Diageo Pension Scheme

Statement of Investment Principles

In accordance with Section 35 of the Pensions Act 1995and the requirements under the 2004 Pension Act and the Occupational Pension Schemes (Investment) Regulations 2005, the Trustees of the Diageo Pension Scheme (the "Scheme") have prepared the following Statement of Investment Principles.

1. The Trustees delegate their powers of investment to suitably qualified and authorised fund managers. The Trustees employ a mixture of active and passive management. The powers of each Manager are governed by an investment management agreement to ensure that this statement and Section 36 of the Pensions Act 1995 are complied with. In particular, the agreements together provide that investments that are made are suitable for the Scheme, and appropriately diversified. The performance of each Manager is reviewed annually by the Trustees, in conjunction with the Scheme's investment consultants (Hewitt Bacon & Woodrow) to ensure that it is acting in accordance with this statement and Section 36.

2. The Trustees have set a Scheme specific benchmark following a review of investment strategy.

3. The Active Managers have discretion to select investments which are suitable for the Scheme within the broad range of assets including UK and overseas equities, bonds, property and cash. The Passive Manager invests in line with an investment strategy benchmark set by the Trustees on advice from Hewitt Bacon & Woodrow.

4. The Trustees have full discretion as to the appropriate vehicles made available for members' AVCs. Only investment vehicles that are considered suitable for AVC investment are considered by the Trustees having taken appropriate written advice from advisors whom they reasonably believe to be suitably qualified. Nevertheless, members are expected to take independent financial advice when choosing an AVC vehicle. The Trustees' policy is to review all direct investments against the following criteria and obtain written advice about them at regular intervals:
    - The best interests of the members and beneficiaries
    - Security
    - Quality
    - Liquidity
    - Profitability
    - Nature and duration of the liabilities
    - Tradeability on regulated markets
    - Diversification
    - Use of derivatives

5. A diversified, pro-equity investment approach is being followed so as to balance the long-term real return of the Scheme with proper attention to investment risks. The Trustees take advice from the Scheme Actuary, and the Scheme's investment consultants, to ensure that this approach remains suitable for the Scheme. The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to

make provisions for 100% of the liabilities ("Funding Risk"). The Trustees have identified a number of key risks which have the potential to cause a deterioration in the Scheme's funding level and therefore contribute to funding risk. These include;

- mismatching risk - the Trustees will manage this risk by assessing the sensitivity of asset and liability values to changes in financial and demographic factors when setting the investment strategy
- cashflow risk - the Trustees will manage this risk by taking into account the timing of future payments in order to minimise the probability that there is a shortfall in liquid assets relative to the Scheme's immediate liabilities
- manager risk - the Trustees will manage this risk by assessing Managers against the performance objectives agreed with each of them
- risk of lack of diversification - the Trustees will manage this risk by determining an investment policy with a view to achieving a diversified portfolio such that they spread the risks of investing in any one investment market, currency or asset
- covenant risk - the Trustees will manage this risk by considering the strength of the sponsoring employer when setting investment strategy, and by consulting with the employer as to the suitability of the proposed strategy
- operational risk - the Trustees will manage this risk by ensuring that all advisors and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

6. Within the overall constraint of achieving the best financial return for the Scheme's investments, the Trustees have delegated all day to day decisions about the investments that fall within each mandate, including realisation of investments, to the relevant Manager through a written contract. The Trustees have also delegated to the Active Managers responsibility for taking social, environmental and ethical considerations into account when assessing the selection, retention and realisation of investments. In addition, the Trustees have delegated to the Active and the Passive Managers responsibility for exercising the rights attaching to the Scheme's investments.

7. Investments may be realised from time to time from the investment portfolios as required to provide funds to make payment of benefits and costs under the Scheme. Each Manager has discretion to realise investments within its portfolio for the purpose of making new investments.

8. The Trustees will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustees will take investment advice and consult with the sponsoring employer over any changes to the SIP.

The Trustees of the Diageo Pension Scheme

Dated October 2006