PS Walsh is among the potential beneficiaries of these trusts and is deemed to have an interest in all these shares.
(c) D Mahlan and BD 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.

Performance graph

The graph below shows the total shareholder return for Diageo and the FTSE 100 Index since 30 June 2006. The FTSE 100 Index reflects the 100 largest UK quoted companies by market capitalisation and has been chosen because it is a widely recognised performance benchmark for large UK companies.

Total shareholder return – value of hypothetical £100 holding (based on spot share prices)



Source: Bloomberg
Notes: TSR based on end of year prices. FTSE 100 dividends based on the average 12 month dividend yield of constituents.

Additional information

Emoluments and share interests of senior management

The total emoluments for the year ended 30 June 2011 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 £21,636,952 (2010 – £21,116,825). The termination payments included in the total emoluments will be paid in September 2011 to two executive committee members and are made with respect to pay in lieu of notice and compensation for loss of office. A portion of the termination payments may be subject to mitigation.

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 £3,695,724. In addition, they were granted 2,039,657 options under the SESOP during the year at a weighted average share price of 1081 pence, exercisable by 2020. They were also initially awarded 1,895,294 shares under the PSP in September 2010, which will vest in three years subject to the performance tests described above. Five members of the executive committee were also awarded an exceptional grant of 212,487 deferred shares under the Discretionary Incentive Plan (DIP) in September 2010 and March 2011. There are performance conditions attached to the release of these awards and they will vest, subject to achievement of the performance conditions, in two equal instalments in the 3rd and 4th year after grant.

Senior management options over ordinary shares

At 15 August 2011, the senior management had an aggregate beneficial interest in 2,027,262 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
D Mahlan	419,888	1029	Sep 08 – Sep 20
PS Walsh	2,651,457	944	Oct 05 – Sep 20
Other*	7,270,403	1038	Oct 04 – Sep 19
	10,341,748		

* 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, Lord Hollick, PS Walsh, NC Rose and G 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: Lord Hollick – £25,000, PS Walsh – £43,000, NC Rose – £11,600 and G Williams – £19,400. Each director continued to hold these seasonal developments at 30 June 2011.

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 2011.

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 relative or spouse 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 the board of directors, on 23 August 2011 and was signed on its behalf by Lord Hollick of Notting Hill 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 2011', 'Long term incentive plans', 'Directors' share options over ordinary shares', 'Directors' interests in PSP and TSR plan awards' and '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

AGM – annual general meeting of shareholders.
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.
Normal retirement age – for pension purposes this is age 62.
Organic net sales growth – for the purpose of the PSP, the growth in the group's sales net of excise duties and calculated on a constant currency basis excluding the impact of acquisitions, in the year in which they arise, and disposals.
Organic operating margin improvement – for the purpose of the PSP, the movement in the group's organic operating profit, calculated on a constant currency basis excluding the impact of exceptional items, acquisitions, in the year in which they arise, and disposals, divided by organic net sales.
RPI – the retail prices index is a UK government index that measures changes in cost of living.
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 reinvested.