



DIAGEO CAPITAL PLC

(INCORPORATED WITH LIMITED LIABILITY IN SCOTLAND
WITH REGISTERED NUMBER SC040795)

\$500,000,000 Floating Rate Notes due 2020

\$500,000,000 3.00% Fixed Rate Notes due 2020

\$500,000,000 3.500% Fixed Rate Notes due 2023

\$500,000,000 3.875% Fixed Rate Notes due 2028

EACH GUARANTEED AS TO THE PAYMENT OF PRINCIPAL AND INTEREST BY

DIAGEO PLC

(INCORPORATED WITH LIMITED LIABILITY IN ENGLAND AND WALES
WITH REGISTERED NUMBER 23307)

Diageo Capital plc (the "**Issuer**") has issued (i) \$500,000,000 Floating Rate Notes due 2020 (the "**Floating Rate Notes**"); (ii) \$500,000,000 3.00% Fixed Rate Notes due 2020 (the "**2020 Notes**"); (iii) \$500,000,000 3.500% Fixed Rate Notes due 2023 (the "**2023 Notes**"); (iv) \$500,000,000 3.875% Fixed Rate Notes due 2028 (the "**2028 Notes**" and, together with the 2020 Notes and the 2023 Notes, the "**Fixed Rate Notes**" and, the Fixed Notes and the Floating Rate Notes, together, the "**Notes**") each guaranteed by Diageo plc (the "**Guarantor**" or "**Diageo**").

The Notes have been issued under an indenture dated 3 August 1998 between the Issuer, Diageo and The Bank of New York Mellon (as successor trustee pursuant to an Agreement of Resignation, Appointment and Acceptance dated 16 October 2007 between, amongst others, the Issuer, Diageo, The Bank of New York and Citibank, N.A.) (the "**Indenture**").

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC, as amended (including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer and Diageo (each an "**Obligor**" and together the "**Obligors**"), their respective subsidiaries, the Notes and the guarantee of the Notes given by Diageo, which, according to the particular nature of the Obligors and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Obligors and of the rights attaching to the Notes.

Diageo has filed a registration statement with the United States Securities and Exchange Commission ("**SEC**") for the offering of the Notes to which this Prospectus relates. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy securities either in the United States or any other jurisdiction, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration and qualification under the securities laws of any such jurisdiction. Any public offering of securities in the United States is being made solely by means of a prospectus supplement to the prospectus included in the registration statement filed with the SEC by Diageo,

the Issuer and Diageo Investment Corporation. The prospectus in that registration statement (which is different from this Prospectus) and the prospectus supplement and other documents Diageo has filed with the SEC contains information about Diageo and the offering of the Notes. You may get these documents for free by visiting EDGAR on the SEC web site at www.sec.gov. Neither the SEC nor any state securities commission nor any other regulatory body has approved or disapproved of these securities. Any representation to the contrary is a criminal offense.

Application has been made to the Financial Conduct Authority in its capacity as the United Kingdom competent authority under the Financial Services and Markets Act 2000, as amended ("**FSMA**") (the "**UK Listing Authority**") for the Notes to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**").

The Notes have been issued in fully registered form in denominations of \$200,000 and in integral multiples of \$1,000 in excess thereof. The Notes are represented by one or more global securities registered in the name of a nominee of The Depository Trust Company ("**DTC**"). Beneficial interests in the Notes are held through DTC and its participants, including Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). See Part 4 ("*Provisions Relating to the Notes Whilst in Global Form*") of this Prospectus.

As at the date of this Prospectus, Diageo's long term senior debt ratings are A3 by Moody's Investors Service Ltd, A- by Standard & Poor's Credit Market Services Europe Limited, a division of the McGraw-Hill Companies Inc ("**Standard & Poor's**") and A- by Fitch Ratings Ltd ("**Fitch**"). Each of Standard & Poor's and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 as amended (the "**CRA Regulation**").

Amounts payable on Floating Rate Notes are calculated by reference to one of LIBOR. As at the date of this Prospectus, the Intercontinental Exchange Benchmark Administration Ltd (as administrator of LIBOR) is not included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority under Article 36 of the Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**"). As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the Intercontinental Exchange Benchmark Administration Ltd (as administrator of LIBOR) is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).

The date of this Prospectus is 8 June 2018.

Each Obligor accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each Obligor (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus should be read and construed with any amendment or supplement hereto and with any other documents incorporated herein by reference (see “*Documents Incorporated by Reference*” below).

No person has been authorised by the Obligors to give any information or to make any representation not contained in or not consistent with this Prospectus or any information supplied by the Obligors or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Obligors.

The distribution of this Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Obligors to inform themselves about and to observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This Prospectus does not constitute an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by any of the Obligors that any recipient of this Prospectus should purchase any Notes. Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of each Obligor. This Prospectus may not be used for the purpose of an offer or solicitation by anyone in any jurisdiction.

Each investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;
- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. An investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Instruments and the impact this investment will have on the investor's overall investment portfolio.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each investor in the Notes should consult its legal advisers to determine whether and to what extent: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

PRIIPS REGULATION / PROSPECTUS DIRECTIVE / PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by the Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation and/or the Prospectus Directive.

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Prospectus:

1. the audited annual financial statements (on a consolidated basis and including the auditor's report thereon and notes thereto) of Diageo in respect of the financial years ended 30 June 2017 (as set out at pages 90 to 154 of the Annual Report of Diageo for the year ended 30 June 2017 (the "**2017 Financial Statements**") and 30 June 2016 (as set out at pages 88 to 151 of the Annual Report of Diageo for the year ended 30 June 2016);
2. the audited annual financial statements (on an entity basis and including the auditor's report thereon and notes thereto) of the Issuer in respect of the financial years ended 30 June 2017 (as set out at pages 7 to 31 of the Annual Report and Financial Statements of the Issuer for the year ended 30 June 2017) and 30 June 2016 (as set out at pages 7 to 30 of the Annual Report and Financial Statements of the Issuer for the year ended 30 June 2016);
3. the unaudited interim results of Diageo for the six months ended 31 December 2017;
4. the Annual Report on Form 20-F of Diageo in respect of the year ended 30 June 2017, excluding the exhibits set out at pages 285 and 286 therein referred to as being incorporated by reference (the "**Form 20-F**");
5. the Form 6-K filed with the SEC on 30 January 2018 relating to, *inter alia*, the unaudited interim results of Diageo for the six months ended 31 December 2017; and
6. the Form 6-K filed with the SEC on 18 May 2018 relating to the Notes,

save that any statement contained in this Prospectus or in any of the documents incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement provided that such modifying or superseding statement is made by way of supplement to the Prospectus pursuant to Article 16 of the Prospectus Directive.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

The financial statements for Diageo as detailed in paragraph 1 were prepared in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union ("**IFRS**").

The parts of the above mentioned documents which are not incorporated by reference into this Prospectus are either not relevant for investors or covered elsewhere in the Prospectus.

Copies of documents deemed to be incorporated by reference in this Prospectus may be obtained: (i) by a request in writing to the Issuer at its registered office as set out at the end of this Prospectus and marked for the attention of Company Secretariat; and (ii) from the website of the

Regulatory News Service operated by the London Stock Exchange at:
<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

ALTERNATIVE PERFORMANCE MEASURES

To supplement its consolidated financial statements presented in accordance with IFRS, Diageo and its consolidated subsidiaries (the “**Diageo Group**”) uses certain ratios and measures included or referred to in this Prospectus (including, without limitation, in the 2017 Financial Statements incorporated by reference) that would be considered Alternative Performance Measures (“**APMs**”) as defined in the European Securities and Markets Authority Guidelines. These measures are considered useful to investors to enhance their understanding of the Diageo Group’s financial performance. The APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS. An explanation of each APM’s components and calculation method can be found on pages 52 to 57 (incorporated by reference herein) of the Annual Report for Diageo for the year ended 30 June 2017.

FORWARD-LOOKING STATEMENTS

This document contains 'forward-looking' statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to Diageo, anticipated cost savings or synergies, expected investments, the completion of Diageo's strategic transactions and restructuring programmes, anticipated tax rates, expected cash payments, outcomes of litigation, anticipated deficit reductions in relation to pension schemes and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside of the Diageo Group's control. These key risks and uncertainties include, but are not limited to, those set out within the 'Risk factors' section of the annual report in the Form 20-F which include unfavourable economic, political, social or other developments and risks in the countries in which the Diageo Group operates, including the negotiating process surrounding, as well as the eventual terms of, the exit of the United Kingdom from the European Union; changes in consumer preferences and tastes and adverse impacts of a downturn in economic conditions, among other factors, which could adversely affect demand; litigation or similar proceedings specifically directed at the beverage alcohol industry, as well as other litigation or proceedings more generally; changes in the international tax environment resulting in unexpected tax exposures; the impact of climate change, or legal, regulatory or market measures intended to address climate change, including on the cost and supply of water; changes in the cost of production; other legal and regulatory developments impacting the production, distribution and marketing of the Diageo Group's products and its business more generally; the consequences of any failure to comply with anti-corruption, sanctions or similar laws and regulations; any failure by the Diageo Group to maintain its brand image and corporate reputation; competitive pressures, which could reduce the Diageo Group's market share and margins; failures to derive the expected benefits from the Diageo Group's business strategies, acquisitions and/or any cost-saving and restructuring programmes; the impact of any contamination, counterfeiting or other events on support for and sales of the Diageo Group's brands; increased costs for, or shortages of, talent; disruption to production facilities, business service centres or information systems (including as a result of cyber-attacks); fluctuations in exchange and/or interest rates; movements in the value of the Diageo Group's pension funds; any failure to maintain or renegotiate distribution, supply, manufacturing and licence agreements on favourable terms; any inability by the Diageo Group to protect its intellectual property rights; and difficulty in effecting service of US process and enforcing US legal process against Diageo and its directors.

SUPPLEMENTAL PROSPECTUS

Each Obligor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in the Prospectus, prepare a further supplement to this Prospectus or publish a new Prospectus where required to do so by section 87G of FSMA.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references in this document to “**U.S.\$**”, “**\$**” and “**U.S. dollars**” are to United States dollars, those to “**Sterling**” and “**£**” are to pounds sterling, those to “**INR**” are to Indian rupees and those to “**euro**”, “**Euro**”, “**€**” and “**EUR**” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended.

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PART 1: OVERVIEW OF THE NOTES

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus.

The following is a brief overview of the key terms of the Notes only and should be read in conjunction with the rest of this Prospectus, including "Risk Factors", for a discussion of certain factors to be considered in connection with Notes.

Aggregate Principal Amount:	\$500,000,000 Floating Rate Notes due 2020 (the " Floating Rate Notes ")
	\$500,000,000 3.00% Fixed Rate Notes due 2020 (the " 2020 Notes ")
	\$500,000,000 3.500% Fixed Rate Notes due 2023 (the " 2023 Notes ")
	\$500,000,000 3.875% Fixed Rate Notes due 2028 (the " 2028 Notes " and, together with the Floating Rate Notes, the 2020 Notes and the 2023 Notes, the " Notes ").
Issue Date:	18 May 2018.
Issuer:	Diageo Capital plc.
Guarantee:	The Notes are guaranteed by Diageo as to the payment of the principal, premium (if any) and interest, including any additional amounts that may be payable.
Minimum Denomination:	\$200,000.
Maturity Date:	18 May 2020 for the Floating Rate Notes.
	18 May 2020 for the 2020 Notes.
	18 September 2023 for the 2023 Notes.
	18 May 2028 for the 2028 Notes.
Interest Rate:	The interest rate on the Floating Rate Notes (the " Floating Interest Rate ") for the first Interest Period will be equal to LIBOR, as determined on 16 May 2018 (the second London Banking Day preceding the Issue Date) plus 0.240% per annum. Thereafter, the Floating Interest Rate for any Interest Period will be equal to LIBOR, as determined on the applicable Interest Determination Date, plus 0.240% per annum. The

Floating Interest Rate will be reset quarterly on each Interest Reset Date.

The interest rate on the 2020 Notes is 3.00% per annum (fixed).

The interest rate on the 2023 Notes is 3.500% per annum (fixed).

The interest rate on the 2028 Notes is 3.875% per annum (fixed).

Interest Payment Dates:

In respect of the Floating Rate Notes, every 18 August, 18 November, 18 February and 18 May of each year, commencing on 18 August 2018 and ending on the maturity date.

In respect of the 2020 Notes, the 2023 Notes and the 2028 Notes, 18 November and 18 May of each year, commencing on 18 November 2018.

Optional Redemption:

The Issuer has the right to redeem the 2023 Notes and/or the 2028 Notes, in whole or in part, at any time and from time to time:

(A) at a redemption price equal to the greater of: (1) 100% of the principal amount of such notes plus accrued interest to but excluding the date of redemption and (2) as determined by the quotation agent, the sum of the present values of the remaining scheduled payments of principal and interest on such notes (excluding any portion of such payments of interest accrued as of the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the adjusted treasury rate, plus 10 basis points in respect of the 2023 Notes or plus 15 basis points in respect of the 2028 Notes and accrued interest to but excluding the date of redemption; or

(B) (1) in respect of the 2023 Notes, on or after 18 August 2023 (the date that is one month prior to the maturity date of the 2023 Notes), or (2) in respect of the 2028 Notes, on or after 18 February 2028 (the date that is one month prior to the maturity date of the 2028 Notes), in each case at a redemption price equal to 100% of the principal amount of such notes plus

accrued interest to but excluding the date of redemption.

Ranking:	The Notes and the guarantee of the Notes constitute unsecured and unsubordinated indebtedness of the Issuer and Diageo (respectively) and will rank equally with all of its other unsecured and unsubordinated indebtedness from time to time outstanding.
Tax Redemption:	The Notes are redeemable at the option of the Issuer or the Guarantor upon certain changes in United Kingdom tax law or in the event of a requirement to pay additional amounts due to certain mergers, conveyances, transfers or leases.
Use of Proceeds:	General corporate purposes
Form of Notes:	The Notes have been issued in the form of registered global notes as described in registered form as described in Part 4 (<i>“Provisions Relating to the Notes Whilst in Global Form”</i>).
Record Dates:	The close of business on the business day immediately preceding each applicable interest payment date (or, if the notes are held in definitive form, the 15th business day preceding each applicable interest payment date).
Trustee and Principal Paying Agent:	The Bank of New York Mellon
Joint Bookrunners:	Barclays Capital Inc. Goldman Sachs & Co. LLC Merrill Lynch, Pierce, Fenner & Smith Incorporated Santander Investment Securities Inc. Standard Chartered Bank UBS Securities LLC
Listing and admission to trading:	Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange’s regulated market.
Further Issues:	The Issuer may, without the consent of the holders of any series of notes, issue additional notes having the same ranking and same interest rate, maturity date, redemption terms and other terms as the Notes except for the price to the public and Issue Date. Any such additional notes, together with the applicable series of

notes offered by this prospectus supplement, will constitute a single series of securities under the Indenture; provided that, if the additional notes are not fungible for U.S. federal income tax purposes with the notes offered hereby, the additional notes will have a separate CUSIP or other identifying number. There is no limitation on the amount of notes or other debt securities that the Issuer may issue under the Indenture.

CUSIP: 25243Y AW9 in respect of the Floating Rate Notes.

25243Y AX7 in respect of the 2020 Notes.

25243Y AY5 in respect of the 2023 Notes.

25243Y AZ2 in respect of the 2028 Notes.

ISIN: US25243YAW93 in respect of the Floating Rate Notes.

US25243YAX76 in respect of the 2020 Notes.

US25243YAY59 in respect of the 2023 Notes.

US25243YAZ25 in respect of the 2028 Notes.

Selling Restrictions: See Part 8 ("*Selling Restrictions*") below.

Governing Law: New York.

PART 2: RISK FACTORS

The Obligors believe that the following factors may affect their ability to fulfil their respective obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Obligors are not in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are specific to the Notes are also described below.

The Obligors believe that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Obligors to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Obligors do not represent that the statements below regarding the risks of holding any Notes are exhaustive. Investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any further investment decisions.

Investors should consider, among other things, the following risk factors.

1. BUSINESS RISK FACTORS

The Diageo Group believes the following to be the principal risks and uncertainties facing it. If any of these risks occur, the Diageo Group's business, financial condition and performance could suffer and the trading price and liquidity of securities could decline.

In the current economic environment, certain risks may gain more prominence either individually or when taken together. For example, demand for beverage alcohol products, in particular luxury or super premium products, may decrease with a reduction in consumer spending levels. Costs of operations may increase if inflation were to become prevalent, or upon an increase in the costs of raw materials. These conditions may also lead to intensified competition for market share, with potentially adverse effects on volume and prices. The financial and economic situation may have a negative impact on third parties with whom the Diageo Group does, or may do, business. Any of these factors may affect the Diageo Group's performance, financial condition and liquidity.

The Diageo Group's ability to fund its long term strategies may be adversely affected if there is an extended period of constraint in the capital markets, particularly the debt markets, at the same time that cash flows from the Diageo Group's business are under pressure. Such developments may adversely affect shareholder returns or share price. Additionally, continued volatility in exchange rates used to translate foreign currencies into Sterling may have a significant impact on the Diageo Group's reported results. Changes in the trustees' valuations of the assets and liabilities of the Diageo Group's pension plans may also increase pension funding requirements.

1.1 The Diageo Group's business may be adversely impacted by unfavourable economic conditions or political or other developments and risks in the countries in which it operates.

The Diageo Group may be adversely affected by political, economic or social developments in any of the countries where it has distribution networks, production facilities or marketing companies. In particular, the Diageo Group's business is dependent

on general economic conditions in its most important markets, including in the United States and the United Kingdom and the other countries that form the European Union.

The economy in any of these markets failing to recover as forecast, or a significant deterioration in the economic conditions in any of the Diageo Group's important markets, including inflationary pressures and/or disruptions to credit and capital markets as well as any resulting social unrest, reduction in consumer confidence and spending levels, customer destocking or the failure of customer, supplier or financial counterparties could have a material adverse effect on the Diageo Group's business and performance. In addition, volatility in the credit and capital markets caused by unfavourable economic developments and uncertainties could result in a reduction in the availability of, or an increase in the cost of financing to the Diageo Group. Any such economic developments may lead to reduced economic growth and, in turn, reduced demand for the Diageo Group's products, in Europe and other markets in which the Diageo Group operates. This could have a material adverse effect on the Diageo Group's business.

The Diageo Group is headquartered in the United Kingdom and has significant production and investment in Scotland. Following the result of the Scottish independence referendum in 2014 and the UK general election in 2015, legislation was introduced in the form of the Scotland Act 2016 which devolved further powers to the Scottish parliament. Further amendments granting additional devolved powers may be proposed, and these could result in a further period of political uncertainty that may adversely affect the Diageo Group's business. In June 2016, the UK held a referendum in which voters approved an exit from the European Union, commonly referred to as "Brexit". The prime minister of the United Kingdom formally invoked Article 50 of the Treaty on European Union on 29 March 2017, thus officially initiating the process for the departure of the United Kingdom from the European Union. The terms of this withdrawal are subject to a formal negotiation period that could last at least two years from this notification date. The long-term effects of Brexit will depend on any agreement the UK makes to retain access to European markets either during a transitional period or permanently as well as on the agreements the UK makes with other trading partners. Any of the potential effects of Brexit could have unpredictable consequences for credit markets and adversely affect the Diageo Group's business, results of operations and financial performance. In addition, the Diageo Group's operations are also subject to a variety of other risks and uncertainties related to trading in numerous foreign countries, including political or economic upheaval and the imposition of any import, investment or currency restrictions, including tariffs and import quotas or any restrictions on the repatriation of earnings and capital. Political and/or social unrest, potential health issues, natural disasters and terrorist threats and/or acts may also occur in various places around the world, which will have an impact on trade, tourism and travel. Many of these risks are heightened, or occur more frequently, in emerging markets. These disruptions can affect the Diageo Group's ability to import or export products and to repatriate funds, as well as affecting the levels of consumer demand (for example, in duty free outlets at airports or in on trade premises in affected regions) and therefore the Diageo Group's levels of sales or profitability. A substantial portion of the Diageo Group's operations, representing approximately 42% of the Diageo Group's net sales for the year ended 30 June 2017, are carried out in emerging markets. Emerging markets are also generally exposed to relatively higher risk of liquidity constraints, inflation, devaluation, price volatility, currency convertibility and sovereign default. Due to the Diageo Group's specific exposures, any or all of the aforementioned

factors may affect Diageo disproportionately or in a different manner as compared to its competitors.

Part of the Diageo Group's growth strategy includes increasing its spirits participation in emerging markets and supporting premiumisation in developed markets. There is no guarantee that this strategy will be successful and some of these markets represent a higher risk in terms of their changing regulatory environments and higher degree of uncertainty over levels of consumer spending

1.2 Demand for the Diageo Group's products may be adversely affected by many factors, including changes in consumer preferences and tastes and adverse impacts of a declining economy.

The Diageo Group's collection of brands includes some of the world's leading beverage alcohol brands as well as brands of regional and/or local prominence. Maintaining the Diageo Group's competitive position depends on its continued ability to offer products that have a strong appeal to consumers. Consumer preferences on a global and/or local scale may shift due to a variety of factors including changes in demographic and social trends (including potential shifts in consumer tastes toward locally produced small-batch craft products), public health regulations, changes in travel, vacation or leisure activity patterns, weather effects and a downturn in economic conditions, which may reduce consumers' willingness to purchase premium branded products or to purchase products from large producers such as Diageo. Continued economic pressures could also lead to consumers selecting products at lower price points, whether the Diageo Group's or those of its competitors, which may have an adverse effect on the Diageo Group's profitability. The competitive position of the Diageo Group's brands as well as the Diageo Group's reputation more generally could also be affected adversely by any failure to achieve consistent, reliable quality in the product or in service levels to customers.

In addition, the social acceptability of the Diageo Group's products may decline due to public concerns about alcohol promotion and consumption. These concerns could also result in regulatory action, litigation or customer complaints against companies in the industry and may have an adverse effect on the Diageo Group's profitability.

Growth in the Diageo Group's business has benefited from both the launch of new products and variants of existing brands and continuing product innovation and the creation of brand extensions remain a significant element of the Diageo Group's growth plans. The launch and ongoing success of new products or a variant of an existing brand is inherently uncertain, especially as to their appeal to consumers. The failure to successfully launch a new product can give rise to inventory write-offs and other costs and can affect consumer perception and growth of an existing brand. There can be no assurance of the Diageo Group's continuing ability to develop and launch successful new products or variants of existing products or of the profitable lifespan of newly or recently developed products.

1.3 The Diageo Group is subject to litigation specifically directed at the beverage alcohol industry and other litigation.

Companies in the beverage alcohol industry are, from time to time, exposed to class action or other private or governmental litigation relating to alcohol advertising, product

liability, alcohol abuse problems or other health consequences from the misuse of alcohol. The Diageo Group may also be subject to litigation arising from legacy and discontinued activities, as well as other litigation in the ordinary course of its operations including in connection with the acquisition or disposal of business or other assets. The Diageo Group is further subject to the risk of litigation enforcement or other regulatory actions by tax, customs and other regulatory authorities, including with respect to the methodology for assessing importation value, transfer pricing or compliance matters. Any such litigation may result in damages, penalties or fines as well as reputational damage to the Diageo Group or its brands, and as a result, the Diageo Group's business could be materially adversely affected. For additional information with respect to legal proceedings, including certain litigation in relation to Diageo's acquisition of United Spirits Limited ("**USL**"), see pages 58 to 65 of this Prospectus and note 18 to the 2017 Financial Statements.

1.4 The Diageo Group is subject to tax uncertainties, including changes in tax obligations, tax laws, regulations and interpretations, as well as enforceable actions by tax authorities.

Changes in the political and economic climate have resulted in an increased focus on tax collection in recent years and tax authorities are showing an increased appetite to challenge the methodology used by multinational enterprises, even where it is compliant with international best practice guidelines. Changes in tax law (including tax rates), tax treaties, accounting policies and accounting standards, including as a result of the Organisation for Economic Co-Operation and Development's review of base erosion and profit shifting and the European Union's anti-tax abuse measures, could result in litigation or other actions by relevant tax authorities. For example, as discussed on pages 64 and 65 of this Prospectus and in note 18 to the 2017 Financial Statements, Diageo has entered into a process of collaborative working with HMRC in relation to preliminary notice of assessments it has received with respect to the new Diverted Profits Tax regime in the United Kingdom.

Any such litigation or other actions may result in damages, penalties or fines as well as reputational damage to the Diageo Group or its brands and, as a result, the Diageo Group's business and financial results could be materially adversely affected. For additional information with respect to legal proceedings, see pages 58 to 65 of this Prospectus and note 18 to the 2017 Financial Statements.

In addition to the above, other changes in tax law (including tax rates), accounting policies and accounting standards could increase the Diageo Group's cost of doing business and lead to a rise in the Diageo Group's effective tax rate, thus materially reducing the Diageo Group's reported after tax income.

Beverage alcohol products are also subject to national excise, import duty and other duties in most countries around the world. An increase in any such taxes or duties could have a material adverse effect on the Diageo Group's sales revenue or margin, through reducing the level of overall beverage alcohol consumption and/or by encouraging consumers to switch to lower taxed categories of beverage alcohol.

1.5 Climate change, or legal, regulatory or market measures to address climate change, may negatively affect the Diageo Group's business or operations, and

water scarcity or poor water quality could negatively impact the Diageo Group's production costs and capacity.

There is a growing concern that carbon dioxide and other so-called 'greenhouse' gases in the atmosphere may have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. In the event that such climate change, or legal, regulatory or market measures enacted to address climate change has a negative effect on agricultural productivity in the various regions from which the Diageo Group procures its raw materials, the Diageo Group may be subject to decreased availability or increased pricing for certain raw materials that are necessary for the Diageo Group's products, such as sugar, cereals, hops, agave and grapes. Water is the main ingredient in substantially all of the Diageo Group's products and it is also a limited resource in many parts of the world. As demand for water continues to increase, and as water becomes scarcer and the quality of available water deteriorates, Diageo may be affected by increasing production costs or capacity constraints, which could adversely affect the Diageo Group's operations and profitability.

1.6 An increase in the cost of raw materials or energy could affect the Diageo Group's profitability.

The components that the Diageo Group uses for the production of its beverage products are largely commodities that are subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural conditions, fluctuations in relevant exchange rates and/or governmental controls. Commodity price changes may result in unexpected increases in the cost of the raw materials the Diageo Group uses in the production of its products, including the prices of the agricultural commodities, flavourings and other ingredients necessary for the Diageo Group to produce its various beverages, as well as glass bottles and other materials used as packaging, thus increasing the Diageo Group's production costs. The Diageo Group may also be adversely affected by shortages of such materials or by increases in energy costs resulting in higher transportation, freight and other operating costs. The Diageo Group may not be able to increase its prices to offset these increased costs without suffering reduced volume, sales and operating profit.

1.7 Regulatory decisions and changes in the legal and regulatory environment could increase the Diageo Group's costs and liabilities or limit its business activities.

The Diageo Group's operations are subject to extensive regulatory requirements relating to production, distribution, importation, marketing, advertising, promotion, sales, pricing, labelling, packaging, product liability, labour, pensions, antitrust, compliance and control systems and environmental issues. Changes in laws, regulations or governmental or regulatory policies and/or practices could cause the Diageo Group to incur material additional costs or liabilities that could adversely affect its business. In particular, governmental bodies in countries where the Diageo Group operates may impose new labelling, product or production requirements, limitations on the marketing, advertising and/or promotion activities used to market beverage alcohol, restrictions on retail outlets, restrictions on importation and distribution or other restrictions on the locations or occasions where beverage alcohol is sold which directly or indirectly limit the sales of the Diageo Group's products.

Regulatory authorities under whose laws the Diageo Group operates may also have enforcement power that can subject the Diageo Group to actions such as product recall, seizure of products or other sanctions, which could have an adverse effect on its sales or damage its reputation. Any changes to the regulatory environment in which it operates could cause the Diageo Group to incur material additional costs or liabilities, which could adversely affect its performance.

For example, in 2015 two of the major states (in terms of population and per capita alcohol consumption) of the Republic of India, the State of Kerala and the State of Bihar, announced the imposition of a total ban on alcohol consumption while, more recently, the Supreme Court of India issued a ruling prohibiting the sale of alcohol products in certain outlets near highways. These regulatory measures have impacted, and are likely to continue to impact, the sale and distribution of the Diageo Group's products in India, which in turn could adversely affect the Diageo Group's business and financial results.

The Diageo Group is subject to data privacy regulations in many of the markets in which it operates, and laws and regulations in this area are developing and changing on a continual basis. For example, Diageo is subject to the General Data Protection Regulation adopted in the European Union in April 2016, which must be fully implemented in all member states by May 2018. Breach of any of these laws or regulations can lead to significant fines and/or damage to the Diageo Group's reputation as well as significantly restricting its ability to deliver on its digital productivity and growth plans.

1.8 The Diageo Group is subject to increasing costs of monitoring and maintaining compliance with anti-corruption laws and a breach of such laws or of the Diageo Group's related internal policies may have a material adverse effect on its business.

Certain countries in which the Diageo Group operates are reported to have high levels of corruption. There is increasing scrutiny and enforcement by regulators in many jurisdictions of anti-bribery laws including the US Foreign Corrupt Practices Act 1977 and the UK Bribery Act 2010. This oversight has been enhanced by applicable regulations in the United States, which offer substantial financial rewards to whistleblowers for reporting information that leads to monetary fines. If the Diageo Group or any of its associates fails to comply with existing or new economic sanctions or trade restrictions imposed by the United States, the European Union or other national or international authorities that are applicable to the Diageo Group or such associate, the Diageo Group may be exposed to potential legal liability and the costs associated with investigating potential misconduct, as well as potential reputational damage. While the Diageo Group has implemented and maintains internal practices, procedures and controls designed to ensure compliance with anti-bribery legislation and routinely conducts investigations, either at its own initiative or in response to requests from regulators in connection with compliance with such internal controls, there is no guarantee that such procedures will be effective in preventing compliance failures at Diageo.

Any investigations and lawsuits, regardless of the ultimate outcome of the proceeding, are time consuming and expensive and can divert the time and effort of the Diageo Group's personnel, including senior management, from its business. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on its reputation and on the morale and performance of its employees. To the

extent that violations of the Diageo Group's policies and procedures are found, possible regulatory sanctions and fines and other consequences may also be material.

1.9 Defective internal controls could adversely affect Diageo's financial reporting and management process, as well as the accuracy of public disclosures.

The Diageo Group has in place internal control and risk management systems in relation to its financial reporting process and its process for the preparation of consolidated financial statements. In addition, management undertakes a review of the consolidated financial statements in order to ensure that the financial position and results of the group are appropriately reflected therein. The Diageo Group is required by the laws of various jurisdictions to publicly disclose its financial results, as well as developments that could materially affect its financial results, and regulators routinely review the financial statements of listed companies such as Diageo for compliance with new, revised or existing accounting and regulatory requirements. Should Diageo be subject to an investigation into potential non-compliance with accounting and disclosure requirements or be found to have breached any such requirements, this may lead to restatements of previously reported results and significant penalties. In addition, the reliability of financial reporting is important in ensuring that the management of a business and its results are based on reliable data. Flaws in internal control systems could adversely affect the Diageo Group's business and financial results, including the Diageo Group's ability to execute its strategy.

Accurate disclosures also provide investors and other market professionals with information to understand the Diageo Group's business. Defective internal controls could result in inaccuracies or lack of clarity in public disclosures that could create market uncertainty regarding the reliability of the data presented. As a result, defective internal controls could adversely affect the Diageo Group's business and financial results and/or the price of the Diageo Group's securities.

1.10 The value of the Diageo Group's brands and its net sales may be negatively affected by its failure to maintain its brand image and corporate reputation.

The value of the Diageo Group's brands and its profitability depends heavily on its ability to maintain its brand image and corporate reputation. Adverse publicity, whether or not justified, may tarnish the Diageo Group's reputation and cause consumers to choose products offered by its competitors. Such adverse publicity could arise as a result of a perceived failure by the Diageo Group to make adequate positive social contributions, including in relation to the level of taxes paid by Diageo, or by the failures of internal controls or compliance breaches leading to a breach of the Diageo Group's Code of Business Conduct, its other key policies or of the laws or regulations in the jurisdictions in which it operates. The Diageo Group also maintains an online presence as part of its business operations. The Diageo Group's reputation may suffer if it is perceived to fail to appropriately restrict access to its online content or if it breaches any marketing regulation, code or policy. In addition, the proliferation of new methods of mass communication facilitated by the internet makes it easier for false or unfounded allegations to adversely affect the Diageo Group's brand image and reputation, which may in turn affect the Diageo Group's profitability.

1.11 The Diageo Group faces competition that may reduce its market share and margins.

The Diageo Group faces substantial competition from several international companies as well as local and regional companies (including craft breweries and distilleries) in the countries in which it operates and competes with drinks companies across a wide range of consumer drinking occasions. Within a number of categories, further industry consolidation or realignment is possible. Consolidation is also taking place among the Diageo Group's customers in many countries and increased competition by competitors or customers could lead to downward pressure on prices and/or a decline in the Diageo Group's market share in any of these categories, adversely affecting the Diageo Group's results and growth potential.

1.12 The Diageo Group may not be able to derive the expected benefits from its strategy to focus on premium drinks or from its acquisitions or cost saving and restructuring programmes designed to enhance earnings.

Growth in the spirits category is being driven by population and income growth, and the increasing penetration of spirits in emerging markets. We aim to grow our participation in international premium spirits. Our strategy is to support premiumisation in developed markets and increase our spirits participation in emerging markets through categories that give us access to the growing middle class consumer.

There can be no assurance that the Diageo Group's strategic focus on premium drinks will result in opportunities for growth and improved margins.

It is possible that the pursuit of this strategic focus on premium drinks could give rise to further business combinations, acquisitions, disposals, joint ventures and/or partnerships (including any associated financing or the assumption of actual or potential liabilities, depending on the transaction contemplated). There can be no assurance that any transaction will be completed or that any such transaction would deliver the anticipated benefits, cost savings or synergies. The success of any transaction will depend in part on the Diageo Group's ability to successfully integrate new businesses with its existing operations and realise the anticipated benefits. The current and ongoing issues in USL detailed on pages 58 to 65 of this Prospectus and in note 18 to the 2017 Financial Statements provide an example of integration challenges.

Similarly, there can be no assurance that the Global Productivity Programme implemented by the Diageo Group in order to drive efficiencies and deliver cost savings will deliver the expected benefits. This programme includes improving the effectiveness and efficiency of end-to-end operations, including changes to organisational structures, business processes and business systems. Disruption caused to business processes as a result of such change which could impact Diageo Group operations and lead to adverse customer or consumer reaction. There may also be a risk of impairment charges on goodwill or other intangible assets and failure to meet financial targets.

1.13 Contamination, counterfeiting or other events could harm the integrity of customer support for the Diageo Group's brands and adversely affect the sales of those brands.

The success of the Diageo Group's brands depends upon the positive image that consumers have of those brands, and contamination, whether arising accidentally, or through deliberate third party action, or other events that harm the integrity of, or consumer support for, those brands, could adversely affect their sales. The Diageo Group purchases most of the raw materials for the production and packaging of its products from third party producers or on the open market. The Diageo Group may be subject to liability if contaminants in those raw materials or defects in the distillation, fermentation or bottling process lead to low beverage quality or illness among, or injury to, the Diageo Group's consumers or do not otherwise comply with the applicable food safety regulations.

The Diageo Group may also recall products in the event of contamination or damage. A significant product liability judgment or a widespread product recall may negatively impact sales and profitability of the affected brand or all the Diageo Group brands for a period of time depending on product availability, competitive reaction and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, any resulting negative publicity could adversely affect the Diageo Group's reputation with existing and potential customers and its corporate and brand image.

Additionally, third parties may sell products which are either counterfeit versions of the Diageo Group brands or inferior brands that look like the Diageo Group brands, and consumers of the Diageo Group brands could confuse the Diageo Group products with such counterfeit products. A negative consumer experience with such a product could cause them to refrain from purchasing the Diageo Group brands in the future and in turn could impair brand equity, adversely affecting the Diageo Group's business.

1.14 The Diageo Group's operating results may be adversely affected by increased costs for, or shortages of talent or by labour strikes or disputes.

The Diageo Group's operating results could be adversely affected by labour or skill shortages or increased labour costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. The Diageo Group's success is dependent on the capability of its employees. There is no guarantee that the Diageo Group will continue to be able to recruit, retain and develop the capabilities that it requires to deliver its strategy, for example in relation to sales, marketing and innovation capability within markets, or in its senior management. The loss of senior management or other key personnel or the inability to identify, attract and retain qualified personnel in the future could make it difficult to manage the business and could adversely affect the Diageo Group's operations and financial results.

In addition, labour strikes, work stoppages or slowdown within the Diageo Group's operations or those of the Diageo Group's suppliers could adversely affect the Diageo Group's business and financial results.

1.15 The Diageo Group's operating results may be adversely affected by disruption to production facilities, business service centres or information systems, including via cyber-attacks.

The Diageo Group would be affected if there was a catastrophic failure of its major production facilities or business service centres. The Diageo Group operates production facilities around the world. If there was a technical failure in the Diageo Group's production facilities, or fire or explosion at one of the Diageo Group's production facilities, it could result in damage to the facilities, plant or equipment, their surroundings and/or the local environment. Such an event could lead to a loss in production capacity, or could result in regulatory action, legal liability or damage to the Diageo Group's reputation.

The Diageo Group has a substantial inventory of aged product categories, principally Scotch whisky and Canadian whisky, which may mature over periods of up to 30 years or more. The maturing inventory is stored primarily in Scotland, and the loss through contamination, fire or other natural disaster of all or a portion of the stock of any one of those aged product categories could result in a significant reduction in supply of those products and, consequently, the Diageo Group would not be able to meet consumer demand for those products as it arises. There can be no assurance that insurance proceeds would cover the replacement value of the Diageo Group's maturing inventory or other assets, were such assets to be lost due to contamination, fire or natural disasters or destruction resulting from negligence or the acts of third parties. In addition, there is an inherent risk of forecasting error in determining the quantity of maturing stock to lay down in a given year for future consumption. A forecasting error could lead to the Diageo Group being unable to meet future demand or lead to a future surplus of inventory and consequent write down in value of maturing stocks.

Any failure of information systems or Diageo's data infrastructure could adversely impact the Diageo Group's ability to operate. As with all large systems, the Diageo Group's information systems could be penetrated by outside parties intent on extracting information, corrupting information or disrupting business processes. Such unauthorised access could disrupt the Diageo Group's business and/or lead to loss of assets or to outside parties having access to confidential information, including privileged data or strategic information of the Diageo Group and its employees, customers and consumers, or to making such information public in a manner that harms the Diageo Group's reputation. The concentration of processes in business service centres also means that any sustained disruption to the facility or issue impacting the reliability of the information systems used could impact a large portion of the Diageo Group's business operations and in some circumstances, could result in property damage, breaches of regulations, litigation, legal liabilities and reparation costs.

1.16 The Diageo Group's operations and financial results may be adversely affected by movements in the value of its pension funds, fluctuations in exchange rates and fluctuations in interest rates.

The Diageo Group has significant pension funds. These funds may be affected by, among other things, the performance of assets owned by these plans, the underlying actuarial assumptions used to calculate the surplus or deficit in the plans, in particular the discount rate and long term inflation rates used to calculate the liabilities of the pension funds, and

any changes in applicable laws and regulations. If there are significant declines in financial markets and/or deterioration in the value of fund assets or changes in discount rates or inflation rates, the Diageo Group may need to make significant contributions to the pension funds in the future.

Furthermore, if the market values of the assets held by the Diageo Group's pension funds decline, or if the valuations of those assets by the pension trustees decline, pension expenses may increase which, as a result, could materially adversely affect the Diageo Group's financial position. There is no assurance that interest rates or inflation rates will remain constant or that pension fund assets can earn the assumed rate of return annually; Diageo's actual experience may be significantly more negative than the assumptions used.

The Diageo Group may be adversely affected by fluctuations in exchange rates. In particular, any redenomination of the euro or its constituent parts could materially adversely affect Diageo. The results of operations of Diageo are accounted for in Sterling. Approximately 32% of Diageo's net sales in the year ended 30 June 2017 were in U.S. dollars, approximately 11% were in euros and approximately 13% in Sterling. Movements in exchange rates used to translate foreign currencies into Sterling may have a significant impact on Diageo's reported results of operations from year to year. Diageo may also be adversely impacted by fluctuations in interest rates, mainly through an increased interest expense.

1.17 The Diageo Group's operations may be adversely affected by failure to maintain or renegotiate distribution, supply, manufacturing or licence agreements on favourable terms.

The Diageo Group's business has a number of distribution, supply, manufacturing or licence agreements for brands owned by it or by other companies. These agreements vary depending on the particular brand, but tend to be for a fixed number of years. There can be no assurance that the Diageo Group will be able to renegotiate its rights on favourable terms when these agreements expire or that they will not be terminated. Failure to renew these agreements on favourable terms could have an adverse impact on the Diageo Group's sales and operating profit. In addition, the Diageo Group's sales and operating profit may be adversely affected by any disputes with distributors of its products or with suppliers of raw materials.

1.18 The Diageo Group may not be able to protect its intellectual property rights.

Given the importance of brand recognition to its business, the Diageo Group has invested considerable effort in protecting its intellectual property rights, including trademark registration and domain names. The Diageo Group's patents cover some of its process technology, including some aspects of its bottle marking technology. The Diageo Group also uses security measures and agreements to protect its confidential information and trade secrets. However, the Diageo Group cannot be certain that the steps it has taken will be sufficient or that third parties will not infringe on or misappropriate its intellectual property rights in its brands or products. Moreover, some of the countries in which the Diageo Group operates offer less intellectual property protection than Europe or North America. Given the attractiveness of the Diageo Group's brands to consumers, it is not uncommon for counterfeit products to be manufactured and traded. The Diageo Group

cannot be certain that the steps it takes to assist the authorities to prevent, detect and eliminate counterfeit products will be effective in preventing material loss of profits or erosion of brand equity resulting from lower quality or even dangerous counterfeit products reaching the market. If the Diageo Group is unable to protect its intellectual property rights against infringement or misappropriation, this could materially harm its future financial results and ability to develop its business.

2. RISKS RELATED TO THE NOTES GENERALLY

Set out below is a brief description of certain risks relating to the Notes generally.

2.1 Because Diageo is a holding company and currently conducts its operations through subsidiaries, your right to receive payments on the Notes or the guarantee in respect of the Notes is subordinated to the other liabilities of Diageo's subsidiaries.

Diageo is organized as a holding company, and substantially all of its operations are carried on through subsidiaries. Diageo had guaranteed a total of £8,099 million of debt as of 30 June 2017, as well as £214 million in finance lease payments. Diageo's ability to meet its financial obligations is dependent upon the availability of cash flows from its domestic and foreign subsidiaries and affiliated companies through dividends, intercompany advances, management fees and other payments. Diageo's subsidiaries are not guarantors of the Notes. Moreover, these subsidiaries and affiliated companies are not required and may not be able to pay dividends to Diageo, which could limit the amount of funds available to meet the payment obligations of the Notes. Claims of the creditors of Diageo's subsidiaries have priority as to the assets of such subsidiaries over the claims of Diageo. Consequently, in the event of insolvency of Diageo, the claims of holders of the Notes would be structurally subordinated to the prior claims of the creditors of subsidiaries of Diageo.

In addition, some of Diageo's subsidiaries are subject to laws restricting the amount of dividends they may pay. For example, subsidiaries of Diageo incorporated under the laws of England and Wales and the law of Scotland may be restricted by law in their ability to declare dividends due to failure to meet requirements tied to net asset levels or distributable profits.

2.2 Because the Notes are unsecured, your right to receive payments may be adversely affected.

The Notes are unsecured. The Notes are not subordinated to any of the Issuer or Diageo's other debt obligations and therefore they will rank equally with all of the Issuer and Diageo's other unsecured and unsubordinated indebtedness. As of 31 December 2017, £38 million of the Diageo Group's borrowings were secured by the assets of the Diageo Group. If the Issuer defaults on the Notes or Diageo defaults on its guarantee in respect of the Notes, or in the event of bankruptcy, liquidation or reorganisation, then, to the extent that the Issuer or Diageo have granted security over their assets, the assets that secure these debts will be used to satisfy the obligations under that secured debt before the Issuer or Diageo could make payment on the Notes or the guarantee in respect of the Notes, respectively. As a result, there may only be limited assets available to make payments on the Notes or the guarantee. If there is not enough collateral to satisfy the

obligations of the secured debt, then the remaining amounts on the secured debt would share equally with all unsubordinated unsecured indebtedness.

2.3 Your rights as a holder of Notes may be inferior to the rights of holders of a different notes issued pursuant to the Indenture.

The Notes are governed by the Indenture. The Issuer may issue as many distinct series of debt securities under the Indenture as it wishes. The Issuer may also issue a series of debt securities under the Indenture that provides holders with rights superior to the rights already granted or that may be granted in the future to holders of another.

2.4 Diageo's credit ratings may not reflect all risks of an investment in the debt securities.

The credit ratings of the Notes are intended to reflect the Diageo Group's ability to meet its payment obligations, generally and in respect of the Notes and the guarantee. They may not reflect the potential impact of all risks related to structure and other factors on the value of the Notes. In addition, actual or anticipated changes in the credit ratings may generally be expected to affect the market value of the Notes and the Diageo Group's other debt securities. In addition, U.S. federal regulations applicable to ratings agencies may change and lead to changes in the manner in which the ratings agencies conduct their business.

2.5 Should the Issuer default on the Notes, or should Diageo default on its guarantee in respect of the Notes, your right to receive payments on such Notes or guarantee may be adversely affected by applicable insolvency laws.

Diageo is incorporated under the laws of England and Wales and the Issuer is incorporated under the laws of Scotland. Accordingly, insolvency proceedings with respect to Diageo or the Issuer are likely to proceed under, and be governed by, UK insolvency law. The procedural and substantive provisions of such insolvency laws are generally more favourable to secured creditors than comparable provisions of United States law. These provisions afford debtors and unsecured creditors only limited protection from the claims of secured creditors and it will generally not be possible for Diageo, the Issuer or other unsecured creditors to prevent or delay the secured creditors from enforcing their security to repay the debts due to them under the terms that such security was granted.

2.6 Modification and waivers.

The Indenture contains provisions for calling meetings of holders of Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders in respect of those Notes, including holders in respect of those Notes who did not attend and vote at the relevant meeting and holders of those Notes who voted in a manner contrary to the majority.

2.7 Change of law.

The Indenture and the relevant terms and conditions of the Notes are based on New York law in effect as at the date of issue of the relevant Notes. No assurance can be given as

to the impact of any possible judicial decision or change to New York law or administrative practice after the date of issue of the relevant Notes.

2.8 Other parties.

The Issuer and Diageo may be a party to contracts with a number of other third parties that have agreed to perform services in relation to the Notes. For example, a paying agent has agreed to provide payment and calculation services in connection with the Notes.

3. RISKS RELATED TO THE MARKET GENERALLY

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

3.1 The secondary market generally.

The Notes may have no established trading market. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of securities generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of any or all of the Notes.

3.2 Exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Notes, and Diageo will make any payments under the guarantee in respect of the Notes, in U.S. dollars (the “**Currency**”). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Currency would decrease: (i) the Investor’s Currency equivalent yield on the Notes; (ii) the Investor’s Currency equivalent value of the principal payable on the Notes; and (iii) the Investor’s Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

3.3 Interest rate risks on the Fixed Rate Notes

The Fixed Rate Notes bear a fixed rate of interest. Investment in fixed rate instruments involves the risk that subsequent changes in market interest rates may adversely affect the value of fixed rate instruments.

3.4 The value of and return on the Floating Rate Notes which are linked to LIBOR may be adversely affected by ongoing national and international regulatory reform in relation to benchmarks

LIBOR and other interest rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory guidance and proposals for reform. The implementation of the anticipated reforms may result in changes to a benchmark's administration, causing it to perform differently than in the past, or to be eliminated entirely, or result in other consequences which cannot be predicted as at the date of this Prospectus. Any such consequence could have an adverse effect on the Floating Rate Notes which are linked to LIBOR.

The Benchmark Regulation applies from 1 January 2018 (save that certain provisions, including those relating to "critical benchmarks", took effect as at 30 June, 2016).

Any changes to a benchmark as a result of the Benchmark Regulation or other initiatives, could have a material impact on any Notes referencing a benchmark, including (amongst other things) if the methodology or other terms of the relevant benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

As an example of benchmark reforms, on 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Although the Floating Rate Notes will mature prior to 2021, the potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the interest provisions of the terms and conditions, or result in other consequences, in respect of the Floating Rate Notes (whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Floating Rate Notes.

3.5 Credit ratings may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of those Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be suspended, reduced or withdrawn by the rating agency at any time. Each rating should be evaluated independently of any other rating.

PART 3: DESCRIPTION OF THE TERMS AND CONDITIONS OF THE NOTES

In this part of the Prospectus, the terms "**we**", "**our**" and "**us**" refer to the Obligors and "**you**" means direct holders and not street name or other indirect holders of the Notes. Indirect holders should read Part 4 ("*Provisions Relating to the Notes Whilst in Global Form*") of this Prospectus.

1. INTRODUCTION

This part of the Prospectus describes the material provisions of the Indenture, the terms and conditions of the Notes and the guarantee in respect of the Notes. However, it does not describe every aspect of the Indenture, the terms and conditions of the Notes or the guarantee in respect of the Notes and is subject to and qualified in its entirety by reference to all the provisions of the Indenture, including some of the terms used in the Indenture. The meaning for only the more important terms is described.

Pursuant to an Agreement of Resignation, Appointment and Acceptance dated 16 October 2007 by and among, amongst others, Diageo, the Issuer, The Bank of New York and Citibank N.A., The Bank of New York Mellon (the "**Trustee**") has become the successor trustee to Citibank, N.A., under the Indenture.

The Trustee has two main roles:

- first, it can enforce your rights against us if we default. There are some limitations on the extent to which the Trustee acts on your behalf, described under "*Default and Related Matters*" below; and
- second, the Trustee performs administrative duties for us, such as sending you interest payments, transferring your Notes to a new buyer if you sell them and sending you notices.

Diageo acts as the guarantor of the Notes issued under the Indenture. The guarantee is described further under "*Guarantee*", below.

The Indenture and its associated documents contain the full legal text of the matters described in this part of the Prospectus. The Indenture, the Notes and the guarantee in respect of the Notes are governed by New York law.

The Issuer may issue as many distinct series of notes under the Indenture as it wishes. This part of the Prospectus describes all material terms and conditions of the Notes that are common to all the Notes, unless otherwise indicated in Part 1 ("*Overview of the Notes*") of this Prospectus.

The Notes were issued only in fully registered form without interest coupons.

2. INTEREST

Definitions. In this part of the Prospectus:

- a "**business day**" means any day, other than a Saturday or Sunday, that is not a day on which banking institutions are authorised or required by law or regulation to close in New York City or in the City of London
- "**Reuters Page LIBOR01**" means the display that appears on Reuters Page LIBOR01 or any page as may replace such page on such service (or any successor service) for the purpose of displaying London interbank offered rates of major banks for U.S. dollars.
- "**Adjusted treasury rate**" means, with respect to any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity of the comparable treasury issue, assuming a price for the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date.
- "**Comparable treasury issue**" means the United States Treasury security selected by the quotation agent as being the most recently issued United States Treasury note or bond as displayed by Bloomberg LP (or any successor service) on screens PX1 through PX8 (or any other screens as may replace such screens on such service) that has a remaining term comparable to the remaining term of the notes to be redeemed.
- "**Comparable treasury price**" means, with respect to any redemption date, the average of the reference treasury dealer quotations for such redemption date after excluding the highest and lowest such reference treasury dealer quotations.
- "**Quotation agent**" means the reference treasury dealer appointed by us.
- "**Reference treasury dealer**" means any primary U.S. government securities dealer in the United States or their affiliates and their respective successors, as selected by the trustee after consultation with us.
- "**Reference treasury dealer quotations**" means with respect to each reference treasury dealer and any redemption date, the average, as determined by the trustee, of the bid and ask prices for the comparable treasury issue (expressed as a percentage of its principal amount) quoted in writing to the trustee by five reference treasury dealers at 3:30 p.m. Eastern Standard Time on the third business day preceding such redemption date.

Terms Specific to the Floating Rate Notes

The interest rate on the floating rate notes (the "**Floating Interest Rate**") for the first Interest Period will be equal to LIBOR, as determined on 16 May 2018 (the second London Banking Day preceding the Issue Date) plus 0.240% per annum (the "**Initial Interest Rate**"). Thereafter, the Floating Interest Rate for any Interest Period will be equal to LIBOR, as determined on the applicable Interest Determination Date, plus 0.240% per annum. The Floating Interest Rate will be reset quarterly on each Interest Reset Date (as defined below).

Interest on the floating rate notes will be payable quarterly in arrear on every 18 February, 18 May 18 August and 18 November of each year (each a **"Floating Rate Interest Payment Date"**), commencing on 18 August 2018 and ending on the maturity date; provided that if any scheduled Floating Rate Interest Payment Date, other than the maturity date, would fall on a day that is not a business day, the Floating Rate Interest Payment Date will be postponed to the next succeeding business day, except that if that business day falls in the next succeeding calendar month, the Floating Rate Interest Payment Date will be the immediately preceding business day.

The Floating Interest Rate will be reset every 18 February, 18 May 18 August and 18 November of each year (each an **"Interest Reset Date"**), commencing on 18 August 2018; provided that the Floating Interest Rate in effect from (and including) 18 May 2018 to (but excluding) the first Interest Reset Date will be the Initial Interest Rate. If any Interest Reset Date would fall on a day that is not a business day, the Interest Reset Date will be postponed to the next succeeding business day, except that if that business day falls in the next succeeding calendar month, the Interest Reset Date will be the immediately preceding business day.

Each "Interest Period" will begin on, and include, a Floating Rate Interest Payment Date and end on, but not include, the next succeeding Floating Rate Interest Payment Date; provided that the first Interest Period will begin on, and include 18 May 2018 and will end on, but not include 18 August 2018.

The "Interest Determination Date" for the first Interest Period will be 16 May 2018 (the second London Banking Day preceding the Issue Date) and the Interest Determination Date for each succeeding Interest Period will be on the second London Banking Day preceding the applicable Interest Reset Date. "London Banking Day" means any day on which dealings in U.S. dollars are transacted in the London interbank market.

The day count will be actual/360, modified following, adjusted.

LIBOR will be determined by the Calculation Agent in accordance with the following provisions:

- (A) With respect to any Interest Determination Date, LIBOR will be the rate (expressed as a percentage per annum) for deposits in U.S. dollars having a maturity of three months commencing on the related Interest Reset Date that appears on Reuters Page LIBOR01 as of 11:00 a.m., London time, on that Interest Determination Date. If no such rate appears, then LIBOR, in respect of that Interest Determination Date, will be determined in accordance with the provisions described in (2) below.
- (B) With respect to an Interest Determination Date on which no rate appears on Reuters Page, the Calculation Agent will request the principal London offices of each of four major reference banks in the London interbank market (which may include affiliates of the underwriters), as selected and identified by Diageo to provide its offered quotation (expressed as a percentage per annum) for deposits in U.S. dollars for the period of three months, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in U.S. dollars in that market at that time. If at least two quotations are provided, then LIBOR on that Interest

Determination Date will be the arithmetic mean of those quotations. If fewer than two quotations are provided, then LIBOR on the Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m., in the City of New York, on the Interest Determination Date by three major banks in The City of New York (which may include affiliates of the underwriters) selected and identified by Diageo for loans in U.S. dollars to leading European banks, for a period of three months, commencing on the related Interest Reset Date, and in a principal amount that is representative for a single transaction in U.S. dollars in that market at that time. If at least two such rates are so provided, LIBOR on the Interest Determination Date will be the arithmetic mean of such rates. If fewer than two such rates are so provided, LIBOR on the Interest Determination Date will be equal to LIBOR in effect with respect to the immediately preceding Interest Determination Date or, in the case of the First Interest Period, the Initial Interest Rate.

If, in the Calculation Agent's opinion, the use of LIBOR to calculate the Floating Interest Rate is not in compliance with the European Union Benchmark Regulation, then the Calculation Agent shall not be obligated to perform its duties (and shall incur no liability for any inaction) until such time as Diageo has identified an acceptable replacement benchmark and instructed the Calculation Agent accordingly; provided that the Calculation Agent shall in any event continue to calculate the Floating Interest Rate in accordance with the last sentence of paragraph (B) above, if applicable.

The calculation agent will be The Bank of New York Mellon, London Branch, or its successor appointed by Diageo (the "**Calculation Agent**"). The Calculation Agent will, upon the request of the holder of any floating rate note, provide the interest rate then in effect. All calculations of the Calculation Agent, in the absence of manifest error, shall be conclusive for all purposes and binding on us and holders of the floating rate notes.

For any Interest Period, if LIBOR is negative, then it would reduce the interest rate payable for such Interest Period below the specified margin. Accordingly, holders may receive an interest rate on the floating rate notes that is lower than the specified margin.

Terms specific to the Fixed Rate Notes

The 2020 Notes and the 2028 Notes will bear interest at a rate per annum of 3.00% and 3.875% respectively, payable semi-annually in arrear on 18 May and 18 November of each year, commencing 18 November 2018. The 2023 Notes will bear interest at a rate per annum of 3.500%, payable semi-annually in arrear on 18 March and 18 September of each year, commencing 18 September 2018 (short first coupon payment date).

If any scheduled interest payment date is not a business day, we will pay interest on the next business day, but interest on that payment will not accrue during the period from and after the scheduled interest payment date. If the scheduled maturity date or date of redemption or repayment is not a business day, we may pay interest and principal and premium, if any, on the next succeeding business day, but interest on that payment will not accrue during the period from and after the scheduled maturity date or date of redemption or repayment.

The day count will be 30/360, following, unadjusted.

3. GUARANTEE

Diageo has fully and unconditionally guaranteed the payment of the principal of, premium, if any, and interest on the Notes, including any additional amounts which may be payable by the Issuer, as described under "*Payment of Additional Amounts*", below. Diageo guarantees the payment of such amounts when such amounts become due and payable, whether at the stated maturity of the Notes, by declaration or acceleration, call for redemption or otherwise.

4. OVERVIEW OF REMAINDER OF THIS DESCRIPTION

The remainder of this part of the Prospectus describes:

- additional mechanics relevant to the Notes under normal circumstances, such as how you transfer ownership and where we make payments;
- your rights under several special situations, such as if we merge with another company, if we want to change a term of the Notes or if the Issuer wants to redeem the Notes (for tax reasons);
- your rights to receive payment of additional amounts due to changes in the withholding requirements of various jurisdictions;
- covenants contained in the Indenture that restrict our ability to incur liens and undertake sale and leaseback transactions;
- your rights if we default or experience other financial difficulties; and
- our relationship with the Trustee.

5. ADDITIONAL MECHANICS

5.1 Exchange and Transfer

You may have your Notes broken into more notes of smaller denominations or combined into fewer notes of larger denominations, as long as the total principal amount is not changed. This is called an exchange.

You may exchange or transfer registered Notes at the office of the Trustee. The Trustee acts as our agent for registering Notes in the names of holders and transferring registered notes. We may change this appointment to another entity or perform the service ourselves. The entity performing the role of maintaining the list of registered holders is called the security registrar. It will also register transfers of registered notes. However, you may not exchange registered notes for bearer notes.

You will not be required to pay a service charge to transfer or exchange Notes, but you may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The transfer or exchange of a registered note will only be made if the security registrar is satisfied with your proof of ownership.

We may cancel the designation of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If the Issuer redeems less than all of the notes of a class of Notes, we may block the transfer or exchange of notes of those Notes during a specified period of time in order to freeze the list of holders to prepare the mailing. The period begins 15 days before the day we mail the notice of redemption and ends on the day of that mailing. We may also refuse to register transfers or exchanges of notes of those Notes selected for redemption. However, we will continue to permit transfers and exchanges of the unredeemed portion of any security being partially redeemed.

5.2 Payment and Paying Agents

We will pay interest to you if you are a direct holder listed in the Trustee's records at the close of business on a particular day in advance of each due date for interest, even if you no longer own the security on the interest due date. That particular day, usually about two weeks in advance of the interest due date, is called the regular record date and is close of business on the business day immediately preceding each applicable interest payment date (or, if the notes are held in definitive form, the 15th business day preceding each applicable interest payment date).

We will pay interest, principal and any other money due on the Notes at the corporate trust office of the Trustee in New York City. That office is currently located at The Bank of New York Mellon, 101 Barclay Street, New York, New York 10286. You must make arrangements to have your payments picked up at or wired from that office. We may also choose to pay interest by mailing checks. Interest on global securities will be paid to the holder thereof by wire transfer of same-day funds.

Holders buying and selling any Notes must work out between them how to compensate for the fact that we will pay all the interest for an interest period to the one who is the registered holder on the regular record date. The most common manner is to adjust the sales price of the relevant notes to pro rate interest fairly between buyer and seller. This pro rated interest amount is called accrued interest.

Street name and other indirect holders should consult their banks or brokers for information on how they will receive payments.

We may also arrange for additional payment offices, and may cancel or change these offices, including our use of the Trustee's corporate trust office. These offices are called paying agents. We may also choose to act as our own paying agent. We must notify you of changes in the paying agents for any particular Notes.

5.3 Notices

We and the Trustee will send notices only to direct holders, using their addresses as listed in the Trustee's records.

Regardless of who acts as paying agent, all money that we pay to a paying agent that remains unclaimed at the end of two years after the amount is due to direct holders will be repaid to us. After that two-year period, you may look only to us for payment and not to the Trustee, any other paying agent or anyone else.

5.4 Redemption of the 2023 Notes and 2028 Notes

We have the right to redeem, in whole or in part, (i) the 2023 Notes at any time and from time to time prior to 18 August 2023 (the date that is one month prior to the maturity date of the 2023 Notes) and (ii) the 2028 Notes at any time and from time to time prior to 18 February 2028 (the date that is three months prior to the maturity date of the 2028 Notes), in each case at a redemption price equal to the greater of (1) 100% of the principal amount of such notes plus accrued interest to but excluding the date of redemption and (2) as determined by the quotation agent, the sum of the present values of the remaining scheduled payments of principal and interest on such notes (excluding any portion of such payments of interest accrued as of the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the adjusted treasury rate, plus 10 basis points for the 2023 Notes and 15 basis points for the 2028 Notes plus, in each case, accrued interest to but excluding the date of redemption.

In addition, we have the right to redeem, in whole or in part, (i) the 2023 Notes at any time and from time to time on or after 18 August 2023 (the date that is one month prior to the maturity date of the 2023 Notes) and (ii) the 2028 Notes at any time and from time to time on or after 18 February 2028 (the date that is three months prior to the maturity date of the 2028 Notes), in each case at a redemption price equal to 100% of the principal amount of such notes plus, in each case, accrued interest to but excluding the date of redemption.

5.5 Further Issues

We may, without the consent of the holders of any series of notes, issue additional notes having the same ranking and same interest rate, maturity date, redemption terms and other terms as the Notes except for the price to the public and Issue Date. Any such additional notes, together with the Notes, will constitute a single series of securities under the Indenture; provided that, if the additional notes are not fungible for U.S. federal income tax purposes with the notes offered hereby, the additional notes will have a separate CUSIP or other identifying number. The address of The Bank of New York Mellon, London Branch is One Canada Square, London E14 5AL. There is no limitation on the amount of notes or other debt securities that we may issue under the Indenture.

5.6 Book-Entry Issuance, Settlement and Clearance

Book-Entry Issuance, Settlement and Clearance Book-entry interests in the Notes have been issued in minimum denominations of \$200,000 and in integral multiples of \$1,000 in excess thereof.

The principal corporate trust office of the trustee in the City of London has been designated as the principal paying agent. We may at any time designate additional paying agents or rescind the designation of paying agents or approve a change in the office through which any paying agent acts. The Notes were issued in fully registered form. Each series of the Notes is represented by one or more global securities registered in the name of a nominee of DTC. You hold beneficial interest in the notes through DTC and its direct and indirect participants, including Euroclear and Clearstream Luxembourg, and DTC and its direct and indirect participants record your beneficial interest on their books. You hold beneficial interest in the Notes through DTC and its participants, including Euroclear and Clearstream Luxembourg. Indirect holders trading their beneficial

interests in the notes through DTC must trade in DTC's same-day funds settlement system and pay in immediately available funds. Secondary market trading through Euroclear and Clearstream, Luxembourg will occur in the ordinary way following the applicable rules and operating procedures of Euroclear and Clearstream, Luxembourg.

We will not issue certificated notes except in limited circumstances that we explain under "*Legal Ownership—Global Securities—Special Situations When the Global Security Will Be Terminated*" in Part 4 below.

Payment of principal of and interest on the Notes, so long as the Notes are represented by global securities, as discussed below, will be made in immediately available funds. Beneficial interests in the global securities will trade in the same-day funds settlement system of DTC, and secondary market trading activity in such interests will therefore settle in same-day funds.

6. SPECIAL SITUATIONS

6.1 Mergers and Similar Events

We are generally permitted to consolidate or merge with another company or firm. We are also permitted to sell or lease substantially all of our assets to another firm or to buy or lease substantially all of the assets of another firm. However, we may not take any of these actions unless all the following conditions are met:

- where the Issuer or Diageo merges out of existence or sells or leases its assets, the other firm must assume its obligations on the Notes or the guarantee in respect of the Notes (as applicable). The other firm's assumption of these obligations must include the obligation to pay the additional amounts described below under "*Payment of Additional Amounts*". If such other firm is organized under a foreign country's laws, it must indemnify you against any governmental charge or other cost resulting from the transaction;
- the merger, sale or lease of assets or other transaction must not cause a default on the Notes, and we must not already be in default. For the purposes of this no-default test, a default would include an event of default that has occurred and not been cured, as described below under "*Default and Related Matters*". A default for this purpose would also include any event that would be an event of default if the requirements for giving us default notice or our default having to exist for a specific period of time were disregarded; and
- it is possible that the merger, sale or lease of assets or other transaction would cause some of our property to become subject to a mortgage or other legal mechanism giving lenders preferential rights in that property over other lenders or over our general creditors if we fail to pay them back. We have promised to limit these preferential rights on our property, called liens, as discussed below under "*Covenants*". If a merger or other transaction would create any liens on our property, we must comply with that covenant. We would do this either by deciding that the liens were permitted, or by following the requirements of the covenant to grant an equivalent or higher-ranking lien on the same property to you and the other direct holders of the Notes.

6.2 Modification and Waiver

There are three types of changes we can make to the Indenture and the Notes.

- (A) Changes Requiring Your Approval. First, there are changes that cannot be made to your Notes without your specific approval. The following is a list of those types of changes: (i) changing the stated maturity of the principal or interest on a Note; (ii) reducing any amounts due on a Note; (iii) changing any obligation of Diageo or the Issuer to pay additional amounts described later under "*Payment of Additional Amounts*"; (iv) reducing the amount of principal payable upon acceleration of the maturity of a Note following a default; (v) changing the place or currency of payment on a Note; (vi) impairing any of the conversion or exchange rights of your Note (if applicable); (vii) impairing your right to sue for payment, conversion or exchange; (viii) reducing the percentage of holders of Notes whose consent is needed to modify or amend the Indenture; (ix) reducing the percentage of holders of Notes whose consent is needed to waive compliance with various provisions of the Indenture or to waive various defaults; (x) modifying any other aspect of the provisions dealing with modification and waiver of the Indenture; and (xi) changing the obligations of Diageo (as guarantor) that relate to payment of principal, premium and interest, sinking fund payments and conversion rights.
- (B) Changes Requiring a Majority Vote. The second type of change to the Indenture and the Notes is the kind that requires a vote in favour by holders of affected Notes owning a majority of the principal amount of the particular Notes affected. Most changes fall into this category, except for clarifying changes and other changes that would not adversely affect holders of those Notes in any material respect. The same vote would be required for us to obtain a waiver of all or part of the covenants described below, or a waiver of a past default. However, we cannot obtain a waiver of a payment default or any other aspect of the Indenture or the Notes in the first category described above unless we obtain your individual consent to the waiver.
- (C) Changes Not Requiring Approval. The third type of change does not require any vote by holders of affected Notes. This type is limited to clarifications and other changes that would not adversely affect holders of the affected Notes in any material respect.

Further Details Concerning Voting. When taking a vote, we will use the following rules to decide how much principal amount to attribute to a security:

- Notes will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust for you money for their payment or redemption. Notes will also not be eligible to vote if they have been fully defeased as described later under "*Defeasance and Discharge*", below.
- We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding Notes that are entitled to vote or take other action under the Indenture. In limited circumstances, the Trustee will be entitled to set a record date for action by holders. If we or the Trustee set a record date for a vote or other action to be taken by holders of particular Notes, that vote or action may be taken only by persons

who are holders of outstanding Notes of those Notes on the record date and must be taken within 180 days following the record date or another period that we may specify (or as the Trustee may specify, if it set the record date). We may shorten or lengthen (but not beyond 180 days) this period from time to time.

Street name and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the Indenture or the Notes or request a waiver.

6.3 Optional Tax Redemption

We have the option to redeem affected Notes in the two situations described below. The redemption price for such Notes will be equal to the principal amount of the Notes being redeemed plus accrued interest and any additional amounts due on the date fixed for redemption. Furthermore, we must give you between 30 and 60 days' notice before redeeming the relevant Notes.

The first situation is where, as a result of a change in, execution of or amendment to any laws or treaties or the official application or interpretation of any laws or treaties, either:

- Diageo or the Issuer, as the case may be, would be required to pay additional amounts as described later under "*Payment of Additional Amounts*"; or
- Diageo or any of its subsidiaries would have to deduct or withhold tax on any payment to the Issuers to enable them to make a payment of principal or interest on the affected Notes.

This applies only in the case of changes, executions or amendments in the jurisdiction where Diageo or the Issuer, as the case may be, is incorporated. If Diageo or the Issuer is succeeded by another entity, the applicable jurisdiction will be the jurisdiction in which such successor entity is organised, and the applicable date will be the date the entity became a successor.

We would not have the option to redeem in this case if we could have avoided the payment of additional amounts or the deduction or withholding by using reasonable measures available to us.

The second situation is where a person located outside of the United States into which Diageo or the Issuer, as the case may be, is merged or to whom it has conveyed, transferred or leased its property is required to pay an additional amount. We would have the option to redeem the Notes even if we are required to pay additional amounts immediately after the merger, conveyance, transfer or lease. We are not required to use reasonable measures to avoid the obligation to pay additional amounts in this situation.

7. PAYMENT OF ADDITIONAL AMOUNTS

The government of any jurisdiction where Diageo or the Issuer, as the case may be, is incorporated may require Diageo or the Issuer to withhold amounts from payments on the principal or interest on a Note or any amounts to be paid under the guarantee in respect of the Notes, as the case may be, for taxes or any other governmental charges. If the jurisdiction

requires a withholding of this type, Diageo or the Issuer, as the case may be, may be required to pay you an additional amount so that the net amount you receive will be the amount specified in the Note to which you are entitled. However, in order for you to be entitled to receive the additional amount, you must not be resident in the jurisdiction that requires the withholding.

Diageo or the Issuer, as the case may be, will not have to pay additional amounts under any of the following circumstances:

- the U.S. government or any political subdivision of the U.S. government is the entity that is imposing the tax or governmental charge;
- the tax or governmental charge is imposed only because the holder, or a fiduciary, settlor, beneficiary or member or shareholder of, or possessor of a power over, the holder, if the holder is an estate, trust, partnership or corporation, was or is connected to the taxing jurisdiction, other than by merely holding the debt security or guarantee or receiving principal or interest in respect thereof. These connections include where the holder or related party:
 - is or has been a citizen or resident of the jurisdiction;
 - is or has been engaged in trade or business in the jurisdiction; or
 - has or had a permanent establishment in the jurisdiction;
- the tax or governmental charge is imposed due to the presentation of a Note, if presentation is required, for payment on a date more than 30 days after the Note became due or after the payment was provided for, whichever occurs later;
- the tax or governmental charge is on account of an estate, inheritance, gift, sale, transfer, personal property or similar tax or other governmental charge;
- the tax or governmental charge is for a tax or governmental charge that is payable in a manner that does not involve withholdings;
- the tax or governmental charge is imposed or withheld because the holder or beneficial owner failed to comply with any of the following requests of Diageo or the Issuer:
 - to provide information about the nationality, residence or identity of the holder or beneficial owner; or
 - to make a declaration or satisfy any information requirements,

that the statutes, treaties, regulations or administrative practices of the taxing jurisdiction require as a precondition to exemption from all or part of such tax or governmental charge;

- the holder is a fiduciary, partnership or other entity that is not the sole beneficial owner of the payment of the principal of, or any interest on, any Note, and the laws of the jurisdiction require the payment to be included in the income of a beneficiary or settlor for tax purposes with respect to such fiduciary, a member of such partnership or a beneficial

owner who would not have been entitled to such additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note;

- the payment is in respect of a definitive registered security issued at the request of a holder of a global security following an event of default and at the time the payment is made definitive registered securities have not been issued in exchange for the entire principal amounts of the securities issued under the Indenture.

For the avoidance of doubt, any amounts to be paid by Diageo or Diageo Capital, as the case may be, on the notes or the guarantees will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code ("**FATCA Withholding**"). None of Diageo or the Issuer will be required to pay additional amounts on account of any FATCA Withholding.

These provisions will also apply to any taxes or governmental charges imposed by any jurisdiction in which a successor to Diageo or the Issuer is organised.

In certain circumstances, payments made to holders of Notes may be subject to withholding or deduction for or on account of UK tax. These circumstances might include, for example, if payments are made on Notes that are not listed on a "recognised stock exchange" for UK tax purposes at the time of payment and no direction allowing relief under an appropriate double taxation treaty has been obtained. For more information, see Part 7 ("*United Kingdom Taxation*") of this Prospectus.

8. COVENANTS

8.1 Restrictions on Liens

Some of Diageo's property may be subject to a mortgage or other legal mechanism that gives our lenders preferential rights in that property over other lenders, including you and the other direct holders of the Notes, or over our general creditors if we fail to pay them back. These preferential rights are called liens. Diageo promises that it and its restricted subsidiaries, which are defined below, will not become obligated on any new debt for borrowed money that is secured by a lien on any of its principal properties, which are defined below, or on any shares of stock of any of its restricted subsidiaries, unless it grants an equivalent or higher-ranking lien on the same property to you and the other direct holders of the Notes.

Diageo does not need to comply with this restriction if the amount of all debt that would be secured by liens on its principal properties and the shares of stock of Diageo's restricted subsidiaries, excluding the debt secured by the permitted liens that are listed below, is less than 15% of Diageo's consolidated shareholders' equity.

This restriction on liens applies, with certain exceptions, to liens for borrowed money. For example, several liens imposed by operation of law, such as liens to secure statutory obligations for taxes or workers' compensation benefits, or liens we create to secure obligations to pay legal

judgments or surety bonds, are not covered by this restriction. This restriction on liens also does not apply to debt secured by a number of different types of liens, and we can disregard this debt when we calculate the limits imposed by this restriction. These types of liens include, among others, the following:

- any lien existing on or before the date of the Indenture;
- any lien arising by operation of law and not securing amounts more than 90 days overdue or otherwise being contested in good faith;
- any lien on a principal property, shares or stock of any restricted subsidiary, which becomes a restricted subsidiary after the date of the Indenture, arising prior to the date of the restricted subsidiary's becoming a restricted subsidiary, provided that such lien was not created in contemplation of such restricted subsidiary's becoming a restricted subsidiary;
- any lien over any principal property, or documents of title thereto, shares or stock of any restricted subsidiary that Diageo or any restricted subsidiary acquired as security for, or for indebtedness incurred, to finance all or part of the price of its acquisition, development, redevelopment, modification or improvement;
- any lien over any principal property, or documents of title thereto, shares or stock of any restricted subsidiary that Diageo or any restricted subsidiary acquired subject to the lien;
- any lien to secure indebtedness for borrowed money incurred in connection with a specifically identifiable project where the lien relates to a principal property involved in the project and that Diageo or any restricted subsidiary acquired after the date of the Indenture and the recourse of the creditors relating to the indebtedness is limited to the project and principal property;
- any lien securing indebtedness of Diageo or any restricted subsidiary for borrowed money incurred in connection with the financing of accounts receivable;
- any lien incurred or deposits made in the ordinary course of business;
- any lien on a principal property of Diageo or any restricted subsidiary in favour of the U.S. federal or any state government or the UK or any EU government or any instrumentality of any of them, securing the obligations of Diageo or any restricted subsidiary as a result of any contract;
- any lien securing industrial revenue, development or similar bonds issued by or for the benefit of Diageo or any of its restricted subsidiaries, provided that the industrial revenue, development or similar bonds are non-recourse to Diageo or the restricted subsidiary; and
- any extension, renewal or replacement or successive extensions, renewals or replacements, as a whole or in part, of any lien included earlier in this list.

8.2 Restrictions on Sales and Leasebacks

Diageo promises that neither it nor any of its restricted subsidiaries will enter into any sale and leaseback transaction involving a principal property unless we comply with this covenant. A sale and leaseback transaction is an arrangement between us or a restricted subsidiary and a bank, insurance company or other lender or investor where Diageo or the restricted subsidiary leases a property that Diageo or the restricted subsidiary has owned for more than six months and has sold to a lender or investor or to any person to whom the lender or investor has advanced funds on the security of the principal property.

Diageo can comply with this covenant in either of two different ways.

First, Diageo will be in compliance if it or its restricted subsidiary could grant a lien on the principal property in an amount equal to the indebtedness attributable to the sale and leaseback transaction without being required to grant an equivalent or higher-ranking lien to you and the other direct holders of the Notes under the restriction on liens described above.

Second, Diageo can comply if it invests an amount equal to at least the net proceeds of the sale of the principal property that it or its restricted subsidiary leases in the transaction or the fair value of that property, whichever is greater. This amount must be invested in any principal property or used to retire indebtedness for money that it or its restricted subsidiaries borrowed, incurred or assumed and that either has a maturity of 12 months or more from the date of incurrence of the indebtedness or has a maturity of less than 12 months from that date but is by its terms renewable or extendible beyond 12 months from that date at the option of the borrower, within one year of the transaction.

This restriction on sales and leasebacks does not apply to any sale and leaseback transaction that is between Diageo and one of its subsidiaries, or between one of Diageo's restricted subsidiaries and either Diageo or one of Diageo's other subsidiaries. It also does not apply to any lease with a term, including renewals, of three years or less.

As used in this Prospectus, "**principal property**" means a building or other structure or facility, and the land on which it sits and its associated fixtures that are located in the United States or the United Kingdom and Diageo or a restricted subsidiary owns or leases. The gross book value of the property must exceed 2% of Diageo's consolidated shareholders' equity. Any property or portion of any property is not a principal property if Diageo's board of directors:

- does not view it as materially important to the total business conducted by Diageo and its subsidiaries as an entirety; or
- does not view any portion of the property as materially important for the use of the property.

Diageo and its subsidiaries have no principal properties as of the date of this Prospectus.

As used in this Prospectus, "**restricted subsidiary**" means any subsidiary that has two characteristics. First, its assets and operations are substantially located within the United States or the United Kingdom. Second, it owns a principal property. However, a restricted subsidiary does not include two types of subsidiaries. It does not include a subsidiary that is primarily engaged in leasing or in financing instalment receivables or a subsidiary that primarily acts to finance the operations of Diageo and its consolidated subsidiaries.

8.3 Defeasance and Discharge

We can legally release ourselves from any payment or other obligations on the Notes, except for various obligations described below, if we, in addition to other actions, put in place the following arrangements for you to be repaid:

- we must deposit in trust for your benefit and the benefit of all other direct holders of the relevant Notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the relevant Notes on their various due dates; and
- we must deliver to the Trustee a legal opinion of our counsel confirming that under current U.S. federal income tax law we may make the above deposit without causing you to be taxed on the relevant Notes any differently than if we did not make the deposit and just repaid the relevant Notes ourselves. We would not have to deliver this opinion if we received from, or there has been published by, the U.S. Internal Revenue Service a ruling that states the same conclusion.

However, even if we take these actions, a number of our obligations relating to the Notes will remain. These include the following obligations: (i) to register the transfer and exchange of Notes; (ii) to replace mutilated, destroyed, lost or stolen Notes; (iii) to maintain paying agencies; and (iv) to hold money for payment in trust.

9. DEFAULT AND RELATED MATTERS

9.1 Ranking

The Notes are not secured by any of our property or assets. Accordingly, your ownership of Notes means you are one of our unsecured creditors. The Notes are not subordinated to any of the Issuer's other debt obligations and therefore they rank equally with all of the Issuer's other unsecured and unsubordinated indebtedness.

9.2 Events of Default

You will have special rights if an event of default occurs and is not cured, as described later in this subsection. The term event of default means any of the following:

- we do not pay the principal or any premium on a Note on its due date and, in the case of technical or administrative difficulties, only if such failure to pay persists for more than five days;
- we do not pay interest on a Note within 30 days of its due date;
- we do not deposit any sinking fund payment on its due date;
- we remain in breach of a covenant described above or any other term of the Indenture for 90 days after we receive a notice of default stating we are in breach. The notice must be sent by either the Trustee or holders of 10% of the principal amount of Notes of the affected class of Notes; or

- we file for bankruptcy or certain other events in bankruptcy, insolvency or reorganisation occur.

Remedies If an Event of Default Occurs. If an event of default has occurred and has not been cured, the Trustee or the holders of 25% in principal amount of the Notes of the affected may declare the entire principal amount of all the Notes to be due and immediately payable. This is called a declaration of acceleration of maturity. A declaration of acceleration of maturity may be cancelled by the holders of at least a majority in principal amount of the Notes of the affected Notes if certain conditions are met.

Except in cases of default, where the Trustee has some special duties, the Trustee is not required to take any action under the Indenture at the request of any holders unless the holders offer the Trustee reasonable protection from expenses and liability. This protection is called an indemnity. If reasonable Indemnity is provided, the holders of a majority in principal amount of the outstanding Notes of the relevant Notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the Trustee. These majority holders may also direct the Trustee in performing any other action under the Indenture.

Before you bypass the Trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the Notes, the following must occur:

- you must give the Trustee written notice that an event of default has occurred and remains uncured;
- the holders of 25% in principal amount of all outstanding Notes of the relevant Notes must make a written request that the Trustee take action because of the default, and must offer reasonable indemnity to the Trustee against the cost and other liabilities of taking that action; and
- the Trustee must have not taken action for 60 days after receipt of the above notice and offer of indemnity and no direction inconsistent with the request described above may have been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding Notes of the relevant Notes.

Street name and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and to make or cancel a declaration of acceleration.

We will furnish to the Trustee every year a written statement of certain of our officers and directors certifying that, to their knowledge, we are in compliance with the Indenture and the Notes, or else specifying any default.

10. REGARDING THE TRUSTEE

Diageo and several of its subsidiaries maintain banking relations with the Trustee in the ordinary course of their business.

If an event of default occurs, or an event that would be an event of default if the requirements for giving us default notice or our default having to exist for a specific period of time were disregarded occurs, the Trustee may be considered to have a conflicting interest with respect to the Notes or the Indenture for the purposes of the US Trust Indenture Act of 1939. In that case, the Trustee may be required to resign as trustee under the Indenture and we would be required to appoint a successor trustee.

PART 4: PROVISIONS RELATING TO THE NOTES WHILST IN GLOBAL FORM

In this part of the Prospectus, the terms "**we**", "**our**" and "**us**" refer to the Obligors and "**you**" means direct holders and not street name or other indirect holders of the Notes. Indirect holders should carefully read this part of the Prospectus.

1. INTRODUCTION

The Notes were issued in the form of registered global notes that were deposited with DTC on the relevant issue date. This means that we did not issue certificates to each holder. We issued one global note with respect to the Notes to DTC, and DTC will keep a computerized record of its participants (including Euroclear and Clearstream, Luxembourg) whose clients have purchased the Notes. The participant will then keep a record of its clients who purchased the Notes. Unless it is exchanged in whole or in part for a certificated note, a global note may not be transferred, provided that DTC, its nominees, and their successors may transfer a global note as a whole to one another. We will not issue certificated notes except in limited circumstances that we explain under "*Legal Ownership*", below.

Beneficial interests in the global notes will be shown on, and transfers of the global notes will be made only through, records maintained by DTC and its participants. A description of DTC and its procedures is provided under "*Clearance and Settlement*", below.

We will wire principal and interest payments to DTC's nominee. We and the Trustee will treat DTC's nominee as the owner of the global notes for all purposes. Accordingly, we, the Trustee and any paying agent will have no direct responsibility or liability to pay amounts due on the global notes to owners of beneficial interests in the global note.

It is DTC's current practice, upon receipt of any payment of principal or interest, to credit direct participants' accounts on the payment date according to their respective holdings of beneficial interest in the global note as shown on DTC's records. In addition, it is DTC's current practice to assign any consenting or voting right to direct participants whose accounts are credited with notes on a record date, by using an omnibus proxy. Payments by participants to owners of beneficial interest in the global note, and voting by participants, will be governed by the customary practices between the participants and owners of beneficial interest, as is the case with notes held for the account of customers registered in "street name". However, payments will be the responsibility of the participants and not of DTC, the Trustee or us.

2. CLEARANCE AND SETTLEMENT

You hold your beneficial interest in the Notes through DTC and its participants, including Euroclear and Clearstream, Luxembourg. These systems have established electronic securities and payment transfer, processing, depository and custodial links among themselves and others, either directly or through custodians and depositories. These links allow securities to be issued, held and transferred among the clearing systems without the physical transfer of certificates.

Special procedures to facilitate clearance and settlement have been established among these clearing systems to trade securities across borders in the secondary market. Where payments for securities we issue in global form will be made in U.S. dollars (as is the case with the Notes),

these procedures can be used for cross-market transfers and the securities will be cleared and settled on a delivery against payment basis.

The policies of DTC, Clearstream, Luxembourg and Euroclear will govern payments, transfers, exchange and other matters relating to the investors' interests in securities held by them. Clearstream, Luxembourg and Euroclear hold interests on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg's and Euroclear's names on the books of their respective depositaries which, in the case of securities for which a global security in registered form is deposited with DTC (as is the case with the Notes), in turn hold such interests in customers' securities accounts in the depositaries' names on the books of DTC.

Neither we, nor the trustees nor any of our or its agents have any responsibility for any aspect of the actions of DTC, Clearstream, Luxembourg or Euroclear or any of their direct or indirect participants. Neither we, nor the trustees nor any of our or its agents have any responsibility for any aspect of the records kept by DTC, Clearstream, Luxembourg or Euroclear or any of their direct or indirect participants. Neither we, nor the trustees nor any of our or its agents supervise these systems in any way.

DTC, Clearstream, Luxembourg, Euroclear and their participants perform these clearance and settlement functions under agreements they have made with one another or with their customers. You should be aware that they are not obligated to perform these procedures and may modify them or discontinue them at any time.

The description of the clearing systems in this part of the Prospectus reflects our understanding of the rules and procedures of DTC, Clearstream, Luxembourg and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

3. THE CLEARING SYSTEMS

3.1 DTC

DTC has previously advised us as follows:

- DTC is:
 - a limited purpose trust company organized under the laws of the State of New York;
 - a "banking organization" within the meaning of New York Banking Law;
 - a member of the Federal Reserve System;
 - a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
 - a "clearing agency" registered pursuant to the provisions of Section 17A of the US Securities Exchange Act of 1934, as amended.

- DTC holds securities deposited with it by its participants and facilitates the settlement of transactions among its participants in such securities through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations.
- DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly.
- The rules applicable to DTC and DTC participants are on file with the SEC.

3.2 Clearstream, Luxembourg

Clearstream, Luxembourg has previously advised us as follows:

- Clearstream, Luxembourg is a duly licensed bank organized as a *société anonyme* incorporated under the laws of Luxembourg and is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier*).
- Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions among them. It does so through electronic book-entry transfers between the accounts of its customers. This eliminates the need for physical movement of certificates.
- Clearstream, Luxembourg provides other services to its customers, including safekeeping, administration, clearance and settlement of internationally traded securities and lending and borrowing of securities. It interfaces with the domestic markets in over 30 countries through established depository and custodial relationships.
- Clearstream, Luxembourg's customers include worldwide securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other professional financial intermediaries. Its U.S. customers are limited to securities brokers and dealers and banks.
- Indirect access to the Clearstream, Luxembourg system is also available to others that clear through Clearstream, Luxembourg customers or that have custodial relationships with its customers, such as banks, brokers, dealers and trust companies.

3.3 Euroclear

Euroclear has previously advised us as follows:

- Euroclear is incorporated under the laws of Belgium as a bank and is subject to regulation by the Belgian Financial Services and Markets Authority (*L'Autorité des Services et Marchés Financiers*) and the National Bank of Belgium (*Banque Nationale de Belgique*).
- Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions among them. It does so through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates.
- Euroclear provides other services to its customers, including credit, custody, lending and borrowing of securities and tri-party collateral management. It interfaces with the domestic markets of several countries.
- Euroclear customers include banks, including central banks, securities brokers and dealers, trust companies and clearing corporations and may include certain other professional financial intermediaries.
- Indirect access to the Euroclear system is also available to others that clear through Euroclear customers or that have custodial relationships with Euroclear customers.
- All securities in Euroclear are held on a fungible basis. This means that specific certificates are not matched to specific securities clearance accounts.

4. SECONDARY MARKET TRADING

4.1 Trading Between DTC Participants

Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules. Secondary market trading will be settled using procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System for debt securities.

If payment is made in U.S. dollars, settlement will be in same-day funds. If payment is made in a currency other than U.S. dollars, settlement will be free of payment. If payment is made other than in U.S. dollars, separate payment arrangements outside of the DTC system must be made between the DTC participants involved.

4.2 Trading Between Euroclear and/or Clearstream, Luxembourg Participants

We understand that secondary market trading between Euroclear and/or Clearstream, Luxembourg participants will occur in the ordinary way following the applicable rules and operating procedures of Euroclear and Clearstream, Luxembourg. Secondary market trading will be settled using procedures applicable to conventional Eurobonds in registered form for debt securities.

4.3 Trading Between a DTC Seller and a Euroclear or Clearstream, Luxembourg Purchaser

A purchaser of securities that are held in the account of a DTC participant must send instructions to Euroclear or Clearstream, Luxembourg at least one business day prior to settlement. The instructions will provide for the transfer of the securities from the selling DTC participant's account to the account of the purchasing Euroclear or Clearstream, Luxembourg participant. Euroclear or Clearstream, Luxembourg, as the case may be, will then instruct the common depository for Euroclear and Clearstream, Luxembourg to receive the securities either against payment or free of payment.

The interests in the securities will be credited to the relevant clearing system. The clearing system will then credit the account of the participant, following its usual procedures. Credit for the securities will appear on the next day, European time. Cash debit will be back-valued to, and the interest on the securities will accrue from, the value date, which would be the preceding day, when settlement occurs in New York. If the trade fails and settlement is not completed on the intended date, the Euroclear or Clearstream, Luxembourg cash debit will be valued as of the actual settlement date instead.

Euroclear participants or Clearstream, Luxembourg participants will need the funds necessary to process same-day funds settlement. The most direct means of doing this is to pre-position funds for settlement, either from cash or from existing lines of credit, as for any settlement occurring within Euroclear or Clearstream, Luxembourg. Under this approach, participants may take on credit exposure to Euroclear or Clearstream, Luxembourg until the securities are credited to their accounts one business day later.

As an alternative, if Euroclear or Clearstream, Luxembourg has extended a line of credit to them, participants can choose not to pre-position funds and will instead allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream, Luxembourg participants purchasing securities would incur overdraft charges for one business day (assuming they cleared the overdraft as soon as the securities were credited to their accounts). However, interest on the securities would accrue from the value date. Therefore, in many cases, the investment income on securities that is earned during that one business day period may substantially reduce or offset the amount of the overdraft charges. This result will, however, depend on each participant's particular cost of funds.

Because the settlement will take place during New York business hours, DTC participants will use their usual procedures to deliver securities to the depository on behalf of Euroclear participants or Clearstream, Luxembourg participants. The sale proceeds will be available to the DTC seller on the settlement date. For the DTC participants, then, a cross-market transaction will settle no differently than a trade between two DTC participants.

5. SPECIAL TIMING CONSIDERATIONS

You should be aware that investors will be able to make and receive deliveries, payments and other communications involving the securities through Clearstream, Luxembourg and Euroclear only on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream, Luxembourg and Euroclear on the same business day as in

the United States. U.S. investors who wish to transfer their interests in the securities, or to receive or make a payment or delivery of the securities, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream, Luxembourg or Euroclear is used.

6. LEGAL OWNERSHIP

6.1 Street Name and Other Indirect Holders

We generally will not recognise investors who hold securities in accounts at banks or brokers as legal holders of securities. When we refer to the holders of securities, we mean only the actual legal and (if applicable) record holder of those securities. Holding securities in accounts at banks or brokers is called holding in street name. If you hold securities in street name, we will recognize only the bank or broker or the financial institution the bank or broker uses to hold its securities. These intermediary banks, brokers and other financial institutions pass along principal, interest and other payments on the securities, either because they agree to do so in their customer agreements or because they are legally required. If you hold securities in street name, you should check with your own institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- how it would handle voting if it were ever required;
- whether and how you can instruct it to send you securities registered in your own name so you can be a direct holder as described below; and
- how it would pursue rights under the securities if there were a default or other event triggering the need for holders to act to protect their interests.

6.2 Direct Holders

Our obligations, as well as the obligations of the Trustee and those of any third parties employed by us or the Trustee, under the securities run only to persons who are registered as holders of securities. As noted above, we do not have obligations to you if you hold in street name or other indirect means, either because you choose to hold securities in that manner or because the securities are issued in the form of global securities as described below. For example, once we make payment to the registered holder, we have no further responsibility for the payment even if that holder is legally required to pass the payment along to you as a street name customer but does not do so.

6.3 Global Securities

What is a Global Security?

A global security is a special type of indirectly held security, as described above under "*Street Name and Other Indirect Holders*". The ultimate beneficial owners of global securities can only be indirect holders.

We require that the securities included in the global security not be transferred to the name of any other direct holder unless the special circumstances described below occur (and provided that DTC, its nominees, and their successors may transfer a global note in respect of a Series of Notes as a whole to one another). The financial institution that acts as the sole direct holder of the global security is called the depositary. Any person wishing to own a security must do so indirectly by virtue of an account with a broker, bank or other financial institution that in turn has an account with the depositary.

Special Investor Considerations for Global Securities

As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. We do not recognize this type of investor as a holder of securities and instead deal only with the depositary that holds the global security.

If you are an investor in securities that are issued only in the form of global securities, you should be aware that:

- You cannot get securities registered in your own name.
- You cannot receive physical certificates for your interest in the securities.
- You will be a street name holder and must look to your own bank or broker for payments on the securities and protection of your legal rights relating to the securities, as explained earlier under "*Street Name and Other Indirect Holders*".
- You may not be able to sell interests in the securities to some insurance companies and other institutions that are required by law to own their securities in the form of physical certificates.
- The depositary's policies will govern payments, transfers, exchange and other matters relating to your interest in the global security. We and the trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in the global security. We and the trustee also do not supervise the depositary in any way.
- The depositary will require that interests in a global security be purchased or sold within its system using same-day funds. By contrast, payment for purchases and sales in the market for corporate bonds and other securities is generally made in next-day funds. The difference could have some effect on how interests in global securities trade, but we do not know what that effect will be.

Special Situations When the Global Security Will Be Terminated

In a few special situations described below, the global security will terminate and interests in it will be exchanged for physical certificates representing securities. After that exchange, the choice of whether to hold securities directly or in street name will be up to the investor. Investors must consult their own bank or brokers to find out how to have their interests in securities transferred to their own name so that they will be direct holders. The rights of street name investors and direct

holders in the securities have been previously described in the subsections entitled "*Street Name and Other Indirect Holders*" and "*Direct Holders*", above.

The special situations for termination of a global security are:

- When the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary.
- When an event of default on the Notes has occurred and has not been cured. Defaults on the Notes are discussed in Part 3 of this Prospectus ("*Description of the Terms and Conditions of the Notes*").

PART 5: DIAGEO PLC

1. OVERVIEW

Diageo was incorporated as Arthur Guinness Son and Company Limited on 21 October 1886. The Diageo Group was formed by the merger of Grand Metropolitan Public Limited Company and Guinness PLC in December 1997. Diageo is incorporated as a public limited company in England and Wales with registered number 23307. It is the holding company of the Diageo Group. The registered office of Diageo is Lakeside Drive, Park Royal, London NW10 7HQ and its telephone number is +44 (0) 208 978 6000.

Diageo is a global leader in the beverage alcohol industry, with an outstanding collection of brands across spirits and beer, and its products are sold in more than 180 countries around the world. The management team expects to continue to invest in building the Diageo Group's brands and routes to consumer and are committed to delivering long-term profitable growth.

As at 30 June 2017, Diageo had an allotted and fully paid share capital of 2,754,467,515 ordinary shares of 28 ¹⁰¹/₁₀₈ pence each with an aggregate nominal value of £797,142,898.84 (including treasury shares and shares owned by the employee share trusts).

2. ORGANISATIONAL STRUCTURE OF THE DIAGEO GROUP

The companies listed below include those which principally affect the profits and assets of the Diageo Group. The operating companies listed below may carry on the business described in the countries listed in conjunction with their subsidiaries and other Diageo Group companies.

	Country of Incorporation	Country of Operation	Percentage of Equity Owned	Business Description
Subsidiaries				
Diageo Ireland	Ireland	Worldwide	100%	Production, marketing and distribution of premium drinks.
Diageo Great Britain Limited	England	Worldwide	100%	Marketing and distribution of premium drinks.
Diageo Scotland Limited	Scotland	Worldwide	100%	Production, marketing and distribution of premium drinks.
Diageo Brands BV	Netherlands	Worldwide	100%	Marketing and distribution of premium drinks.

Diageo North America, Inc	United States	Worldwide	100%	Production, importing, marketing and distribution of premium drinks.
United Spirits Limited ¹	India	India	54.78%	Production, importing, marketing and distribution of alcoholic drinks.
Diageo Capital plc ²	Scotland	UK	100%	Financing company for the Diageo Group.
Diageo Finance plc ³	England	UK	100%	Financing company for the Diageo Group.
Diageo Investment Corporation	United States	United States	100%	Financing company for the US Diageo Group.
Mey İçki Sanayi ve Ticaret A.Ş.	Turkey	Turkey	100%	Production, marketing and distribution of premium drinks.
Associate				
Moët Hennessy, SNC ⁴	France	France	34%	Production and distribution of premium drinks.

All percentages, unless otherwise stated, are in respect of holdings of ordinary share capital and are equivalent to the percentages of voting rights held by the Diageo Group.

Diageo, consistent with its current strategy, will continue to focus on growing its brands on a worldwide basis and expects to make selective acquisitions in both its developed and emerging markets. Funds for any such acquisitions would be drawn from internally generated cash, bank borrowings or the issuance of equity or debt securities (in an amount that cannot now be determined) and the proceeds of any potential disposals. No material disposals are currently contemplated.

¹ Percentage ownership excludes 2.38% owned by the USL Benefit Trust.

² Directly owned by Diageo.

³ Directly owned by Diageo.

⁴ French partnership.

In evaluating financing of any such acquisitions, Diageo's management remains committed to enhancing shareholder value in the long term, both by investing in the businesses and brands so as to improve the return on investment and by managing the Diageo Group's capital structure. Diageo manages its capital structure to achieve capital efficiency, provide flexibility to invest through the economic cycle and give efficient access to debt markets at attractive cost levels. This is achieved by targeting a net borrowing to EBITDA leverage of 2.5 – 3.0x, this range for Diageo being currently broadly consistent with an A band credit rating. Diageo would consider operating outside of this range in order to effect strategic initiatives within its stated goals, which could have an impact on its rating. If Diageo's leverage was to be negatively impacted by the financing of an acquisition, it would seek over time to return to the range of 2.5 – 3.0x.

3. PRINCIPAL MARKETS

Diageo operates in 21 geographically based markets around the world and has a presence in over 180 countries.

- Diageo's **North America** business is headquartered in Norwalk, Connecticut and comprises primarily US Spirits, Diageo Beer Company USA and Diageo Canada. North America is the largest market for premium drinks in the world.
- Diageo's business in **Europe** comprises Great Britain, Ireland, France, Northern Europe, Central Europe, Iberia, the Mediterranean and the Europe Partner markets distribution businesses), as well as Russia and Turkey as standalone markets. Europe is managed as a single market with country teams focusing on sales and customer marketing execution.
- In **Africa**, Diageo's strategy is to grow Diageo's leadership across beer and spirits by providing brand choice across a broad range of consumer motivations, profiles, and occasions. The region comprises East Africa (Kenya, Tanzania and Uganda), Africa Regional Markets (including Ghana, Cameroon, Ethiopia, Angola, Mozambique and a sorghum beer business in South Africa) Nigeria and South Africa.
- In **Latin America and Caribbean**, Diageo's strategic priority is continued leadership in scotch, while broadening the category range through vodka, rum, liqueurs and local spirits. The region is grouped into five main markets of: Paraguay, Uruguay and Brazil; Mexico; the Andean cluster; Central America and Caribbean; and Peru, Ecuador, Bolivia, Argentina and Chile.
- Diageo's strategy in **Asia Pacific**, which encompasses both developed and emerging markets, is to operate across categories in international spirits, local spirits, ready to drink formats and beer. Asia Pacific comprises India, Australia and New Zealand, Greater China (China, Taiwan, Hong Kong and Macau) South East Asia (Vietnam, Thailand, Philippines, Indonesia, Malaysia, Singapore, Cambodia, Laos, Myanmar, Nepal and Sri Lanka) and North Asia (Korea and Japan), as well as Travel Retail Asia and Middle East.

4. MAJOR SHAREHOLDERS AND SIGNIFICANT CHANGES IN OWNERSHIP

The Disclosure and Transparency Rules published by the UK Listing Authority provide that a person or corporate entity that acquires an interest of 3% or more in Diageo's ordinary shares is

required to notify Diageo of that interest. Any subsequent increase or decrease of 1% or more must also be notified. Similarly, a notification is required once the interest falls below 3%.

At 18 May 2018, the following substantial interests (3% or more) in Diageo's ordinary share capital (voting securities) had been notified to Diageo: BlackRock Investment Management (UK) Limited (indirect holding) – 147,296,928 ordinary shares (being 5.89% of the issued ordinary share capital (excluding treasury shares) of Diageo at 3 December 2009); and Capital Research and Management Company (indirect holding) – 124,653,096 ordinary shares (being 4.99% of the issued ordinary share capital (excluding treasury shares) of Diageo at 28 April 2009). Diageo has not been notified of any other substantial interests in its securities. Diageo's substantial shareholders do not have different voting rights. Diageo, so far as is known by Diageo, is not directly or indirectly owned or controlled by another corporation or by any government.

Diageo knows of no arrangements, the operation of which may at a subsequent date result in a change of control of Diageo.

As at the close of business on 16 May 2018, 2,695,583,929 ordinary shares, including those held through American Depositary Shares (“**ADSs**”), were held by approximately 2,761 holders (including American Depositary Receipt (“**ADR**”) holders) with registered addresses in the United States, representing approximately 17% of the outstanding ordinary shares (excluding treasury shares). At such date, 104,796,504 ADSs were held by 2,435 registered ADR holders. Since certain of such ordinary shares and ADSs are held by nominees or former GrandMet PLC or Guinness Group PLC ADR holders who have not re-registered their ADSs, the number of holders may not be representative of the number of beneficial owners in the United States or the ordinary shares held by them.

5. LEGAL PROCEEDINGS

The inherent uncertainty of litigation, including the uncertainty of estimating whether any settlement which may be entered into in the future will be on favourable terms, makes it difficult to quantify the outcome of the litigation disclosed on this and the next pages of this Prospectus with certainty.

(a) Guarantees and related matters

As of 31 December 2017, the group has no material unprovided guarantees or indemnities in respect of liabilities of third parties.

(b) Acquisition of USL shares from UBHL, winding-up petitions against UBHL and other proceedings in relation to the USL transaction

On 4 July 2013, Diageo completed its acquisition, under a share purchase agreement with United Breweries (Holdings) Limited (“**UBHL**”) and various other sellers (the “**SPA**”), of 21,767,749 shares (14.98%) in United Spirits Limited (“**USL**”) for a total consideration of INR 31.3 billion (£349 million), including 10,141,437 shares (6.98%) from UBHL. The SPA was signed on 9 November 2012 and was part of the transaction announced by Diageo in relation to USL on that day (the “**Original USL Transaction**”). Through a series of further transactions, as of 2 July 2014, Diageo had a 54.78% investment in USL (excluding 2.38% owned by the USL Benefit Trust).

Prior to the acquisition from UBHL on 4 July 2013, the High Court of Karnataka (the “**High Court**”) had granted leave to UBHL under sections 536 and 537 of the Indian Companies Act 1956 (the “**Leave Order**”) to enable the sale by UBHL to Diageo to take place (the “**UBHL Share Sale**”) notwithstanding the continued existence of five winding-up petitions that were pending against UBHL on 9 November 2012, being the date of the SPA. Additional winding-up petitions have been brought against UBHL since 9 November 2012, and the Leave Order did not extend to them. At the time of the completion of the UBHL Share Sale, the Leave Order remained subject to review on appeal. However, as stated by Diageo at the time of closing on 4 July 2013, it was considered unlikely that any appeal process in respect of the Leave Order would definitively conclude on a timely basis and, accordingly, Diageo waived the conditionality under the SPA relating to the absence of insolvency proceedings in relation to UBHL and acquired the 10,141,437 USL shares from UBHL at that time.

Following closing of the UBHL Share Sale, appeals were filed by various petitioners in respect of the Leave Order. On 20 December 2013, the division bench of the High Court set aside the Leave Order (the “**20 December Order**”). Following the 20 December Order, Diageo filed special leave petitions (“**SLPs**”) in the Supreme Court of India against the 20 December Order.

On 10 February 2014, the Supreme Court of India issued an order giving notice in respect of the SLPs and ordering that the status quo be maintained with regard to the UBHL Share Sale pending a hearing on the matter in the Supreme Court. Following a number of adjournments, the next firm hearing date for the SLPs (in respect of which leave has since been granted and which have been converted to civil appeals) is yet to be fixed.

In separate proceedings, the High Court passed a winding-up order against UBHL on 7 February 2017. On 4 March 2017, UBHL appealed against this order before a division bench of the High Court. This appeal is currently pending.

Diageo continues to believe that the acquisition price of INR 1,440 per share paid to UBHL for the USL shares is fair and reasonable as regards UBHL, UBHL’s shareholders and UBHL’s secured and unsecured creditors. However, adverse results for Diageo in the proceedings referred to above could, absent leave or relief in other proceedings, ultimately result in Diageo losing title to the 10,141,437 USL shares acquired from UBHL. Diageo believes it would remain in control of USL and be able to consolidate USL as a subsidiary regardless of the outcome of this litigation. There can be no certainty as to the outcome of the existing or any further related legal proceedings or the timeframe within which they would be concluded.

Diageo also has the benefit of certain contractual undertakings and commitments from the relevant sellers in relation to potential challenges to its unencumbered title to the USL shares acquired on 4 July 2013, including relating to the winding-up petitions described above and/or certain losses and costs that may be incurred in the event of third party actions relating to the acquisition of the USL shares.

(c) Continuing matters relating to the resignation of Dr Vijay Mallya from USL and USL internal inquiries

On 25 February 2016, Diageo and USL each announced that they had entered into arrangements with Dr Mallya under which he had agreed to resign from his position as a director and as chairman of USL and from his positions in USL’s subsidiaries. As specified by Diageo in its

announcement at that time, these arrangements ended its prior agreement with Dr Mallya regarding his position at USL, therefore bringing to an end the uncertainty relating to the governance of USL, and put in place a five-year global non-compete (excluding the United Kingdom), non-interference, non-solicitation and standstill arrangement with Dr Mallya. As part of those arrangements, USL, Diageo and Dr Mallya agreed a mutual release in relation to matters arising out of an inquiry into certain matters referred to in USL's financial statements and the qualified auditor's report for the year ended 31 March 2014 (the "**Initial Inquiry**") which had revealed, among other things, certain diversions of USL funds. Dr Mallya also agreed not to pursue any claims against Diageo, USL and their affiliates (including under the prior agreement with Diageo). In evaluating entering into such arrangements, Diageo considered the impact of the arrangements on USL and all of USL's shareholders, and came to the view that the arrangements were in the best interests of USL and its shareholders.

Diageo's agreement with Dr Mallya (the "**25 February Agreement**") provided for a payment of \$75 million (£53 million) to Dr Mallya over a five year period in consideration for the five-year global non-compete, non-interference, non-solicitation and standstill commitments referred to above, his resignation from USL and the termination of his USL-related appointment and governance rights, the relinquishing of rights and benefits attached to his position at USL, and his agreement not to pursue claims against Diageo and USL. The 25 February Agreement also provided for the release of Dr Mallya's personal obligations to indemnify (i) Diageo Holdings Netherlands B.V. ("**DHN**") in respect of its earlier liability (\$141 million (£96 million)) under a backstop guarantee of certain borrowings of Watson Limited ("**Watson**") (a company affiliated with Dr Mallya), and (ii) Diageo Finance plc in respect of its earlier liability (£30 million) under a guarantee of certain borrowings of United Breweries Overseas Limited. \$40 million (£28 million) of the \$75 million (£53 million) amount was paid on signing of the 25 February Agreement with the balance being payable in equal instalments of \$7 million (£5 million) a year over five years, subject to and conditional on Dr Mallya's compliance with certain terms of the agreement.

While the first two instalments of \$7 million (£5 million) each would have become due on 25 February 2017 and 25 February 2018, respectively, owing to various reasons (including breaches committed by Dr Mallya and certain persons connected with him of several provisions of the 25 February Agreement and agreements of the same date between Dr Mallya and USL), Diageo believes that it was not liable to pay such amount, and is very unlikely to become liable to pay any future instalments, to Dr Mallya. By notice to Dr Mallya and certain persons connected with him on 24 February 2017, 3 November 2017 and 23 February 2018 Diageo and other group companies have demanded from Dr Mallya the repayment of \$40 million (£28 million) which was paid by Diageo on 25 February 2016, and also sought compensation from him for various losses incurred by the relevant members of the Diageo Group on account of the breaches committed by him and certain persons connected with him. On 16 November 2017, Diageo and other relevant members of the Diageo Group commenced claims in the High Court of Justice in England and Wales (the "**English High Court**") against Dr Mallya in relation to certain of the matters specified in the notices of 24 February 2017 and 3 November 2017. At the same time DHN also commenced claims in the English High Court against Dr Mallya, his son Sidhartha Mallya and two companies affiliated with Dr Mallya (Watson and Continental Administration Services Limited ("**CASL**")) for in excess of \$142 million (£105 million) (plus interest) in relation to Watson's liability to DHN in respect of its borrowings referred to above and the breach of associated security documents. These additional claims are described in paragraph (d) below. Dr Mallya, Sidhartha Mallya and the relevant affiliated companies filed a defence to such claims and the additional claims on 12 March 2018, and Dr Mallya also filed a counterclaim for payment of the two \$7 million (£5 million)

instalment payments withheld by Diageo as described above. Diageo intends to continue to prosecute its claims and to defend the counterclaims.

As previously announced by USL, the Initial Inquiry identified certain additional parties and matters indicating the possible existence of other improper transactions. These transactions could not be fully analysed during the Initial Inquiry and, accordingly, USL, as previously announced, mandated that its Managing Director and Chief Executive Officer conduct a further inquiry into the transactions involving the additional parties and the additional matters to determine whether they also suffered from improprieties (the “**Additional Inquiry**”). USL announced the results of the Additional Inquiry in a notice to the Indian Stock Exchange dated 9 July 2016. The mutual release in relation to the Initial Inquiry agreed by Diageo and USL with Dr Mallya announced on 25 February 2016 does not extend to matters arising out of the Additional Inquiry.

As stated in USL’s previous announcement, the Additional Inquiry revealed further instances of actual or potential fund diversions amounting to approximately INR 9,135 million (£102 million) from USL and its Indian and overseas subsidiaries to, in most cases, Indian and overseas entities in which Dr Mallya appears to have a material direct or indirect interest, as well as other potentially improper transactions involving USL and its Indian and overseas subsidiaries amounting to approximately INR 3,118 million (£35 million). The USL board, in light of these findings, and based on expert advice, directed that copies of the Additional Inquiry report be provided to the relevant authorities and its auditors, in the same way as the Initial Inquiry report had been.

In connection with the matters identified by the Additional Inquiry, USL has, pursuant to a detailed review of each case of such fund diversion and after obtaining expert legal advice, where appropriate, filed civil suits for recovery of funds from certain parties, including Dr Mallya, before the relevant courts in India.

The amounts identified in the Additional Inquiry have been previously provided for or expensed in the financial statements of USL or its subsidiaries for prior periods. Further, at this stage, it is not possible for the management of USL to estimate the financial impact on USL, if any, arising out of potential non-compliance with applicable laws in relation to such fund diversions.

(d) Other continuing matters relating to Dr Mallya and affiliates

DHN issued a conditional backstop guarantee on 2 August 2013 to Standard Chartered Bank (“**Standard Chartered**”) pursuant to a guarantee commitment agreement (the “**Guarantee Agreement**”). The guarantee was in respect of the liabilities of Watson, a company affiliated with Dr Mallya, under a \$135 million (£92 million) facility from Standard Chartered (the “**Facility Agreement**”). The Guarantee Agreement was entered into as part of the arrangements put in place and announced at the closing of the USL transaction on 4 July 2013.

DHN’s provision of the Guarantee Agreement enabled the refinancing of certain existing borrowings of Watson from a third party bank and facilitated the release by that bank of rights over certain USL shares that were to be acquired by Diageo as part of the USL transaction. The facility matured and entered into default in May 2015. In aggregate DHN paid Standard Chartered \$141 million (£96 million) under this guarantee, i.e. including payments of default interest and various fees and expenses.

Watson remains liable for all amounts paid by DHN under the guarantee. Under the guarantee documentation with Standard Chartered, DHN is entitled to the benefit of the underlying security package for the loan, including: (a) certain shares in United Breweries Limited ("**UBL**") held solely by Dr Mallya and certain other shares in UBL held by Dr Mallya jointly with his son Sidhartha Mallya, (b) Watson's interest in Orange India Holdings S.a.r.l. ("**Orange**") the joint venture that owns the Force India Formula One ("**F1**") team, and (c) the shareholding in Watson.

Aspects of the security package are the subject of various proceedings in India in which third parties are alleging and asserting prior rights to certain assets comprised in the security package or otherwise seeking to restrain enforcement against certain assets by Standard Chartered and/or DHN. These proceedings are ongoing and DHN will continue to vigorously pursue these matters as part of its efforts for enforcement of the underlying security and recovery of outstanding amounts. Diageo believes that the existence of any prior rights or dispute in relation to the security would be in breach of representations and warranties given by Dr Mallya to Standard Chartered at the time the security was granted and further believes that certain actions taken by Dr Mallya in relation to the proceedings described above also breached his obligations to Standard Chartered.

Under the terms of the guarantee and as a matter of law, there are arrangements to pass on to DHN the benefit of the security package upon payment under the guarantee of all amounts owed to Standard Chartered. Payment under the guarantee has now occurred as described above. To the extent possible in the context of the proceedings described above, Standard Chartered has taken certain recovery steps and is working with DHN in relation to these proceedings. DHN is actively monitoring the security package and is discussing with Standard Chartered steps to continue enforcement against the background of the proceedings described above, as well as enforcement steps in relation to elements of the security package that are unaffected by those proceedings. DHN's ability to assume or enforce security over some elements of the security package is also subject to regulatory consent. It is not at this stage possible to determine whether such consent would be forthcoming.

In addition to the Indian proceedings just described, certain of the assets comprised in the security package may also be affected by a worldwide freezing order of the English High Court granted on 24 November 2017 and continued on 8 December 2017 and 8 May 2018 in respect of the assets of Dr Mallya. The agreement with Dr Mallya referenced in paragraph (c) above does not impact the security package, which, as described above, includes shares in UBL and Watson's interest in Orange, the joint venture that owns the Force India F1 team. Watson remains liable for all amounts paid pursuant to the guarantee and DHN has the benefit of a counter-indemnity from Watson in respect of payments in connection with the guarantee. The various security providers, including Dr Mallya and Watson, acknowledged in the 25 February Agreement referred to in paragraph (c) above that DHN is entitled to the benefit of the security package underlying the Standard Chartered facility and have also undertaken to take all necessary actions in that regard. Further, Diageo believes that the existence of any prior rights or disputes in relation to the security package would be in breach of certain confirmations given to Diageo and DHN pursuant to that agreement by Dr Mallya, Watson and certain connected persons.

On 16 November 2017, DHN commenced various claims in the English High Court for, in aggregate, in excess of \$142 million (£105 million) (plus interest) in relation to these matters, including the following: (i) a claim against Watson for \$141 million (£96 million) (plus interest) under Watson's counter-indemnity to DHN in respect of payments made by DHN to Standard

Chartered under the guarantee referred to above; (ii) a claim against Dr Mallya and Sidhartha Mallya under various agreements creating or relating to the security package referred to above for (A) not less than \$1.8 million (£1 million), being the costs incurred to date in the various Indian proceedings referred to above (plus interest), and (B) damages of \$141 million (£96 million), being DHN's loss as a result of those Indian proceedings which currently prevent enforcement of the security over shares in UBL (plus interest; and (iii) a claim against CASL, as a co-surety with DHN of Watson's obligations under the Facility Agreement, for 50% of the difference between the amount claimed under (i) above and the amount (if any) that DHN is in fact able to recover from Watson, Dr Mallya and/or Sidhartha Mallya. As noted in paragraph (c), Dr Mallya, Sidhartha Mallya and the relevant affiliated companies filed a defence to these claims on 12 March 2018. As stated in paragraph (c), DHN and Diageo intends to continue to prosecute these claims.

(e) Regulatory notices in relation to USL

Following USL's earlier updates concerning the Initial Inquiry as well as in relation to the arrangements with Dr Mallya that were the subject of the 25 February 2016 announcement, USL and Diageo have received various notices from Indian regulatory authorities, including the Ministry of Corporate Affairs, Serious Fraud Investigation Office, National Stock Exchange, Income Tax Department, Enforcement Directorate, Securities and Exchange Board of India ("**SEBI**"), Bangalore police, Central Excise Intelligence and the Institute of Chartered Accountants of India. Diageo and USL are cooperating fully with the authorities in relation to these matters, and, as noted in paragraph (c) above, USL itself reported the matters covered by the Initial Inquiry and the Additional Inquiry to the relevant authorities.

Diageo and USL have also received notices from SEBI requesting information in relation to, and explanation of the reasons for, the arrangements with Dr Mallya that were the subject of the 25 February 2016 announcement as well as, in the case of USL, in relation to the Initial Inquiry and the Additional Inquiry, and, in the case of Diageo, whether such arrangements with Dr Mallya or the Watson backstop guarantee arrangements referred to in paragraphs (c) and (d) above were part of agreements previously made with Dr Mallya at the time of the Original USL Transaction announced on 9 November 2012 and the open offer made as part of the Original USL Transaction. Diageo and USL have complied with such information requests and Diageo has confirmed that, consistent with prior disclosures, the Watson backstop guarantee arrangements and the matters described in the 25 February 2016 announcement were not the subject of any earlier agreement with Dr Mallya. In respect of the Watson backstop guarantee arrangements, SEBI issued a further notice to Diageo on 16 June 2016 that if there is any net liability incurred by Diageo (after any recovery under relevant security or other arrangements, which matters remain pending) on account of the Watson backstop guarantee, such liability, if any, would be considered to be part of the price paid for the acquisition of USL shares under the SPA which formed part of the Original USL Transaction and that, in that case, additional equivalent payments would be required to be made to those shareholders (representing 0.04% of the shares in USL) who tendered in the open offer made as part of the Original USL Transaction. Diageo is clear that the Watson backstop guarantee arrangements were not part of the price paid or agreed to be paid for any USL shares under the Original USL Transaction and therefore believes the decision in the SEBI notice to be misconceived and wrong in law and appealed against it before the Securities Appellate Tribunal, Mumbai ("**SAT**"). On 1 November 2017, SAT issued an order in respect of Diageo's appeal in which, amongst other things, it observed that the relevant officer at SEBI had neither considered Diageo's earlier reply nor provided Diageo with an opportunity to be heard, and accordingly directed SEBI to pass a fresh order after giving Diageo an opportunity to be heard. Following

SAT's order, Diageo has made further submissions in the matter, including at a personal hearing before a Deputy General Manager of SEBI.

Diageo has also responded to a show cause notice dated 12 May 2017 from SEBI arising out of the correspondence in relation to the matters described in the 25 February 2016 announcement and made its further submissions in the matter, including at a personal hearing before a Whole Time Member of SEBI.

Diageo is unable to assess if the notices or enquiries referred to above will result in enforcement action or, if this were to transpire, to quantify meaningfully the possible loss or range of loss, if any, to which any such action might give rise if determined against Diageo or USL.

(f) SEC Inquiry

Diageo has received requests for information from the SEC regarding its distribution in and public disclosures regarding the United States and its distribution in certain other Diageo markets as well as additional context about the Diageo Group globally. Diageo is currently responding to the SEC's requests for information in this matter. Diageo is unable to assess if the inquiry will evolve into further information requests or an enforcement action or, if this were to transpire, to quantify meaningfully the possible loss or range of loss, if any, to which any such action might give rise.

(g) Tax

The international tax environment has received increased attention and seen rapid change over recent years, both at a US and European level, and by international bodies such as the Organisation for Economic Cooperation and Development ("**OECD**"). Against this backdrop, Diageo has been monitoring developments and continue to engage transparently with the tax authorities in the countries where Diageo operates to ensure that the group manages its arrangements on a sustainable basis.

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption in the UK controlled foreign company rules. The Group Financing Exemption was introduced in legislation by the British government in 2013. In common with other UK-based international companies whose arrangements are in line with current UK CFC legislation, Diageo may be affected by the outcome of this investigation. Diageo is monitoring developments. If the preliminary findings of the European Commission's investigation into the UK legislation are upheld, Diageo calculates its maximum potential liability to be approximately £250 million. Based on its current assessment, Diageo believes that no provision is required in respect of this issue.

During the year ended 30 June 2017 Diageo entered into a process of collaborative working with HM Revenue & Customs ("**HMRC**"), the UK tax authority, to seek clarity on its transfer pricing and related issues. These discussions are ongoing. Further to the announcement by Diageo on 10 May 2017, HMRC issued on 27 July 2017 charging notices of assessment under the new Diverted Profits Tax regime which came into effect in April 2015. Under these notices, Diageo was required to pay additional tax and interest of £107 million in aggregate for the financial years ended 30 June 2015 and 30 June 2016. Diageo does not believe that it falls within the scope of the Diverted Profits Tax regime. Accordingly, Diageo is challenging the assessment and in order to do so paid the full amount assessed in August 2017. The payment of £107 million is not a reflection of

Diageo's view on the merits of the case and, based on its current assessment, Diageo believes no provision is required in relation to Diverted Profits Tax. Diageo continues to work to resolve this matter with HMRC.

Diageo has also been in discussions with the French Tax Authorities over the deductibility of certain interest costs. The French Tax Authorities issued an assessment in December 2017 denying tax relief for interest costs incurred in the periods ended 30 June 2011 to 30 June 2014. Diageo believes that the interest costs are deductible and accordingly has challenged the assessment from the French Tax Authorities. Including interest and penalties, the exposure for the periods ended 30 June 2011 to 31 December 2017 is approximately €244 million (£216 million). Based on its current assessment, Diageo believes that no provision is required in respect of this issue.

(h) Other

The group has extensive international operations and is a defendant in a number of legal, customs and tax proceedings incidental to these operations, the outcome of which cannot at present be foreseen. In particular, the group is currently a defendant in various customs proceedings that challenge the declared customs value of products imported by certain Diageo companies. Diageo continues to defend its position vigorously in these proceedings.

Save as disclosed above, neither Diageo, nor any member of the Diageo Group, is or has been engaged in, nor (so far as Diageo is aware) is there pending or threatened by or against it, any legal or arbitration proceedings which may have a significant effect on the financial position of the Diageo Group.

6. CORPORATE GOVERNANCE

The board of Diageo is committed to high standards of corporate governance and Diageo is in compliance with all relevant provisions set out in the United Kingdom Corporate Governance Code (the "Code") (published in September 2012 by the Financial Reporting Council).

The board of Diageo has established Nomination, Remuneration and Audit Committees, with formally delegated duties and responsibilities, and written terms of reference. From time to time, separate committees may be set up by the board to consider specific issues when the need arises.

The terms of reference of the committees, including their objectives and the authority delegated by them by the board, are available upon request or via Diageo's website and are reviewed at least annually by the relevant committee and the board. All committees have access to independent expert advice.

The Nomination Committee is responsible for keeping under review the composition of the board and succession to it, and succession planning for senior leadership positions. It makes recommendations to the board concerning appointments to the board. The members of the committee are the chairman of the board and all independent non-executive directors. The chairman of the committee is Javier Ferrán. The other members are Peggy Bruzelius, Ho KwonPing, Lord Davies of Abersoch, Betsy Holden, Alan Stewart, Susan Kilsby and Nicola Mendelsohn. The composition of the Nomination Committee complies with the recommendations of the Code.

The Remuneration Committee assists the board in determining its responsibilities in relation to remuneration, including reviewing and assessing the ongoing appropriateness of the current remuneration policy, executive plan design and target stretch and ensuring that remuneration arrangements continue to attract and retain the highest quality global talent with a clear link between performance and reward. All the members of the Remuneration Committee are independent non-executive directors, namely Lord Davies of Abersoch, Peggy Bruzelius, Ho KwonPing, Betsy Holden, Alan Stewart, Susan Kilsby and Nicola Mendelsohn. The chairman of the Remuneration Committee is Lord Davies of Abersoch. The composition of the Remuneration Committee complies with the recommendations of the Code.

The role of the Audit Committee is to monitor and review the integrity of Diageo's financial statements, internal control and risk management, audit and risk programmes, business conduct and ethics, 'whistleblowing' and the appointment of the external auditor. All the members of the Audit Committee are independent non-executive directors, namely Alan Stewart, Peggy Bruzelius, Ho KwonPing, Lord Davies of Abersoch, Betsy Holden, Susan Kilsby and Nicola Mendelsohn. Alan Stewart is chairman of the Audit Committee. The composition of the Audit Committee complies with the recommendations of the Code.

7. DIRECTORS

The officers of Diageo and their respective business occupations are set out below. The business address of each of the officers is at Lakeside Drive, Park Royal, London NW10 7HQ.

Name	Business Occupation
Javier Ferrán	Non-Executive Chairman
Ivan Menezes	Chief Executive, Executive Director
Kathryn Mikells	Chief Financial Officer, Executive Director
Lord Davies of Abersoch	Senior Non-Executive Director
Peggy B Bruzelius	Non-Executive Director
Betsy D Holden	Non-Executive Director
Ho KwonPing	Non-Executive Director
Nicola S Mendelsohn	Non-Executive Director
Susan Kilsby	Non-Executive Director
Alan JH Stewart	Non-Executive Director
David Harlock	Company Secretary

The principal activities of the following directors performed by them outside the Diageo Group are directorships and memberships of the companies or institutions as set out below:

Name	Company/Institution
Javier Ferrán	Lion Capital LLP Associated British Foods plc Coca-Cola European Partners ESADE Business School
Ivan Menezes	Tapestry Inc. Kellogg School of Management Scotch Whisky Association Movement to Work International Alliance for Responsible Drinking
Kathryn Mikells	The Hartford Financial Services Group
Lord Davies of Abersoch	Corsair Capital Royal Academy of Arts LetterOne Holdings S.A.
Peggy B Bruzelius	Lancelot Asset Management Akzo Nobel NV Skandia Liv AB Lundin Petroleum AB
Betsy D Holden	Western Union Company Dentsply Sirona McKinsey & Company Paine Schwartz Partners Duke University, Trinity College Kellogg School of Management
Susan Kilsby	Shire Goldman Sachs International Fortune Brands Home & Security, Inc. BBA Aviation plc
Ho KwonPing	Banyan Tree Group Laguna Resorts & Hotel Thai Wah Food Products Singapore Management University School of Hotel and Tourism Management of the Hong Kong Polytechnic University

Nicola S Mendelsohn

Mayor's Business Advisory Board
Facebook EMEA
Women's Prize for Fiction
Creative Industries Council

Alan JH Stewart

Tesco plc

At 31 December 2017 the aggregate interests of directors in the ordinary shares of Diageo including their share options and conditional rights to acquire shares, was less than 1% of the total issued share capital of Diageo. There are no existing or potential conflicts of interest between any duties of the directors of Diageo and/or their private interests and other duties. In accordance with Diageo's articles of association, the board has authorised the chairman or the company secretary, as appropriate to receive notifications of conflicts of interest on behalf of the board and to make recommendations as to whether the relevant matters should be authorised by the board.

PART 6: DIAGEO CAPITAL PLC

1. OVERVIEW

The Issuer, a wholly-owned subsidiary of Diageo, was incorporated under the laws of Scotland on 10 August 1964. The Issuer's registered office is at Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, Scotland with telephone number +44 (0) 131 519 2000.

The issued share capital of the Issuer comprises 200,000 ordinary shares of £1.00 each, all of which are held by Diageo. The Issuer does not know of any arrangements which may at a subsequent date result in a change of control of the Issuer.

The Issuer is a financing vehicle for Diageo and its consolidated subsidiaries. The Issuer has no independent operations, other than holding cash and U.S. government securities from time to time. The Issuer will lend substantially all proceeds of its borrowings to Diageo or to one or more of Diageo's subsidiaries that are operating companies.

2. DIRECTORS

The officers of the Issuer and their respective business occupations are set out below. The business address of each of the officers is at Lakeside Drive, Park Royal, London NW10 7HQ.

Name	Business Occupation
David Harlock	Director
Vinod Rao	Director
Prabhakaran Viswanathan	Director
Monika Pais	Director
James Edmunds	Director, Company Secretary

None of the directors hold directorships of companies or institutions outside the Diageo Group.

There are no existing or potential conflicts of interest between any duties of the directors of the Issuer and/or their private interests and other duties. At 31 December 2017 the directors had no interests in the share capital of the Issuer. At 31 December 2017 the aggregate interests of directors in the ordinary shares of Diageo including their share options and conditional rights to acquire shares, was less than 1% of the total issued share capital of Diageo.

PART 7: UNITED KINGDOM TAXATION

The following summary describes certain UK tax implications of acquiring, holding or disposing of Notes, but it does not purport to be a comprehensive description of all of the UK tax considerations that may be relevant to a decision to acquire such securities. The summary is based on current UK tax legislation, the current published practice of Her Majesty's Revenue and Customs ("HMRC") and the terms of the UK/U.S. double taxation treaty (the "Treaty"), as appropriate, all of which are subject to change at any time, possibly with retrospective effect. The summary relates only to the position of persons who are tax resident solely in the UK and who are absolute beneficial owners of the Notes and does not deal with the position of certain classes of holders of Notes, such as dealers in securities and those who are treated as non-domiciled and resident in the UK for the purposes of UK tax law. The summary does not apply to certain types of debt securities which may be subject to special rules, such as discounted securities, convertible securities and variable rate securities.

Please consult your own tax adviser concerning the consequences of acquiring, owning and disposing of these debt securities in your particular circumstances under UK law and the laws of any other taxing jurisdiction.

Payments

Payments of principal on the Notes in accordance with the procedures described under paragraph 5.2 ("Payment and Paying Agents") of Part 3 ("Description of the Terms and Conditions of the Notes") of this Prospectus will not be subject to any deduction or withholding for or on account of UK taxation. Payments of interest on the Notes, in accordance with the described procedure, will not be subject to withholding or deduction for or on account of UK taxation so long as the Notes carry a right to interest and are either listed on a "recognised stock exchange" within the meaning of Section 1005 of the Income Tax Act 2007 or are admitted to trading on a "multilateral trading facility" operated by an "EEA- recognised stock exchange" within the meaning of Section 987 of the Income Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. The Notes will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of, and in accordance with, the provisions of Part VI of FSMA) and are admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes are, and remain, so listed, interest on the Notes will be payable without deduction or withholding for or on account of UK tax.

Where the Notes may be redeemed at a premium, then any such element of premium may constitute a payment of interest and may be paid subject to deduction or withholding for or on account of UK tax, unless an exemption applies.

In all other cases, payments will generally be made after deduction of tax at the basic rate, which is currently 20%. Certain holders of debt securities who are resident for tax purposes in the United States will generally be entitled to receive payments free of deductions on account of UK tax under the Treaty and may therefore be able to obtain a direction to that effect from HMRC. Holders of debt securities who are resident for tax purposes in other jurisdictions may also be able to receive payment free of deductions under an appropriate double taxation treaty and may be able to obtain a direction to that effect. However, such a direction will only be issued on prior application to the relevant tax authorities by the holder in question. In each case, if such a direction is not given, the person making the payment will be required to withhold tax, although a holder of debt

securities resident for tax purposes in the United States or another jurisdiction who is entitled to relief may be able to subsequently claim the amount withheld from HMRC.

The interest on the Notes may be chargeable to UK tax by direct assessment even if the interest is paid without withholding or deduction. However, the interest will not generally be assessed to UK tax by direct assessment in the hands of a person who is not resident for tax purposes in the UK unless that person carries on a trade, profession or vocation in the UK through a permanent establishment, branch or agency in the UK in connection with which the interest is received or to which those debt securities are attributable. There are certain exceptions for interest received by certain categories of agents.

Guarantee Payments

If Diageo makes any payments under the guarantee in respect of interest on the Notes (or other amounts due on the Notes, other than payments in respect of principal) such payments may be subject to UK withholding tax at the basic rate (currently 20%) subject to any available relief under an applicable double taxation treaty or to any other exemption which may apply. Such payments by Diageo may not be eligible for the exemptions described in the paragraph entitled "*Payments*" above.

PART 8: SELLING RESTRICTIONS

United States

Diageo has filed a registration statement with the SEC for the offering of the Notes to which this Prospectus relates. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy securities either in the United States or any other jurisdiction, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration and qualification under the securities laws of any such jurisdiction. Any public offering of securities in the United States is being made solely by means of a prospectus supplement to the prospectus included in the registration statement filed with the SEC by Diageo, the Issuer and Diageo Investment Corporation. The prospectus in that registration statement (which is different from this Prospectus) and the prospectus supplement and other documents Diageo has filed with the SEC contains information about Diageo and the offering of the Notes. You may get these documents for free by visiting EDGAR on the SEC web site at www.sec.gov.

United Kingdom

Financial Promotion Order

In the United Kingdom, this document is being distributed only to, and is directed only at, qualified investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”) or who fall within Article 49(2)(a) to (d) of the Order, or (ii) to whom it may otherwise lawfully be communicated (all such persons being referred to as “**relevant persons**”). This document is directed only at relevant persons in the United Kingdom and must not be acted on or relied on in the United Kingdom, by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only in the United Kingdom, to relevant persons and will be engaged in only with such persons.

FSMA

Each underwriter:

- (A) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuers or the Guarantors; and
- (B) has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

EEA*Prohibition of Sales to retail investors*

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes the expression “retail investor” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of European Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation and/or the Prospectus Directive.

Mifid II Product Governance

Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers target market assessment) and determining appropriate distribution channels.

Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) (“**Companies (Winding Up and Miscellaneous Provisions) Ordinance**”) or which do not constitute an invitation to the public within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (“**Securities and Futures Ordinance**”), or (ii) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” in Hong Kong as defined in the Securities and Futures Ordinance and any rules made thereunder.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”)) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to conditions set forth in the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, the securities (as defined in Section 239(1) of the SFA) of that corporation shall not be transferable for 6 months after that corporation has acquired the Notes under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer in that corporation’s securities pursuant to Section 275(1A) of the SFA, (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore (“**Regulation 32**”).

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor, the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that trust has acquired the Notes under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer that is made on terms that such rights or interest are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction (whether such amount is to be paid for in cash or by exchange of securities or other assets), (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended), or the FIEA. The Notes may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan (including any person resident in Japan or any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration

requirements of the FIEA and otherwise in compliance with any relevant laws and regulations of Japan.

Canada

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

PART 9: GENERAL INFORMATION

3. Authorisation

The Issuer and Diageo have obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was approved by a resolution of the Board of Directors of the Issuer passed on 11 May 2018 and a committee of the Board of Directors of Diageo on 9 April 2018.

4. Listing

The listing of the Notes on the Official List of the UK Listing Authority and the admission to trading of the Notes on the London Stock Exchange's regulated market are both expected to take effect on or around 13 June 2018.

5. Clearing Systems

The Notes have been accepted for clearance through DTC, Clearstream, Luxembourg and Euroclear the ISINs and CUSIP numbers for the Notes are:

	CUSIP	ISIN
Floating Rate Notes	25243Y AW9	US25243YAW93
2020 Notes	25243Y AX7	US25243YAX76
2023 Notes	25243Y AY5	US25243YAY59
2028 Notes	25243Y AZ2	US25243YAZ25

6. No Significant Change and No Material Adverse Change

There has been no significant change in the financial or trading position of Diageo and its respective subsidiaries since 31 December 2017, and, there has been no material adverse change in the prospects of Diageo and its respective subsidiaries since 30 June 2017.

There has been no significant change in the financial or trading position of the Issuer since 30 June 2017, and no material adverse change in the prospects of the Issuer since 30 June 2017.

7. Litigation

Save as disclosed on pages 58 to 65 of this Prospectus in respect of the litigation proceedings described in the section entitled "*Legal Proceedings*" the Issuer, Diageo and its subsidiaries are not, nor have been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the

Issuer or Diageo, as the case may be, are aware) which may have, or have had in the 12 months preceding the date of this document, a significant effect on the financial position or profitability of the Issuer or Diageo and its subsidiaries.

8. Auditors

Diageo and the Issuer have accounting year ends of 30 June. PricewaterhouseCoopers LLP have been appointed as sole auditors of Diageo and the Issuer. The address of PricewaterhouseCoopers LLP is One Embankment Place, London, WC2N 6RH.

The consolidated financial statements of Diageo in respect of the years ended 30 June 2017 and 30 June 2016 were audited, without qualification by PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors. The financial statements of the Issuer in respect of the years ended 30 June 2017 and 30 June 2016 were audited, without qualification by PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors.

No other information referred to in this Prospectus has been audited by PricewaterhouseCoopers LLP.

The Diageo Group accounts are consolidated and prepared in accordance with IFRS. The statutory accounts of the Issuer are prepared in accordance applicable law and UK Generally Accepted Accounting Practice.

9. Documents Available for Inspection

For so long as any Notes shall be outstanding, copies of the following documents may be inspected during normal business hours at the registered offices of the Issuer and Diageo, namely:

- (A) the constitutional documents of each of the Obligors;
- (B) this Prospectus together with any supplements and/or amendments;
- (C) the Indenture;
- (D) the audited annual financial statements (on a consolidated basis and including the auditor's report thereon and notes thereto) of Diageo in respect of the financial years ended 30 June 2017 and 30 June 2016;
- (E) the unaudited interim results of Diageo for the six months ended 31 December 2017; and
- (F) the audited annual financial statements (on an entity basis and including the auditor's report thereon and notes thereto) of the Issuer in respect of the financial years ended 30 June 2017 and 30 June 2016;
- (G) the Annual Report on Form 20-F of Diageo in respect of the year ended 30 June 2017, excluding the exhibits set out at pages 285 and 286 therein referred to as being incorporated by reference;

- (H) the Form 6-K filed with the SEC relating to, *inter alia*, the unaudited interim results of Diageo for the six months ended 31 December 2017; and
- (I) the Form 6-K filed with the SEC on 18 May 2018 relating to the Notes.

10. Yield

On the basis of their asking price as at 18 May 2018:

- (A) the yield to maturity of the 2020 Notes as at such date was 3.027% on an annual basis;
- (B) the yield to maturity of the 2023 Notes as at such date was 3.547% on an annual basis; and
- (C) the yield to maturity of the 2028 Notes as at such date was 3.920% on an annual basis.

These historic yields are not an indication of future yields.

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