



Diageo Lifestyle Plan **Popular Report 2017**

Read this update to see what's been happening in your Plan this year.





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Chairman's Report



Welcome to the 2017 Diageo Lifestyle Plan Review which we hope you will find interesting.

As set out in more detail in this Report, membership of the Diageo Lifestyle Plan (the Plan) has grown by some 6% this year, to over 5,200 and the assets of the Plan have grown substantially, to nearly £240 million. The investment strategy remains both cautious and effective in global markets which are quite volatile. The Trustee monitors the funding level closely and can report that as at 1 January 2017 the funding level of the Plan was 99%.

Summary of the Plan's accounts

As you will see on page 5, the value of the Plan's net assets increased over the year by almost 37% to £236.8 million. This was largely due to an increase of £41.8 million in the value of the Plan's investments, the receipt of contributions of £25.1 million and investment and other income of £3.4 million. Benefit payments to members and expenses totalled £6.7 million.

Investment review

Information on the investments held by the Plan, together with a summary of the investment strategy and details of past performance, is set out on pages 6 and 7. The overall investment return for the year to 31 December 2016 was 24%, which is 1.3% more than the asset benchmark return of 22.7%.

The performance is attributable to the significant fall in long-term interest rates which has increased the value of the Plan's leveraged gilt funds.

Funding update

During the year the funding level of the Plan, being the ratio of assets held to the accrued benefits of members, fell from 103% to 99%, leaving a small deficit of £1.8 million. The increase in the value of the Plan's assets was not sufficient to offset the increase in the assessed value of the Plan's liabilities as a result of the fall in interest rates in the financial markets.

As has previously been reported, the Trustee is managing the Plan on a prudent basis, but minor fluctuations in the funding level are to be expected. The next formal valuation is due as at 1 January 2019. The Trustee will continue to monitor the funding level to and at that date and will have discussions with the Company if any action is required.

You will find more information about the funding of the Plan in the annual summary funding statement on pages 8 and 9.



Chairman's Report

Other news

The Company has announced that it will be closing the Plan to new employees from 1 January 2018 but there are no proposals to close the Plan to existing members. From this date new employees will be offered membership of the new defined contribution scheme, the Diageo Pension Plan.

You will be aware that last year the Trustee suspended the process for election of member nominated Trustee Directors (MNDs) pending conclusion of the Company's review of the Diageo Pension Scheme. The review is ongoing, but once it has concluded the Trustee will begin the process for the election of member nominated Trustee Directors (MNDs).

You can find information on other matters which affect members on pages 10 to 13.

I hope that you find this report interesting and easy to understand. The Trustee welcomes any feedback you may have; please address any comments or questions to the Diageo Pensions Team, whose contact details are shown on page 15. You may also like to visit the Plan website at www.mydiageopension.com; it provides useful information and guidance about the Plan and your pension benefits.

Finally, as always, I would like to thank my fellow Trustee Directors, the Diageo Pensions Team and all our advisers for their dedication and work for the Plan and you, its members, throughout the year.

Charles Coase

Chairman

Summary of the Plan's Annual Accounts to 31 December 2016

Plan Membership

5,201 Members at 31 December 2016

2,992 Active
1,853 Deferred
356 Death benefit only

4,888 Members at 31 December 2015

2,832 Active
1,601 Deferred
455 Death benefit only



Membership analysis at 31 December 2016

57.5% Active

35.6% Deferred

6.9% Death benefit only

Active members – current employees who participate in the Plan.

Deferred members – those members who have either opted out of the Plan or left the Company and still retain a benefit.

Death benefit members – current employees who have decided not to participate in the Plan for pension benefits and are only covered for a lump sum death benefit of one time basic salary.

The Plan does not have any pensioners. At retirement, members withdraw from the Plan the full amount of their Retirement Accounts and use this to secure their benefits on the open market.

Financial summary

For the year ended
31 December 2016

The summary of the accounts shown has been extracted from the Trustee's Annual Report and Plan Financial Statements, which have been given a clean audit report by KPMG LLP. A copy of the formal report is available on the Plan website at www.mydiageopension.com

	£m	£m
Value of the Plan's Net Assets at the start of the year		173.2
Received by the Plan		
Company and member contributions*	25.1	
Investment and other income	3.4	
Income	+	28.5
Paid from the Plan		
Benefits	2.9	
Payments in respect of leavers	2.6	
Administration, investment and life cover costs	1.2	
Expenditure		(6.7)
Change in value of investments		41.8
Value of Plan's Net Assets at the end of the year	=	236.8

*includes contributions payable to the Plan under salary sacrifice arrangements

Investment Review

Investment Committee

The Investment Committee is appointed by the Trustee and operates under its own terms of reference. Assisted by the Plan's professional investment adviser, Hymans Robertson LLP, the Investment Committee is responsible for advising the Trustee on investment strategy and for appointing and supervising the external investment managers, who are independent of the Trustee and Diageo plc. It reports regularly to the main Trustee Board, making recommendations as appropriate.

The Investment Committee meets on a regular basis throughout the year. It reviews the performance of the Plan overall, as well as the investment returns of the individual managers, and deals with all other investment related issues. Manager monitoring meetings are held with the investment managers on a regular basis and the outcomes are reported back to the Committee.

Investment strategy

The Trustee's overall investment objective is to manage the assets of the Plan prudently to ensure that the benefits promised to members are provided when they fall due.

The Trustee has translated its investment objective into a strategic asset allocation target for the Plan, with some 50% of the assets allocated to investments intended to deliver a secure long-term investment return and 50% intended to reduce volatility and risk in the funding level of the Plan. The investment strategy takes account of the liability profile of the Plan, together with the level of disclosed surplus or deficit.

The Plan's investment strategy includes 'leveraged' gilt funds to achieve a broad level of liability matching whilst at the same time releasing capital to invest in funds expected to deliver an enhanced return (called "cash plus" funds).

A leveraged gilt fund works by investing in more gilts than the asset value of the fund. For example a two times leveraged fund would have £200 of gilt exposure for every £100 invested in the fund. This is achieved by the fund entering into repurchase agreements with selected banks which is effectively a means of borrowing money from the banks to purchase the additional gilts. In return the fund pays the banks interest for the 'loan'. This is a commonly used risk-managed investment practice for pension schemes such as the Plan and is intended substantially to protect the funding level in the Plan from the impact of movements in market interest and inflation rates.

Insight Investment Management manage the Plan's liability matching assets using their LDI (Liability Driven Investment) solution fund, while Henderson Global Investors and M&G Investments manage the cash plus funds.

Investment Review

Periodically, the Trustee transfers assets between the investment managers to rebalance the actual asset allocation to the strategic allocation, as shown in the following table.

Summary of Investments at 31 December 2016

A summary of the Plan's investments as at 31 December 2016, together with the strategic benchmark asset allocation, is shown below:

Manager	Benchmark Allocation	As at 31 December 2016	
		£m	%
Insight LDI solution fund	50.0%	116.9	49.6%
Henderson Absolute return bonds fund	25.0%	59.2	25.1%
M&G Syndicated senior secured commercial loans fund	25.0%	59.5	25.3%
Total*	100.0%	235.6	100.0%

*As at 31 December 2016, the Plan had other investment assets of £0.5 million, current assets of £1.0 million and current liabilities of £0.3 million, giving total net assets of £236.8 million.

Self-investment

The investment managers are permitted to invest in securities issued by the Company, Diageo plc, to the extent that the security falls within their investment mandate, up to a maximum of 5% of their portfolio. At 31 December 2016, as in 2015, none of the Plan's investment managers directly held any shares in Diageo plc.

Overall investment performance

The investment return achieved by the Plan, and its constituent portfolios, is measured by the custodian, Northern Trust Global Services Limited. The total annualised returns achieved by the Plan, against benchmark were:

Period	1 year to 31 December 2016	3 years to 31 December 2016 (p.a)
Scheme return	24.0	14.1
Benchmark	22.7	13.3

Funding Update

Annual Summary Funding Statement

The Trustee Directors are pleased to present their Annual Summary Funding Statement as at 1 January 2017.

What is the purpose of this statement?

Its purpose is to explain the latest funding position of the Plan as at 1 January 2017.

How is the Plan funded?

Both the Company and members who are still working for the Company pay contributions into the Plan. The level of members' contributions is set out in the Plan rules and is currently 6% of Pensionable Pay. The Company offers a salary sacrifice arrangement whereby an active member's salary is reduced by the amount of that individual's pension contribution, with the member's pension contributions then paid to the Plan directly by the Company. The Company's contributions meet the balance of the cost required to pay the benefits. The Plan is set up as one fund which the Trustee uses to provide all members' benefits. This fund is held separately from the assets of the Company.

How much does the Company currently pay into the Plan?

The Company pays regular monthly contributions to meet the cost of benefits building up in the future (for members still working for the Company). For the year ended 31 December 2016 contributions were paid at the agreed rate of 16% of Pensionable Pay.

What was the Plan's ongoing funding position at the most recent interim actuarial valuation?

The results of the interim actuarial review at 1 January 2017 are shown below. This review is based on funding assumptions derived from the same methodology as used for the 2016 valuation, but updated to reflect market conditions at 1 January 2017.

The results show that the funding level has decreased from a surplus of £5.5 million at 1 January 2016 to a deficit of £1.8 million at 1 January 2017.

The reduction in the funding level is largely attributable to the significant fall in long-term interest rates. The favourable impact on the value of the Plan's assets was not sufficient to offset the adverse impact on the value of the Plan's liabilities.

Value of the Plan's assets	£236.8 million
Amount needed to provide benefits	£238.6 million
Deficit	£1.8 million
Funding level	99%

Funding Update

What is the funding level on the full solvency position?

The Plan will pay benefits in full as long as it continues. The Trustee is, however, required to advise members of the financial position of the Plan in the unlikely event that the Plan is discontinued and the Company is unable to pay further contributions. If the Plan had been wound up on 1 January 2017, the actuary estimated that the shortfall on this full solvency basis would have been £102.5 million, representing a funding level of 70%.

The full solvency position assumes that benefits would be secured by buying insurance policies. The cost of securing benefits in this way is significantly more expensive than funding for them in the Plan (and therefore the funding level on this basis is significantly lower than on the ongoing basis).

It is important to note that the Pensions Regulator requires trustees to report the full solvency position but this does not mean the Company intends to wind up the Plan. Furthermore, the law now stipulates that the sponsoring employer (in this case Diageo plc) cannot wind up a pension scheme unless it is fully funded on a solvency basis. The only circumstance under which a scheme might be wound up without members receiving their full benefits is when the sponsoring employer becomes insolvent and is unable to give the scheme any further support. However, in such a circumstance, the Pension Protection Fund (PPF) might step in and administer the scheme albeit with some curtailment of benefits (which can be significant above certain threshold levels). Further information about the PPF can be obtained on its website at www.pensionprotectionfund.org.uk.

The funding arrangements for the Plan assume that the Company will continue to meet all its obligations.

Other matters

The Pensions Regulator requires that we tell you if there have been any payments from the Plan to the Company in the last twelve months. We can confirm that there have been no such payments.

The Pensions Regulator's powers also allow it to intervene in the running of pension schemes if it believes this is in the members' best interests. For example, it can change the rate at which benefits build up in the future, give directions about working out funding targets or impose contribution rates on pension schemes. It has not needed to use its powers in this way for the Plan.

Where can I get further information?

Further details of the Plan, including copies of the following documents, can be found on the pension website at www.mydiageopension.com

- Annual Report and Accounts for the year ended 31 December 2016, which includes the full accounts and membership figures, statements from the Actuary and Auditors, an update on the Plan's investment performance and details of the Trustee and advisers. Much of this information is summarised in this Plan Review.
- Actuarial Valuation - shows the funding position of the Plan as at 1 January 2016.
- Statement of Funding Principles - explains the approach adopted for funding the Plan.
- Schedule of Contributions - shows how much money is being paid into the Plan.
- Statement of Investment Principles - explains how the Trustee invests the Plan's assets.

Copies of these documents are also available from the Diageo Pensions Team, whose contact details can be found on page 15.

Plan and other news

Government's Spring budget

In his Spring Budget, the Chancellor of the Exchequer, announced two changes affecting pensions:

- Transfers to qualifying recognised overseas pension schemes (QROPS) could face a new overseas transfer charge; and
- A reduction to the money purchase annual allowance (MPAA) from April 2017.

Tax charge on overseas pension transfers

Transfers from a UK registered pension scheme, requested on or after 9 March 2017, will now attract a 25% tax charge if none of the following conditions are met.

1. The individual and their pension savings are located in the same country immediately after the transfer is made;
2. The individual and their pension savings are both located in the European Economic Area;
3. The QROPS to which the transfer is made is an occupational pension scheme provided by the individual's employer;
4. The QROPS to which the transfer is made is an overseas public service pension scheme; or
5. The QROPS to which the transfer is made is established by an international organisation to provide benefits in respect of past service.

The member and plan administrator (usually the trustees) will be jointly and severally liable for the tax charge so it should generally be calculated and deducted before the transfer payment is made.

Furthermore, a tax charge may retrospectively be applied within the 5 tax years following the transfer. This will occur if the condition, which was met to enable a tax-free transfer, subsequently ceases to be met. Similarly, if tax is charged on the transfer and then one of the conditions for a tax-free transfer is met within the following five tax years, an application for a tax refund can be made. Members are required to inform the scheme administrators if they change their residence during the 5 year period.

Money purchase annual allowance

For members who have taken advantage of the pension freedoms introduced in 2015, any defined contribution pension savings need to take into account the MPAA. Originally the MPAA was set at £10,000 and the Chancellor confirmed in his Spring Budget that this would reduce to £4,000 with effect from 6 April 2017. The move is designed to reduce the extent to which individuals can gain a tax advantage by "recycling" their tax free cash. However, this reduction is now currently on hold and it was not included within the Finance Bill 2017. It may be re-introduced at a later date and it may apply retrospectively from 6 April 2017 (subject to Parliamentary approval).

Plan and other news

Ensure your dependants are looked after when you die

As part of your Plan membership, a lump sum benefit becomes payable if you die before retiring. When this happens the Trustee needs to consider all potential beneficiaries and make a decision on who should receive the death benefit.

To ensure the Trustee considers your wishes, you should complete an 'expression of wish' form when you join the Plan to let the Trustee know who you want to receive the death benefits. The form is not legally binding (if it were, then any lump sum benefits would be included in your estate and would be taxable) but the Trustee will consider your wishes when it decides who should get the money.

Have your personal circumstances changed?

You may update your expression of wish at any time – and should review it periodically. If you have divorced, married or had children, or if there have been any other changes in your circumstances, you may wish to fill in a new 'expression of wish' form to let the Trustee know of any changes to your wishes.

How do you update your 'expression of wish' form?

You can obtain a copy of the 'expression of wish' form which can be found on the Plan website at www.mydiageopension.com/dlp.

Don't forget about any other pension schemes in which you retain benefits, such as those from a previous employment. Make sure that you advise them of any changes in your personal circumstances.

Finally, make sure that your family knows where to find your pension paperwork as they will need it if you die.

Tapered annual allowance

HMRC has introduced a lower annual allowance for individuals with higher incomes, which applies from the tax year 2016/17 onwards. HMRC describes this as tapering. Tapering will only apply if you have both a "threshold income" over £110,000 and an "adjusted income" of over £150,000. **If your threshold income is less than £110,000 you will not be affected by the taper.**

The effect of the taper is to reduce your annual allowance as your salary increases. The annual allowance is reduced by £1 for every £2 of adjusted income above £150,000, down to a minimum annual allowance of £10,000.

Plan and other news

What are adjusted income and threshold income?

Threshold income	Adjusted income
<p>Broadly this is taxable income from all sources:</p> <ul style="list-style-type: none">+ Any income sacrificed under a salary sacrifice arrangement entered into on/after 9 July 2015- Pension contributions paid from taxed earnings	<p>Broadly this is threshold income:</p> <ul style="list-style-type: none">+ The increase in 'value' of your employer contribution to any defined benefit arrangement+ Any employer contributions to a defined contribution arrangement

How will you know if the taper applies to you?

The Pensions Team will carry out an accurate calculation for all members of the Plan at the end of each tax year. If your Diageo base pay is greater than £100,000 we will contact you with the information you require to determine if you are affected by the tapering.

If your base pay is less than £100,000 and you have significant taxable income from another source, please contact the Pensions Team.

Government limits tax-efficient salary sacrifice arrangements

From April 2017, the government will significantly limit the range of benefits that attract tax and employer national insurance (NI) advantages when offered through a salary sacrifice arrangement.

Pension contributions and pensions advice will be exempt from the changes.



Plan and other news

Pension scams

The Pensions Regulator has asked trustees to warn members about pension scams which unfortunately are on the increase.

A pension scam is when someone tries to con you out of your pension savings and will often start by someone contacting you unexpectedly about:

- an investment or other business opportunity that you've not spoken to them about before;
- taking your pension money before you're 55; and
- the ways that you can invest your pension money.

Ten steps to protect your pension

If you're thinking about how to invest your retirement savings, follow these ten steps to protect your pension.

1. Be wary of cold calls and unsolicited texts or emails

Scammers will often claim they're from Pension Wise or other government-backed bodies. These organisations would never phone or text to offer a pension review.

2. Check everything for yourself

People have fallen for scams because they'd been 'recommended by a friend'. Do your homework, even if you consider yourself to be financially savvy - false confidence can lead to getting stung.

3. Make sure your adviser is on the Financial Conduct Authority (FCA) approved register

Pension scammers may pose as financial advisers. Check to make sure yours is registered on www.fca.org.uk.

4. Check the FCA's list of known scams

Visit www.scamsmart.fca.org.uk to see if the deal you're being offered is a known scam.

5. Steer clear of overseas investment deals

Well-known scam types include unregulated investment in a hotel, vineyard or other overseas opportunities, and where your money is all in one place - and therefore more at risk.

6. Don't fall for 'guaranteed' returns or professional looking websites or brochures

You can never guarantee returns on an investment, and anyone can create a smart website or brochure these days. Question everything, however credible it sounds or looks.

7. Don't be rushed into a decision

Scammers will try to pressure you with 'time limited offers' or send a courier to your door to wait while you sign documents. Take your time to make all the checks you need - even if this means turning down an 'amazing' deal.

8. If you're aged 50 or over and have a DC pension, talk to Pension Wise

Pension Wise is there to help you investigate your retirement options. Visit the www.pensionwise.gov.uk/ for more information (and to check what kind of pension you have).

9. Ask the Pensions Advisory Service for help if you have doubts

You can call them on **0300 123 1047** or visit www.pensionsadvisoryservice.org.uk for free pensions advice and information.

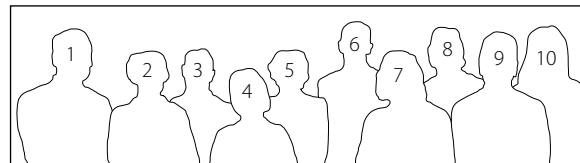
10. Contact your provider and call Action Fraud if you've already signed and think you've been scammed

If you've already signed something you're now unsure about, call Action Fraud on **0300 123 2040** and contact your pension provider immediately. They may be able to stop a transfer that hasn't taken place yet.

The Trustee

The Trustee of the Plan is Diageo Pension Trust Limited. There are normally 12 Trustee Directors of the Trustee Company who have the responsibility for ensuring that the Plan is run in accordance with its Trust Deed and Rules.

One third of the Directors are elected by employee or pensioner members. The Directors have regular training in connection with their role.



- | | | |
|-------------------------------------|-------------------------------------|------------------------------------|
| 1. David Heginbottom** ³ | 5. Catherine James** ^{2,3} | 9. Ian Shaw** ^{2,3} |
| 2. Caroline Wehrle** ^{1,3} | 6. Charles Coase*, Chairman | 10. Mena Hatchman** ^{1,2} |
| 3. Jim McGhee*** | 7. Sharon Fennessy** ³ | |
| 4. Carolyn Isaacs*** ^{1,3} | 8. Liz Paxton*** ² | |

David Light and Chris Callanan, Trustee nominated Directors, resigned from the board on 30 June 2016 and 30 September 2016 respectively. Successors will be appointed in due course.

- | | |
|---|---------------------|
| ¹ Audit Committee member | *Employer Nominated |
| ² Discretions Committee member | **Trustee Nominated |
| ³ Investment Committee member | ***Member Nominated |

The main committees of the Trustee Board are the Audit, Discretions and Investment Committees, the members of which are identified above. The roles of the Audit and Discretions Committees are summarised below. Further information on the work of the Investment Committee is provided on page 6.

Audit Committee

The Audit Committee oversees the Plan's governance, the services and internal controls of the Plan's administrator and other advisors, and the integrity of the financial statements, including specific areas of judgement and risk. The Audit Committee makes recommendations to the Trustee as appropriate.

Discretions Committee

The Discretions Committee is responsible for exercising on behalf of the Trustee certain discretions under the Rules of the Plan.

Secretary	
	John Nicholls
Advisers to the Trustee	
Actuary	James Miller – Aon Hewitt
Administrator	Diageo Pensions Team
Auditor	KPMG LLP
Bank	Royal Bank of Scotland plc
Custodian	Northern Trust Global Services Limited
Investment Adviser	Hymans Robertson LLP
Solicitor	Linklaters LLP

Who to contact

If you would like further pension information, you can contact the Pensions Team in the following ways:



Email: pensions@diageo.com



Telephone: 0131 519 2100



Website: www.mydiageopension.com



Writing: Pensions Team

Diageo plc

Edinburgh Park

5 Lochside Way

Edinburgh

EH12 9DT

When contacting the Pensions Team, it is helpful if you provide your full name, address and telephone number, date of birth and your National Insurance number.

If you have a complaint, please raise it with Mrs L Kennedy, Pension Administration Manager, at the above address. If you are dissatisfied with the decision of the Pension Administration Manager, please ask for details of the Internal Disputes Resolution Procedure.

Please note that any queries related to your employment should be referred to your line manager or local Human Resources Manager.

Keep in touch

It is important that you notify us of any change of address in writing, even after you leave Diageo, so that we can ensure that you receive your benefits when they become due.

It is also important that you complete, and keep up to date, your **Expression of Wish** form which can be found on the Plan website www.mydiageopension.com. The Trustee will take into account any wishes you have expressed in the event of any death benefits becoming payable.

Use of personal data

In providing services, including preparing this Plan Review, the Trustee and its advisers require access to personal data about members and their dependants. The Data Protection Act governs how the Trustee and its advisers use and store personal data. Members can find out more information about how their personal information is used from the Information Commissioner's website at www.ico.org.uk. If you have further questions regarding the processing of your personal information, please contact the Pensions Team.

