

INFORMATION MEMORANDUM

DIAGEO

DIAGEO plc

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

as Issuer and Guarantor

DIAGEO FINANCE plc

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

as Issuer

DIAGEO CAPITAL B.V.

(Incorporated with limited liability in the Netherlands with registered number 34196822)

as Issuer

US\$5,000,000,000

**Programme for the
Issuance of Debt Instruments**

Applications have been made to admit debt instruments ("Instruments") issued under the programme (the "Programme") described in this Information Memorandum during the period of twelve months after the date hereof to listing on the Official List of the Financial Services Authority (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "FSMA"), (the "UKLA") and to trading on the London Stock Exchange plc's market for listed securities (the "London Stock Exchange"). This Information Memorandum comprises listing particulars issued in compliance with the listing rules made under Section 74 of the FSMA (the "Listing Rules") for the purpose of giving information with regard to the issue of Instruments under the Programme during the period of twelve months after the date hereof. Copies of the listing particulars have been delivered for registration to the Registrar of Companies in England and Wales. The programme also permits Instruments to be issued on an unlisted basis or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the Issuers.

Arranger

MORGAN STANLEY

Dealers

**DEUTSCHE BANK
LEHMAN BROTHERS
MORGAN STANLEY**

**JPMORGAN
MERRILL LYNCH INTERNATIONAL
UBS INVESTMENT BANK**

The date of this Information Memorandum is 30 April 2004



EDX
COMPANIES HOUSE

E3262001

0979

30 1410 4

Each of the Issuers and the Guarantor, as defined below, accepts responsibility for the information contained in this Information Memorandum. To the best of the knowledge and belief of the Issuers and the Guarantor (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.

Any reference in this Information Memorandum to listing particulars means this Information Memorandum excluding all information incorporated by reference. The Issuers and the Guarantor have confirmed that any information incorporated by reference, including any such information to which readers of this Information Memorandum are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the FSMA or the Listing Rules. The Issuers and the Guarantor believe that none of the information incorporated herein by reference conflicts in any material respect with the information included in the listing particulars.

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 Finance plc and Diageo Capital B.V. (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 or the Guarantor and of the rights attaching to the relevant Instruments.

No person has been authorised by the Issuers or the Guarantor 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 the Guarantor 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, the Guarantor 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 or the Guarantor 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, the Guarantor 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 to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the "**Regulations**") of Instruments having a maturity of one year or more which have not been admitted to listing in accordance with Part VI of the FSMA. 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, the Guarantor, the Dealers or any of them 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 and the Guarantor. 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 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.

TABLE OF CONTENTS

SUMMARY OF THE PROGRAMME	5
TERMS AND CONDITIONS OF THE INSTRUMENTS	9
PROVISIONS RELATING TO THE INSTRUMENTS WHILST IN GLOBAL FORM	36
FORM OF PRICING SUPPLEMENT	40
USE OF PROCEEDS	46
DIAGEO FINANCE PLC	47
DIAGEO FINANCE PLC — CAPITALISATION AND INDEBTEDNESS	48
DIAGEO CAPITAL B.V.	49
DIAGEO CAPITAL B.V. — CAPITALISATION AND INDEBTEDNESS	50
DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES	51
DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES — CAPITALISATION AND INDEBTEDNESS	56
DIAGEO FINANCE PLC — AUDITORS' REPORT	57
DIAGEO FINANCE PLC — AUDITED FINANCIAL STATEMENTS	58
DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES — UNAUDITED INTERIM ANNOUNCEMENT	70
TAXATION	104
SUBSCRIPTION AND SALE	109
GENERAL INFORMATION	114

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 (or any person acting for such Dealer) may over-allot or effect transactions with a view to supporting the market price of the Instruments of the Series of which such Tranche forms part at a level higher than that which might otherwise prevail. However, there may be no obligation on such Dealer (or any agent of such Dealer) to do so. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. 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 Finance plc, Diageo Capital B.V. and any other duly appointed subsidiary of Diageo plc. In the event of such subsidiary being appointed, new listing particulars (which will supplement this Information Memorandum) will be prepared.
Guarantor:	Diageo plc (in the case of an issue of Instruments by Diageo Finance plc and Diageo Capital B.V.).
Arranger:	Morgan Stanley & Co. International Limited.
Dealers:	Deutsche Bank AG London, J.P. Morgan Securities Ltd., Lehman Brothers International (Europe), Merrill Lynch International, Morgan Stanley & Co. International Limited, UBS Limited, and any other dealer appointed from time to time by the Issuers either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Instruments. Each issue of Instruments denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see under "Subscription and Sale").
Issue and Paying Agent:	Citibank, N.A.
Principal Registrar:	Citibank, N.A.
Alternative Registrar:	Dexia Banque Internationale à Luxembourg.
Authorised Adviser:	Morgan Stanley & Co. International Limited.
Initial Programme Amount:	Up to U.S.\$5,000,000,000 (when aggregated with the principal amount of debt instruments outstanding at any time under the Programme for Issuance of Debt Instruments of Diageo Capital B.V. as set out in the Information Memorandum of 24 November 2003 for such Programme) 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:

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 Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") 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.

Currencies:

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 ("**Euro**")), subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Instruments may, subject to compliance as aforesaid, be issued as multi-currency Instruments.

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

Status of Instruments:

Instruments will be issued on an unsubordinated basis.

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) having a maturity of less than one year (and, in relation to Diageo Capital B.V., the issue proceeds of which are to be accepted by it in the United Kingdom or the activity of issuing the Instruments is carried on from an establishment maintained by it in the United Kingdom) must have a minimum redemption amount of £100,000 (or its equivalent in other currencies) or be issued in other circumstances which do not constitute a contravention of Section 19 of the FSMA by the relevant Issuer.</p>
Early Redemption:	<p>Early redemption will be permitted for taxation reasons as mentioned in "Terms and Conditions of the Instruments — Early Redemption or Substitution for Taxation Reasons", but will otherwise be permitted only to the extent specified in the relevant Pricing Supplement.</p>
Interest:	<p>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.</p>
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) having a maturity of less than one year (and, in relation to Diageo Capital B.V., the issue proceeds of which are to be accepted by it in the United Kingdom or the activity of issuing the Instruments is carried on from an establishment maintained by it in the United Kingdom) must have a minimum denomination of £100,000 (or its equivalent in other currencies) or be issued in other circumstances which do not constitute a contravention of Section 19 of the FSMA by the relevant Issuer.</p>
Taxation:	<p>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, subject as provided in Condition 9 of the Terms and Conditions of the Instruments.</p>
Governing Law:	<p>The Instruments and all related contractual documentation will be governed by, and construed in accordance with, English law.</p>

Listing:	Each Series may be admitted to the Official List of the UKLA and admitted to trading on the London Stock Exchange and/or listed or traded on any other stock exchange as may be agreed between the relevant Issuer and the relevant Dealer and specified in the relevant Pricing Supplement or may be not listed or traded on any stock exchange.
Terms and Conditions:	A Pricing Supplement will be prepared in respect of each Tranche of Instruments, a copy of which, in the case of Instruments to be listed on the Official List of the UKLA, will be delivered to the UKLA 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 30 April 2004, a copy of which will be available for inspection at the specified office of the Issue and Paying Agent.
Clearing Systems:	Euroclear, Clearstream, Luxembourg and/or any other clearing system as may be specified in the relevant Pricing Supplement.
Ratings:	The programme has been rated by Moody's Investors Service Limited and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies Inc.
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, the Netherlands 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 principal 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 amended and restated issue and paying agency agreement (as amended, supplemented or replaced, the **"Issue and Paying Agency Agreement"**) dated 30 April 2004 and made between Diageo plc, Diageo Finance plc and Diageo Capital B.V. (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), Dexia Banque Internationale à Luxembourg in its capacity as alternative registrar (the **"Alternative Registrar"**, which expression shall include any successor to Dexia 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 an amended and restated deed of covenant (as amended, supplemented or replaced, the **"Deed of Covenant"**) dated 30 April 2004 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 an amended and restated deed of guarantee (as amended, supplemented or replaced, the **"Guarantee"**) dated 30 April 2004 under which it has irrevocably and unconditionally guaranteed the due and punctual payment of all amounts due by Diageo Finance plc or Diageo Capital B.V. 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, an Accountholder (as defined in the Deed of Covenant), in respect of such Instruments.

References in these Terms and Conditions to Instruments are to Instruments of the relevant Series and any references to Coupons (as defined in Condition 1.02) 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. 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 1.5 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 applicable laws relating to creditors' rights and applicable laws of mandatory application.

4. Status of the Guarantee

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

5. Negative Pledge

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

- (a) any Encumbrance subsisting on or prior to the date of the Issue and Paying Agency Agreement;
- (b) any Encumbrance arising by operation of law and not securing amounts more than 90 days overdue and otherwise being contested in good faith;
- (c) judgment Encumbrances not giving rise to an Event of Default;
- (d) any Encumbrance subsisting over a Principal Property, share or stock of any Restricted Subsidiary (which becomes a Restricted Subsidiary after the date of the Issue and Paying Agency Agreement)

prior to the date of such Restricted Subsidiary becoming a Restricted Subsidiary, provided that such Encumbrance was not created in contemplation of such Restricted Subsidiary becoming a Restricted Subsidiary;

- (e) any Encumbrance over any Principal Property (or documents of title thereto), shares or stock of any Restricted Subsidiary acquired by the Guarantor or any Restricted Subsidiary as security for, or for indebtedness incurred, to finance all or part of the price of its acquisition, development, redevelopment, modification or improvement;
- (f) any Encumbrance over any Principal Property (or documents of title thereto), shares or stock of any Restricted Subsidiary which is acquired by the Guarantor or any Restricted Subsidiary subject to such Encumbrance;
- (g) any Encumbrance to secure indebtedness for borrowed money incurred in connection with a specifically identifiable project where the Encumbrance relates to a Principal Property involved in such project and acquired by the Guarantor or any Restricted Subsidiary after the date of the Issue and Paying Agency Agreement and the recourse of the creditors in respect of such indebtedness is limited to such project and Principal Property;
- (h) any Encumbrance arising solely by operation of law over any credit balance or cash held in any account with a financial institution;
- (i) rights of financial institutions to offset credit balances in connection with the operation of cash management programmes established for the benefit of the Guarantor and/or any Restricted Subsidiary;
- (j) any Encumbrance securing indebtedness of the Guarantor or any Restricted Subsidiary for borrowed money incurred in connection with the financing of accounts receivable;
- (k) any Encumbrance incurred or deposits made in the ordinary course of business, including, but not limited to:
 - (i) any mechanics', materialmen's, carriers', workmen's, vendor's or other like Encumbrances;
 - (ii) any Encumbrances securing amounts in connection with workers' compensation, unemployment insurance and other types of social security; and
 - (iii) any easements, rights-of-way, restrictions and other similar charges;
- (l) any Encumbrance upon specific items of inventory or other goods and proceeds of the Guarantor or any Restricted Subsidiary securing the Guarantor's or any such Restricted Subsidiary's obligations in respect of bankers' acceptances issued or created for the account of such person to facilitate the purchase, shipment or storage of such inventory or other goods;
- (m) any Encumbrance incurred or deposits made securing the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of like nature incurred in the ordinary course of business;
- (n) any Encumbrance on any Principal Property of the Guarantor or any Restricted Subsidiary in favour of the Federal Government of the United States or the government of any State thereof, or the government of the United Kingdom, or the European Communities, or any instrumentality of any of them, securing the obligations of the Guarantor or any Restricted Subsidiary pursuant to any contract or payments owed to such entity pursuant to applicable laws, rules, regulations or statutes;
- (o) any Encumbrance securing taxes or assessments or other applicable governmental charges or levies;
- (p) any Encumbrance securing industrial revenue, development or similar bonds issued by or for the benefit of the Guarantor or any of its Restricted Subsidiaries, provided that such industrial revenue, development or similar bonds are non-recourse to the Guarantor or such Restricted Subsidiary;

- (q) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Encumbrance referred to in paragraphs (a) to (p) (inclusive) for amounts not exceeding the principal amount of the borrowed money secured by the Encumbrance so extended, renewed or replaced, provided that such extension, renewal or replacement Encumbrance is limited to all or a part of the same Principal Property, shares or stock of the Restricted Subsidiary that secured the Encumbrance extended, renewed or replaced (plus improvements on such Principal Property); and
- (r) Encumbrances in favour of the Guarantor or any Subsidiary of the Guarantor.

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

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

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

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

"Encumbrance"	means any mortgage, pledge, security interest or lien;
"Principal Property"	means any building, structure or other facility together with the land upon which it is erected and fixtures comprising a part thereof, located in the United States or the United Kingdom, owned or leased by the Guarantor or any Restricted Subsidiary, the gross book value (without deduction of any depreciation reserves) of which on the date as of which the determination is being made exceeds 2% of the consolidated shareholders' equity of the Guarantor, other than (i) any such building, structure or other facility or portion thereof which, in the opinion of the Board of Directors of the Guarantor, is not of material importance to the total business conducted by the Guarantor and its Subsidiaries as an entirety or (ii) any portion of any such property which, in the opinion of the Board of Directors of the Guarantor, is not of material importance to the use or operation of such property;

“Restricted Subsidiary”

means any Subsidiary (i) substantially all of the physical properties of which are located, or substantially all of the operations of which are conducted, within the United States or the United Kingdom and (ii) which owns a Principal Property. The term does not include any Subsidiary which is principally engaged in leasing or in financing instalment receivables or which is principally engaged in financing the operations of the Guarantor and its consolidated Subsidiaries; and

“Subsidiary”

means a company in respect of which more than 50% of the outstanding voting stock or equity interest having by the terms thereof ordinary voting power to elect a majority of the Board of Directors of such company (irrespective of whether at the time stock of any other class or classes of such company shall have or might have voting power by reason of the happening of the contingency) is at the time directly or indirectly owned or controlled by the Guarantor or by one or more Subsidiaries, or by the Guarantor and one or more Subsidiaries.

6. Interest

Interest

6.01 Instruments may be interest-bearing or non interest-bearing, as specified in the 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 Moneyline 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. 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% being rounded up to 0.00001%), (b) all United States Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

Definitions

6.09 “Applicable Business Day Convention” means the “Business Day Convention” which may be specified in the 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));
- (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); and
- (vi) if **“Actual/Actual (ISMA)”** is so specified, means:
 - (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods normally ending in any year; and

(b) where the Calculation Period is longer than one Regular Period, the sum of:

- (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Period in any year; and
- (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods normally ending in any year.

"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.

"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 2000 ISDA 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.).

"Moneyline 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).

"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*.

"Regular Period" means:

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

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

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 ninety 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 sixty 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 Accountholder (as defined in the Deed of Covenant) against (A) any tax, duty, fee or governmental charge which is imposed on such Holder with respect to such Instrument or, as the case may be, the Deed of Covenant and which would not have been so imposed had such assumption not been made, (B) any tax, duty, fee or governmental charge imposed on or relating to the act of assumption and (C) any costs or expenses of the act of assumption, (iii) the Guarantor shall unconditionally guarantee (irrespective of the validity, regularity or enforceability against the assuming company of any Instrument, the Deed of Covenant, the Issue and Paying Agency Agreement or of any action to enforce the same), all payments in respect of the Instruments, the Issue and Paying Agency Agreement, the Deed of Covenant and the Deed Poll (upon the terms of the original guarantee in respect of the original Issuer's obligations) and (iv) the assuming company and the Guarantor shall warrant that all necessary governmental approvals and consents for the assumption by the assuming company of its obligations and the giving and implementation of the guarantee have been obtained and are in full force and the obligations of the assuming company under the Instruments, the Deed of Covenant, the Issue and Paying Agency Agreement and the Deed Poll and of the Guarantor under its guarantee to guarantee payments in respect of the Instruments, the Deed of Covenant, the Issue and Paying Agency Agreement and the Deed Poll are legal, valid, binding and enforceable *provided that* no substitution shall take place pursuant to Condition 7.02(B) unless the assuming company, the Issuer 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 Accountholder to inspect such documents at the offices of the Issue and Paying Agent.

Upon the assumption becoming effective, references in these Conditions to the country of incorporation of the Issuer and, if different, the country of tax residence of the Issuer, shall be 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 sub-paragraph (ii) to the date fixed for redemption or the date upon which such Instrument becomes due and repayable were replaced by references to the earlier of:

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

8. Events of Default

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

- (a) failure to pay any interest or additional amounts in respect of interest on any such Instruments when due, and such failure continues for 30 days;
- (b) failure to pay principal or additional amounts with respect to payment of principal of any such Instruments when due (and, in the case of technical or administrative difficulties only, such failure continues for five days);
- (c) failure to perform any other covenant of the Issuer or the Guarantor under such Instruments, the Issue and Paying Agency Agreement and the Deed of Covenant, and such failure continues for 90 calendar days after written notice to the Issue and Paying Agent by the holders of at least 10% in aggregate principal amount of the outstanding Instruments of such Series specifying such default or breach and requiring it to be remedied;
- (d) the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer or the Guarantor in an involuntary case or proceeding under any applicable bankruptcy, insolvency, examination, reorganisation or other similar law, or (ii) a decree or order adjudging the Issuer or the Guarantor bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation, examination, arrangement, adjustment or composition of or in respect of the Issuer or the Guarantor under any applicable law of the jurisdiction of incorporation of the Issuer or, in the case of the Guarantor, England and Wales, or appointing a custodian, receiver, liquidator, examiner, assignee, trustee, sequestrator or other similar official of the Issuer or the Guarantor or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstated and in effect for a period of 90 consecutive days;
- (e) the commencement by the Issuer or the Guarantor of a voluntary case or proceeding under any applicable bankruptcy, insolvency, examination, reorganisation or other similar law of the jurisdiction of incorporation of the Issuer or, in the case of the Guarantor, England and Wales or of any other case or proceeding to be adjudicated bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Issuer or the Guarantor in an involuntary case or proceeding under any applicable bankruptcy, insolvency, examination, reorganisation or other similar law of the jurisdiction of incorporation of the Issuer or, in the case of the Guarantor, England and Wales, or to the

commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganisation, examination or relief under any applicable law of the jurisdiction of incorporation of the Issuer or, in the case of the Guarantor, England and Wales, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, examiner, assignee, trustee, sequestrator or other similar official of the Issuer or of the Guarantor or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Issuer or the Guarantor in furtherance of any such action; or

- (f) the Guarantee is not, or is claimed by the Guarantor not to be, in full force and effect.

8.02 If an Event of Default with respect to any Series of Instruments shall occur and be continuing, the Holders of at least 25% in aggregate principal amount of the outstanding Instruments of the relevant Series may give notice to the Issuer (which notice shall be accompanied by the certificate referred to in Condition 8.03 below) that the Instruments of the relevant Series and (if the Instruments are interest-bearing) all interest then accrued on such Instruments are to be forthwith due and payable, whereupon each such Instrument shall become immediately due and payable at its early termination amount (the "**Early Termination Amount**") (which shall be its Outstanding Principal Amount or, if such Instrument is non-interest bearing, its Amortised Face Amount (as defined in Condition 7.11) (or at such other amount as 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 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) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing or complying with, or introduced in order to conform to, European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income;

- (iii) by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Instrument or Coupon or Receipt to another Paying Agent in a member state of the European Union;
- (iv) in relation only to any Bearer Instrument or Coupon, 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;
- (v) 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
- (vi) at the specified office of a Paying Agent in the United Kingdom.

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

10A.05 If the due date for payment of any amount due in respect of any Instrument is not a Relevant Financial Centre Day and a Local Banking Day (each as defined in Condition 10C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day (or as otherwise specified in the 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 Holder's risk to the address (as recorded in the register held by the Registrar) of the Holder thereof (or, in the case of joint Holders, the first-named) on the Relevant Banking Day (as defined in Condition 2.06) not later than the relevant due date for payment unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first-named) has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account

denominated in the relevant currency in 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 EU 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 EU, 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 EU member state not currently participating in the third stage of European Economic and Monetary Union (**“EMU”**), if that EU 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 EU 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 renominalisation 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 renominalisation 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, renominalisation 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 Official List of the UKLA and the rules of the UKLA so require, a Paying Agent (which may be the Issue and Paying Agent) and a Registrar each with a specified office in the United Kingdom (v) in the circumstances described in Condition 10A.04, a Paying Agent with a specified office in New York City, (vi) if European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN council meeting of 26-27 November 2000 is brought into force and so far as reasonably possible, a Paying Agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing or complying with, or introduced in order to conform to, such Directive(s) and (vii) a Calculation Agent where required by the Terms and Conditions applicable to any Instruments (in the case of (i), (ii), (iii) and (vii) 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 or listing authority on which the Instruments are traded or listed, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer, the Guarantor and the Replacement Agent may require. Mutilated or defaced Instruments, 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 Clearstream, Luxembourg and/or any other relevant clearing system for communication by them to the persons shown in their respective records as having interests therein). The Issuer shall also ensure that notices are duly published in compliance with the requirements of each stock exchange on which the Instruments are listed. Any notice so given will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Instruments in accordance with this Condition.

To Holders of Registered Instruments

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

16. Further Issues

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

17. Waiver and Remedies

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

18. Law and Jurisdiction

18.01 The Instruments, the Issue and Paying Agency Agreement, the Deed of Covenant and the Guarantee 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 W1G 0NB 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.

19. Third Parties

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

PROVISIONS RELATING TO THE INSTRUMENTS WHILST IN GLOBAL FORM

(A) Relationship of Accountholders with Clearing Systems

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

(B) Form and Exchange — Bearer Global Instruments

(1) *TEFRA D or TEFRA C*: The 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 D 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 Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") 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 Clearstream, Luxembourg or any other relevant clearing system without any requirement for certification.

(4) *Exchange for Definitive Instruments:* Interests in a Permanent Global Instrument will be exchanged (subject to the period allowed for delivery as set out in (i) below), in whole but not in part only and at the request of the Holder of such Global Instrument, for Definitive Instruments and/or (if so specified in the Pricing Supplement) Registered Instruments (a) if Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 occurs 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 Clearstream, Luxembourg (or any other relevant clearing system) as being entitled to interests in the Instruments will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Instrument became void, they had been the Holders of Definitive Instruments in an aggregate principal amount equal to the principal amount of Instruments they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

(C) Form and Exchange — Global Registered Instruments

(1) *Global Registered Instrument:* Registered Instruments held in Euroclear and/or Clearstream, Luxembourg (or any other clearing system) will be represented by a Global Registered Instrument which will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg (or such other relevant clearing system).

(2) *Exchange*: The Global Registered Instrument will become exchangeable in whole, but not in part, for individual Registered Instruments if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, (b) any of the circumstances described in Condition 8 occurs, or (c) at any time at the request of the registered Holder if so specified in the 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 Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Registered Instruments (including, without limitation, the names and addresses of the persons in whose names the Registered Instruments are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Instrument at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Issue and Paying Agency Agreement and the regulations concerning the transfer and registration of Instruments scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

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

(D) Amendment to Conditions

The Temporary Global Instruments, Permanent Global Instruments and Global Registered Instruments contain provisions that apply to the Instruments that they represent, some of which modify the effect of the Terms and Conditions of the Instruments set out in this 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, Clearstream, Luxembourg 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.

If the Instruments have a maturity of less than one year, the minimum denomination must be £100,000 or its equivalent in any other currency.

PRICING SUPPLEMENT

Series No.: [●]

Tranche No.: [●]

[NAME OF ISSUER]

(incorporated with limited liability in [●]

with registered number [●])

[and corporate seat at Amsterdam, the Netherlands]*

PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

Issue of

[Aggregate Principal Amount of Tranche]

[Title of Instruments]

This document constitutes the Pricing Supplement relating to the issue of Instruments described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Information Memorandum dated 30 April 2004 [and the supplemental Information Memorandum dated [●]]. This Pricing Supplement contains the final terms of the Instruments and must be read in conjunction with such Information Memorandum [as so supplemented].

The following alternative language applies if the first tranche of an issue which is being increased was issued under an Information Memorandum with an earlier date.

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “Terms and Conditions”) set forth in the Information Memorandum dated [original date]. This Pricing Supplement contains the final terms of the Instruments and must be read in conjunction with the Information Memorandum dated 30 April 2004 [and the supplemental Information Memorandum dated [●]], save in respect of the Terms and Conditions which are extracted from the Information Memorandum dated [original date] and are attached hereto.]

Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs.

- | | |
|---|----------------|
| 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 |
| 7. Currency: | [Specify] |
| — of Denomination | |
| — of Payment | |
| (Condition 1.06) | |
| 8. Aggregate Principal Amount of Tranche: | [Specify] |

* Include in the case of Instruments to be issued by Diageo Capital B.V.

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]
[Bearer/Registered]
[Yes/No]
15. (a) Form of Instruments:
(b) Bearer Instruments exchangeable for Registered Instruments:
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.]
[Yes/No. Specify Exchange Date.]
- (b) Temporary Global Instrument exchangeable for Definitive Instruments [only.] [and/or Registered Instruments]: [Specify date from which exchanges for Registered Instruments will be made.]
- (c) Permanent Global Instrument exchangeable: [If nothing is specified, exchanges will be made at any time.]
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)]
[Yes/No]
- (d) Talons for future Coupons to be attached to Definitive Instruments: (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.]
[Specify]⁽¹⁾
17. Denomination(s): (Condition 1.04 or 1.05)
18. Partly Paid Instruments: (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)
[Yes/No]
[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 ISDA Rate or formula.]
(Condition 6.02)
22. Relevant Screen Page: [Reuters Screen/Moneyline Telerate/Other]
(Condition 6.03) page [●].

⁽¹⁾ In relation to Instruments to be issued by Diageo Capital B.V., consideration should be paid to setting a minimum denomination of EUR 50,000 or its equivalent in order to avoid certain potential requirements of the Transparency Directive, when brought into force.

23. Relevant Margin:
(Condition 6.03) [Plus/Minus] [☐] % per annum.
24. ISDA Rate:
(Condition 6.04) Issuer is [Fixed Rate/Fixed Amount/Fixed Price/
Floating Rate/Floating Amount/Floating Price] Payer.
[☐] % per annum
25. Minimum Interest Rate:
(Condition 6.05) [☐] % per annum
26. Maximum Interest Rate:
(Condition 6.05) [☐] % per annum
27. Interest Payment Dates or (if the Applicable
Business Day Convention is the FRN
Convention) Interest Period: [Specify all 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 all dates. If nothing is specified Interest Period
End Dates will correspond with Interest Payment
Dates.]
29. Applicable Business Day Convention: [Specify. If no adjustment is required then 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:
(Condition 6.09)
(Condition 10C.03) [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).]
31. Day Count Fraction: [Specify]
32. Interest Commencement Date:
(Condition 6.09) [Specify, if different from the Issue Date]
33. Interest Determination Date:
(Condition 6.09) [Specify number of Banking Days in which city(ies), if
different from Condition 6.09]
34. Relevant Time:
(Condition 6.09) [☐][a.m./p.m.][Specify city] time
35. Default Interest Rate:
(Condition 6.06) [Specify if different from the Interest Rate]

36. Calculation Agent: [Name and specified office]
(Condition 6.07)
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 Early Redemption: [Specify whether paragraph (i) of Condition 10A.06 or 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 listing authority and/or stock exchange(s)]
51. Selling Restrictions:
United States of America:

Other: 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] [Specify any modifications of or additions to selling restrictions contained in Dealership Agreement] [Specify applicable Dutch selling restriction if Diageo Capital B.V. is the Issuer]
52. Stabilising Institution: [In connection with the issue of the Instruments, [name of stabilising institution] (or any person acting for [name of stabilising institution]) may over-allot or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, there may be no obligation on [name of stabilising institution] (or any agent of [name of stabilising agent]) to do so. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.]
53. ISIN: [●]
54. Common Code: [●]
55. Common Depositary: [●]
56. Any Clearing System other than Euroclear Bank S.A./N.V. and Clearstream Banking, Société Anonyme: [●]
57. Settlement Procedures: [Specify whether customary medium term note/eurobond/other settlement and payment procedures apply]
[●]
58. Other Relevant Terms and Conditions: [●]

[LISTING APPLICATION]

This Pricing Supplement comprises the final terms required to list the issue of Instruments described herein pursuant to the U.S.\$5,000,000,000 Programme for the Issuance of Debt Instruments of Diageo plc, Diageo Finance plc and Diageo Capital B.V.]

RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in this Pricing Supplement.

CONFIRMED

[DIAGEO plc/DIAGEO FINANCE plc/DIAGEO CAPITAL B.V.]

By:
Authorised Signatory

[By:
Authorised Signatory

Date:

Date:]⁽²⁾

⁽²⁾ Two signatures are required in relation to Instruments to be issued by Diageo Capital B.V.

USE OF PROCEEDS

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

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 Company Acts 1908 to 1917 (registered number 213393) under the name The Mayfair Hotel Company Limited. Diageo Finance plc changed its name to Grand Metropolitan (Finance) Limited on 26 January 1973. On 2 November 1981 Diageo Finance plc re-registered as a public limited company under the name of Grand Metropolitan (Finance) Public Limited Company. On 10 December 1981 Diageo Finance plc changed its name to Grand Metropolitan Finance Public Limited Company and on 16 December 1997 changed its name to Diageo Finance plc.

The issued share capital of Diageo Finance plc comprises 73,200,000,000 ordinary shares of 5 pence each, all of which are held by Diageo plc.

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

Directors

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

Name	Business occupation
Susanne Margaret Bunn	Company Secretary
Matthew John Lester	Director
Joel Walters	Director
Ravi Rajagopal	Director

On 31 July 2003 Simon Douglas Coward resigned as a director of Diageo Finance plc. On 3 October 2003 Paviter Singh Binning resigned and Ravi Rajagopal was appointed a director of Diageo Finance plc on that date.

The business address of each of the directors above is 8 Henrietta Place, London W1G 0NB.

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

At 31 December 2003, the directors had no interests in the share capital of Diageo Finance plc. At 31 December 2003, the aggregate interests of directors in the ordinary shares of Diageo plc including their share options and conditional rights to acquire shares, was less than 1% of the total issued share capital of Diageo plc.

The company secretary of Diageo Finance plc is John James Nicholls.

The registered office of Diageo Finance plc is at 8 Henrietta Place, London W1G 0NB.

DIAGEO FINANCE PLC CAPITALISATION AND INDEBTEDNESS

The following table sets out the capitalisation and indebtedness (excluding balances with other Diageo group undertakings) of Diageo Finance plc based on the audited financial statements as at 30 June 2003.

	30 June 2003 £ million
Borrowings ⁽¹⁾	
Short term borrowings (including current portion of long term borrowings)	161
Long term borrowings	200
Shareholders' equity	
Ordinary shares ⁽²⁾	3,660
Retained earnings	1,357
	<hr/> 5,017 <hr/>
Total capitalisation and indebtedness	<hr/> <u>5,378</u> <hr/>

Notes:

- (1) On 16 October 2003, Diageo Finance plc issued a €300 million euro medium term note due October 2006, paying floating rate interest.
- (2) None of the borrowings in the table and note (1) above are secured on the assets of Diageo Finance plc or the Diageo group. The borrowings of Diageo Finance plc are guaranteed by Diageo plc.
- (3) At 30 June 2003, the total authorised share capital of Diageo Finance plc was £5,665 million, consisting of 74,300,000,000 ordinary shares of 5 pence each and 1,950,000,000 unclassified shares of £1 each. At such date 73,200,000,000 ordinary shares were issued and fully paid, with an aggregate nominal value £3,660 million.
- (4) On 13 December 2002, Diageo Finance plc entered into a five year \$850 million credit facility agreement, following the sale of the Burger King Corporation by the Diageo group. Under the terms of this Agreement, Diageo Finance plc together with other group companies, on a joint and several basis has guaranteed in full, i.e. up to a maximum of \$850 million, the payment obligations of Burger King and its subsidiaries to the original lending financial institutions. These loans have a term of five years although Diageo and Burger King have agreed to structure their arrangements to encourage refinancing by Burger King on a non-guaranteed basis prior to the end of five years.
On 20 December 2002, a guarantors' co-operation agreement was entered into by Diageo Enterprises, Diageo Finance plc, Diageo plc and Diageo Venture Limited ("DVL"). Under the terms of this co-operation agreement, DVL is liable for all amounts payable by any Guarantor under the terms of the credit facility agreement and DVL is entitled to any payment received by any Guarantor under the terms of the credit facility agreement.
- (5) There has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of Diageo Finance plc since 30 June 2003 except as described in note (1) above.

DIAGEO CAPITAL B.V.

Introduction

Diageo Capital B.V., a wholly owned indirect subsidiary of Diageo plc with its corporate seat at Amsterdam, the Netherlands, was incorporated as a private company with limited liability in the Netherlands on 14 October 2003, under the Dutch Civil Law Code, Book 2, Title 5, Section 1 (registered number 34196822).

The issued share capital of Diageo Capital B.V. comprises 180 ordinary shares of €100 each, all of which are held by Diageo Brands B.V. (the shares were formerly held by Guinness United Distillers & Vintners Amsterdam B.V. which merged with Diageo Brands B.V. on 28 January 2004).

Diageo Capital B.V. acts as a financing vehicle for the Diageo group's operating companies and has no independent operations.

Directors

The directors of Diageo Capital B.V. and their respective business occupations are:

Name	Business occupation
Margaretha Catharina Theodora Maria Gerichhausen	Director
Darryl Malcolm Francis Leese	Director
Thomas Hugh Creighton	Director
David James Gillard	Director
John Ogilvie Stewart	Director
Matthew John Lester	Director

The business address of Margaretha Catharina Theodora Maria Gerichhausen, Darryl Malcolm Francis Leese and Thomas Hugh Creighton is Molenwerf 10-12, 1014 BG Amsterdam, the Netherlands.

The business address of David James Gillard and Matthew John Lester is 8 Henrietta Place, London W1G 0NB.

The business address of John Ogilvie Stewart is Stamford 750 East Main Street, CT 06912 — 0022 Connecticut, United States of America.

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

At 31 December 2003, the directors had no interests in the share capital of Diageo Capital B.V. At 31 December 2003, the aggregate interests of directors in the ordinary shares of Diageo plc, including their share options and conditional rights to acquire shares, was less than 1% of Diageo plc's total issued share capital.

The registered office of Diageo Capital B.V. is at Molenwerf 10-12, 1014 BG Amsterdam, the Netherlands.

**DIAGEO CAPITAL B.V.
CAPITALISATION AND INDEBTEDNESS**

The following table sets out the capitalisation and indebtedness (excluding balances with other Diageo group undertakings) of Diageo Capital B.V. based on the company's underlying financial records as at 31 December 2003. Diageo Capital B.V. was incorporated on 14 October 2003, hence no financial statements have been prepared as at 31 December 2003. The first set of financial statements will be prepared for the period ending 30 June 2004.

	31 December 2003 € million
Borrowings ⁽¹⁾	
Long term borrowings	500
Shareholders' equity	
Ordinary shares ⁽³⁾	—
Retained earnings	—
Total capitalisation and indebtedness	<u>500</u>

Notes:

- (1) On 4 December 2003 Diageo Capital B.V. issued €500 million euro medium term notes due January 2009, paying interest at 3.875%.
- (2) None of the borrowings, in the table and note (1) above, are secured on the assets of Diageo Capital B.V. or the Diageo group. The borrowings of Diageo Capital B.V. are guaranteed by Diageo plc.
- (3) At 31 December 2003, the total authorised share capital of Diageo Capital B.V. consisted of 900 ordinary shares of €100 each. At such date, 180 ordinary shares were issued and fully paid, with an aggregate nominal value of €0.018 million.
- (4) At 31 December 2003, there were no contingent liabilities and guarantees.
- (5) There has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of Diageo Capital B.V. since 31 December 2003.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Introduction

Diageo plc ("Diageo"), a public limited company incorporated under the laws of England and Wales, is one of the world's leading premium drinks businesses with a portfolio of international brands. Diageo plc was the eleventh largest publicly owned company in the United Kingdom in terms of market capitalisation on 16 April 2004 with a market capitalisation of approximately £23.2 billion.

Diageo was formed by a merger of Grand Metropolitan plc and Guinness plc (the "Merger") which was announced on 12 May 1997. On 17 December 1997, the Merger became effective, as a result of which Grand Metropolitan plc became a wholly-owned subsidiary of Guinness plc, and Guinness plc was renamed Diageo plc.

Diageo has now completed the strategic transition to a focused premium drinks company. Since announcing the planned realignment of its business focus in 2000, Diageo has exited the food business, selling Pillsbury to General Mills, Inc ("General Mills") in October 2001 and divesting of Burger King in December 2002. Over the same period, it enhanced its premium drinks business with the purchase of parts of the Seagram spirits and wine businesses in December 2001. The completion of these transactions and the integration of the Seagram brands has strongly enhanced Diageo's position in the premium drinks industry, and furthered its strategic objectives of building strength and focus in its core business.

Diageo's brand portfolio is essential to its strategy. The company owns 8 of the top 20 brands in the top 100 premium distilled spirits brands worldwide as measured by Impact, an international drinks magazine that is independent from industry participants. The international nature of these brands enables Diageo to operate as a global business, with local sensitivity in its markets, while remaining focused on its target of being the number one premium drinks player in every market.

Diageo's position in premium drinks enables the company to attract and develop talented people with the capabilities to achieve Diageo's performance goals. Key to this success is promoting diversity and ensuring Diageo is regarded as the best place to work.

Diageo's strategy is executed at three levels, market participation, product offering and business effectiveness. The common themes which run through each of these levels serve as crucial drivers of Diageo's current and future success.

Business

Diageo is a major participant in the branded beverage alcohol industry and operates on an international scale. It brings together world-class drinks brands and a management team committed to the maximisation of shareholder value. The management team expects to invest in global brands, expand internationally and launch innovative new products and brands.

Diageo's premium drinks business is the world's leading branded premium spirits business by volume, sales revenue and operating profit. Diageo also brews and markets beer and produces and sells wine. It produces and distributes a wide range of premium brands, including Smirnoff vodka, Johnnie Walker Scotch whiskies, Guinness stout, Baileys Original Irish Cream liqueur, J&B Scotch whisky, Captain Morgan rum and Tanqueray gin.

Diageo also has exclusive distribution rights for the Cuervo tequila brand in the United States until 2013 and, in addition, Diageo owns 34% of Moët Hennessy SA ("Moët Hennessy"), the spirits and wine subsidiary of LVMH Moët Hennessy Louis Vuitton SA. Moët Hennessy is based in France and is a producer and exporter of a number of brands in its main business areas of champagne and cognac. Diageo and Moët Hennessy have established a number of joint distribution arrangements in the United States, Asia and France.

General Mills. Diageo owns an equity investment of 21% in General Mills comprising 79 million shares of common stock, following the disposal on 31 October 2001 of its worldwide packaged food businesses to General Mills. General Mills is a leading food manufacturer and distributor of food products operating primarily in the United States.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Recent developments

Paul Walsh, Chief Executive of Diageo, commenting on the six months ended 31 December 2003 said:

“Diageo, focused as it is now on premium drinks, continues to deliver growth with improvement in key measures of performance in this first half. Further mix improvement combined with good volume growth has led to a 6% organic increase in both net sales (after deducting excise duties) and operating profit at a time when investment in marketing has again increased ahead of net sales growth and we have absorbed restructuring costs. Looking forward the trends that we have seen in the first half are expected to continue despite the uneven recovery in Europe, although the current exchange rate volatility will impact reported results.

These results also reflect our financial strength; return on invested capital is up 3 percentage points to 17.6% free cash flow is up £257 million in the period, the interim dividend is up 7% and we have returned a further £256 million to shareholders.

Diageo is committed to creating shareholder value even in uncertain times. These results demonstrate our ability to do so.”

General Mills. On 15 October 2003, General Mills announced that it had received a formal request for information from the U.S. Securities and Exchange Commission (the “**Commission**”) concerning its sales practices and related accounting. General Mills stated that the Commission had advised the company that it had not reached any conclusions relating to the information request.

The group has adopted the reporting requirements of *FRS 17 — Retirement benefits* in its primary financial statements from 1 July 2003. The group also complies from 1 July 2003 with the following requirements issued by the UK’s Accounting Standards Board: *UITF 38 — Accounting for ESOP trusts* and the amendment to *FRS 5 — Reporting the substance of transactions*.

FRS 17 — Retirement benefits. This standard replaces the use of the actuarial values for assets in a pension scheme in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the profit and loss account shows the relatively stable ongoing service cost, finance charge and expected return on assets. Differences between expected and actual returns, and changes in actuarial assumptions, are reflected in the statement of total recognised gains and losses.

The adoption of FRS 17 has decreased the reported operating profit before exceptional items for the six months ended 31 December 2002 by £42 million (year ended 30 June 2003 — £88 million; 30 June 2002 — £111 million). This charge has been offset by a decrease in exceptional charges of £18 million (year ended 30 June 2003 — £14 million; 30 June 2002 — decrease in exceptional income of £25 million), an increase in other finance income of £18 million (year ended 30 June 2003 — £36 million; 30 June 2002 — £104 million) and a decrease in the tax charge of £2 million (year ended 30 June 2003 — £nil; 30 June 2002 — £nil), giving a net increase in the loss for the period of £4 million (year ended 30 June 2003 — £38 million; 30 June 2002 — decrease in profit of £32 million). In addition, the adoption of the standard has reduced net assets at 30 June 2003 by £1,869 million (31 December 2002 — £735 million; 30 June 2002 — £730 million).

UITF 38 — Accounting for ESOP trusts. This abstract changes the presentation of an entity’s own shares held in an employee share trust from requiring them to be recognised as assets to requiring them to be deducted in arriving at shareholders’ funds. It also requires that the minimum expense to the profit and loss account should be the difference between the fair value of the shares at the date of award and the amount that an employee may be required to pay for the shares (i.e. the ‘intrinsic value’ of the award).

The impact of the adoption of UITF 38 in the six months ended 31 December 2002 has been to increase operating profit by £6 million (year ended 30 June 2003 — £14 million; 30 June 2002 — £5 million) and increase the tax charge by £2 million (year ended 30 June 2003 — £4 million; 30 June 2002 — £1 million). In addition, in the year ended 30 June 2003 exceptional charges were reduced by £2 million. The reclassification of shares acquired by the share trust (treasury shares) from fixed assets and debtors to equity has reduced net assets by £288 million at 30 June 2003 (31 December 2002 — £301 million; 30 June 2002 — £244 million). In addition,

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

the net cash outflow arising from the purchase of shares by the share trusts has been reclassified from 'capital expenditure and financial investment' to 'financing'.

FRS 5 — Reporting the substance of transactions. The amendment to the standard added a new application note (G) on revenue recognition. This requires that revenue should be stated at fair value of the right to consideration. Diageo incurs certain promotional expenditure (for example, slotting fees, whereby fees are paid to retailers for prominence of display, listing or agreement not to delist Diageo's products) that is not wholly independent of the invoiced product price. Such expenditure is now deducted from turnover. The change, which has no impact on operating profit, reduced turnover and operating costs by £95 million in the six months ended 31 December 2002.

On 19 February 2004, it was announced that Jonathan Symonds, Chief Financial Officer of AstraZeneca PLC will be appointed to the Diageo board, effective 1 May 2004. He will be appointed to the audit committee, remuneration committee and the nomination committee and it is intended that upon Keith Oates' retirement on 20 October 2004, he will be appointed chairman of the audit committee.

Legal proceedings

Hakki versus Zima Company, et al and related cases. Diageo plc and Diageo North America have been named as defendants in three purported class action lawsuits. The first Hakki versus Zima, et al, was commenced against a number of alcohol beverage companies on 14 November 2003 in the Superior Court of Washington, D.C. The complaint asserts claims under the District of Columbia Consumer Protection Procedures Act ("DCCPPA") and the common law of the District of Columbia that the defendants specifically targeted the US advertising and marketing of certain of their products to individuals below the 21 year old legal drinking age. The complaint alleges that 'at least 15-20% of all alcoholic beverages sold in the United States are consumed by underage drinkers'. The complaint further alleges that profits earned by the defendants from the alleged illegal sales to underage drinkers 'greatly exceed \$1 billion per year'. The lawsuit seeks certification as a class action on behalf of (a) parents and guardians whose funds were used by their children under 21 from 1982 to the present without their knowledge to purchase alcohol beverages marketed by the defendants, on whose behalf monetary recovery is sought and (b) the parents and guardians of all children under 21, on whose behalf the complaint requests that the Court enter an injunction prohibiting the defendants from marketing alcohol beverages to underage persons. The prayer for relief in the complaint seeks, among other matters, (a) that defendants each disgorge to the purported class all amounts by which they have been allegedly unjustly enriched, plus costs and interest; (2) rescission of the alleged transactions whereby defendants allegedly obtained revenues from the illegal sale of alcoholic beverages to underage consumers and ordered to pay such monies to the purported class; and (3) to assess all defendants jointly and severally for all alleged actual damages sustained by the purported plaintiff class plus treble damages or \$1,500 per violation, whichever is greater, punitive damages, attorneys fees, costs of suit and interest. Since the filing of the Hakki lawsuit, two similar cases against Diageo and the other Hakki defendants have been filed. The first, Kreft versus Zima Company, et al, was brought in state court in Denver, Colorado; the second, Wilson versus Zima Company et al, was brought in state court in Charlotte, North Carolina. The allegations are largely similar to Hakki, refer to the same advertisements, and were brought by mostly the same lawyers. The same lawyers have threatened but not yet commenced a similar case in California. Diageo intends to strenuously defend all these claims.

Colombian excise duties. In August 2000, Diageo learned that the Governors of the Departments of the Republic of Colombia and the City of Bogotá (the 'Departments') were considering initiating legal proceedings against major spirits companies in relation to unpaid excise duties and taxes on products that are smuggled into Colombia by third parties. Such proceedings are expected to be similar to actions that have been brought in recent years by foreign governments, including the Departments, against a number of major tobacco companies. Specifically, there have been four such actions filed against various tobacco companies. Three of the four actions have been dismissed. The fourth has yet to proceed to the stage where motions to dismiss are filed. It remains the directors' intent that any proceedings of this kind that might be brought against Diageo will be strenuously defended.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

The group has extensive international operations and is a defendant in a number of legal proceedings incidental to these operations. There are a number of legal claims or potential claims against the group, the outcome of which cannot at present be foreseen. Save as disclosed above, neither Diageo nor any member of Diageo is or has been engaged in, nor (so far as Diageo is aware) is there pending or threatened by or against it, any legal or arbitration proceedings which may have a significant effect on the financial position of the Diageo group. Provision is made for all liabilities that are probable and reliably measurable.

Directors

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

Name	Business occupation
Lord Blyth of Rowington	Chairman, Non-executive director
Paul S Walsh	Chief Executive, Executive director
Nicholas C Rose	Chief Financial Officer, Executive director
Rodney F Chase	Senior non-executive director
Lord Hollick of Notting Hill	Non-executive director
Maria Lilja	Non-executive director
John K Oates	Non-executive director
William S Shanahan	Non-executive director
Paul A Walker	Non-executive director

On 19 February 2004, it was announced that Jonathan Symonds, Chief Financial Officer of AstraZeneca PLC will be appointed to the Diageo board, effective from 1 May 2004. Jonathan Symonds is a director of QinetiQ Group plc (formerly DERA).

The business address of each of the directors above is at 8 Henrietta Place, London W1G 0NB.

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
Lord Blyth of Rowington	Anixter Inc Greenhill & Company
Paul Steven Walsh	Centrica plc Federal Express Corporation General Mills, Inc
Nicholas Charles Rose	Moët Hennessy International SNC Scottish Power plc
Rodney Frank Chase	Computer Sciences Corporation Lehman Brothers Tesco plc
Lord Hollick of Notting Hill	United Business Media plc Institute of Public Policy Research South Bank Centre Honeywell International Inc
Maria Lilja	Bilia AB Intrum Justitia B.V. Mandator AB Observer AB Poolia AB Skandia AB
John Keith Oates	Coutts Bank, Monaco
William Stephen Shanahan	Colgate-Palmolive Company
Paul Ashton Walker	The Sage Group plc MyTravel Group plc

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

At 31 December 2003, the aggregate interests of directors in the ordinary shares of Diageo plc including their share options and conditional rights to acquire shares, was less than 1% of the total issued share capital of Diageo plc.

The company secretary of Diageo plc is Susanne Margaret Bunn.

The registered office of Diageo plc is 8 Henrietta Place, London W1G 0NB.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES
CAPITALISATION AND INDEBTEDNESS

	31 December 2003 (unaudited) £ million
Short term borrowings (including current portion of long term borrowings)	2,986
Long term borrowings	
Due from one to five years	2,428
Due after five years	1,041
	3,469
Minority interests (equity and non-equity)	491
Shareholders' equity	
Called up share capital	886
Share premium account	1,328
Own shares held reserve	(351)
Revaluation reserve	116
Capital redemption reserve	3,057
Profit and loss account	(2,044)
	2,992
Total capitalisation and indebtedness	6,952

Notes:

- (1) Since 31 December 2003 and up to 27 April 2004, 3.2 million ordinary shares have been purchased for immediate cancellation at a cost of £23.2 million.
- (2) At 31 December 2003, £73 million of the group's net borrowings due within one year and £153 million of the group's net borrowings due after more than one year were secured.
- (3) At 31 December 2003, there were potential issues of approximately 4 million new ordinary shares outstanding under Diageo's employee share option schemes.
- (4) At 31 December 2003, the total authorised share capital of Diageo consisted of 5,329,052,500 ordinary shares of 28¹⁰⁰/₁₀₀ pence each. At such date, 3,063,562,925 ordinary shares were issued and fully paid, including shares issued and held in employee share trusts.
- (5) On 20 April 2004, Diageo Capital plc issued a \$200 million medium term note due 2007 paying floating rate interest which is guaranteed as to payments of interest and principal by Diageo plc.
- (6) On 2 April 2004, Diageo Finance B.V. issued a €500 million medium term note due April 2011, paying interest at 3.875% which is guaranteed as to payments of interest and principal by Diageo plc.
- (7) Diageo plc has guaranteed certain borrowings of subsidiaries which at 31 December 2003 amounted to £5,604 million. Diageo plc has also provided irrevocable guarantees relating to the liabilities of certain of its Irish and Dutch subsidiaries. In addition, Diageo plc has certain obligations with regard to the group's non-equity minority interests and in connection with the disposal of Pillsbury, has guaranteed the debt of a third party to the amount of \$200 million (£112 million). In connection with the disposal of the quick service restaurants business, Diageo has guaranteed up to \$850 million (£475 million) of external borrowings of Burger King until December 2007. These loans have a term of five years although Diageo and Burger King have agreed to structure their arrangements to encourage refinancing by Burger King on a non-guaranteed basis prior to the end of five years. In connection with the disposal of Pillsbury, Diageo has guaranteed the debt of a third party to the amount of \$200 million (£112 million) until November 2009. Including these guarantees, but net of the amount provided, the group has given performance guarantees and indemnities to third parties of £606 million. There has been no material change since 30 June 2003 in the group's performance guarantees and indemnities.
- (8) There has been no material change in the capitalisation and indebtedness of the Diageo group since 31 December 2003, except as described in notes (1), (5) and (6) above.
- (9) At 31 December 2003 the group had cash at bank and liquid resources of £1,304 million and interest rate and foreign currency swaps of £446 million.

DIAGEO FINANCE PLC

Independent auditors' report

Reproduced below is the full text of the independent auditors' report on the financial statements of Diageo Finance plc in respect of the year ended 30 June 2003. The references to page numbers within this report relate to the pages within those financial statements and not this document.

Independent auditors' report to the members of Diageo Finance plc

We have audited the financial statements on pages 6 to 19⁽¹⁾.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 4⁽²⁾, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London EC4Y 8BB
8 December 2003

⁽¹⁾ Pages 58 to 68 of the Information Memorandum.

⁽²⁾ Page 69 of the Information Memorandum.

DIAGEO FINANCE PLC

AUDITED FINANCIAL STATEMENTS

The financial information set out below on pages 58 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 years ended 30 June 2003 and 30 June 2002 has been extracted, without material adjustment, from the audited financial statements of Diageo Finance plc.

Profit and Loss Account

		Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
	Notes		
Net interest receivable	2	397	371
Other operating income		14	17
Operating costs	4	<u>(6)</u>	<u>(4)</u>
Profit on ordinary activities before taxation		405	384
Taxation on profit on ordinary activities	5	<u>(8)</u>	<u>7</u>
Profit on ordinary activities after taxation		<u>397</u>	<u>391</u>
Profit for the year transferred to reserves	14	<u><u>397</u></u>	<u><u>391</u></u>

There are no recognised gains or losses other than the above profit for the year and consequently a statement of total recognised gains and losses has not been presented as part of the financial statements.

There is no difference between the profit for the year and the historical cost profit for the year and consequently no note of historical cost profits has been presented as part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

	Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
Profit for the year	<u>397</u>	<u>391</u>
Net addition to shareholders' funds	397	391
Shareholders' funds at beginning of the year	<u>4,620</u>	<u>4,229</u>
Shareholders' funds at end of the year	<u><u>5,017</u></u>	<u><u>4,620</u></u>

DIAGEO FINANCE PLC

Balance Sheet as at 30 June 2003

	Notes	30 June 2003 £ million	30 June 2002 £ million
Current assets			
Debtors — due within one year	6	37,632	35,993
Debtors — due after more than one year	6	—	4,195
Investments	7	—	3
Cash at bank	8	78	80
		<u>37,710</u>	<u>40,271</u>
Creditors — due within one year			
External borrowings	10	(161)	(131)
Other creditors	9	(31,877)	(30,132)
		<u>(32,038)</u>	<u>(30,263)</u>
Net current assets		<u>5,672</u>	<u>10,008</u>
Creditors — due after one year			
External borrowings	10	(200)	(200)
Other creditors	9	(455)	(5,188)
		<u>(655)</u>	<u>(5,388)</u>
		<u>5,017</u>	<u>4,620</u>
Capital and reserves			
Called up share capital	12	3,660	3,660
Profit and loss account	13	1,357	960
		<u>5,017</u>	<u>4,620</u>

Notes to the Financial Statements

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and comply with applicable UK accounting standards.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996). The company is also exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group or investees of the Diageo plc group.

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 year end exchange rates, or, if hedged forward, at the

DIAGEO FINANCE PLC

rate of exchange under the related forward currency contract. Exchange gains and losses for transactions are taken to the profit and loss account.

Financial instruments

The company participates in the Diageo group's hedging of foreign exchange exposures arising on Diageo group's transaction costs and the translation of the results and underlying net assets of Diageo group's foreign subsidiaries by using forward contracts, currency swaps, cross currency interest rate swaps and currency options in this respect.

Foreign exchange contracts and options used for managing transactional and translational exposure are generally matched with offsetting positions with other Diageo group undertakings. Foreign exchange gains or losses resulting from any unmatched residual positions are taken to the profit and loss account.

Foreign exchange options used to protect against the translation of profits of Diageo group foreign subsidiaries are recognised in the underlying hedging periods.

The company participates in the Diageo group's interest rate management and uses interest rate swaps, forward starting swaps, forward rate agreements and bought and sold options in the management of the interest rate exposure arising on the Diageo group's borrowings.

Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. 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.

If the underlying transaction to a hedge ceases to exist, the hedge is terminated and the profits and losses on termination are recognised in the profit and loss account immediately. If the hedge transaction is terminated, the profits and losses on termination are held in the balance sheet and amortised over the life of the original underlying transactions. Finance costs associated with the debt issuances are charged to the profit and loss account over the life of the issue.

Current asset investments

Current asset investments are stated at cost plus, where appropriate, accrued interest.

Taxation

Taxation is calculated based on the results for the year and takes into account deferred taxation. Full provision is now made for all material timing differences. Any potential deferred tax asset is recognised only when, on the basis of all material evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

DIAGEO FINANCE PLC

2. Interest

	Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
<i>Interest receivable</i>		
Loans to Diageo group undertakings	1,396	1,553
Income from swaps	73	122
Other deposits	2	18
Option premia	—	1
	<u>1,471</u>	<u>1,694</u>
<i>Interest payable</i>		
Bank loans and overdrafts	(11)	(6)
Loans from Diageo group undertakings	(1,037)	(1,284)
Other loans	(26)	(33)
	<u>(1,074)</u>	<u>(1,323)</u>
Net interest receivable	<u>397</u>	<u>371</u>

3. Operations

During the financial year the company was engaged in treasury management for Diageo plc and its subsidiary undertakings. The company's operations are based in the United Kingdom. It raises the external funds it requires principally using the London financial markets.

4. Operating costs

The company has no employees. Fees in respect of services provided by the auditors were: statutory audit £16,300 (2002: £15,600); and other non-audit work £33,300 (2002: £10,500).

5. Taxation

	Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
Factors affecting the current tax charge:		
Profit before taxation	405	384
Corporation tax at 30%	(121)	(115)
Expenses not deductible for tax purposes	19	—
Group relief received for nil consideration	102	115
Adjustment in respect of prior year	(8)	7
Current tax (charge)/credit	<u>(8)</u>	<u>7</u>

DIAGEO FINANCE PLC

6. Debtors

	30 June 2003		30 June 2002	
	Due within one year £ million	Due after more than one year £ million	Due within one year £ million	Due after more than one year £ million
Amounts owed by Diageo group undertakings	37,450	—	35,805	4,195
Corporation tax	8	—	16	—
Other debtors	174	—	172	—
	<u>37,632</u>	<u>—</u>	<u>35,993</u>	<u>4,195</u>

7. Investments

	30 June 2003 £ million	30 June 2002 £ million
Term deposits	<u>—</u>	<u>3</u>

8. Cash at bank

£21 million of cash at bank represents group scheme balances and supports overdrafts of other Diageo group undertakings (2002: £66 million).

9. Other creditors

	30 June 2003		30 June 2002	
	Due within one year £ million	Due after more than one year £ million	Due within one year £ million	Due after more than one year £ million
Amounts owed to Diageo group undertakings	31,849	455	30,060	5,188
Accruals and deferred income	28	—	72	—
	<u>31,877</u>	<u>455</u>	<u>30,132</u>	<u>5,188</u>

10. Borrowings, facilities and financial liabilities

Financial instruments comprise net borrowings, including borrowings from Diageo group undertakings, together with other instruments deemed to be financial instruments under FRS 13 including long term debtors and other long term creditors. Disclosures dealt with in this note exclude short term debtors and creditors where permitted by FRS 13, but include short term borrowings to and from Diageo group undertakings.

DIAGEO FINANCE PLC

10. Borrowings, facilities and financial liabilities (continued)

(i) External borrowings:

	Currency	Year end interest rates %	30 June 2003 £ million	30 June 2002 £ million
Guaranteed bonds 2005	Sterling	9.0	200	200
Bank loans and other	Various	Various	—	1
Bank overdrafts	Various	Various	161	130
			<u>361</u>	<u>331</u>

The interest rates shown in the table above are those contracted on the underlying borrowings before taking into account any interest rate protection. The above loans are stated net of unamortised finance costs of £1 million (2002 — £1 million). None of the borrowings are secured on assets of the Diageo group.

(ii) Maturity of financial liabilities

	30 June 2003				30 June 2002			
	Bank loans and overdrafts £ million	Other loans £ million	Borrowings owed to group undertakings £ million	Total £ million	Bank loans and overdrafts £ million	Other loans £ million	Borrowings owed to group undertakings £ million	Total £ million
<i>Analysis by year of repayment</i>								
From two to five years	—	—	—	—	—	200	—	200
From one to two years	—	200	455	655	—	—	5,188	5,188
Due after more than one year	—	200	455	655	—	200	5,188	5,388
Due within one year	161	—	31,849	32,010	131	—	30,060	30,191
	<u>161</u>	<u>200</u>	<u>32,304</u>	<u>32,665</u>	<u>131</u>	<u>200</u>	<u>35,248</u>	<u>35,579</u>

Financial liabilities are net of interest rate and foreign currency swaps.

DIAGEO FINANCE PLC

10. Borrowings, facilities and financial liabilities (continued)

After taking account of interest rate swaps and cross currency interest rate swaps and forward agreements, the currency and interest rate profile of the financial liabilities and assets of the company was as follows:

At 30 June 2003

	Floating rate £ million	Fixed rate £ million	Impact of foreign currency swaps £ million	Total £ million	Weighted average fixed rate %	Weighted average time to maturity Years
Financial liabilities:						
US dollar	(7,705)	(2,667)	473	(9,899)	10.1	0.7
Euro	(2,041)	(600)	(832)	(3,473)	4.7	1.9
Sterling	(19,790)	(250)	1,269	(18,771)	5.4	1.0
Other	(213)	—	(195)	(408)	—	—
	<u>(29,749)</u>	<u>(3,517)</u>	<u>715</u>	<u>(32,551)</u>	8.8	0.9
Financial assets:						
US dollar	9,762	—	—	9,762	—	—
Euro	2,925	520	—	3,445	5.2	1.0
Sterling	23,972	—	—	23,972	—	—
Other	349	—	—	349	—	—
	<u>37,008</u>	<u>520</u>	<u>—</u>	<u>37,528</u>	—	—
Net financial assets/(liabilities)	<u>7,259</u>	<u>(2,997)</u>	<u>715</u>	<u>4,977</u>	9.4	0.9

At 30 June 2002

	Floating rate £ million	Fixed rate £ million	Impact of foreign currency swaps £ million	Total £ million	Weighted average fixed rate %	Weighted average time to maturity Years
Financial liabilities:						
US dollar	(7,362)	(2,566)	(11)	(9,939)	10.6	1.4
Euro	(1,671)	(588)	(768)	(3,027)	4.8	2.2
Sterling	(22,646)	(550)	1,034	(22,162)	7.9	0.7
Other	(197)	—	(212)	(409)	—	—
	<u>(31,876)</u>	<u>(3,704)</u>	<u>43</u>	<u>(35,537)</u>	9.3	1.4
Financial assets:						
US dollar	9,933	—	—	9,933	—	—
Euro	3,058	—	—	3,058	—	—
Sterling	26,709	—	—	26,709	—	—
Other	384	—	—	384	—	—
	<u>40,084</u>	<u>—</u>	<u>—</u>	<u>40,084</u>	—	—
Net financial assets/(liabilities)	<u>8,208</u>	<u>(3,704)</u>	<u>43</u>	<u>4,547</u>	9.3	1.4

DIAGEO FINANCE PLC

10. Borrowings, facilities and financial liabilities (*continued*)

Interest bearing financial liabilities comprise bonds and bank overdrafts. Floating rate financial liabilities include borrowings from Diageo group undertakings and bear interest based on short term interbank rates (predominantly 6 month LIBOR). Financial assets comprise cash, term deposits and amounts due from Diageo group undertakings.

The foreign currency swaps in the table on the previous page adjust the currency basis of Diageo plc group borrowings as part of that group's policy to hedge its exposure to fluctuations on translation into sterling of its foreign currency net assets. The foreign currency swaps are short term in nature and therefore have a floating rate interest basis. They are shown after taking account of fixing interest rate swaps which transfer £600 m of euro floating rate interest liabilities arising from foreign currency swaps into euro fixed rate liabilities.

The company had available undrawn committed bank facilities with third parties at 30 June 2003 as follows:

	£ million
Expiring in one year or less	1,182
Expiring in more than two years	788
	<hr/> 1,970 <hr/>

Commitment fees are paid on the undrawn portion of these facilities. Borrowings under these facilities will be at prevailing LIBOR rates plus an agreed margin, which is dependent on the period of the drawdown. These facilities can be used for general corporate purposes and together with cash and cash equivalents support Diageo group's commercial paper programme. These facilities are subject to a single financial covenant for Diageo group, being minimum interest cover of two times (defined as the ratio of operating profit before exceptional items aggregated with share of profits in associates to net interest). They are also subject to *pari passu* ranking and negative pledge covenants.

Any non-compliance with covenants underlying Diageo group's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain notes and the inability to access committed facilities. Diageo group was in full compliance with its financial covenants throughout the year and prior year.

A large number of major international financial institutions are counterparties to the interest rate swaps, forward exchange contracts and deposits. Counterparties for such transactions entered into during the year have a long term credit rating of A or better. Credit risks facing the company are monitored together with those of certain other entities within the Diageo group of companies. Policy limits the extent of credit exposure with particular counterparties.

DIAGEO FINANCE PLC

11. Disclosure relating to derivative financial instruments

(i) Fair values

The estimated fair values of borrowings and associated derivative financial instruments and other financial liabilities at 30 June 2003 are set out below. The fair values of quoted borrowings are based on period end mid-market quoted prices. The fair values of other borrowings and derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end. These are based on fair values obtained from third parties.

	30 June 2003 Net carrying amount £ million	30 June 2003 Estimated fair value £ million	30 June 2002 Net carrying amount £ million	30 June 2002 Estimated fair value £ million
Primary financial instruments:				
External borrowings due within one year including overdrafts	(161)	(161)	(131)	(131)
External borrowings due after one year	(200)	(218)	(200)	(219)
Borrowings from Diageo group undertakings due within one year	(31,849)	(31,849)	(29,874)	(29,882)
Borrowings from Diageo group undertakings due after one year	(455)	(484)	(5,188)	(5,188)
Cash at bank and investments	78	78	83	83
Derivatives — interest rate contracts:				
<i>Interest rate swaps with Diageo group undertakings:</i>				
— positive values	—	2	—	—
— negative values	(2)	(76)	(2)	(70)
<i>Interest rate swaps with third parties:</i>				
— positive values	42	176	71	178
— negative values	(3)	(27)	(2)	(9)
Other interest rate contracts	(1)	—	(3)	—
Derivatives — foreign exchange contracts:				
Transaction:				
— positive values	—	186	—	136
— negative values	—	(175)	—	(137)
Balance sheet translation:				
— positive values	138	138	96	98
— negative values	(22)	(28)	(65)	(65)
Foreign exchange options (profit translation):				
— positive values	—	—	—	18
— negative values	—	—	—	(7)

The difference between net carrying amount and estimated fair value reflects the unrealised gains or losses inherent in the instrument based on valuations at 30 June 2003. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

DIAGEO FINANCE PLC

(ii) Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The table below shows the extent to which the company has recognised the gains and losses on financial instruments, and deferred gains and losses in respect of financial instruments and terminated financial instruments used as hedges, at the beginning and end of the year.

	Unrecognised			Deferred		
	Gains £ million	Losses £ million	Total £ million	Gains £ million	Losses £ million	Total £ million
Gains and losses:						
On hedges at 1 July 2002	267	(219)	48	—	(1)	(1)
Arising in previous years recognised in year ended 30 June 2003	101	(66)	35	—	(1)	(1)
At 30 June 2003	322	(279)	43	1	(2)	(1)
Of which gains and losses expected to be recognised in the year ended:						
– 30 June 2004	193	(174)	19	1	(2)	(1)
– 30 June 2005	129	(105)	24	—	—	—

(iii) Option cylinders

Following a policy review in June 2002 the company no longer undertakes profit translation hedging in respect of Diageo plc group estimated overseas profits. The remaining option cylinders have all matured in the year.

As at 30 June 2002, currency cylinders, forwards and options protected the translation of estimated overseas profits for the year ending 30 June 2003 within the following weighted averaged ranges:

		30 June 2002	
		Hedged amount £ million	Weighted average range (against £)
US dollar	– forwards	214	1.41
Euro	– cylinders	58	1.52-1.64
	– options	250	1.56

12. Share capital

	30 June 2003 £ million	30 June 2002 £ million
<i>Authorised:</i>		
Equity		
74,300,000,000 ordinary shares of 5p each	3,715	3,715
Non-equity		
1,950,000,000 unclassified shares of £1 each	1,950	1,950
	<u>5,665</u>	<u>5,665</u>

DIAGEO FINANCE PLC

	2003 £ million	2002 £ million
<i>Allotted, called up and fully paid:</i>		
Equity		
73,200,000,000 ordinary shares of 5p each	<u>3,660</u>	<u>3,660</u>

Ordinary shares are entitled to one vote each.

13. Reconciliation of movements in reserves

	2003 £ million	2002 £ million
<i>Profit and loss account:</i>		
Balance brought forward	960	569
Retained profit for the financial year	<u>397</u>	<u>391</u>
Balance carried forward	<u><u>1,357</u></u>	<u><u>960</u></u>

14. Contingent liabilities

Diageo Finance plc enters into various forward dated transactions to manage the Diageo group's interest and exchange rate exposures.

On 13 December 2002 the company entered into a 5 year US\$850 million credit facility agreement, following the sale of the Burger King Corporation by the Diageo group. Under the terms of this agreement the company, together with other group companies, on a joint and several basis has guaranteed in full, i.e. up to a maximum of US\$850,000,000, the payment obligations of the Burger King Corporation and its subsidiaries to the original lending financial institutions.

15. Related party transaction

As reported last year, in connection with P S Walsh's (Chief Executive Officer, Diageo plc) relocation from the United States to the United Kingdom, Diageo Finance plc has entered into three forward foreign currency transactions with him to buy an aggregate of US\$3.5 million for £2.33 million. One transaction for US\$0.5 million was outstanding at 30 June 2002. This transaction matured on 21 March 2003 and Diageo Finance plc bought US\$0.5 million from him for £0.34 million. These transactions were hedged with a third party on identical terms and involved no cost to the company.

16. Ultimate parent undertaking

The company is a wholly owned subsidiary of Diageo plc. Diageo plc is incorporated and registered in England.

The consolidated financial statements of Diageo plc for the year ended 30 June 2003 can be obtained from the Registered Office at 8 Henrietta Place, London W1G 0NB.

DIAGEO FINANCE PLC

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 year ended 30 June 2003. The references to page numbers within this report relate to the pages within those financial statements and not this document.

Directors' responsibilities in respect of the preparation of financial statements

The following statement, which should be read in conjunction with the independent auditors' report set out overleaf⁽¹⁾, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

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

The directors, in preparing the financial statements on pages 6 to 19⁽²⁾, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards 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 that are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

⁽¹⁾ Page 57 of the Information Memorandum.

⁽²⁾ Pages 58 to 68 of the Information Memorandum.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

UNAUDITED INTERIM ANNOUNCEMENT

The following operating and financial review has been extracted, without material adjustments, from the announcement, dated 19 February 2004, made by the Diageo group setting out its interim results for the six month period ended 31 December 2003.

Definitions

Unless otherwise stated, percentage movements given throughout this statement for volume, turnover, net sales (after deducting excise duties), marketing investment and operating profit are organic movements (at level exchange rates and after adjusting for acquisitions and disposals) for continuing operations. They are before exceptional items. Comparisons are with the equivalent period in the last financial year.

Volume has been measured on an equivalent units basis to nine litre cases of spirits. An equivalent unit represents one nine litre case of spirits, which is approximately 272 servings. A serving comprises 33ml of spirits, 165ml of wine, or 330ml of ready to drink or beer. Therefore, to convert volume of products other than spirits to equivalent units, the following guide has been used: beer in hectolitres divide by 0.9, wine in nine litre cases divide by five and ready to drink in nine litre cases divide by 10.

Net sales are turnover less excise duty.

The market data contained in this results announcement is taken from independent industry sources in the markets in which Diageo operates.

This announcement includes names of Diageo's products which constitute trademarks or trade names which Diageo owns or which others own and licence to Diageo for its use.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

OPERATING AND FINANCIAL REVIEW For the six months ended 31 December 2003

OPERATING REVIEW

Summary consolidated profit and loss account

	Six months ended 31 December 2003			Six months ended 31 December 2002		
	Before exceptional items £ million	Exceptional items £ million	Total £ million	Before exceptional items (restated) £ million	Exceptional items (restated) £ million	Total (restated) £ million
Turnover	5,060	—	5,060	5,333	—	5,333
Operating costs	(3,879)	(19)	(3,898)	(4,129)	(104)	(4,233)
Operating profit	1,181	(19)	1,162	1,204	(104)	1,100
Share of associates' profits	273	(11)	262	266	(15)	251
Disposal of fixed assets		(8)	(8)		(3)	(3)
Sale of businesses		—	—		(1,360)	(1,360)
Finance charges	(157)	—	(157)	(196)	—	(196)
Profit/(loss) before taxation	1,297	(38)	1,259	1,274	(1,482)	(208)
Taxation	(324)	6	(318)	(324)	118	(206)
Profit/(loss) after taxation	973	(32)	941	950	(1,364)	(414)
Minority interests	(50)	—	(50)	(45)	—	(45)
Profit/(loss) for the period	923	(32)	891	905	(1,364)	(459)

On a reported basis, turnover decreased by £273 million (5%) from £5,333 million (of which Burger King contributed £479 million) in the six months ended 31 December 2002 to £5,060 million in the six months ended 31 December 2003. For premium drinks, turnover increased by £206 million (4%). The weakening of the US dollar was offset by the strengthening of the euro, and therefore turnover was broadly unaffected by the impact of exchange rate movements. The effect of disposals and the termination of certain distribution rights reduced turnover by £72 million in premium drinks.

On a reported basis, operating costs decreased by £335 million (8%) from £4,233 million (of which Burger King costs were £426 million) in the six months ended 31 December 2002 to £3,898 million in the six months ended 31 December 2003. Operating costs for the premium drinks business increased by £91 million against the comparable period last year partly due to an increase in excise duties of £39 million and an increase in marketing of £39 million.

Reported operating profit increased by £62 million from £1,100 million (of which Burger King contributed £53 million) to £1,162 million. Exceptional items charged to operating profit, in respect of the integration of the Seagram businesses, were £19 million in the six months ended 31 December 2003 compared with £104 million (of which £89 million was in respect of the integration of the Seagram businesses) in the six months ended 31 December 2002. Exchange rate movements reduced operating profit before exceptional items for the six months ended 31 December 2003 by £20 million (US dollar reduction of £38 million, euro — benefit of

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

£28 million, other currencies — reduction of £10 million) and disposals and the termination of certain distribution rights reduced operating profit by £12 million.

On a reported basis, marketing investment for premium drinks increased 7% from £573 million to £612 million. Marketing investment on global priority brands grew 2% to £454 million, while marketing spend on ready to drink brands declined by £29 million.

Finance charges decreased from £196 million to £157 million in the six months ended 31 December 2003. The net interest charge decreased by £61 million (29%) from £207 million in the comparable prior period to £146 million in the six months ended 31 December 2003. Other finance charges, principally in respect of post employment plans, amounted to a charge of £11 million in the six months ended 31 December 2003 compared with income of £11 million in the six months ended 31 December 2002.

Reported profit before exceptional items, taxation and minority interests increased by £23 million (2%) from £1,274 million in the six months ended 31 December 2002 to £1,297 million in the six months ended 31 December 2003.

Exceptional items before taxation were a charge of £38 million in the six months ended 31 December 2003 compared with a charge of £1,482 million (including £1,383 million in respect of Burger King) in the six months ended 31 December 2002.

After exceptional items, the result before taxation and minority interests increased by £1,467 million from a loss of £208 million to a profit of £1,259 million in the six months ended 31 December 2003. After taxation and minority interests the result for the period increased by £1,350 million from a loss of £459 million to a profit of £891 million.

REVIEW BY BRAND CATEGORY

See page 70 for definitions and page 101 for explanatory notes.

Organic volume and net sales (after deducting excise duties) movement by brand

	Equivalent units (million)	Volume movement %	Net sales* movement %
Smirnoff	12.9	2	(1)
Johnnie Walker	6.9	9	11
Guinness	5.9	3	5
Baileys	4.3	9	11
J&B	3.5	(1)	(4)
Captain Morgan	3.1	11	26
José Cuervo	2.0	2	7
Tanqueray	1.0	4	8
Total global priority brands	39.6	5	6
Local priority brands	12.8	1	7
Category brands	14.5	2	7
Total premium drinks	66.9	3	6

* after deducting excise duties

- On a reported basis net sales (after deducting excise duties) increased 5% from £3,628 million to £3,795 million

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

- Smirnoff volume, excluding ready to drink, was up 4% and net sales (after deducting excise duties) was up 7%
- Captain Morgan volume, excluding ready to drink, was up 7% and net sales (after deducting excise duties) was up 10%
- Volume growth of the global priority brands, excluding ready to drink, was 5%, compared to 3% in the six months ended 31 December 2002. Net sales (after deducting excise duties) growth of the global priority brands, excluding ready to drink, was 7%, compared to 5% in the six months ended 31 December 2002.

REVIEW BY MARKET

	Turnover £ million	2003 Operating profit* £ million	Turnover (restated) £ million	2002 Operating profit* (restated) £ million
Major markets				
North America	1,465	416	1,464	397
Great Britain	847	150	829	139
Ireland	542	75	522	83
Spain	270	69	233	60
	3,124	710	3,048	679
Key markets	1,286	306	1,136	309
Venture markets	650	165	670	163
Total premium drinks	5,060	1,181	4,854	1,151

* before exceptional items

ANALYSIS BY INDIVIDUAL MARKET

The figures for the six months ended 31 December 2002 have been restated (see note 1 on page 101).

North America

Key measures:

	2003 £ million	2002 £ million	Reported movement %	Organic movement %
Volume			1	3
Turnover	1,465	1,464	—	9
Net sales (after deducting excise duties)	1,238	1,219	2	10
Marketing	202	209	(3)	7
Operating profit before exceptional items	416	397	5	14

Reported performance:

Turnover was up from £1,464 million to £1,465 million in the six months ended 31 December 2003. Operating profit before exceptional items increased £19 million (5%), from £397 million in the six months ended 31 December 2002 to £416 million in the six months ended 31 December 2003.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Organic performance:

The weighted average exchange rate used to translate US dollar sales moved from £1 = \$1.55 in the six months ended 31 December 2002 to £1 = \$1.65 in the six months ended 31 December 2003. This weakening of the US dollar was the principal reason for a £78 million reduction in turnover arising because of exchange rate movements. In addition, the termination of distribution rights for Bass Ale in June 2003 and Cuervo 1800 in October 2002 reduced turnover in the period compared with the six months ended 31 December 2002 by £26 million and £9 million, respectively. Other disposals, including Gibson's Whiskey in Canada, adversely affected turnover by £3 million. The turnover of brands owned or distributed throughout both periods was £117 million higher in the six months ended 31 December 2003 than the comparable six month period, as discussed within organic brand performance below.

Adverse exchange rate movements and the termination of distribution rights and disposals noted above reduced reported operating profit before exceptional items by £25 million and £7 million, respectively, compared with the six months ended 31 December 2002. However, those brands owned or distributed throughout both periods contributed £51 million more in the six months ended 31 December 2003 compared with the six months ended 31 December 2002, leading to an overall improvement of £19 million in operating profit before exceptional items.

Organic brand performance:

	Volume movement %	Net sales* movement %
Smirnoff	(1)	4
Johnnie Walker	6	10
José Cuervo	4	10
Baileys	15	18
Captain Morgan	13	31
Tanqueray	2	8
Guinness	7	7
JeB	(2)	(4)
Total global priority brands	4	10
Local priority brands	1	6
Category brands	—	24
Total	3	10

* after deducting excise duties

- Total volume, excluding Captain Morgan Gold was up 2% and net sales (after deducting excise duties) was up 9%.
- Smirnoff volume, excluding ready to drink was down 1% and net sales (after deducting excise duties) was up 6%.
- Captain Morgan volume, excluding Captain Morgan Gold was up 8% and net sales (after deducting excise duties) was up 11%.

From 1 July 2003, terms of sale were harmonised between the former UDV and Seagram brands and freight is now billed in net sales (after deducting excise duties) for all brands. The actual freight cost is captured in cost of goods sold. This resulted in approximately a 2 percentage point improvement in net sales (after deducting excise duties) versus the comparable period in the prior year.

As in previous periods, strong growth in global priority brands was the key driver of the performance in Diageo's North America business.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Smirnoff volume excluding ready to drink declined as a result of the price increase on Smirnoff Red in a number of markets within North America. The price increase and mix improvement driven by the stronger growth of Smirnoff Twist meant that net sales (after deducting excise duties) grew 6%. Marketing investment grew 29%, with increased investment behind the re-launch of Smirnoff with new packaging and the 'Neat' advertising campaign aired on national cable television.

Johnnie Walker gained share with Johnnie Walker Red Label volume up 5% and net sales (after deducting excise duties) up 6% and Johnnie Walker Black Label volume up 7% and net sales (after deducting excise duties) up 12%. Marketing investment increased by 16%, mainly behind the launch costs of the new 'Keep Walking' advertising campaign introduced in September 2003.

Despite the competitive pricing environment, José Cuervo broadly maintained price and benefited from mix improvement as a result of the launch of Clasico and the launch of Tradicional in the fast growing super premium tequila segment. Marketing investment grew 16% behind on premise initiatives and advertising. José Cuervo is the number one tequila in North America, but has lost some share as a result of price competition.

Baileys' growth was driven by increased display and television advertising. The successful launch in June 2003 of Baileys Minis delivered 5% of Baileys volume and contributed to an increase in share.

Tanqueray continued its improved performance and the brand grew share of the imported gin segment. Net sales (after deducting excise duties) benefited from price increases introduced in September 2003.

The main driver of Guinness' growth was the performance of Guinness Draught in Bottles, where distribution has increased by 9 percentage points to 55% of the off premise.

Captain Morgan continues to gain share of the rum category, with net sales (after deducting excise duties) benefiting from price increases taken on Captain Morgan Parrot Bay. Excluding ready to drink, marketing investment grew by 28% mainly due to the development of a new advertising campaign.

J&B continued to decline, with both volume and net sales (after deducting excise duties) down.

Ready to drink volume, excluding the positive impact of the returns of Captain Morgan Gold in the prior period, declined 1%, mainly due to decline in Smirnoff ready to drink in Canada. Weakness in Canada has meant that Smirnoff ready to drink volume in North America declined by 2%. Volume of Smirnoff ready to drink in the United States however grew 1% due in part to the launch of Smirnoff Twisted V. Net sales (after deducting excise duties) grew by 6% reflecting the benefit of price increases. The ready to drink segment in the United States continued to decline with volume down 15% as some competitor products were withdrawn. Smirnoff ready to drink however grew share by 17 percentage points and now has 40% of the segment.

Performance of the local priority brands was mixed. Growth of Crown Royal, volume up 6%, Beaulieu Vineyard, volume up 16%, and Sterling Vineyards, volume up 27%, offset a decline in other local priority brands in North America.

The strong mix improvement in category brand performance reflects the strong performance of Ciroc vodka, since its launch in 2003, and strong premium wine sales, offset by a volume decline in other category brands.

Other business performance drivers:

- Robust growth of the spirits category in the United States
- Diageo's share of spirits grew by 0.6 percentage points
- Incremental Seagram synergy of £17 million.

The spirits category continues to show robust growth with an increase of 2% versus the same period last year and Diageo continues to gain share of the total market with a share increase of 0.6 percentage points.

In September 2003 new distribution arrangements had been consolidated in 34 states plus Washington DC, representing nearly 80% of Diageo's United States volume. To avoid disruption during the key October to

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

December period, no additional consolidations occurred. It is expected that Diageo will consolidate the remaining open states and potentially several franchise states by June 2004.

For the next six months, the focus in respect of NGG remains the same:

- Continue to drive growth through better execution of retail programmes
- Build on premise leadership while strengthening off premise selling capabilities
- Create a shared vision for growth across Diageo and the distributors

Great Britain

Key measures:

	2003 £ million	2002 £ million	Reported movement %	Organic movement %
Volume			5	5
Turnover	847	829	2	3
Net sales (after deducting excise duties)	474	473	—	1
Marketing	80	84	(5)	(5)
Operating profit before exceptional items	150	139	8	6

Reported performance:

Turnover in Great Britain was up 2% on a reported basis from £829 million in the six months ended 31 December 2002 to £847 million in the six months ended 31 December 2003. Operating profit before exceptional items was up £11 million from £139 million in the six months ended 31 December 2002 to £150 million in the six months ended 31 December 2003.

Organic performance:

Reported turnover growth of £18 million was generated by a £26 million improvement in turnover in brands owned throughout both periods (see organic brand performance below), offset by an £8 million reduction from the effect of disposals, principally the termination of distribution rights to Brown Forman agency brands in Great Britain from August 2002.

Operating profit before exceptional items was up £11 million in the six months ended 31 December 2003 compared with the six months ended 31 December 2002. There was a positive impact from disposals of £3 million because the adverse effect of the loss of the Brown Forman agency brands was more than offset by the disposal in June 2003 of Translucis UK Limited, an e-business venture which made a loss in the comparable period. The continuing brands grew operating profit before exceptional items by £8 million compared to the six months ended 31 December 2002.

Organic brand performance:

	Volume movement %	Net sales* movement %
Smirnoff	9	(7)
Guinness	(3)	(1)
Baileys	7	12
Total global priority brands	5	(1)
Local priority brands	(2)	(10)
Category brands	24	23
Total	5	1

* after deducting excise duties

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

- Excluding ready to drink total volume was up 7% and net sales (after deducting excise duties) up 7%

Growth in Great Britain was driven by the strong volume performance of spirit and wine brands which offset volume decline in ready to drink and beer. Net sales (after deducting excise duties) performance has been negatively impacted by the decline in ready to drink.

Pricing pressure continues to impact the vodka category and therefore net sales (after deducting excise duties) growth lagged the strong volume performance. However, Smirnoff increased share of the growing vodka category, driven by the 'if Smirnoff made' advertising campaign, distribution gains and category development initiatives, such as the 'every serve perfect programme'. In addition, a number of new distribution contracts have been agreed in the on trade.

Baileys continued to gain share of the liqueur category, but growth slowed against that achieved in previous periods. Net sales (after deducting excise duties) grew ahead of volume due to the mix improvements generated by Baileys Glide.

The volume performance of Guinness reflected decline in the on trade, partially offset by growth in the off trade. The decline in net sales (after deducting excise duties) was mitigated by a price increase taken in February 2003. An additional factor was that Guinness' promotions in the off trade did not compete directly on price and instead leveraged occasions, such as the Rugby in November 2003, to increase share of at-home consumption. Media spend in the second half of the financial year will be significantly increased to address the decline in on trade performance.

The ready to drink segment in Great Britain continues to decline, with both volume and price under pressure. Reflecting this trend, Smirnoff ready to drink volume fell 12% and net sales (after deducting excise duties) declined 20%. However, share increased by nearly 3 percentage points.

The decline in local priority brands reflects the decline of Archers, volume down 12% and net sales (after deducting excise duties) down 27%, and Bell's, volume down 3%. This was partially offset by volume growth of Gordon's, up 4%. Archers performance continues to be disappointing with both its schnapps and ready to drink products declining. Excluding Gordon's Edge, which was withdrawn from the market, Gordon's volume grew 7%, reflecting the benefit of increased focus and investment in advertising. Mix improvement in Bell's was driven by stronger pricing over the Christmas period than in the same period last year. Bell's share of the scotch category at 25% is 6 percentage points higher than its nearest competitor.

The strong growth on category brands was largely driven by Pimm's, volume up 34%, and Blossom Hill, volume up 59%. Blossom Hill Wines continue to outperform in the branded wine segment, as both red and white Blossom Hill blends are now the top selling wines in Great Britain.

Other business performance drivers:

- Increased share of the spirits market
- On trade decline
- Retailer/pub consolidation
- Reduced marketing due to lower level of new product launches.

Diageo increased its share of the spirits category by 0.6 percentage points and Diageo brands outperformed the gin, vodka, liqueur and wine categories in the off trade over the important Christmas trading period. However as the off trade continues to grow its share of the beverage alcohol market and with the trend towards retailer and on trade consolidation, pressure on margins has increased.

Marketing investment decreased by 5% due to lower spend on new product introductions which declined by £11 million.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Ireland

Key measures:

	2003 £ million	2002 £ million	Reported movement %	Organic movement %
Volume			(6)	(6)
Turnover	542	522	4	(4)
Net sales (after deducting excise duties)	360	350	3	(5)
Marketing	43	38	13	5
Operating profit before exceptional items	75	83	(10)	(17)

Reported performance:

In Ireland, turnover increased on a reported basis, from £522 million in the six months ended 31 December 2002 to £542 million in the six months ended 31 December 2003. Operating profit before exceptional items was down from £83 million to £75 million.

Organic performance:

Although reported turnover was up £20 million, the main driver of this was the strength of the euro, which had a beneficial impact of £41 million. The weighted average exchange rate used for translation strengthened from £1 = €1.57 for the six months ended 31 December 2002 to £1 = €1.43 for the six months ended 31 December 2003. Underlying weakness in brand performance reduced turnover by £21 million.

A similar trend can be seen for operating profit before exceptional items, where the strength of the euro had a £7 million positive impact, offset by declining performance of continuing brands of £15 million.

Organic brand performance:

	Volume movement %	Net sales* movement %
Guinness	(7)	(3)
Smirnoff	(12)	(21)
Baileys	(17)	(19)
Total global priority brands	(9)	(8)
Local priority brands	(3)	(1)
Category brands	3	(4)
Total	(6)	(5)

* after deducting excise duties

The beverage alcohol market in Ireland declined by 4% in the period, impacted by uncertainty in the general economic climate. In addition, there continues to be a marked switch from on to off trade channels. The on trade declined 8% and the off trade grew 3%, which negatively impacted Diageo's share by 1 percentage point.

The impact of the price increase introduced in March 2003 has partially offset the impact of the volume decline on net sales (after deducting excise duties).

Guinness' share of the long alcoholic drinks segment, which had stabilised in the year ended 30 June 2003, declined 1.5 percentage points in the latest period. Net sales (after deducting excise duties) fell by 3% reflecting some benefit from price increases of 3% introduced in March 2003.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

The decline in spirits and ready to drink volume reflects the impact of the excise duty increase of over 40% in spirits and nearly 100% in ready to drink in December 2002. Diageo has gained 1.7 percentage points share of spirits but has lost some share of the ready to drink market as focus has been on driving value rather than volume.

Volume of local priority brands Budweiser, Carlsberg, Harp and Smithwicks declined by 3% where Diageo has lost share to lower priced competitors in the off trade. Category brands grew by 3% principally driven by growth in agency brands. Wine volume declined by 8%, however net sales (after deducting excise duties) of wine grew by 3% as Diageo focused on value maximisation.

Other business performance drivers:

- Implementation of a reorganisation to reduce costs and improve effectiveness
- Investment behind the brands with marketing up in the period.

In response to the further decline in the beverage alcohol market in Ireland, Diageo has taken steps to address the current operating profit pressures by the introduction of a new operating model which is more consumer focused and delivers an improved cost base. The cost of implementing this restructuring adversely impacted operating profit in the period by £11 million. Investment in marketing grew by 5% in the period as Diageo continued to invest behind the priority brands despite the overall decline in the market.

Spain

Key measures:

	2003 £ million	2002 £ million	Reported movement %	Organic movement %
Volume			4	4
Turnover	270	233	16	6
Net sales (after deducting excise duties)	203	175	16	6
Marketing	44	39	13	—
Operating profit before exceptional items	69	60	15	6

Reported performance:

Spain reported turnover of £270 million in the six months ended 31 December 2003, up 16% against the £233 million reported in the prior period. Reported operating profit before exceptional items was up £9 million (15%) from £60 million in the six months ended 31 December 2002 to £69 million in the current period.

Organic performance:

Favourable exchange rate variances due to the strength of the euro positively impacted reported turnover by £23 million. There was a £2 million adverse impact from the loss of the distribution rights to Lagunilla wines in January 2003. Organic growth of brands owned throughout this and the comparable period contributed £16 million.

Operating profit before exceptional items increased £9 million from the £60 million reported for the six months ended 31 December 2002. This improvement was the result of the strong euro, £5 million, and growth of continuing brands, £4 million.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Organic brand performance:

	Volume movement %	Net sales* movement %
J&B	1	(3)
Baileys	2	5
Johnnie Walker	15	15
Smirnoff	4	(2)
Total global priority brands	4	1
Local priority brands	14	15
Category brands	(5)	7
Total	4	6

* after deducting excise duties

The performance in Spain was driven by volume growth from global and local priority brands.

While the scotch category in Spain has shown a further marginal decline, J&B volume was up and J&B gained share. However, there has been price discounting in the category and J&B has responded. Hence net sales (after deducting excise duties) declined. The performance of J&B Twist has been disappointing and the brand has now been withdrawn from the market.

Volume of other major global priority brands in Spain, Johnnie Walker Red Label, Smirnoff and Baileys all grew. Johnnie Walker Red Label and Baileys grew share. However, Smirnoff has lost some share of the on trade channel.

Local priority brand performance was driven by the strong performance of both Cacique, where volume was up 15% and share gains continued, and Cardhu where volume was up 5%.

Category brands declined by 5% as distribution arrangements for Bell's and Dimple were restructured.

Other business performance drivers:

- Changing Spanish consumer drinking habits
- Growth of the dark rum segment
- Lower level of new product introductions led to level marketing spend.

The drinking habits of the Spanish consumer are changing. There has been a reduction in on premise consumption of spirits while the dark rum segment, of which Diageo has a 43% share, is growing strongly.

Despite spending £5 million less than the prior period on J&B Twist, marketing investment was level.

Key markets

Key measures:

	2003* £ million	2002** £ million	Reported movement %	Organic movement %
Volume			6	4
Turnover	1,286	1,136	13	6
Net sales (after deducting excise duties)	1,012	884	14	8
Marketing	161	115	40	18
Operating profit before exceptional items	306	309	(1)	1

* including Germany, excluding Portugal

** including Portugal, excluding Germany

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Reported performance:

Reported turnover in the six months ended 31 December 2003 was £1,286 million, up 13% on the prior period figure of £1,136 million. Operating profit before exceptional items was down 1% at £306 million for the six months ended 31 December 2003.

Organic performance:

Turnover in key markets was up £150 million compared with the six months ended 31 December 2002. There were favourable exchange gains of £34 million, principally on the euro and the Australian dollar, and a £68 million improvement in the performance of brands owned throughout this and the comparable period. In addition, Germany has been transferred into key markets from venture markets, and Portugal has been transferred out of key markets into venture markets. This change has had a beneficial impact of £62 million on key markets' turnover. The sale of 50% of Don Julio in January 2003 (which has since been accounted for as an associate) has negatively impacted turnover by £14 million.

There has been a £3 million decline in operating profit before exceptional items. This was due to unfavourable exchange rate movements of £6 million, (including exchange controls imposed against the Venezuelan bolivar) and the Don Julio disposal of £7 million, offset by the beneficial impact of replacing Portugal with Germany in the key markets' structure of £8 million, and organic improvement of the brands, £2 million.

Organic brand performance:

	Volume movement %	Net sales* movement %
Johnnie Walker	11	12
Guinness	14	18
JeB	(10)	(8)
Smirnoff	3	(1)
Baileys	8	9
Total global priority brands	6	8
Local priority brands	3	22
Category brands	(1)	(2)
Total	4	8

* after deducting excise duties

The strong performance of the global priority brands in key markets was driven by Guinness in Africa, growth in Johnnie Walker Red Label in Latin America and Australia, and growth in Johnnie Walker Black Label in Global Duty Free, Taiwan and Thailand.

The performance of local priority brands benefited from bringing the distribution of Dimple in-house in South Korea. There were no sales of Dimple in the prior period as distribution arrangements for the brand were restructured. Local priority brand volume excluding Dimple was level. Strong performances of Malta Guinness in Africa, volume up 22%, and Bundaberg in Australia, volume up 12%, offset declines of Windsor Premier in South Korea and of premium lager brands in Kenya.

Category brand volume was down 1%, as the decline of VAT 69 was partially offset by the performance of brands such as Cacique in Venezuela.

Ready to drink volume grew 4%, with strong performance in Australia and the continuing benefit of the launch of Smirnoff ready to drink in May 2003 in France offset weakness in Germany and Southern Africa.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Net sales (after deducting excise duties) grew 8% reflecting price increases achieved on Guinness and Malta Guinness in Africa. Marketing investment increased 18% driven by investment in Australia behind Bundaberg's sponsorship of the Rugby World Cup, the reintroduction of Dimple in South Korea, Guinness in Africa and ready to drink launches in Japan and France.

Other business performance drivers:

- Strong performance in Africa
- Improved performance in Latin America
- Strong volume growth in Australia
- Weakening scotch market in South Korea
- Weakening trading environment in Western Europe.

Overall volume in Africa grew 5% with Guinness volume up 15%. The key drivers of the strong performance were the growth of Guinness in Nigeria where it has held share in the growing beer market, Malta Guinness, with volume up 22% across the region, and Johnnie Walker, volume up 8% as the brand benefited from the group's 'everyday heroes' advertising being tailored for the African market. The volume of premium lager brands in Kenya declined 15% as the worsening economic situation there has led to a decline in the alcohol market. Net sales (after deducting excise duties) grew 13% due to price increases being achieved in Ghana and Kenya, together with market mix benefits as a greater proportion of Guinness was sold in Nigeria. Marketing investment grew by 16% with greater investment in Ghana behind the launch of Guinness Extra Smooth, the Guinness brand in Nigeria and Cameroon, and Johnnie Walker. Additional production capacity was installed in December in Ghana and there are plans to create additional capacity in Nigeria to take advantage of the strong beer market there. Route-to-market initiatives already implemented to drive distribution of Malta Guinness in Cameroon are now being rolled out in Nigeria.

Volume in Latin America grew 9% and overall profitability increased as the region benefited from more stable foreign exchange rates. Against this improved economic environment, Johnnie Walker Red Label volume was up 28% in Brazil, Paraguay and Uruguay. The brand gained share and now has a 50% share of the standard scotch segment in these markets. In Venezuela, volume grew by 28% driven by Cacique, Johnnie Walker Black label and Buchanan's. Marketing investment across Latin America grew by 34% as marketing investment in the region is rebuilt.

Volume in South Korea grew by 1% benefiting from sales of Dimple. Lack of promotional activity on Dimple in the prior period as distribution was restructured had a negative impact on volume. Increased marketing investment, new packaging and route to market initiatives are being implemented to address the position. The whisky category in South Korea declined by 18%, impacted by weak economic conditions. However, volume of Windsor Premier, the leading scotch whisky, declined by only 8% and therefore share improved.

In Asia, volume in Taiwan grew 37% due to the Chinese New Year falling earlier in the year and buying ahead of a price increase implemented in January 2004. Volume in Thailand grew 8%, however the market there is very price competitive and net sales (after deducting excise duties) declined by 6%. Volume in Japan declined by 9% as growth in Smirnoff, excluding ready to drink volume, up 4%, was offset by a decline in Johnnie Walker volume, down 8%. The scotch category declined by 13% and therefore Johnnie Walker gained some share. Smirnoff ready to drink volume was negatively impacted by the stock build ahead of the launch in May 2003, however distribution continues to build.

Volume in Global Duty Free grew 5% with growth in Johnnie Walker, Smirnoff and Baileys. The Diageo Global Duty Free business benefited from a number of programmes, including improved retail stores formats and initiatives to drive growth in the premium sector.

In Australia, Diageo grew share in a flat spirits segment by 3 percentage points as volume grew 7%. Johnnie Walker Red Label grew share with volume up 12%. Baileys volume grew 32%. Bundaberg Rum's sponsorship of the Rugby World Cup created tremendous exposure for the brand and volume grew 12%. The ready to drink segment grew 14% and Diageo increased share to 32%.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

In the Western European key markets, the economic environment has made trading challenging. Volume in France declined 6% as the continuing weakness of the beverage alcohol market there offset the benefit of the launch of Smirnoff ready to drink in May 2003. Volume in Germany fell 18%, mainly due to the steep decline in sales of Smirnoff ready to drink where volume declined 48%. The ready to drink segment in Germany has been negatively impacted by the growth of aggressively discounted own label and secondary ready to drink brands. Volume in Greece grew 3% and share was maintained. Volume excluding ready to drink grew 4% driven by Johnnie Walker, which grew share with volume up 7%. Diageo grew share of ready to drink but volume declined 23% as the segment was impacted in part by lower levels of tourism.

Venture markets

Key measures:

	2003*	2002**	Reported movement	Organic movement
	£ million	£ million	%	%
Volume			(3)	6
Turnover	650	670	(3)	9
Net sales (after deducting excise duties)	508	527	(4)	8
Marketing	82	88	(7)	12
Operating profit before exceptional items	165	163	1	8

* including Portugal, excluding Germany

** including Germany, excluding Portugal

Reported performance:

Reported turnover was £650 million in the six months ended 31 December 2003, down 3% from £670 million in the prior period. Operating profit before exceptional items improved by 1%, £2 million, to £165 million in the six months ended 31 December 2003.

Organic performance:

The main factor in the fall in venture markets' turnover in the six months ended 31 December 2003 was the transfer of Germany out of venture markets into key markets, to be replaced with Portugal. This reduced turnover by £62 million. The disposals of Gilbey's Green and White Whisky in India (December 2002) and Fernet Branca wines in Switzerland (December 2002) reduced turnover by £10 million. However, strong organic performance of the brands, up £52 million, meant that overall, venture markets' turnover was only down £20 million, after the impact of the Germany/Portugal transfer.

The £2 million increase in operating profit before exceptional items was the result of improved performances in the underlying brands of £12 million in the six months ended 31 December 2003 compared with the prior period partly offset by £8 million arising on the Germany/Portugal transfer, adverse exchange rate movements of £1 million and disposals of £1 million.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Organic brand performance:

	Volume movement %	Net sales* movement %
Johnnie Walker	8	10
Smirnoff	11	9
Guinness	2	8
Baileys	10	7
J&B	2	2
Total global priority brands	7	8
Local priority brands	(24)	6
Category brands	5	6
Total	6	8

* after deducting excise duties

Venture market's volume growth reflected the continued strong performance of global priority brands and improved performance of category brands.

Johnnie Walker volume grew 8%. Johnnie Walker Black Label and Super Deluxe volume was up 4% and Johnnie Walker Red Label grew 10% driven by strong performances in the Middle East, India, Russia and Latin American venture markets.

Smirnoff growth was led by the strong performance in the Middle East and Latin American venture markets. Poland, the largest Smirnoff venture market, grew volume against a low prior period comparative when there were limited sales in the first quarter ahead of a reduction in duty in September 2002.

Guinness volume increased by 2%. Malaysia continues to deliver strong growth behind the launch of a new can format and increased sales focus. There was also some benefit due to the earlier timing of the Chinese New Year. Performance in Indonesia continues to be impacted by political and economic instability. Price increases introduced in Malaysia and Jamaica delivered mix benefits.

Baileys volume grew by 10%, driven by investment behind visibility and rate of sale campaigns in the venture markets of Chile, Peru and Puerto Rico.

Volume of Red Stripe in Jamaica, venture markets' local priority brand, was down 24%. Volume has been impacted by worsening economic conditions and the price and duty increases that took place in the second half of the last financial year, although the volume decline lessened through the period.

The improvement in category brand volume performance was driven by strong growth of Tiger and Heineken beers in Malaysia, wines in Argentina, rums in Chile and secondary scotches in the Latin American and Caribbean markets.

Overall ready to drink volume declined by 13% versus the comparative period in the prior year. Smirnoff ready to drink volume growth of 10%, which was mainly due to the benefit of new market launches in 2003, was offset by a decline in Gilbey's Island Punch in the Philippines which was discontinued in January 2004. Switzerland and Norway increased taxes on ready to drink products in early 2004.

Marketing investment was up 12% mainly behind Johnnie Walker, Guinness and ready to drink launches in Italy, Nordics, Caribbean and Latin America.

Other business performance drivers:

- Strong growth in the Middle East, Asia and Latin America
- Mixed performance across Europe

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Middle East markets performed strongly as a result of good performance across the brands with volume up 19%, benefiting from the growth of global priority brands particularly in the Lebanon.

In the venture markets across Asia, overall volume grew by 5%. In India, the sale of the Gilbey's Green and White whisky in December 2002 has resulted in increased focus on the global priority brands. Parts of the region such as Malaysia, Singapore and China are seeing recovery post SARS, though the potential for further outbreaks remains a concern and trading in the Philippines and Indonesia remains challenging.

In European venture markets, the Nordics have performed strongly and have been bolstered by tax cuts in Denmark in October. Elsewhere the weakening economic environment has impacted performance.

In Latin America and Caribbean markets, volume grew by 25% with growth across the brands, in particular Baileys and category brands. The political and economic climate in the region is still volatile, however the United States economic recovery should have a positive impact in the months to come.

FINANCIAL REVIEW

Exchange rates

Exchange rate movements during the six month period adversely impacted profit before exceptional items and taxation by £14 million of which £38 million was in respect of the US dollar, largely offset by a £34 million benefit on the euro. This includes translation exchange only in respect of the profits of associates. The adverse impact on group operating profit was £20 million, offset by a beneficial impact on finance charges of £6 million.

Based on current exchange rates, it is expected that the full year equivalent adverse impact of exchange rate movements (translation exchange only on reported share of profits of associates) on profit before exceptional items and taxation will be approximately £95 million. Similarly, based on current exchange rates, the full year impact of adverse exchange rate movements on profit before exceptional items and taxation for the financial year ending 30 June 2005 is estimated to be £75 million.

The group currently has net transaction hedges for US dollars in place which settle in the year ending 30 June 2004 to sell £435 million of US dollars and which settle in the year ending 30 June 2005 to sell £439 million of US dollars. Where these hedges are against sterling they are at an average rate of £1 = \$1.53 for the year ending 30 June 2004 and £1 = \$1.59 for the year ending 30 June 2005.

The group currently has net transaction hedges for euros in place which settle in the year ending 30 June 2004 to buy £51 million of euros and which settle in the year ending 30 June 2005 to buy £141 million of euros. Where these hedges are against sterling they are at an average rate of £1 = €1.54 for the year ending 30 June 2004 and £1 = €1.41 for the year ending 30 June 2005.

Post employment plans

The application of FRS 17 resulted in a charge to operating profit of £54 million (2002 — £51 million) and other finance charges of £8 million (2002 — credit of £18 million). The figures for the six months ended 31 December 2002 have been restated onto a FRS 17 basis. At 31 January 2004 Diageo's deficit before taxation for all post employment plans was estimated at approximately £1.1 billion (30 June 2003 — £1.4 billion). This improvement in the level of the deficit reflects the partial recovery in equity markets subsequent to 30 June 2003. However, changes in the valuation subsequent to 30 June 2003 are not included in the balance sheet until 30 June 2004.

Associates

The group's share of profits of associates before exceptional items was £273 million for the period compared to £266 million for the same period last year. The 21% equity interest in General Mills contributed £153 million (2002 — £157 million). The equity interest in General Mills, in the six months ended 31 December 2003, contributed £120 million to profit after interest but before tax and exceptional items (2002 — £119 million).

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Diageo's 34% equity interest in Moët Hennessy contributed £110 million to operating profit (2002 — £103 million).

Exceptional items

Exceptional items in the six month period amounted to a net charge before taxation of £38 million comprising Seagram integration costs of £19 million, a share of associates' exceptional charges of £11 million and a net loss on disposals of fixed assets of £8 million, principally in respect of the dilution of the investment in General Mills through the issue of share options.

In the six month period, £19 million was incurred in respect of the integration of the Seagram spirits and wine businesses, acquired in December 2001 (year ended 30 June 2003 — £177 million; year ended 30 June 2002 — £164 million). Approximately £7 million of these costs were employee related, £3 million were in respect of write-downs of assets, and the balance of £9 million included legal and professional and systems costs. The majority of these costs were incurred in North America.

Finance charges

The interest charge in the period was £146 million, compared with £207 million for the comparable period last year. The decrease is principally in respect of £11 million arising from the disposal of businesses and £32 million from the effect of reducing interest rates, partly offset by the funding of the share repurchases, £7 million, and dividends, £10 million.

Other finance charges have increased by £22 million, principally as a result of charges of £8 million in respect of the group's post employment plans in the six months ended 31 December 2003 compared to income of £18 million in the six months ended 31 December 2002. The adverse movement principally reflects the decline in the values of the assets held by the post employment plans between 30 June 2002 and 30 June 2003.

Taxation

The effective rate of taxation on profit before exceptional items for the period was 25%, compared with 25.4% for the six months ended 31 December 2002, restated from the originally reported 25% following compliance with the new accounting pronouncements for post employment plans and share trusts. The charge for the six months ended 31 December 2003 is based on an estimate of the effective tax rate for the financial year as a whole.

Dividend

Diageo will pay an interim dividend of 10.6 pence per share on 6 April 2004, an increase of 7% on last year's interim dividend. Payment to US ADR holders will be made 13 April 2004. The record date for this dividend will be 5 March 2004. A dividend reinvestment plan is available in respect of this dividend and the plan notice date will be 15 March 2004.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Cash flow

Summary cash flow statement

	Six months ended 31 December 2003	Six months ended 31 December 2002 (restated)
Operating profit	1,162	1,100
Exceptional operating costs	19	104
Restructuring and integration payments	(52)	(99)
Depreciation and amortisation charge	110	138
Increase in working capital	(321)	(540)
Other items	53	51
Net cash from operating activities	971	754
Interest and dividends paid to equity minority interests	(162)	(212)
Dividends received from associates	90	30
Taxation	(179)	(15)
Net purchase of investments	(5)	(16)
Net capital expenditure	(95)	(178)
Free cash flow	620	363

Free cash inflow was £620 million, compared with £363 million in the six months ended 31 December 2002 (restated following the adoption of UITF 38, whereby shares purchased and sold by the share trusts no longer form part of 'capital expenditure and financial investment'). Cash inflow from operating activities was £971 million compared with £754 million in the comparable period. Discontinued operations contributed £76 million to cash inflow from operating activities in the six months ended 31 December 2002. Cash flow from operating activities was after £52 million of restructuring and integration payments and a £321 million increase in working capital, mainly due to seasonal factors.

Net interest payments were £140 million against £200 million in the comparable period. Purchases of tangible fixed assets in the period amounted to £110 million, a decrease of £89 million. Tax payments were £179 million compared to £15 million in the six months ended 31 December 2002.

In the six months ended 31 December 2003, Diageo repurchased for cancellation 36 million shares (2002 — 71 million shares) at a cost of £256 million (2002 — £552 million) and spent a net cost of £16 million (2002 — £62 million) on the purchase of shares for the employee share trusts.

Balance sheet

At 31 December 2003, total shareholders' funds were £2,992 million compared with £2,801 million at 30 June 2003. The increase was mainly due to the £571 million retained income for the period, less £272 million for the repurchase of own shares. Total shareholders' funds at 30 June 2003 were restated from £4,954 million to £2,801 million following the adoption of *FRS 17 — Retirement benefits* and *UITF 38 — Accounting for ESOP trusts* on 1 July 2003. The net deficit for post employment plans (net of deferred tax) is now disclosed as a separate line on the balance sheet and all prior period balance sheets have been restated.

Net borrowings were £4,705 million, a decrease of £165 million from 30 June 2003. The principal components of this decrease were free cash inflow of £620 million and the benefits from favourable exchange rate movements of £295 million, less £272 million on the repurchase of shares and a £480 million equity dividend payment.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Six months ended 31 December 2003			Six months ended 31 December 2002		
	Before exceptional items £ million	Exceptional items £ million	Total £ million	Before exceptional items (restated) £ million	Exceptional items (restated) £ million	Total (restated) £ million
Turnover						
Continuing operations	5,060	—	5,060	4,854	—	4,854
Discontinued operations	—	—	—	479	—	479
Total turnover	5,060	—	5,060	5,333	—	5,333
Operating costs	(3,879)	(19)	(3,898)	(4,129)	(104)	(4,233)
Operating profit						
Continuing operations	1,181	(19)	1,162	1,151	(104)	1,047
Discontinued operations	—	—	—	53	—	53
Operating profit	1,181	(19)	1,162	1,204	(104)	1,100
Share of associates' profits	273	(11)	262	266	(15)	251
	1,454	(30)	1,424	1,470	(119)	1,351
Disposal of fixed assets		(8)	(8)		(3)	(3)
Sale of businesses		—	—		(1,360)	(1,360)
Interest payable (net)	(146)	—	(146)	(207)	—	(207)
Other finance (charges)/income	(11)	—	(11)	11	—	11
Profit/(loss) before taxation	1,297	(38)	1,259	1,274	(1,482)	(208)
Taxation	(324)	6	(318)	(324)	118	(206)
Profit/(loss) after taxation	973	(32)	941	950	(1,364)	(414)
Minority interests						
Equity	(34)	—	(34)	(28)	—	(28)
Non-equity	(16)	—	(16)	(17)	—	(17)
Profit/(loss) for the period	923	(32)	891	905	(1,364)	(459)
Interim dividend	(320)	—	(320)	(304)	—	(304)
Transferred to/(from) reserves	603	(32)	571	601	(1,364)	(763)
Pence per share						
Basic earnings	30.3p	(1.0)p	29.3p	28.8p	(43.4)p	(14.6)p
Diluted earnings	30.3p	(1.0)p	29.3p	28.8p	(43.4)p	(14.6)p
Interim dividend	10.6p	—	10.6p	9.9p	—	9.9p
Average shares			3,043m			3,143m

UNAUDITED CONSOLIDATED BALANCE SHEET

	31 December 2003		30 June 2003 (restated)		31 December 2002 (restated)	
	£ million	£ million	£ million	£ million	£ million	£ million
Fixed assets						
Intangible assets		4,066		4,288		4,496
Tangible assets		1,928		1,974		1,916
Investments in associates		2,882		2,915		2,810
Other investments		186		188		183
		<u>9,062</u>		<u>9,365</u>		<u>9,405</u>
Current assets						
Stocks	2,162		2,250		2,296	
Debtors	2,796		2,382		3,000	
Cash at bank and liquid resources	1,304		1,191		1,360	
	<u>6,262</u>		<u>5,823</u>		<u>6,656</u>	
Creditors — due within one year						
Borrowings	(2,986)		(3,563)		(3,521)	
Other creditors	(3,297)		(3,283)		(3,461)	
	<u>(6,283)</u>		<u>(6,846)</u>		<u>(6,982)</u>	
Net current liabilities		<u>(21)</u>		<u>(1,023)</u>		<u>(326)</u>
Total assets less current liabilities		9,041		8,342		9,079
Creditors — due after one year						
Borrowings	(3,469)		(2,981)		(3,463)	
Other creditors	<u>(45)</u>		<u>(18)</u>		<u>(62)</u>	
		(3,514)		(2,999)		(3,525)
Provisions for liabilities and charges		<u>(632)</u>		<u>(648)</u>		<u>(556)</u>
		4,895		4,695		4,998
Post employment liabilities (net of deferred tax)		<u>(1,412)</u>		<u>(1,369)</u>		<u>(277)</u>
Net assets		<u>3,483</u>		<u>3,326</u>		<u>4,721</u>
Capital and reserves						
Called up share capital		886		897		910
Reserves		2,106		1,904		3,278
Shareholders' funds		2,992		2,801		4,188
Minority interests						
Equity	175		182		183	
Non-equity	316		343		350	
		491		525		533
		<u>3,483</u>		<u>3,326</u>		<u>4,721</u>

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 December 2003		Six months ended 31 December 2002 (restated)	
	£ million	£ million	£ million	£ million
Net cash inflow from operating activities		971		754
Dividends received from associates		90		30
Returns on investments and servicing of finance				
Interest paid (net)	(140)		(200)	
Dividends paid to equity minority interests	(22)		(12)	
		(162)		(212)
Taxation		(179)		(15)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(110)		(199)	
Net purchase of investments	(5)		(16)	
Sale of tangible fixed assets	15		21	
		(100)		(194)
Acquisitions and disposals				
Purchase of subsidiaries	(13)		(109)	
Sale of subsidiaries	5		745	
Sale of options in relation to associates	—		58	
		(8)		694
Equity dividends paid		(480)		(459)
Management of liquid resources		(218)		237
Financing				
Issue of share capital	1		1	
Net purchase of own shares for share trusts	(16)		(62)	
Own shares purchased for cancellation	(256)		(552)	
Increase/(decrease) in loans	269		(93)	
		(2)		(706)
(Decrease)/increase in cash in the period		(88)		129

MOVEMENTS IN NET BORROWINGS

	Six months ended 31 December 2003 £ million	Six months ended 31 December 2002 £ million
(Decrease)/increase in cash in the period	(88)	129
Cash flow from change in loans	(269)	93
Change in liquid resources	218	(237)
Change in net borrowings from cash flows	(139)	(15)
Exchange adjustments	295	241
Non-cash items	9	11
Decrease in net borrowings	165	237
Net borrowings at beginning of the period	(4,870)	(5,496)
Net borrowings at end of the period	(4,705)	(5,259)

**UNAUDITED CONSOLIDATED STATEMENT OF
TOTAL RECOGNISED GAINS AND LOSSES**

	Six months ended 31 December 2003 £ million	Six months ended 31 December 2002 (restated) £ million
Profit/(loss) for the period		
– group	711	(588)
– associates	<u>180</u>	<u>129</u>
	891	(459)
Exchange adjustments		
– group	10	(45)
– associates	(123)	(96)
Tax (charge)/income in reserves	<u>(7)</u>	<u>2</u>
Total recognised gains and losses for the period	771	<u>(598)</u>
Prior year adjustment — adoption of FRS 17 and UITF 38	<u>(1,849)</u>	
Total recognised gains and losses since the last annual report	<u><u>(1,078)</u></u>	

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

1. New accounting policies

The group has adopted the reporting requirements of *FRS 17 — Retirement benefits* in its primary financial statements from 1 July 2003. In prior years, the group complied with the transitional disclosure requirements of the standard. The financial information included in this interim statement also complies with the following requirements issued by the UK's Accounting Standards Board: *UITF 38 — Accounting for ESOP trusts* and the amendment to *FRS 5 — Reporting the substance of transactions*.

FRS 17 — Retirement benefits. This standard replaces the use of the actuarial values for assets in a pension scheme in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the profit and loss account shows the relatively stable ongoing service cost, finance charge and expected return on assets. Differences between expected and actual returns, and changes in actuarial assumptions, are reflected in the statement of total recognised gains and losses.

The adoption of FRS 17 has decreased the reported operating profit for the six months ended 31 December 2002 by £42 million. This charge has been offset by a decrease in exceptional charges of £18 million, an increase in other finance income of £18 million and a decrease in the tax charge of £2 million, giving a net increase in the loss for the period of £4 million. In addition, the adoption of the standard has reduced net assets at 30 June 2003 by £1,869 million (31 December 2002 — £735 million).

UITF 38 — Accounting for ESOP trusts. This abstract changes the presentation of an entity's own shares held in an employee share trust from requiring them to be recognised as assets to requiring them to be deducted in arriving at shareholders' funds. It also requires that the minimum expense to the profit and loss account should be the difference between the fair value of the shares at the date of award and the amount that an employee may be required to pay for the shares (i.e. the 'intrinsic value' of the award).

The impact of the adoption of UITF 38 in the six months ended 31 December 2002 has been to increase operating profit by £6 million and increase the tax charge by £2 million. The reclassification of shares acquired by the share trust (treasury shares) from fixed assets and debtors to equity has reduced net assets by £288 million at 30 June 2003 (31 December 2002 — £301 million). In addition, the net cash outflow arising from the purchase of shares by the share trusts has been reclassified from 'capital expenditure and financial investment' to 'financing'. This reclassification increases free cash flow for the six months ended 31 December 2002 by £62 million.

FRS 5 — Reporting the substance of transactions. The amendment to the standard added a new application note (G) on revenue recognition. This requires that revenue should be stated at fair value of the right to consideration. Diageo incurs certain promotional expenditure (for example, slotting fees, whereby fees are paid to retailers for prominence of display, listing or agreement not to delist Diageo's products) that is not wholly independent of the invoiced product price. Such expenditure is now deducted from turnover. The change, which has no impact on operating profit, reduced turnover and operating costs by £95 million in the six months ended 31 December 2002.

All appropriate primary statements and notes supporting the financial information for the six months ended 31 December 2002 have been restated.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

2. Segmental analysis

	2003		2002	
	Turnover £ million	Operating profit £ million	Turnover (restated) £ million	Operating profit (restated) £ million
Class of business:				
Premium drinks	5,060	1,181	4,854	1,151
Discontinued operations	—	—	479	53
	<u>5,060</u>	<u>1,181</u>	<u>5,333</u>	<u>1,204</u>
Geographical analysis by destination:				
Great Britain	847	150	872	140
Rest of Europe	1,432	275	1,422	282
North America	1,481	424	1,812	445
Asia Pacific	571	132	533	126
Latin America	293	94	314	111
Rest of World	436	106	380	100
	<u>5,060</u>	<u>1,181</u>	<u>5,333</u>	<u>1,204</u>

Operating profit is after deducting goodwill amortisation of £1 million (2002 — £3 million, of which £2 million was in respect of discontinued operations). It is before exceptional operating items of £19 million (2002 — £104 million). The geographical analysis is based on the location of the third party customers. The discontinued operations comprise quick service restaurants (Burger King).

Weighted average exchange rates used in the translation of profit and loss accounts were US dollar — £1 = \$1.65 (2002 — £1 = \$1.55) and euro — £1 = €1.43 (2002 — £1 = €1.57). Exchange rates used to translate assets and liabilities at the balance sheet date were US dollar — £1 = \$1.79 (2002 — £1 = \$1.61) and euro — £1 = €1.42 (2002 — £1 = €1.53). The group uses foreign exchange transaction hedges to mitigate the effect of exchange rate movements.

	2003 £ million	2002 (restated) £ million
Net assets by class of business:		
Premium drinks	8,035	8,511
Investments in associates	2,882	2,810
Post employment liabilities (net of deferred tax)	(1,412)	(277)
Net borrowings	(4,705)	(5,259)
Tax, dividends and other	(1,317)	(1,064)
	<u>3,483</u>	<u>4,721</u>
Net assets by geographical area*:		
Europe	3,916	4,049
North America	2,943	3,266
Asia Pacific	815	816
Latin America	118	173
Rest of World	243	207
	<u>8,035</u>	<u>8,511</u>

* excluding investments in associates, post employment liabilities, net borrowings, tax, dividends and corporate balances.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

3. Exceptional items

	2003		2002 (restated)	
	£ million	£ million	£ million	£ million
Operating costs				
Seagram integration	(19)		(89)	
Guinness UDV integration	<u>—</u>		<u>(15)</u>	
		(19)		(104)
Associates		(11)		(15)
Disposal of fixed assets		(8)		(3)
Sale of businesses				
Continuing operations				
Premium drinks brands	—		16	
Discontinued operations				
Burger King	—		(1,383)	
The Pillsbury Company	<u>—</u>		<u>7</u>	
		<u>—</u>		<u>(1,360)</u>
		<u>(38)</u>		<u>(1,482)</u>

4. Taxation

The £318 million total taxation charge for the six months ended 31 December 2003 comprises a UK tax charge of £17 million, a foreign tax charge of £251 million and tax on associates of £50 million.

5. Note of 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.

6. Movements in consolidated shareholders' funds

	2003	2002
	£ million	(restated) £ million
Profit/(loss) for the period	891	(459)
Dividends	<u>(320)</u>	<u>(304)</u>
	571	(763)
Exchange adjustments	(113)	(141)
Tax (charge)/income in reserves	(7)	2
Share trust arrangements	(14)	(63)
New share capital issued	1	1
Purchase of own shares for cancellation	(256)	(552)
Goodwill on disposals of businesses	<u>9</u>	<u>675</u>
Net movement in shareholders' funds	191	(841)
Shareholders' funds at beginning of the period	<u>2,801</u>	<u>5,029</u>
Shareholders' funds at end of the period	<u><u>2,992</u></u>	<u><u>4,188</u></u>

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

7. Net borrowings

	31 December 2003 £ million	30 June 2003 £ million	31 December 2002 £ million
Debt due within one year and overdrafts	(2,986)	(3,563)	(3,521)
Debt due after one year	(3,469)	(2,981)	(3,463)
Net obligations under finance leases	—	(1)	—
	<u>(6,455)</u>	<u>(6,545)</u>	<u>(6,984)</u>
Less: Cash at bank and liquid resources	1,304	1,191	1,360
Interest rate and foreign currency swaps	446	484	365
Net borrowings	<u>(4,705)</u>	<u>(4,870)</u>	<u>(5,259)</u>

8. Stocks

	31 December 2003 £ million	30 June 2003 (restated) £ million	31 December 2002 (restated) £ million
Raw materials and consumables	208	200	201
Work in progress	17	14	11
Maturing stocks	1,447	1,466	1,510
Finished goods and goods for resale	490	570	574
	<u>2,162</u>	<u>2,250</u>	<u>2,296</u>

9. Net cash inflow from operating activities

	2003 £ million	2002 (restated) £ million
Operating profit	1,162	1,100
Exceptional operating costs	19	104
Restructuring and integration payments	(52)	(99)
Depreciation and amortisation charge	110	138
Increase in working capital	(321)	(540)
Other items	53	51
Net cash from operating activities	<u>971</u>	<u>754</u>

10. Contingent liabilities

(i) *Guarantees.* In connection with the disposal of the quick service restaurants business, Diageo has guaranteed up to \$850 million (£475 million) of external borrowings of Burger King until December 2007. These loans had an original term of five years although Diageo and Burger King agreed to structure their arrangements to encourage refinancing by Burger King on a non-guaranteed basis prior to the end of five years. In connection with the disposal of Pillsbury, Diageo has guaranteed the debt of a third party to the amount of \$200 million (£112 million) until 13 November 2009.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

Including these guarantees, but net of the amount provided, the group has given performance guarantees and indemnities to third parties of £606 million. There has been no material change since 30 June 2003 in the group's performance guarantees and indemnities.

(ii) *Colombian excise duties.* In August 2000, Diageo learned that the Governors of the Departments of the Republic of Colombia and the City of Bogotá (the 'Departments') were considering initiating legal proceedings against major spirits companies in relation to unpaid excise duties and taxes on products that are smuggled into Colombia by third parties. Such proceedings are expected to be similar to actions that have been brought in recent years by foreign governments, including the Departments, against a number of major tobacco companies. Specifically, there have been four such actions filed against various tobacco companies. Three of the four actions have been dismissed. The fourth has yet to proceed to the stage where motions to dismiss are filed. It remains the directors' intent that any proceedings of this kind that might be brought against Diageo will be strenuously defended.

(iii) *Hakki versus Zima Company, et al and related cases.* Diageo plc and Diageo North America have been named as defendants in three purported class action lawsuits. The first Hakki versus Zima, et al, was commenced against a number of alcohol beverage companies on 14 November 2003 in the Superior Court of Washington, D.C. The complaint asserts claims under the District of Columbia Consumer Protection Procedures Act (DCCPPA) and the common law of the District of Columbia that the defendants specifically targeted the US advertising and marketing of certain of their products to individuals below the 21 year old legal drinking age. The complaint alleges that 'at least 15-20% of all alcoholic beverages sold in the United States are consumed by underage drinkers'. The complaint further alleges that profits earned by the defendants from the alleged illegal sales to underage drinkers 'greatly exceed \$1 billion per year'.

The lawsuit seeks certification as a class action on behalf of (a) parents and guardians whose funds were used by their children under 21 from 1982 to the present without their knowledge to purchase alcohol beverages marketed by the defendants, on whose behalf monetary recovery is sought and (b) the parents and guardians of all children under 21, on whose behalf the complaint requests that the Court enter an injunction prohibiting the defendants from marketing alcohol beverages to underage persons.

The prayer for relief in the complaint seeks, among other matters, (a) that defendants each disgorge to the purported class all amounts by which they have been allegedly unjustly enriched, plus costs and interest; (2) rescission of the alleged transactions whereby defendants allegedly obtained revenues from the illegal sale of alcoholic beverages to underage consumers and ordered to pay such monies to the purported class; and (3) to assess all defendants jointly and severally for all alleged actual damages sustained by the purported plaintiff class plus treble damages or \$1,500 per violation, whichever is greater, punitive damages, attorneys' fees, costs of suit and interest.

Since the filing of the Hakki lawsuit, two similar cases against Diageo and the other Hakki defendants have been filed. The first, *Kreft versus Zima Company, et al*, was brought in state court in Denver, Colorado; the second, *Wilson versus Zima Company et al*, was brought in state court in Charlotte, North Carolina. The allegations are largely similar to Hakki, refer to the same advertisements, and were brought by mostly the same lawyers. Diageo intends to strenuously defend all these claims.

(iv) *Other.* The group has extensive international operations and is a defendant in a number of legal proceedings incidental to these operations. There are a number of legal claims or potential claims against the group, the outcome of which cannot at present be foreseen. Save as disclosed above, neither Diageo nor any member of Diageo is or has been engaged in, nor (so far as Diageo is aware) is there pending or threatened by or against it, any legal or arbitration proceedings which may have a significant effect on the financial position of the Diageo group. Provision is made for all liabilities that are probable and reliably measurable.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

11. Basis of preparation

The interim financial information has been prepared on the basis of accounting policies consistent with those applied in the accounts for the year ended 30 June 2003, except for the accounting policy changes set out in note 1 above. The information is unaudited but has been reviewed by the auditors, KPMG Audit Plc, and their report is reproduced after these notes. The information does not comprise the statutory accounts of the group. The statutory accounts of Diageo plc for the year ended 30 June 2003 have been filed with the registrar of companies. KPMG Audit Plc have reported on these accounts; their report was unqualified and did not contain any statement under section 237 of the Companies Act 1985.

INDEPENDENT REVIEW REPORT TO DIAGEO plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 31 December 2003 set out on pages 10 to 16⁽¹⁾. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of Interim Financial Information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2003.

KPMG Audit Plc

Chartered Accountants

London, 18 February 2004

⁽¹⁾ Pages 88 to 97 of the Information Memorandum.

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Organic movement calculations

Where a business, brand, brand distribution right or agency agreement was disposed of, or terminated, in the current period, the group, in organic movement calculations, adjusts the results for the comparable prior period to exclude the amount the group earned in that period that it could not have earned in the current period (i.e. the period between the date in the prior period, equivalent to the date of the disposal in the current period, and the end of the prior period). As a result, the organic movement numbers reflect only comparable trading performance. Similarly, if a business was disposed of part way through the equivalent prior period then its contribution would be completely excluded from that prior period's performance in the organic movement calculation, since the group recognised no contribution from that business in the current period.

A further adjustment in organic movement is made to exclude the effect of exchange rate movements by recalculating the prior period's results as if they had been generated at the current period's exchange rates. Organic movement percentages are calculated as the organic movement amount in £ million, expressed as the percentage of the prior period results at current year exchange rates and after adjusting for disposals. The basis of calculation means that the results used to measure organic movement for a given period will be adjusted when used to measure organic movement in the subsequent period.

The organic movement calculations for turnover, net sales (after deducting excise duties) and operating profit before exceptional items for the six months ended 31 December 2003 were as follows:

	2002 Reported (restated*) £ million	Exchange £ million	Disposals £ million	Organic movement £ million	2003 Reported £ million	Organic movement %
Turnover						
Major markets						
North America	1,464	(78)	(38)	117	1,465	9
Great Britain	829	—	(8)	26	847	3
Ireland	522	41	—	(21)	542	(4)
Spain	233	23	(2)	16	270	6
	3,048	(14)	(48)	138	3,124	5
Key markets	1,136	34	48	68	1,286	6
Venture markets	670	—	(72)	52	650	9
Total premium drinks	4,854	20	(72)	258	5,060	5
Net sales (after deducting excise duties)						
Major markets						
North America	1,219	(62)	(34)	115	1,238	10
Great Britain	473	—	(5)	6	474	1
Ireland	350	28	—	(18)	360	(5)
Spain	175	18	(2)	12	203	6
	2,217	(16)	(41)	115	2,275	5
Key markets	884	24	31	73	1,012	8
Venture markets	527	(1)	(54)	36	508	8
Total premium drinks	3,628	7	(64)	224	3,795	6
Excise duties	1,226				1,265	
Turnover	4,854				5,060	
Operating profit before exceptional items						
Major markets						
North America	397	(25)	(7)	51	416	14
Great Britain	139	—	3	8	150	6
Ireland	83	7	—	(15)	75	(17)
Spain	60	5	—	4	69	6
	679	(13)	(4)	48	710	7
Key markets	309	(6)	1	2	306	1
Venture markets	163	(1)	(9)	12	165	8
Total premium drinks	1,151	(20)	(12)	62	1,181	6

* See notes (1) and (2) of page 101

DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Notes

- (1) The reported turnover and net sales (after deducting excise duties) for the six months ended 31 December 2002 has been restated following the adoption of *FRS 5 — Reporting the substance of transactions, application note (G) — revenue recognition*. The change reduced turnover and net sales (after deducting excise duties) by £95 million in the six months ended 31 December 2002 in respect of the following markets — £12 million for North America, £32 million for Great Britain, £nil for Ireland, £11 million for Spain, £27 million for key markets and £13 million for venture markets.
- (2) The reported operating profit before exceptional items for the six months ended 31 December 2002 has been restated following the adoption of *FRS 17 — Retirement benefits, UITF 38 — Accounting for ESOP trusts*. The operating profit before exceptional items has been reduced by £36 million in respect of the following markets — £16 million for North America, £5 million for Great Britain, £5 million for Ireland, £1 million for Spain, £8 million for key markets and £1 million for venture markets.
- (3) The exchange adjustments for turnover, net sales (after deducting excise duties) and operating profit before exceptional items are principally in respect of the US dollar and the euro.
- (4) Disposals include the transfer of Portugal to venture markets from key markets, and Germany to key markets from venture markets, effective 1 July 2003. This adjustment represents the differential between the incremental amounts contributed by Germany compared to the amounts contributed by Portugal in the six months ended 31 December 2002 — £62 million for turnover, £45 million for net sales (after deducting excise duties) and £8 million for operating profit before exceptional items. In addition, disposals for turnover, net sales (after deducting excise duties) and operating profit before exceptional items, respectively, were principally in respect of the termination of distribution rights for Bass Ale in North America and Brown Forman agency brands in Great Britain, the disposals of Gilbey's Green and White Whisky in India, and the partial disposal of Don Julio in Mexico.
- (5) There have been no acquisitions of subsidiaries in the last eighteen months.
- (6) In the calculation of operating profit before exceptional items, the overheads included in disposals were only those directly attributable to the businesses disposed, and do not result from subjective judgements of management.
- (7) The organic movement percentage is the amount in the column headed 'organic movement' in the table above expressed as a percentage of the aggregate of the first three columns. The basis of the calculation of the organic movement is explained above.

Explanatory Notes

Reconciliation to GAAP measures

(i) *Organic movement*

Organic movement in volume, turnover, net sales (after deducting excise duties) and operating profit before exceptional items are measures not specifically used in the consolidated financial statements themselves (non-GAAP measures). The performance of the premium drinks segment is discussed using these measures.

Since overall performance is the result of a number of factors, breaking these down into broad categories and discussing each of these categories assists management and the reader in understanding the overall picture. Once factors such as the effect of currency movements, excise duties and acquisitions and disposals have been discussed, the above measures enable the reader to focus on the performance of the premium drinks brand portfolio which is common to both periods. Organic movement measures also most closely reflect the way in which the business is managed, for the same reasons of achieving comparability between periods. Diageo's strategic planning and budgeting process is based on organic movement in volume, net sales (after deducting excise duties) and operating profit before exceptional items, and these measures closely reflect the way in which operating targets are defined and performance is monitored by the group's management.

These measures are chosen for planning, budgeting and reporting purposes since, as explained further below, they represent those measures which local managers are most directly able to influence and they enable consideration of the underlying business performance without the distortion caused by fluctuating exchange rates, excise duties, acquisitions and disposals. In addition, management bonus targets are set based on the performance of the business as measured by organic operating profit growth before exceptional items.

The group's management believe these measures provide valuable additional information for users of the financial statements in understanding the group's performance since they provide information on those elements of performance which local managers are most directly able to influence and focus on that element of the core brand portfolio which is common to both periods. However, whilst these measures are important in the management of the business, they should not be viewed as replacements for, but rather as complementary to, the comparable GAAP measures such as turnover and reported (rather than organic) movements in individual profit and loss account captions. These GAAP measures reflect all of the factors which impact the business and the discussion in relation to premium drinks should be read in the context of the discussion of the overall group performance.

In the discussion of the performance of the premium drinks segment, net sales (after deducting excise duties) is presented in addition to turnover, since turnover reflects significant components of excise duties which are set by external regulators and over which Diageo has no control. Diageo incurs excise duties throughout the world. In some countries, such as the United States and Canada, excise duties are based on sales and are separately identified on the face of the invoice to the external customer. In others, such as the United Kingdom and Ireland, it is effectively a production tax, which is incurred when the spirit is removed from bonded warehouses. In these countries it is part of the cost of goods sold and is not separately identified on the sales invoice. Changes in the level of excise duties can significantly effect the level of reported turnover and cost of sales, without directly reflecting changes in volume, mix or profitability that are the variables that impact the element of turnover retained by the group.

Also in the discussion of the performance of the premium drinks segment, certain information is presented using sterling amounts on a constant currency basis. This strips out the effect of foreign exchange and enables an understanding of the underlying performance of the market that is most closely influenced by the actions of the group's management. The risk from foreign exchange is managed centrally and is not a factor over which local managers have any control.

Adjusting for these items enables group management to monitor performance over factors which local managers are not directly able to influence in relation to the core ongoing brand portfolio. The underlying performance on a constant currency basis and excluding the impact of acquisitions and disposals is referred to as 'organic' performance, and further information on the calculation of organic measures as used in the discussion of the premium drinks segment is included on page 99.

(ii) Free cash flow

Free cash flow is a non-GAAP measure that comprises the net cash flow arising from operating activities, dividends received from associates, returns on investments and servicing of finance, taxation, and capital expenditure and financial investment. Free cash flow as used by the company covers all the items that are required by FRS 1 to be on the face of the cash flow statement down to, and including, capital expenditure and financial investment. It is therefore a natural sub-total but may not be comparable to similarly titled measures used by other companies. The group's management believe the measure assists users of the financial statements in understanding the group's cash generating performance as it comprises items which arise from the running of the ongoing business.

Where appropriate, separate discussion is given for the impacts of acquisitions and disposals of businesses, equity dividends and purchase of own shares — each of which arises from decisions which are independent from the running of the ongoing underlying business. The management regards capital expenditure as ultimately non-discretionary since ongoing investment in plant and machinery is required to support the day-to-day operations, whereas acquisitions and disposals of businesses are discretionary. However, free cash flow does not necessarily reflect all amounts which the group either has a constructive or legal obligation to incur. The free cashflow

measure is also used by management for their own planning, budgeting, reporting and incentive purposes since it provides information on those elements of performance which local managers are most directly able to influence.

(iii) Return on average total invested capital

Return on average total invested capital in a non-GAAP measure that is used by management to assess the return obtained from the group's asset base. This measure is not specifically used in the consolidated financial statements, but is calculated to aid comparison of the performance of the business between periods.

Profits used in assessing the return on total invested capital reflect the operating performance of the business after the effective tax rate for the period, stated before exceptional items and interest. Average total invested capital is calculated using the average derived from the consolidated balance sheets at 30 June and 31 December. Capital employed comprises the average net assets for the period, excluding post employment liabilities (net of deferred tax) and average net borrowings. This is aggregated with restructuring and integration costs, which have been charged to exceptional items, and goodwill written off in reserves (up to 1 July 1998). For the six months ended 31 December 2002, the capital employed has also been adjusted for the assets, including goodwill, of Burger King, as profits were generated for five and a half months of this period. Calculations for the return on average total invested capital for the six months ended 31 December were as follows:

	2003 £ million	2002 (restated) £ million
Operating profit before exceptional items	1,181	1,204
Associates after interest	241	227
Effective tax rate 25%/25.4%	(356)	(363)
	<u>1,066</u>	<u>1,068</u>
Average net assets	4,795	4,733
Average net borrowings	4,788	5,362
Average integration costs (net of tax)	896	768
Average goodwill	1,619	1,661
Burger King	—	2,067
Average total invested capital	<u>12,098</u>	<u>14,591</u>
Return on average total invested capital	<u>17.6%</u>	<u>14.6%</u>

TAXATION

The following is a summary of certain withholding taxation treatments at the date hereof in relation to payments of principal and interest in respect of the Instruments. The comments are not exhaustive and do not deal with other Dutch or 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.

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

UNITED KINGDOM TAXATION

A. UK Withholding Tax on UK-Source Interest

Payments of interest on the Instruments may be made without withholding or deduction for or on account of United Kingdom income tax provided that the Instruments are and continue to be listed on a recognised stock exchange. On the basis of the United Kingdom Inland Revenue's published interpretation of the relevant legislation, securities which are to be listed on a stock exchange in a country which is a member state of the European Union or which is part of the European Economic Area will satisfy this requirement if they are listed by a competent authority in that country and are admitted to trading on a recognised stock exchange in that country; securities which are to be listed on a stock exchange in any other country will satisfy this requirement if they are admitted to trading on a recognised stock exchange in that country. The London Stock Exchange is a recognised stock exchange for these purposes.

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

In other cases, income tax may have to be withheld at the lower rate (currently 20%) from payments of interest on the Instruments, subject to any relief available under any applicable double taxation convention.

B. Payments by Guarantor

If the Guarantor makes any payments in respect of interest on the Instruments (or in respect of other amounts due under the Instruments other than the repayment of amounts subscribed for the Instruments) such payments may be subject to United Kingdom withholding tax at the basic rate (currently 22%) 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 from United Kingdom withholding tax described in A above.

C. Payments under Deed of Covenant

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

D. Other Rules Relating to United Kingdom Withholding Tax

1. Instruments may be issued at an issue price of less than 100% of their principal amount. Any discount element on any such Instruments will not be subject to any United Kingdom withholding tax pursuant to the provisions mentioned in A above but may be subject to reporting requirements as outlined in E below.
2. Where Instruments are to be, or may fall to be, redeemed at a premium as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax as outlined above and the reporting requirements outlined in E below.
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 this summary mean **"interest"** as understood in United Kingdom tax law. The statements in this summary do not take any account of any different definitions of **"interest"** or **"principal"** which may prevail under any other law or which may be created by the terms and conditions of the Instruments or any related documentation (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.

E. Provision of Information

Holders should note that where any interest on Instruments is paid to them (or to any person acting on their behalf) by the Issuers or any person in the United Kingdom acting on behalf of the Issuers (a **"paying agent"**), or is received by any person in the United Kingdom acting on behalf of the relevant Holder (other than solely by clearing or arranging the clearing of a cheque) (a **"collecting agent"**), the Issuer (in the case of Instruments issued by Diageo plc or Diageo Finance plc), the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to the United Kingdom Inland Revenue details of the payment and certain details relating to the Holder (including the Holder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Holder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Holder is not so resident, the details provided to the United Kingdom Inland Revenue may, in certain cases, be passed by the United Kingdom Inland Revenue to the tax authorities of the jurisdiction in which the Holder is resident for taxation purposes. For the above purposes, **"interest"** should be taken, for practical purposes, as including payments made by the Guarantor in respect of interest on Instruments. The provisions referred to above may also apply, in certain circumstances, in relation to payments made on redemption of any Instruments where the amount payable on redemption is greater than the issue price of the Instruments. The Reporting of Savings Income Information Regulations 2003 (SI 2003/3297), which will come into force on a date not earlier than 1 January 2005 will implement in United Kingdom law the proposed EU Savings Directive (for details of which see the paragraph below on the proposed directive).

DUTCH TAXATION

The following is a summary in relation to Dutch tax aspects of acquiring, holding or disposing of Instruments.

A. General

The following describes the principal Dutch tax consequences of the holding and disposal of Instruments issued by Diageo Capital B.V. This summary does not purport to be a comprehensive description of all Dutch tax considerations that may be relevant to a decision to acquire, to hold, and to dispose of Instruments. Each prospective holder of Instruments, should consult a professional adviser with respect to the tax consequences of an investment in Instruments. The discussion of certain Dutch taxes set forth below is included for general information purposes only.

This summary is based on the Dutch tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect. The summary only applies to persons who are the beneficial owners of Instruments. This summary does not address the Dutch tax consequences of an individual holder of Instruments, who holds a substantial interest (*aanmerkelijk belang*) in Diageo Plc.

A substantial interest is generally present if a holder holds, whether directly or indirectly, alone or — if the holder is an individual — together with his or her spouse or partner, or a person deemed to be his or her partner, or other persons sharing such person's house or household, or certain other such persons' relatives (including foster children), the ownership of, or certain other rights (including rights to acquire shares whether or not already issued) over, shares representing 5 per cent or more of the total issued and outstanding capital (or of the issued and outstanding capital of any class of shares) of a company.

B. Dutch Income Taxation of Instruments

Residents of the Netherlands

If the holder of Instruments is subject to Dutch corporate income tax and the Instruments are attributable to its (deemed) business assets, income derived from the Instruments and capital gains realized upon redemption and disposal, transfer or alienation of the Instruments are subject to corporate income tax at a maximum rate of 34.5 per cent.

If the holder of Instruments is an individual, resident or deemed to be resident of the Netherlands for Dutch tax purposes (including the non-resident individual holder of Instruments who has opted to be taxed as a resident of the Netherlands), the income derived from Instruments and the capital gains realized upon redemption and disposal, transfer or alienation of Instruments are subject to individual income tax at progressive rates, the maximum being 52 per cent, if:

- (i) such holder has an enterprise or an interest in an enterprise, to which enterprise or part thereof, as the case may be, the Instruments are attributable; or
- (ii) such income or capital gains forms "a benefit from miscellaneous activities" (*resultaat uit overige werkzaamheden*) which, for instance, would be the case if the holder of Instruments performs activities with respect to Instruments that exceed "regular, active portfolio management" (*normaal actief vermogensbeheer*).

If the above-mentioned conditions do not apply to the individual holder of Instruments, the income derived from Instruments and the capital gains realized with respect to Instruments will not be taxable in the Netherlands. Instead such holder of debt securities will be taxed at a flat rate of 30 per cent on deemed income from "savings and investments" (*sparen en beleggen*). This deemed income amounts to 4 per cent of the average of the individual's "yield basis" (*rendementsgrondslag*) at the beginning of the calendar year and the individual's yield basis at the end of the calendar year, insofar the average exceeds a certain threshold. Instruments will be included in the individual's "yield basis".

Non-residents of the Netherlands

A holder of Instruments who is not a resident nor deemed to be a resident of the Netherlands for Dutch tax purposes (nor has opted to be taxed as a resident of the Netherlands) is not subject to Dutch income or corporate income tax in respect of income derived from Instruments and capital gains realised upon the redemption, disposal, transfer or alienation of Instruments, unless:

- (i) such holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which enterprise or part thereof, as the case may be, the Instruments are attributable; or
- (ii) such holder is an individual and such income or capital gain qualifies as "a benefit from miscellaneous activities" (*resultaat uit overige werkzaamheden*) which, for instance, would be the case if the holder of Instruments performs activities in the Netherlands with respect to the Instruments that exceed "regular, active portfolio management" (*normaal actief vermogensbeheer*); or
- (iii) such holder is entitled to a share in the profits of an enterprise that is effectively managed in the Netherlands, other than by way of securities or through an employment contract, and to which enterprise Instruments are attributable; or
- (iv) such holder has a substantial interest in Diageo plc, which interest does not form part of the assets of an enterprise.

In case the holder of Instruments is an individual the income or capital gains realised under conditions (i) and (ii) are, in principle, subject to individual income tax at progressive rates up to 52 per cent. In case of condition (iii) such holder of Instruments will be taxed at a flat rate of 30 per cent on deemed income from "savings and investments" (*sparen en beleggen*). In case the holder of Instruments is not an individual the income or capital gain realised under conditions (i), (iii) and (iv) is, in principle, subject to corporate income tax at a maximum rate of 34.5 per cent.

C. Dutch Withholding Tax

No Dutch withholding tax is due upon payments on Instruments issued by Diageo Capital B.V. provided that none of the payments under the Instruments are contingent on, or otherwise related or deemed related to either the profits of or distributions of such profits by either Diageo Capital B.V. or any of its affiliates.

D. Tax Treaties

Under most tax treaties, the Netherlands may not impose tax on taxable income from or capital gains realised upon the redemption, disposal, transfer or alienation of the Instruments by a non-resident corporate or a non-resident individual holder of these securities, unless additional conditions are met.

E. Dutch Gift and Inheritance Taxes

Residents of the Netherlands

Generally, gift and inheritance taxes will be due in the Netherlands in respect of the acquiring of Instruments by way of a gift by, or on the death of, a holder of Instruments who is a resident or deemed to be a resident of the Netherlands for the purposes of Dutch gift and inheritance tax at the time of the gift or his or her death.

An individual with the Dutch nationality is deemed to be a resident of the Netherlands for the purposes of the Dutch gift and inheritance tax, if he or she has been resident in the Netherlands during the ten years preceding the gift or his or her death. An individual of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Dutch gift tax only if he or she has been residing in the Netherlands at any time during the twelve months preceding the time of the gift.

Non-residents of the Netherlands

No gift or inheritance taxes will arise in the Netherlands in respect of the acquiring of Instruments by way of gift by, or as a result of the death of, a holder of Instruments who is neither a resident nor deemed to be a resident of the Netherlands for the purposes of the Dutch gift and inheritance tax, unless:

- (i) such holder at the time of the gift has or at the time of his or her death had an enterprise or an interest in an enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which Dutch enterprise or part thereof, as the case may be, Instruments are or were attributable; or
- (ii) the Instruments are or were attributable to the assets of an enterprise that is effectively managed in the Netherlands and the donor is or the deceased was entitled to a share in the profits of that enterprise, at the time of the gift or at the time of his or her death, other than by way of securities or through an employment contract; or
- (iii) in the case of a gift of Instruments by an individual who at the date of the gift was neither a resident nor deemed to be a resident of the Netherlands, such individual dies within 180 days after the date of the gift, while at the time of his or her death being a resident or deemed to be a resident of the Netherlands.

F. Other Taxes and Duties

No capital duty, registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be payable in the Netherlands by a holder of Instruments in respect of or in connection with the subscription, issue, placement, allotment or delivery of Instruments.

EU SAVINGS DIRECTIVE

On 3 June 2003 the Council of the European Union adopted a new directive regarding the taxation of savings income (Council Directive 2003/48/EC; the "**Directive**"). The Directive is scheduled to be applied by Member States from 1 January 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the Directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident in that other Member State; however, Austria, Belgium and Luxembourg will instead apply a withholding system for a transitional period in relation to such payments (unless during such period they elect otherwise), deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the Directive is to be applied by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

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 and UBS Limited (the “Dealers”). The arrangements under which Instruments may from time to time be agreed to be sold by the Issuers to, and purchased by, Dealers are set out in an amended and restated dealership agreement dated 30 April 2004 (as further 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:** in relation to Instruments which have a maturity of one year or more and which are to be admitted to the Official List of the UKLA, 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 VI of the FSMA, 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 or the FSMA;

- (2) **No offer to public — Instruments not admitted to the Official List of the UKLA:** in relation to Instruments which have a maturity of one year or more and which are not to be admitted to the Official List of the UKLA, it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date of such Instruments, will not offer or sell any such Instruments to persons in the United Kingdom 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) **No deposit-taking:** in relation to any Instruments having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons:
 - (a) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (b) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Instruments would otherwise constitute a contravention of section 19 of the FSMA by the relevant Issuer;
- (4) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which section 21(1) of the FSMA does not apply to the relevant Issuer or the Guarantor; and
- (5) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

Japan

The Instruments have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, each Dealer has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Instruments, 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, or for the benefit of, any Japanese Person except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan. 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

The Instruments have not been and will not be publicly offered in Germany and, accordingly, no securities sales prospectus (*Verkaufsprospekt*) for a public offering of Instruments in Germany in accordance with the Securities Sales Prospectus Act of 9 September 1998, as amended (*Wertpapier-Verkaufsprospektgesetz*, the “**Prospectus Act**”), has been or will be published or circulated in the Federal Republic of Germany. Each Dealer has represented and agreed that it has only offered and sold and will only offer and sell the Instruments in the Federal Republic of Germany in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the issue, sale and offering of securities. Any resale of the Instruments in the Federal Republic of Germany may only be made in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the sale and offering of securities.

The Republic of France

Each of the Dealers and the Issuer has represented, warranted and agreed that (i) it has not offered or sold and will not offer or sell, directly or indirectly, any Instruments to the public in the Republic of France and (ii) offers and sales of Instruments will be made in the Republic of France only to qualified investors as defined and in accordance with Articles L.411-1 and L.411-2 of the French *Code monétaire et financier*, and Decree no. 98-880 dated 1 October 1998 and in Regulation No. 98-09 of the *Commission des Opérations de Bourse* relating to offers to qualified investors. This Information Memorandum has not been submitted to the *Autorité des marchés financiers* for approval and does not constitute an offer for sale or subscription of Instruments.

In addition, each of the Dealers and the Issuer has represented, warranted and agreed that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in the Republic of 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 the Republic of France may be made as described as above.

The Netherlands

Instruments may only be offered in the case of Instruments issued by Diageo Capital B.V., anywhere in the world and, in the case of Instruments issued by Diageo plc or Diageo Finance plc or a further issuer, in the Netherlands, and such offer may only be announced:

- a. if those Instruments have a denomination of at least €50,000 (or its foreign currency equivalent) provided that if such Instruments are issued: (i) at a discount, they may only be offered if their issue price is no less than €50,000 (or its equivalent in any other currency); (ii) on a partly-paid basis, they may only be offered if paid up by their initial holders at least to an amount of €50,000 (or its equivalent in any other currency); (iii) with a denomination of precisely €50,000 (or its equivalent in any other currency), they may only be offered on a fully-paid basis and at par or at a premium; or
- b. to persons who trade or invest in securities in the conduct of their profession or trade (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises which as an ancillary activity regularly invest in securities) ("**professional investors**"), provided that the offer, the applicable Pricing Supplement and each announcement of the offer or a forthcoming offer states that the offer is exclusively made to those persons; or
- c. to persons who are established, domiciled or have their residence (collectively, "**are resident**") outside the Netherlands, provided that (i) the offer, the applicable Pricing Supplement and each announcement of the offer or a forthcoming offer states that the offer is not and will not be made to persons who are resident in the Netherlands, (ii) the offer, the Information Memorandum, the applicable Pricing Supplement and each announcement of the offer comply with the laws and regulations of any State where persons to whom the offer is made are resident, (iii) a statement by the Issuer that those laws and regulations are complied with is submitted to the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*, "**AFM**") before the offer is made and is included in the applicable Pricing Supplement and each such announcement; or
- d. to a combination of:
 - (i) persons who are professional investors; and
 - (ii) persons who are resident outside the Netherlands;

provided that (A) the offer, the applicable Pricing Supplement and each announcement of the offer or a forthcoming offer states that the offer is and will only be made to persons who are professional investors and to persons who are not resident in the Netherlands, (B) the offer, the Information Memorandum, the applicable Pricing Supplement and each announcement of the offer or a forthcoming offer comply with the laws and regulations of any state where persons to whom the offer is made are resident, (C) a statement by the Issuer that those laws and regulations are complied with is

submitted to the AFM before the offer is made and is included in the applicable Pricing Supplement and each such announcement; or

e. if:

(i) those Instruments qualify as Euro-securities (*Euro-effecten*) (which they do if (A) they are subscribed for and placed by a syndicate of which at least two members are established according to their constitutional documents in different States party to the Agreement on the European Economic Area, (B) at least 60 per cent. of those Instruments are offered in one or more states other than the state where the Issuer is established according to its constitutional documents, and (C) the Instruments may only be subscribed for or initially be purchased through a credit institution or another institution which in the conduct of its business or profession provides one or more of the services referred to under 7 and 8 of Annex 1 to EC Directive 2000/12/EC); and

(ii) no general advertising or canvassing campaign is conducted in respect of the Instruments anywhere in the world; or

f. if, regardless of their denomination, the Instruments can only be acquired in units comprising several Instruments (each a "Unit") against a purchase price of at least €50,000 (or the equivalent in any other currency) per Unit, provided that:

(i) the offer, the applicable Pricing Supplement and any advertisements and documents in which the offer or the forthcoming offering of Instruments is publicly announced state that Instruments are offered only in Units against a purchase price of at least €50,000; and

(ii) a copy of the Information Memorandum and the applicable Pricing Supplement and copies of any such advertisements and documents are submitted to the AFM before any offer is made; or

g. otherwise in accordance with the 1995 Act on the Supervision of the Securities Trade (*Wet toezicht effectenverkeer 1995*).

Each Dealer has represented and agreed that it will only offer Instruments, and will only announce any such offer, in accordance with these restrictions.

In addition, bearer zero coupon Instruments and other Instruments which qualify as savings certificates as defined in the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) may only be transferred or accepted through the mediation of either the Issuer or a Member of Euronext Amsterdam N.V. with due observance of the Savings Certificates Act (including registration requirements), provided that no mediation is required in respect of (i) the initial issue of those Instruments to the first holders thereof, (ii) any transfer or acceptance by individuals who do not act in the conduct of a profession or trade, and (iii) the transfer or acceptance of those Instruments, if they are physically issued outside the Netherlands and are not distributed in the Netherlands in the course of primary trading or immediately thereafter.

General

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems 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

changes 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 trading 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 admitted to listing on the Official List of the UKLA and admitted to trading on the London Stock Exchange will be so admitted to listing and trading upon submission to the UKLA and the London Stock Exchange of the relevant Pricing Supplement and any other information required by the UKLA and the London Stock Exchange, subject to the issue of the relevant Instruments. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, Instruments may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the UK Listing Authority or the London Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the Issuers, the Guarantor and the relevant Dealer(s) may agree.

2. The establishment of the Programme was authorised by a resolution of the Board of Directors of Diageo plc passed on 29 April 1998, by a resolution of a duly authorised Committee of the Board of Directors of Diageo plc passed on 29 July 1998, by a resolution of the Board of Directors of Diageo Finance plc passed on 4 August 1999 and by a resolution of the Board of Directors of Diageo Capital B.V. passed on 25 March 2004. 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 Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Instruments of each Series will be specified in the 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 Official List of the UKLA and the admission for trading by the London Stock Exchange are both expected to take effect around 5 May 2004.
6. There are no, nor have there been, any legal or arbitration 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 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 Diageo Finance plc and its subsidiaries since 30 June 2003 and no material adverse change in the financial position or prospects of Diageo Finance plc and its subsidiaries since 30 June 2003, the date of the last published annual accounts of Diageo Finance plc.

Other than disclosed herein, there has been no significant change in the financial or trading position of Diageo Capital B.V. since 14 October 2003 and no material adverse change in the financial position or prospects of Diageo Capital B.V. since 14 October 2003.

Other than disclosed herein, there has been no significant change in the financial or trading position of Diageo plc and its respective subsidiaries since 31 December 2003 and, save as disclosed under "New

accounting policies” on page 92, there has been no material adverse change in the financial position or prospects of Diageo plc and its respective subsidiaries since 30 June 2003, the date of the last published annual accounts of Diageo plc.

8. KPMG Audit Plc has given and not withdrawn its written consent to the inclusion in the Information Memorandum of its reports on Diageo Finance plc and the Diageo group 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 these reports for the purposes of regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.
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 years ended 30 June 2003, 30 June 2002 and 30 June 2001 for Diageo plc and its consolidated subsidiaries have been delivered to the Registrar of Companies in England and Wales. The auditors of Diageo 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 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 years ended 30 June 2003, 30 June 2002 and 30 June 2001 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.
11. Diageo plc has an accounting year end of 30 June. On 24 November 1998 KPMG Audit Plc were appointed as sole auditors of Diageo plc.

The consolidated financial statements of Diageo plc in respect of the year ended 30 June 2003, 30 June 2002 and 30 June 2001 were audited, without qualification by KPMG Audit Plc, Chartered Accountants and Registered Auditors. The business address of KPMG Audit Plc is PO Box 695, 8 Salisbury Square, London EC4Y 8BB.

The financial statements of Diageo Finance plc in respect of the year ended 30 June 2003, 30 June 2002 and 30 June 2001 were audited, without qualification, by KPMG Audit Plc, Chartered Accountants and Registered Auditors.

Diageo Capital B.V. has an accounting year end of 30 June (the first accounting period will end on 30 June 2004). On 7 November 2003 KPMG Accountants N.V. were appointed as auditors of Diageo Capital B.V. The business address of KPMG Accountants N.V. is Burg. Rijnderslaan 10-20, 1185 MC Amstelveen, the Netherlands.

12. For so long as the Programme remains in effect or any Instruments shall be outstanding, copies of the following documents may be inspected during normal business hours at the specified offices of the Issue and Paying Agent and at the specified office of the Registrar (or the specified office(s) of the Paying Agent(s)) in or near the City of London 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 and, if applicable, unaudited interim statements of each of the Issuers and the Guarantor;
- (h) the audited accounts of Diageo Finance plc and the Guarantor (being consolidated accounts for Diageo plc) 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).

REGISTERED OFFICES OF THE ISSUERS AND GUARANTOR

Diageo plc
8 Henrietta Place
London W1G 0NB

Diageo Capital B.V.
Molenwerf 10-12
1014 BG Amsterdam
The Netherlands

Diageo Finance plc
8 Henrietta Place
London W1G 0NB

DEALERS

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

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ

Lehman Brothers International (Europe)
25 Bank Street
Canary Wharf
London E14 5LE

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

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

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

AUDITOR OF THE ISSUERS

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

KPMG Accountants N.V.
Burg. Rijnderslaan 10-20
1185 MC Amsterdam
The Netherlands

ISSUE AND PAYING AGENT and PRINCIPAL REGISTRAR

Citibank, N.A.
5 Carmelite Street
London EC4Y 0PA

ALTERNATIVE REGISTRAR

Dexia Banque Internationale à Luxembourg
69 route d'Esch
L-2953 Luxembourg

PAYING AGENTS

Dexia Banque Internationale à Luxembourg

69 route d'Esch
L-2953 Luxembourg

The Bank of New York

Avenue des Arts 35
B-1040 Brussels

LEGAL ADVISERS

To the Dealers as to English Law

Clifford Chance
Limited Liability Partnership
10 Upper Bank Street
London E14 5JJ

To the Issuers as to English Law

Slaughter and May
One Bunhill Row
London EC1Y 8YY

To Diageo Capital B.V. as to Dutch Law

Houthoff Buruma
Parnassusweg 126
1076 AT Amsterdam
P.O. Box 75505
1070 AM Amsterdam

AUTHORISED ADVISER

Morgan Stanley & Co. International Limited

25 Cabot Square
Canary Wharf
London E14 4QA