Diageo Pension Scheme (*the Scheme*)
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 Scheme after obtaining the advice of James Miller, the actuary to the Scheme, and after consulting with Diageo plc (the Company).

This Statement of Funding Principles replaces the previous Statement dated 19 December 2018 to reflect changes agreed between the Trustee and the Company.

Technical Provisions

The technical provisions are the amount that will be needed to pay the Scheme benefits as set out in the Scheme's Rules 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 Scheme, with a modest allowance for the future potential outperformance over gilts from continued investment in more risky asset sectors. There is an underlying assumption that the Scheme will continue with benefits being met from the Scheme as they fall due.

The method and assumptions used to calculate the technical provisions at the 1 April 2021 valuation are summarised in Appendices A and B.

Employer covenant

The method and assumptions used to calculate the technical provisions at the 1 April 2021 valuation assume a continuation of the current strong employer covenant. If this changed significantly the Trustee would wish to review the method and assumptions and call for a new valuation.

In particular, the Trustee has advised the Company in a side letter that in the event of a reduction in the Company's credit rating as a result of corporate activity, it would wish to discuss whether changes to the Scheme's funding arrangements are appropriate. A copy of the side letter is included as Appendix D.

Employer contribution rule

The Rules of the Scheme state that the contribution rate is set by the Trustee, after consulting with the Company and considering advice from the actuary.

Employer contributions

Employer contributions are assessed by calculating the cost of future benefit accrual using the same assumptions as for the technical provisions plus an allowance for the costs of death in service benefits reduced by the contributions made by members.

The above amount is then adjusted by any amounts agreed by the Trustee after consulting with the Company taking into consideration any shortfall or surplus relative to the technical provisions in order to determine the amount of contributions the employers pay. In addition, allowance may be made for the Scheme's assets to out-perform the discount rate.

The Trustee after consulting with the Company will determine the extent to which the Employer needs to pay contributions to cover the expenses of administering the Scheme, including premiums levied by the Pension Protection Fund.

For the purpose of the 1 April 2021 valuation, and reflecting the technical provisions surplus, it has been agreed that other than salary sacrifice contributions, the employer will not pay contributions for the time being. This will be reviewed at the next valuation.

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 and/or through an allowance for anticipated returns on the Scheme's assets in excess of the discount rate used to calculate the technical provisions. Any additional contributions may consist of a single payment or a stream of regular payments made over the recovery period.

In determining the length of 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 the Company; and
- the Scheme's investment strategy.

Pension Funding Partnership

The Trustee holds an interest in a Pension Funding Partnership (PFP). The PFP provides some protection against experience being worse than planned since if there is a technical provisions deficit in 2030 then the PFP provides for this to be removed by a one off contribution up to a maximum of £430M.

A value of the PFP is included in the assets of the Scheme. The Scheme Actuary will determine the allowance for how the value of the PFP will change over time for the purposes of certifying the schedule of contributions.

Dealing with surpluses

The Company and the Trustee have agreed that it would be prudent for the Scheme to target a surplus that could be used as a buffer against future adverse experience.

As a result, any funding surplus revealed by a valuation will not automatically be eliminated by adjusting the employer contributions.

The Trustee and the Company will discuss the appropriate use of any surplus at each valuation. With respect to the 1 April 2021 valuation, it was agreed that, part of the technical provisions surplus would be used to cover the Company's share of the future service cost and Scheme expenses, with the remaining surplus being retained as a buffer against adverse experience or to be used to reduce longevity risk.

Under Rule 28.6 the Scheme may only repay a surplus to the Employers where the Scheme has been wound up and all the benefits have been provided in full.

Policy on discretionary increases and funding strategy

Under the provisions of the Scheme’s Trust Deed and Rules, there are certain discretionary powers to provide or increase benefits for, or in respect of, all or any of the members of the Scheme.

Allowance is made in the technical provisions for the following discretionary benefits:

- benefits on death to dependants who are not the spouse or civil partner of the deceased member
- additional increases to pensions in deferment have been allowed for above the increases set out in the Scheme rules

Frequency of valuations

These will normally be carried out every three years.

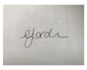
The Trustee will obtain an actuarial report showing the progression of the Scheme’s funding level annually.

The Trustee will also obtain periodic reports showing the approximate progression of the Scheme’s funding level between actuarial reports.

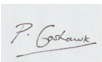
Signatures

This statement has been agreed by the Trustee and Diageo plc and is effective from 21 February 2022

Signed on behalf of Diageo plc

Signature:		Name:	Claire Jordan
Position:	Global Head of Tax & Treasury	Date:	21 February 2022

Signed on behalf of the Trustee of the Diageo Pension Scheme

Signature:		Name:	Peter Goshawk
Position:	Trustee Director	Date:	21 February 2022

Appendix A:
Method and financial assumptions for determining the technical provisions and employer contributions at the 1 April 2021 valuation

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 and hence employer contributions is set out below. The assumptions vary depending on when the expected payment is made, i.e. they are “term dependent”.
RPI inflation	The implied RPI inflation assumption will be taken to be the investment market's expectation for 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 up to 2030 and in line with the RPI inflation assumption thereafter. 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	The fixed interest gilt yield curve at the valuation date plus an outperformance allowance set at 1.1% p.a. from 31 March 2021, decreasing linearly to 0.5% p.a. by 1 April 2030 and 0.5% p.a. thereafter. This addition to the yield curve reflects the prudent allowance the Trustee has agreed for additional investment returns by the Scheme's assets in excess of the underlying gilt yield curve.
Rate of pay increases	The RPI inflation assumption plus allowance for promotional increases.
Rate of increases to deferred pensions in excess of GMPs	Derived from the RPI and CPI inflation assumption depending on category of member (subject to review if there is a significant change in the level of this assumption).
Rate of increase to pensions in payment in excess of GMPs	Inflation-linked pension increase assumptions are derived from the RPI inflation assumption allowing for the maximum and minimum annual increase, and the fact that inflation varies from year to year.
GMP Equalisation	The technical provisions will be increased by 1% as an approximate allowance of the cost of having to equalise GMPs within the Scheme. This allowance will be reviewed at future valuations or at an earlier date if a more suitable allowance has been determined.

Financial assumptions summary

The following spot yields have been used for the technical provisions calculations as at 1 April 2021, calculated using the methodology set out above:

Term	Discount rate (%)	RPI price inflation (%)	CPI price inflation (%)	Pre 2011 ex-GPF increases (%)	Non ex-GPF and Post 2011 Pre 2012 ex-GPF increases (%)	Post 2012 increases (%)	Post 88GMP increases (%)
1	1.11%	1.13%	0.55%	3.00%	1.38%	0.74%	0.55%
2	1.14%	2.04%	1.26%	3.28%	2.23%	1.57%	1.24%
3	1.20%	2.52%	1.77%	3.43%	2.63%	1.96%	1.61%
4	1.27%	2.90%	2.15%	3.62%	2.98%	2.34%	1.86%
5	1.36%	3.06%	2.31%	3.63%	3.05%	2.39%	1.98%
6	1.44%	3.13%	2.38%	3.65%	3.12%	2.46%	2.04%
7	1.53%	3.21%	2.45%	3.67%	3.18%	2.52%	2.09%
8	1.60%	3.27%	2.52%	3.70%	3.24%	2.58%	2.14%
9	1.67%	3.34%	2.59%	3.73%	3.29%	2.64%	2.18%
10	1.73%	3.39%	2.64%	3.75%	3.34%	2.68%	2.22%
11	1.79%	3.44%	2.73%	3.77%	3.37%	2.78%	2.26%
12	1.84%	3.48%	2.83%	3.78%	3.40%	2.86%	2.31%
13	1.89%	3.51%	2.91%	3.79%	3.43%	2.92%	2.34%
14	1.93%	3.53%	2.98%	3.80%	3.45%	2.98%	2.38%
15	1.96%	3.55%	3.03%	3.80%	3.46%	3.02%	2.40%
16	1.99%	3.56%	3.07%	3.80%	3.47%	3.05%	2.42%
17	2.02%	3.56%	3.11%	3.80%	3.47%	3.08%	2.44%
18	2.04%	3.56%	3.13%	3.80%	3.47%	3.10%	2.46%
19	2.05%	3.56%	3.15%	3.80%	3.46%	3.12%	2.47%
20	2.07%	3.55%	3.17%	3.79%	3.46%	3.13%	2.48%
21	2.08%	3.55%	3.18%	3.79%	3.45%	3.14%	2.48%
22	2.08%	3.54%	3.18%	3.78%	3.44%	3.14%	2.49%
23	2.09%	3.52%	3.18%	3.77%	3.43%	3.14%	2.49%
24	2.08%	3.51%	3.18%	3.76%	3.41%	3.14%	2.50%
25	2.08%	3.49%	3.18%	3.75%	3.40%	3.13%	2.50%
26	2.07%	3.47%	3.17%	3.74%	3.38%	3.13%	2.50%
27	2.06%	3.45%	3.16%	3.73%	3.36%	3.12%	2.49%
28	2.05%	3.43%	3.15%	3.72%	3.34%	3.11%	2.49%
29	2.04%	3.41%	3.14%	3.71%	3.32%	3.10%	2.49%
30	2.03%	3.39%	3.13%	3.70%	3.30%	3.08%	2.48%
31	2.01%	3.37%	3.12%	3.69%	3.28%	3.07%	2.48%
32	1.99%	3.35%	3.10%	3.68%	3.26%	3.06%	2.47%
33	1.98%	3.32%	3.09%	3.67%	3.24%	3.05%	2.47%
34	1.96%	3.30%	3.08%	3.66%	3.23%	3.03%	2.46%
35	1.94%	3.28%	3.06%	3.65%	3.21%	3.02%	2.45%
36	1.93%	3.27%	3.05%	3.64%	3.19%	3.01%	2.45%
37	1.91%	3.25%	3.04%	3.63%	3.18%	3.00%	2.45%
38	1.90%	3.24%	3.03%	3.63%	3.16%	2.99%	2.44%
39	1.88%	3.22%	3.02%	3.62%	3.15%	2.99%	2.44%
40	1.87%	3.21%	3.02%	3.62%	3.14%	2.98%	2.44%
41	1.86%	3.20%	3.01%	3.61%	3.14%	2.98%	2.44%
42	1.86%	3.19%	3.01%	3.61%	3.13%	2.97%	2.44%
43	1.85%	3.19%	3.00%	3.60%	3.12%	2.97%	2.43%
44	1.85%	3.18%	3.00%	3.60%	3.11%	2.96%	2.43%
45	1.84%	3.17%	2.99%	3.59%	3.10%	2.96%	2.43%
46	1.82%	3.17%	3.00%	3.59%	3.11%	2.96%	2.43%
47	1.81%	3.18%	3.02%	3.61%	3.13%	2.99%	2.44%
48	1.79%	3.21%	3.05%	3.62%	3.15%	3.01%	2.45%
49	1.77%	3.23%	3.07%	3.63%	3.17%	3.03%	2.46%
50	1.75%	3.25%	3.10%	3.64%	3.19%	3.05%	2.47%

Pension Funding Partnership (PFP)	The value of the PFP included in the valuation as at 1 April 2021 was £155M. The PFP will be assumed to have a value of £137.38M as at 2 April 2021 and then reduce linearly to zero by 31 March 2030. The linear reduction will be updated every time an updated PFP value is recorded in signed Trustee Report & Accounts.
Expenses	The administrative expenses (including PPF and other levies collected by the Pensions Regulator) will be met by the Trustee. Consistent with this, the technical provisions include an expense reserve. As at 1 April 2021 the technical provisions will be increased by 1% (after the application of the GMP equalisation reserve) as an expense reserve. This expense reserve has been established from surplus assets. The expense reserve will be reviewed at future valuations, but in advance of any review the expense reserve will continue to be set by increasing the technical provisions by 1%. Any increase in the expense reserve will be met from the surplus rather than by additional contributions.
Additional assumptions for employer contributions	In determining the cost of future accrual, the same assumptions will be used as those for calculating the technical provisions, including the allowance for death in service benefits. For the purpose of determining the employer contributions no GMP equalisation or expense loadings will be added to the cost of future accrual.

Appendix B: Demographic Assumptions

Post-retirement mortality

Base mortality table:

- Males – standard table S3PMA
- Females – standard table S3PFA_M

For each member, an individual scaling factor has been determined using the Aon's Demographic Horizons Longevity Model (version 4.03) based on the member's date of birth, sex and socio-economic information inferred from their postcode and membership category. Allowance was also made for the Scheme's own mortality experience over the period 1 October 2011 to 30 September 2020.

An allowance for improvements between 2013 and 2020 and an allowance for future improvements has been made in line with the CMI_2020 Projections Model with Sk=7.0, 'A' parameter of 0.5% and assuming a long-term annual rate of improvement in mortality rates of 1.75% for men and women.

As it would be impractical to show the scaling factors being used for every individual, I have summarised below the equivalent single scaling factors by member group that, if applied to all members in that group, would produce approximately the same value of liabilities as the individual scaling factors.

Category	Sex	Equivalent single scaling factor
Non-pensioners	Males	101%
	Females	98%
Pensioners and dependants	Males	102%
	Females	106%

Pre-retirement mortality

Males: Standard table AMC00 with a scaling actor of 80%.

Females: Standard table AFC00 with a scaling factor of 80%.

Early retirements

For active members, allowance has been made for retirements before Normal Pension Age (both on ill-health and normal health grounds).

Sample rates are shown on the next page.

For deferred members, no allowance is made for early retirement or for transfers out of the Scheme.

Withdrawals

Allowance made for withdrawals from service. Sample rates are shown on the next page.

Family Details

Dependant proportion and age difference (Pensioners)

The proportion of pensioner members with an adult dependant at the valuation date is age dependent, the table below shows sample ages.

Age	Male	Female
60	90.9%	70.2%
65	90.9%	70.2%
70	88.4%	65.6%
75	84.6%	57.6%
80	78.0%	44.2%
85	66.8%	26.0%
90	48.6%	8.5%

It has been assumed that males are 3 years older and females are the same age as their dependants.

Dependant proportion and age difference (Non-Pensioners)

88% of male non-pensioners and 80% of female non-pensioners are assumed to have an adult dependant at age 65 or earlier death. It has been assumed that males are 2 years older and females are 1 year younger than their dependants.

Children's pension loading	A 10% loading is added to the value of death before retirement benefits to allow for children's pensions.
Commutation	100% of members are assumed to commute 17% of their pension at retirement using factors which are around 15% higher than the current commutation factors.
Promotional salary increases	Allowance made for age-related promotional increases. Sample rates are shown on the next page.

Sample rates

The tables below illustrate the allowances made for withdrawals, deaths before retirement and retirements from service at various ages. Also shown is the allowance included for promotional pay increases, shown as the percentage increase over the next year.

Men

	Percentage leaving the scheme in the next year as a result of		
Current Age	**Withdrawal from service**	**Ill health retirement**	**Early retirement from active status**
20	8.0	0.07	0
25	8.0	0.07	0
30	8.0	0.08	0
35	8.0	0.09	0
40	8.0	0.12	0
45	8.0	0.18	0
50	8.0	0.29	5
55	8.0	0.51	10
60	8.0	0.91	35

Women

	Percentage leaving the scheme in the next year as a result of		
Current Age	**Withdrawal from service**	**Ill health retirement**	**Early retirement from active status**
20	8.0	0.03	0
25	8.0	0.04	0
30	8.0	0.05	0
35	8.0	0.06	0
40	8.0	0.09	0
45	8.0	0.14	0
50	8.0	0.23	5
55	8.0	0.39	10
60	8.0	0.67	35

Men and Women

Current Age	Percentage promotional pay increase over year
20	2.0
25	2.0
30	2.0
35	2.0
40	2.0
45	1.5
50	0.5
55	0
60	0

Appendix C:
Further information to meet requirement of Scheme Funding Regulations

Policy on reduction of cash equivalent transfer values	The Trustee will ask the actuary to advise them at each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values (CETVs) for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than the benefits in excess of the first priority slice (broadly those benefits which would be provided were the scheme to be admitted to the Pension Protection Fund), the Trustee may reduce CETVs as permitted under legislation, after obtaining actuarial advice as to the appropriate extent. If at any other time, after obtaining advice from the 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 actuary regarding the extent to which CETVs should be reduced.
Payments to the Company	Under the Rules, the repayment of funds to the Company is only possible if any assets remain after all the benefits have been provided in full, on the winding up of the Scheme.
Contributions to the Scheme	There are no arrangements currently in place for persons other than the employers or members of the Scheme to contribute to the Scheme.

Appendix D: Trustee Side Letter

DIAGEO PENSION TRUST LIMITED

8 Henrietta Place
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Tel: 020 7927 5368
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Ms Anna Manz
Group Treasurer
Diageo plc
8 Henrietta Place
London
W1G 0NB

29 June 2010

Dear Anna

Diageo Pension Scheme – deficit funding

As you are aware, the Trustee is keen for the Company to share information that may result in a reduction in the Company's credit rating because this information will help the Trustee determine whether amendments to the existing recovery plan are appropriate. During negotiations on the recovery plan to fund the 2009 deficit, the Trustee therefore requested the Company agree to consult with the Trustee ahead of certain circumstances that may be expected to result in a credit rating downgrade.

The purpose of this letter is to document this agreement. The following wording was put forward by the Company and agreed by the Trustee at a meeting on 4 June 2010.

"In the event of the public announcement of such a strategic initiative (i.e. one that may result in a rating downgrade) I confirm that the Company will consult with the Trustee in relation to the subject matter of the announcement as soon as practicable following the announcement, provided that the Company will not, as part of any such consultation, discuss any matters which would trigger a disclosure requirement to anyone other than the Trustee under any applicable laws or regulations. In most cases the Company anticipates that this will be before any deal in relation to such strategic initiative closing."

Without prejudice to the above, the Trustee, in the event of a reduction in the Company's credit rating as a result of corporate activity, would wish to discuss whether changes to the Scheme's funding arrangements are appropriate.

The Trustee is pleased we have reached this agreement and look forward to executing final documentation in due course.

Yours sincerely

Gareth Williams
Chair of Trustee Board

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