The Diageo Lifestyle Plan (*the Plan*)
Statement of Funding Principles (*SFP*)

Introduction

This statement sets out the Trustee's policy for securing that the statutory funding objective (*SFO*) is met. The SFO is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its technical provisions.

This statement was prepared by the Trustee of the Plan for the purposes of the actuarial valuation as at 1 January 2019 and to satisfy the requirements of section 223 of the Pensions Act 2004. It was prepared after obtaining the advice of James Miller, the Scheme Actuary to the Plan, and after consulting with Diageo plc (the Company).

Technical Provisions

The technical provisions are the amount that will be needed to pay the Plan benefits that relate to service up to the valuation date, if the assumptions made are borne out in practice.

The assumptions used to calculate the technical provisions are intended to provide a prudent estimate of the future experience of the Plan. There is an underlying assumption that the Plan will continue with benefits being met from the Plan as they fall due.

The method and assumptions used to calculate the technical provisions at the 1 January 2019 valuation are summarised in Appendices A and B.

Employer covenant

The method and assumptions used to calculate the technical provisions at the 1 January 2019 valuation assume a continuation of the current employer covenant. If this changed significantly the Trustee would wish to review the method and assumptions and call for a new valuation.

Employer contribution rule

The Rules of the Plan state that the Company will decide the amount of each Employer's contributions and the dates on which they must be paid. However, if and to the extent required by Part 3 of the Pensions Act 2004, the Company will agree these matters with the Trustee.

Employer contributions

Employer contributions are assessed by calculating the cost of future benefit accrual using the same assumptions as for the technical provisions, except that an additional assumption regarding the rate of future pay increases is also required:

plus

- an estimate of the cost of providing the lump sum death benefits and ill-health retirement benefits.
- an estimate of the expenses (excluding investment-related expenses) and the Pension Protection Fund (PPF) and other levies collected by the Pensions Regulator;

reduced by

- the contributions made by members

adjusted by

- any amounts agreed by the Trustee and Employer.

Dealing with shortfalls	Any shortfall in assets compared with technical provisions identified at an actuarial valuation will be eliminated by the payment of additional contributions. The additional contributions may consist of single payments made towards the start of the recovery period and/or a stream of regular payments made over the recovery period. In determining the recovery period at any particular valuation the following factors will be taken into account: • the size of the funding shortfall; • the business plans of the Company; • the Trustee's assessment of the financial covenant of the Employers; • any contingent security offered by Company; and • the Plan's investment strategy. The Trustee will discuss the form and length of any recovery plan with the Company should a shortfall arise.
Dealing with surpluses	Any action taken following a funding surplus being revealed by a valuation will be determined by the Company and agreed by the Trustee.
Annual reports/future valuations	In between formal triennial valuations, the Trustee will obtain annual Actuarial Reports from the Scheme Actuary. These reports will give an update on the financial position of the Plan at each 1 January and will be shared with the Company. The Trustee will then discuss this with the Company and agree whether any changes to the Employer's contributions are required.
Policy on reduction of cash equivalent transfer values	The Trustee does not normally intend to reduce cash equivalent transfer values (CETVs). If, after obtaining advice from the Scheme Actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee will commission a report from the Scheme Actuary to assess whether, and to what extent to, CETVs should be reduced.
Contributions to the Plan	There are no arrangements currently in place for persons other than the Employers or members to contribute to the Plan.
Policy on discretionary increases and funding strategy	Under the provisions of the Plan's Trust Deed and Rules, the Company has discretionary powers to provide or increase benefits for, or in respect of, all or any of the members of the Plan. No allowance is made in the technical provisions for any discretionary benefits. If discretionary increases to benefits are made, the Trustee's current policy is to request immediate additional contributions to meet the cost of such increases. This policy will be reviewed if there is a material improvement in the Plan's discontinuance funding level or if substantial financial security is offered to the Plan by the Company.
Monitoring Employer covenant	The Trustee will review the need for information on Employer covenant such as an independent assessment at least once a year following any valuation or funding report which shows a shortfall against the technical

provisions.

Frequency of valuations

This statement applies to the actuarial valuation being carried out as at 1 January 2019. Subsequent valuations will normally be carried out every three years.

The Trustee will also obtain annual reports showing the approximate progression of the Plan's funding level between actuarial valuations.

Payment to the Employers

Where an actuarial valuation shows a funding surplus, the Company may direct the Trustee, with the prior agreement of HM Revenue and Customs, and after satisfying the requirements of section 37 of the Pensions Act 1995, to pay all or part of the surplus (less tax) to the Employers, in such proportions as the Company directs.

Signatures

This statement has been agreed by Diageo plc with an effective date of 1 August 2019.

Signed on behalf of Diageo plc

Signature: DocuSigned by: C4C6F1794FC948C...

Name: James

Position: Deputy Company Secretary

Date: 7/23/2019 | 17:04 BST

Signed on behalf of the Trustee of the Diageo Lifestyle Plan

Signature: DocuSigned by: 2E6AA1C5CEB747A...

Name: Ian Shaw

Position: Trustee Director

Date: 7/23/2019 | 05:48 PDT

Appendix A: Method and financial assumptions for determining the technical provisions and employer contributions

Method	The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method with a three-year control period.
Financial assumptions - approach	The approach to be used in determining each of the financial assumptions for calculating the technical provisions is set out below. The assumptions vary depending on when the expected payment is made, i.e. they are “term dependent”. Note that as this is a cash balance scheme, a number of assumptions that normally apply to defined benefit schemes are not relevant.
RPI inflation	The implied RPI inflation will be taken to be breakeven inflation as indicated by the difference between yields on conventional and index-linked UK Government bonds (gilts).
CPI inflation	The assumption is derived at the valuation date by deducting 0.75% p.a. from the RPI inflation assumption. The difference between the long term assumption for RPI and CPI inflation may vary over time to reflect changing views of long term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out.
Discount rate	At retirement the Trustee will use the member's retirement account to purchase an insurance policy, therefore only a pre-retirement discount rate is required in regards to calculating the technical provisions and employer contributions. This discount rate has been set equal to the Bank of England Fixed Interest Gilt yield curve plus 0.5% per annum at the valuation date.
Rate of increases to retirement balances (LPI)	Derived from the underlying inflation assumption, allowing for the maximum annual increase of 5% (subject to a floor of 0% p.a.) and for inflation to vary from year to year. Benefits accrued to a current active member's retirement account up to 30 June 2012 will increase in the future in line with the rise in RPI up to 5% each year, subject to a floor of 0% each year. Benefits accrued to a current active member's retirement account from 1 July 2012 will increase in the future in line with the rise in CPI up to 5% each year, subject to a floor of 0% each year.

Financial assumptions summary

The following spot yields have been used for the technical provisions calculations as at 1 January 2019, calculated using the methodology set out above:

Term	Discount rate (%)	Salary increases (excluding promotional) (%)	RPI price inflation (%)	CPI price inflation (%)	LRPI pension increases with 5% cap (%)	LCPI pension increases with 5% cap (%)
1	1.24%	3.14%	3.14%	2.39%	3.18%	2.32%
2	1.23%	3.14%	3.14%	2.39%	3.16%	2.36%
3	1.27%	3.14%	3.14%	2.39%	3.15%	2.37%
4	1.34%	3.14%	3.14%	2.39%	3.14%	2.37%
5	1.41%	3.15%	3.15%	2.40%	3.13%	2.38%
6	1.49%	3.17%	3.17%	2.42%	3.14%	2.41%
7	1.57%	3.21%	3.21%	2.46%	3.16%	2.44%
8	1.65%	3.25%	3.25%	2.50%	3.19%	2.48%
9	1.73%	3.30%	3.30%	2.55%	3.22%	2.52%
10	1.81%	3.35%	3.35%	2.60%	3.25%	2.56%
11	1.90%	3.40%	3.40%	2.65%	3.28%	2.60%
12	1.97%	3.45%	3.45%	2.70%	3.32%	2.64%
13	2.05%	3.50%	3.50%	2.75%	3.34%	2.67%
14	2.12%	3.54%	3.54%	2.79%	3.37%	2.71%
15	2.18%	3.57%	3.57%	2.82%	3.39%	2.73%
16	2.24%	3.60%	3.60%	2.85%	3.41%	2.76%
17	2.28%	3.62%	3.62%	2.87%	3.42%	2.78%
18	2.32%	3.63%	3.63%	2.88%	3.43%	2.79%
19	2.36%	3.64%	3.64%	2.89%	3.43%	2.79%
20	2.39%	3.64%	3.64%	2.89%	3.43%	2.80%
21	2.41%	3.64%	3.64%	2.89%	3.42%	2.79%
22	2.42%	3.63%	3.63%	2.88%	3.41%	2.79%
23	2.43%	3.61%	3.61%	2.86%	3.40%	2.78%
24	2.44%	3.60%	3.60%	2.85%	3.38%	2.76%
25	2.44%	3.58%	3.58%	2.83%	3.36%	2.74%
26	2.43%	3.55%	3.55%	2.80%	3.33%	2.72%
27	2.43%	3.53%	3.53%	2.78%	3.31%	2.70%
28	2.42%	3.50%	3.50%	2.75%	3.28%	2.68%
29	2.40%	3.47%	3.47%	2.72%	3.25%	2.65%
30	2.39%	3.44%	3.44%	2.69%	3.23%	2.63%
31	2.37%	3.41%	3.41%	2.66%	3.20%	2.60%
32	2.35%	3.38%	3.38%	2.63%	3.17%	2.58%
33	2.33%	3.35%	3.35%	2.60%	3.14%	2.55%
34	2.31%	3.33%	3.33%	2.58%	3.11%	2.53%
35	2.30%	3.30%	3.30%	2.55%	3.09%	2.51%
36	2.28%	3.28%	3.28%	2.53%	3.07%	2.49%
37	2.26%	3.26%	3.26%	2.51%	3.05%	2.48%
38	2.25%	3.25%	3.25%	2.50%	3.03%	2.46%
39	2.24%	3.23%	3.23%	2.48%	3.01%	2.45%
40	2.23%	3.22%	3.22%	2.47%	3.00%	2.44%
41	2.21%	3.21%	3.21%	2.46%	2.98%	2.43%
42	2.21%	3.20%	3.20%	2.45%	2.97%	2.42%
43	2.21%	3.19%	3.19%	2.44%	2.96%	2.40%
44	2.21%	3.19%	3.19%	2.44%	2.95%	2.40%
45	2.21%	3.20%	3.20%	2.45%	2.95%	2.40%
46	2.21%	3.21%	3.21%	2.46%	2.95%	2.41%
47	2.21%	3.21%	3.21%	2.46%	2.95%	2.41%
48	2.22%	3.24%	3.24%	2.49%	2.96%	2.42%
49	2.24%	3.26%	3.26%	2.51%	2.98%	2.44%
50	2.24%	3.28%	3.28%	2.53%	2.99%	2.45%

Additional assumptions for employer contributions	In determining employer contributions the same assumptions will be used as those for calculating the technical provisions together with the additional financial assumptions described below.
Rate of pay increases	This will be set equal to the inflation assumption plus an allowance for promotional increases.
Expenses	An allowance will be included in the employer contribution rate, to cover the Plan's administration expenses, including the payment of PPF levies. This allowance has been set as 0.4% of pensionable pay.
Expected return on assets	No allowance will be made for the expected outperformance of the Plan's assets compared to the discount rate in the recovery plan.

Appendix B:
Demographic Assumptions

Pre-retirement mortality

Males: Standard table AMC00, scaling = 80%

Females: Standard table AFC00, scaling = 80%

Sample rates are shown below

Ill health retirement

Males: Standard table AMC00, scaling = 75%

Females: Standard table AFC00, scaling = 75%

Sample rates are shown below

Early retirements

No allowance has been made for non-ill health retirements before Normal Retirement Date

Withdrawals

No allowance has been made for withdrawals from service or transfers out of the Scheme

Promotional salary increases

Allowance made for age-related promotional increases

Sample rates are shown below

Current age	Percentage leaving the Plan in the next year as a result of				% Promotional salary increase for men and women
	Death before retirement		Ill health retirement		
	Men	Women	Men	Women	
20	0.04	0.02	0.03	0.01	7.5
25	0.04	0.02	0.04	0.02	6.0
30	0.04	0.02	0.04	0.02	4.5
35	0.05	0.03	0.05	0.03	3.0
40	0.07	0.05	0.06	0.05	1.0
45	0.10	0.08	0.09	0.07	1.0
50	0.16	0.12	0.15	0.12	1.0
55	0.27	0.21	0.26	0.20	1.0
60	0.49	0.35	0.45	0.33	1.0