

# DIAGEO

## DIAGEO plc

(Incorporated with limited liability in England and Wales with registered number 23307)

### as Issuer and Guarantor

## DIAGEO FINANCE plc

(Incorporated with limited liability in England and Wales with registered number 213393)

### as Issuer

## Programme for the Issuance of Debt Instruments

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*This Base Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "FCA"), in its capacity as competent authority under the Financial Services and Markets Act 2000 as amended ("FSMA") (the "U.K. Listing Authority"), the U.K. Listing Authority being the United Kingdom's competent authority for the purposes of Directive 2003/71/EC as amended (including by any relevant implementing measure in the relevant Member State of the European Economic Area) (the "Prospectus Directive") as a base prospectus issued in compliance with Article 5.4 of the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to debt instruments (the "Instruments") issued under the programme (the "Programme") described in this Prospectus during the period of twelve months after the date hereof. Application has been made to the U.K. Listing Authority for Instruments issued under the Programme to be admitted to the Official List of the U.K. Listing Authority (the "Official List"). Application has also been made to the London Stock Exchange plc (the "London Stock Exchange") for Instruments issued under the Programme during the period of the twelve months from on or about the date of this document to be admitted to trading on the London Stock Exchange's Regulated Market (the "Market"). The Market is a regulated market for the purposes of European Council Directive 2004/39/EC (the "Markets in Financial Instruments Directive"). The U.K. Listing Authority may be requested by the Issuers to provide other competent authorities in the European Economic Area with a certificate of approval so that application may be made for Instruments issued under the Programme to be admitted to trading on other regulated markets in the European Economic Area. References in this Prospectus to Instruments being "listed" (and all related references) shall mean that such Instruments have been admitted to trading on the Market and have been admitted to the Official List.*

*The Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any other United States jurisdiction and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons unless the Instruments are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. Registered Instruments (as defined herein) are subject to certain restrictions on transfer (see "Subscription and Sale").*

*In the case of any Instruments which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Instruments). The Instruments may be held in a manner which will allow Eurosystem eligibility. This simply means that the Instruments may upon issue be deposited with Clearstream Banking, société anonyme, or Euroclear Bank S.A./N.V. as one of the international central securities depositories as common safekeeper and does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.*

*As at the date of this Prospectus, Diageo Plc'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. The Programme has been rated A3 by Moody's Investors Service Ltd, A- by Standard & Poor's and A- by Fitch Ratings Ltd. Each of Moody's Investors Service Ltd, Standard & Poor's and Fitch Ratings Ltd is established in the European Union and is registered under Regulation (EC) No. 1060/2009 as amended (the "CRA Regulation"). The rating of certain Series of Instruments to be issued under the Programme may be specified in the applicable Final Terms.*

*Where an issue of Instruments is rated, such rating will be specified in the relevant Final Terms and its rating will not necessarily be the same as the rating applicable to the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.*

*See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Instruments*

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**Arranger for the Programme**  
**MORGAN STANLEY**  
**Dealers**

BARCLAYS  
CITIGROUP  
DEUTSCHE BANK  
HSBC  
MORGAN STANLEY  
SANTANDER GLOBAL CORPORATE BANKING  
THE ROYAL BANK OF SCOTLAND

BOFA MERRILL LYNCH  
CREDIT SUISSE  
GOLDMAN SACHS INTERNATIONAL  
J.P. MORGAN  
NOMURA  
STANDARD CHARTERED BANK  
UBS INVESTMENT BANK

*The date of this Prospectus is 31 May 2016*

Each of Diageo plc (“**Diageo**”) and Diageo Finance plc (each an “**Issuer**” and together the “**Issuers**”) and Diageo as guarantor (the “**Guarantor**”) (together with the Issuers, the “**Obligors**” and each an “**Obligor**”) accepts responsibility for the information contained in this Prospectus and any applicable Final Terms in relation to Instruments issued by it. 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.

Any reference in this Prospectus to “**Base Prospectus**” means this Prospectus including the information incorporated by reference as detailed on page 5. The Issuers and the Guarantor have confirmed that the exhibits expressly excluded from being incorporated by reference in the information incorporated by reference at (4) on page 5, has not been and does not need to be included in the Base Prospectus to satisfy the requirements of the Prospectus Directive or FSMA.

Each of the Obligors has confirmed to the dealers (the “**Dealers**”) named under “*Subscription and Sale*” below that, having regard to the matters set out in section 80(4) of FSMA (which shall be deemed to be included in this paragraph as if set out herein), this Prospectus contains all such information as investors and their professional advisers could reasonably require, and reasonably expect to find here, for the purpose of making an informed assessment of: (a) the assets and liabilities, financial position, profits and losses and prospects of each Obligor; and (b) the rights attaching to the relevant Instruments, that this Prospectus is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and based on reasonable assumptions and that there are no other facts in relation thereto the omission of which would, in the context of the Programme or the issue of the relevant Instruments, make any statement in this Prospectus or the opinions or intentions expressed herein misleading in any material respect, and all reasonable enquiries have been made to verify the foregoing.

Copies of each Final Terms (in the case of Instruments admitted to the Official List or Instruments listed otherwise than on the Official List) will be available from the registered office of the relevant Obligor and from the offices of the Issue and Paying Agent (as defined herein) for the time being in London and set out at the end of this Prospectus. Copies of each Final Terms (where the Instruments to which such Final Terms relate are not admitted to trading on a regulated market within the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive) will be available for inspection at the offices of the relevant Issuer and the Issue and Paying Agent for the time being in London by the holder of such an Instrument upon production of evidence satisfactory to the Issuer or the Issue and Paying Agent (as the case may be) as to the identity of such holder.

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). Further, in relation to any Series (as defined herein) of Instruments, this Prospectus should be read and construed together with the relevant Final Terms(s) (as defined herein).

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 and the relevant Final Terms or any other document entered into in relation to the Programme 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 or any Dealer.

NO REPRESENTATION OR WARRANTY IS MADE OR IMPLIED BY ANY OF THE DEALERS OR ANY OF THEIR RESPECTIVE AFFILIATES AND NONE OF THE DEALERS OR THEIR RESPECTIVE AFFILIATES MAKES ANY REPRESENTATION OR WARRANTY OR ACCEPTS ANY RESPONSIBILITY AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS PROSPECTUS. NEITHER THE DELIVERY OF THIS PROSPECTUS OR ANY FINAL TERMS NOR THE OFFERING, SALE OR DELIVERY OF ANY INSTRUMENT SHALL, IN ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED IN THIS PROSPECTUS IS TRUE SUBSEQUENT TO THE DATE HEREOF OR THE DATE UPON WHICH THIS PROSPECTUS HAS BEEN MOST RECENTLY AMENDED OR SUPPLEMENTED OR THAT THERE HAS BEEN NO ADVERSE CHANGE IN THE FINANCIAL SITUATION OF ANY OBLIGORS SINCE THE DATE HEREOF OR, IF LATER, THE DATE UPON WHICH THIS PROSPECTUS HAS BEEN MOST RECENTLY AMENDED OR SUPPLEMENTED OR THAT ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE PROGRAMME IS CORRECT AT ANY TIME SUBSEQUENT TO THE DATE ON WHICH IT IS SUPPLIED OR, IF DIFFERENT, THE DATE INDICATED IN THE DOCUMENT CONTAINING THE SAME.

The distribution of this Prospectus and any Final Terms and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus or any Final Terms comes are required by the Obligors and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of this Prospectus

or any Final Terms and other offering material relating to the Instruments see “*Subscription and Sale*” below. In particular, Instruments have not been and will not be registered under the United States Securities Act of 1933 (as amended) and may include Instruments in bearer form which are subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to U.S. persons.

**Neither this Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Instruments and should not be considered as a recommendation by any of the Obligors or the Dealers that any recipient of this Prospectus or any Final Terms should subscribe for or purchase any Instruments. Each recipient of this Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of each Obligor. Neither this Prospectus nor any Final Terms may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.**

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

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Instruments, the merits and risks of investing in the relevant Instruments 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 Instruments 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 Instruments, 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 Instruments 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.

Some Instruments 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. A potential investor should not invest in Instruments which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Instruments will perform under changing conditions, the resulting effects on the value of such Instruments and the impact this investment will have on the potential 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 potential investor should consult its legal advisers to determine whether and to what extent: (i) Instruments are legal investments for it; (ii) Instruments can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Instruments. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Instruments under any applicable risk-based capital or similar rules.

## **STABILISATION**

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF INSTRUMENTS, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) IN THE APPLICABLE FINAL TERMS (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) MAY OVER-ALLOT INSTRUMENTS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE INSTRUMENTS OF THE SERIES OF WHICH SUCH TRANCHE OF INSTRUMENTS FORMS PART AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF INSTRUMENTS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF INSTRUMENTS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF INSTRUMENTS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

## 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 2015 (as set out at pages 85 to 139 of the Annual Report of Diageo for the year ended 30 June 2015) and 30 June 2014 (as set out at pages 84 to 138 of the Annual Report of Diageo for the year ended 30 June 2014);
2. the unaudited interim results of Diageo for the six months ended 31 December 2015; and
3. the audited annual financial statements (on an entity basis and including the auditor's report thereon and notes thereto) of Diageo Finance plc in respect of the financial years ended 30 June 2015 and 30 June 2014;
4. the Annual Report on Form 20-F of Diageo in respect of the year ended 30 June 2015, excluding the exhibits set out at pages 261 to 262 therein referred to as being incorporated by reference;
5. the Form 6-K filed with the U.S. Securities and Exchange Commission on 4 February 2016 relating to, inter alia, the unaudited interim results of Diageo plc for the six months ended 31 December 2015; and
6. the terms and conditions of the Instruments as set out at pages 21 to 48 of the prospectus dated 29 September 2006, pages 19 to 42 of the prospectus dated 27 September 2007, pages 20 to 47 of the prospectus dated 22 September 2008, pages 21 to 43 of the prospectus dated 9 May 2014 and pages 21 to 43 of the prospectus dated 22 May 2015 and prepared by the Issuers and the Guarantor in connection with the Programme,

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 financial statements for Diageo Finance plc as detailed in paragraph 3 above were prepared in accordance with applicable law and UK Generally Accepted Accounting Practice. The financial statements of Diageo Finance plc which are incorporated by reference in this part of the Prospectus are presented and prepared in a form materially consistent with that which will be adopted in Diageo Finance plc's next published financial statements, having regard to accounting standards and policies and legislation applicable to such annual financial statements.

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 relevant Issuer at its registered office as set out at the end of this Prospectus and marked for the attention of Company Secretariat; (ii) from the offices of the Issue and Paying Agent (as defined herein) for the time being in London; or (iii) 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>.

## 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, among others, competitive pricing and activities, economic slowdown, industry consolidation, access to credit markets, recruitment levels, reputational risks, commodity prices, continued availability of raw materials, prioritisation of projects, consumption levels, costs, the ability to maintain and manage key customer relationships and supply chain sources, currency values, interest rates, the ability to integrate acquisitions and complete planned restructuring activities, physical risks, environmental risks, the ability to manage regulatory, tax and legal matters and resolve pending matters within current estimates, legislative, fiscal and regulatory developments, political, economic and social conditions in the geographic markets where the Obligors operate and new or changed priorities of the board of directors of each of the Obligors.

### **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 for use in connection with any subsequent issue of Instruments in compliance with 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 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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## OVERVIEW OF THE PROGRAMME

The following is a brief overview 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 an investment in the Instruments and, in relation to any Instruments, in conjunction with the relevant Final Terms and, to the extent applicable, the “*Terms and Conditions of the Instruments*” set out herein.

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “*Terms and Conditions of the Instruments*” below or elsewhere in this Prospectus have the same meanings in this overview.

**Issuers:** Diageo and Diageo Finance plc. In the event of any other subsidiary being appointed as an issuer, a new prospectus will be prepared on behalf of that subsidiary amending and restating the Base Prospectus.

**Guarantor:** Diageo (in the case of an issue of Instruments by Diageo Finance plc).

**Description of Issuers and Guarantor:** Diageo was incorporated as Arthur Guinness Son & Company Limited on 21 October 1886. The 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 (as defined below).

Diageo Finance plc is a wholly owned subsidiary of Diageo and was incorporated as a private limited company in England and Wales in 1926 and re-registered as a public limited company in 1981. Diageo Finance plc acts as a financing vehicle for the Diageo group’s operating companies.

Detailed descriptions of the Issuers and the Guarantor are set out below in “*Diageo plc*” and “*Diageo Finance plc*”.

**Arranger:** Morgan Stanley & Co. International plc.

**Dealers:** Banco Santander, S.A., Barclays Bank PLC, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc, Nomura International plc, The Royal Bank of Scotland plc, Standard Chartered Bank, UBS Limited and any other dealer appointed from time to time by the Issuers either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Instruments. Each issue of Instruments denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see under “*Subscription and Sale*”).

**Issue and Paying Agent:** Citibank, N.A., London Branch.

**Registrar:** Citibank, N.A., London Branch.

**Programme Amount:** There is no limit on the amount of Instruments that may be issued under the Programme.

**Issuance in Series:** Instruments will be issued in series (each, a “**Series**”). Each Series may comprise one or more tranches (“**Tranches**” and each, a “**Tranche**”) with the same maturity date. The Instruments of each Series will all be subject to identical terms, except that the issue date, the issue price and the amount of the first payment of interest may be different in respect of different Tranches. The Instruments of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Instruments of different denominations and Instruments in bearer form or registered form. Further Instruments may be issued as part of any existing Series.

**Form of Instruments:** Instruments may be issued in bearer form or in registered form. Instruments issued in bearer form may be issued in New Global Note (“**NGN**”) form. In respect of each Tranche of Instruments issued in bearer form, the Issuer will deliver a temporary global Instrument (a “**Temporary Global Instrument**”) or (if so specified in the relevant Final Terms in respect of Instruments to which U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (the “**TEFRA C Rules**”) applies (as so specified in such Final Terms)) a permanent global Instrument (a “**Permanent Global Instrument**”). Each such global Instrument will either (i) if the global Instruments are not intended to be issued in NGN form (as so specified in the relevant Final Terms) be deposited on or before the relevant issue date therefor with a common



depository for Euroclear Bank S.A./N.V. (“**Euroclear**”) and/or Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) and/or any other relevant clearing system or (ii) if the global Instruments are intended to be issued in NGN form (as so specified in the relevant Final Terms) be deposited on or before the relevant issue date therefor with a common safekeeper (the “**Common Safekeeper**”) for Euroclear and Clearstream, Luxembourg and the relevant clearing system(s) will be notified whether or not such global Instruments are intended to be held in a manner which would allow Eurosystem eligibility. Each Temporary Global Instrument will be exchangeable for a Permanent Global Instrument or if so specified in the relevant Final Terms, for Instruments in definitive bearer form (“**Definitive Instruments**”) and/or (if so specified in the relevant Final Terms) registered form in accordance with its terms (“**Registered Instruments**”). Each Permanent Global Instrument will be exchangeable for Definitive Instruments and/or (if so specified in the relevant Final Terms) Registered Instruments in accordance with its terms. (See further under “*Provisions Relating to the Instruments whilst in Global Form*” below). Definitive Instruments will, if interest-bearing, either have interest coupons (“**Coupons**”) attached and, if appropriate, a talon (“**Talon**”) for further Coupons. Each Instrument issued in registered form shall represent the entire holding of Registered Instruments by the same holder. A Registered Instrument may be registered in the name of a nominee for one or more clearing systems and such an Instrument is referred to herein as a “**Global Registered Instrument**”. Instruments in registered form may not be exchanged for Instruments in bearer form.

**Currencies:** Instruments may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Instruments may, subject to compliance as aforesaid, be issued as multi-currency Instruments.

Payments in respect of Instruments may, subject to compliance as aforesaid, be made in, and/or linked to, any currency or currencies other than the currency in which such Instruments are denominated.

**Status of Instruments:** Instruments will be issued on an unsubordinated basis.

**Guarantee:** Under the terms of the Guarantee (as defined below), the Guarantor irrevocably and unconditionally guarantees the due and punctual payment of all amounts due by Diageo Finance plc.

**Status of Guarantee:** The obligations of the Guarantor under the Guarantee constitute direct, unsubordinated and (subject to the provisions of Condition 5 in “*Terms and Conditions of the Instruments*”) unsecured obligations of the Guarantor and claims under the Guarantee will rank at least *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor, present and future, save only for such obligations as may be preferred by mandatory provisions of applicable law.

**Issue Price:** Instruments may be issued at any price and on a fully paid basis, as specified in the relevant Final Terms.

**Maturities:** Any maturity subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

**Redemption:** Instruments may be redeemable at par or at such other redemption amount as may be specified in the relevant Final Terms.

Unless permitted by then current laws and regulations, Instruments (including Instruments denominated in Sterling) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies) or be issued in other circumstances which do not constitute a contravention of section 19 of the FSMA by the relevant Issuer.

**Early Redemption:** Early redemption will be permitted for taxation reasons as mentioned in “*Terms and Conditions of the Instruments – Early Redemption or Substitution for Taxation Reasons*”, but will otherwise be permitted only to the extent specified in the relevant Final Terms.

**Interest:** Instruments may be interest-bearing or non-interest-bearing. Interest (if any) may accrue on the Instruments at a fixed or floating rate (respectively, “**Fixed Rate Instruments**” and “**Floating Rate Instruments**”) and may vary during the lifetime of the relevant Series of Instruments.

**Denominations:** Instruments will be issued in such denominations as may be specified in the relevant Final Terms (subject to compliance with all applicable legal and/or regulatory and/or central bank requirements), save that (i) in the case of any Instruments which are to be admitted to trading on a regulated market within the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive, the

minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Instruments); and (ii) unless otherwise permitted by then current laws and regulations, Instruments (including Instruments denominated in Sterling) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom whose issue otherwise constitutes a contravention of section 19 FSMA and which have a maturity of less than one year must have a minimum denomination of £100,000 (or its equivalent in other currencies as at the date of issue of the Instruments).

**Taxation:** Payments in respect of Instruments and the Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the country of incorporation of the relevant Issuer or (if applicable) the Guarantor or, if different, the country of tax residence of the relevant Issuer or (if applicable) the Guarantor, or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or by the administration or official interpretation thereof. In that event, the relevant Issuer or the Guarantor will (subject to certain exceptions set out in Condition 9 of the Terms and Conditions of the Instruments) pay such additional amounts as will result in the holders of Instruments or Coupons receiving such amounts as they would have received in respect of such Instruments or Coupons had no such withholding or deduction been required.

**Governing Law:** The Instruments and all non-contractual obligations arising out of or in connection with the Instruments will be governed by English law.

**Listing:** Each Series may be admitted to the Official List and admitted to trading on the Market and/or listed or traded on any other stock exchange as may be agreed between the relevant Issuer and the relevant Dealer and specified in the relevant Final Terms.

**Terms and Conditions:** A Final Terms will be prepared in respect of each Tranche of Instruments, a copy of which, in the case of Instruments to be listed on the Official List, will be delivered to the U.K. Listing Authority on or before the date of issue (the closing date) of such Instruments. The terms and conditions applicable to each Tranche will be those set out herein under “*Terms and Conditions of the Instruments*” as supplemented, modified or replaced by the relevant Final Terms.

**Enforcement of Instruments in Global Form:** In the case of Instruments in global form, individual investors’ rights will be governed, in respect of each Issuer, by a Deed of Covenant dated 31 May 2016, a copy of which is available for inspection at the specified office of the relevant Issuer and the Issue and Paying Agent for the time being in London.

**Negative Pledge:** “*Terms and Conditions of the Instruments*” below includes a negative pledge by the Guarantor and each Restricted Subsidiary as set forth therein.

**Events of Default:** The events of default under the Instruments and as specified in “*Terms and Conditions of the Instruments*” below.

**Clearing Systems:** Euroclear, Clearstream, Luxembourg and/or any other clearing system as may be specified in the relevant Final Terms.

**Ratings:** As at the date of this Prospectus, Diageo Plc’s long term senior debt ratings are A3 by Moody’s Investors Service Ltd, A- by Standard & Poor’s and A- by Fitch Ratings Ltd.

The Programme has been rated A3 by Moody’s Investors Service Ltd, A- by Standard & Poor’s and A- by Fitch Ratings Ltd.

Each of Moody’s Investors Service Ltd, Standard & Poor’s and Fitch Ratings Ltd is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (the “**CRA Regulation**”).

The rating of certain Series of Instruments to be issued under the Programme may be specified in the applicable Final Terms.

Where an issue of Instruments is rated, such rating will be specified in the relevant Final Terms and its rating will not necessarily be the same as the rating applicable to the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

**Selling Restrictions:** For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of offering material in the United States of America, the United Kingdom, the Netherlands, France, Japan, the European Economic Area and elsewhere see under “*Subscription and Sale*”.

## RISK FACTORS

The Obligors believe that the following factors may affect their ability to fulfil their respective obligations under the Instruments issued under the Programme. 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 Instruments are also described below.

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

Words and expressions defined in “*Terms and Conditions of the Instruments*” below or elsewhere in this Prospectus have the same meanings in this section.

Prospective investors should consider, among other things, the following:

### **Business risk factors**

Diageo and its consolidated subsidiaries (the “**Diageo group**”) believe the following to be the principal risks and uncertainties facing the Diageo group. 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 ongoing uncertain 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 group’s performance, financial condition and liquidity. The Diageo group has taken and may take further steps to manage its business through this challenging economic environment and to position its business to benefit from economic recovery as and when that may occur in the markets in which the Diageo group operates, but there can be no assurance that the steps taken will have the intended results.

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.

*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. The Diageo group’s business is dependent on general economic conditions in the United States, countries that form the European Union and other important markets. If the economy in any of these markets does not recover as forecast, or if there is a significant deterioration in the economic conditions in any of the Diageo group’s important markets, including any resulting social unrest, reduction in consumer confidence and spending levels, customer destocking, the failure of customer, supplier or financial counterparties or a reduction in the availability of, or an increase in the cost of financing to, Diageo, it could have a material adverse effect on the Diageo group’s business and performance. 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 to grant more devolved powers to the Scottish parliament has been introduced. Diageo will monitor the passage of this Bill. 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. Regarding Britain's place in Europe, on 23 June 2016, the current government in the United Kingdom has undertaken to conduct a referendum on the UK's continued membership of the European Union. The UK's withdrawal from the EU would involve a sustained period of uncertainty and complexity which could have an adverse effect on the Diageo group's operations and profitability. 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 43% of the Diageo group's net sales for the year ended 30 June 2015, 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 expanding its business in certain countries where consumer spending in general, and spending on the Diageo group's products in particular, has not historically been as great but where there are strong prospects for growth. 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

*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 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 may shift due to a variety of factors including changes in demographic and social trends, 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. 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 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 the creation of brand extensions and product innovation remains a significant element of the Diageo group's growth plans. The launch and ongoing success of new products is inherently uncertain, especially as to their appeal to consumers. The failure to launch successfully 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.

*The Diageo group is subject to litigation 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 litigation relating to alcohol advertising, product liability, alcohol abuse problems or 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. Diageo is further subject to the risk of litigation by tax, customs and other regulatory authorities, including with respect to the methodology for assessing importation value, transfer pricing or compliance matters. 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. Any such litigation may result in damages, penalties or fines as well as reputational damage to Diageo 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, see pages 51 to 54 of this Prospectus and note 18 to the consolidated financial statements of the Diageo group.

*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 has a negative effect on agricultural productivity, Diageo 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.

*An increase in the cost of raw materials or energy could affect the Diageo group's profitability*

The components that Diageo 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 uncertainty and/or governmental controls. Commodity price changes may result in unexpected increases in the cost of raw materials, glass bottles, flavours and other packaging materials and the Diageo group's beverage products. Diageo 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. Diageo may not be able to increase its prices to offset these increased costs without suffering reduced volume, sales and operating profit.

*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 products. Regulatory authorities under whose laws the Diageo group operates may also have enforcement power that can subject the 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.

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 duties could have a significant adverse effect on the Diageo group's sales revenue or margin, both through reducing overall consumption and by encouraging consumers to switch to lower taxed categories of beverage alcohol.

The Diageo group's reported after tax income is calculated based on extensive tax and accounting requirements in each of its relevant jurisdictions of operation. Changes in tax law (including tax rates), accounting policies and accounting standards could materially reduce the Diageo group's reported after tax income.

*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 and the UK Bribery Act. 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. 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.

*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.

*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 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, industry consolidation or realignment is still 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 Diageo's results and growth potential.

*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*

The Diageo group's strategy is to focus on premium drinks and to grow its business through organic sales, operating profit growth and the acquisition of premium drinks brands that add value for shareholders.

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 United Spirits Limited detailed in note 18 to the consolidated financial statements of the Diageo group provide an example of integration challenges.

Similarly, there can be no assurance that the cost saving or restructuring programmes implemented by the Diageo group in order to improve efficiencies and deliver cost savings will deliver the expected benefits. The Diageo group continues to undertake change programmes designed to improve 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.

*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.

Diageo may 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 them. A bad 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.

*The Diageo group's operating results may be adversely affected by increased costs or shortages of talent*

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.

*The Diageo group's operating results may be adversely affected by disruption to production facilities, business service centres or information systems*

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.



*Diageo'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*

Diageo 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, Diageo may need to make significant contributions to the pension funds in the future.

Furthermore, if the market values of the assets held by Diageo'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 Diageo'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.

Diageo 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 30% of Diageo's net sales in the year ended 30 June 2015 were in U.S. dollars, approximately 11% were in euros and approximately 18% were 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.

*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.

*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.

### **Risks related to the structure of a particular issue of Instruments**

A wide range of Instruments may be issued under the Programme. A number of these Instruments may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

*Instruments subject to redemption by the Issuer*

An optional redemption feature is likely to limit the market value of the Instruments. During any period when the Issuer may elect to redeem Instruments, the market value of those Instruments generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

An Issuer may be expected to redeem Instruments when their cost of borrowing is lower than the interest rate on the Instruments. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Instruments being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Alternatively, Instruments may be issued with no maturity date and an Issuer is under no obligation to redeem such Instruments and the holders of such Instruments have no right to call for their redemption (save as permitted pursuant to the relevant Final Terms).

#### *Fixed/Floating Rate Instruments*

Fixed/Floating Rate Instruments may bear interest at a rate that an Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. An Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Instruments since such Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If an Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Instruments may be less favourable than then prevailing spreads on comparable Floating Rate Instruments tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Instruments. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Instruments.

#### *Instruments issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

#### **Risks related to Instruments generally**

Set out below is a brief description of certain risks relating to the Instruments generally:

#### *Modification, waivers and substitution*

The Terms and Conditions of the Instruments contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

#### *European Monetary Union*

If the United Kingdom joins the European Monetary Union prior to the maturity of the Instruments, there is no assurance that this would not adversely affect investors in the Instruments. It is possible that prior to the maturity of the Instruments the United Kingdom may become a participating Member State and that the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of any Instruments denominated in Sterling may become payable in euro; (ii) the law may allow or require such Instruments to be redenominated into euro and additional measures to be taken in respect of such Instruments; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on such Instruments or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Instruments.

#### *Change of law*

The relevant Terms and Conditions of the Instruments are based on English law in effect as at the date of issue of the relevant Instruments. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Instruments.

#### *U.S. Foreign Account Tax Compliance Withholding*

Under Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("FATCA"), any Issuer or, as the case may be, the Guarantor (and other financial institutions through which payments on the Instruments are made) may be required to withhold U.S. tax at a rate of up to 30 per cent. on all, or a portion of, payments made after

31 December 2016 in respect of the Instruments unless, in each case, the recipient of the payment complies with certain certification and identification requirements.

If an amount were to be deducted or withheld from interest, principal or other payments on the Instruments on account of FATCA (or any regulations enacted or agreements entered into pursuant to or in connection with FATCA), neither any Issuer (nor, as the case may be, the Guarantor) nor any paying agent nor any other person would, pursuant to the Terms and Conditions of the Instruments, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, if payments in respect of the Instruments are subject to FATCA withholding, investors may receive less interest, principal or other payments (as the case may be) than expected.

The United States and the UK have entered into an agreement for the implementation of FATCA to Improve International Tax Compliance and to Implement FATCA (the "US-UK IGA"). Pursuant to FATCA and the US-UK IGA, a United Kingdom Financial Institution (as defined in the US-UK IGA) in compliance with the UK implementing legislation of the US-UK IGA would not be subject to withholding under FATCA on payments it receives and generally would not be required to withhold under FATCA from payments it makes,

#### *Instruments where denominations involve integral multiples: definitive Instruments*

In relation to any Instruments which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of a smaller amount, it is possible that such Instruments may be traded in the clearing systems in amounts that are not integral multiples of the minimum Specified Denomination (or its equivalent). In such a case, should Definitive Instruments be required to be issued, holders of Instruments who hold Instruments in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination shown in the Final Terms may need to purchase or sell, on or before the relevant date on which a Global Instrument is exchanged for a Definitive Instrument, a principal amount of Instruments such that their holding is an integral multiple of a Specified Denomination shown in the Final Terms.

If Definitive Instruments are issued, holders should be aware that Definitive Instruments which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

#### *Other parties*

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

### **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:

#### *The secondary market generally*

Instruments may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Instruments 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 Instruments 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 Instruments 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 Instruments.

#### *Exchange rate risks and exchange controls*

An Issuer will pay principal and interest on the Instruments, and the Guarantor will make any payments under the Guarantee, in the currency specified in the applicable Final Terms (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 Instruments, (ii) the Investor's Currency equivalent value of the principal payable on the Instruments and (iii) the Investor's Currency equivalent market value of the Instruments.

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.

*Interest rate risks*

Investment in Fixed Rate Instruments involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Instruments.

*Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to an issue of Instruments. 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 the Instruments. 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.

## TERMS AND CONDITIONS OF THE INSTRUMENTS

*The following is the text of the Terms and Conditions of the Instruments which (subject to completion) will be applicable to each Tranche of Instruments provided, however, that the relevant Final Terms in relation to any Tranche of Instruments may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these terms and conditions, replace the following terms and conditions for the purposes of such Tranche of Instruments.*

The Instruments will be issued pursuant to and in accordance with an issue and paying agency agreement (as amended, supplemented or replaced, the “**Issue and Paying Agency Agreement**”) dated 31 May 2016 and made between Diageo plc and Diageo Finance plc (the “**Issuers**” and each an “**Issuer**”), Diageo plc as guarantor (the “**Guarantor**”), Citibank, N.A., London Branch in its capacities as issue and paying agent (the “**Issue and Paying Agent**”, which expression shall include any successor to Citibank, N.A., London Branch in its capacity as such) and as registrar (the “**Registrar**”, which expression shall include any successor to Citibank, N.A., London Branch in its capacity as such), and the paying agents named therein (the “**Paying Agents**”, which expression shall include the Issue and Paying Agent and any substitute or additional paying agents appointed in accordance with the Issue and Paying Agency Agreement). For the purposes of making determinations or calculations of interest rates, interest amounts, redemption amounts or any other matters requiring determination or calculation in accordance with the Conditions of any Series of Instruments (as defined below), the relevant Issuer may appoint a calculation agent (the “**Calculation Agent**”) for the purposes of such Instruments, in accordance with the provisions of the Issue and Paying Agency Agreement, and such Calculation Agent shall be specified in the applicable Final Terms. The Instruments of each Issuer will have the benefit of a deed of covenant (as amended, supplemented or replaced, the “**Deed of Covenant**”) dated 31 May 2016 and executed by each Issuer in relation to the Instruments. The Guarantor, for the benefit of the Holders from time to time of Instruments, has executed and delivered a deed of guarantee (as amended, supplemented or replaced, the “**Guarantee**”) dated 31 May 2016 under which it irrevocably and unconditionally guarantees the due and punctual payment of all amounts due by Diageo Finance plc or any other Issuer (other than the Guarantor) under the Instruments as and when the same shall become due and payable. Copies of the Issue and Paying Agency Agreement, the Deed of Covenant and the Guarantee are available for inspection during normal business hours at the specified office of the relevant Issuer or the Paying Agent for the time being in London. All persons from time to time entitled to the benefit of obligations under any Instruments shall be deemed to have notice of, and shall be bound by, all of the provisions of the Issue and Paying Agency Agreement, the Deed of Covenant and the Guarantee insofar as they relate to the relevant Instruments.

The Instruments are issued in series (each, a “**Series**”), and each Series may comprise one or more tranches (“**Tranches**” and each, a “**Tranche**”) of Instruments. Each Tranche will be the subject of a Final Terms (each, a “**Final Terms**”), a copy of which will be available for inspection during normal business hours at the specified office of the relevant Issuer and the Issue and Paying Agent for the time being in London. In the case of a Tranche of Instruments in relation to which application has not been made for listing on any stock exchange, copies of the Final Terms will only be available for inspection by a Holder of or, as the case may be, an Accountholder (as defined in the Deed of Covenant), in respect of such Instruments.

References in these Terms and Conditions to Instruments are to Instruments of the relevant Series and any references to Coupons (as defined in Condition 1.02) are to Coupons relating to Instruments of the relevant Series.

References in these Terms and Conditions to the “**Issuer**” are to the Issuer of Instruments of the relevant Tranche or Series.

In respect of any Instruments, references herein to these Terms and Conditions are to these terms and conditions as supplemented or modified or (to the extent thereof) replaced by the Final Terms.

### **1. Form and Denomination**

#### *Form of Instruments*

**1.01** Instruments are issued in bearer form (“**Bearer Instruments**”) or in registered form (“**Registered Instruments**”), as specified in the Final Terms, and are serially numbered. Registered Instruments are not exchangeable for Bearer Instruments.

**1.02** Interest-bearing Bearer Instruments have attached thereto at the time of their initial delivery coupons (“**Coupons**”), presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein. In addition, if so specified in the Final Terms, such Instruments have attached thereto at the time of their initial delivery a talon (“**Talon**”) for further coupons and the expression “**Coupons**” shall, where the context so requires, include Talons.

### *Denomination of Bearer Instruments*

**1.03** Bearer Instruments are in the denomination or denominations (each of which denomination is integrally divisible by each smaller denomination) specified in the Final Terms. Bearer Instruments of one denomination will not be exchangeable after the initial delivery for Bearer Instruments of any other denomination.

### *Denomination of Registered Instruments*

**1.04** Registered Instruments are in the minimum denomination specified in the Final Terms or integral multiples thereof.

### *Currency of Instruments*

**1.05** The Instruments are denominated in such currency or currencies as may be specified in the Final Terms. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

## **2. Title and Transfer**

**2.01** Title to Bearer Instruments and Coupons passes by delivery. References herein to the “**Holders**” of Bearer Instruments or of Coupons are to the bearers of such Bearer Instruments or such Coupons.

**2.02** Title to Registered Instruments passes by registration in the register which the Issuer shall procure to be held by the Registrar. For the purposes of these Terms and Conditions, “**Registrar**” means, in relation to any Series comprising Registered Instruments, the Registrar or any alternative Registrar, as specified in the Final Terms. References herein to the “**Holders**” of Registered Instruments are to the persons in whose names such Registered Instruments are so registered in the relevant register.

**2.03** The Holder of any Bearer Instrument, Coupon or Registered Instrument will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Holder.

### *Transfer of Registered Instruments and exchange of Bearer Instruments for Registered Instruments*

**2.04** A Registered Instrument may, upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement, be transferred in whole or in part only (provided that such part is, or is an integral multiple of, the minimum denomination specified in the Final Terms) upon the surrender of the Registered Instrument to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. A new Registered Instrument will be issued to the transferee and, in the case of a transfer of part only of a Registered Instrument, a new Registered Instrument in respect of the balance not transferred will be issued to the transferor.

**2.05** If so specified in the Final Terms, a Bearer Instrument (provided that all unmatured Coupons appertaining to such Instrument are surrendered therewith) may be exchanged for the same aggregate principal amount of Registered Instruments upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement. In order to exchange a Bearer Instrument for a Registered Instrument, the Holder thereof shall surrender such Bearer Instrument at the specified office outside the United States of the Issue and Paying Agent or of the Registrar together with a written request for the exchange. Each Bearer Instrument so surrendered must be accompanied by all unmatured Coupons and upon appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date (as defined in Condition 2.06) where the exchange date would, but for the provisions of Condition 2.06, occur between the Record Date (as defined in Condition 10B.03) for such payment of interest and the date on which such payment of interest falls due.

**2.06** Each new Registered Instrument to be issued upon the transfer of a Registered Instrument or the exchange of a Bearer Instrument for a Registered Instrument will, within three Relevant Banking Days of the transfer date or, as the case may be, the exchange date, be available for collection by each relevant Holder at the specified office of the Registrar or, at the option of the Holder requesting such exchange or transfer, be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. For these purposes, a form of transfer or request for exchange received by the Registrar or the Issue and Paying Agent after the Record Date in respect of any payment due in respect of Registered Instruments shall be deemed not to be effectively received by the

Registrar or the Issue and Paying Agent until the day following the due date for such payment. For the purposes of these Terms and Conditions:

- (i) “**Relevant Banking Day**” means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and, in the case only of an exchange of a Bearer Instrument for a Registered Instrument where such request for exchange is made to the Issue and Paying Agent, in the place where the specified office of the Issue and Paying Agent is located;
- (ii) the “**exchange date**” shall be the Relevant Banking Day following the day on which the relevant Bearer Instrument shall have been surrendered for exchange in accordance with Condition 2.05; and
- (iii) the “**transfer date**” shall be the Relevant Banking Day following the day on which the relevant Registered Instrument shall have been surrendered for transfer in accordance with Condition 2.04.

**2.07** The issue of new Registered Instruments on transfer or on the exchange of Bearer Instruments for Registered Instruments will be effected without charge by or on behalf of the Issuer, the Issue and Paying Agent or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Issue and Paying Agent or the Registrar may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

### **3. Status of the Instruments**

The Instruments constitute direct, unsubordinated and (subject to the provisions of Condition 5) unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, present and future but (in the event of insolvency) only to the extent permitted by applicable laws relating to creditors’ rights and applicable laws of mandatory application.

### **4. Status of the Guarantee**

The obligations of the Guarantor under the Guarantee constitute direct, unsubordinated and (subject to the provisions of Condition 5) unsecured obligations of the Guarantor and claims under the Guarantee will rank at least *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor, present and future, save only for such obligations as may be preferred by mandatory provisions of applicable law.

### **5. Negative Pledge**

**5.01** So long as any Instrument remains outstanding (as defined in the Issue and Paying Agency Agreement), the Guarantor will not, and the Guarantor will procure that no Restricted Subsidiary will, create or permit to subsist any Encumbrance on the whole or any part of any Principal Property or upon any shares or stock of any Restricted Subsidiary to secure any present or future indebtedness for borrowed money without making, or causing such Restricted Subsidiary to make, effective provision whereby the Instruments (together with, if the Guarantor shall so determine, any other indebtedness of the Guarantor or such Restricted Subsidiary then existing or thereafter created which is not subordinate to the Instruments) shall be secured equally and rateably with (or, at the option of the Guarantor or such Restricted Subsidiary, prior to) such indebtedness for borrowed money, so long as such indebtedness for borrowed money will be so secured. However, such limitation will not apply to:

- (A) any Encumbrance subsisting on or prior to the date of the Issue and Paying Agency Agreement;
- (B) any Encumbrance arising by operation of law and not securing amounts more than 90 days overdue and otherwise being contested in good faith;
- (C) judgment Encumbrances not giving rise to an Event of Default;
- (D) any Encumbrance subsisting over a Principal Property, share or stock of any Restricted Subsidiary (which becomes a Restricted Subsidiary after the date of the Issue and Paying Agency Agreement) prior to the date of such Restricted Subsidiary becoming a Restricted Subsidiary, provided that such Encumbrance was not created in contemplation of such Restricted Subsidiary becoming a Restricted Subsidiary;
- (E) any Encumbrance over any Principal Property (or documents of title thereto), shares or stock of any Restricted Subsidiary acquired by the Guarantor or any Restricted Subsidiary as security for, or for

indebtedness incurred, to finance all or part of the price of its acquisition, development, redevelopment, modification or improvement;

- (F) any Encumbrance over any Principal Property (or documents of title thereto), shares or stock of any Restricted Subsidiary which is acquired by the Guarantor or any Restricted Subsidiary subject to such Encumbrance;
- (G) any Encumbrance to secure indebtedness for borrowed money incurred in connection with a specifically identifiable project where the Encumbrance relates to a Principal Property involved in such project and acquired by the Guarantor or any Restricted Subsidiary after the date of the Issue and Paying Agency Agreement and the recourse of the creditors in respect of such indebtedness is limited to such project and Principal Property;
- (H) any Encumbrance arising solely by operation of law over any credit balance or cash held in any account with a financial institution;
- (I) rights of financial institutions to offset credit balances in connection with the operation of cash management programmes established for the benefit of the Guarantor and/or any Restricted Subsidiary;
- (J) any Encumbrance securing indebtedness of the Guarantor or any Restricted Subsidiary for borrowed money incurred in connection with the financing of accounts receivable;
- (K) any Encumbrance incurred or deposits made in the ordinary course of business, including, but not limited to:
  - (i) any mechanics', materialmen's, carriers', workmen's, vendor's or other like Encumbrances;
  - (ii) any Encumbrances securing amounts in connection with workers' compensation, unemployment insurance and other types of social security; and
  - (iii) any easements, rights-of-way, restrictions and other similar charges;
- (L) any Encumbrance upon specific items of inventory or other goods and proceeds of the Guarantor or any Restricted Subsidiary securing the Guarantor's or any such Restricted Subsidiary's obligations in respect of bankers' acceptances issued or created for the account of such person to facilitate the purchase, shipment or storage of such inventory or other goods;
- (M) any Encumbrance incurred or deposits made securing the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of like nature incurred in the ordinary course of business;
- (N) any Encumbrance on any Principal Property of the Guarantor or any Restricted Subsidiary in favour of the Federal Government of the United States or the government of any State thereof, or the government of the United Kingdom, or the European Communities, or any instrumentality of any of them, securing the obligations of the Guarantor or any Restricted Subsidiary pursuant to any contract or payments owed to such entity pursuant to applicable laws, rules, regulations or statutes;
- (O) any Encumbrance securing taxes or assessments or other applicable governmental charges or levies;
- (P) any Encumbrance securing industrial revenue, development or similar bonds issued by or for the benefit of the Guarantor or any of its Restricted Subsidiaries, provided that such industrial revenue, development or similar bonds are non-recourse to the Guarantor or such Restricted Subsidiary;
- (Q) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Encumbrance referred to in paragraphs (A) to (P) (inclusive) for amounts not exceeding the principal amount of the borrowed money secured by the Encumbrance so extended, renewed or replaced, provided that such extension, renewal or replacement Encumbrance is limited to all or a part of the same Principal Property, shares or stock of the Restricted Subsidiary that secured the Encumbrance extended, renewed or replaced (plus improvements on such Principal Property); and
- (R) Encumbrances in favour of the Guarantor or any Subsidiary of the Guarantor.



**5.02** Notwithstanding Condition 5.01, the Guarantor or any Restricted Subsidiary may create or permit to subsist Encumbrances over any Principal Property, shares or stock of any of the Restricted Subsidiaries so long as the aggregate amount of indebtedness for borrowed money secured by all such Encumbrances (excluding therefrom the amount of the indebtedness secured by Encumbrances set forth in paragraphs (A) to (R) (inclusive) above) does not exceed 15% of the consolidated shareholders' equity of the Guarantor.

**5.03** So long as any Instruments remain outstanding, the Guarantor will not, and the Guarantor will procure that no Restricted Subsidiary will, enter into any arrangement with any bank, insurance company or other lender or investor (not including the Guarantor or any Subsidiary), or to which any such lender or investor is a party, providing for the leasing by the Guarantor or a Restricted Subsidiary for a period, including renewals, in excess of three years of any Principal Property which has been owned by the Guarantor or a Restricted Subsidiary for more than six months and which has been or is to be sold or transferred by the Guarantor or any Restricted Subsidiary to such lender or investor or to any person to whom funds have been or are to be advanced by such lender or investor on the security of such Principal Property (herein referred to as a "**sale and leaseback transaction**") unless either:

- (A) the Guarantor or such Restricted Subsidiary could create indebtedness secured by an Encumbrance (pursuant to the provisions governing limitations on the creation of Encumbrances set out above) on the Principal Property to be leased back in an amount equal to the indebtedness attributable to such sale and leaseback transaction without equally and rateably securing the Instruments; or
- (B) the Guarantor, within one year after the sale or transfer will have been made by the Guarantor or a Restricted Subsidiary, applies an amount equal to the greater of (i) the net proceeds of the sale of the Principal Property sold and leased back pursuant to such arrangement or (ii) the fair market value of the Principal Property so sold and leased back at the time of entering into such arrangement (as determined by any two Directors of the Guarantor) to the retirement of indebtedness for money borrowed, incurred or assumed by the Guarantor or any Restricted Subsidiary which by its terms matures at, or is extendible or renewable at the option of the obligor to, a date more than twelve months after the date of incurring, assuming or guaranteeing such indebtedness or to investment in any Principal Property.

**5.04** For the purposes of this Condition 5, the following terms have the following meanings:

- "Encumbrance"** means any mortgage, pledge, security interest or lien;
- "Principal Property"** means any building, structure or other facility together with the land upon which it is erected and fixtures comprising a part thereof, located in the United States or the United Kingdom, owned or leased by the Guarantor or any Restricted Subsidiary, the gross book value (without deduction of any depreciation reserves) of which on the date as of which the determination is being made exceeds 2% of the consolidated shareholders' equity of the Guarantor, other than (i) any such building, structure or other facility or portion thereof which, in the opinion of the Board of Directors of the Guarantor, is not of material importance to the total business conducted by the Guarantor and its Subsidiaries as an entirety or (ii) any portion of any such property which, in the opinion of the Board of Directors of the Guarantor, is not of material importance to the use or operation of such property;
- "Restricted Subsidiary"** means any Subsidiary (i) substantially all of the physical properties of which are located, or substantially all of the operations of which are conducted, within the United States or the United Kingdom and (ii) which owns a Principal Property. The term does not include any Subsidiary which is principally engaged in leasing or in financing instalment receivables or which is principally engaged in financing the operations of the Guarantor and its consolidated Subsidiaries; and
- "Subsidiary"** means a company in respect of which more than 50% of the outstanding voting stock or equity interest having by the terms thereof ordinary voting power to elect a majority of the Board of Directors of such company (irrespective of whether at the time stock of any other class or classes of such company shall have or might have voting power by reason of the happening of the contingency) is at the time directly or indirectly owned or controlled by the Guarantor or by one or more Subsidiaries, or by the Guarantor and one or more Subsidiaries.

## 6. Interest

### *Interest*

**6.01** Instruments may be interest-bearing or non-interest bearing, as specified in the Final Terms. Words and expressions appearing in this Condition 6 and not otherwise defined herein or in the Final Terms shall have the meanings given to them in Condition 6.09.

### *Interest-bearing Instruments*

**6.02** Instruments which are specified in the Final Terms as being interest-bearing shall bear interest from their Interest Commencement Date at the Interest Rate payable in arrear on each Interest Payment Date.

### *Floating Rate Instruments*

**6.03** If the Final Terms specifies the Interest Rate applicable to the Instruments as being Floating Rate it shall also specify which page (the “**Relevant Screen Page**”) on the Reuters Screen or any other information vending service shall be applicable. If such a page is so specified, the Interest Rate applicable to the relevant Instruments for each Interest Accrual Period shall be determined by the Calculation Agent on the following basis:

- (i) the Calculation Agent will determine the offered rate for deposits (or, as the case may require, the arithmetic mean (rounded, if necessary, to the nearest ten thousandth of a percentage point, 0.00005 being rounded upwards) of the rates for deposits) in the relevant currency for a period of the duration of the relevant Interest Accrual Period on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (ii) if, on any Interest Determination Date, no such rate for deposits so appears (or, as the case may be, if fewer than two such rates for deposits so appear) or if the Relevant Screen Page is unavailable, the Calculation Agent will request appropriate quotations and will determine the arithmetic mean (rounded as aforesaid) of the rates at which deposits in the relevant currency are offered by four major banks in the London interbank market, in the case of LIBOR, or the Eurozone interbank market, in the case of EURIBOR, selected by the Calculation Agent, at approximately the Relevant Time on the Interest Determination Date to prime banks in the London interbank market, in the case of LIBOR, or the Eurozone interbank market, in the case of EURIBOR, for a period of the duration of the relevant Interest Accrual Period and in an amount that is representative for a single transaction in the relevant market at the relevant time;
- (iii) if, on any Interest Determination Date, only two or three rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as aforesaid) of the rates so quoted; or
- (iv) if fewer than two rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as aforesaid) of the rates quoted by four major banks in the Relevant Financial Centre (or, in the case of Instruments denominated in Euro, in such financial centre or centres in the Eurozone as the Calculation Agent may select) selected by the Calculation Agent, at approximately 11.00 a.m. (Relevant Financial Centre time (or local time at such other financial centre or centres as aforesaid)) on the first day of the relevant Interest Accrual Period for loans in the relevant currency to leading European banks for a period of the duration of the relevant Interest Accrual Period and in an amount that is representative for a single transaction in the relevant market at the relevant time, and the Interest Rate applicable to such Instruments during each Interest Accrual Period will be the sum of the relevant margin (the “**Relevant Margin**”) specified in the Final Terms and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of the rates) so determined provided, however, that, if the Calculation Agent is unable to determine a rate (or, as the case may be, an arithmetic mean of rates) in accordance with the above provisions in relation to any Interest Accrual Period, the Interest Rate applicable to such Instruments during such Interest Accrual Period will be the sum of the Relevant Margin and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of the rates) determined in relation to such Instruments in respect of the last preceding Interest Accrual Period.

### *ISDA Rate Instruments*

**6.04** If the Final Terms specifies the Interest Rate applicable to the Instruments as being ISDA Rate, each Instrument shall bear interest as from such date, and at such rate or in such amounts, and such interest will be payable on such dates, as would have applied (regardless of any Event of Default or termination event or tax event thereunder) if the

Issuer had entered into an interest rate swap transaction with the Holder of such Instrument under the terms of an agreement to which the ISDA Definitions applied and under which:

- the Fixed Rate Payer, Fixed Amount Payer, Fixed Price Payer, Floating Rate Payer, Floating Amount Payer or, as the case may be, the Floating Price Payer is the Issuer (as specified in the Final Terms);
- the Effective Date is the Interest Commencement Date;
- the Termination Date is the Maturity Date;
- the Calculation Agent is the Calculation Agent as specified in the Final Terms;
- the Calculation Periods are the Interest Accrual Periods;
- the Period End Dates are the Interest Period End Dates;
- the Payment Dates are the Interest Payment Dates;
- the Reset Dates are the Interest Period End Dates;
- the ISDA Calculation Amount is the principal amount of such Instrument;
- the Day Count Fraction applicable to the calculation of any amount is that specified in the Final Terms or, if none is so specified, as may be determined in accordance with the ISDA Definitions;
- the Applicable Business Day Convention applicable to any date is that specified in the Final Terms or, if none is so specified, as may be determined in accordance with the ISDA Definitions; and
- the other terms are as specified in the Final Terms.

#### *Maximum or Minimum Interest Rate*

**6.05** If any Maximum or Minimum Interest Rate is specified in the Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified.

#### *Accrual of Interest*

**6.06** Interest shall accrue on the Outstanding Principal Amount of each interest-bearing Instrument during each Interest Accrual Period from and including the Interest Commencement Date. Interest will cease to accrue as from the due date for redemption therefor unless upon due presentation or surrender thereof (if required), payment in full of the Redemption Amount (as defined in Condition 7.10) is improperly withheld or refused or default is otherwise made in the payment thereof in which case interest shall continue to accrue on the principal amount in respect of which payment has been improperly withheld or refused or default has been made (as well after as before any demand or judgment) at the Interest Rate then applicable or such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Instrument is not required as a precondition of payment), the seventh day after the date on which, the Issue and Paying Agent, or as the case may be, the Registrar having received the funds required to make such payment, give notice to the Holders of the Instruments in accordance with Condition 15 that the Issue and Paying Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder).

#### *Interest Amount(s), Calculation Agent and Reference Banks*

**6.07** If a Calculation Agent is specified in the Final Terms, the Calculation Agent, as soon as practicable after the Relevant Time on each Interest Determination Date (or such other time on such date as the Calculation Agent may be required to calculate any Redemption Amount, obtain any quote or make any determination or calculation) will determine the Interest Rate and calculate the amount(s) of interest payable (the “**Interest Amount(s)**”) in respect of each denomination of the Instruments (in the case of Bearer Instruments) and the minimum denomination (in the case of Registered Instruments) for the relevant Interest Accrual Period, calculate the Redemption Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date or, as the case may be, the Redemption Amount to be notified to the Issue and Paying Agent, the Registrar (in the case of Registered Instruments), the Issuer, the Holders in accordance

with Condition 15 and, if the Instruments are listed on a stock exchange and such exchange so requires, such exchange as soon as possible after their determination or calculation but in no event later than the fourth London Banking Day thereafter or, if earlier in the case of notification to stock exchange, the time required by the relevant stock exchange. The Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of an Interest Accrual Period or the Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of an Instrument having the minimum Specified Denomination. If the Instruments become due and payable under Condition 8, the Interest Rate and the accrued interest payable in respect of the Instruments shall nevertheless continue to be calculated as previously in accordance with this Condition. The determination of each Interest Rate, Interest Amount and Redemption Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent, shall (in the absence of manifest error) be final and binding upon the Issuer and the Holders and neither the Calculation Agent nor any Reference Bank shall have any liability to the Holders in respect of any determination, calculation, quote or rate made or provided by it. The Issuer will procure that there shall at all times be such Reference Banks as may be required for the purpose of determining the Interest Rate applicable to the Instruments and a Calculation Agent, if provision is made for one in the Terms and Conditions.

If the Calculation Agent is incapable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate for any Interest Accrual Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

#### *Calculations and Adjustments*

**6.08** The amount of interest payable in respect of any Instrument for any period shall be calculated by multiplying the product of the Interest Rate and the Calculation Amount by the Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Instrument divided by the Calculation Amount. For this purpose a “sub-unit” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency, and in the case of euro means one cent, save that if the Final Terms specifies a specific amount in respect of such period, the amount of interest payable in respect of such Instrument for such period will be equal to such specified amount. Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period will be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods. For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in the Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005% being rounded up to 0.00001%), (b) all United States Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

#### *Definitions*

**6.09** “**Applicable Business Day Convention**” means the “Business Day Convention” which may be specified in the Final Terms as applicable to any date in respect of the Instruments. Where the Final Terms specifies “No Adjustment” in relation to any date, such date shall not be adjusted in accordance with any Business Day Convention. Where the Final Terms fails either to specify an applicable Business Day Convention or “No Adjustment” for the purposes of an Interest Payment Date or an Interest Period End Date, then in the case of Instruments which bear interest at a fixed rate, “No Adjustment” shall be deemed to have been so specified and in the case of Instruments which bear interest at a floating rate, the Modified Following Business Day Convention shall be deemed to have been so specified. Different Business Day Conventions may apply, or be specified in relation to, the Interest Payment Dates, Interest Period End Dates and any other date or dates in respect of any Instruments.

“**Banking Day**” means, in respect of any city, any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in that city.

“**Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business and settle payments in the Relevant Financial Centre in respect of the relevant Instruments or, in relation to Instruments payable in Euro, which is a TARGET Settlement Day.

“**Business Day Convention**” means a convention for adjusting any date if it would otherwise fall on a day that is not a Business Day and the following Business Day Conventions, where specified in the Final Terms in relation to any date applicable to any Instruments, shall have the following meanings:

- (i) “**Following Business Day Convention**” means that such date shall be postponed to the first following day that is a Business Day;
- (ii) “**Modified Following Business Day Convention**” or “**Modified Business Day Convention**” means that such date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) “**Preceding Business Day Convention**” means that such date shall be brought forward to the first preceding day that is a Business Day; and
- (iv) “**FRN Convention**” or “**Eurodollar Convention**” means that each such date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the Final Terms after the calendar month in which the preceding such date occurred *provided that*:
  - (a) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (b) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (c) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred.

“**Calculation Amount**” has the meaning given to it in the relevant Final Terms.

“**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time (the “**Calculation Period**”), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (i) if “**Actual/Actual (ICMA)**” is so specified, means:
  - (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (b) where the Calculation Period is longer than one Regular Period, the sum of:
    - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
    - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if “**Actual/Actual (ISDA)**” is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (iii) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iv) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30”;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

- (vii) if “**30E/360 (ISDA)**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)$$

$$\text{Day Count Fraction} = \frac{\quad}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30,

*provided, however, that* in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

“**Eurozone**” means the region comprising the Member States of the European Union which adopt or have adopted the Euro as their lawful currency in accordance with the Treaty establishing the European Community, as amended.

“**Interest Accrual Period**” means, in respect of an Interest Period, each successive period beginning on and including an Interest Period End Date and ending on but excluding the next succeeding Interest Period End Date during that Interest Period provided always that the first Interest Accrual Period shall commence on and include the Interest Commencement Date and the final Interest Accrual Period shall end on but exclude the date of final maturity.

“**Interest Commencement Date**” means the date of issue of the Instruments (as specified in the Final Terms) or such other date as may be specified as such in the Final Terms.

“**Interest Determination Date**” means, in respect of any Interest Accrual Period, the date falling such number (if any) of Banking Days in such city(ies) as may be specified in the Final Terms prior to the first day of such Interest Accrual Period, or if none is specified:

- (i) in the case of Instruments denominated in Pounds Sterling, the first day of such Interest Accrual Period; or
- (ii) in the case of Instruments denominated in Euro, the date falling two TARGET Settlement Days prior to the first day of such Interest Accrual Period; or
- (iii) in any other case, the date falling two London Banking Days prior to the first day of such Interest Accrual Period.

“**Interest Payment Date**” means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as being the Interest Period, each of such dates as may occur in accordance with the FRN Convention at such specified

period of calendar months following the date of issue of the Instruments (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

“**Interest Period**” means each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date provided always that the first Interest Period shall commence on and include the Interest Commencement Date and the final Interest Period shall end on but exclude the date of final maturity.

“**Interest Period End Date**” means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or, if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as the Interest Accrual Period, such dates as may occur in accordance with the FRN Convention at such specified period of calendar months following the Interest Commencement Date (in the case of the first Interest Period End Date) or the previous Interest Period End Date (in any other case) or, if none of the foregoing is specified in the Final Terms, means the date or each of the dates which correspond with the Interest Payment Date(s) in respect of the Instruments.

“**Interest Rate**” means the rate or rates (expressed as a percentage per annum) or amount or amounts (expressed as a price per unit of relevant currency) of interest payable in respect of the Instruments specified in, or calculated or determined in accordance with the provisions of, the Final Terms.

“**ISDA Definitions**” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Instruments of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association Inc.).

“**Outstanding Principal Amount**” means, in respect of an Instrument in the denomination specified in the Final Terms, its principal amount.

“**Reference Banks**” means such banks as may be specified in the Final Terms as the Reference Banks or, if none specified, “**Reference Banks**” has the meaning given in the ISDA Definitions, *mutatis mutandis*.

“**Regular Period**” means:

- (i) in the case of Instruments where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Instruments where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Instruments where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

“**Relevant Financial Centre**” means such financial centre or centres as may be specified in relation to the relevant currency for the purposes of the definition of “**Business Day**” in the ISDA Definitions, as modified or supplemented in the Final Terms.

“**Relevant Time**” means the time as of which any rate is to be determined as specified in the Final Terms or, if none is specified, at which it is customary to determine such rate.

“**Reuters Screen**” means, when used in connection with a designated page and any designated information, the display page so designated on the Reuters Monitor Money Rates Service (or such other page as may replace that page on that service for the purpose of displaying such information).

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;



“**TARGET Settlement Day**” means any day on which TARGET2 is open for the settlement of payments in euro.

#### *Final Interest Bearing Instruments*

**6.10** If any Redemption Amount (as defined in Condition 7.10) in respect of any Instrument which is non-interest bearing is not paid when due, interest shall accrue on the overdue amount at a rate per annum (expressed as a percentage per annum) equal to the Amortisation Yield defined in, or determined in accordance with the provisions of, the Final Terms or at such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Instrument is not required as a precondition of payment), the seventh day after the date on which, the Issue and Paying Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 15 that the Issue and Paying Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder). The amount of any such interest shall be calculated in accordance with the provisions of Condition 6.08 as if the Interest Rate was the Amortisation Yield, the Outstanding Principal Amount was the overdue sum and the Day Count Fraction was as specified for this purpose in the Final Terms or, if not so specified, 30E/360 (as defined in Condition 6.09).

### **7. Redemption and Purchase**

#### *Redemption at Maturity*

**7.01** Unless previously redeemed, or purchased and cancelled or unless such Instrument is stated in the Final Terms as having no fixed maturity date, each Instrument shall be redeemed at its maturity redemption amount (the “**Maturity Redemption Amount**”) (which shall be its Outstanding Principal Amount or such other redemption amount as may be specified in or determined in accordance with the Final Terms) on the date or dates (or, in the case of Instruments which bear interest at a floating rate of interest, on the date or dates upon which interest is payable) specified in the Final Terms.

#### *Early Redemption or Substitution for Taxation Reasons*

**7.02** If, in relation to any Series of Instruments as a result of any change in the laws, regulations or rulings of the country of incorporation of the Issuer or (if applicable) the Guarantor or, if different, the country of tax residence of the Issuer or (if applicable) the Guarantor, or of any political subdivision thereof or any authority or agency therein or thereof having power to tax, or in the official interpretation or administration of any such laws, regulations or rulings which become effective on or after the date of issue of such Instruments or earlier other date specified in the Final Terms, the Issuer or, if any payment were then due under the Guarantee, the Guarantor, would be required to pay additional amounts as provided in Condition 9, the Issuer or, as the case may be, the Guarantor may, at its option and having given no less than thirty nor more than 60 days’ notice (ending, in the case of Instruments which bear interest at a floating rate, on a day upon which interest is payable) to the Holder of the Instruments in accordance with Condition 15 (which notice shall be irrevocable):

- (A) redeem all (but not some only) of the outstanding Instruments comprising the relevant Series at their early tax redemption amount (the “**Early Redemption Amount (Tax)**”) (which shall be their Outstanding Principal Amount or, in the case of Instruments which are non-interest bearing, their Amortised Face Amount (as defined in Condition 7.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest (if any) thereon provided, however, that no such notice of redemption may be given earlier than 90 days (or, in the case of Instruments which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current interest period applicable to the Instruments plus 60 days) prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Instruments or the Guarantee then due; or
- (B) substitute, without the consent of any Holders of Instruments provided that no payment in respect of any such Series is overdue, an Affiliate of the Guarantor to assume liability for the due and punctual payment of all payments on all Instruments then outstanding in the relevant Series and the performance of all the Issuer’s other obligations under all the Instruments then outstanding in the relevant Series, the Issue and Paying Agency Agreement and the Deed of Covenant.

Upon any substitution pursuant to Condition 7.02(B), the assuming company shall succeed to the rights and obligations of the Issuer (or any previous assuming company) under the Instruments, the Issue and Paying Agency Agreement and the Deed of Covenant and the Issuer (or any previous assuming company) shall be released from its liability on the Instruments, the Issue and Paying Agency Agreement and the Deed of Covenant. Such assumptions shall be permitted only if the assuming company and the Guarantor enter into a deed poll (the “**Deed Poll**”) whereby (i) the assuming company assumes the obligations of the Issuer (or any previous assuming company) under the Instruments, the Issue and Paying Agency Agreement and the Deed of Covenant, (ii) the assuming company and the Guarantor agree to indemnify each Holder and, if appropriate, each Accountholder (as defined in the Deed of Covenant) against (A) any tax, duty, fee or governmental charge which is imposed on such Holder with respect to such Instrument or, as the case may be, the Deed of Covenant and which would not have been so imposed had such assumption not been made, (B) any tax, duty, fee or governmental charge imposed on or relating to the act of assumption and (C) any costs or expenses of the act of assumption, (iii) the Guarantor shall unconditionally guarantee (irrespective of the validity, regularity or enforceability against the assuming company of any Instrument, the Deed of Covenant, the Issue and Paying Agency Agreement or of any action to enforce the same), all payments in respect of the Instruments, the Issue and Paying Agency Agreement, the Deed of Covenant and the Deed Poll (upon the terms of the original guarantee in respect of the original Issuer’s obligations) and (iv) the assuming company and the Guarantor shall warrant that all necessary governmental approvals and consents for the assumption by the assuming company of its obligations and the giving and implementation of the guarantee have been obtained and are in full force and the obligations of the assuming company under the Instruments, the Deed of Covenant, the Issue and Paying Agency Agreement and the Deed Poll and of the Guarantor under its guarantee to guarantee payments in respect of the Instruments, the Deed of Covenant, the Issue and Paying Agency Agreement and the Deed Poll are legal, valid, binding and enforceable provided that no substitution shall take place pursuant to Condition 7.02(B) unless the assuming company, the Issuer (or any previous assuming company) and the Guarantor shall have obtained legal opinions containing no untoward qualifications from independent legal advisers in the country of incorporation of the assuming company, the country of incorporation of the Issuer and in England to the effect that the obligations of the assuming company and of the Guarantor are legal, valid and binding and that all consents and approvals as aforesaid have been obtained.

As used herein “**Affiliate**” means any entity controlled, directly or indirectly, by the Guarantor, any entity that controls the Issuer, directly or indirectly, or any entity under common control with the Issuer. For this purpose “control” of the Issuer or any entity means ownership of a majority of the voting power of the Issuer or such entity.

Not less than 30 nor more than 90 days prior to the effective date of the assumption by the assuming company, the Issuer shall procure the notification to the Holders, in accordance with Condition 15, of the assumption and stating that copies, or pending execution thereof final drafts, of the Deed Poll and other relevant documents and of the legal opinions are available for inspection by Holders at the specified offices of the Issue and Paying Agent and the Registrar. The originals of the Deed Poll and other documents will be delivered to the Issue and Paying Agent to hold until there are no claims outstanding in respect of the Instruments, the Deed of Covenant, the Issue and Paying Agency Agreement or the Deed Poll. The assuming company and the Guarantor shall in the Deed Poll acknowledge the right of every Holder of any Instrument or, as the case may be, every Accountholder to inspect such documents at the offices of the Issue and Paying Agent.

Upon the assumption becoming effective, references in these Conditions to the country of incorporation of the Issuer and, if different, the country of tax residence of the Issuer, shall be read and construed as including references to the country of incorporation and, if different, the country of tax residence of the assuming company instead of or in addition to (as the case may be) references to the country of incorporation of the Issuer and, if different, the country of tax residence of the Issuer.

The Issuer or, as the case may be, the Guarantor may not exercise the options referred to in this Condition 7.02 in respect of any Instrument which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Instrument under Condition 7.06.

#### *Optional Early Redemption (Call)*

**7.03** If this Condition 7.03 is specified in the Final Terms as being applicable, then the Issuer may, having given the appropriate notice and subject to such conditions as may be specified in the Final Terms, redeem all (but not, unless and to the extent that the Final Terms specifies otherwise, some only) of the Instruments of the relevant Series at their call early redemption amount (the “**Early Redemption Amount (Call)**”) (which shall be their Outstanding Principal Amount or, in the case of Instruments which are non-interest bearing, their Amortised Face Amount (as defined in Condition 7.11) or such other redemption amount as may be specified in, or determined in accordance with the Provisions of the Final Terms), together with accrued interest (if any) thereon on the date specified in such notice.

The Issuer may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Instrument under Condition 7.06.

**7.04** The appropriate notice referred to in Condition 7.03 is a notice given by the Issuer to the Issue and Paying Agent, the Registrar (in the case of Registered Instruments) and the Holders of the Instruments of the relevant Series in accordance with Condition 15, which notice shall be irrevocable and shall specify:

- the Series of Instruments subject to redemption;
- whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of and (except in the case of a Temporary Global Instrument or Permanent Global Instrument) the serial numbers of the Instruments of the relevant Series which are to be redeemed;
- the due date for such redemption, which shall be not less than 30 days or such lesser period as may be specified in the Final Terms nor more than 60 days after the date on which such notice is given and which shall be such date or the next of such dates (“**Call Option Date(s)**”) or a day falling within such period (“**Call Option Period**”), as may be specified in the Final Terms and which is, in the case of Instruments which bear interest at a floating rate, a date upon which interest is payable; and
- the Early Redemption Amount (Call) at which such Instruments are to be redeemed.

*Partial Redemption*

**7.05** If the Instruments of a Series are to be redeemed in part only on any date in accordance with Condition 7.03:

- in the case of Bearer Instruments, the Instruments to be redeemed shall be drawn by lot in such European city as the Issue and Paying Agent may specify or identified in such other manner or in such other place as the Issue and Paying Agent may approve and deem appropriate and fair; and
- in the case of Registered Instruments, the Instruments shall be redeemed (so far as may be practicable) pro rata to their principal amounts, provided always that the amount redeemed in respect of each Instrument shall be equal to the minimum denomination thereof or an integral multiple thereof,

subject always to compliance with all applicable laws and the requirements of any stock exchange on which the relevant Instruments may be listed.

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.04 to 2.09 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

*Optional Early Redemption (Put)*

**7.06** If this Condition 7.06 is specified in the Final Terms as being applicable, then the Issuer shall, upon the exercise of the relevant option by the Holder of any Instrument of the relevant Series, redeem such Instrument on the date or the next of the dates specified in the relevant Put Notice (as defined below) at its put early redemption amount (the “**Early Redemption Amount (Put)**”) (which shall be its Outstanding Principal Amount or, if such Instrument is non-interest bearing, its Amortised Face Amount (as defined in Condition 7.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest (if any) thereon. In order to exercise such option, the Holder must, not less than 45 days before the date on which such redemption is required to be made as specified in the Put Notice (which date shall be such date or the next of the dates (“**Put Date(s)**”) or a day falling within such period (“**Put Period**”) as may be specified in the Final Terms), deposit the relevant Instrument (together, in the case of an interest-bearing Instrument in bearer form, with all unmatured Coupons appertaining thereto other than any Coupon maturing on or before the date of redemption (failing which the provisions of Condition 10A.06 apply) during normal business hours at the specified office of, in the case of a Bearer Instrument, any Paying Agent or, in the case of a Registered Instrument, the Registrar together with a duly completed early redemption price (“**Put Notice**”) in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar specifying, in the case of a Registered Instrument, the aggregate principal amount in respect of which such option is exercised (which must be the minimum denomination specified in the Final Terms or an integral multiple thereof). No Instrument so deposited and option exercised may be withdrawn (except as provided in the Issue and Paying Agency Agreement).

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.04 to 2.07 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

The Holder of an Instrument may not exercise such option in respect of any Instrument which is the subject of an exercise by the Issuer of its option to redeem such Instrument under either Condition 7.02 or 7.03.

#### *Purchase of Instruments*

**7.07** The Issuer or any of its subsidiaries may at any time purchase Instruments in the open market or otherwise and at any price.

#### *Cancellation of Redeemed and Purchased Instruments*

**7.08** All unmatured Instruments and Coupons and unexchanged Talons redeemed or purchased in accordance with this Condition 7 may be held, cancelled, reissued or resold.

#### *Other Provisions applicable to Redemption Amount*

**7.09** The provisions of Condition 6.07 and Condition 6.08 shall apply to any determination or calculation of the Redemption Amount required by the Final Terms to be made by the Calculation Agent.

**7.10** References herein to “**Redemption Amount**” shall mean, as appropriate, the Maturity Redemption Amount, Early Redemption Amount (Tax), Early Redemption Amount (Call), Early Redemption Amount (Put) and Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of the Final Terms.

**7.11** In the case of any Instrument which is non-interest bearing, the “**Amortised Face Amount**” shall be an amount equal to the sum of:

- (i) the Issue Price specified in the Final Terms; and
- (ii) the product of the Amortisation Yield (as specified in the Final Terms) (compounded annually) being applied to the Issue Price from (and including) the Issue Date specified in the Final Terms to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Instrument becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of the Day Count Fraction (as defined in Condition 6.09) specified in the Final Terms for the purposes of this Condition 7.11.

**7.12** In the case of any Instrument which is non-interest bearing, if any Redemption Amount (other than the Maturity Redemption Amount) is improperly withheld or refused or default is otherwise made in the payment thereof, the Amortised Face Amount shall be calculated as provided in Condition 7.11 but as if references in sub-paragraph (ii) to the date fixed for redemption or the date upon which such Instrument becomes due and repayable were replaced by references to the earlier of:

- (i) the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made; and
- (ii) (except where presentation or surrender of the relevant Instrument is not required as a precondition of payment), the seventh day after the date on which, the Issue and Paying Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 15 of that circumstance (except to the extent that there is a failure in the subsequent payment thereof to the relevant Holder).

## **8. Events of Default**

**8.01** The following events constitute Events of Default in relation to the Instruments of any Series:

- (A) failure to pay any interest or additional amounts in respect of interest on any such Instruments when due, and such failure continues for 30 days;
- (B) failure to pay principal or additional amounts with respect to payment of principal of any such Instruments when due (and, in the case of technical or administrative difficulties only, such failure continues for five days);

- (C) failure to perform any other covenant of the Issuer or the Guarantor under such Instruments, the Issue and Paying Agency Agreement and the Deed of Covenant, and such failure continues for 90 calendar days after written notice to the Issue and Paying Agent by the holders of at least 10% in aggregate principal amount of the outstanding Instruments of such Series specifying such default or breach and requiring it to be remedied;
- (D) the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer or the Guarantor in an involuntary case or proceeding under any applicable bankruptcy, insolvency, examination, reorganisation or other similar law, or (ii) a decree or order adjudging the Issuer or the Guarantor bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation, examination, arrangement, adjustment or composition of or in respect of the Issuer or the Guarantor under any applicable law of the jurisdiction of incorporation of the Issuer or, in the case of the Guarantor, England and Wales, or appointing a custodian, receiver, liquidator, examiner, assignee, trustee, sequestrator or other similar official of the Issuer or the Guarantor or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstated and in effect for a period of 90 consecutive days;
- (E) the commencement by the Issuer or the Guarantor of a voluntary case or proceeding under any applicable bankruptcy, insolvency, examination, reorganisation or other similar law of the jurisdiction of incorporation of the Issuer or, in the case of the Guarantor, England and Wales or of any other case or proceeding to be adjudicated bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Issuer or the Guarantor in an involuntary case or proceeding under any applicable bankruptcy, insolvency, examination, reorganisation or other similar law of the jurisdiction of incorporation of the Issuer or, in the case of the Guarantor, England and Wales, or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganisation, examination or relief under any applicable law of the jurisdiction of incorporation of the Issuer or, in the case of the Guarantor, England and Wales, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, examiner, assignee, trustee, sequestrator or other similar official of the Issuer or of the Guarantor or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Issuer or the Guarantor in furtherance of any such action; or
- (F) the Guarantee is not, or is claimed by the Guarantor not to be, in full force and effect.

**8.02** If an Event of Default with respect to any Series of Instruments shall occur and be continuing, the Holders of at least 25% in aggregate principal amount of the outstanding Instruments of the relevant Series may give notice to the Issuer (which notice shall be accompanied by the certificate referred to in Condition 8.03 below) that the Instruments of the relevant Series and (if the Instruments are interest-bearing) all interest then accrued on such Instruments are to be forthwith due and payable, whereupon each such Instrument shall become immediately due and payable at its early termination amount (the “**Early Termination Amount**”) (which shall be its Outstanding Principal Amount or, if such Instrument is non-interest bearing, its Amortised Face Amount (as defined in Condition 7.11) (or at such other amount as will be specified in the relevant Final Terms) together with all interest (if any) accrued thereon without presentment, demand, protest or other notice of any kind and of which the Issuer will expressly waive, anything contained in such Instruments to the contrary notwithstanding, unless prior to the time when the Issuer receives such notice all Events of Default in respect of all such Instruments shall have been cured.

**8.03** In order to give the notice referred to in Condition 8.02 above, a Holder shall, in the case of Bearer Instruments, deposit such Instruments with the Issue and Paying Agent and obtain a certificate from the Issue and Paying Agent in the form of the Eleventh Schedule to the Issue and Paying Agency Agreement or, in the case of Registered Instruments, obtain a certificate from the Registrar in the form of the Eleventh Schedule to the Issue and Paying Agency Agreement. In either case, no transfer of the Instruments specified in such certificate shall be permitted for a period of 15 days from the date of such certificate.

## 9. **Taxation**

**9.01** All amounts payable (whether in respect of principal, interest or otherwise) in respect of the Instruments and the Guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the country of incorporation of the Issuer or the Guarantor and, if different, the country of tax residence of the Issuer or the Guarantor (the “**Taxing Jurisdiction**”), or any political subdivision thereof or any authority or agency

therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or by the administration or official interpretation thereof. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts receivable by the Holder after such withholding or deduction shall equal the respective amounts which would have been receivable by such Holder in the absence of such withholding or deduction; except that no such additional amounts shall be payable in relation to any payment in respect of any Instrument or Coupon presented for payment:

- (i) by or on behalf of a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of his having some connection with the Taxing Jurisdiction other than the mere holding of such Instrument or Coupon;
- (ii) in relation only to any Bearer Instrument or Coupon, more than 30 days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on or before the expiry of such period of 30 days; or
- (iii) by or on behalf of a Holder who would not be liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon if such Holder had made a declaration of non-residence or similar claim for exemption to any relevant tax authority.

**9.02** For the purposes of these Terms and Conditions, the “**Relevant Date**” means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Issue and Paying Agent or, as the case may be, the Registrar on or prior to such due date, it means in relation to such unreceived part the first date on which the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect shall have been duly given to the Holders of the Instruments of the relevant Series in accordance with Condition 15.

**9.03** If the Issuer or, as the case may be, the Guarantor becomes subject generally at any time to any taxing jurisdiction other than or in addition to the Taxing Jurisdiction, references in Condition 9.01 to the Taxing Jurisdiction shall be read and construed as references to the Taxing Jurisdiction and/or to such other jurisdiction(s).

**9.04** Any reference in these Terms and Conditions to “**principal**” and/or “**interest**” in respect of the Instruments shall be deemed also to refer to any additional amounts which may be payable under this Condition 9. Unless the context otherwise requires, any reference in these Terms and Conditions to “principal” shall include any premium payable in respect of an Instrument, any Redemption Amount and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and “interest” shall include all amounts payable pursuant to Condition 6 and any other amounts in the nature of interest payable pursuant to these Terms and Conditions.

## **10. Payments**

### **10A Payment – Bearer Instruments**

**10A.01** This Condition 10A is applicable in relation to Instruments in bearer form. If the Final Terms specifies that a Bearer Instrument may be exchanged for a Registered Instrument, Condition 10B below will be applicable to any payments after such exchange.

**10A.02** Payment of amounts (including accrued interest) due in respect of the redemption of Bearer Instruments will be made against presentation and surrender of the relevant Bearer Instruments at the specified office of any of the Paying Agents.

**10A.03** Payment of amounts due in respect of interest on Bearer Instruments will be made:

- (i) in the case of Instruments without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Instruments at the specified office of any of the Paying Agents outside (unless Condition 10A.04 applies) the United States; and
- (ii) in the case of Instruments delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Instruments, in either case at the specified office of any of the Paying Agents outside (unless Condition 10A.04 applies) the United States.

**10A.04** Conditions 10A.02 and 10A.03 notwithstanding, payments of amounts due in respect of interest on the Instruments and exchanges of Talons for Coupon sheets in accordance with Condition 10A.07 will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code of 1986 and Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Instruments when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment or exchange is permitted by applicable United States law. If paragraphs (a) and (b) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.

**10A.05** If the due date for payment of any amount due in respect of any Instrument is not a Relevant Financial Centre Day and a Local Banking Day (each as defined in Condition 10C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day (or as otherwise specified in the Final Terms) and from such day and thereafter will be entitled to receive payment by cheque on any Local Banking Day, and will be entitled to payment by transfer to a designated account on any day which is a Local Banking Day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such delay or adjustment unless there is a subsequent failure to pay in accordance with these Terms and Conditions (in which event interest shall continue to accrue as provided in Condition 6.06 or, if appropriate, Condition 6.10).

**10A.06** Each Instrument initially delivered with Coupons or Talons attached thereto should be presented and surrendered for final redemption together with all unmatured Coupons and Talons relating thereto, failing which:

- (i) if the Final Terms specifies that this paragraph (i) of Condition 10A.06 is applicable (and, in the absence of specification, this paragraph (i) shall apply to Instruments which bear interest at a fixed rate or rates or in fixed amounts) and subject as hereinafter provided, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the Redemption Amount paid bears to the total Redemption Amount due) (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within five years of the Relevant Date applicable to payment of such Redemption Amount;
- (ii) if the Final Terms specifies that this paragraph (ii) of Condition 10A.06 is applicable (and, in the absence of specification, this paragraph (ii) shall apply to Instruments which bear interest at a floating rate or rates or at a margin above or below a floating rate or, otherwise, in variable amounts) all unmatured Coupons (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) relating to such Instruments (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them; and
- (iii) in the case of Instruments initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them.

The provisions of paragraph (i) of this Condition 10A.06 notwithstanding, if any Instruments should be issued with a maturity date and an Interest Rate or Rates such that, on the presentation for payment of any such Instrument without any unmatured Coupons attached thereto or surrendered therewith, the amount required by paragraph (i) to be deducted would be greater than the Redemption Amount otherwise due for payment, then, upon the due date for redemption of any such Instrument, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of paragraph (i) in respect of such Coupons as have not so become void, the amount required by paragraph (i) to be deducted would not be greater than the Redemption Amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to an Instrument to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

**10A.07** In relation to Instruments initially delivered with Talons attached thereto, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (unless Condition 10A.04 applies) the United States in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 11 below. Each Talon shall, for the purpose of these Conditions be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

## **10B Payments – Registered Instruments**

**10B.01** This Condition 10B is applicable in relation to Instruments in registered form.

**10B.02** Payment of the Redemption Amount (together with accrued interest) due in respect of Registered Instruments will be made against presentation and surrender of the relevant Registered Instruments at the specified office of the Registrar. If the due date for payment of the Redemption Amount of any Registered Instrument is not a Relevant Financial Centre Day (as defined in Condition 10C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any Local Banking Day, and will be entitled to payment by transfer to a designated account on any day which is a Local Banking Day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 6.06 or, as appropriate, Condition 6.10.

**10B.03** Payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Instruments will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar as at opening of business (local time in the place of the specified office of the Registrar) on the fifteenth Relevant Banking Day (as defined in Condition 2.06) before the due date for such payment (the “**Record Date**”).

**10B.04** Notwithstanding the provisions of Condition 10C.02, payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Instruments will be made in the currency in which such amount is due by cheque and posted at the Holder’s risk to the address (as recorded in the register held by the Registrar) of the Holder thereof (or, in the case of joint Holders, the first named) on the Relevant Banking Day (as defined in Condition 2.06) not later than the relevant due date for payment unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first-named) has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account denominated in the relevant currency in each case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the first day thereafter which is a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these each Terms and Conditions in which event interest shall continue to accrue as provided in Condition 6.06 or, as appropriate, Condition 6.10.

## **10C Payments – General Provisions**

**10C.01** Save as otherwise specified in these Terms and Conditions, this Condition 10C is applicable in relation to Instruments whether in bearer or in registered form.

**10C.02** Payments of amounts due (whether principal, interest or otherwise) in respect of Instruments will be made in the currency in which such amount is due (a) by cheque or (b) at the option of the payee, by transfer to an account denominated in the relevant currency specified by the payee. Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto; but, in either case, without prejudice to the provisions of Condition 9.

**10C.03** For the purposes of these Terms and Conditions:

- (i) “**Relevant Financial Centre Day**” means, in the case of any currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments in the Relevant Financial Centre and in any other Relevant Financial Centre specified in the Final Terms or in the case of payment in Euro, a day which is a TARGET Settlement Day; and
- (ii) “**Local Banking Day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place of presentation of the relevant Instrument or, as the case may be, Coupon.



**10C.04** No commissions or expenses shall be charged to the Holders of Instruments or Coupons in respect of such payments.

## **11. Prescription**

**11.01** Claims against the Issuer or the Guarantor for payment of principal and interest in respect of Instruments will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after the Relevant Date (as defined in Condition 9.02) for payment thereof.

**11.02** In relation to Definitive Instruments initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 10A.06 or the due date for the payment of which would fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 11 or any Talon the maturity date of which would fall after the due date for redemption of the relevant Instrument.

## **12. The Paying Agents, the Registrar and the Calculation Agent**

**12.01** The initial Paying Agents and Registrar and their respective initial specified offices are specified below. The Calculation Agent in respect of any Instruments shall be specified in the Final Terms. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent (including the Issue and Paying Agent), the Registrar or the Calculation Agent and to appoint additional or other Paying Agents or another Registrar or Calculation Agent provided that they will at all times maintain (i) an Issue and Paying Agent, (ii) in the case of Registered Instruments, a Registrar, (iii) so long as the Instruments are listed on the Official List of the UK Listing Authority and the rules of the UK Listing Authority so require, a Paying Agent (which may be the Issue and Paying Agent) and a Registrar each with a specified office in the United Kingdom (iv) in the circumstances described in Condition 10A.04, a Paying Agent with a specified office in New York City, (v) a Calculation Agent where required by the Terms and Conditions applicable to any Instruments (in the case of (i), (ii) and (v) with a specified office located in such place (if any) as may be required by the Terms and Conditions). The Paying Agents, the Registrar and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of any Paying Agent, the Registrar or the Calculation Agent will be given promptly by the Issuer to the Holders in accordance with Condition 15.

**12.02** The Paying Agents, the Registrar and the Calculation Agent act solely as agents of the Issuer and the Guarantor and, save as provided in the Issue and Paying Agency Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Instrument, Receipt or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Issue and Paying Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

## **13. Replacement of Instruments**

If any Instrument, Receipt or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issue and Paying Agent or such Paying Agent or Paying Agents as may be specified for such purpose in the Final Terms (in the case of Bearer Instruments and Coupons) or of the Registrar (in the case of Registered Instruments) (“**Replacement Agent**”), subject to all applicable laws and the requirements of any stock exchange or listing authority on which the Instruments are traded or listed, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer, the Guarantor and the Replacement Agent may require. Mutilated or defaced Instruments and Coupons must be surrendered before replacements will be delivered therefor.

## **14. Meetings of Holders and Modification**

The Issue and Paying Agency Agreement contains provisions (which shall have effect as if incorporated herein) for convening meetings of the Holders of Instruments of any Series to consider any matter affecting their interests, including (without limitation) the modification by Extraordinary Resolution (as defined in the Issue and Paying Agency Agreement) of these Terms and Conditions and the Deed of Covenant insofar as the same may apply to such Instruments. An Extraordinary Resolution passed by a written resolution or at any meeting of the Holders of Instruments of any Series will be binding on all Holders of the Instruments of such Series, whether or not they are present at the meeting, and on all Holders of Coupons relating to Instruments of such Series, except that any modification, *inter alia*, varying the date of maturity of Instruments of any Series or any date for payment of interest thereon, or reducing or cancelling the principal amount or the redemption amount, as the case may be, or the interest payment in respect of such Instruments or Coupons or altering the currency or payment of Instruments of any Series or the Coupons thereto to be effected by the

Extraordinary Resolution passed at a meeting of the Holders of such Instruments, will only be binding if passed at a meeting of Holders of such Instruments (or at any adjournment thereof) at which a special quorum provided for in the Issue and Paying Agency Agreement is present.

The Issue and Paying Agency Agreement may be amended by further agreement among the parties thereto without the consent of the Holders of any Instruments or Coupons.

The Issuer may, with the consent of the Issue and Paying Agent, but without the consent of the Holders of the Instruments of any Series or Coupons, amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Instruments and modify the Instruments if such amendment or modification is not materially prejudicial to the interests of the Holders of such Instruments or Coupons or which is of a formal, minor or technical nature or to any modification which is necessary to correct a manifest error. Subject as aforesaid, no other modification may be made to these Terms and Conditions or the Deed of Covenant except with the sanction of an Extraordinary Resolution.

## **15. Notices**

### *To Holders of Bearer Instruments*

**15.01** Notices to Holders of Bearer Instruments will, save where another means of effective communication has been specified herein or in the Final Terms, be deemed to be validly given if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*) and/or, if such publication is not practicable if published in a leading English language daily newspaper having general circulation in Europe (or, if permitted by the relevant stock exchange, in the case of a Temporary Global Instrument or Permanent Global Instrument, if delivered to Euroclear and Clearstream, Luxembourg and/or any other relevant clearing system for communication by them to the persons shown in their respective records as having interests therein). The Issuer shall also ensure that notices are duly published in compliance with the requirements of each stock exchange on which the Instruments are listed. Any notice so given will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Instruments in accordance with this Condition.

### *To Holders of Registered Instruments*

**15.02** Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the second Business Day after the date of such mailing or, if posted from another country, on the fifth such Business Day.

## **16. Further Issues**

The Issuer may from time to time, without the consent of the Holders of any Instruments or Coupons but with the consent of the Guarantor, if applicable, create and issue further instruments, bonds or debentures having the same terms and conditions as such Instruments in all respects (or in all respects except for the first payment of interest, if any, on them and/or the denomination thereof) and having the benefit of the Guarantee so as to form a single series with the Instruments of any particular Series.

## **17. Waiver and Remedies**

No failure to exercise, and no delay in exercising, on the part of the Holder of any Instrument, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

## **18. Law and Jurisdiction**

**18.01** The Instruments, the Issue and Paying Agency Agreement, the Deed of Covenant and the Guarantee and all non-contractual obligations arising out of or in connection therewith are governed by English law.

**18.02** The courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Instruments (including any non-contractual

obligation arising out of or in connection with any of them) (respectively, “**Proceedings**” and “**Disputes**”) and, for such purposes, the Issuer and the Guarantor irrevocably submit to the jurisdiction of such courts.

**18.03** The Issuer irrevocably waives and the Guarantor has waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and the Issuer agrees, and the Guarantor has agreed, not to claim that any such court is not a convenient or appropriate forum.

**18.04** The Issuer (if incorporated outside England and Wales) agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to the Guarantor at Lakeside Drive, Park Royal, London, NW10 7HQ or its registered office for the time being or any address of the Issuer in Great Britain on which process may be served on it in accordance with section 1139 of the Companies Act 2006 (as modified or re-enacted from time to time). If the appointment of the person mentioned in this Condition 18.04 ceases to be effective, such Issuer shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Issue and Paying Agent and, failing such appointment within 15 days, any Holder of an Instrument shall be entitled to appoint such a person by written notice addressed to such Issuer and delivered to such Issuer or to the specified office of the Issue and Paying Agent. Nothing contained herein shall affect the right of any Holder of an Instrument to serve process in any other manner permitted by law.

**18.05** The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Issuer, the Guarantor or the Holders of the Instruments or any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

## **19. Third Parties**

No person shall have any right to enforce any term or condition of any Instrument under the Contracts (Rights of Third Parties) Act 1999.

## PROVISIONS RELATING TO THE INSTRUMENTS WHILST IN GLOBAL FORM

### (A) Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of an Instrument represented by a “**Global Instrument**” (which expression includes a Temporary Global Instrument and a Permanent Global Instrument and any Global Instrument issued in NGN form) must look solely to Euroclear, Clearstream, Luxembourg or such other clearing system (as the case may be) for such person’s share of each payment made by the relevant Issuer (the “**Issuer**”) or the Guarantor to the bearer of such Global Instrument (or the registered holder of the Global Registered Instrument, as the case may be), and in relation to all other rights arising under the Global Instruments, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer or the Guarantor in respect of payments due on the Instruments for so long as the Instruments are represented by such Global Instrument or Global Registered Instrument and such obligations of the Issuer and the Guarantor will be discharged by payment to the bearer of such Global Instrument (or the registered holder of the Global Registered Instrument, as the case may be), in respect of each amount so paid. References in these provisions relating to the Instruments in global form to “**holder**” or “**accountholder**” are to those persons shown in the records of the relevant clearing system as a holder of an Instrument.

### (B) Form and Exchange – Bearer Global Instruments

- (1) *TEFRA D or TEFRA C*: The Final Terms shall specify whether U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (the “**TEFRA D Rules**”) or U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (the “**TEFRA C Rules**”) shall apply. Each Tranche of Bearer Instruments is represented upon issue by a temporary global Instrument (a “**Temporary Global Instrument**”), unless the Final Terms specifies otherwise and the TEFRA D Rules apply.

Where the Final Terms applicable to a Tranche of Bearer Instruments specifies that the TEFRA C Rules apply, such Tranche is (unless otherwise specified in the Final Terms) represented upon issue by a Permanent Global Instrument.

Interests in a Temporary Global Instrument may be exchanged for:

- (i) (if the Temporary Global Instrument is not in NGN form) interests in a permanent global Instrument (a “**Permanent Global Instrument**”) or (if the Temporary Global Instrument is in NGN form) interests in a Permanent Global Instrument, as recorded in the records of Euroclear and Clearstream, Luxembourg; or
- (ii) if so specified in the Final Terms, definitive Instruments in bearer form (“**Definitive Instruments**”),

and/or (if so specified in the Final Terms) Registered Instruments.

Exchanges of interests in a Temporary Global Instrument for Definitive Instruments or, as the case may be, interests in a Permanent Global Instrument will be made only on or after the Exchange Date (as specified in the Final Terms) and (unless the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments) provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received. An exchange for Registered Instruments will be made at any time or from such date as may be specified in the Final Terms, in each case without any requirement for certification.

- (2) *Limitation on entitlement under a Temporary Global Instrument after exchange date*: Holders of interests in any Temporary Global Instrument shall not (unless, upon due presentation of such Temporary Global Instrument for exchange (in whole but not in part only) for a Permanent Global Instrument or for delivery of Definitive Instruments and/or Registered Instruments, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Instruments represented by such Temporary Global Instrument which falls due on or after the exchange date or be entitled to exercise any option on a date after the exchange date.

- (3) *Certification of non-U.S. beneficial ownership*: Unless the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments and subject to paragraph (2) above, if any date on which a payment of interest is due on the Instruments of a Tranche occurs whilst any of the Instruments of that Tranche are represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received by Euroclear Bank S.A./N.V. (“**Euroclear**”) or Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) or any other relevant clearing system which may be specified in the Final Terms. Payments of amounts due in respect of a Permanent Global Instrument or (subject to paragraph (2) above) a Temporary Global Instrument (if the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments) will be made through Euroclear or Clearstream, Luxembourg or any other relevant clearing system without any requirement for certification.
- (4) *Exchange for Definitive Instruments*: Interests in a Permanent Global Instrument will be exchanged (subject to the period allowed for delivery as set out in (i) below), in whole but not in part only and at the request of the Holder of such Global Instrument, for Definitive Instruments and/or (if so specified in the Final Terms) Registered Instruments (a) if Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 occurs. Whenever a Permanent Global Instrument is to be exchanged for Definitive Instruments and/or Registered Instruments, the Issuer shall procure the prompt delivery of such Definitive Instruments and/or Registered Instruments, duly authenticated and where and to the extent applicable, with Coupons and Talons attached (each as defined in Condition 1.02), in an aggregate principal amount equal to the principal amount of such Permanent Global Instrument to the Holder of the Permanent Global Instrument against its surrender at the specified office of the Issue and Paying Agent within 30 days of the Holder requesting such exchange. Furthermore, if:
- (i) Definitive Instruments have not been delivered in accordance with the foregoing by 5.00 p.m. (London time) on the thirtieth day after the Holder has requested exchange, or
  - (ii) the Permanent Global Instrument (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Permanent Global Instrument has occurred and, in either case, payment in full of the amount of the Redemption Amount (as defined in Condition 7.10) together with all accrued interest thereon has not been made to the Holder in accordance with the Conditions on the due date for payment,

then such Permanent Global Instrument (including the obligation to deliver Definitive and/or Registered Instruments) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (i) above) or at 5.00 p.m. (London time) on such due date (in the case of (ii) above) and the Holder of the Permanent Global Instrument will have no further rights thereunder (but without prejudice to the rights which such Holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system) as being entitled to interests in the Instruments will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Instrument became void, they had been the Holders of Definitive Instruments in an aggregate principal amount equal to the principal amount of Instruments they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

**(C) Form and Exchange – Global Registered Instruments**

- (1) *Global Registered Instrument*: Registered Instruments held in Euroclear and/or Clearstream, Luxembourg (or any other clearing system) will be represented by a Global Registered Instrument which will be registered in the name of a nominee for, and deposited with, a common depository for Euroclear and Clearstream, Luxembourg (or such other relevant clearing system).
- (2) *Exchange*: The Global Registered Instrument will become exchangeable in whole, but not in part, for individual Registered Instruments if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention

permanently to cease business, (b) any of the circumstances described in Condition 8 occurs, or (C) at any time at the request of the registered Holder if so specified in the Final Terms.

Whenever the Global Registered Instrument is to be exchanged for Registered Instruments, such Registered Instruments will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Instrument within five business days of the delivery, by or on behalf of the registered Holder of the Global Registered Instrument, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Registered Instruments (including, without limitation, the names and addresses of the persons in whose names the Registered Instruments are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Instrument at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Issue and Paying Agency Agreement and the regulations concerning the transfer and registration of Instruments scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If (a) Registered Instruments have not been issued and delivered by 5.00 p.m. (London time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Registered Instrument or (b) any of the Instruments evidenced by the Global Registered Instrument has become due and payable in accordance with the Conditions or the date for final redemption of the Instruments has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Holder of the Global Registered Instrument on the due date for payment in accordance with the terms of the Global Registered Instrument, then the Global Registered Instrument (including the obligation to deliver Registered Instruments) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the Holder will have no further rights thereunder (but without prejudice to the rights which the Holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system) as being entitled to interests in the Instruments will acquire directly against the Issuer and the Guarantor all those rights to which they would have been entitled if, immediately before the Global Registered Instrument became void, they had been the registered Holders of Instruments in an aggregate principal amount equal to the principal amount of Instruments they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

#### **(D) Amendment to Conditions**

The Temporary Global Instruments, Permanent Global Instruments and Global Registered Instruments contain provisions that apply to the Instruments that they represent, some of which modify the effect of the Terms and Conditions of the Instruments set out in this Prospectus. The following is a summary of certain of those provisions:

- (1) *Meetings:* The holder of a Permanent Global Instrument or of the Instruments represented by a Global Registered Instrument shall (unless such Permanent Global Instrument or Global Registered Instrument represents only one Instrument) be treated as being two persons for the purposes of any quorum requirements of a meeting of holders and, at any such meeting, the holder of a Permanent Global Instrument shall be treated as having one vote in respect of each unit of currency in which the Instruments that he holds are denominated. (All holders of Registered Instruments are entitled to one vote in respect of each Instrument comprising such holder's holding, whether or not represented by a Global Registered Instrument.)
- (2) *Cancellation:* Cancellation of any Instrument represented by a Permanent Global Instrument that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Permanent Global Instrument.
- (3) *Purchase:* Instruments represented by a Permanent Global Instrument may be purchased by the Issuer or any of its subsidiaries at any time in the open market or otherwise and at any price.
- (4) *Issuer's Options:* Any option of the Issuer provided for in the Conditions of the Instruments while such Instruments are represented by a Permanent Global Instrument or a Global Registered Instrument shall be exercised by the Issuer giving notice to the holders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Instruments drawn in the case of a partial exercise of an option and accordingly no

drawing of Instruments shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Instruments of any Series, the rights of accountholders with a clearing system in respect of the Instruments will be governed by the standard procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other clearing system (as the case may be).

- (5) *Holders' Options:* Any option of the holders provided for in the Conditions of any Instruments while such Instruments are represented by a Permanent Global Instrument or a Global Registered Instrument may be exercised by the Holder of such Permanent Global Instrument or Global Registered Instrument, giving notice to the Issue and Paying Agent within the time limits relating to the deposit of Instruments with a Paying Agent or the Registrar, in the case of a Global Registered Instrument substantially in the form of the notice available from any Paying Agent (or the Registrar, in the case of a Global Registered Instrument), except that the notice shall not be required to contain the serial numbers of the Instruments in respect of which the option has been exercised, and stating the principal amount of Instruments in respect of which the option is exercised and at the same time presenting for notation the Permanent Global Instrument (in the case of a Permanent Global Instrument which is not in NGN form) or the Global Registered Instrument to the Issue and Paying Agent, or to a Paying Agent acting on behalf of the Issue and Paying Agent (or the Registrar, in the case of Global Registered Instrument).
- (6) *Notices:* So long as any Instruments are represented by a Temporary Global Instrument, Permanent Global Instrument or Global Registered Instrument and such Temporary Global Instrument, Permanent Global Instrument or Global Registered Instrument is held on behalf of a clearing system, notices to the holders of Instruments of that Series may be given by delivery of the relevant notice to the clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the Holder of the Permanent Global Instrument or Global Registered Instrument.
- (7) *Record Date:* So long as any Instruments are represented by a Global Registered Instrument, with respect to the definition of "Record Date" in Condition 10B.03, the words "opening of business (local time in the place of the specified office of the Registrar) on the fifteenth Relevant Banking Day (as defined in Condition 2.06) before" shall be deemed to be deleted and replaced by "the close of business on the Clearing System Business Day before" where "Clearing System Business Day" means any day on which Euroclear and Clearstream, Luxembourg or any other clearing system indicated in the applicable Final Terms are open for business.

## USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Instruments will be used for the general corporate purposes of Diageo and its consolidated subsidiaries (the “**Diageo group**”) unless otherwise specified in the applicable Final Terms.



## DIAGEO PLC

### 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 major participant in the global beverage alcohol industry, producing and distributing a leading collection of branded premium spirits, beer and wine. It brings together world-class brands and a management team that seeks to maximise shareholder value over the long term. The management team expects to continue the strategy of investing behind the Diageo group's strategic brands, launching innovative new products, and seeking to expand selectively either through partnerships or acquisitions that add long term value for shareholders.

Diageo is the leading premium spirits business in the world by volume, by net sale and by operating profit and is one of a small number of premium drinks companies that operate globally across spirits, beer and wine.

As at 30 June 2015, Diageo had an allotted and fully paid share capital of 2,754 million ordinary shares of 28<sup>101/108</sup> pence each with an aggregate nominal value of £797 million (including treasury shares and shares owned by the employee share trusts).

### 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.

	<b>Country of incorporation</b>	<b>Country of operation</b>	<b>Percentage of equity owned</b>	<b>Business description</b>
<b>Premium drinks</b>				
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
Mey İçki Sanayi ve Ticaret A.Ş.	Turkey	Turkey	100%	Production, marketing and distribution of premium drinks
<b>Corporate</b>				
Diageo Capital plc (a)	Scotland	United Kingdom	100%	Financing company for the Diageo group
Diageo Finance plc (a)	England	United Kingdom	100%	Financing company for the Diageo group
Diageo Capital BV	Netherlands	Netherlands	100%	Financing company for the Diageo group
Diageo Finance BV	Netherlands	Netherlands	100%	Financing company for the Diageo group
Diageo Investment Corporation	United States	United States	100%	Financing company for the US Diageo group
<b>Associate</b>				
Moët Hennessy, SNC (b)	France	France	34%	Production and distribution of premium drinks

United Spirits Limited	India	India	54.78%	Production, marketing and distribution of alcoholic drinks
(a)	Directly owned by Diageo.			
(b)	French partnership.			

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. Diageo explores the potential to make acquisitions on an ongoing basis and is currently evaluating a number of such opportunities of which some could be significant although no agreements or commitments with respect to any significant acquisitions currently exist. 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.

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 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.

### 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 comprises US Spirits and Wines, Diageo Guinness USA and Diageo Canada, headquartered in Norwalk, Connecticut. North America is the largest market for premium drinks in the world.
- Diageo's business in **Europe** comprises Western Europe, Russia, Eastern Europe and Turkey. Western Europe is managed as a single market with country teams focusing on sales and customer marketing execution. It includes Great Britain, Ireland, Iberia, France, Germany and Diageo Guinness Continental Europe beer business. Eastern Europe includes Poland, Bulgaria, Romania and Israel. On 1 July 2015, Russia became a standalone market while Eastern Europe was merged with Western Europe creating Diageo Europe. Turkey remained unchanged.
- 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 Nigeria, East Africa (Kenya, Tanzania, Uganda, Burundi, Rwanda and South Sudan), Africa Regional Markets (including Ghana, Cameroon, Ethiopia, Angola, Mozambique and a sorghum beer business in South Africa) and South Africa (all other products).
- In **Latin America and Caribbean** ("LAC"), Diageo's strategic priority is continued leadership in scotch, while broadening the category range to include vodka, rum, liqueurs and local spirits. Diageo's Latin America and Caribbean business comprises Paraguay, Uruguay and Brazil, Venezuela, Colombia, Mexico and West LAC (Central America and Caribbean, Argentina, Chile, Peru, Ecuador and Bolivia).
- Diageo's strategy in **Asia Pacific**, which encompasses both developed and emerging markets, is to operate across categories in international spirits, local spirits and beer. Asia Pacific comprises South East Asia (Vietnam, Thailand, Philippines, Indonesia, Malaysia, Singapore, Cambodia, Laos, Myanmar, Nepal and Sri Lanka), Greater China (China, Taiwan, Hong Kong and Macau), India, Global Travel, Asia and Middle East, Australia and North Asia (Korea and Japan).

### Major shareholders and significant changes in ownership

The Disclosure and Transparency Rules published by the U.K. 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 17 July 2015, 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 1 December 2015, 422,445,104 ordinary shares, including those held through American Depositary Shares ("ADSs"), were held by approximately 3,101 holders (including American Depositary Receipt ("ADR") holders) with registered addresses in the United States, representing approximately 16.79% of the outstanding ordinary shares (excluding treasury shares). At such date, 105,439,872 ADSs were held by 2,380 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.

## **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 page of this Prospectus with certainty.

### *Korean customs dispute*

The litigation against Korean customs regarding the transfer pricing methodology applicable to spirits imported between 2004 and 2010 has been substantially settled. Diageo Korea is in discussions with customs on certain outstanding items, which are not material to the Diageo group.

### *Thalidomide litigation*

In June 2014, claims forms alleging product liability and negligence for injuries arising from the consumption of thalidomide were filed in the High Court in London against Distillers Company (Biochemicals) Limited, its parent Diageo Scotland Limited (formerly Distillers Company Limited), as well as against Grünenthal GmbH, the developer of the drug (not a member of the Diageo group). On 4 December 2014 these claims forms were served by lawyers acting for the claimants. Since then the proceedings in respect of the 28 individuals that have now issued claims in the United Kingdom have been stayed until 31 May 2016.

Diageo is unable to meaningfully quantify the possible loss or range of loss to which these lawsuits may give rise. Distillers Company (Biochemicals) Limited distributed thalidomide in the United Kingdom for a period in the late 1950s and early 1960s. Diageo has worked voluntarily for many years with various thalidomide organisations and has provided significant financial support.

### *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 (£342 million), including 10,141,437 shares (6.98%) from UBHL. Through a series of further transactions, as of 2 July 2014, Diageo has 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 (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 (the “**Original 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. Following a number of adjournments, the next 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 various winding-up petitions against UBHL have been progressing through the High Court since closing of the UBHL Share Sale. In separate rulings issued by the High Court on 22 November 2013 and 13 December 2013, the High Court admitted two of the winding-up petitions against UBHL. An appeal filed by UBHL against the first ruling issued on 22 November 2013 was dismissed by a division bench of the High Court on 16 December 2013. That dismissal is now the subject of a further appeal by UBHL before the Supreme Court of India. On 6 February 2014, UBHL filed an appeal with a division bench of the High Court against the second ruling issued on 13 December 2013 and that appeal was disposed of on 21 March 2016. The High Court admitted a further six winding-up petitions against UBHL on 2 January 2015. On 22 January 2015 and 27 March 2015, UBHL filed appeals with a division bench of the High Court against the latest admission order. One of these appeals was disposed of on 25 February 2016, and two more of these appeals were disposed of on 21 March 2016. The various winding-up petitions against UBHL also continue to be adjourned, with the next date fixed for hearing of many of these winding-up petitions being 20 June 2016.

Diageo continues to believe that the acquisition price of INR 1440 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.

Separately, Diageo’s contractual rights in relation to the acquisition of an additional 3,459,090 USL shares (representing 2.38% of the share capital of USL) under the SPA from the USL Benefit Trust have not been capable of completion. Currently certain lenders to USL are refusing to release security that they hold over those shares notwithstanding that they have been repaid in full. USL filed a petition against such lenders before the High Court for release of the security and the High Court granted a stay order in favour of USL in December 2015 restraining the lenders from dealing with the 3,459,090 pledged USL shares until further order of the High Court. As previously disclosed, if it is not ultimately possible for Diageo to complete the acquisition in relation to these shares, they would instead continue to be held by the USL Benefit Trust subject to an undertaking that the trustees would only vote the shares at the direction of USL.

#### *USL internal inquiry and related matters*

In a notice to the Indian stock exchange dated 4 September 2014, USL announced that its board of directors had directed an inquiry into certain matters referred to in USL’s financial statements and the qualified auditor’s report for the financial year ended 31 March 2014 (the “**Inquiry**”). The transactions noted in the Inquiry occurred prior to Diageo gaining significant influence over USL on 4 July 2013 when it completed the transaction to purchase shares in USL to take its aggregate shareholding to 25.02%. USL provided an update on 25 April 2015 in relation to the Inquiry which covered various matters, including certain doubtful receivables, advances and deposits. Additional updates have been provided by USL in subsequent quarterly announcements of their unaudited financial results, including most recently on 27 January 2016 in respect of the quarter to 31 December 2015.

As stated by USL in its most recent update, the Inquiry: (a) revealed that funds involved in many of the commercial transactions covered by the Inquiry were diverted from USL and/or its subsidiaries to certain companies in the UBHL group, including in particular Kingfisher Airlines Limited; (b) prima facie revealed that certain accounting entries appear to have been made and certain transactions entered into on behalf of USL appear to have been undertaken in order to show a lower exposure of USL (and its subsidiaries) to UBHL than that which actually existed at the relevant time; and (c) also identified certain additional parties and matters where documents identified raised concerns as to the propriety of certain underlying commercial transactions with counterparties referred to in the notes to USL's audited accounts for the financial year to 31 March 2014. The inquiry suggests that the manner in which these various transactions were conducted, prima facie, indicates various improprieties and potential violations of provisions, inter alia, of the Indian Companies Act 1956 and the listing agreements signed by USL with various stock exchanges in India on which its securities are listed.

USL has recorded provisions in an aggregate amount of INR 6,712 million (approximately £69 million) with respect to (a) above, and in an aggregate amount of INR 2,368 million (approximately £24 million) with respect to (c) above. Diageo believes that these provisions represent the full amount of funds indicated by the Inquiry as having been diverted from USL and its subsidiaries to companies in the UBHL group in respect of such transactions. These amounts were fully provided for in the fair value balance sheet consolidated by Diageo on 2 July 2014. Diageo does not expect any further material financial impact on Diageo's financial results in connection with such transactions. USL made provisions in its financial statements for the two years ended 31 March 2014 and 31 March 2015 in respect of the issues identified by the Inquiry. The audit report on the financial statements of USL for the year ended 31 March 2015 was also qualified in respect of the issues.

The USL board stated in its update of 25 April 2015 that it was not in a position to make any final determinations with regard to the position of any individuals involved and therefore directed USL to report the relevant transactions to the authorities as required under applicable law and to provide the inquiry report to USL's auditors. The USL board also resolved that USL should take the necessary steps to pursue all rights and claims against, and expeditiously recover its dues from, the relevant parties to the extent possible. As announced by USL on 2 November 2015, USL has been taking steps for recovery against the relevant parties to the extent possible. During the quarter ended 30 September 2015, USL reached a settlement with one of the parties pursuant to which the party withdrew claims aggregating to INR 279 million (approximately £3 million).

In light of the above, and without making any determination as to fault or culpability, the USL directors noted in the update of 25 April 2015 that they had lost confidence in Dr Vijay Mallya continuing in his role as a director and as chairman of USL and therefore the USL board called upon Dr Mallya to resign forthwith as a director and as chairman of the board and step down from his positions in USL's subsidiaries. The board of USL also resolved that, in the event Dr Mallya declined to step down, it would recommend to the shareholders of USL the removal of Dr Mallya as a director and as the chairman of the board. Dr Mallya indicated at the time that he would not tender his resignation.

Diageo is the majority shareholder in USL with a 54.78% holding in USL. As previously announced by Diageo, it had certain contractual obligations to support Dr Mallya continuing as non-executive director and chairman of USL subject to certain conditions and in the absence of certain defaults. Those matters were agreed on 9 November 2012 as part of a broader shareholders' agreement and came into effect on 4 July 2013 when Diageo completed the purchase of shares to take its aggregate shareholding in USL to 25.02%.

Subsequent to its announcement of 25 April 2015, USL had provided its inquiry report and all related materials to Diageo. Diageo announced on 27 April 2015 that it noted the recommendation of the USL board and was considering its position under its agreements with Dr Mallya and UBHL in light of the inquiry report and materials provided to it.

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 part of those arrangements, USL and Dr Mallya agreed a mutual release in relation to matters arising out of the Inquiry. As announced on 25 February 2016, Diageo's agreement with Dr Mallya provided for a payment of \$75 million to Dr Mallya over a five year period. \$40 million of this amount was paid on signing of the agreement with the balance being payable in equal instalments over five years, subject to Dr Mallya's compliance with certain terms of the agreement. On 7 March 2016, a consortium of banks led by the State Bank of India ("SBI") obtained an order from the Debt Recovery Tribunal ("DRT") in Bangalore attaching the sum of \$75 million payable to Dr Mallya under the agreement. The order provides that Dr Mallya is not to draw on that sum, Diageo is not to disburse such sum to Dr Mallya and Diageo is to deposit such sum with the DRT. Diageo stated in its affidavit filed in the DRT on 5 April 2016 that the sum of \$40 million was paid on 25 February 2016, prior to the order dated 7 March 2016. Diageo further stated that no sum is presently due and payable by Diageo to Dr Mallya and there can be no certainty that any amount will become due and payable in the future. Diageo's position is that the order is not currently capable of being performed.

Following USL's earlier updates, USL has received various notices and enquiries from Indian regulatory authorities, including the Ministry of Corporate Affairs, the stock exchange authorities and the income tax authorities. USL is cooperating fully with the authorities in relation to these matters. Diageo is unable to assess if these notices or enquiries will result in any 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.

Further, and as previously announced by USL, the Inquiry identified certain additional parties and matters raising concerns as to the propriety of the underlying transactions. USL made provisions in respect of such transactions for its financial years ended 31 March 2015 and 31 March 2014. As announced by USL previously, USL management believes these provisions are adequate and no additional material adjustments are likely to be required in relation thereto. In addition, the USL board has announced that it believes that it is necessary to assess whether the transactions involving the additional parties and matters were improper and has therefore directed its managing director and CEO to expeditiously review these transactions and report to the board his conclusions on the transactions and any further impact on USL's financial results. Diageo understands that this review is currently underway. Diageo does not expect any material financial impact on its financial results to arise out of these matters.

#### *SEC inquiry*

Diageo has received requests for information from the US Securities and Exchange Commission ("SEC") regarding its distribution in the United States. 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 a broader information request 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.

#### *Other*

The Diageo group has extensive international operations and is 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 Diageo group is currently the 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, Diageo Finance plc, 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 Diageo Finance plc or Diageo, as the case maybe, 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 Diageo group.

#### *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 to 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 Dr Franz B Humer. The other members are Peggy Bruzelius, Ho KwonPing, Lord Davies of Abersoch, Betsy Holden, Philip Scott, Alan Stewart 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, Philip Scott, Alan Stewart 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 Philip Scott, Peggy Bruzelius, Ho KwonPing, Lord Davies of Abersoch, Betsy Holden, Alan Stewart and Nicola Mendelsohn. Philip Scott is chairman of the Audit Committee. The composition of the Audit Committee complies with the recommendations of the Code.

## 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.

<b>Name</b>	<b>Business occupation</b>
Dr Franz B Humer	Chairman, non-executive director
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
Philip G Scott	Non-executive director
Alan J Stewart	Non-executive director
Emma Walmsley	Non-executive director
Paul D Tunnacliffe	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:

<b>Name</b>	<b>Company/Institution</b>
Dr Franz B Humer	Chugai Pharmaceutical Co., Ltd CitiGroup
Ivan Menezes	Kite Pharma, Inc. Coach Inc. Kellogg School of Management Scotch Whisky Association
Kathryn Mikells	The Hartford Financial Services Group
Lord Davies of Abersoch	Corsair Capital Jack Wills Royal Academy of Arts LetterOne Holdings S.A.
Peggy B Bruzelius	Lancelot Asset Management Akzo Nobel NV Axfod AB Skandia Liv AB Lundin Petroleum AB
Betsy D Holden	Western Union Company Time Inc McKinsey & Company Duke University, Trinity College Kellogg School of Management
Ho KwonPing	Banyan Tree Group

Nicola S Mendelsohn

Alan JH Stewart  
Emma Walmsley

Laguna Resorts & Hotel  
Thai Wah Food Products  
INSEAD  
London Business School  
Singapore Management University  
School of Hotel and Tourism Management of the Hong  
Kong Polytechnic University  
Facebook EMEA  
Women's Prize for Fiction  
Creative Industries Council  
Tesco plc  
GSK Consumer Healthcare

At 31 December 2015 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.



## DIAGEO FINANCE PLC

### Introduction

Diageo Finance plc, a wholly owned subsidiary of Diageo, was incorporated as a private limited company in England and Wales on 23 April, 1926 under the Company Acts 1908 to 1917 (registered number 213393) under the name The Mayfair Hotel Company Limited. Diageo Finance plc changed its name to Grand Metropolitan (Finance) Limited on 26 January, 1973. On 2 November, 1981 Diageo Finance plc re-registered as a public limited company under the name of Grand Metropolitan (Finance) Public Limited Company. On 10 December, 1981 Diageo Finance plc changed its name to Grand Metropolitan Finance Public Limited Company and on 16 December, 1997 changed its name to Diageo Finance plc. The registered office of Diageo Finance plc is at Lakeside Drive, Park Royal, London NW10 7HQ with telephone number +44 (0) 208 978 6000.

The issued share capital of Diageo Finance plc comprises 73,200,000,000 ordinary shares of 5 pence each, all of which are held by Diageo. Diageo Finance plc does not know of any arrangements which may at a subsequent date result in a change of control of Diageo Finance plc.

Diageo Finance plc acts as a financing vehicle for the Diageo group's operating companies and has no independent operations apart from the management of the Diageo group's foreign exchange exposure.

### Directors

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

<b>Name</b>	<b>Business occupation</b>
Paul D Tunnacliffe	Director
Monika Pais	Director
John J Nicholls	Director
Sharon L Fennessy	Director
Edward McShane	Director
Claire E Matthews	Company Secretary
Victoria Cooper	Company Secretary

The following directors hold directorships of companies or institutions outside the Diageo group as set out below:

<b>Name</b>	<b>Company/Institution:</b>
Paul D Tunnacliffe	Ashburn Park Management Hanson Pension Trustees Limited CSA Trading Limited
Monika Pais	None
John J Nicholls	None
Sharon L Fennessy	None
Edward McShane	None
Claire E Matthews	None
Victoria Cooper	None

There are no existing or potential conflicts of interest between any duties of the directors of Diageo Finance plc and/or their private interests and other duties. At 31 December 2015 the directors had no interests in the share capital of Diageo Finance plc. At 31 December 2015 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.

## TAXATION

### UNITED KINGDOM TAXATION

*The following is a general summary, based on the Issuers' understanding of current United Kingdom tax law and Her Majesty's Revenue and Customs practice as at the date hereof (both of which may be subject to change, sometimes with retrospective effect), of certain withholding taxation treatments at the date hereof in relation to payments of interest in respect of the Instruments. The comments are not exhaustive and do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Instruments. The comments relate only to the position of persons who are absolute beneficial owners of the Instruments and do not deal with the position of certain classes of Holders of Instruments (such as dealers, insurance companies and charities) to whom special rules may apply. Further, the comments do not deal with Holders of Instruments who are individuals treated as non-domiciled and resident in the United Kingdom for United Kingdom tax purposes. Prospective Holders of Instruments should be aware that the particular terms of issue of any series of Instruments as specified in the relevant Final Terms may affect the tax treatment of that and other series of Instruments. The following is a general guide and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all the tax considerations that may be relevant to a prospective purchaser. Holders of Instruments who are in any doubt as to their tax position should consult their independent professional advisers.*

Holders who may be liable to taxation in jurisdictions other than the United Kingdom or are treated as non-domiciled and resident in the United Kingdom for United Kingdom tax purposes in respect of their acquisition, holding or disposal of the Instruments are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Instruments. In particular, Holders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Instruments even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

#### **A. UK withholding tax on UK-source interest**

Payments of interest on the Instruments may be made without withholding or deduction for or on account of United Kingdom income tax provided that the Instruments are and continue to be "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007 ("ITA"). Instruments will continue to be quoted Eurobonds while they are and remain listed on a "recognised stock exchange" within the meaning of section 1005 ITA. In the case of Instruments to be traded on the Market, which is a recognised stock exchange, the Instruments will be treated as "listed" on a recognised stock exchange if the Instruments are included in the Official List of the U.K. Listing Authority and are admitted to trading on the Market. Instruments to be traded on a recognised stock exchange outside the United Kingdom will be treated as "listed" on a recognised stock exchange if (and only if) they are admitted to trading on that exchange and they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom where there is a recognised stock exchange.

Payments of interest on the Instruments may also be made without withholding or deduction for or on account of United Kingdom income tax if the maturity of the relevant Instrument is less than 1 year from the date of issue and the Instrument is not issued under, and does not become subject to, arrangements the effect of which is to render such Instrument part of a borrowing with a total term of 1 year or more.

In other cases, an amount on account of income tax may have to be withheld at the basic rate (currently 20%) from payments of interest on the Instruments, subject to any relief available under any applicable double taxation convention or to any other exemption which may apply.

#### **B. Payments by Guarantor**

If the Guarantor makes any payments in respect of interest on the Instruments (or in respect of other amounts due under the Instruments other than the repayment of amounts subscribed for the Instruments) such payments may be subject to United Kingdom withholding tax at the basic rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. Where such a treaty relief is available, and the applicable conditions in the relevant treaty are satisfied, the relevant Holder should be entitled to a refund, or part refund, of tax withheld, provided it complies with the applicable formalities relating to such claim within the relevant limitation period. It may, however, not in practice be possible for the Holder to obtain a direction for the guarantee payments to be made free from withholding tax. Such payments by the Guarantor may not be eligible for the exemptions from United Kingdom withholding tax described in A above.

**C. Payments under Deed of Covenant**

Any payments made by an Issuer under the Deed of Covenant may not qualify for the exemptions from United Kingdom withholding tax described in A above.

**D. Other rules relating to United Kingdom withholding tax**

1. Instruments may be issued at an issue price of less than 100% of their principal amount. Any discount element on any such Instruments will not generally be subject to any United Kingdom withholding tax pursuant to the provisions mentioned in A above.
2. Where Instruments are to be, or may fall to be, redeemed at a premium as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax as outlined above.
3. Where interest has been paid and has been subject to a deduction of United Kingdom income tax, Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty. Where such a treaty relief is available, and the applicable conditions in the relevant treaty are satisfied, the relevant Holder should be entitled to a refund, or part refund, of tax withheld, provided it complies with the applicable formalities relating to such claim within the relevant limitation period. It may, however, not in practice be possible for the Holder to obtain a direction for the payments to be made free from withholding tax.
4. The references to “**interest**” in this summary mean “interest” as understood in United Kingdom tax law. The statements in this summary do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the Terms and Conditions of the Instruments or any related documentation.
5. The above description of the United Kingdom withholding tax position assumes that there will be no substitution of an Issuer and does not consider the tax consequences of any such substitution.

## SUBSCRIPTION AND SALE

Instruments may be issued from time to time by an Issuer to any one or more of Banco Santander, S.A., Barclays Bank PLC, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc, Nomura International plc, The Royal Bank of Scotland plc, Standard Chartered Bank and UBS Limited and/or any other Dealer appointed from time to time by the Issuers and the Guarantor either generally in respect of the Programme or in relation to a particular Tranche of Instruments as described below (the “**Dealers**”). The arrangements under which Instruments may from time to time be agreed to be issued by the Issuers to, and subscribed by, Dealers are set out in a dealership agreement dated 31 May 2016 (as further amended, supplemented or replaced from time to time, the “**Dealership Agreement**”) and to be made between the Issuers, the Guarantor and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Instruments, the price at which such Instruments will be subscribed by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the relevant Issuer in respect of such subscription. The Dealership Agreement makes provision for the resignation or termination of appointment or renewal of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments. The Issuers may issue Instruments from time to time to persons or institutions who are not Dealers.

### United States of America

Each Dealer understands that the Instruments have not been and will not be registered under the Securities Act (as defined below) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

Each Dealer has represented and agreed that it has offered and sold Instruments and will offer and sell Instruments (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of the Tranche of which such Instruments are a part, as determined and certified to the Issue and Paying Agent or the relevant Issuer by the relevant Dealer (or in the case of a sale of a Tranche to or through more than one Dealer, by each of such Dealers as to the Instruments of such Tranche purchased by or through it, in which case the Issue and Paying Agent or the relevant Issuer shall notify each such Dealer when all such Dealers have so certified), only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither the Dealers, their affiliates (if any) nor any persons acting on their behalf have engaged or will engage in any directed selling efforts with respect to Instruments, and the Dealers, their affiliates (if any) and any person acting on their behalf have complied and will comply with the offering restrictions requirements of Regulation S. Each Dealer has agreed that, at or prior to confirmation of sale of Instruments, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Instruments from it or through it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Instruments covered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of Instruments of which such Instruments are a part, as determined and certified by [*Name of Dealer or Dealers, as the case may be*], except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S.”

Terms used in the above paragraph have the meanings given to them by Regulation S.

Each Dealer (or, in the case of a sale of a Tranche to or through more than one Dealer, each of such Dealers as to Instruments of such Tranche purchased by or through it, in which case the Issue and Paying Agent or the relevant Issuer shall notify each such Dealer when all such Dealers have certified as provided in this paragraph) who has purchased Instruments of any Tranche in accordance with this Prospectus shall determine and certify to the Issue and Paying Agent or the relevant Issuer the completion of the distribution of such Tranche as aforesaid. In order to facilitate compliance by each Dealer with the foregoing, the relevant Issuer undertakes that, prior to such certification with respect to such Tranche, it will notify each Dealer in writing of each acceptance by such Issuer of an offer to purchase and of any issuance of, Instruments or other debt obligations of such Issuer which are denominated in the same currency or composite currency and which have substantially the same interest rate and maturity date as the Instruments of such Tranche.

*Instruments will be issued in accordance with the provisions of United States Treasury Regulation § 1.163-5(c)(2)(i)(D) (the “**D Rules**”), unless the relevant Final Terms specify that Instruments will be issued in accordance with the provisions of United States Treasury Regulation § 1.163-5(c)(2)(i)(C) (the “**C Rules**”).*

In addition, in respect of Instruments issued in accordance with the D Rules each Dealer has represented and agreed that:

- (A) except to the extent permitted under the D Rules, (i) it has not offered or sold, and during the restricted period will not offer or sell, Instruments in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) such Dealer has not delivered and will not deliver within the United States or its possessions definitive Instruments in bearer form that are sold during the restricted period;
- (B) it has and throughout the restricted period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Instruments in bearer form are aware that such Instruments may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (C) if such Dealer is a United States person, it represents that it is acquiring the Instruments in bearer form for purposes of resale in connection with their original issuance and, if such Dealer retains Instruments in bearer form for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D)(6); and
- (D) with respect to each affiliate (if any) that acquires from such Dealer Instruments in bearer form for the purposes of offering or selling such Instruments during the restricted period, such Dealer either (i) hereby represents and agrees on behalf of such affiliate (if any) to the effect set forth in sub-paragraphs (A), (B) and (C) of this paragraph or (ii) agrees that it will obtain from such affiliate (if any) for the benefit of the Issuer the representations and agreements contained in sub-paragraphs (A), (B) and (C) of this paragraph.

Terms used in the above paragraph have the meanings given to them by the United States Internal Revenue Code and Regulations thereunder, including the D Rules.

In addition, where the C Rules are specified in the relevant Final Terms as being applicable in relation to any Tranche of Instruments, Instruments in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, Instruments in bearer form within the United States or its possessions in connection with the original issuance. Further, each Dealer has represented and agreed in connection with the original issuance of Instruments in bearer form, that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of Instruments in bearer form. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

Each Dealer has agreed that it has not entered and will not enter into any contractual arrangements with respect to the distribution or delivery of Instruments into the United States except with its affiliates (if any) or with the prior written consent of the relevant Issuer.

#### **Public offer selling restrictions under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Instruments to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Instruments referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Instruments to the public** in relation to any Instruments in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

#### **Selling restrictions addressing additional United Kingdom securities laws**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Instruments which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of section 19 FSMA by the Issuer;
- (b) it 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 FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which section 21(1) FSMA does not apply to the Issuer or the Guarantor; and
- (c) it has complied and will comply with all applicable provisions FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

#### **Selling restrictions addressing other Member States' securities laws**

##### **The Netherlands**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has complied and will comply with the requirement under the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) that bearer zero coupon Instruments and other Instruments which qualify as savings certificates as defined in the Dutch Savings Certificates Act may only be transferred and accepted through the intermediary of either the relevant Issuer of those Instruments or a Member of Euronext Amsterdam N.V. and with due observance of the Dutch Savings Certificates Act (including registration requirements). However, no such intermediary services are required in respect of (i) the initial issue of such Instruments to the first holders thereof, (ii) any transfer and acceptance by individuals who do not act in the conduct of a profession or trade, and (iii) any transfer or acceptance of such Instruments, if they are physically issued outside the Netherlands and are not distributed in the Netherlands in the course of primary trading or immediately thereafter.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not make an offer of Instruments which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in The Netherlands unless:

- (a) such offer is made exclusively to legal entities which are qualified investors (as defined in the Prospectus Directive) in The Netherlands; or
- (b) standard exemption logo and wording are disclosed as required by article 5:20(5) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*, the "FMSA"); or

(c) such offer is otherwise made in circumstances in which article 5:20(5) of the FMSA is not applicable,

**provided that** no such offer of Instruments shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expressions (i) an "**offer of Instruments to the public**" in relation to any Instruments in The Netherlands; and (ii) "**Prospectus Directive**", have the meaning given to them above in the paragraph headed with "Public Offer Selling Restrictions Under the Prospectus Directive".

## **France**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, directly or indirectly, any Instruments to the public in France and that offers and sales of Instruments in France will be made only to providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*) and/or to qualified investors (*investisseurs qualifiés*) acting for their own account, other than individuals, as defined in Articles L.411-2 and D.411-1 of the French Code *monétaire et financier*.

In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in France this Prospectus, the relevant Final Terms or any other offering material relating to the Instruments other than to investors to whom offers and sales of Instruments in France may be made as described above.

## **Japan**

The Instruments issued under the Programme have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Instruments in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

## **General**

Other than with respect to the listing of the Instruments on such stock exchange as may be specified in the Final Terms, no action has been or will be taken in any country or jurisdiction by any Obligor or the Dealers that would permit a public offering of the Instruments, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus or any Final Terms comes are required by the Obligors and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver the Instruments or have in their possession or distribute such offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date thereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in this paragraph headed "*General*".

Selling restrictions may be supplemented or modified with the agreement of the relevant Issuer. Any such supplement or modification not relevant only to a particular Tranche of Instruments will be set out in a supplement to this Prospectus.

**FORM OF FINAL TERMS**

Final Terms dated [ • ]

**DIAGEO plc**

(Incorporated with limited liability in England and Wales with registered number 23307)  
as Issuer and Guarantor

**DIAGEO FINANCE plc**

(Incorporated with limited liability in England and Wales with registered number 213393)  
as Issuer

Programme for the  
Issuance of Debt Instruments

---

Series No: [ • ]  
[Guaranteed by DIAGEO plc]  
under the **Programme for Issuance of Debt Instruments**



## PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 31 May 2016 [and the supplemental Prospectus[es] dated [●] [and [●]] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of the Prospectus Directive (Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU (the “**2010 PD Amending Directive**”) to the extent that such amendments have been implemented in a Member State of the European Economic Area) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer [and the Guarantor] and the offer of the instruments is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> [and] during normal business hours at [address] [and copies may be obtained from [address]].]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 31 May 2016. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU (the “**2010 PD Amending Directive**”) to the extent that such amendments have been implemented in a Member State of the European Economic Area) (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus[es] dated [●][and [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [current date] and are incorporated by reference in the Prospectus dated [current date]. Full information on the Issuer [, the Guarantor] and the offer of the Instruments is only available on the basis of the combination of the Conditions, these Final Terms and the Prospectus dated [current date] [and the supplemental Prospectuses dated [●] and [●]. The Prospectus [and the supplemental Prospectuses] are available for viewing at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> [and] during normal business hours at [address] [and copies may be obtained from [address]].]

1. [(i)] Issuer: [●]  
[[ (ii) Guarantor: [●]]
2. [(i)] Series Number: [●]  
[(ii) Tranche Number: [●]  
[(iii) Date on which the Notes will be consolidated and form a single Series: The Instruments will be consolidated and form a single Series with [●] on [the Issue Date/exchange of Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [●] below, which is expected to occur on or about [●]] [Not Applicable]
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount of Instruments: [●]  
[(i)] Series: [●]  
[(ii) Tranche: [●]
5. Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued Interest from [●]
6. (i) Specified Denominations: [[●] and integral multiples of [●] in excess thereof [up to and including ●.] No notes in definitive form will be issued with a denomination above [●].]  
(ii) Calculation Amount: [●]
7. (i) Issue Date: [●]

- (ii) Interest Commencement Date: [●]
8. Maturity Date: [●]
9. Interest Basis: [●] per cent. Fixed Rate]  
[●] per cent. Floating Rate]  
[Zero Coupon]
10. Redemption/Payment Basis: [Redemption at par]  
[Subject to any purchase and cancellation or early redemption, the Instruments will be redeemed on the Maturity Date at [●] per cent. of the nominal amount]
11. Change of Interest or Redemption Payment Basis: [●]/[Not Applicable]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[Not Applicable]
13. [Date [Board] approval for issuance of Instruments [and Guarantee] obtained: [[●] and [●] respectively]]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

14. **Fixed Rate Instrument Provisions** [Applicable/Not Applicable]
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)] *in arrear*] on each Interest Payment Date
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with [●]/*not adjusted*]
- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (iv) Broken Amount(s): [●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
- (v) Day Count Fraction: [Actual/Actual – ICMA]  
[Actual/Actual – ISDA]  
[Actual/365 (Fixed)]  
[Actual/360][30/360][30E/360]  
[30E/360 (ISDA)]
- (vi) [Determination Dates: [[●] in each year][Not Applicable]]
- [(vii) Relevant Currency [Not Applicable/[●]]  
[Applicable/Not Applicable]]
15. **Floating Rate Instrument Provisions** [Applicable/Not Applicable]
- (i) Interest Period(s): [●]
- (ii) Specified Interest Payment Dates: [●]
- (iii) First Interest Payment Date: [●]

- |   |   |
|---|---|
| (iv) Business Day Convention:   | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] |
| (v) Business Centre(s):   | [●]   |
| (vi) Manner in which the Rate(s) of Interest is/are to be determined:   | [Screen Rate Determination/ISDA Determination]  |
| (vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): | [●]   |
| (viii) Screen Rate Determination:   |   |
| – Reference Rate:   | [●]   |
| – Interest Determination Date(s):   | [●]   |
| – Relevant Screen Page:   | [●]   |
| (ix) ISDA Determination:  |   |
| – Floating Rate Option:   | [●]   |
| – Designated Maturity:  | [●]   |
| – Reset Date:   | [●]   |
| (x) Margin(s):  | [+/-][●] per cent per annum   |
| (xi) Minimum Rate of Interest:  | [●] per cent. per annum   |
| (xii) Maximum Rate of Interest:   | [●] per cent. per annum   |
| (xiii) Day Count Fraction:  | [●]   |
| <b>16. Zero Coupon Instrument Provisions</b>  | [Applicable/Not Applicable]   |
| (i) [Amortisation/Accrual] Yield:   | [●] per cent. per annum   |
| (ii) Reference Price:   | [●]   |
| (iii) Day Count Fraction  | [●]   |

**PROVISIONS RELATING TO REDEMPTION**

- |   |                             |
|---|-----------------------------|
| <b>17. Call Option</b>  | [Applicable/Not Applicable] |
| (i) Optional Redemption Date(s):  | [●]                         |
| (ii) Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s): | [●] per Calculation Amount  |
| (iii) If redeemable in part:  |                             |
| (a) Minimum Redemption Amount:  | [●] per Calculation Amount  |
| (b) Maximum Redemption Amount:  | [●] per Calculation Amount  |
| (iv) Notice period:   | [●]                         |
| <b>18. Put Option</b>   | [Applicable/Not Applicable] |
| (i) Optional Redemption Date(s):  | [●]                         |
| (ii) Optional Redemption Amount(s) of each Instrument:  | [●] per Calculation Amount  |
| (iii) Notice period:  | [●]                         |

19. **Final Redemption Amount of each Instrument** [●] per Calculation Amount
20. **Early Redemption Amount**
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption: [●]

**GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS**

21. **Form of Instruments** **[Bearer Instruments]**
- [Temporary Global Instrument exchangeable for a Permanent Global Instrument which is exchangeable for Definitive Instruments in the limited circumstances specified in the Permanent Global Instrument] [Temporary Global Instrument exchangeable for Definitive Instruments] [Permanent Global Instrument exchangeable for Definitive Instruments in the limited circumstances specified in the Permanent Global Instrument]
- [Registered Instruments]**
22. New Global Note: [Yes]/[No]
23. Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/[●]]
24. Calculation Agent: [Not Applicable/[●]]
25. Talons for future Coupons to be attached to Definitive Instruments (and dates on which such Talons mature): [Yes/No]
26. Exchange Date: [●]

**DISTRIBUTION**

27. U.S. Selling Restrictions: [Reg.S Compliance Category; TEFRA C/TEFRA D/TEFRA not applicable]

**THIRD PARTY INFORMATION**

[●] has been extracted from [●]. [Each of the] [The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of [name of the Issuer]: Signed on behalf of [name of the Guarantor]:

By: ..... By: .....

Duly authorised Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING

- (i) Listing [London]
- (ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on the London Stock Exchange plc's Regulated Market with effect from [●].] [(Application is expected to be made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on the London Stock Exchange plc's Regulated Market with effect from [●].]
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2. RATINGS

- Ratings: The Instruments to be issued [have been rated] / [are expected to be assigned the following ratings]:  
[S&P: [●]]  
[Moody's: [●]]  
[[Fitch: [●]]  
[Not applicable]

### 3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]

[Save for any fees payable to [the] [●] [(“Managers”)]/[Dealers], so far as the Issuer is aware, no person involved in the issue of the Instruments has an interest material to the offer.

The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuers and their affiliates in the ordinary course of business.]

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer: [●]
- [(ii) Estimated net proceeds: [●]
- [(iii) Estimated total expenses: [●]

### 5. [Fixed Rate Instruments only – YIELD

- Indication of yield: [●]  
[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

### 6. Historic Interest Rates

Details of historic [LIBOR/EURIBOR] can be obtained from [relevant screen page].

### 7. OPERATIONAL INFORMATION

- ISIN Code: [●]
- Common Code: [●]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s):

[Not Applicable/[●]]

Delivery:

Delivery [against/free of] payment [●]

Names and addresses of additional Paying Agent(s) (if any):

[●]

Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes][No]

## GENERAL INFORMATION

1. The trading of the Instruments on the Market will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche of Instruments intended to be admitted to listing on the Official List of the U.K. Listing Authority and admitted to trading on the Market will be so admitted to listing and trading upon submission to the U.K. Listing Authority and the London Stock Exchange of the relevant Final Terms and any other information required by the U.K. Listing Authority and the London Stock Exchange, subject to the issue of the relevant Instruments. Prior to official listing dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, Instruments may be issued pursuant to the Programme which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the Issuers, the Guarantor and the relevant Dealer(s) may agree.

2. The Issuers and the Guarantor have obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Instruments. The update of the Programme was authorised by a resolution of the Board of Directors of Diageo passed on 28 and 29 July 2015, by resolutions of a duly authorised Committee of the Board of Directors of Diageo passed on 11 April 2016 and by a resolution of the Board of Directors of Diageo Finance plc passed on 19 May 2016.
3. The Instruments have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Instruments of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Instruments for clearance together with any further appropriate information.
4. Bearer Instruments and any Coupon appertaining thereto will bear a legend substantially to the following effect: "Any United States person (as defined in the Internal Revenue Code of the United States) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in such legend provide that a United States person who holds a Bearer Instrument or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bearer Instrument or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.
5. The listing of the Programme on the Official List of the U.K. Listing Authority and the admission for trading on the Market are both expected to take effect on or around 3 June 2016.
6. Save as disclosed on pages 51 to 54 of this Prospectus in respect of the litigation proceedings described in the sections entitled "Korean customs dispute", "Thalidomide litigation", "Acquisition of USL shares from UBHL, winding-up petitions against UBHL and other proceedings in relation to the USL transaction", "USL internal inquiry and related matters", "SEC inquiry" and "Other", Diageo Finance plc and 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 Diageo Finance plc 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 of Diageo Finance plc or Diageo and its subsidiaries.
7. There has been no significant change in the financial or trading position of Diageo and its respective subsidiaries since 31 December 2015, and, there has been no material adverse change in the prospects of Diageo and its respective subsidiaries since 30 June 2015.

There has been no significant change in the financial or trading position of Diageo Finance plc since 30 June 2015, and no material adverse change in the prospects of Diageo Finance plc since 30 June 2015.

8. Diageo and Diageo Finance plc have accounting year ends of 30 June. PricewaterhouseCoopers LLP have been appointed as sole auditors of Diageo and Diageo Finance plc. 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 2015 and 30 June 2014 were audited, without qualification by KPMG LLP, Chartered Accountants and Registered Auditors. The address of KPMG LLP is 15 Canada Square, London, E14 5GL. The financial statements of Diageo Finance plc in respect of the years ended 30 June 2015 and 30 June 2014 were audited, without qualification by KPMG LLP, Chartered Accountants and Registered Auditors.

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

The Diageo group accounts are consolidated and prepared in accordance with IFRS.

The statutory accounts of Diageo Finance plc are prepared in accordance applicable law and UK Generally Accepted Accounting Practice.

9. The information sourced from Impact Databank as found on page 49 of this Prospectus in the third paragraph of the section entitled "Overview" has been accurately reproduced and as far as the Issuers and the Guarantor are aware and are able to ascertain from information published by Impact Databank, no facts have been omitted which would render the reproduced information inaccurate or misleading.
10. For so long as the Programme remains in effect or any Instruments shall be outstanding, copies of the following documents may be inspected during normal business hours at the specified offices of the Issue and Paying Agent for the time being in London and from the registered offices of the Issuers and the Guarantor, namely:
  - (a) the constitutional documents of each of the Obligor;
  - (b) this Prospectus together with any supplements and/or amendments;
  - (c) the Issue and Paying Agency Agreement;
  - (d) the Deed of Covenant;
  - (e) the Guarantee;
  - (f) the Dealership Agreement;
  - (g) 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 2015 and 30 June 2014;
  - (h) the unaudited interim results of Diageo for the six months ended 31 December 2015; and
  - (i) the audited annual financial statements (on an entity basis and including the auditor's report thereon and notes thereto) of Diageo Finance plc in respect of the financial years ended, 30 June 2015 and 30 June 2014;
  - (j) the Annual Report and Accounts on Form 20-F of Diageo in respect of the year ended 30 June 2015, excluding the exhibits set out at pages 261 to 262 therein referred to as being incorporated by reference;
  - (k) the Form 6-K filed with the U.S. Securities and Exchange Commission relating to, inter alia, the unaudited interim results of Diageo plc for the six months ended 31 December 2015; and
  - (l) any Final Terms relating to Instruments which are listed on any stock exchange.
11. The price and amount of Instruments to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.
12. Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuers and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Instruments issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuers and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array



of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuers or Issuers' affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuers routinely hedge their credit exposure to the Issuers consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Instruments issued under the Programme. Any such positions could adversely affect future trading prices of Instruments issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## REGISTERED OFFICES OF THE ISSUERS AND GUARANTOR

**Diageo plc**  
Lakeside Drive  
Park Royal  
London NW10 7HQ

**Diageo Finance plc**  
Lakeside Drive  
Park Royal  
London NW10 7HQ

## DEALERS

**Banco Santander, S.A.**  
Ciudad Grupo Santander  
Edificio Encinar  
Avenida de Cantabria  
28660, Boadilla del Monte  
Madrid, Spain

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**Credit Suisse Securities (Europe) Limited**  
One Cabot Square  
London E14 4QJ

**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**Goldman Sachs International**  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ

**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London E14 5JP

**Merrill Lynch International**  
2 King Edward Street  
London EC1A 1HQ

**Morgan Stanley & Co. International plc**  
25 Cabot Square  
Canary Wharf  
London E14 4QA

**Nomura International plc**  
1 Angel Lane  
London EC4R 3AB

**Standard Chartered Bank**  
1 Basinghall Avenue  
London EC2V 5DD

**The Royal Bank of Scotland plc**  
135 Bishopsgate  
London EC2M 3UR

**UBS Limited**  
1 Finsbury Avenue  
London EC2M 2PP

**AUDITORS OF THE ISSUERS**

**PricewaterhouseCoopers LLP**  
One Embankment Place  
London  
WC2N 6RH

**ISSUE AND PAYING AGENT and REGISTRAR**

**Citibank, N.A., London Branch**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**PAYING AGENT**

**The Bank of New York Mellon (Luxembourg) S.A.**  
Vertigo Building  
Polaris – 2-4 rue Eugène Ruppert  
L-2453 Luxembourg

**LEGAL ADVISERS**

*To the Dealers as to English Law*

**Clifford Chance LLP**  
10 Upper Bank Street  
London E14 5JJ

*To the Issuers as to English Law*

**Slaughter and May**  
One Bunhill Row  
London EC1Y 8YY