

INFORMATION MEMORANDUM

DIAGEO
DIAGEO plc

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

as Issuer and Guarantor

DIAGEO CAPITAL plc

(Incorporated with limited liability in Scotland with registered number 40795)

as Issuer

DIAGEO FINANCE plc

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

as Issuer

US\$5,000,000,000

**Programme for the
Issuance of Debt Instruments**

Application has been made to the London Stock Exchange Limited (the "**London Stock Exchange**") for debt instruments (the "**Instruments**") issued under the programme (the "**Programme**") described in this document during the period of twelve months after the date of this document to be admitted to the Official List. This Information Memorandum comprises listing particulars issued in compliance with the listing rules made under Section 142 of the Financial Services Act 1986 for the purpose of giving information with regard to the issue during the period of twelve months after the date of this document of Instruments under the Programme. Copies of the listing particulars have been delivered for registration to the Registrars of Companies in England and Wales and in Scotland in accordance with Section 149 of the Financial Services Act 1986. Instruments may also be issued under the Programme which are not listed on any stock exchange.

Arranger

MORGAN STANLEY DEAN WITTER

Dealers

**DEUTSCHE BANK
MERRILL LYNCH INTERNATIONAL
MORGAN STANLEY DEAN WITTER**

**LEHMAN BROTHERS
J.P. MORGAN SECURITIES LTD.
WARBURG DILLON READ**

27 August 1999



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

This Information Memorandum should be read and construed with any amendment or supplement thereto and with any other documents incorporated by reference and, in relation to any Series (as defined herein) of Instruments, should be read and construed together with the relevant Pricing Supplement(s) (as defined herein).

Diageo plc, Diageo Capital plc and Diageo Finance plc (each an **"Issuer"** and together the **"Issuers"**) and Diageo plc as guarantor (the **"Guarantor"**) have confirmed to the dealers (the **"Dealers"**) named under "Subscription and Sale" below that the information contained in this Information Memorandum is true, accurate and complete in all material respects and is not misleading; that the opinions and intentions expressed therein are honestly held and based on reasonable assumptions; that there are no other facts in relation to the information contained or incorporated by reference in this Information Memorandum the omission of which would, in the context of the Programme or the issue of the Instruments, make any statement therein or opinions or intentions expressed therein misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing. This Information Memorandum (subject to being supplemented by the Pricing Supplement) contains all such information as investors and their professional advisers would reasonably require, and reasonably expect to find, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuers and of the rights attaching to the relevant Instruments.

No person has been authorised by the Issuers to give any information or to make any representation not contained in or not consistent with this Information Memorandum or any other document entered into in relation to the Programme or any information supplied by the Issuers 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 Issuers 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 and their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Information Memorandum. Neither the delivery of this Information Memorandum or any Pricing Supplement nor the offering, sale or delivery of any Instrument shall, in any circumstances, create any implication that the information contained in this Information Memorandum is true subsequent to the date thereof or the date upon which this Information Memorandum has been most recently amended or supplemented or that there has been no adverse change in the financial situation of any Issuer since the date thereof or, if later, the date upon which this Information Memorandum 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 Information Memorandum and any Pricing Supplement and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Information Memorandum or any Pricing Supplement comes are required by the Issuers 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 Information Memorandum or any Pricing Supplement and other offering material relating to the Instruments see "Subscription and Sale". 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.

In addition, the Issuers have not authorised any offer of Instruments to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the **"Regulations"**). Instruments may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations.

Neither this Information Memorandum nor any Pricing Supplement 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 Issuers and the Dealers that any recipient of this Information Memorandum or any Pricing Supplement should subscribe for or purchase any Instruments. Each recipient of this Information Memorandum or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of any Issuer. Neither this Information Memorandum nor any Pricing Supplement 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.

DOCUMENTS INCORPORATED BY REFERENCE

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

- (1) the most recently published annual report of each Issuer from time to time; and
- (2) all amendments and supplements to this Information Memorandum prepared by any Issuer from time to time,

save that (i) any statement contained in this Information Memorandum or in any of the documents incorporated by reference in, and forming part of, this Information Memorandum shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement provided that any modifying or superseding statement does not form part of the listing particulars as contained in this Information Memorandum given in compliance with the listing rules made under Section 142 of the Financial Services Act 1986 and (ii) any documents incorporated by reference do not form part of the listing particulars as contained in this Information Memorandum given in compliance with the listing rules made under Section 142 of the Financial Services Act 1986.

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In connection with the issue of any Tranche (as defined herein) of Instruments under the Programme, the Dealer (if any) who is specified in the relevant Pricing Supplement as the stabilising institution may over-allot or effect transactions which stabilise or maintain the market price of the Instruments of the Series of which such Tranche forms part at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

SUMMARY OF THE PROGRAMME

The following is a brief summary only and should be read in conjunction with the rest of this document and, in relation to any Instruments, in conjunction with the relevant Pricing Supplement and, to the extent applicable, the Terms and Conditions of the Instruments set out herein.

Issuers:	Diageo plc, Diageo Capital plc, Diageo Finance plc and any other duly appointed subsidiary of Diageo plc. In the event of such subsidiary being appointed, new listing particulars (which will supplement the Information Memorandum) will be prepared.
Guarantor:	Diageo plc (in the case of an issue of Instruments by Diageo Capital plc and Diageo Finance plc).
Arranger:	Morgan Stanley & Co. International Limited.
Dealers:	Deutsche Bank AG London, Lehman Brothers International (Europe), Merrill Lynch International, J.P. Morgan Securities Ltd., Morgan Stanley & Co. International Limited, UBS AG, acting through its division Warburg Dillon Read, 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.
Principal Registrar:	Citibank, N.A.
Alternative Registrar:	Banque Internationale à Luxembourg
London Listing Agent:	Morgan Stanley & Co. International Limited.
Initial Programme Amount:	U.S.\$5,000,000,000 in aggregate principal amount of Instruments outstanding at any one time (and, for this purpose, any Instruments denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Instruments using the spot rate of exchange for the purchase of such currency against payment of U.S. dollars being quoted by the Issue and Paying Agent on the date on which the relevant agreement in respect of the relevant Tranche was made or such other rate as the relevant Issuer and the relevant Dealer may agree). The maximum aggregate principal amount of Instruments which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement (as defined under "Subscription and Sale").
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 ") issued on different issue dates. The Instruments of each Series will all be subject to identical terms, except that the issue date 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. Further Instruments may be issued as part of any existing Series.

Form of Instruments:	<p>Instruments may be issued in bearer form or in registered 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 Pricing Supplement 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 Pricing Supplement)) a permanent global instrument (a "Permanent Global Instrument"). Each such global Instrument will be deposited on or before the relevant issue date therefor with a depositary or a common depositary for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and/or Cedelbank and/or any other relevant clearing system. Each Temporary Global Instrument will be exchangeable for a Permanent Global Instrument or, if so specified in the relevant Pricing Supplement, for Instruments in definitive bearer form ("Definitive Instruments") and/or (if so specified in the relevant Pricing Supplement) 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 Pricing Supplement) 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 and will, if the principal thereof is repayable by instalments, have payment receipts ("Receipts") attached. 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 system 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.</p>
Currencies:	<p>Instruments may be denominated in any currency or currencies (including the 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 by the Treaty on European Union ("Euro")) other than Swiss Francs, 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.</p> <p>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.</p> <p>Where the proceeds of the issue of any Instrument are to be accepted by the relevant Issuer in the United Kingdom, such Instruments will be "commercial paper", "shorter term debt securities" or "longer term debt securities" in each case issued in accordance with the regulations made under Section 4 of the Banking Act 1987.</p>
Status of Instruments:	Instruments will be issued on an unsubordinated basis.
Status of Guarantee:	The obligations of the Guarantor under the guarantee of the Instruments shall be unsubordinated obligations.
Issue Price:	Instruments may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Pricing Supplement.

Maturities:	Any maturity subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Redemption:	<p>Instruments may be redeemable at par or at such other redemption amount (detailed in a formula, linked to an index, physical commodity or otherwise) as may be specified in the relevant Pricing Supplement.</p> <p>Unless permitted by then current laws and regulations, Instruments (including sterling Instruments) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom must have a minimum redemption amount of £100,000 (or its equivalent in other currencies), unless such Instruments may not be redeemed until the third anniversary of their date of issue and are to be listed on the London Stock Exchange.</p>
Early Redemption:	Early redemption will be permitted for taxation reasons as mentioned in “Terms and Conditions of the Instruments – Early Redemption for Taxation Reasons”, but will otherwise be permitted only to the extent specified in the relevant Pricing Supplement.
Interest:	Instruments may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate and may vary during the lifetime of the relevant Series.
Denominations:	<p>Instruments will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.</p> <p>Unless permitted by then current laws and regulations, Instruments (including sterling Instruments) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom will have a minimum denomination of £100,000 (or its equivalent in other currencies), unless such Instruments may not be redeemed until the third anniversary of their date of issue and are to be listed on the London Stock Exchange.</p>
Taxation:	Payments in respect of Instruments 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 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) 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 related contractual documentation will be governed by, and construed in accordance with, English law.
Listing:	Each Series may be admitted to the Official List of the London Stock Exchange and/or any other stock exchange as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Pricing Supplement or may be unlisted.

Terms and Conditions:	A Pricing Supplement will be prepared in respect of each Tranche of Instruments, a copy of which will, in the case of Instruments to be listed on the London Stock Exchange be delivered to the London Stock Exchange 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 Pricing Supplement.
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 3 August 1998, a copy of which will be available for inspection at the specified office of the Issue and Paying Agent.
Clearing Systems:	Euroclear, Cedelbank and/or any other clearing system as may be specified in the relevant Pricing Supplement.
Ratings:	The Programme has been rated A1 by Moody's Investors Service Limited and A+ by Standard & Poor's Ratings Services.
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, Japan, the Republic of France and the Federal Republic of Germany see under "Subscription and Sale". Further restrictions may be required in connection with any particular Series of Instruments. Any such further restrictions will be specified in the relevant Pricing Supplement.

TERMS AND CONDITIONS OF THE INSTRUMENTS

The following are the Terms and Conditions of the Instruments which, as supplemented, modified or, replaced in relation to any Instruments by the relevant Pricing Supplement, will be applicable to each Series of Instruments:

The Instruments are 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 27 August 1999 and made between Diageo plc, Diageo Capital plc and Diageo Finance plc (the **"Issuers"** and each an **"Issuer"**), Diageo plc as guarantor (the **"Guarantor"**), Citibank, N.A. in its capacities as issue and paying agent (the **"Issue and Paying Agent"**, which expression shall include any successor to Citibank, N.A. in its capacity as such) and as principal registrar (the **"Principal Registrar"**, which expression shall include any successor to Citibank, N.A. in its capacity as such), Banque Internationale à Luxembourg in its capacity as alternative registrar (the **"Alternative Registrar"**, which expression shall include any successor to Banque Internationale à Luxembourg 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 Pricing Supplement. The Instruments of each Issuer have the benefit of a deed of covenant (as amended, supplemented or replaced, the **"Deed of Covenant"**) dated 27 August 1999 executed by each Issuer in relation to the Instruments. The Guarantor has, for the benefit of the Holders from time to time of Instruments, executed and delivered a deed of guarantee (as amended, supplemented or replaced, the **"Guarantee"**) dated 27 August 1999 under which it has guaranteed the due and punctual payment of all amounts due by Diageo Capital plc or 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 each of the Paying Agents, the Principal Registrar and the Alternative Registrar. 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 pricing supplement (each, a **"Pricing Supplement"**), a copy of which will be available for inspection during normal business hours at the specified office of the Issue and Paying Agent and/or, as the case may be, the Registrar (as defined in Condition 2.02). 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 Pricing Supplement will only be available for inspection by a Holder of or, as the case may be, a Relevant Account Holder (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) and Receipts (as defined in Condition 1.03) are to Coupons and Receipts relating to Instruments of the relevant Series.

References in these Terms and Conditions to the Pricing Supplement are to the Pricing Supplement or Pricing Supplement(s) prepared in relation to the Instruments of the relevant Tranche or 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 Pricing Supplement.

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 Pricing Supplement 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 Pricing Supplement, 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.

1.03 Bearer Instruments, the principal amount of which is repayable by instalments ("**Instalment Instruments**") have attached thereto at the time of their initial delivery payment receipts ("**Receipts**") in respect of the instalments of principal.

Denomination of Bearer Instruments

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

Denomination of Registered Instruments

1.05 Registered Instruments are in the minimum denomination specified in the Pricing Supplement or integral multiples thereof.

Currency of Instruments

1.06 The Instruments are denominated in such currency or currencies as may be specified in the Pricing Supplement other than Swiss Francs. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Partly Paid Instruments

1.07 Instruments may be issued on a partly paid basis ("**Partly Paid Instruments**") if so specified in the Pricing Supplement. The subscription moneys therefor shall be paid in such number of instalments ("**Partly Paid Instalments**") in such amounts, on such dates and in such manner as may be specified in the Pricing Supplement. The first such instalment shall be due and payable on the date of issue of the Instruments. For the purposes of these Terms and Conditions, in respect of any Partly Paid Instrument, "**Paid Up Amount**" means the aggregate amount of all Partly Paid Instalments in respect thereof as shall have fallen due and been paid up in full in accordance with the Terms and Conditions.

Not less than 14 days nor more than 30 days prior to the due date for payment of any Partly Paid Instalment (other than the first such instalment) the Issuer shall publish a notice in accordance with Condition 15 stating the due date for payment thereof and stating that failure to pay any such Partly Paid Instalment on or prior to such date will entitle the Issuer to forfeit the Instruments with effect from such date ("**Forfeiture Date**") as may be specified in such notice (not being less than 14 days after the due date for payment of such Partly Paid Instalment), unless payment of the relevant Partly Paid Instalment together with any interest accrued thereon is paid prior to the Forfeiture Date. The Issuer shall procure that any Partly Paid Instalments paid in respect of any Instruments subsequent to the Forfeiture Date in respect thereof shall be returned promptly to the persons entitled thereto. The Issuer shall not be liable for any interest on any Partly Paid Instalment so returned.

Interest shall accrue on any Partly Paid Instalment which is not paid on or prior to the due date for payment thereof at the Interest Rate (in the case of non-interest bearing Instruments, at the rate applicable to overdue payments) and shall be calculated in the same manner and on the same basis as if it were interest accruing on the Instruments for the period from and including the due date for payment of the relevant Partly Paid Instalment up to but excluding the Forfeiture Date. For the purpose of the accrual of interest, any payment of any Partly Paid Instalment made after the due date for payment shall be treated as having been made on the day preceding the Forfeiture Date (whether or not a Business Day as defined in Condition 6.09).

Unless an Event of Default (or an event which with the giving of notice, the lapse of time or the making or giving of any determination or certification would constitute an Event of Default) shall have occurred and be continuing, on the Forfeiture Date, the Issuer shall forfeit all of the Instruments in respect of which any Partly Paid Instalment shall not have been duly paid, whereupon the Issuer shall be entitled to retain all Partly Paid Instalments previously paid in respect of such Instruments and shall be discharged from any obligation to repay such amount or to pay interest thereon.

2. Title and Transfer

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

2.02 Title to Registered Instruments passes by registration in the register which the Issuer shall procure to be kept by the Registrar. For the purposes of these Terms and Conditions, “**Registrar**” means, in relation to any Series comprising Registered Instruments, the Principal Registrar or the Alternative Registrar, as specified in the Pricing Supplement. 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 Pricing Supplement) 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 Pricing Supplement, 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 Receipts and Coupons 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 laws relating to creditors' rights.

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, vendors 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 per cent. 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 per cent. 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 per cent. 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 Pricing Supplement. Words and expressions appearing in this Condition 6 and not otherwise defined herein or in the Pricing Supplement shall have the meanings given to them in Condition 6.09.

Interest-bearing Instruments

6.02 Instruments which are specified in the Pricing Supplement 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 Pricing Supplement 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 Telerate 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 Euro-zone 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 Euro-

zone 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 Euro-zone 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement);
- 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 Pricing Supplement;
- 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 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement.

Maximum or Minimum Interest Rate

6.05 If any Maximum or Minimum Interest Rate is specified in the Pricing Supplement, 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 Instrument during each Interest Accrual Period from the Interest Commencement Date. Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Instrument, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount) unless upon due presentation or surrender thereof (if required), payment in full of the Redemption Amount (as defined in Condition 7.10) or the relevant Instalment Amount 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 Pricing Supplement 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).

Interest Amount(s), Calculation Agent and Reference Banks

6.07 If a Calculation Agent is specified in the Pricing Supplement, 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 or Instalment 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 or Instalment 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 or any Instalment 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 the 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 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 but no publication of the Interest Rate or the Interest Amount so calculated need be made. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment 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 Outstanding Principal Amount by the Day Count Fraction, save that if the Pricing Supplement 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 Pricing Supplement), (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 per cent. being rounded up to 0.00001 per cent.), (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 Pricing Supplement as applicable to any date in respect of the Instruments. Where the Pricing Supplement specifies “No Adjustment” in relation to any date, such date shall not be adjusted in accordance with any Business Day Convention. Where the Pricing Supplement 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 Business 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 Pricing Supplement 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 Pricing Supplement 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.

"Day Count Fraction" means, in respect of the calculation of an amount for any period of time (**"Calculation Period"**), such day count fraction as may be specified in the Pricing Supplement and:

- (i) if **"Actual/365"** or **"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);
- (ii) if **"Actual/365 (Fixed)"** is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iii) if **"Actual/360"** is so specified, means the actual number of days in the Calculation Period divided by 360;
- (iv) if **"30/360"** is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (v) if **"30E/360"** or **"Eurobond Basis"** is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).
- (vi) if **"Actual/Actual – ISMA"** is specified in the Pricing Supplement, (a) if the Interest Accrual Period is the same as or shorter than the Calculation Period during which it falls, the Interest Accrual Period divided by (x) such Calculation Period times (y) the number of Calculation Periods or (b) if the Accrual Period starts in one Calculation Period and ends in another, the sum of (A) the number of days in such Interest Accrual Period falling within the first Calculation Period divided by (x) such first Calculation Period times (y) the Number of Calculation Periods and (B) the calculation in (A), but substituting "second Calculation Period" for "first Calculation Period".

“Euro-zone” 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 Communities, as amended by the Treaty on European Union.

“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 Pricing Supplement) or such other date as may be specified as such in the Pricing Supplement.

“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 Pricing Supplement 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 Business 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 Pricing Supplement and, if an Applicable Business Day Convention is specified in the Pricing Supplement, 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 Pricing Supplement 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 Pricing Supplement and, if an Applicable Business Day Convention is specified in the Pricing Supplement, 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 Pricing Supplement 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 Pricing Supplement, 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 Pricing Supplement.

“ISDA Definitions” means the 1991 ISDA Definitions (as supplemented by the 1998 Supplement to the 1991 ISDA Definitions and by the 1998 Euro Definitions) (as amended and updated as at the date of issue of the first Tranche of the Instruments of the relevant Series (as specified in the Pricing Supplement) as published by the

International Swaps and Derivatives Association, Inc. (formerly the International Swap Dealers Association, Inc.)).

“Outstanding Principal Amount” means, in respect of an Instrument, its principal amount less, in respect of any Instalment Instrument, any principal amount on which interest shall have ceased to accrue in accordance with Condition 6.06 or, in the case of a Partly Paid Instrument, the Paid Up Amount of such Instrument or otherwise as indicated in the Pricing Supplement except that the Paid Up Amount shall be deemed to be nil for Instruments which have been forfeited by the Issuer on or after the Forfeiture Date as provided for in Condition 1.07.

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

“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 Pricing Supplement.

“Relevant Time” means the time as of which any rate is to be determined as specified in the Pricing Supplement 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 Reuter Monitor Money Rates Service (or such other page as may replace that page on that service for the purpose of displaying such information).

“TARGET Business Day” means a day on which the Trans European Real-Time Gross Settlement Express Transfer System is open.

“Telerate” means, when used in connection with any designated page and any designated information, the display page so designated on the Dow Jones Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying such information).

Non-Interest Bearing Instruments

6.10 If any Redemption Amount (as defined in Condition 7.10) or Instalment Amount 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 Pricing Supplement or at such other rate as may be specified for this purpose in the Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement) or, in the case of Instalment Instruments, in such number of instalments and in such amounts ("**Instalment Amounts**") as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement 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 Pricing Supplement.

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 becomes effective on or after the date of issue of such Instruments or earlier other date specified in the Pricing Supplement, 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 sixty 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 Holders 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 Pricing Supplement), 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 such substitution, 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 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 Account Holder (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 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 thirty nor more than ninety 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 Account Holder 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 deemed to be replaced by references to the country of incorporation and, if different, the country of tax residence of the assuming company.

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 Pricing Supplement as being applicable, then the Issuer may, having given the appropriate notice and subject to such conditions as may be specified in the Pricing Supplement, redeem all (but not, unless and to the extent that the Pricing Supplement 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 Pricing Supplement), 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 thirty days or such lesser period as may be specified in the Pricing Supplement nor more than sixty 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement), together with accrued interest (if any) thereon. In order to exercise such option, the Holder must, not less than forty-five 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 Pricing Supplement), 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 notice (“**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 Pricing Supplement 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 2.09 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.

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.

Further Provisions applicable to Redemption Amount and Instalment Amounts

7.09 The provisions of Condition 6.07 and the last paragraph of Condition 6.08 shall apply to any determination or calculation of the Redemption Amount or any Instalment Amount required by the Pricing Supplement to be made by the Calculation Agent.

7.10 References herein to “**Redemption Amount**” shall mean, as appropriate, the Maturity Redemption Amount, the final Instalment 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 Pricing Supplement.

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 Pricing Supplement; and
- (ii) the product of the Amortisation Yield (as specified in the Pricing Supplement) (compounded annually) being applied to the Issue Price from (and including) the Issue Date specified in the Pricing Supplement 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 Pricing Supplement 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 subparagraph (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 per cent. 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, reorganisation or other similar law, or (ii) a decree or order adjudging the Issuer or the Guarantor a bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation, 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, 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, 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 a 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, 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 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, 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 per cent. 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 may be specified in the relevant Pricing Supplement) together with all interest (if any) accrued thereon without presentment, demand, protest or other notice of any kind, all 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 fifteen 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 Bearer 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) more than thirty 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 thirty days;
- (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; or
- (iv) at the specified office of a Paying Agent in the United Kingdom,

and except that no such additional amounts shall be payable in respect of any Registered Instrument the Holder of which either is liable to such taxes, duties, assessments or governmental charges by reason of his having some connection with the Taxing Jurisdiction other than the mere holding of such Registered Instrument or would not be liable to such taxes, duties, assessments or governmental charges in respect of such Registered Instrument 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 7.02 and 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 Instalment Amount or 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.

9.05 The Pricing Supplement may set forth certain additional tax consequences to Holders of Instruments of a particular Series.

10. Payments

10A Payments - Bearer Instruments

10A.01 This Condition 10A is applicable in relation to Instruments in bearer form. If the Pricing Supplement 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 (save in the case of partial payment or payment of an Instalment Amount (other than the final Instalment Amount)) surrender of the relevant Bearer Instruments at the specified office of any of the Paying Agents.

Payment of Instalment Amounts (other than the final Instalment Amount) in respect of an Instalment Instrument which is a Definitive Instrument with Receipts will be made against presentation of the Instrument together with (where applicable) the relevant Receipt and surrender of such Receipt.

The Receipts are not and shall not in any circumstances be deemed to be documents of title and if separated from the Instrument to which they relate will not represent any obligation of the Issuer. Accordingly, the presentation of an Instrument without the relative Receipt or the presentation of a Receipt without the Instrument to which it appertains shall not entitle the Holder to any payment in respect of the relevant Instalment Amount.

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 Condition 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 Pricing Supplement) 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, Talons or Receipts attached thereto should be presented and, save in the case of partial payment of the Redemption Amount, surrendered for final redemption together with all unmatured Receipts, Coupons and Talons relating thereto, failing which:

- (i) if the Pricing Supplement 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 Pricing Supplement 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;
- (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; and
- (iv) in the case of Instruments initially delivered with Receipts attached thereto, all Receipts relating to such Instruments in respect of a payment of an Instalment Amount which (but for such redemption) would have fallen due on a date after such due date for redemption (whether or not surrendered therewith) shall become void and no payment 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, save in the case of partial payment of the Redemption Amount, 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 Holders' 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 which 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 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, without prejudice to the provisions of Condition 9, be subject in all cases to any applicable fiscal or other laws and regulations.

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 Pricing Supplement or in the case of payment in Euro, a day which is a TARGET Business 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.

10D Payments – Euro Provisions

Instruments Denominated in the Currencies of EC Member States

10D.01 If, pursuant to the Treaty establishing the European Communities, as amended by the Treaty on European Union (together, the **“Treaty”**), the Euro is further substituted for all or some of the currencies of the member countries of the EC, the Issuer may at its option (or shall, if so required by applicable law) effect the payment of principal of, premium, if any, or interest on, the Instruments denominated in such currencies in Euro in conformity with legally applicable measures taken pursuant to, or by virtue of, the Treaty.

Redenomination

10D.02 In the case of Instruments denominated in the currency of an EC member state not currently participating in the third stage of European Economic and Monetary Union (**“EMU”**), if that EC member state at a later date does so participate, the Issuer may, without the consent of the Holders of Instruments on giving at least 30 days’ prior notice to the Holders of Instruments as described below (which notice shall detail the manner in which any such action by the Issuer shall be effected) elect that, with effect from any Interest Payment Date thereafter or, for Instruments that do not bear interest, any other date thereafter as may be specified in such notice (the **“Redenomination Date”**), each Instrument shall be deemed to be redenominated in such amount of Euro as is equivalent to its denomination in its original currency of denomination converted into Euro at the rate for the conversion of such currency established by the Council of the European Union pursuant to Article 123(4) of the Treaty and rounded to the nearest cent, or otherwise in compliance with rules relating to rounding of applicable EC regulations. On and after the Redenomination Date all payments in respect of such Instruments will be made solely in Euro, including payments of interest with respect to periods before the Redenomination Date.

Renominalisation

10D.03 In connection with any such redenomination and simultaneously therewith, the Issuer may, without the consent of the Holders of Instruments and upon giving notice in the manner set forth in Condition 10D.02 above, elect that the nominal amount of each such redenominated Instrument shall be altered in such manner and subject to such procedures as the Issuer, after consultation with the Issue and Paying Agent, shall determine to be consistent with market practices applicable for the renominalisation of eurobonds held in international clearing systems. Unless otherwise specified in the applicable Pricing Supplement, any fraction, if any, arising from such renominalisation will be paid in Euro to the Holder of the Instrument on the Redenomination Date, in addition to the payment of interest otherwise payable on such date.

In connection with any such redenomination and simultaneously therewith, the Issuer may also, without the consent of the Holders of Instruments, and upon giving notice in the manner set forth in Condition 10D.02 above, elect that the nominal amount of any Instrument deemed to have been redenominated in an amount of Euro shall be divided into smaller nominal amounts deemed to be denominated in Euro in such manner and subject to such procedures as the Issuer, after consultation with the Issue and Paying Agent, shall determine to be consistent with market practices applicable for the renominatisation of eurobonds held in national and international clearing systems. Upon such division, the Instrument will be deemed to be denominated in such smaller nominal amounts of Euro provided and any fraction arising therefrom will be paid in Euro to the relevant Holder on the Redenomination Date.

In connection with any such redenomination and/or renominatisation and either simultaneously therewith or on such later Interest Payment Date or other date as the Issuer may specify (the “**Specified Date**”) the Issuer may also, without the consent of the Holders of Instruments and upon giving notice in the manner set forth in Condition 10D.02 above, elect that, with effect from such Specified Date, the then existing Instruments shall be exchangeable at the specified office of the Issue and Paying Agent and at the specified offices of the Paying Agents, for new Euro Instruments having an equivalent nominal amount in Euro (subject as set out above) as the deemed nominal amount of the original Instruments so exchanged.

Miscellaneous

10D.04 Reference in these Terms and Conditions to any Business Day, Day Count Fraction or other conventions (whether for the calculation of interest, determination of payment dates or otherwise) may, at the election of the Issuer, with effect from the Redenomination Date, be deemed to be modified to comply with any conventions applicable to euro-denominated debt obligations pursuant to applicable requirements of relevant monetary, stock exchange or other authorities, applicable laws and regulations of the EC, the participating member states, as applicable and such market practices consistent therewith as the Issuer, after consultation with the Issue and Paying Agent, shall determine to be applicable for the redenomination, renominatisation and exchange of eurobonds held in national and international clearing systems, and the terms of the Instruments will be deemed to be amended accordingly. Determinations of the Issuer pursuant to this Condition 10D will, in the absence of manifest error, be conclusive and binding on the Holders of Instruments and related Coupons.

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 Registrars and the Calculation Agent

12.01 The initial Paying Agents and Registrars and their respective initial specified offices are specified below. The Calculation Agent in respect of any Instruments shall be specified in the Pricing Supplement. 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) a Paying Agent (which may be the Issue and Paying Agent) with a specified office in a continental European city, (iv) so long as the Instruments are listed on the London Stock Exchange and the rules of such exchange so require, a Paying Agent (which may be

the Issue and Paying Agent) and a Registrar each with a specified office in London, (v) in the circumstances described in Condition 10A.04, a Paying Agent with a specified office in New York City and (vi) a Calculation Agent where required by the Terms and Conditions applicable to any Instruments (in the case of (i), (ii), (iii) and (vi) 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 Pricing Supplement (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 on which the Instruments are 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, Receipts 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 Pricing Supplement, 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 Cedelbank 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 are governed by, and shall be construed in accordance with, 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 (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 8 Henrietta Place, London W1M 9AG or, if different, 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 Part XXIII of the Companies Act 1985 (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 fifteen 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.

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, Cedelbank 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) must look solely to Euroclear, Cedelbank 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, Cedelbank 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 Pricing Supplement 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 Pricing Supplement specifies otherwise and the TEFRA C Rules apply.

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

Interests in a Temporary Global Instrument may be exchanged for:

- (i) interests in a permanent global Instrument (a "**Permanent Global Instrument**"); or
- (ii) if so specified in the Pricing Supplement, definitive Instruments in bearer form ("**Definitive Instruments**") and/or (if so specified in the Pricing Supplement) Registered Instruments.

Exchanges of interests in a Temporary Global Instrument for Definitive Instruments or, as the case may be, a Permanent Global Instrument will be made only on or after the Exchange Date (as specified in the Pricing Supplement) and (unless the Pricing Supplement 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 Pricing Supplement, 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 Pricing Supplement 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 Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") or Cedelbank or any other relevant clearing system which may be specified in the Pricing Supplement. Payments of amounts due in respect of a Permanent Global Instrument or (subject to paragraph (2) above) a Temporary Global Instrument (if the Pricing Supplement specifies that the TEFRA C Rules are applicable to the Instruments) will be made through Euroclear or Cedelbank 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 Pricing Supplement) Registered Instruments (a) if Euroclear or Cedelbank 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 or (c) at any time on the request of the bearer, if so specified in the Pricing Supplement. 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 Receipts, Coupons and Talons attached (each as defined in Condition 1.02 and Condition 1.03), 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 Cedelbank (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 Cedelbank 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 Cedelbank (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 depositary for Euroclear and Cedelbank (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 Cedelbank 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 Pricing Supplement.

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 Cedelbank, 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 Cedelbank (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, Cedelbank 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 Information Memorandum. 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 minimum Denomination of Instruments for which such Global Instrument may be exchanged. (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, Cedelbank 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 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 a 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.

(E) Partly Paid Instruments

While any Partly Paid Instalments due from the holder of Partly Paid Instruments are overdue, no interest in a Permanent Global Instrument or Global Registered Instrument representing such Instruments may be exchanged for an interest in a Permanent Global Instrument or for Definitive Instruments or a Registered Instrument (as the case may be). If any holder fails to pay any instalment due on any Partly Paid Instruments within the time specified, the Issuer may forfeit such Instruments and shall have no further obligation to such holder in respect of them.

FORM OF PRICING SUPPLEMENT

Pro Forma Pricing Supplement for an issue by the relevant Issuer under the Programme for the Issuance of Debt Instruments

PRICING SUPPLEMENT

Series No.: [•]

Tranche No.: [•]

[NAME OF ISSUER]
(incorporated with limited liability in [•]
with registered number [•])

PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

Issue of
[Aggregate Principal Amount of Tranche]
[Title of Instruments]

[The Instruments constitute [[commercial paper]/[shorter/longer] term debt securities] issued in accordance with regulations made under Section 4 of the Banking Act 1987.]*

The Issuer of the Instruments is [•], which is not an authorised institution or a European authorised institution (as such terms are defined in the Banking Act 1987 (Exempt Transactions) Regulations 1997). Repayment of the principal and payment of any interest or premium in connection with the Instruments has [not] been guaranteed [by Diageo plc, which is not an authorised institution or a European authorised institution].

[The Issuer (a) has complied with its obligations under the listing rules of the London Stock Exchange in relation to the admission to and continuing listing of the Programme and of any previous issues made under the Programme and listed on the same exchange; (b) confirms that it will have complied with its obligations under the listing rules of the London Stock Exchange in relation to the admission to listing of the Instruments by the time the Instruments are so admitted; and (c) has not, since the last publication of information in compliance with the listing rules of the London Stock Exchange about the Programme, any previous issues made by it under the Programme and listed on the London Stock Exchange, or the Instruments, having made all reasonable enquiries, become aware of any change in circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations as Issuer in respect of the Instruments as they fall due.]**

This Pricing Supplement (as referred to in the Information Memorandum in relation to the above Programme) relates to the Tranche of Instruments referred to above. The particulars to be specified in relation to such Tranche are as follows:

- | | |
|-------------------------------------|----------------|
| 1. Issuer: | [Name] |
| [Guarantor: | Diageo plc] |
| 2. [Arranger[s]]: | [Name] |
| 3. Relevant Dealer/Lead Manager: | [Name] |
| 4. Syndicated: | [Yes/No] |
| 5. Other Dealers/Managers (if any): | [Name] |
| 6. Status: | Unsubordinated |

*Include in the bold legend the reference to "commercial paper" if maturity of Instruments is less than one year; to "shorter" if maturity of Instruments is one year or more, but less than 3 years; to "longer" if maturity of Instruments is 3 years or more.

**Unless otherwise permitted, text to be included for all Instruments (including sterling Instruments) in respect of which the issue proceeds are accepted by the Issuer in the UK and reliance is being placed on a listing of the Instruments on an eligible stock exchange for an exemption under Regulation 13(4)(a) or (b) of the Banking Act 1987 (Exempt Transactions) Regulations 1997.

7. Currency: [Specify]
 – of Denomination
 – of Payment
 (Condition 1.06)
8. Aggregate Principal Amount of Tranche: [Specify]
9. If fungible into an existing Series: [Specify details of existing Series and date from which fungible]
10. Issue Date: [Specify]
11. Issue Price: [•]
12. [Commission Payable: [•] %, flat]
13. [Selling Concession: [•] %.]
14. [Expenses: [If Definitive Instruments specify that the Issuer must bear the cost for producing Definitive Instruments]
15. (a) Form of Instruments: [Bearer/Registered]
 (b) Bearer Instruments exchangeable for Registered Instruments: [Yes/No]
16. If issued in Bearer form:
 (a) Initially represented by a Temporary Global Instrument or Permanent Global Instrument: [Specify. If nothing is specified and this Pricing Supplement does not specify that the TEFRA C Rules apply, Instruments will be represented initially by a Temporary Global Instrument.]
 (b) Temporary Global Instrument exchangeable for Definitive Instruments [only.] [and/or Registered Instruments]: [Yes/No. Specify Exchange Date.]
 [Specify date from which exchanges for Registered Instruments will be made.] [If nothing is specified, exchanges will be made at any time.]
 (c) Permanent Global Instrument exchangeable: For Definitive Instruments [only] [and/or Registered Instruments] in the circumstances specified in “Provisions Relating to the Instruments whilst in Global Form” paragraph (4) [(a) and (b) only. (clearing system failure and Event of Default)]/[(c). (at any time at the option of the Holder)]
 (d) Talons for future Coupons to be attached to Definitive Instruments: [Yes/No]
 (Condition 1.02)
 (e) Definitive Instruments to be in IPMA or successor format: [Yes/No. If nothing is specified Definitive Instruments will be in the form of the Global Instruments.]
17. Denomination(s): [Specify]
 (Condition 1.04 or 1.05)
18. Partly Paid Instruments: [Yes/No]
 (Condition 1.07)
 If yes, specify number, amounts and dates for, and method of, payment of instalments of subscription moneys and any further additional provisions (including Forfeiture Dates in respect of late payment of Partly Paid Instalments) [Give details]
19. If issued in Registered Form:
 – Registrar: [Name and specified office]
 (Condition 2.02)
20. Interest: [Interest bearing/Non-interest bearing]
 (Condition 6)
21. Interest Rate: [Specify rate (if fixed) or Floating Rate (if floating) or

- (Condition 6.02)
22. Relevant Screen Page: [Reuters Screen/Telerate/Other] page [•].
(Condition 6.03)
23. Relevant Margin: [Plus/Minus] [•] %. per annum.
(Condition 6.03)
24. ISDA Rate: Issuer is [Fixed Rate/Fixed Amount/Fixed Price/Floating
(Condition 6.04) Rate/Floating Amount/Floating Price] Payer.
25. Minimum Interest Rate: [•] %. per annum.
(Condition 6.05)
26. Maximum Interest Rate: [•] %. per annum.
(Condition 6.05)
27. Interest Payment Dates (or if the Applicable Business Day Convention is the FRN Convention) Interest Period: [Specify dates (or if the Applicable Business Day Convention is the FRN Convention) number of months]
28. Interest Period End Dates (or if the Applicable Business Day Convention is the FRN Convention) Interest Accrual Period: [Specify. If nothing is specified Interest Period End Dates will correspond with Interest Payment Dates.]
29. Applicable Business Day Convention: [Specify, unless no adjustment is required in which case specify "No Adjustment". Note that these conventions are only to apply for the purposes of accrual of interest. Thus, a fixed rate Instrument should normally specify "No Adjustment", but for purposes of payment, a modification may be required to match a swap (see paragraph 47 – Payments below). Care should be taken to match the maturity date (as well as other key dates) of the Instruments with any underlying swap transaction. Since maturity dates do not automatically move with business day conventions under ISDA, it may be necessary to specify "No Adjustment" in relation to the maturity date of the Instruments to disapply the Applicable Business Day Convention.]
- for Interest Payment Dates: [•]
 - for Interest Period End Dates: [•]
 - for Maturity Date: [•]
 - any other date: [•]
30. Relevant Financial Centres: [Specify any Relevant Financial Centres which may be required for the purposes of the definition of Business Days (adjustment of Interest Payment Dates and Interest Period End Dates for **accrual** – not usually relevant for fixed rate Instruments, see above at paragraph 29) and for the definition of Relevant Financial Centre Day (adjustment of dates for **payment**). If nothing is specified, the ISDA Definitions for the relevant currency will apply (see Condition 6.09 – definition of Relevant Financial Centre).]
(Condition 6.09)
(Condition 10C.03)
31. Day Count Fraction: [Specify]
(Condition 6.09)
32. Interest Commencement Date: [Specify, if different from the Issue Date]
(Condition 6.09)
33. Interest Determination Date: [Specify number of Banking Days in which city(ies), if different from Condition 6.09]
(Condition 6.09)
34. Relevant Time: [•][a.m./p.m.][Specify city] time

- (Condition 6.09)
35. Default Interest Rate: [Specify if different from the Interest Rate]
(Condition 6.06)
36. Calculation Agent: [Name and specified office]
(Condition 6.09)
37. Reference Banks: [Specify]
(Condition 6.09)
38. If non-interest bearing:
 – Amortisation Yield [Specify]
 – Rate of interest on overdue amounts [Specify, if not the Amortisation Yield]
 – Day Count Fraction [Specify for the purposes of Condition 6.10 and Condition 7.11]
39. Maturity Date: [Specify date (or Interest Payment Date occurring in month and year if FRN Convention applies)]
(Condition 7.01)
40. Dates for payment of Instalment Amounts [Specify dates (or Interest Payment Dates occurring in months and years if FRN Convention applies)]
(Instalment Instruments):
(Condition 7.01)
41. Maturity Redemption Amount: [Specify, if not the Outstanding Principal Amount]
(Condition 7.01)
42. Instalment Amounts: [Specify]
(Condition 7.01)
43. Early Redemption for Taxation Reasons:
(Condition 7.02)
- (a) Early Redemption Amount (Tax): [Specify, if not the Outstanding Principal Amount or, in the case of any Instruments which are non-interest bearing, the Amortised Face Amount]
- (b) Date after which changes in law, etc. entitle Issuer to redeem: [Specify, if not the Issue Date]
44. Optional Early Redemption (Call): [Yes/No]
(Condition 7.03)
- (a) Early Redemption Amount (Call): [Specify, if not the Outstanding Principal Amount or, in the case of any Instruments which are non-interest bearing, the Amortised Face Amount]
- (b) Series redeemable in part: [Specify, otherwise redemption will only be permitted of entire Series]
- (c) Call Option Date(s)/Call Option Period: [Specify]
45. Optional Early Redemption (Put): [Yes/No]
(Condition 7.06)
- (a) Early Redemption Amount (Put): [Specify, if not the Outstanding Principal Amount or, in the case of any Instruments which are non-interest bearing, the Amortised Face Amount]
- (b) Put Date(s)/Put Period: [Specify]
46. Events of Default (Condition 8.01):
- (a) Early Termination Amount: [Specify, if not the Outstanding Principal Amount or, in the case of any Instruments which are non-interest bearing, the Amortised Face Amount]
- (b) Any additional (or modifications to) Events of Default: [Specify]
47. Payments:
(Condition 10)
- (a) Unmatured Coupons missing upon [Specify whether paragraph (i) of Condition 10A.06 or

- Early Redemption: paragraph (ii) of Condition 10A.06 applies. If nothing is specified paragraph (i) will apply to fixed rate or fixed coupon amount Instruments and paragraph (ii) will apply to floating rate or variable coupon amount Instruments]
- (b) Specify any modification to the adjustment provisions for payment dates: [Specify whether, e.g. the Modified Following Business Day Convention should apply for purposes of payment].
(Condition 10A.05)
48. Replacement of Instruments: [In the case of Bearer Instruments specify Replacement Agent, if other than (or in addition to) the Issue and Paying Agent]
(Condition 13)
49. Notices: [Specify any other means of effective communication]
(Condition 15)
50. Listing: [Yes/No]
[if Yes, specify which Stock Exchange(s)]
51. Selling Restrictions:
United States of America: Regulation S Category 2 restrictions apply to the Instruments
[Specify whether the Instruments are subject to TEFRA C or TEFRA D Rules. In the absence of specification TEFRA D Rules will apply]
Other: [Specify any modifications of or additions to selling restrictions contained in Dealership Agreement]
52. Stabilising Institution: [In connection with the issue of the Instruments, [name of stabilising institution] may over-allot or effect transactions which stabilise or maintain the market price of the Instruments at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.]
53. ISIN: [•]
54. Common Code: [•]
55. Common Depositary: [•]
56. Any Clearing System other than Euroclear and Cedelbank: [•]
57. Settlement Procedures: [Specify whether customary medium term note/eurobond/other settlement and payment procedures apply]
58. Other Relevant Terms and Conditions: [•]

CONFIRMED

[DIAGEO plc/DIAGEO CAPITAL plc/DIAGEO FINANCE plc]

By:.....

Authorised Signatory

Date:.....

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Instruments will be used for the general corporate purposes of the Group unless otherwise specified in the applicable Pricing Supplement.

DIAGEO CAPITAL PLC

Introduction

Diageo Capital plc, a wholly owned subsidiary of Diageo plc, was incorporated as a private limited company in Scotland on 10 August 1964 under the Companies Act 1948 (registered number 40795) under the name Nutress Laboratories Limited. Diageo Capital plc changed its name to Hayes Lyon Limited on 16 August 1990. On 16 April 1992 Diageo Capital plc re-registered as a public limited company under the name of Guinness Finance PLC and on 15 December 1997 changed its name to Diageo Capital plc.

The authorised and issued share capital of Diageo Capital plc comprises 100,000 ordinary shares of £1 each of which 99,999 are held by Diageo plc and one is held by Preciis (175) Limited on trust for Diageo plc.

Diageo Capital plc acts as a financing vehicle for the Diageo Group's operating companies and has no independent operations, other than the holding of cash or US government securities from time to time, and substantially all proceeds of its borrowings are lent to one or more of those companies.

Directors

The directors of Diageo Capital plc and their respective business addresses and occupations are:

Name	Business occupation
Phillip Keague Bentley	Director
Paviter Singh Binning	Director
Roger Hugh Myddelton	Director
Mark David Peters	Chartered Secretary
Douglas Carter Stainton	Taxation Director

On 12 May 1999 Ray King resigned as, and Paviter Binning was appointed, a director of Diageo Capital plc.

On 6 August 1999 Roger Myddelton was appointed a director of Diageo Capital plc.

The business address of each of the directors above is 8 Henrietta Place, London W1M 9AG.

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

Name	Company/Institutions
Roger Hugh Myddelton	European Dispute Resolution Limited Proshare (UK) Limited
Mark David Peters	LEntA Trust LEntA Limited Park Royal Development Company Limited Park Royal Partnership Limited

The company secretary of Diageo Capital plc is Susanne Margaret Bunn.

The registered office of Diageo Capital plc is at 33 Pinkhill, Edinburgh EH12 7BA.

CAPITALISATION AND INDEBTEDNESS OF DIAGEO CAPITAL PLC

The following table sets out the capitalisation and indebtedness of Diageo Capital plc based on the audited financial statements as at 30 June 1998.

	30 June 1998 £million
Borrowings	
Short term borrowings (including current portion of long term borrowings)	3,018.7
Long term borrowings	299.4
Shareholders' equity	
Ordinary shares ⁽¹⁾	0.1
Retained earnings	37.5
Total indebtedness and capitalisation⁽²⁾	<u><u>3,355.7</u></u>

Notes:

- (1) At 30 June 1998, the total authorised share capital of Diageo Capital plc consisted of 100,000 ordinary shares of £1 each. At such date, 100,000 ordinary shares were issued and fully paid.
- (2) None of the borrowings, in the table above, are secured on the assets of Diageo Capital plc or the Diageo Group.
- (3) There has been no material change in the capitalisation and indebtedness or contingent liabilities and guarantees of Diageo Capital plc since 30 June 1998 except for the issuance on 5 August 1998 of \$500 million aggregate principal amount of Diageo Capital plc's 6½% guaranteed notes due 15 August 2005, fully and unconditionally guaranteed as to payment of principal and interest by Diageo plc; the issuance on 15 June 1999 of €650 million aggregate principal amount of Diageo Capital plc's three month EURIBOR floating rate notes due 15 June 2000, fully and unconditionally guaranteed as to payment of principal and interest by Diageo plc; the issuance on 24 June 1999 of \$1,000 million aggregate principal amount of Diageo Capital plc's 6½% guaranteed notes due 24 June 2004 fully and unconditionally guaranteed as to payment of principal and interest by Diageo plc; the issuance on 10 August 1999 of \$500 million aggregate principal amount of Diageo Capital plc's guaranteed notes due 10 August 2000 paying interest at LIBOR less 0.051% fully and unconditionally guaranteed as to payment of principal and interest by Diageo plc and the issuance on 24 August 1999 of \$500 million aggregate principal amount of Diageo Capital plc's guaranteed notes due 24 August 2000 paying interest at LIBOR less 0.005% fully and unconditionally guaranteed as to payment of principal and interest by Diageo plc.

DIAGEO FINANCE PLC

Introduction

Diageo Finance plc, a wholly owned subsidiary of Diageo plc, was incorporated as a private limited company in England and Wales on 23 April 1926 under the Companies 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 issued share capital of Diageo Finance plc comprises 2,005,000,000 'E' cumulative redeemable preference shares of £1 all of which are held by Grand Metropolitan Holdings Limited, 1,000,000,000 5% 'F' cumulative redeemable preference shares of £1 each held by Grand Metropolitan Holdings Limited and 13,100,000,000 ordinary shares of 5p each which were transferred to Diageo plc on 29 June 1999.

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 directors of Diageo Finance plc and their respective business addresses and occupations are:

Name	Business occupation
Phillip Keague Bentley	Director
Paviter Singh Binning	Director
Mark David Peters	Chartered Secretary
Douglas Carter Stainton	Taxation Director

On 12 May 1999 Ray King resigned as, and Paviter Binning was appointed, a director of Diageo Finance plc.

The business address of each of the directors above is 8 Henrietta Place, London W1M 9AG.

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

Name	Company/Institution
Mark David Peters	LEntA Trust LEntA Limited Park Royal Development Company Limited Park Royal Partnership Limited

The company secretary of Diageo Finance plc is Susanne Margaret Bunn.

The registered office of Diageo Finance plc is at 8 Henrietta Place, London W1M 9AG.

CAPITALISATION AND INDEBTEDNESS OF DIAGEO FINANCE PLC

The following table sets out the capitalisation and indebtedness of Diageo Finance plc based on the audited financial statements as at 30 June 1998.

	30 June 1998 £million
Borrowings	
Short term borrowings (including current portion of long term borrowings)	195.7
Long term borrowings	266.6
Shareholders' equity	
Ordinary shares ⁽¹⁾	655.0
Non-equity shares ⁽¹⁾	3,005.0
Retained earnings	108.8
	<hr/>
Total indebtedness and capitalisation ⁽³⁾	4,231.1 <hr/>

Notes:

- (1) At 30 June 1998, the total authorised share capital of Diageo Finance plc consisted of 13,100,000,000 ordinary shares of 5 pence each; 3,060,000,000 preference shares of £1 each and 1,950,000,000 of unclassified shares. At such date 13,100,000,000 ordinary shares and 3,005,000,000 preference shares were issued and fully paid.
- (2) None of the borrowings, in the table above, are secured on the assets of Diageo Finance plc or the Diageo Group.
- (3) There has been no material change in the capitalisation and indebtedness or contingent liabilities and guarantees of Diageo Finance plc since 30 June 1998.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Introduction

Diageo plc, a public limited company incorporated under the laws of England and Wales, is one of the world's leading food and drinks businesses with a portfolio of international brands. Diageo was the 12th largest publicly owned company in the United Kingdom in terms of market capitalisation on 30 July 1999, with a market capitalisation of approximately £21.5 billion.

Business

Diageo's principal business activities are as follows:—

Spirits and Wine – UDV. United Distillers & Vintners ("UDV") comprises the former businesses of United Distillers ("UD") and International Distillers & Vintners ("IDV"), and is the world's leading branded premium spirits and wines business by volume, sales revenue and operating profit. UDV produces and distributes a wide range of premium brands, including Smirnoff vodka, Johnnie Walker Scotch whisky, J&B Rare Scotch whisky, Gordon's gin and Baileys Original Irish Cream liqueur;

Food – Pillsbury. The Pillsbury Company ("Pillsbury") produces and distributes leading food brands including Pillsbury refrigerated dough and bakery goods, Green Giant vegetables, Old El Paso Mexican foods, Häagen-Dazs frozen products, Progresso soups, Totino's frozen pizza products and foodservice products;

Brewing – Guinness Brewing. Guinness Limited ("Guinness Brewing") brews and markets beer. Guinness Brewing's principal brand is Guinness stout, a global beer brand that is one of the most widely distributed beers in the world, brewed in nearly 50 countries and sold in approximately 150; and

Quick Service Restaurants – Burger King. Burger King Corporation ("Burger King") is a leading fast food hamburger restaurant chain with over 10,000 outlets worldwide, of which approximately 92% are franchised.

Diageo also owns 34% of Moët Hennessy S.A. ("Moët Hennessy"), a subsidiary of LVMH Moët Hennessy Louis Vuitton S.A. Moët Hennessy is based in France and is a leading producer and exporter of champagne and cognac. Diageo and Moët Hennessy have established a number of joint distribution arrangements, which typically distribute UDV's leading brands of Scotch whisky and gin and Moët Hennessy's leading brands of champagne and cognac.

The Diageo Group also owns 45% of José Cuervo SA based in Mexico. José Cuervo SA is a leading producer and exporter of tequila. UDV and José Cuervo SA have established distribution arrangements in a number of markets.

Year 2000

The Diageo Group has recognised that Year 2000 is a major issue. The four businesses (UDV, Pillsbury, Guinness Brewing and Burger King) have, since the mid 1990's, been following information systems strategies that recognise the need to implement Year 2000 compliant solutions. Major projects are nearing completion in Pillsbury, Guinness Brewing and Burger King which will replace non-compliant financial and trading systems with compliant software. They will also bring other business benefits. Elsewhere, existing software has been upgraded to millennium compliant versions and is undergoing testing.

The Diageo Group recognises that the problem is not limited to business systems, but also affects other technology, such as production equipment, telephones and alarms. As such it will have a major impact on the way the Diageo Group conducts business unless the problem is corrected. A Diageo Group-wide programme structure is in place to co-ordinate compliance activities and to facilitate the exchange of best practice. Regular status reports are made to the board. In addition, individual Year 2000 projects are reviewed by Diageo Group internal audit and their findings are reported to business and Diageo Group management.

Each of the four businesses and the corporate centre has established a Year 2000 programme which best suits its business environment. The objective is to allow the business to operate successfully and safely through the millennium, without significant disruption. Where appropriate, consultants are being used to provide expertise.

The general expectation by those who have studied best practice in managing the Year 2000 problem is that even the best run projects are likely to face some Year 2000 compliance failures. There can be no certainty that Year 2000 projects will be successful or that the date change from 1999 to 2000 will not materially and adversely affect the Diageo Group's operations and financial results.

Based on the work detailed above, the Diageo Group believes that once the correction and testing phases are complete, internal systems and equipment will not give rise to significant operational problems as a result of the Year 2000 issue. However, the Diageo Group may still be adversely affected by the inability of third parties to manage the problem and by the general uncertainty inherent in the Year 2000.

Recent developments

On 26 March 1999 Diageo plc repurchased for cancellation 161.5 million of its Ordinary Shares at a cost of £1.135 million. At the time of this repurchase LVMH Moët Hennessy Louis Vuitton SA ("LVMH") reduced its interest in the company by 151.7 million Ordinary Shares. At 30 June 1999 LVMH owned 6.8% of the issued Ordinary Shares of Diageo plc. Diageo plc has authority to repurchase up to 10% of its Ordinary Shares and will continue to review its capital structure in the light of market conditions.

In April 1999 the Diageo Group sold eight Canadian whisky brands, including Black Velvet, and in addition six other North American brands, including Christian Brothers brandy. In March 1999 the Diageo Group sold six non-strategic brands, including Underwood meat spreads and B&M baked beans. The total consideration for these disposals was £331 million.

On 27 April 1999 UDV, the spirits and wine division of the Diageo Group, announced that it was contacting potential buyers to see whether the sale of Asbach, Cinzano, Metaxa and Vecchia Romagna would create value for Diageo plc's shareholders. UDV is testing the market and the process may not lead to any disposals.

On 22 May 1999 Pillsbury acquired Hazelwood Farms Bakeries, a manufacturer of frozen unbaked and pan-baked dough products employing more than 1,000 people in the United States.

In June 1999 the Diageo Group entered into an agreement to sell its Cruzcampo beer business to Heineken.

On 19 August 1999 Diageo announced that Nestlé USA and the Pillsbury Company will form a 50/50 joint venture comprising the Nestlé USA novelty ice cream business and Pillsbury's US Häagen-Dazs frozen dessert business. The joint venture — temporarily named Ice Cream Partners USA — includes the merging of all the US assets of Häagen-Dazs and the assets of Nestlé's USA Ice Cream Division. The parent companies, or their affiliates, will retain ownership of the brands and applicable technology and license them to the joint venture. The joint venture does not include either parties' international operations, or the Häagen-Dazs US shop system. The agreement is subject to the normal Federal Trade Commission/Department of Justice review process.

On the board of Diageo plc, William Shanahan was appointed a non-executive director with effect as of 4 May 1999. Philip Yea left the board on 30 June 1999. Nicholas Rose joined the board on 23 June and became Diageo Group Finance Director on 1 July 1999. Peter Job, a non-executive director, left the board on 23 June 1999. Anthony Greener will retire both as Chairman and as a director on 30 June 2000 and John McGrath will retire both as Diageo Group Chief Executive and as a director on 31 December 2000.

Legal proceedings

The Diageo Group has extensive international operations and is a defendant in a number of legal proceedings incidental to those operations. The Diageo Group does not expect the outcome of such proceedings, either individually or in the aggregate, to have a significant effect on the Diageo Group's operations or financial position. Provision is made in the consolidated financial statements for all liabilities which are expected to materialise.

Management

The directors of Diageo plc are:

Name	Function
Sir Anthony Armitage Greener	Chairman
John Michael Joseph Keenan	Chief Executive, UDV
Dennis Malamatinas	Chief Executive Officer, Burger King Corporation
John Brian McGrath	Group Chief Executive
Nicholas Charles Rose	Group Finance Director
Colin Archibald Storm	Chief Executive, Guinness Limited
Paul Steven Walsh	Chief Executive Officer, The Pillsbury Company
Lord Blyth of Rowington	Non-executive Director
Sir George Jeffrey Bull	Non-executive Director
Rodney Frank Chase	Non-executive Director
John Keith Oates	Non-executive Director
William Stephen Shanahan	Non-executive Director
Robert Peter Wilson	Non-executive Director

The business address of each of the above is 8 Henrietta Place, London W1M 9AG.

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

Name	Company/Institution
Sir Anthony Armitage Greener	The Marketing Council UFI Limited
John Michael Joseph Keenan	Cable & Wireless Communications Plc Centre for International Business and Management Moët Hennessy S.A. Scotch Whisky Association
John Brian McGrath	The Boots Company PLC Scotch Whisky Association
Nicholas Charles Rose	Moët Hennessy S.A.
Colin Archibald Storm	Norwich Union (Ireland) Limited Norwich Union General Insurance (Ireland) Limited Norwich Union Holdings (Ireland) Limited Norwich Union Irish Trust Company Limited Norwich Union Life Insurance Ireland Limited
Paul Steven Walsh	Ceridian Corporation Federal Express Corporation
Lord Blyth of Rowington	The Boots Company PLC
Sir George Jeffrey Bull	J Sainsbury plc Advertising Association The Marketing Council
Rodney Frank Chase	BP Amoco p.l.c. The BOC Group plc

Name	Company/Institution
John Keith Oates	QUEST Advisory Board British Telecommunications plc Financial Services Authority English Sports Council
William Stephen Shanahan	Colgate-Palmolive Company
Robert Peter Wilson	Rio Tinto plc BP Amoco p.l.c.

The company secretary of Diageo plc is Roger Hugh Myddelton.

The registered office of Diageo plc is 8 Henrietta Place, London W1M 9AG.

CAPITALISATION AND INDEBTEDNESS OF DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

	31 December 1998	
	Actual £million	Adjusted actual ⁽¹⁾ £million
Short term borrowings (including current portion of long term borrowings)	3,909	4,093
Finance lease obligations	43	43
Long term borrowings		
Due from one to five years	1,081	1,680
Due after five years	1,769	1,769
	2,893	3,492
Minority interests (equity and non-equity)	548	548
Shareholders' equity		
Ordinary shares	1,036	989
Premiums in excess of par	1,234	1,234
Capital redemption reserve	2,900	2,947
Retained surplus/(deficit)	(67)	(1,202)
	5,103	3,968
Total capitalisation	8,544	8,008

Notes:

- (1) Since 31 December 1998 the Diageo Group has purchased and cancelled 161 million of its own shares at a cost of £1.135 million, resulting in a decrease of £47 million in ordinary shares, an increase of £47 million in capital redemption reserve and an increase of £1.135 million in retained deficit. £783 million of the repurchase was funded from short term borrowings and the remainder from cash equivalents.
On 15 June 1999 Diageo Capital plc issued £650 million aggregate principal amount three month EURIBOR floating rate notes due 15 June 2000, fully and unconditionally guaranteed as to payment of principal and interest by Diageo plc. This resulted in proceeds of £650 million (£458 million) which were used to reduce short term borrowings.
On 24 June 1999 Diageo Capital plc issued \$1,000 million aggregate principal amount of its 6¼% guaranteed notes due 24 June 2004 fully and unconditionally guaranteed as to payment of principal and interest by Diageo plc. This resulted in net proceeds of \$995 million (£599 million), which were used to reduce short term borrowings.
On 10 August 1999, Diageo Capital plc issued \$500 million aggregate principal amount of its guaranteed notes due 10 August 2000 paying interest at LIBOR less 0.051% fully and unconditionally guaranteed as to payment of principal and interest by Diageo plc. This resulted in proceeds of \$500 million (£301 million) which were used to reduce short term borrowings.
On 24 August 1999, Diageo Capital plc issued \$500 million aggregate principal amount of its guaranteed notes due 24 August 2000 paying interest at LIBOR less 0.005% fully and unconditionally guaranteed as to payment of principal and interest by Diageo plc. This resulted in proceeds of \$500 million (£301 million) which were used to reduce short term borrowings.
The adjusted actual column gives effect to the above transactions.
- (2) Since 31 December 1998 the Diageo Group has disposed of a number of non-core businesses acquired as part of the Pet acquisition (proceeds of £116 million in March 1999) and a number of spirits brands in North America (proceeds of £215 million in April 1999). The £331 million aggregate proceeds from the disposals made since 31 December 1998 have largely been spent on acquisitions and have not been adjusted for in the above table.
- (3) At 30 June 1998 £38 million of the Diageo Group's net borrowings due within one year and £90 million of the Diageo Group's net borrowings due after more than one year were secured. The amount of secured assets at 31 December 1998 is not materially different from that as at 30 June 1998.
- (4) At 30 June 1999 there were potential issues of more than 22 million new ordinary shares outstanding under Diageo's employee share option schemes.
- (5) At 31 December 1998, the total authorised share capital of Diageo consisted of 5,329,052,500 Ordinary Shares of 28¹⁰¹/₁₀₈ pence each. At such date, 3,583,180,629 Ordinary Shares were issued and fully paid.
- (6) There has been no material change in the capitalisation and indebtedness or contingent liabilities and guarantees of the Diageo Group since 31 December 1998 except as disclosed above.
- (7) At 31 December 1998 the Diageo Group had cash at bank and in hand of £1.385 million and current asset investments of £167 million.

AUDITED FINANCIAL STATEMENTS OF DIAGEO CAPITAL PLC

The financial information set out below on pages 55 to 60 does not constitute Diageo Capital plc's statutory accounts within the meaning of Section 240 of the Companies Act. The information for the 18 months ended 30 June 1998 and the 13 months ended 31 December 1996 has been extracted, without material adjustment, from the audited financial statements of Diageo Capital plc.

Profit and Loss Account

		18 months to 30 June 1998 £million	13 months to 31 December 1996 £million
	Notes		
Net interest receivable	2	52.1	3.2
Other operating income/(costs)		1.7	(0.1)
Profit on ordinary activities before taxation		53.8	3.1
Taxation on profit on ordinary activities	3	(16.3)	(1.0)
Profit on ordinary activities after taxation		37.5	2.1
Dividend on ordinary shares		(2.1)	(2.0)
Profit for the period transferred to reserves		35.4	0.1

Statement of Total Recognised Gains and Losses

There were no recognised gains or losses other than those reflected in the above profit and loss account.

Note of Historical Cost Profits and Losses

There were no material differences between the results as disclosed in the profit and loss account for the 18 month period to 30 June 1998 and the 13 month period to 31 December 1996 and the results for those periods on an historical cost basis.

Reconciliation of Movements in Shareholders' Funds

	£million	£million
Profit for the period	37.5	2.1
Dividends	(2.1)	(2.0)
Net increase in shareholders' funds	35.4	0.1
Shareholders' funds at beginning of period	2.2	2.1
Shareholders' funds at end of period	37.6	2.2

Balance Sheet as at 30 June 1998

	Notes	30 June 1998 £million	31 December 1996 £million
Current assets			
Debtors – due within one year	4	4,355.7	1,066.8
Debtors – due after more than one year	4	5,197.9	–
Cash at bank		–	7.3
		<u>9,553.6</u>	<u>1,074.1</u>
Creditors – due within one year			
Borrowings	5	(3,018.7)	–
Other creditors	6	(6,197.9)	(1,071.9)
		<u>(9,216.6)</u>	<u>(1,071.9)</u>
Net current assets		<u>337.0</u>	<u>2.2</u>
Creditors – due after more than one year			
Borrowings	5	(299.4)	–
		<u>37.6</u>	<u>2.2</u>
Capital and reserves			
Called up share capital – equity	7	0.1	0.1
Profit and loss account	8	37.5	2.1
		<u>37.6</u>	<u>2.2</u>

Notes to the Financial Statements

1. Accounting policies

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at the financial period end exchange rates, or if hedged forward, at the rate of exchange under the related forward currency contract. Exchange gains and losses are taken to the profit and loss account.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

2. Interest

	18 months to 30 June 1998 £million	13 months to 31 December 1996 £million
<i>Interest receivable</i>		
Loans to Diageo Group undertakings	306.9	10.6
Other deposits	0.1	0.1
	<u>307.0</u>	<u>10.7</u>
<i>Interest payable</i>		
Loans from Diageo Group undertakings	169.7	7.5
Other loans	85.2	–
	<u>254.9</u>	<u>7.5</u>
Net interest receivable	<u>52.1</u>	<u>3.2</u>

3. Taxation

	18 months to 30 June 1998 £million	13 months to 31 December 1996 £million
UK corporation tax payable at 31.3% (1996: 33%)	<u>16.3</u>	<u>1.0</u>

The charge for taxation includes amounts which may be paid to other companies in the Diageo Group in return for the surrender of tax losses.

4. Debtors

	30 June 1998	31 December 1996	
	Due within one year £million	Due after one year £million	Due within one year £million
Amounts owed by Diageo Group undertakings	4,355.1	5,196.0	1,066.8
Prepayments and accrued income	0.5	1.9	—
Other debtors	0.1	—	—
	<u>4,355.7</u>	<u>5,197.9</u>	<u>1,066.8</u>

5. Borrowings

	Period end interest rates	30 June 1998 £million
Guaranteed bond 2003	6%	299.4
Commercial paper	Various	3,018.7
		<u>3,318.1</u>

6. Other creditors – due within one year

	30 June 1998 £million	31 December 1996 £million
Amounts owed to Diageo Group undertakings	6,176.5	1,071.0
Corporation tax	16.3	0.9
Accruals and deferred income	5.1	–
	<u>6,197.9</u>	<u>1,071.9</u>

7. Share capital

	30 June 1998 £000	31 December 1996 £000
Authorised, issued and fully paid: 100,000 ordinary shares of £1 each	100	100

8. Reconciliation of movements in reserves

	£million
At 31 December 1996	2.1
Profit for the period	37.5
Dividends paid	(2.1)
	<u>37.5</u>
At 30 June 1998	<u>37.5</u>

9. Ultimate parent undertaking

Diageo Capital plc is a wholly owned subsidiary of Diageo plc (formerly Guinness PLC), a company incorporated and registered in England.

On 17 December 1997 Guinness PLC merged with Grand Metropolitan Public Limited Company to form Diageo plc, as a result Diageo plc remains the ultimate parent of Diageo Capital plc.

The consolidated accounts of Diageo plc for the 18 month period ended 30 June 1998 can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.

Directors' Responsibilities

Reproduced below is the full text of the statement of directors' responsibilities in respect of the financial statements of Diageo Capital plc for the 18 months ended 30 June 1998. The references to page numbers within this statement relate to the pages within those financial statements and not this document.

Directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the report of the auditor is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit for the financial period.

The directors, in preparing the financial statements on pages 5 to 12¹, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on the going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

¹Pages 55 to 58 of the Information Memorandum.

Auditor's Report

Reproduced below is the full text of the auditor's report on the financial statements of Diageo Capital plc in respect of the 18 months ended 30 June 1998. The references to page numbers within this report relate to the pages within those financial statements and not this document.

Auditor's Report to the Members of Diageo Capital plc

We have audited the financial statements on pages 5 to 12¹.

Respective responsibilities of directors and auditor

As described on page 3² the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 1998 and of its profit for the 18 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
and Registered Auditor

8 Salisbury Square
London EC4Y 8BB

14 December 1998

¹Pages 55 to 58 of the Information Memorandum.

²Page 59 of the Information Memorandum.

AUDITED FINANCIAL STATEMENTS OF DIAGEO FINANCE PLC

The financial information set out below on pages 61 to 69 does not constitute Diageo Finance plc's statutory accounts within the meaning of Section 240 of the Companies Act. The information for the 9 months ended 30 June 1998 and the 12 months ended 30 September 1997 has been extracted, without material adjustment, from the audited financial statements of Diageo Finance plc.

Profit and Loss Account

	Notes	9 months to 30 June 1998 £million	12 months to 30 September 1997 £million
Net interest receivable	2	156.4	225.9
Other operating income		6.2	14.1
Operating costs		(0.6)	(0.4)
Profit on ordinary activities before taxation		162.0	239.6
Taxation on profit on ordinary activities	3	(50.8)	(76.8)
Profit on ordinary activities after taxation		111.2	162.8
Non-equity dividends paid and accrued	4	(124.7)	(165.4)
Deficit for the period transferred from reserves		(13.5)	(2.6)

Statement of Total Recognised Gains and Losses

There were no recognised gains or losses other than those reflected in the above profit and loss account.

Note of Historical Cost Profits and Losses

There were no material differences between the results as disclosed in the profit and loss account for the 9 month period to 30 June 1998 and the 12 month period to 30 September 1997 and the results for those periods on an historical cost basis.

Reconciliation of Movements in Shareholders' Funds

	Notes	£ million	£ million
Profit for the period		111.2	162.8
Non-equity dividends paid and accrued	4	(124.7)	(165.4)
New share capital issued: Redeemable preference shares		1,000.0	2,005.0
Preference shares redeemed		(1,000.0)	(2,005.0)
Net decrease in shareholders' funds		(13.5)	(2.6)
Shareholders' funds at beginning of period		3,782.3	3,784.9
Shareholders' funds at end of period		3,768.8	3,782.3

Balance Sheet at 30 June 1998

	Notes	30 June 1998 £million	30 September 1997 £million
Current assets			
Debtors – due within one year	5	7,188.0	9,334.5
Debtors – due after more than one year	5	4,103.5	3,936.0
Investments	7	487.1	639.8
Cash at bank		28.1	1.4
		<u>11,806.7</u>	<u>13,911.7</u>
Creditors – due within one year			
Borrowings	8	(195.7)	(132.4)
Other creditors	9	(3,626.4)	(4,835.4)
		<u>(3,822.1)</u>	<u>(4,967.8)</u>
Net current assets		<u>7,984.6</u>	<u>8,943.9</u>
Creditors – due after more than one year			
Borrowings	8	(266.6)	(275.4)
Other creditors	10	(3,949.2)	(4,886.2)
		<u>(4,215.8)</u>	<u>(5,161.6)</u>
		<u>3,768.8</u>	<u>3,782.3</u>
Capital and reserves			
Called up share capital – equity	11	655.0	655.0
Called up share capital – non-equity	11	3,005.0	3,005.0
		<u>3,660.0</u>	<u>3,660.0</u>
Profit and loss account	12	108.8	122.3
		<u>3,768.8</u>	<u>3,782.3</u>

Notes to the Financial Statements

1. Accounting policies

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at the financial period end exchange rates, or if hedged forward, at the rate of exchange under the related forward currency contract. Exchange gains and losses are taken to the profit and loss account.

Interest rate management

Diageo Finance plc participates in the Diageo Group's interest rate management and uses interest rate swaps to manage the proportion of fixed to variable debt within limits set by the board of directors. Hedge accounting is applied to swaps and other hedging instruments with interest recognised on an accruals basis with no adjustments made to reflect fluctuations in market values.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

2. Interest

	9 months to 30 June 1998 £million	12 months to 30 September 1997 £million
<i>Interest receivable</i>		
Loans to Diageo Group undertakings	1,230.0	1,334.1
Income from currency swaps	–	12.2
Other deposits	44.2	60.5
Option premia	1.2	–
	<hr/> 1,275.4	<hr/> 1,406.8
<i>Interest payable</i>		
Bank loans and overdrafts	9.2	6.4
Loans from Diageo Group undertakings	1,018.7	1,145.0
Expense on currency swaps	5.4	–
Other loans	85.7	29.5
	<hr/> 1,119.0	<hr/> 1,180.9
Net interest receivable	<hr/> 156.4	<hr/> 225.9

Included in interest payable on other loans is an exceptional interest charge of £58 million in respect of certain long dated financial instruments which have been closed out as a result of the Diageo Group having established a new interest rate management policy. A deferred tax asset has arisen as a result (see note 6).

3. Taxation

	9 months to 30 June 1998 £million	12 months to 30 September 1997 £million
UK corporation tax payable at 31% (1997: 32%)	70.3	76.8
Deferred tax on closed out long dated financial instruments	(19.5)	-
	<u>50.8</u>	<u>76.8</u>

The charge for taxation includes amounts which may be paid to other companies in the Diageo Group in return for the surrender of tax losses.

4. Dividends

	9 months to 30 June 1998			12 months to 30 September 1997		
	Paid £million	Accrued £million	Total £million	Paid £million	Accrued £million	Total £million
<i>Non-equity:</i>						
4.75% 'A' cumulative redeemable preference shares of £1 each	-	-	-	0.1	-	0.1
4.75% 'B' cumulative redeemable preference shares of £1 each	-	-	-	2.6	-	2.6
5.00% 'C' cumulative redeemable preference shares of £1 each	19.6	-	19.6	45.9	4.1	50.0
4.55% 'D' cumulative redeemable preference shares of £1 each	-	-	-	2.1	-	2.1
5.80% 'E' cumulative redeemable preference shares of £1 each	83.2	4.1	87.3	106.8	3.8	110.6
5.00% 'F' cumulative redeemable preference shares of £1 each	16.2	1.6	17.8	-	-	-
	<u>119.0</u>	<u>5.7</u>	<u>124.7</u>	<u>157.5</u>	<u>7.9</u>	<u>165.4</u>

5. Debtors

	30 June 1998		30 September 1997	
	Due within one year £million	Due after one year £million	Due within one year £million	Due after one year £million
Amounts owed by Diageo Group undertakings	7,132.6	4,099.6	9,211.7	3,936.0
Prepayments and accrued income	30.1	-	122.6	-
Other debtors	25.3	3.9	0.2	-
	<u>7,188.0</u>	<u>4,103.5</u>	<u>9,334.5</u>	<u>3,936.0</u>

Included in other debtors is a deferred tax asset of £19.5 million (see note 6).

6. Deferred tax asset

	£million
At 1 October 1997	—
Profit and loss account credit	19.5
At 30 June 1998	19.5

7. Investments

	30 June 1998 £million	30 September 1997 £million
Externally managed funds	483.8	624.7
Term deposits	3.3	15.1
	487.1	639.8

8. Borrowings

	30 June 1998			30 September 1997		
	Bank loans and overdrafts £million	Other loans £million	Total £million	Bank loans and overdrafts £million	Other loans £million	Total £million
<i>Analysis by year of repayment</i>						
After five years	3.5	199.1	202.6	7.7	198.9	206.6
From two to five years	11.4	20.3	31.7	11.2	49.0	60.2
From one to two years	3.3	29.0	32.3	3.3	5.3	8.6
Due after more than one year	18.2	248.4	266.6	22.2	253.2	275.4
Due within one year	185.9	9.8	195.7	123.4	9.0	132.4
	204.1	258.2	462.3	145.6	262.2	407.8
Other loans comprise:						
			Period end interest rates	30 June 1998 £million	30 September 1997 £million	
Guaranteed bond 2005	Currency		9%	199.1	198.9	
Others	Sterling		Various	59.1	63.3	
	Various			258.2	262.2	

9. Other creditors – due within one year

	30 June 1998 £million	30 September 1997 £million
Amounts owed to Diageo Group undertakings	3,399.0	4,732.3
Corporation tax	145.3	75.0
Accruals and deferred income	82.1	28.1
	<u>3,626.4</u>	<u>4,835.4</u>

10. Other creditors – due after more than one year

	30 June 1998 £million	30 September 1997 £million
Amounts owed to Diageo Group undertakings	3,949.2	4,880.1
Accruals and deferred income	–	6.1
	<u>3,949.2</u>	<u>4,886.2</u>

11. Share capital

	30 June 1998 £million	30 September 1997 £million
<i>Authorised:</i>		
Equity		
13,100,000,000 ordinary shares of 5p each	655.0	655.0
Non-equity		
50,000,000 4.75% 'A' cumulative redeemable preference shares of £1 each	–	50.0
1,055,000,000 4.75% 'B' cumulative redeemable preference shares of £1 each	–	1,055.0
1,000,000,000 5.0% 'C' cumulative redeemable preference shares of £1 each	–	1,000.0
900,000,000 4.55% 'D' cumulative redeemable preference shares of £1 each	–	900.0
2,005,000,000 5.8% 'E' cumulative redeemable preference shares of £1 each	2,005.0	2,005.0
1,055,000,000 5.0% 'F' cumulative redeemable preference shares of £1 each	1,055.0	–
Unclassified	1,950.0	–
	<u>5,665.0</u>	<u>5,665.0</u>

	30 June 1998 £million	30 September 1997 £million
<i>Allotted, called up and fully paid:</i>		
Equity		
13,100,000,000 ordinary shares of 5p each	655.0	655.0
Non-equity		
1,000,000,000 5.0% 'C' cumulative redeemable preference shares of £1 each	–	1,000.0
2,005,000,000 5.8% 'E' cumulative redeemable preference shares of £1 each	2,005.0	2,005.0
1,000,000,000 5.0% 'F' cumulative redeemable preference shares of £1 each	1,000.0	–
	<u>3,660.0</u>	<u>3,660.0</u>

12. Reconciliation of movements in reserves

	1998 £million	1997 £million
At 1 October 1997	122.3	124.9
Profit for the period	111.2	162.8
Dividends paid and accrued	(124.7)	(165.4)
At 30 June 1998	<u>108.8</u>	<u>122.3</u>

13. Contingent liabilities

Diageo Finance plc enters into various forward dated transactions to manage the Diageo Group's interest and exchange rate exposures. It is not anticipated that any material losses will arise from these transactions.

14. Ultimate parent undertaking

Diageo Finance plc is a wholly owned subsidiary of Grand Metropolitan Public Limited Company and its ultimate holding company as at 30 June 1998 was Diageo plc. Both companies are incorporated and registered in England and have an accounting period end of 30 June.

The consolidated accounts of Diageo plc for the 18 month period ended 30 June 1998 can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.

Directors' Responsibilities

Reproduced below is the full text of the statement of directors' responsibilities in respect of the financial statements of Diageo Finance plc for the 9 months ended 30 June 1998. The references to page numbers within this statement relate to the pages within those financial statements and not this document.

Directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the report of the auditor is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit for the financial period.

The directors, in preparing the financial statements on pages 5 to 15¹, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on the going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

¹Pages 61 to 67 of the Information Memorandum.

Auditor's Report

Reproduced below is the full text of the auditor's report on the financial statements of Diageo Finance plc in respect of the 9 months ended 30 June 1998. The references to page numbers within this report relate to the pages within those financial statements and not this document.

Auditor's Report to the Members of Diageo Finance plc

We have audited the financial statements on pages 5 to 15¹.

Respective responsibilities of directors and auditor

As described on page 3¹ the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 1998 and of its result for the 9 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
and Registered Auditor

8 Salisbury Square
London EC4Y 8BB

3 December 1998

¹Pages 61 to 67 of the Information Memorandum.

²Page 68 of the Information Memorandum.

UNAUDITED INTERIM ANNOUNCEMENT OF DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

The following operating and financial review has been extracted, without material adjustment, from the announcement, dated 11 March 1999, made by the Diageo Group setting out its interim results for the 6 month period ended 31 December 1998.

Operating and financial review for the 6 months ended 31 December 1998

Spirits and Wine

Operating profit for Spirits and Wine was £589 million, up 4% on an organic basis at level exchange. Operating profit was adversely affected by £46 million from exchange rate movements and by £64 million from disposals. Strong performances by the core brands in Europe and North America together with merger cost savings generated organic operating profit growth of 22% and 17% respectively. However, this was offset by the impact of the economic situation in Asia, where volumes were down 30%, and in Latin America. On a comparable basis margin improved from 19% to 22% as a result of price increases, mix improvements, lower marketing and merger cost savings. Synergy benefits from combining the two drinks groups totalled £51 million in the period. Overall volumes declined by nearly 12 million cases, of which approximately 4 million cases was due to the brand disposals and the termination of agency agreements which resulted from the merger. Volumes of low margin brands declined by over 4 million cases and other non-core brands declined by over 1 million cases. Core brands declined by 2 million cases due to declines in Johnnie Walker Black and Red, J&B and Gordon's mainly in those markets affected by economic weakness.

North America In North America, operating profit was up 17%, or £27 million, on a comparable basis to £183 million. This improved operating profit performance resulted from focus on the core brands and merger cost savings of £11 million. Operating margins improved by 4 percentage points mainly due to price and mix improvement. Total volume was 22 million cases, down 6%, primarily due to lower sales of wine and non-core spirits brands. However, volume in the core brands was up 2% with continued strong performance in the United States. Smirnoff volume was up 9%, Johnnie Walker Black up 5%, Tanqueray up 4% and Johnnie Walker Red up 1%, but Baileys volume was down 1% and J&B declined by 5%.

External sales per case was up 2% driven by mix improvement and price increases on key brands. Price increases of over 5% were achieved on Smirnoff. Price increases of approximately 2% on Johnnie Walker Black, Johnnie Walker Red, J&B, Tanqueray and José Cuervo at the end of the last financial year had a positive impact on the trading performance.

Marketing investment was down 3% but expenditure on the core brands, such as Tanqueray, Johnnie Walker Red Label and Black Label and José Cuervo, was up. Smirnoff increased market share as a result of increased marketing investment over the last two years. Johnnie Walker Black and José Cuervo both grew market share, with marketing investment up 13% and 9% respectively. Johnnie Walker Red maintained market share in the premium scotch sector while J&B's market share fell by 1%. Bailey's maintained its leading position in the cream liqueur category.

Europe Operating profit was £250 million, up 22%, or £45 million, on a comparable basis. This was again due to strong performances in the core brands and the achievement of merger cost savings of £22 million. It was also due to lower marketing investment in the period as marketing plans were reviewed following the merger. In the major markets of the United Kingdom and Spain, operating profit grew. In the smaller markets the merger has significantly improved performance.

In Spain, overall comparable volumes were down 2% but volume increases on J&B of 5% and Cardhu of over 30% led to mix improvements, and sales increased by 4%. Price increases which were achieved across the whole portfolio last year had a positive effect in the period. Advertising expenditure increased in Spain on most major brands, however, total marketing expenditure was down due to reduced promotional spend on non-priority brands.

In the United Kingdom, shipment levels were below the underlying level of consumer off-take which affected the sales of Smirnoff, down 6%, Bell's and Gordon's. Volumes of Bell's, which declined by nearly 300 thousand cases, and Gordon's, which declined by 220 thousand cases, were also impacted by lower depletions. Baileys volumes, however, continued to outperform the market and grew 3% while consumer off-take was up 8%. Price increases of about 3%, implemented on the core brands in the previous year, had a beneficial effect on operating profits.

Asia Pacific Operating profit in Asia Pacific declined from £84 million to £56 million. This was due in part to the adverse effect of exchange which amounted to £13 million and the impact of disposals which amounted to £2 million. The decline in operating profit on an organic basis is due to the economic situation in Asia partially offset by merger cost benefits of £10 million. Overall volume declined in Asia by 30% compared to the previous period. Price increases were taken where possible but did not completely offset currency devaluation and duty increases. The results for the period have benefited from the restructuring of the cost base early in 1998. Marketing campaigns have been re-positioned to ensure the most effective use of available funds in the current environment and to ensure that UDV's brands continue to hold leading brand positions. In Thailand, for example, Johnnie Walker Black retains its number one market position. Trade in Japan continues to be affected by the economic recession although this was offset by cost savings. In Australia, the economy remains strong and the market for spirits has increased. An improved trading performance has been driven by the performance of the Ready To Drink category particularly Stoli Lemon Ruski which now has over 20% of the Ready To Drink market.

Rest of the World Operating profit in the Rest of the World was £100 million, an organic decline of 25%. This was driven mainly by the economic conditions in Latin America offset by £8 million of merger cost benefits. In Latin America, volumes declined by 18% with the main volume declines being in locally produced brands. Operating profit fell to £77 million from £98 million on a comparable basis in the same period last year. In Brazil, volumes have declined by 14%, though locally produced brands fell by 17%. While the international brands of Johnnie Walker Red Label and Black Label have seen volume declines, their market share has increased with Johnnie Walker Black Label now estimated to be the number one brand in its category.

Packaged Food

Operating profit for the six months was £263 million. This represents a 3% decline in operating profit on an organic basis against the exceptional growth of 14% achieved in the comparable period. Volumes were down 1.5% mainly due to significant declines in lower margin categories. However, sales were only down 1% due to mix improvements. Operating profit margin was 13.7%, down by 0.2 percentage points from the same period last year, due to significantly reduced margins in the International business.

Marketing investment remained broadly constant at 19% of sales with further increases in advertising as a percentage of the total marketing.

In Pillsbury North America, volume declined by 4%. This was due to declines in the low margin categories of Desserts and Baking Mixes, where retail sales were down 9% and Canned Vegetables, where retail sales were down 4%. In addition, the Mexican category remains competitive and Old El Paso's retail sales declined by 5%. However, other high margin brands performed well. Retail sales of the core Pillsbury brand in the value added Refrigerated Baked Goods category grew by 3% and sales in the Breakfast category grew 5%. Häagen-Dazs core ice-cream grew strongly with retail sales up 12% and Progresso Ready-to-Serve Soup retail sales grew by 7%.

Marketing investment, which was down 6% in local currency terms, was re-focused towards the core categories with, for example, marketing spend in Refrigerated Baked Goods up 12%. Advertising spend in Pillsbury Toaster Pastries, Progresso Ready-to-Serve Soup and Pizza snacks was increased. In competitive categories such as Desserts and Baking Mixes, marketing was reduced as the volume benefits are not sufficient to create value. Operating profit margins were maintained despite higher cream costs and an increase of about £10 million in overheads associated with investment in increased capacity for Refrigerated Baked Goods and Breakfast products which has taken place in the last year.

International volumes, including those from associated companies, were up 1% despite the economic downturn in Asia and Latin America. Sales in China, India and South Africa, where investment in capacity and infrastructure is being made, grew strongly. This investment, together with a 21% organic increase in marketing expenditure, meant that while operating profits in the period declined significantly the strategy to deliver long term growth from this business is being implemented.

Pillsbury Bakeries and Foodservice continued to deliver strong results with organic volumes up 5%. Sales grew 1%, marketing investment was up 18% and organic operating profit growth was 6%. The acquisition of the Heinz bakery products unit has broadened the customer base for the Foodservice operation and the integration is ahead of expectations. The disposal of the lower margin dehydrated potato business and the licensing of the flour business will further improve margin.

The disposals of a number of non-core businesses were agreed during the period, including brands acquired as part of the Pet Incorporated acquisition in 1995. The businesses disposed of generated turnover of approximately £150 million and operating profit of nearly £30 million in the year ended 30 June 1998.

Beer

Operating profit increased from £140 million to £149 million, representing 13% organic growth at level exchange. This profit improvement was driven by continued strong growth of the Guinness brand in Europe, Africa and the United States. Worldwide volume of the Guinness brand grew 5% and total volume growth was 2%. Marketing investment grew 9% in local currency terms and was focused towards the recruitment of new consumers. Margins increased due to mix improvement driven by the growth in the Guinness brand, overhead costs savings and the benefit from raw material cost reductions.

In Europe, Ireland performed strongly with volume growth of 4%. The launch of Extra Cold Guinness has driven increased volume of the brand. In Great Britain, Draught Guinness volume grew 3% in the on-trade and market share improved to 5.3% of the on-trade beer market. In Spain, focus on value drove price and mix improvements, and operating profit was up despite a 4% decline in volume. The reorganisation which began in 1998 has continued and the achieved cost savings have led to improved margin.

In Asia Pacific, volumes declined by 18% as a result of the economic crisis. Volumes in Malaysia declined by 15% and in Indonesia by 18%. In Australia, growth remains strong and volume was up 13%.

Africa delivered a strong performance with total volume up 13% and Guinness brand volume up 20%. There was strong growth in the Nigerian market. As a result of the significant investment made by Guinness Nigeria in recent years in improving production facilities, quality and marketing, the Guinness brands benefited from that growth and volumes and market share grew. There was also strong growth in Ghana with volumes up by 28% and market share gains.

The Americas and Caribbean region continued to show volume growth with total volume up 10% and Guinness brand volume up 17%. In the United States, Guinness brand volume increased by 27%. Market share in the imported beer category grew as a result of increased investment in TV advertising and further investment in on-premise marketing support.

Quick Service Restaurants

There are now 10,188 Burger King restaurants worldwide, an increase of 6% since 31 December 1997. Dollar system sales were up 8% in the six month period due to an increase in the number of restaurants and to 3.5% growth in worldwide comparable restaurant sales. Operating profit was £98 million which is broadly level with last year.

In North America, trading performance improved, driven by new restaurants, 3.5% comparable restaurant sales growth and improved company owned restaurant profitability. Operating profit, which was down 7% in local currency in the period, was affected by the implementation of a strategy to improve the overall quality of the company managed restaurant portfolio in the United States. This portfolio management programme has resulted

in the closure of 17 restaurants. This has reduced profits by £6 million compared to the previous period when profits were realised in connection with restaurant disposals. It is expected that a further 72 restaurants will be sold or closed in the current fiscal year as part of this programme. The adverse impact of the associated costs in the second half of the year is expected to be somewhat offset by modest refranchising gains in Europe.

In Europe, operating profit increased by £5 million to £8 million, with comparable restaurant sales up 3.9%. The United Kingdom, Spain and Germany continue to be key markets for the Burger King brand, with growth based on growing average restaurant sales, improving margins and new restaurant development.

In the Rest of the World, operating profit rose slightly to £4 million due mainly to improved performance in Latin America. In Latin America comparable restaurant sales grew 8% and profitability in company managed restaurants improved. In Asia Pacific, comparable restaurant sales declined by only 1% despite the economic crisis across the region. Australia has continued to perform well and comparable restaurant sales grew 2%.

Associates

Income from associates before exceptional items was £111 million for the period compared with £131 million for the same period last year. The disposal of shareholdings in associates, including Cantrell & Cochrane and Laurent Perrier, reduced income by £25 million. Due to differing announcement dates, the group's reported share of Moët Hennessy is now based on management accounts.

Exchange rates

Exchange rate movements during the six month period adversely impacted profit before exceptional items and tax by £57 million. The adverse impact of exchange rate movements on the translation of overseas operating profit was £18 million and on transactions in the period was £40 million, giving a total impact on operating profit of £58 million. Share of profits of associates benefited by £1 million and the interest charge was not affected by exchange rate movements.

The major part of the group's expected transaction exposure is hedged forward on an 18 month forward rolling basis for the currencies in which there is an active market. Non-sterling net assets excluding cash and borrowings are hedged, by net borrowings and currency swaps denominated in the relevant currency, approximately as follows: US dollar 75%; Euro 90%; and others 50%.

It is expected that the adverse impact of exchange rate movements for the full year will be broadly in line with the half year figures.

Exceptional items

Exceptional charges in the six month period amounted to £79 million before taxation. The operating cost items comprised £156 million of merger integration costs, £35 million of plant closure costs and £7 million of other integration costs. The plant closure costs were incurred in respect of the Häagen-Dazs plant in Woodbridge, New Jersey, and are expected to amount to over £40 million by June 1999. The other integration costs were incurred as part of an estimated £25 million cost of integrating the Heinz bakery products unit, which was acquired in October 1998, into Pillsbury's Bakeries and Foodservice division.

The disposal of fixed assets includes losses of £2 million relating to the restaurant closure programme at Burger King and £11 million in respect of Harp lager brewery assets at Guinness.

The disposals of the associated company shareholdings in Cantrell & Cochrane and Laurent Perrier gave rise to an exceptional profit before taxation of £124 million. The sales of other businesses resulted in gains of £3 million.

Interest

The interest charge in the period increased to £159 million from £115 million in the comparable period. Funding the capital repayments in 1998 accounted for a £95 million increase. This was partly offset by a £52 million benefit in respect of the disposal of businesses, mainly the Dewar's and Bombay brands.

Taxation

The effective rate of taxation on profit before exceptional items for the period was 26.2%, compared with 27.2% for the six months ended 31 December 1997. The charge is based on an estimate of the effective tax rate for the financial year as a whole.

Dividend

Diageo plc will pay an interim dividend of 7.8 pence per share on 30 April 1999, an increase of 8% on last year's normal interim dividend. Payment to US ADR holders will be made on 7 May 1999. The record date for this dividend will be 26 March 1999 and the shares will be traded ex dividend from 22 March 1999. A dividend reinvestment plan is available in respect of this dividend and the plan notice date will be 9 April 1999.

The 1998 interim dividend consisted of an amount of 7.2 pence paid as a normal interim dividend, and an additional payment of 5.3 pence, a one-off amount to reflect the change in year end and consequent change in dividend payment patterns.

Cash flow

Free cash outflow was £73 million, compared with an inflow in the prior period of £114 million. Cash inflow from operating activities was £753 million compared with £716 million last year. This inflow was after £100 million of integration costs and a £393 million increase in working capital partly due to seasonal factors. Interest payments were £239 million (including the charge arising from the capital repayment and the cost of closing out certain long dated financial instruments which was provided for last year) compared with £97 million. Purchases of fixed assets in the period amounted to £270 million, an increase of £38 million. Tax payments were in line with the comparable period at £361 million.

The group repurchased 10.5 million ordinary shares in the period at a cost of £59 million. The group has authority to repurchase up to 10% of its shares and will continue to review its capital structure in the light of market conditions.

Balance sheet

At 31 December 1998, total shareholders' funds were £5,102 million compared with £4,629 million at 30 June 1998. The increase reflects £384 million retained income for the period and £95 million from exchange adjustments, partly offset by ordinary and B share repurchases of £74 million.

Net borrowings were £5,097 million, an increase of £589 million from 30 June 1998. This increase reflects the free cash outflow noted above, dividends paid of £388 million and the share repurchases.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	6 months ended 31 December 1998			6 months ended 31 December 1997		Year ended 30 June 1998	
	Before exceptional items £million	Exceptional items £million	Total £million	Before exceptional items £million	Exceptional items £million	Total £million	Total £million
Turnover	6,267		6,267	6,717		6,717	12,029
Operating costs	(5,168)	(198)	(5,366)	(5,532)	(294)	(5,826)	(10,659)
Operating profit	1,099	(198)	901	1,185	(294)	891	1,370
Share of profits of associates	111	–	111	131	(17)	114	195
Trading profit	1,210	(198)	1,012	1,316	(311)	1,005	1,565
Disposal of fixed assets	–	(8)	(8)	–	12	12	5
Sale of businesses	–	127	127	–	(101)	(101)	558
Merger expenses	–	–	–	–	(85)	(85)	(85)
Interest payable (net)	(159)	–	(159)	(115)	–	(115)	(360)
Profit before taxation	1,051	(79)	972	1,201	(485)	716	1,683
Taxation	(275)	6	(269)	(327)	11	(316)	(721)
Profit after taxation	776	(73)	703	874	(474)	400	962
Minority interests							
Equity	(25)	–	(25)	(30)	–	(30)	(47)
Non-equity	(18)	–	(18)	(18)	–	(18)	(36)
Profit for the period	733	(73)	660	826	(474)	352	879
Dividends	(276)	–	(276)	(446)	–	(446)	(835)
Transferred to reserves	457	(73)	384	380	(474)	(94)	44
Earnings per share							
Basic	20.5p	(2.0)p	18.5p	20.6p	(11.8)p	8.8p	23.0p
Diluted	20.4p	(2.0)p	18.4p	20.3p	(11.5)p	8.8p	22.8p
Number of shares (basic)			3,577m			4,005m	3,823m

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	6 months ended 31 December 1998 £million	6 months ended 31 December 1997 £million	Year ended 30 June 1998 £million
Profit for the period			
Group	593	274	775
Associates	67	78	104
	<hr/>	<hr/>	<hr/>
	660	352	879
Exchange adjustments	95	(56)	(140)
	<hr/>	<hr/>	<hr/>
Total recognised gains and losses	<hr/> 755 <hr/>	<hr/> 296 <hr/>	<hr/> 739 <hr/>

CONSOLIDATED BALANCE SHEET

	31 December 1998		30 June 1998		31 December 1997	
	£million	£million	£million	£million	£million	£million
Fixed assets						
Intangible assets		4,852		4,727		4,995
Tangible assets		3,058		3,006		3,118
Investments		1,390		1,244		1,508
		<u>9,300</u>		<u>8,977</u>		<u>9,621</u>
Current assets						
Stocks	2,298		2,236		2,349	
Debtors	3,613		3,054		3,709	
Investments	167		484		647	
Cash at bank and in hand	1,385		2,503		1,593	
	<u>7,463</u>		<u>8,277</u>		<u>8,298</u>	
Creditors – due within one year						
Borrowings	(3,909)		(4,724)		(3,060)	
Other creditors	(3,362)		(3,524)		(3,626)	
	<u>(7,271)</u>		<u>(8,248)</u>		<u>(6,686)</u>	
Net current assets		192		29		1,612
Total assets less current liabilities		<u>9,492</u>		<u>9,006</u>		<u>11,233</u>
Creditors – due after one year						
Borrowings	(2,850)		(2,894)		(2,989)	
Other creditors	(245)		(243)		(287)	
		<u>(3,095)</u>		<u>(3,137)</u>		<u>(3,276)</u>
Provisions		(747)		(705)		(661)
		<u>5,650</u>		<u>5,164</u>		<u>7,296</u>
Shareholders' funds						
Equity share capital		1,036		1,034		1,007
Non-equity share capital		–		105		–
		<u>1,036</u>		<u>1,139</u>		<u>1,007</u>
Called up share capital		4,066		3,490		5,742
Reserves		<u>5,102</u>		<u>4,629</u>		<u>6,749</u>
Minority interests						
Equity	180		169		178	
Non-equity	368		366		369	
	<u>548</u>		<u>535</u>		<u>547</u>	
	<u>5,650</u>		<u>5,164</u>		<u>7,296</u>	

CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 31 December 1998		6 months ended 31 December 1997	
	£million	£million	£million	£million
Net cash inflow from operating activities		753		716
Dividends received from associates		5		22
Interest paid (net)	(239)		(97)	
Dividends paid to equity minority interests	(13)		(10)	
Returns on investments and servicing of finance		(252)		(107)
Taxation		(361)		(354)
Purchase of fixed assets	(270)		(232)	
Sale of tangible fixed assets	52		69	
Capital expenditure and financial investment		(218)		(163)
Free cash flow		(73)		114
Purchase of subsidiaries	(117)		(31)	
Sale of subsidiaries and associates	137		88	
Acquisitions and disposals		20		57
Equity dividends paid		(388)		(225)
Cash outflow before management of liquid resources and financing		(441)		(54)
Management of liquid resources		1,481		(53)
Issue of share capital	26		40	
Repurchase of shares	(74)		-	
(Decrease)/increase in loans	(1,081)		74	
Financing		(1,129)		114
(Decrease)/increase in cash		(89)		7

MOVEMENTS IN NET BORROWINGS

	6 months ended 31 December 1998 £million	6 months ended 31 December 1997 £million
(Decrease)/increase in cash	(89)	7
Cash flow from decrease/(increase) in loans	1,081	(74)
Change in liquid resources	(1,481)	53
Change in net borrowings from cash flows	(489)	(14)
Exchange adjustments	(95)	23
Non-cash items	(5)	39
(Increase)/decrease in net borrowings	(589)	48
Net borrowings at beginning of the period	(4,508)	(3,770)
Net borrowings at end of the period	(5,097)	(3,722)

NOTES

1. Segmental analysis

	6 months ended 31 December 1998		6 months ended 31 December 1997	
	Turnover £million	Operating profit £million	Turnover £million	Operating profit £million
Class of business:				
Spirits and Wine	2,732	589	3,149	674
Packaged Food	1,926	263	1,963	273
Beer	1,166	149	1,166	140
Quick Service Restaurants	443	98	436	99
Continuing operations	6,267	1,099	6,714	1,186
Discontinued operations	—	—	3	(1)
	<u>6,267</u>	<u>1,099</u>	<u>6,717</u>	<u>1,185</u>
Geographical area by destination:				
Europe	2,343	371	2,459	336
North America	2,873	515	3,011	551
Asia Pacific	407	74	547	121
Rest of World	644	139	697	178
Continuing operations	<u>6,267</u>	<u>1,099</u>	<u>6,714</u>	<u>1,186</u>
			31 December 1998	31 December 1997
			£million	£million
Net assets:				
Spirits and Wine			4,827	5,373
Packaged Food			3,031	2,979
Beer			935	982
Quick Service Restaurants			1,171	1,181
			<u>9,964</u>	<u>10,515</u>
Investments in associates			1,200	1,357
Tax, dividends and other corporate items			(417)	(854)
Net borrowings			(5,097)	(3,722)
			<u>5,650</u>	<u>7,296</u>

The above analysis of operating profit is before exceptional items. The geographical analysis is based on the location of the third party customers.

The weighted average exchange rate used in translation of US dollar profit and loss accounts was £1 = \$1.66 (six months ended 31 December 1997 – £1 = \$1.64). The exchange rate used to translate US dollar assets and liabilities at the balance sheet date was £1 = \$1.66 (31 December 1997 – £1 = \$1.65).

2. Exceptional items

		6 months ended 31 December 1998		6 months ended 31 December 1997	
		£million	£million	£million	£million
Charged to:					
Operating profit	Merger integration costs	(156)		(44)	
	Häagen-Dazs plant closure	(35)		–	
	Foodservice integration costs	(7)		–	
	Agreement with LVMH	–		(250)	
			(198)		(294)
Associates	Share of MH reorganisation costs		–		(17)
Disposal of fixed assets	(Loss)/gain on sales		(8)		12
Sale of businesses	Cantrell & Cochrane	142		–	
	Laurent Perrier	(18)		–	
	Intrepeneur Pub Company	–		(54)	
	European national food businesses	–		(22)	
	Gonzalez Byass	–		(23)	
	Other	3		(2)	
			127		(101)
Merger expenses	Transaction costs		–		(85)
			(79)		(485)

3. Taxation

The total taxation charge for the 6 months ended 31 December 1998 of £269 million comprises UK taxation of £59 million, overseas taxation of £167 million and tax on associates of £43 million.

4. Note of consolidated historical cost profits and losses

There is no material difference between the reported profit shown in the consolidated profit and loss account and the profit restated on an historical cost basis.

5. Movements in consolidated shareholders' funds

	6 months ended 31 December 1998 £million	6 months ended 31 December 1997 £million
Profit for the period	660	352
Dividends	(276)	(446)
Exchange adjustments	95	(56)
New share capital issued	28	82
Provision for share issues	6	—
Repurchase of shares	(74)	—
Goodwill written off on acquisitions	—	(6)
Goodwill on disposals of businesses	34	52
Net movement in shareholders' funds	473	(22)
Shareholders' funds at beginning of the period	4,629	6,771
Shareholders' funds at end of the period	5,102	6,749

6. Net borrowings

	31 December 1998 £million	30 June 1998 £million	31 December 1997 £million
Overdrafts and debt due within one year	(3,909)	(4,724)	(3,060)
Debt due after one year	(2,850)	(2,894)	(2,989)
Net obligations under finance leases	(43)	(41)	(33)
	(6,802)	(7,659)	(6,082)
Less: Cash at bank and in hand	1,385	2,503	1,593
Current asset investments	167	484	647
Interest rate and foreign currency swaps	153	164	120
Net borrowings	(5,097)	(4,508)	(3,722)

7. Net cash inflow from operating activities

	6 months ended 31 December 1998 £million	6 months ended 31 December 1997 £million
Operating profit	901	891
Exceptional operating costs	198	294
Operating profit before exceptional items	1,099	1,185
Integration and restructuring payments	(117)	(61)
Agreement with LVMH	–	(250)
Merger transaction costs	–	(68)
Depreciation charge	159	162
Increase in working capital	(393)	(238)
Other items	5	(14)
Net cash inflow from operating activities	753	716

8. Repurchases of shares

In July 1998, 3 million B shares were redeemed at a cost of £15 million. On 1 August 1998, the company converted the remaining B shares into 12 million ordinary shares at a price of 725 pence per share. In October 1998, the company purchased, and subsequently cancelled, 10.5 million ordinary shares at an average price of 555 pence per share for an aggregate consideration of £59 million.

9. Basis of preparation

The interim financial information has been prepared on the basis of accounting policies consistent with those applied in the 1998 financial statements, except for the accounting policy changes set out in the note below. The information is unaudited but has been reviewed by the auditor, KPMG Audit Plc, and the review report is set out below. The information does not comprise the statutory accounts of the group. The statutory accounts of Diageo plc for the 18 months ended 30 June 1998 have been filed with the registrar of companies. KPMG Audit Plc and PricewaterhouseCoopers, the previous joint auditors, have reported on these accounts; their report was unqualified and did not contain any statement under section 237 of the Companies Act 1985.

10. Accounting policy changes

The group has revised its accounting policies, where necessary, to comply with the following Financial Reporting Standards issued by the Accounting Standards Board.

FRS 10 - Goodwill and Intangible Assets and FRS 11 - Impairment of Fixed Assets and Goodwill FRS 10 requires that purchased goodwill and intangible assets should be capitalised as assets on the balance sheet. Where goodwill and intangible assets are regarded as having limited useful economic lives, they should be amortised over those lives. In other cases, they should not be amortised but an annual impairment test, under the rules set out in FRS 11, is required to demonstrate that the current market value of the goodwill or intangible is not below its carrying value. The standard does not require reinstatement of goodwill previously eliminated against reserves and Diageo has not reinstated such goodwill. Diageo's brands are regarded as having indefinite useful economic lives and will be reviewed for impairment at the end of each reporting period. Intangible assets capitalised in the six month period amounted to £84 million.

FRS 12 - Provisions, Contingent Liabilities and Contingent Assets This standard requires that a provision should only be recognised when there is a legal or constructive obligation arising from past events, that it is probable that there will be an outflow of benefits and that the amount can be reliably estimated. A constructive obligation arises where other parties have a valid expectation that an action will be carried out because of past practice or sufficiently detailed public statements. In addition, obligations should not be recognised unless they exist independently of the entity's future actions. FRS 12 also mandates that, where material, provisions should be discounted to net present value and should not be net of any anticipated recoveries or expected gains on asset sales. Compliance with FRS 12 has not given rise to any restatement of Diageo's consolidated balance sheets at 30 June 1998 or 31 December 1996.

FRS 14 - Earnings per Share This requires entities to present both basic and diluted earnings per share with equal prominence on the face of the profit and loss account and also introduces certain changes to the method by which earnings per share is calculated. Compliance with FRS 14 has not changed the published basic earnings per share figures for the six months ended 31 December 1997, the year ended 30 June 1998, or the 18 months ended 30 June 1998.

Review report by the auditor to Diageo plc

We have reviewed the interim financial information for the 6 month period ended 31 December 1998 set out on pages 75 to 84 of this memorandum which is the responsibility of, and has been approved by, the directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the bulletin Review of Interim Financial Information issued by the Auditing Practices Board. The review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of management responsible for financial and accounting matters. The review was substantially less in scope than an audit performed in accordance with Auditing Standards and accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review:

- in our opinion the interim financial information has been prepared using the accounting policies consistent with those adopted by Diageo plc in its financial statements for the 18 months ended 30 June 1998, except as set out in note 10; and
- we are not aware of any material modifications that should be made to the interim financial information as presented.

KPMG Audit Plc
Chartered Accountants
London,

10 March 1999

UNITED KINGDOM TAXATION

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payment of principal and 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. Prospective Holders of Instruments should be aware that the particular terms of issue of any series of Instruments as specified in the relevant Pricing Supplement 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. Holders of Instruments who are in any doubt as to their tax position should consult their professional advisers.

A. UK Withholding Tax on UK-Source Interest

A.1 UK Bearer Instruments in Global Form

The Instruments issued by Diageo plc, Diageo Capital plc and Diageo Finance plc (the “UK Instruments”) which are in bearer form and which carry a right to interest (“UK Bearer Instruments”) will constitute “quoted Eurobonds” so long as they are and continue to be listed on a recognised stock exchange (the London Stock Exchange is currently recognised for these purposes). Accordingly, while the UK Bearer Instruments are and continue to be quoted Eurobonds and are in global form and are held in a “recognised clearing system” (Cedelbank and Euroclear have each been designated as a “recognised clearing system”), payments of interest on the Instruments may be made without withholding or deduction for or on account of United Kingdom income tax, provided that:

- (i) payment is made by or through a person who is not in the United Kingdom; or
- (ii) payment is made direct to the recognised clearing system; or
- (iii) payment is made to, or at the direction of, a depositary for the recognised clearing system and the person by or through whom the interest is paid has obtained a valid declaration on prescribed forms from a depositary for the recognised clearing system; or
- (iv) the person by or through whom the interest is paid has been issued with a notice from the Inland Revenue allowing that person to pay the interest with no tax deducted.

A.2 UK Bearer Instruments in Definitive Form

If UK Bearer Instruments are issued in definitive form and are and continue to be quoted Eurobonds (as defined above), then payments of interest on UK Bearer Instruments may be made without such withholding or deduction where:

- (a) the person by or through whom the payment is made is not in the United Kingdom; or
- (b) the payment is made by or through a person who is in the United Kingdom and
 - (i) the interest is paid on an Instrument held in a recognised clearing system as defined for the relevant purpose and one of the conditions set out in A.1(i), (ii) and (iii) above is satisfied; or
 - (ii) a person who is not resident in the United Kingdom is beneficially entitled to the interest and is the beneficial owner of the Instrument on which the interest is paid and either:
 - (1) the paying agent obtains a valid declaration on prescribed forms from the said person on the occasion of each payment; or

- (2) the paying agent obtains on the occasion of each payment a valid declaration on prescribed forms from another person who holds the Instruments for the non-resident person and who is entitled to arrange for the interest to be paid with no United Kingdom tax deducted; or
- (iii) the paying agent has been issued with a notice from the Inland Revenue allowing the paying agent to pay the interest with no tax deducted.

In all cases falling outside the exemptions described in A.1 and A.2 above, interest on the UK Instruments may be paid under deduction of United Kingdom income tax at the lower rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double taxation treaty. However, this withholding will not apply if the relevant interest is paid on Instruments with a maturity date of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Instruments part of a borrowing with a total term of a year or more.

B. UK Withholding Tax on UK Collecting Agents

The following rules apply to interest on UK Bearer Instruments which are quoted Eurobonds (see definitions in A.1 above).

A person in the United Kingdom who in the course of a trade or profession:

- (i) by means of coupons, warrants or bills of exchange, collects or secures payment of or receives interest on UK Bearer Instruments which are quoted Eurobonds for an Instrument holder; or
- (ii) arranges to collect or secure payment of interest on UK Bearer Instruments which are quoted Eurobonds for an Instrument holder; or
- (iii) acts as a custodian of such Instruments and receives interest on such Instruments or directs that interest on such Instruments be paid to another person or consents to such payment

(except, in any such case, solely by means of clearing a cheque or arranging for the clearing of a cheque) may be required to account for, and, if so, will be entitled to withhold, United Kingdom income tax at the lower rate, currently 20%, subject to certain exceptions, including the following:

- (a) the Instruments are held in a recognised clearing system and either:
 - (i) the collecting agent pays or accounts for the interest directly or indirectly to the recognised clearing system and where such payment or account is made to, or at the direction of, a depositary for the recognised clearing system, the collecting agent holds a valid declaration on prescribed forms from the depositary; or
 - (ii) the collecting agent is acting as depositary for the recognised clearing system in respect of the Instruments; or
- (b) the person beneficially entitled to the interest owns the Instruments and is not resident in the United Kingdom and the collecting agent either:
 - (i) holds a valid declaration on prescribed forms from the said person; or
 - (ii) holds a valid declaration on prescribed forms from a person (other than the beneficial owner of the Instruments) to whom the interest is payable or who is entitled to arrange for the interest to be collected without deduction of United Kingdom tax and who is not a collecting agent in the United Kingdom; or
- (c) the interest is payable to trustees of certain trusts (called "qualifying discretionary and accumulation trusts") where essentially neither the trustees nor the beneficiaries are resident in the United Kingdom and the collecting agent has obtained a valid declaration on prescribed forms from the trustee; or

- (d) the person owning the Instruments and beneficially entitled to the interest is eligible for certain reliefs, for example a United Kingdom charity, approved United Kingdom pension fund, United Kingdom authorised or unauthorised unit trust or foreign diplomat, foreign consular employee or member of foreign armed forces and the collecting agent has obtained a valid declaration on prescribed forms from the appropriate person; or
- (e) the interest is payable by the collecting agent to another UK collecting agent who has agreed with the first-mentioned collecting agent to take over responsibility for operating these provisions and has given a notice in the prescribed form to the first-mentioned collecting agent; or
- (f) the interest falls to be treated as income of, or of the government of, a sovereign power or of an international organisation and the collecting agent has obtained a valid declaration on prescribed forms from the appropriate person; or
- (g) the person beneficially entitled to the interest and the relevant Instruments is a company within the same 51% group as the collecting agent; or
- (h) the collecting agent has been issued with a notice from the Inland Revenue directing the collecting agent to pay the interest with no tax deducted.

In certain circumstances, a bank in the United Kingdom which sells coupons or a dealer in coupons in the United Kingdom may also be subject to the collecting agency rules described above.

C. Payments by Guarantor

If the Guarantor makes any payments in respect of interest on the Instruments (or 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 23%) subject to such relief as may be available under the provisions of any applicable double taxation treaty. Such payments by the Guarantor may not be eligible for the exemptions described in A above.

D. Payments under Deed of Covenant

Any payments made by the Issuers under the Deed of Covenant may not qualify for the exemptions from UK withholding tax described in A.1, A.2 and B above or any other exemptions which depend on Instruments being beneficially owned by a particular person.

E. Effectiveness of Declarations, Returns

The following rules apply to declarations made as referred to in A and B above: Subject to (a) to (c) below, declarations made on or before the 14th day of a month will be effective from the first day of the previous month and declarations received after the 14th day of a month are effective from the first day of the month in which they are received. However, a declaration will not have effect in relation to any given interest payments or receipts where:

- (a) the person who made the declaration has notified the paying agent or collecting agent that the declaration does not apply, or has ceased to apply to the payments or receipts in question; or
- (b) the paying agent or collecting agent has reason to believe that the declaration is or has become incorrect as respects the relevant payments or receipts; or
- (c) the paying agent or collecting agent has received notice from the Inland Revenue directing that relevant payments or receipts arising after a specified date are chargeable payments or receipts (as the case may be).

Withholding tax to be accounted for under the rules set out in B above must be paid by the 14th day following the month in which the interest is paid.

Returns must be made quarterly of:

- (i) the interest in respect of which paying or collecting agents are liable to account for United Kingdom tax;
- (ii) the amount of any tax they have accounted for or are liable to account for; and
- (iii) the interest they have paid/collected with no tax deducted by virtue of the specific exemptions referred to above;

within 30 days of the end of the quarter.

F. 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 be subject to any United Kingdom withholding tax pursuant to the provisions mentioned in A and B above.
- 2. Where Instruments are issued with a redemption 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 under 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.
- 4. The references to "interest" in A to E above mean "interest" as understood in United Kingdom tax law. The statements in A to E above 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 (e.g. see Condition 6 of the Instruments).
- 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.

G. Proposed EU Withholding Tax

In May 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige Member States to adopt either a "withholding tax system" or an "information reporting system" in relation to interest, discounts and premiums. It is unclear whether this proposal will be adopted, and if it is adopted, whether it will be adopted in its current form. The "withholding tax system" would require, a paying agent established in a Member State to withhold tax at a minimum rate of 20% from any interest, discount or premium paid to an individual resident in another Member State unless such an individual presents a certificate obtained from the tax authorities of the Member State in which he is resident confirming that those authorities are aware of the payment due to that individual. The "information reporting system" would require a Member State to supply, to other Member States, details of any payment of interest, discount or premium made by paying agents within its jurisdiction to an individual resident in another Member State. For these purposes, the term "paying agent" is widely defined and includes an agent who collects interest, discounts or premiums on behalf of an individual beneficially entitled thereto. If this proposal is adopted, it will not apply to payments of interest, discounts or premiums made before 1 January 2001.

Holders of Instruments who are individuals should note that, if this proposal is adopted in its current form, the provisions relating to additional amounts, referred to in Condition 9 above, would not apply in respect of any withholding tax imposed as a result thereof.

SUBSCRIPTION AND SALE

Instruments may be sold from time to time by an Issuer to any one or more of Deutsche Bank AG London, Lehman Brothers International (Europe), Merrill Lynch International, J.P. Morgan Securities Ltd., Morgan Stanley & Co. International Limited, Morgan Stanley S.A. and UBS AG acting through its division Warburg Dillon Read (the “**Dealers**”). The arrangements under which Instruments may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a dealership agreement dated 27 August 1999 (as amended, supplemented or replaced from time to time, the “**Dealership Agreement**”) and 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 purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the relevant Issuer in respect of such purchase. 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 sell Instruments from time to time to persons or institutions who are not Dealers.

United States of America: *Regulation S Category 2; TEFRA D, unless TEFRA C is specified as applicable in the relevant Pricing Supplement.*

Instruments 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 except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

Instruments in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealership Agreement, it will not offer, sell or deliver Instruments, (i) as part of their distribution at any time or (ii) otherwise until forty days after the completion of the distribution of the Instruments comprising the relevant Tranche, as certified to the Issue and Paying Agent or the relevant Issuer by such Dealer (or, in the case of a sale of a Tranche of Instruments to or through more than one Dealer, by 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 so certified) within the United States or to or for the account or benefit of U.S. persons, and such Dealer will have sent to each dealer to which it sells Instruments during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Instruments within the United States or to or for the account or benefit of U.S. persons.

In addition, until forty days after the commencement of the offering of Instruments comprising any Tranche, any offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act (if available).

United Kingdom: Each Dealer has represented and agreed that:

- (1) **No offer to public – listed Instruments:** with respect to Instruments which have a maturity of one year or more and are to be listed on the London Stock Exchange, it has not offered or sold and will not offer or sell any such Instruments to persons in the United Kingdom prior to admission of such Instruments to listing in accordance with Part IV of the Financial Services Act 1986 (the “**Act**”) except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not

resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Act;

- (2) **No offer to public – unlisted Instruments:** with respect to Instruments with a maturity of one year or more, it has not offered or sold and will not offer or sell any such Instruments to persons in the United Kingdom prior to the expiry of a period of six months from the issue date of such Instruments except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (3) **General compliance:** it has complied and will comply with all applicable provisions of the Act with respect to anything done by it in relation to such Instruments in, from or otherwise involving the United Kingdom; and
- (4) **Investment advertisements:** it has only issued or passed on and will only issue or pass on, in the United Kingdom, any document received by it in connection with the issue of such Instruments, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Act to a person who is of a kind described in article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or is a person to whom such document may otherwise lawfully be issued or passed on.

Japan

The Instruments have not been and will not be registered under the Securities and Exchange Law of Japan and, accordingly, each Dealer has undertaken that it will not offer or sell any Instruments directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, “**Japanese Person**” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Federal Republic of Germany

In connection with the initial placement of Instruments in Germany, each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it has not offered or sold and it will not offer or sell Instruments in Germany other than in compliance with the Securities Selling Prospectus Act (*Wertpapier Verkaufsprospektgesetz*) of 13 December 1990 (as amended), or any other laws and regulations applicable in Germany governing the issue, offering and sale of securities.

The Republic of France

Each Dealer has represented and agreed that the Instruments have not been offered or sold and will not be offered or sold during their initial distribution, directly or indirectly, to the public in the Republic of France, and that it has not distributed will not distribute or cause to be distributed during their initial distribution to the public in the Republic of France the Information Memorandum or any amendment, supplement or replacement thereto or any other offering material relating to the Instruments. Nevertheless, the Instruments can be offered or sold and the Information Memorandum or any amendment, supplement or replacement thereto or any other offering material relating to the Instruments may be distributed or caused to be distributed to any French qualified investor (*investisseurs qualifiés*) or a limited number of investors (*cercle restreint d'investisseurs*), all as defined by in Article 6 of ordinance no. 62-833 dated 28 September 1967 (as amended) and *Décret* no. 98-880 dated 1 October 1998, and in compliance with the relevant regulations issued from time to time by the *Commission des Opérations de Bourse*.

In addition, each Dealer has represented and agreed that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in France, the Information Memorandum 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.

General

Other than with respect to the listing of the Instruments on such stock exchange as may be specified in the Pricing Supplement, no action has been or will be taken in any country or jurisdiction by the Issuers, the Guarantor or the Dealers that would permit a public offering of 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 the Information Memorandum or any Pricing Supplement comes are required by the Issuers, the Guarantor 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 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 hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "General" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuers and the Guarantor. Any such supplement or modification will be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Tranche of Instruments) or (in any other case) in a supplement to this document.

GENERAL INFORMATION

1. The listing of the Instruments on the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche of Instruments intended to be listed on the London Stock Exchange will be admitted to the Official List upon submission to the London Stock Exchange of the relevant Pricing Supplement and any other information required by 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 not be listed on the London Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuers, the Guarantor and the relevant Dealer(s) may agree.

2. The establishment of the Programme was authorised by a resolution of the board of directors of Diageo plc passed on 29 April 1998, by resolutions of a duly authorised Committee of the board of directors of Diageo plc and the board of directors of Diageo Capital plc, both passed on 29 July 1998, and by a resolution of the board of directors of Diageo Finance plc passed on 4 August 1999. 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.
3. The Instruments have been accepted for clearance through Euroclear and Cedelbank. The appropriate common code and the International Securities Identification Number in relation to the Instruments of each Series will be specified in the Pricing Supplement relating thereto. The relevant Pricing Supplement 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 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 London Stock Exchange is expected to take effect on 1 September 1999.
6. There are no nor have there been any legal, arbitration or administrative proceedings involving the Issuers or the Guarantor or any of their respective subsidiaries (and no such proceedings are pending or threatened) which have or may have or have had during the twelve months prior to the date of this document, individually or in the aggregate, a significant effect on the financial position of the Issuers or the Guarantor or the Issuers or the Guarantor and their respective subsidiaries taken as a whole.
7. Other than disclosed herein, there has been no significant change in the financial or trading position of the Issuers or the Guarantor or the Issuers or the Guarantor and their respective subsidiaries taken as a whole since 31 December 1998 and no material adverse change in the financial position or prospects of the Issuers or the Guarantor or the Issuers or the Guarantor and their respective subsidiaries since 30 June 1998, the date of the last published annual accounts of Diageo plc (formerly Guinness PLC).
8. KPMG Audit Plc has given and has not withdrawn its written consent to the inclusion in the Information Memorandum of their reports in the form and context in which they have been included and has authorised the contents of that part of the listing particulars consisting only of those reports for the purposes of Section 152(1)(e) of the Financial Services Act 1986.

9. The financial information in relation to Diageo plc contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the “**Companies Act**”). Statutory accounts for the 18 months ended 30 June 1998 for Diageo plc and its consolidated subsidiaries, for the 5 years ended 31 December 1996 for Guinness PLC and its consolidated subsidiaries (the “**Guinness Group**”), for the 5 years ended 30 September 1997 for Grand Metropolitan PLC and its consolidated subsidiaries (the “**GrandMet Group**”) have been delivered to the Registrar of Companies in England and Wales. The auditors of Diageo plc, Guinness PLC and Grand Metropolitan PLC have made reports under Section 235 of the Companies Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Companies Act and did not contain any statements made under Section 237(2) or (3) of the Companies Act.
10. The financial information in relation to Diageo Capital plc contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act. Statutory accounts for the 18 months ended 30 June 1998, the 13 months ended 31 December 1996 and the 4 years ended 30 November 1995 have been delivered to the Registrar of Companies in Scotland. Diageo Capital plc’s auditors have made reports under Section 235 of the Companies Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Companies Act and did not contain any statements made under Section 237(2) or (3) of the Companies Act.
11. The financial information in relation to Diageo Finance plc contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act. Statutory accounts for the 9 months ended 30 June 1998 and the 5 years ended 30 September 1997 have been delivered to the Registrar of Companies in England and Wales. Diageo Finance plc’s auditors have made reports under Section 235 of the Companies Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Companies Act and did not contain any statements made under Section 237(2) or (3) of the Companies Act.
12. Diageo plc has an accounting year end of 30 June. On 6 March 1998 KPMG Audit Plc and Price Waterhouse were appointed joint auditors. On 24 November 1998 KPMG Audit Plc were appointed as sole auditors of Diageo plc.

Under merger accounting, the results and cash flows of the Guinness Group and the GrandMet Group are combined from the beginning of the financial period in which the merger occurred. Profit and loss account and balance sheet comparatives are restated on the combined basis and adjustments are made to achieve uniformity of accounting policies. As Guinness PLC (now renamed Diageo plc) is the parent company of the Diageo Group, its financial periods are initially the relevant ones for Diageo.

The consolidated financial statements of the Guinness Group in respect of the 3 financial years ending 31 December 1996 have been audited, without qualification, by Price Waterhouse, Chartered Accountants and Registered Auditors, in accordance with the laws of England and Wales. The business address of Price Waterhouse is Southwark Towers, 32 London Bridge Street, London SE1 9SY.

The consolidated financial statements of the GrandMet Group in respect of the 2 financial years ending 30 September 1997 have been audited, without qualification, by KPMG Audit Plc, Chartered Accountants and Registered Auditor, in accordance with the laws of England and Wales. The business address of KPMG Audit Plc is PO Box 695, 8 Salisbury Square, London EC4Y 8BB.

The consolidated financial statements of the GrandMet Group in respect of the financial year ended 30 September 1995 has been audited, without qualification, by KPMG, Chartered Accountants and Registered Auditors. Their business address is the same as that of KPMG Audit plc.

The consolidated financial statements of the Diageo Group in respect of the financial 18 month period ended 30 June 1998 have been audited, without qualification, by KPMG Audit plc, Chartered Accountants and Registered Auditor and PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, jointly. The business address of PricewaterhouseCoopers is 1 Embankment Place, London, WC2N 6NN.

The financial statements of Diageo Capital plc in respect of the 18 months to 30 June 1998 have been audited without qualification by KPMG Audit Plc, Chartered Accountants and Registered Auditor, in accordance with the laws of Scotland.

The financial statements of Diageo Capital plc in respect of the three financial periods ended 31 December 1996 have been audited without qualification by Price Waterhouse, Chartered Accountants and Registered Auditors, in accordance with the laws of Scotland.

The financial statements of Diageo Finance plc in respect of the 9 month period ended 30 June 1998 and the 3 financial years ended 30 September 1997 have been audited, without qualification, by KPMG Audit plc, Chartered Accountants and Registered Auditor.

13. Instruments (including sterling Instruments) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom and which are issued pursuant to an exempt transaction under regulation 13(1) or (3) of the Banking Act 1987 (Exempt Transactions) Regulations 1997 (the "**Regulations**") will constitute commercial paper, or shorter term debt securities or longer term debt securities (in each case, as defined in the Regulations), as specified in the applicable Pricing Supplement, in each case issued in accordance with regulations made under Section 4 of the Banking Act 1987. The relevant Issuer is not an authorised institution or a European authorised institution (as such terms are defined in the Regulations) and repayment of the principal and payment of any interest or premium in connection with Instruments issued by Diageo plc will not be guaranteed and, in relation to Instruments issued by Diageo Capital plc or Diageo Finance plc, will be guaranteed by Diageo plc, which is not an authorised institution or a European authorised institution.

In relation to any Instruments which are issued pursuant to an exempt transaction under regulation 13(3) of the Regulations where such Instruments would fall within regulation 13(4)(a) or (b) of the Regulations:

- (a) the relevant Issuer confirms that, as at the date hereof, it has complied with its obligations under the relevant rules (as defined in the Regulations) in relation to the admission to and continuing listing of the Programme and of any previous issues made under it and listed on the same exchange as the Programme;
- (b) the relevant Issuer confirms that it will have complied with its obligations under the relevant rules in relation to the admission to listing of such Instruments by the time when such Instruments are so admitted; and
- (c) the relevant Issuer confirms that, as at the date hereof, it has not, since the last publication, if any, in compliance with the relevant rules of information about the Programme, any previous issues made under it and listed on the same exchange as the Programme, or any Instruments falling within regulation 13(4)(a) or (b) of the Regulations, having made all reasonable enquiries, become aware of any change in circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations as Issuer in respect of such Instruments as they fall due.

In relation to Instruments which are to be exempt transactions under regulation 13(3) of the Regulations and fall within regulations 13(4)(b) of the Regulations, the relevant Issuer confirms that, as at the date hereof, it has complied and will continue to comply with its obligations under the Regulations to lodge all relevant information (as defined in the Regulations) in relation to any such Instruments with the London Stock Exchange.

14. 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 office of the Issue and Paying Agent and the Registrar (or other, the specified office(s) of the Paying Agent(s) in the United Kingdom) and from the registered offices of the Issuers and the Guarantor, namely:
- (a) the constitutional documents of each of the Issuers and the Guarantor;

- (b) the current listing particulars in relation to the Programme, together with any amendments;
- (c) the Issue and Paying Agency Agreement;
- (d) the Deed of Covenant;
- (e) the Guarantee;
- (f) the Dealership Agreement;
- (g) the most recent publicly available audited financial statements of each of the Issuers and the Guarantor;
- (h) the audited accounts of each of the Issuers and the Guarantor for each of the two financial years preceding the publication of this Information Memorandum;
- (i) reports, letters, balance sheets, valuations and statements of experts included or referred to in listing particulars (other than consent letters); and
- (j) any Pricing Supplement relating to Instruments which are listed on any stock exchange. (In the case of any Instruments which are not listed on any stock exchange, copies of the relevant Pricing Supplement will only be available for inspection by a Holder of or, as the case may be, a Beneficiary (as defined in the Deed of Covenant) in respect of, such Instruments.)

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