Triodos Investment Management

Diageo AGM Date: 2013-09-19

1 Receive the Annual Report **For**

The annual report meets Business Review (RS) guidelines. Adequate employment and environmental policies are in place and there is quantifiable environmental data disclosed. The Company fails to disclose the gender breakdown at both a senior management level or across the whole workforce.

2 Approve the Remuneration Report **Oppose**

Last year, the Company introduced a table giving a single figure for total remuneration and also introduced a clawback provision, both of which are welcomed. Disclosure is considered acceptable with the exception of termination payments which have not been clearly described with reference to bonuses and share awards. The maximum award limits and performance conditions are clearly disclosed.

The bonus scheme is based on financial measures (net sales, profit, average cash and cash flow) and on specific individual business objectives. The Executives were awarded bonuses worth: 101% of base salary for Paul Walsh, 91% for the Deidre Mahlan and 96% of base salary for Ivan Menezes.

The primary long term plans are the Senior Executive Share Option Plan (SESOP) and the Performance Share Plan (PSP). The SESOP is based on EPS as the sole performance measure. Based on the current brokers forecasts and maximum award levels, the targets are not considered sufficiently challenging. Maximum awards were granted, worth 375% of salaries, during the year. Under the PSP, the performance measures are split equally between TSR, growth in organic net sales on a compound annual basis and total organic operating margin improvement. Whilst the upper TSR target is considered appropriate, there are concerns over the maximum level of award available and the minimum target utilised. It is considered that, any long term incentive scheme should apply two testing performance conditions concurrently, one based on a relative measure and the other on an absolute condition. The Chief Executive and the Finance Director were awarded shares worth 375%. Combined awards are considered highly excessive and contrary to best practice. For instance, Paul Walsh received a remuneration package of over £16,000,000 for the year under review. In addition, the maximum award can be increased to an unquantified level at the remuneration committee's discretion. However, it is noted that the committee has never used this discretion. No increment in salary was made to the Chief Executive during the year. From 1 July 2013, following promotion to Chief Executive, Ivan Menezes will receive an annual salary of $1,520,000.

Paul Walsh will stay on for another year to concentrate on "transitioning critical partner and external relationships", retaining his £1.2m salary at the same time. The reasoning behind paying him the

same salary for a supporting role is not clear.
Directors have one year rolling contracts which specify predetermined compensation equivalent to 12 months' salary and benefits. The remuneration committee may exercise its discretion to require half of the termination payment to be paid in monthly instalments and to require mitigation. The remuneration committee has the discretion to reduce termination payments further in the event of poor performance.

Mainly due to excessiveness of combined awards and insufficient Challenging targets, Triodos opposes.

3 Approve the dividend — **For**

4 Re-elect PB Bruzelius — **Abstain**
Independent Non-Executive Director. There are concerns about her aggregate time commitments.

5 Re-elect LM Danon — **Abstain**
Independent Non-Executive Director. However, she missed one of four Audit Committee meetings during the year under review. This is the second consecutive year that she has missed an Audit Committee meeting.

6 Re-elect Lord Davies — **For**

7 Re-elect HoKwonPing — **For**

8 Re-elect BD Holden — **For**

9 Re-elect Dr FB Humer — **For**

10 Re-elect D Mahlan — **For**

11 Re-elect IM Menezes — **For**

12 Re-elect PG Scott — **For**

13 Appoint the auditors — **Oppose**
KPMG LLP proposed. The total non-audit fees were approximately 45.76% of audit fees during the year under review, and the three year average is 45.95%. There are concerns that this level of non-audit fees creates a potential for conflict of interest on the part of the independent auditor.

14 Allow the board to determine the auditors remuneration — **For**

15 Issue shares with pre-emption rights — **For**

16* Issue shares for cash — **For**

17* Authorise Share Repurchase — **For**

18 Approve Political Donations — **Oppose**
The board seeks authority for: making donations to EU political organisations not exceeding £200,000 in total; and incurring in EU political expenditure (as defined in section 365 of the Act) not

exceeding £200,000 in total. There are concerns over the amounts proposed. In addition, the group made contributions to non-EU political parties totalling £0.5 million during the year (2012 – £0.4 million).

Triodos does not support donations for political events and specific political parties as such contributions could be viewed as encouraging preferential treatment and interfering with the democratic process.

19* Meeting notification related proposal **Oppose**

The proposed resolution reflects the implementation of the EU Shareholder Rights Directive into English law, which took place on 3 August 2009 as implemented by the company in its Articles of Association. Under the regulations, the minimum notice period for general meetings (other than Annual General Meetings) will increase to 21 days unless shareholders agree on a shorter notice period, in which case it may be 14 days. Shareholder approval is sought to call general meetings on 14 clear days notice.

All companies should aim to provide at least 20 working days notice for general meetings in order to give shareholders sufficient time to consider what are often complex issues. Although the proposed change is permissible by the Companies Act, Triodos votes against this resolution.