Directors' remuneration report

Dear Shareholder

Diageo faced many tough challenges in the last fiscal year: an unprecedented global economic downturn, unusually volatile markets and weakening consumer confidence. The restructuring programme announced in 2009, and the sharp focus on market share gains, innovation and geographic expansion will drive long term growth. The fiscal 2010 results demonstrate the great resilience of our business, the strong and effective leadership of our management team and the terrific commitment of our global workforce.

The remuneration committee has striven to ensure that people at all levels are fairly rewarded for achieving their financial and business targets and for strengthening the company's long term leadership position. We have been alert to the danger of encouraging short term measures and risk taking, which would be to the detriment of Diageo's longer term interests.

We believe that the remuneration outturn for the last fiscal year fairly and reasonably reflects management's success in dealing with the particularly difficult and volatile conditions in many of our business units and for achieving the impressive financial results described in detail in the Business review.

Salaries for senior management were frozen in fiscal 2010, as the committee felt that was the responsible approach to take in the context of the economic climate at that time. During fiscal 2010, the performance shares, which were due to vest in September 2009, lapsed in full upon failing the required total shareholder return (TSR) metric, and the same outcome will apply for the award due to vest in September 2010. This outcome, in part, reflects the extreme currency volatility that has followed the global economic downturn and the impact of this on Diageo's TSR measured in a common currency of US dollars. Diageo's strong TSR performance against the FTSE 100 can be seen in the graph on page 91 of this report. The corresponding SESOP share option awards have fully vested upon exceeding the adjusted earnings per share measure. The annual incentive plan award for 2010, detailed later in this report, reflects the company's resilient annual results, exceeding targets for both profit before exceptional items and tax and net sales, and significantly exceeding targets for free cash flow.

During the year ending 30 June 2011, the committee intends to undertake a review of the performance measures for the Performance Share Plan with a view to broadening the success factors against which management are incentivised and measured in order to enhance the alignment between reward and our medium term strategic goals. An important factor in this is the extreme currency volatility, referred to above, resulting from the unprecedented devaluation of sterling against the US dollar and euro. We will consult with our shareholders on any proposed changes to our remuneration plans.

The following report provides further explanation of the current remuneration arrangements and reward outcomes for the performance in the year ended 30 June 2010.

Finally, we plan to submit resolutions in respect of the renewal of two employee share plans for shareholder approval at the company's AGM in October 2010. Details are included in the Notice of Meeting.

We look forward to receiving your support at the AGM in October 2010.

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

Remuneration summary for the year ended 30 June 2010

Base salary

Base salaries for the executive directors were frozen in the year ended 30 June 2010 in response to economic conditions. Therefore, the salaries payable to the chief executive and chief financial officer of £1,155,000 and £673,000, respectively, have remained unchanged since October 2008.

Summary of salary reviews for executive directors

Percentage increase in year ended 30 June	2010	2009
NC Rose	0%	6%
PS Walsh	0%	5%

Short term incentive plans

In the year ended 30 June 2010, 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. Performance against both profit before exceptional items and tax and net sales measures was ahead of target, and delivery of free cash flow was significantly ahead of target. The remuneration committee also assessed performance against the individual business objectives and concluded that there had been very strong performance against the operational and strategic goals set. The committee determined that awards under the annual incentive plan equivalent to 171% and 173% of salary as at 30 June 2010 for the chief executive and chief financial officer, respectively, were appropriate given the resilient performance delivered in challenging economic circumstances.

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

Percentage award earned for year ended 30 June	2010	2009
NC Rose	173%	44%
PS Walsh	171%	44%

Long term incentive plans

During the year ended 30 June 2010, the executive directors received option grants and were awarded performance shares in the range of 300% to 375% of their salaries. 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 2006 failed the required performance condition with Diageo's total shareholder return (TSR) ranking below the median of the TSR peer group of 16 other companies (reduced to 15 other companies for the 2007 award following the removal of Cadbury during the year and maintained at 16 other companies from 2008 onwards with the addition to the peer group of Kraft). Consequently, the award lapsed in full in September 2009. In addition, the TSR target for awards granted in September 2007 was not met and these awards are due to lapse in September 2010.

Share options granted in 2006 vested in full in September 2009 upon exceeding the required performance condition of adjusted EPS growth of RPI plus 15 percentage points. For share options granted in 2007, the adjusted measure was exceeded and the options will vest in full in September 2010.

Summary of long term incentive awards vesting for executive directors

Percentage vesting in year ended 30 June	2010	2009
Performance shares	0%	35%
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 2010 for NC Rose and PS Walsh is shown below:

	NC Rose	PS Walsh
Value of shareholdings (£000)	4,918	7,480
Minimum shareholding requirement as % of salary	250%	300%
Actual shareholding as % of salary	731%	648%

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 2010, and an average share price for the same period of 1027 pence.

Pensions

The executive directors participate in a final salary pension scheme. Accrued annual pension as at 30 June 2010 is £396,000 per annum for NC Rose and £670,000 per annum for PS Walsh. The executive directors contribute 6% of their pensionable pay to the scheme. With effect from 31 December 2010, NC Rose will take early retirement from the company at the age of 53; his pension benefit will be subject to actuarial reduction in line with the normal rules of the scheme and will not be augmented.

Non-executive directors' remuneration for the year ended 30 June 2010

In light of the salary freeze applied to executive directors and senior management during the year, no increase was made to the base fee and committee chairman fees for non-executive directors. The next review of fees is anticipated to take place in December 2010 with any changes expected to take effect on 1 January 2011.

Appointment of new chief financial officer

During the year ended 30 June 2010, the company announced that Mr NC Rose would stand down from the board at the company's AGM on 14 October 2010 and that Ms D Mahlan would replace him on the board in the position of chief financial officer with effect from 1 October 2010. Subject to shareholder approval, Ms. Mahlan will be formally appointed as a director at the company's AGM on 14 October 2010. It is proposed that Ms. Mahlan is paid a base salary of £575,000 per annum and that she will participate in the annual bonus and long term incentive plans on a similar basis to the previous incumbent.

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: PB Bruzelius, LM Danon, BD Holden (appointed 1 September 2009), Lord Hollick, PG Scott, HT Stitzer and PA Walker. M Lilja retired from the remuneration committee on 14 October 2009. 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 five 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; and
- the directors' remuneration report for the year ended 30 June 2010.

During the year, the remuneration committee undertook a review of its own effectiveness and concluded that the committee was acting effectively.

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 2010, 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, accounting, consulting and risk management 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 2006 TSR plan (for which the performance cycle ended on 30 June 2009), provided periodic performance updates on all outstanding performance cycles and reviewed the TSR comparator group and TSR calibration for future awards. They provided no other services to Diageo during the year.

Additional remuneration survey data published by Hewitt Associates, Towers Watson (formerly Towers Perrin) and Equilar, were presented to the remuneration committee during the year. In addition, advice provided by Ernst&Young LLP on the implementation of an employer financed retirement benefit scheme (EFRBS) was 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.

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 aligned to the median of the market to ensure competitiveness with peers while controlling cost.
- 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.

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 total oversight of any risk factors that may be relevant to remuneration arrangements and target setting specifically.

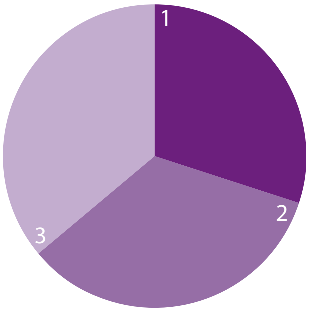
The plans in which Diageo's executive directors and senior management participate are designed to reflect the principles detailed below:

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 TSR 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. The anticipated normal 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. This mix is illustrated in the following chart. In some years, the variable element may be higher or lower depending on the performance of the business.

Executive directors' remuneration mix



1 32% – Variable – short term
2 36% – Variable – long term
3 32% – Fixed – base salary

Performance summary
Business description
Business review
Governance
Financial statements
Additional information

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. Provides focus on delivering superior returns to shareholders.	• A discretionary annual award of shares subject to a three-year performance test based on TSR performance against a peer group of companies. • Maximum annual award of 375% of salary. • Threshold vesting of 25% for median performance up to vesting of 100% for position 1 or 2 relative to the TSR peer group. • Notional dividends accrue on awards, delivered as shares or cash at the discretion of the remuneration committee.
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. • Contributory – 6% of pensionable pay. • Subject to election, benefits in excess of the lifetime allowance provided through unfunded non-registered arrangement.

Base salary

The summary table on the previous page sets out the policy on base salary for the executive directors. Base salaries are generally set around the median of the relevant market for each role and take account of level of experience, performance and the external market. When setting executive director pay, the remuneration committee also takes into account the level and structure of remuneration for other employees. Particular consideration is given to the overall increase in salaries throughout the company, with the intention that any increase in executive director salaries in fiscal 2011 will be at a similar level to the overall employee increase.

In light of economic conditions in the last two years and the focus on cost constraint, no salary increases were made during the year ended 30 June 2010 and, therefore, salaries remained at 2008 levels. The table ‘Summary of salary reviews for executive directors’ in the remuneration summary at the beginning of this report shows the salary increases that have been applied to the executive directors in the years ended 30 June 2010 and 2009.

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 2010 are described in the Business review.

The targets for the year ended 30 June 2010 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. For the first time, 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. Profit and sales targets were exceeded and free cash flow targets were significantly exceeded. The committee evaluated the performance of the chief executive and chief financial officer 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 171% of base salary for the chief executive and 173% for the chief financial officer. The actual awards received by the executive directors are shown in this report in the table ‘Directors’ remuneration for the year ended 30 June 2010’.

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 the 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%.

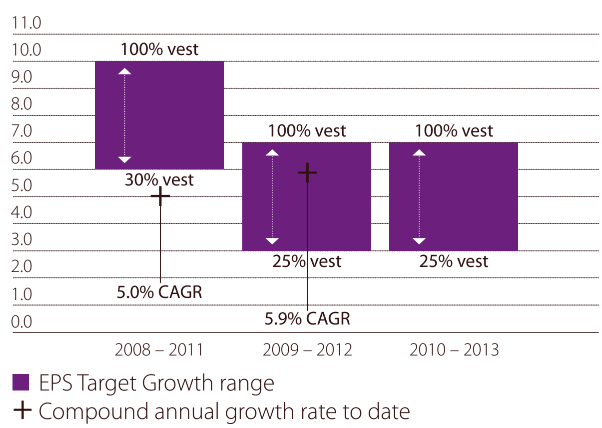
The adjusted EPS growth targets for the awards to be made in September 2010 are unchanged from 2009. Therefore, the adjusted EPS growth target for the September 2010 grant of options to vest in full remains 7% compound annual growth which is equivalent to 23% growth over a three-year period. The threshold when options start to vest remains 3% compound annual growth in adjusted EPS which is equivalent to 9% growth over a three-year period. 100% of the initial award will vest for performance greater than or equal to the upper target and 25% of the initial award will vest for threshold performance.

The adjusted EPS growth target for the October 2008 grant of options to vest in full is 10% per annum compound which is equivalent to 33% growth over a three-year period. The threshold when options start to vest is when adjusted EPS grows by an average of 6% compound per annum, equivalent to 19% over a three-year period, at which point 30% of the award would vest.

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 and 2010, and the compound annual growth for adjusted EPS performance for the performance years ended 30 June 2009 and 30 June 2010.

Adjusted EPS compound annual growth (%)



In the year ending 30 June 2009, adjusted EPS grew by 4.1% (restated from prior year) and in the year ending 30 June 2010, adjusted EPS grew by 5.9%.

Senior executive share option plan 1999 (SESOP 1999)

The last grant of options made under the expired SESOP 1999 is due to vest in September 2010. These options are subject to satisfying a performance condition based on adjusted EPS growth relative to RPI over a three-year period. The vesting schedule 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. During the year ended 30 June 2010, the remuneration committee exercised this discretion for a total of 114,020 ordinary shares awarded under the SESOP 1999 and SESOP 2008 to one qualifying participant. This discretion was applied after consideration of the leaving circumstances and prior personal performance of the individual.

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 two performance tests. 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 fast moving 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. 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. 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.

During the year ending 30 June 2011, the committee intends to undertake a review of the performance measures for the PSP with a view to broadening the success factors against which management is incentivised and measured to enhance strategic alignment. In addition, in light of the unprecedented devaluation of sterling against the US dollar and euro, the committee also intends to review the way in which TSR is being calculated to ensure it continues to achieve its original purpose of incentivising management to deliver core shareholder value.

Total shareholder return plan (TSR 1998)
The final award of performance shares made under the expired TSR plan is due to vest in September 2010. The proportion vesting is subject to TSR performance relative to the selected peer group as described above. Outstanding awards under this expired plan are subject to the vesting schedule below. The maximum annual award under the plan is 250% of salary. Notional dividends do not accrue on awards made under the expired TSR plan.

Vesting schedules and TSR peer group for the PSP and the TSR plan

TSR ranking	PSP 2008 % vesting	TSR 1998 (expired) % vesting
1st or 2nd	100%	150%
3rd	95%	142%
4th	75%	114%
5th	65%	94%
6th	55%	83%
7th	45%	67%
8th	25%	35%
9th or below	0%	0%

TSR peer group[(a)]	
AB InBev	Kraft (2008 onwards)
Brown-Forman	Nestlé
Carlsberg	PepsiCo
Coca-Cola	Pernod Ricard
Colgate-Palmolive	Procter & Gamble
Groupe Danone	SABMiller
Heineken	Unilever
HJ Heinz	

Note
(a) The TSR peer group was reviewed during the year following the delisting of Cadbury. Following this review, the remuneration committee concluded in accordance with the rules that the three-year TSR performance for the final outstanding award under the expired TSR 1998 would be measured on the basis of a reduced peer group of 15 companies including Diageo, and that the three-year TSR performance for current and future awards made under the PSP 2008 would be measured on the basis of a revised peer group of 16 companies, including Diageo, following the addition of Kraft.

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 and TSR plan 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 Diageo Pension Scheme. They currently accrue pension rights at the rate of one-thirtieth of pensionable pay each year. 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. 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.

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 executive director's prospective pension. Upon death after retirement, a spouse's pension of two-thirds of the executive director's pension before commutation is payable.

The executive directors make employee contributions of 6% of pensionable pay.

As a result of changes introduced by the UK Finance Act 2004 affecting the taxation of pensions from 6 April 2006, executive directors were offered the option of having benefits in excess of their lifetime allowance provided by an unfunded non-registered arrangement. Both executive directors have 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.

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, equivalent to 12 months' base salary for the notice period and an equal amount in respect of all benefits. 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 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. NC Rose's service contract with the company is dated 14 February 2006.

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 2010, PS Walsh served as a non-executive director of Unilever PLC and FedEx Corporation and NC Rose served as a non-executive director of BAE Systems (appointed on 8 February 2010); both executive directors retained the fees paid to them for their services. The total amounts of such fees paid to both executive directors in the year ended 30 June 2010 are set out in the table below.

	NC Rose £000	PS Walsh £000
Unilever PLC[a]	–	76
FedEx Corporation[a]	–	62
BAE Systems	30	–
	30	138

Note
(a) Fees paid in currencies other than sterling are converted using average exchange rates for the year ended 30 June 2010.

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 2010, he was granted 6,440 options at an option price of $74.88. He exercised 8,000 FedEx options during the year, of which 4,000 were granted at an option price of $41.03 and sold at an average price of $80.66, and 4,000 were granted at an option price of $35.89 and sold at the price of $92.75.

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 annual fee payable to Dr FB Humer is £400,000.

The chairman's fee is normally reviewed every two years and any changes would normally take effect from 1 January. Fees are reviewed in the light of market practice in large UK companies and anticipated workload, tasks and potential liabilities. As recommended by the Combined Code on Corporate Governance, any changes have to be approved by the remuneration committee. 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 2010 with any changes expected to take effect on 1 January 2011.

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 2009. 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 and in light of the salary freeze for executive directors and senior management during 2009, the fees paid to non-executive directors were unchanged. The next review of the non-executive director fees is anticipated to take place in December 2010 with any changes expected to take effect on 1 January 2011.

Per annum fees effective from	**January 2010**	January 2009
Base fee	**£75,000**	£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 2010 are shown in the table 'Directors' remuneration for the year ended 30 June 2010'.

Directors' remuneration for the year ended 30 June 2010

	2010					2009
	Base salary £000	Annual incentive plan[b] £000	Share incentive plan £000	Other benefits[c] £000	Total £000	Total £000
Emoluments						
Chairman – fees						
Dr FB Humer[a]	400	–	–	6	406	401
Executive directors						
NC Rose	673	1,164	3	32	1,872	996
PS Walsh	1,155	1,975	3	45	3,178	1,706
	1,828	3,139	6	77	5,050	2,702
Non-executive directors – fees						
PB Bruzelius	75	–	–	1	76	13
LM Danon	75	–	–	1	76	79
BD Holden (appointed 1 September 2009)	62	–	–	1	63	–
Lord Hollick	110	–	–	1	111	106
M Lilja (retired 14 October 2009)	21	–	–	–	21	79
PG Scott	100	–	–	1	101	96
HT Stitzer	75	–	–	1	76	73
PA Walker	75	–	–	1	76	73
Former non-executive directors – fees						
WS Shanahan (retired 30 April 2009)	–	–	–	–	–	67
	593	–	–	7	600	586
Total	2,821	3,139	6	90	6,056	3,689

Notes
(a) £160,000 of Dr FB Humer's remuneration in the year ended 30 June 2010 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) During the year, the remuneration committee agreed to establish the Diageo Executive Savings Plan (ESP). This plan is an employer financed retirement benefit scheme (EFRBS) under which an ESP contribution can be made on behalf of an executive director in lieu of all or part of their discretionary annual incentive plan (AIP) award. Through this scheme, eligible employees may express a preference for up to 100% of their potential gross AIP award to be delivered as a cash contribution to the ESP; any such decision is taken entirely at the company's discretion. The ESP contribution means that cash is paid into a trust for long term investment. The resulting funds are only available to provide benefits to the participant after they have left the employment of Diageo and have reached a minimum of age 55. For the year ended 30 June 2010, the chief executive expressed a preference for some or all of his potential gross AIP award to be delivered as a cash contribution to the ESP, and the company has decided to make such ESP contribution. No ESP contribution will be made for the chief financial officer.
(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 2010, the executive directors received payments and made gains under long term incentive plans as follows:

	2010			2009
	Executive share option exercises £000	September 2006 TSR award £000	Total £000	Total £000
Executive directors				
NC Rose	984	–	984	553
PS Walsh	2,859	–	2,859	1,795
Total	3,843	–	3,843	2,348

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 2009	Granted	Exercised	30 June 2010	Option price in pence	Market price at date of exercise in pence	Date from which first exercisable	Expiry date
NC Rose	SESOP 1999	262,269		(262,269)	–	815	1040	20 Sep 2008	20 Sep 2015
	SESOP 1999	243,951		(243,951)	–	930	1086	19 Sep 2009	19 Sep 2016
	SAYE[b]	2,914		(2,914)	–	567	1040	01 Dec 2009	31 May 2010
	SESOP 1999[a]	226,569			226,569	1051		18 Sep 2010	18 Sep 2017
	SESOP 2008	287,770			287,770	877		27 Oct 2011	27 Oct 2018
	SESOP 2008		265,099		265,099	952		17 Sep 2012	17 Sep 2019
		1,023,473	265,099	(509,134)	779,438				
PS Walsh	SESOP 1999	270,553			270,553	759		11 Oct 2005	11 Oct 2012
	SESOP 1999	279,584		(100,000)	–	649	985	10 Oct 2007	10 Oct 2013
	SESOP 1999			(100,000)	–	649	1000	10 Oct 2007	10 Oct 2013
	SESOP 1999			(79,584)	–	649	1025	10 Oct 2007	10 Oct 2013
	SESOP 1999	493,281		(100,000)	–	707	1060	11 Oct 2007	11 Oct 2014
	SESOP 1999			(93,281)	–	707	1070	11 Oct 2007	11 Oct 2014
	SESOP 1999			(100,000)	–	707	1088	11 Oct 2007	11 Oct 2014
	SESOP 1999			(100,000)	–	707	1100	11 Oct 2007	11 Oct 2014
	SESOP 1999			(100,000)	–	707	1114	11 Oct 2007	11 Oct 2014
	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[a]	392,483			392,483	1051		18 Sep 2010	18 Sep 2017
	SAYE[b]	2,465			2,465	653		01 Dec 2010	31 May 2011
	SESOP 2008	493,871			493,871	877		27 Oct 2011	27 Oct 2018
	SESOP 2008		454,963		454,963	952		17 Sep 2012	17 Sep 2019
		2,811,145	454,963	(772,865)	2,493,243				

Notes

(a) The performance condition in respect of this SESOP grant was measured after 30 June 2010. The growth in Diageo's EPS over the three years ended 30 June 2010 exceeded the performance condition (RPI plus 15 percentage points) and 100% of these options will become exercisable in September 2010.

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

The mid-market price for ordinary shares at 30 June 2010 was 1060 pence (2009 – 871 pence; 16 August 2010 – 1110 pence). The highest mid-market price during the year was 1160 pence and the lowest mid-market price was 867 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.

	Performance period	Date of award	Interests at 30 June 2009 Target award(a)	Interests at 30 June 2009 Maximum award(b)	Awards made during year Maximum award (b)	Awards released during year Number of shares vested(c)	Awards released during year Market price at date of vesting in pence(d)	Interests at 30 June 2010(e)
NC Rose	2006 – 2009	19 Sep 06	142,018	213,027		–	982	–
	2007 – 2010	18 Sep 07(f)	127,895	191,843				191,843
	2008 – 2011	27 Oct 08	194,321	194,321				194,321
	2009 – 2012	17 Sep 09(g)			226,599			226,599
			464,234	599,191	226,599	–		612,763
PS Walsh	2006 – 2009	19 Sep 06	308,098	462,147		–	982	–
	2007 – 2010	18 Sep 07(f)	276,938	415,407				415,407
	2008 – 2011	27 Oct 08	416,867	416,867				416,867
	2009 – 2012	17 Sep 09(g)			486,111			486,111
			1,001,903	1,294,421	486,111	–		1,318,385

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 2006 TSR plan award ended on 30 June 2009. The number of shares released in September 2009 was 0% of the initial award. This was based on a relative TSR ranking of position 11 in the peer group at the end of the performance period. Kepler Associates independently verified the TSR increase and ranking.
(d) The price on 21 September 2009, the release date. The market price was 937 pence when the award was made on 19 September 2006.
(e) The directors' interests at 16 August 2010 were the same as at 30 June 2010.
(f) The three-year performance period for the September 2007 TSR plan award ended on 30 June 2010. The number of shares that will be released in September 2010 is 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.
(g) The market price on 17 September 2009 was 975 pence.

Executive directors' pension benefits

Details of the accrued pension to which each director would have been entitled had they left service on 30 June 2010 and the transfer value of those accrued pensions are shown in the following table. The accrued pensions shown represent the annual pension to which each executive director would be entitled at normal retirement age. 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 as set by the trustees of the scheme.

	Age at 30 June 2010 Years	Pensionable service at 30 June 2009 Years	Accrued pension at 30 June 2009 £000 pa	Additional pension accrued in the year(a) £000 pa	Accrued pension at 30 June 2010(a)(b) £000 pa	Transfer value at 30 June 2009 £000	Change in transfer value during the year(c) £000	Transfer value at 30 June 2010(c) £000
NC Rose	52	18	369	27	396	6,145	1,165	7,310
PS Walsh	55	28	637	33	670	11,663	1,818	13,481

Notes
(a) The additional pension accrued in the year is mainly attributable to the additional year of service. None of the additional pension is attributable to inflation.
(b Part of the pension for both NC Rose and PS Walsh may be provided from the unfunded non-registered arrangement. As at 30 June 2010, the percentage of pension provided from this arrangement for NC Rose was 79% (2009 – 78%) but for PS Walsh it was 0% (2009 – 0%).
(c) The changes in the transfer values during the year attributable to an additional year's service were an increase of £414,000 for NC Rose and £776,000 for PS Walsh. The changes in the transfer value during the year due to increases in pensionable pay were an increase of £97,000 for NC Rose but a reduction of £116,000 for PS Walsh. (This reduction was due to the increase in PS Walsh's pensionable pay being less than the inflationary increase applied to the pensions debit that was established in 2007 as a result of a pension sharing order.) The remainder of the change in the transfer values was mainly attributable to changes in market conditions, in particular, interest earned on the transfer value and changes in index-linked gilt markets over the year. The remuneration committee made no change to the company's pension policy during the year.
(d) During the year, NC Rose made pension contributions of £40,380 (2009 – £39,810) and PS Walsh made pension contributions of £69,300 (2009 – £68,475).

Share and other interests

The beneficial interests of the directors in office at 30 June 2010 in the ordinary shares of the company are shown in the table below.

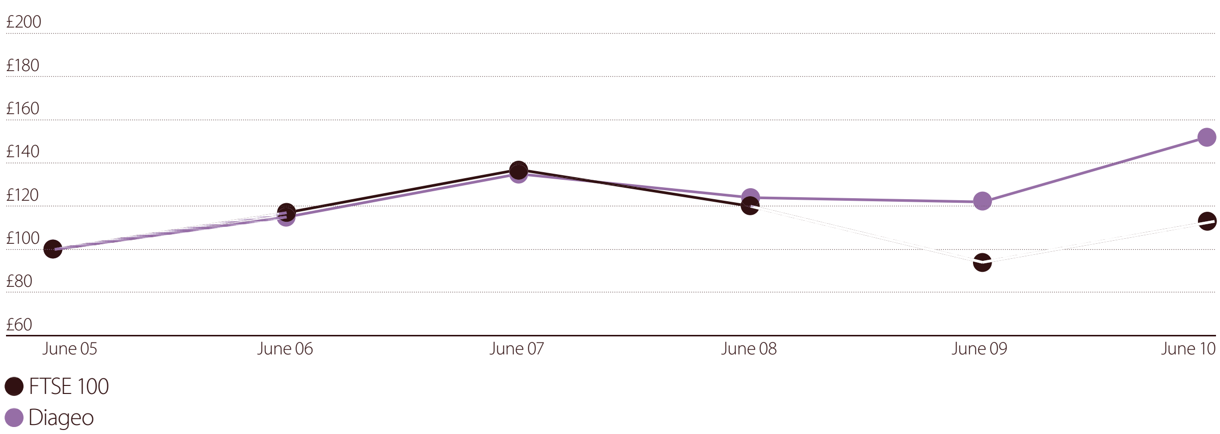
	Ordinary shares		
	16 August 2010	30 June 2010	30 June 2009 or appointment
Chairman			
Dr FB Humer	24,801	23,354	13,500
Executive directors			
NC Rose	478,911	478,878	453,895
PS Walsh	728,446	728,413	719,876
Non-executive directors			
PB Bruzelius	5,000	5,000	–
LM Danon	5,000	5,000	5,000
BD Holden (appointed 1 September 2009)	2,000	2,000	–
Lord Hollick	5,000	5,000	5,000
PG Scott	25,000	25,000	5,000
HT Stitzer	8,053	7,872	6,701
PA Walker	44,250	44,250	44,250
Total	1,326,461	1,324,767	1,257,754

Notes
(a) At 30 June 2009, M Lilja (retired 14 October 2009) held 4,532 shares.
(b) At 30 June 2010, there were 2,030,340 shares (30 June 2009 – 3,129,355; 16 August 2010 – 2,029,036) held by trusts to satisfy grants made under Diageo incentive plans and savings-related share option schemes, and 109,834 shares (30 June 2009 – 109,834; 16 August 2010 – 109,834) held by a trust to satisfy grants made under ex-GrandMet incentive plans. NC Rose and PS Walsh are among the potential beneficiaries of these trusts and are deemed to have an interest in all these shares.

Performance graph

The graph below shows the total shareholder return for Diageo and the FTSE 100 Index since 30 June 2005. 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. FTSE100 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 2010 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 and other benefits were £21,116,825 (2009 – £12,097,780).

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 £8,934,556. In addition, they were granted 2,294,887 options under the SESOP during the year at a weighted average share price of 954 pence, exercisable by 2019. They were also initially awarded 2,186,001 shares under the PSP in September 2009, which will vest in three years subject to the performance tests described above.

Senior management options over ordinary shares

At 16 August 2010, the senior management had an aggregate beneficial interest in 2,736,264 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
NC Rose	779,438	953	Sep 10 – Sep 19
PS Walsh	2,493,243	903	Oct 05 – Sep 19
Other*	6,312,521	1078	Oct 04 – Sep 19
	9,585,202		

* 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 2010.

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 2010.

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 24 August 2010 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 1 of the Combined Code on Corporate Governance 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 2010, '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.
EPS – earnings per share.
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 an underlying tax rate for each year and to exclude the impacts of IAS 19, 21 and 39 from net finance charges. The adjusted EPS for the year ended 30 June 2009 has been restated to reflect the impact of changes in accounting policies and after changes adopted in the year ended 30 June 2010 to ensure that performance over the three-year cycle is calculated on a consistent basis.
Normal retirement age – for pension purposes this is age 62.
RPI – the retail prices index is a UK government index that measures changes in cost of living.
TSR – for the purpose of the PSP and TSR plan, total shareholder return is the percentage growth in Diageo's share price assuming all dividends and capital distributions are reinvested.