

INFORMATION MEMORANDUM

**DIAGEO**  
**DIAGEO plc**

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

**DIAGEO CAPITAL plc**  
*(Incorporated with limited liability in Scotland with registered number 40795)  
as Issuer*

**DIAGEO FINANCE plc**  
*(Incorporated with limited liability in England and Wales with registered number 213393)  
as Issuer*

**DIAGEO ENTERPRISES**  
*(Incorporated with unlimited liability in Ireland with company number 190267)  
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 and in respect of Diageo Capital plc in Scotland in accordance with Section 83 of the FSMA.*

*In respect of Instruments issued or to be issued by Diageo Enterprises, application has been made to the Irish Stock Exchange Limited (the "Irish Stock Exchange") for Instruments issued under the Programme during the period of twelve months after the date of this document to be admitted to the Official List of the Irish Stock Exchange.*

*This Information Memorandum comprises listing particulars issued in compliance with the Irish European Communities (Stock Exchange) Regulations, 1984 (as amended) (the "Irish Regulations") for the purpose of giving information with regard to the issue during the period of twelve months after the date of this document of Instruments under this Programme. A copy of the listing particulars has been delivered for registration to the Registrar of Companies in Ireland in accordance with the Irish Regulations.*

*Arranger*  
**MORGAN STANLEY**  
*Dealers*

**DEUTSCHE BANK  
LEHMAN BROTHERS  
MORGAN STANLEY**

**JPMORGAN  
MERRILL LYNCH INTERNATIONAL  
UBS WARBURG**

The date of this Information Memorandum is 2 May 2003



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

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

No person has been authorised by the Issuers to give any information or to make any representation not contained in or not consistent with this Information Memorandum or any other document entered into in relation to the Programme or any information supplied by the Issuers or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuers or any Dealer.

No representation or warranty is made or implied by any of the Dealers or any of their respective affiliates, and none of the Dealers and their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Information Memorandum. Neither the delivery of this Information Memorandum or any Pricing Supplement nor the offering, sale or delivery of any Instrument shall, in any circumstances, create any implication that the information contained in this Information Memorandum is true subsequent to the date thereof or the date upon which this Information Memorandum has been most recently amended or supplemented or that there has been no adverse change in the financial situation of any Issuer since the date thereof or, if later, the date upon which this Information Memorandum has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Information Memorandum and any Pricing Supplement and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Information Memorandum or any Pricing Supplement comes are required by the Issuers and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of this Information Memorandum or any Pricing Supplement and other offering material relating to the Instruments see "Subscription and Sale". In particular, Instruments have not been and will not be registered under the United States Securities Act of 1933 (as amended)

and may include Instruments in bearer form which are subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to U.S. persons.

In addition, the Issuers have not authorised any offer 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 and the Dealers that any recipient of this Information Memorandum or any Pricing Supplement should subscribe for or purchase any Instruments. Each recipient of this Information Memorandum or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of any Issuer. Neither this Information Memorandum nor any Pricing Supplement may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.**

#### **DOCUMENTS INCORPORATED BY REFERENCE**

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

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

save that (i) any statement contained in this Information Memorandum or in any of the documents incorporated by reference in, and forming part of, this Information Memorandum shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement provided that any modifying or superseding statement does not form part of the listing particulars as contained in this Information Memorandum given in compliance with the Listing Rules 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 and, for the purposes of Instruments issued or to be issued by Diageo Enterprises and to be admitted to the Official List of the Irish Stock Exchange, provided that (a) any modifying or superseding statement does not form part of the listing particulars as contained in this Information Memorandum given in compliance with the Irish Regulations and (b) any documents incorporated by reference do not form part of the listing particulars as contained in this Information Memorandum given in compliance with the listing rules made under the Irish Regulations.

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In connection with the issue of any Tranche (as defined herein) of Instruments under the Programme, the Dealer (if any) who is specified in the relevant Pricing Supplement as the stabilising institution (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 Capital plc, Diageo Finance plc, Diageo Enterprises and any other duly appointed subsidiary of Diageo plc. In the event of such subsidiary being appointed, new listing particulars (which will supplement the Information Memorandum) will be prepared.
Guarantor:	Diageo plc (in the case of an issue of Instruments by Diageo Capital plc, Diageo Finance plc and Diageo Enterprises).
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.
Irish Listing Agent:	Morgan Stanley & Co. International Limited.
Initial Programme Amount:	U.S.\$5,000,000,000 in aggregate principal amount of Instruments outstanding at any one time (and, for this purpose, any Instruments denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Instruments using the spot rate of exchange for the purchase of such currency against payment of U.S. dollars being quoted by the Issue and Paying Agent on the date on which the relevant agreement in respect of the relevant Tranche was made or such other rate as the relevant Issuer and the relevant Dealer may agree). The maximum aggregate principal amount of Instruments which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement (as defined under "Subscription and Sale").
Issuance in Series:	Instruments will be issued in series (each, a "Series"). Each Series may comprise one or more tranches ("Tranches" and each, a "Tranche") issued on different issue dates. The Instruments of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Instruments of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Instruments of different denominations. Further Instruments may be issued as part of any existing Series.
Form of Instruments:	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 and, in relation to Diageo Enterprises, to a minimum maturity of one year.

Redemption:

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.

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 Enterprises, either 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.

Early Redemption:

Early redemption will be permitted for taxation reasons as mentioned in "Terms and Conditions of the Instruments — Early Redemption or Substitution for Taxation Reasons", but will otherwise be permitted only to the extent specified in the relevant Pricing Supplement.

Interest:

Instruments may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate and may vary during the lifetime of the relevant Series.

Denominations:

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.

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 Enterprises, 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.

Instruments which are issued or to be issued by Diageo Enterprises (i) must have a minimum denomination of €40,000 (or its equivalent in other currencies) and (ii) which are not listed on a stock exchange must have a minimum denomination of £300,000 or its equivalent and, in either case, subject to compliance with all applicable legal and/or tax and/or regulatory and/or central bank requirements.

Taxation:

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

Governing Law:	The Instruments and all related contractual documentation will be governed by, and construed in accordance with, English law.
Listing:	Each Series may be admitted to the Official List of the 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. Each Series issued by Diageo Enterprises may be admitted to the Official List of the Irish 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 and, in the case of Instruments issued or to be issued by Diageo Enterprises and to be listed on the Irish Stock Exchange, will be delivered to the Irish Stock Exchange, in each case 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 10 May 2000, 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, Ireland, 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 7 May 2002 and made between Diageo plc, Diageo Capital plc, Diageo Finance plc and Diageo Enterprises (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 10 May 2000 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 7 May 2002 under which it has irrevocably and unconditionally guaranteed the due and punctual payment of all amounts due by Diageo Capital plc, Diageo Finance plc or Diageo Enterprises 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 15 stating the due date for payment thereof and stating that failure to pay any such Partly Paid Instalment on or prior to such date will entitle the Issuer to forfeit the Instruments with effect from such date ("**Forfeiture Date**") as may be specified in such notice (not being less than 14 days after the due date for payment of such Partly Paid Instalment), unless payment of the relevant Partly Paid Instalment together with any interest accrued thereon is paid prior to the Forfeiture Date. The Issuer shall procure that any Partly Paid Instalments paid in respect of any Instruments subsequent to the Forfeiture Date in respect thereof shall be returned promptly to the persons entitled thereto. The Issuer shall not be liable for any interest on any Partly Paid Instalment so returned.

Interest shall accrue on any Partly Paid Instalment which is not paid on or prior to the due date for payment thereof at the Interest Rate (in the case of non-interest bearing Instruments, at the rate applicable to overdue

payments) and shall be calculated in the same manner and on the same basis as if it were interest accruing on the Instruments for the period from and including the due date for payment of the relevant Partly Paid Instalment up to but excluding the Forfeiture Date. For the purpose of the accrual of interest, any payment of any Partly Paid Instalment made after the due date for payment shall be treated as having been made on the day preceding the Forfeiture Date (whether or not a Business Day as defined in Condition 6.09).

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

## **2. Title and Transfer**

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

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

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

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

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

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

**2.06** Each new Registered Instrument to be issued upon the transfer of a Registered Instrument or the exchange of a Bearer Instrument for a Registered Instrument will, within three Relevant Banking Days of the transfer date or, as the case may be, the exchange date, be available for collection by each relevant Holder at the specified office of the Registrar or, at the option of the Holder requesting such exchange or transfer, be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such

Holder. For these purposes, a form of transfer or request for exchange received by the Registrar or the Issue and Paying Agent after the Record Date in respect of any payment due in respect of Registered Instruments shall be deemed not to be effectively received by the Registrar or the Issue and Paying Agent until the day following the due date for such payment. For the purposes of these Terms and Conditions:

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

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

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

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

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 a 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 a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Issuer or the Guarantor in an involuntary case or proceeding under any applicable bankruptcy, insolvency, 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 European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;

- (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, or at the specified office of a Paying Agent in Ireland in respect of Instruments issued by Diageo Enterprises.

**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 EC Member States*

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

##### *Redenomination*

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

### *Renominalisation*

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

In connection with any such redenomination and simultaneously therewith, the Issuer may also, without the consent of the Holders of Instruments, and upon giving notice in the manner set forth in Condition 10D.02 above, elect that the nominal amount of any Instrument deemed to have been redenominated in an amount of Euro shall be divided into smaller nominal amounts deemed to be denominated in Euro in such manner and subject to such procedures as the Issuer, after consultation with the Issue and Paying Agent, shall determine to be consistent with market practices applicable for the 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 and so long as the Instruments issued by Diageo Enterprises are listed on the Irish Stock Exchange and the rules of such exchange so require, a Paying Agent with a specified office in Dublin, (v) in the circumstances described in Condition 10A.04, a Paying Agent with a specified office in New York City, (vi) if the conclusions of the ECOFIN council meeting of 26-27 November 2000 are implemented 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 European Union Directive on the taxation of savings implementing such conclusions 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, if so long as the Bearer Instruments issued by Diageo Enterprises are listed on the Irish Stock Exchange, and the rules of that exchange so require, in a leading daily newspaper having general circulation in Ireland (which is expected to be *The Irish 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. If and for so long as the Registered Instruments issued by Diageo Enterprises are listed on the Irish Stock Exchange, and the rules of that exchange so require, all notices regarding such Registered Instruments shall be published in a leading daily newspaper having general circulation in Ireland (which is expected to be *The Irish Times*).

## **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 [   ●   ])

### PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

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

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

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

- |   |   |
|---|---|
| 1. Issuer:                                | [Name]  |
| [Guarantor:                               | Diageo plc]   |
| 2. [Arranger(s)]:                         | [Name]  |
| 3. Relevant Dealer/Lead Manager:          | [Name]  |
| 4. Syndicated:                            | [Yes/No]  |
| 5. Other Dealers/Managers (if any):       | [Name]  |
| 6. Status:                                | Unsubordinated  |
| 7. Currency:                              | [Specify]   |
| — of Denomination                         |   |
| — of Payment                              |   |
| (Condition 1.06)                          |   |
| 8. Aggregate Principal Amount of Tranche: | [Specify]   |
| 9. If fungible into an existing Series:   | [Specify details of existing Series and date from which fungible] |
| 10. Issue Date:                           | [Specify]   |

\* In the case of Diageo Enterprises, replace "limited" with "unlimited".

\*\* Include in the case of Instruments issued or to be issued by Diageo Enterprises and to be listed on the Irish Stock Exchange.



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: [Yes/No]
16. If issued in Bearer form:  
(a) Initially represented by a Temporary Global Instrument or Permanent Global Instrument:  
[Specify. If nothing is specified and this Pricing Supplement does not specify that the TEFRA C Rules apply, Instruments will be represented initially by a Temporary Global Instrument.]  
[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.]
17. Denomination(s): [Specify]  
(Condition 1.04 or 1.05)
18. Partly Paid Instruments: [Yes/No]  
(Condition 1.07)  
If yes, specify number, amounts and dates for, and method of, payment of instalments of subscription moneys and any further additional provisions (including Forfeiture Dates in respect of late payment of Partly Paid Instalments) [Give details]
19. If issued in Registered Form:  
— Registrar: [Name and specified office]  
(Condition 2.02)
20. Interest: [Interest bearing/Non-interest bearing]  
(Condition 6)
21. Interest Rate: [Specify rate (if fixed) or Floating Rate (if floating) or ISDA Rate or formula.]  
(Condition 6.02)
22. Relevant Screen Page: [Reuters Screen/Moneyline Telerate/Other]  
(Condition 6.03)  
page [ ☐ ].
23. Relevant Margin: [Plus/Minus] [ ☐ ] % per annum.  
(Condition 6.03)
24. ISDA Rate: Issuer is [Fixed Rate/Fixed Amount/Fixed Price/  
(Condition 6.04) Floating Rate/Floating Amount/Floating Price] Payer.
25. Minimum Interest Rate: [ ☐ ] % per annum  
(Condition 6.05)

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]
- (Condition 6.09)
32. Interest Commencement Date: [Specify, if different from the Issue Date]
- (Condition 6.09)
33. Interest Determination Date: [Specify number of Banking Days in which city(ies), if different from Condition 6.09]
- (Condition 6.09)
34. Relevant Time: [   ●   ][a.m./p.m.][Specify city] time
- (Condition 6.09)
35. Default Interest Rate: [Specify if different from the Interest Rate]
- (Condition 6.06)
36. Calculation Agent: [Name and specified office]
- (Condition 6.07)
37. Reference Banks: [Specify]
- (Condition 6.09)
38. If non-interest bearing: [Specify]
- Amortisation Yield

—	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*: (Condition 7.01)	[Specify date (or Interest Payment Date occurring in month and year if FRN Convention applies)]
40.	Dates for payment of Instalment Amounts (Instalment Instruments): (Condition 7.01)	[Specify dates (or Interest Payment Dates occurring in months and years if FRN Convention applies)]
41.	Maturity Redemption Amount: (Condition 7.01)	[Specify, if not the Outstanding Principal Amount]
42.	Instalment Amounts: (Condition 7.01)	[Specify]
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): (Condition 7.03)	[Yes/No]
	(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): (Condition 7.06)	[Yes/No]
	(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: (Condition 10A.05)	[Specify whether, e.g. the Modified Following Business Day Convention should apply for purposes of payment].

\* If Instruments are issued or are to be issued by Diageo Enterprises, such Instruments must have a minimum maturity of 366 days.

48. Replacement of Instruments:  
(Condition 13) [In the case of Bearer Instruments specify Replacement Agent, if other than (or in addition to) the Issue and Paying Agent]
49. Notices:  
(Condition 15) [Specify any other means of effective communication]
50. Listing: [Yes/No] [if Yes, specify which listing authority and/or stock exchange(s)]
51. Selling Restrictions:  
United States of America: Regulation S Category 2 restrictions apply to the Instruments [Specify whether the Instruments are subject to TEFRA C or TEFRA D Rules. In the absence of specification TEFRA D Rules will apply]  
  
Other: [Specify any modifications of or additions to selling restrictions contained in Dealership Agreement]
52. Stabilising Institution: [In connection with the issue of the Instruments, [name of stabilising institution] (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 and Clearstream, Luxembourg: [ ☒ ]
57. Settlement Procedures: [Specify whether customary medium term note/eurobond/other settlement and payment procedures apply]
58. Other Relevant Terms and Conditions: [ ☒ ]

**CONFIRMED**

**[DIAGEO plc/DIAGEO CAPITAL plc/DIAGEO FINANCE plc/DIAGEO ENTERPRISES]**

By: .....  
*Authorised Signatory*

Date: .....

#### USE OF PROCEEDS

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

## DIAGEO CAPITAL PLC

### Introduction

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

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

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

### Directors

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

Name	Business occupation
Paviter Singh Binning	Director
Matthew John Lester	Director
Joel Walters	Director

On 31 January 2003, Robert Joseph Moore resigned and Matthew John Lester was appointed as a director of Diageo Capital plc. On 31 March 2003, Roger Hugh Myddelton resigned as a director of Diageo Capital plc. On 18 April 2003, Alistair Williams resigned as a director of Diageo Capital plc.

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 March 2003, the directors had no interests in the share capital of Diageo Capital plc. At 31 March 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 company secretary of Diageo Capital plc is John James Nicholls.

The registered office of Diageo Capital plc is at Edinburgh Park, 5 Lochside Way, Edinburgh EH12 9DT.

# **DIAGEO CAPITAL PLC** **INDEBTEDNESS AND CAPITALISATION**

The following table sets out the capitalisation and indebtedness (excluding balances with other Diageo group undertakings) of Diageo Capital plc based on the audited financial statements as at 30 June 2002.

	30 June 2002 £ million
Borrowings <sup>(1)</sup>	
Short term borrowings (including current portion of long term borrowings)	2,031.0
Long term borrowings	1,458.8
Shareholders' equity	
Ordinary shares <sup>(3)</sup>	0.1
Retained earnings	251.1
Total indebtedness and capitalisation	<u>3,741.0</u>

## **Notes:**

- (1) On 19 November 2002, Diageo Capital plc issued a \$1 billion global bond due November 2007, paying interest at 3.5%. On 20 March 2003, Diageo Capital plc issued a \$1 billion global bond due March 2008, paying interest at 3.375%. Between 30 June 2002 and 18 December 2002 Diageo Capital plc issued various retail notes with a total principal amount of \$60.5 million, with maturity dates of between 5 to 10 years, paying interest at circa 5%. The amount of outstanding commercial paper has reduced from \$2,432 million (£1,601 million) at 30 June 2002 to \$1,869 million (£1,183 million) at 28 March 2003.
- (2) None of the borrowings, in the table and note (1) above, are secured on the assets of Diageo Capital plc or the Diageo group. The borrowings of Diageo Capital plc are guaranteed by Diageo plc.
- (3) At 30 June 2002, the total authorised share capital of Diageo Capital plc was £0.1 million, consisting of 100,000 ordinary shares of £1 each. At such date, 100,000 ordinary shares were issued and fully paid, with an aggregate nominal value of £0.1 million.
- (4) At 30 June 2002, there were no contingent liabilities or guarantees.
- (5) There has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of Diageo Capital plc since 30 June 2002 except as disclosed in note (1) above.

## 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
Paviter Singh Binning	Director
Matthew John Lester	Director
Joel Walters	Director

On 31 January 2003, Robert Joseph Moore resigned and Matthew John Lester was appointed as a director of Diageo Finance plc. On 31 March 2003, Roger Hugh Myddelton resigned as a director of Diageo Finance plc. On 18 April 2003, Alistair Williams resigned as a director of Diageo Finance plc.

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 March 2003, the directors had no interests in the share capital of Diageo Finance plc. At 31 March 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 INDEBTEDNESS AND CAPITALISATION

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 2002.

	30 June 2002 £ million
Borrowings <sup>(1)</sup>	
Short term borrowings (including current portion of long term borrowings)	130.9
Long term borrowings	199.6
Shareholders' equity	
Ordinary shares <sup>(2)</sup>	3,660.0
Retained earnings	960.3
Total indebtedness and capitalisation	<u>4,950.8</u>

### Notes:

- (1) None of the borrowings in the table 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.
- (2) At 30 June 2002, 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.
- (3) Diageo Finance plc enters into various forward dated transactions to manage the Diageo group's interest and foreign exchange rate exposures. In the period from 1 July 2002 to 25 April 2003 a gain of £16 million had been realised. As at 25 April 2003, the fair value of contingent liabilities in respect of open foreign exchange cylinders was £2 million.
- (4) On 13 December 2002, Diageo Finance plc entered into a five year \$850,000,000 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 Diageo plc and Diageo Enterprises, on a joint and several basis guarantee in full, i.e. up to a maximum of \$850,000,000, 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 2002 except as described in notes (3) and (4) above.

## DIAGEO ENTERPRISES

### Introduction

Diageo Enterprises, a wholly owned subsidiary of Diageo plc, was incorporated as a private unlimited company in Ireland on 15 June 1992 under the Companies Acts, 1963-1990 (registered number 190267) under the name Bravura Enterprises. Diageo Enterprises changed its name to Guinness Enterprises on 25 January 1994 and changed it again to Diageo Enterprises on 24 February 1998. On 28 July 1999 Diageo Enterprises was re-registered as a public unlimited company.

The issued share capital of Diageo Enterprises consists of 173,605,524 ordinary shares of US\$1 each, 10,000 ordinary shares of GBP£1 each, 13 ordinary shares of €1.27 each and 2 ordinary shares of CAD\$1 each, all of which are held by Diageo Holdings Nederland B.V.

Diageo Enterprises provides lending services to the Diageo group and manages surplus cash within the Diageo group.

Diageo Enterprises has five subsidiary undertakings which are Diageo Enterprises International, Diageo Enterprises Canada, Diageo Enterprises Germany, Diageo Enterprises Spain and Guinness United Distillers European Collections Limited. These subsidiaries are currently in voluntary liquidation.

### Directors

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

Name	Business occupation
Charles Coase	Director
David Gillard	Director
Melanie Halpin	Director
Patrick Keeley	Director

On 4 September 2001, Philip Gooding resigned as a director of Diageo Enterprises. Taun Dimatteo was appointed as a director of Diageo Enterprises on 4 September 2001.

On 16 May 2002, Paul Byrne resigned as director of the company. On 11 June 2002, Chris Day resigned as director of the company. On 12 June 2002, Taun Dimatteo and Gerry Dempsey resigned as directors of the company and on the same day Melanie Halpin, David Gillard, Charles Coase and Patrick Keeley were appointed directors of the company.

On 10 June 2002 Peter Murphy resigned as company secretary and on 12 June 2002 Jim McLoughlin was appointed company secretary.

The business address of Charles Coase, Melanie Halpin and Patrick Keeley is at St James's Gate, Dublin 8, Ireland and the business address of David Gillard is 8 Henrietta Place, London W1G 0NB.

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

At 31 March 2003, the directors had no interests in the share capital of Diageo Enterprises. At 31 March 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 registered office of Diageo Enterprises is at Finance Building, Front Offices, St James's Gate, Dublin 8, Ireland.

## DIAGEO ENTERPRISES INDEBTEDNESS AND CAPITALISATION

The following table sets out the capitalisation and indebtedness (excluding balances with other Diageo group undertakings) of Diageo Enterprises based on the audited financial statements as at 30 June 2002.

	30 June 2002 \$ million
Short term borrowings <sup>(1)</sup>	
Commercial paper / medium term notes	666.0
Shareholders' equity	
Ordinary shares <sup>(2)</sup>	318.3
Retained earnings	31.9
Total indebtedness and capitalisation	<u>1,016.2</u>

### Notes:

- (1) None of the borrowings in the table above are secured on the assets of Diageo Enterprises or the Diageo group. The borrowings of Diageo Enterprises are guaranteed by Diageo plc.
- (2) At 30 June 2002, the total authorised share capital of Diageo Enterprises was \$5.089 million, consisting of 2,000,000,000 ordinary shares of £1 each, 2,000,000,000 ordinary shares of \$1 each, 10,000,000 ordinary shares of €1.27 each and 60,000,000 ordinary shares of CAD\$1 each. At such date 71,344,590 ordinary shares of £1 each, 209,850,000 ordinary shares of \$1 each, 13 ordinary shares of €1.27 each and 2 ordinary shares of CAD\$1 each were issued and fully paid, with an aggregate nominal value of \$318 million.  
  
Since 30 June 2002 and up to 24 March 2003, 71,334,590 ordinary shares of £1 each were redeemed, 50,000,000 ordinary shares of \$1 each were redeemed and 13,755,524 ordinary shares of \$1 each were issued.
- (3) Since 30 June 2002, a majority of the short term borrowings have been repaid. At 30 April 2003, short term borrowings was \$125 million.
- (4) On 13 December 2002, Diageo Enterprises entered into a five year \$850,000,000 Credit Facility Agreement following the sale of the Burger King Corporation by the Diageo group. Under the terms of this Agreement, Diageo Enterprises together with Diageo plc and Diageo Finance plc, on a joint and several basis guarantee in full, i.e. up to a maximum of \$850,000,000, 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) At 30 June 2002, there were no contingent liabilities or guarantees.
- (6) There has been no material change in the indebtedness, capitalisation, contingent liabilities or guarantees nor the authorised and issued share capital of Diageo Enterprises since 30 June 2002 except as disclosed in notes (2) to (4) above.
- (7) Exchange rates used in the table above to translate balances at 30 June 2002 were £ — \$1 = 0.66, € — \$1 = 1.01 and CAD\$ — \$1 = 1.52.

## 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 business 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 25 April 2003 with a market capitalisation of approximately £21.4 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's strategy is to focus on its branded drinks businesses which has international potential. Diageo considers its brands to be important to its operations and the focus of its business strategy is to strengthen and increase international consumer appeal for its key brands. Diageo completed the disposal of its quick service restaurants business on 13 December 2002 and the combination of the group's packaged food business with General Mills, Inc on 31 October 2001.

### Business

Diageo's principal business activities are as follows:-

*Premium drinks.* 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**"). Moët Hennessy is based in France and is a leading producer and exporter of champagne and cognac. Diageo and Moët Hennessy have established a number of joint distribution arrangements in the United States, Asia and France.

*General Mills.* Diageo owns an equity investment of 21% in General Mills, Inc ("**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.

### Recent developments

*Sale of Burger King.* On 13 December 2002, Diageo completed the disposition of Burger King Corporation to the Burger King Acquisition Corporation, a newly formed company owned by Texas Pacific Group, Bain Capital and Goldman Sachs Capital Partners. The disposition was made pursuant to an agreement which amended and restated an earlier stock purchase agreement signed on 25 July 2002 between Diageo and Burger King Acquisition Corporation. Diageo received approximately \$1.2 billion in cash and a subordinated debt instrument issued by the holding company then owning all of the capital stock of Burger King in a principal amount of \$212.5 million. The balance of the consideration was settled by the assumption of net debt, estimated by Diageo to be \$86 million. In connection with the disposal, Diageo and certain of its wholly owned subsidiaries agreed to guarantee a \$750 million term loan and a \$100 million revolving line of credit on behalf of Burger King and its subsidiaries. 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.

As a division of Diageo, Burger King was a leading company in the worldwide quick service restaurant industry and sold a range of hamburger, chicken and associated products. For the six months ended 31 December

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

2002, quick service restaurants contributed £479 million to turnover, £55 million to operating profit before goodwill amortisation and exceptional items and £53 million to operating profit.

*Don Julio joint venture.* On 7 March 2003, Diageo announced the creation of a 50/50 joint venture with José Cuervo S.A. ("**José Cuervo**") relating to the Don Julio and Tres Magueyes tequilas. Under the terms of the joint venture, José Cuervo will acquire a 50% ownership interest in Tequila Don Julio. S.A. de C.V. and its affiliates from Diageo.

### Legal proceedings

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

### 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	Finance Director, Executive director
Rodney F Chase	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
Sir Robert P Wilson	Non-executive director

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

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

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

<b>Name</b>	<b>Company/Institution</b>
Lord Blyth of Rowington	Anixter Inc Greenhill & Company
Paul Steven Walsh	Centrica plc Federal Express Corporation General Mills. Inc
Nicholas Charles Rose	Moët Hennessy 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
Maria Lilja	Bilia AB Cell Network AB Investment AB BURE Intrum Justitia B.V. 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
Sir Robert Peter Wilson	Rio Tinto plc BG Group plc The Economist Newspaper Ltd.

At 31 March 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**  
**INDEBTEDNESS AND CAPITALISATION**

	31 December 2002 (unaudited) £ million
Short term borrowings (including current portion of long term borrowings)	3,521
Long term borrowings	
Due from one to five years	2,848
Due after five years	615
	3,463
Minority interests (equity and non-equity)	535
Shareholders' equity	
Called up share capital	910
Share premium account	1,325
Revaluation reserve	126
Capital redemption reserve	3,032
Profit and loss account	(171)
	5,222
Total indebtedness and capitalisation	9,220

**Notes:**

- (1) Since 31 December 2002 and up to and including 30 April 2003, 23 million ordinary shares have been purchased for immediate cancellation at a cost of £151 million. On 30 April 2003, Diageo received a final cash payment of \$273 million (£173 million) from General Mills Inc. under the terms of the October 2001 agreement for Diageo's sale of Pillsbury.
- (2) At 31 December 2002, £38 million of the group's net borrowings due within one year and £219 million of the group's net borrowings due after more than one year were secured.
- (3) At 31 December 2002, there were potential issues of approximately 5 million new ordinary shares outstanding under Diageo's employee share option schemes.
- (4) At 31 December 2002, the total authorised share capital of Diageo consisted of 5,329,052,500 ordinary shares of 28<sup>(p)</sup>/<sub>100</sub> pence each. At such date, 3,143,761,256 ordinary shares were issued and fully paid.
- (5) In connection with the disposal of the quick service restaurants business, Diageo has guaranteed up to \$850 million (£528 million) of external borrowings of Burger King. 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. At 30 June 2002, in connection with the disposal of Pillsbury, Diageo has guaranteed the debt of a third party to the amount of \$200 million (£132 million) until 13 November 2009. Including this guarantee, but net of the amount provided in the financial statements, at 30 June 2002, the group has given performance guarantees and indemnities to third parties of £102 million. Apart from the items referred to above, there has been no material change since 30 June 2002 in the group's contingent liabilities and guarantees.
- (6) There has been no material change in the capitalisation and indebtedness of the Diageo group since 31 December 2002, except as disclosed in note (1) above.
- (7) At 31 December 2002 the group had cash at bank and liquid resources of £1,360 million and interest rate and foreign currency swaps of £365 million.

## **DIAGEO CAPITAL PLC**

### **Independent auditors' report**

Reproduced below is the full text of the independent auditors' report on the financial statements of Diageo Capital plc in respect of the year ended 30 June 2002. 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 Capital plc**

We have audited the financial statements on pages 7 to 15<sup>(1)</sup>.

#### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 5<sup>(2)</sup>, 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 2002 and of its result 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  
19 December 2002

<sup>(1)</sup> Pages 57 to 64 of the Information Memorandum.

<sup>(2)</sup> Page 65 of the Information Memorandum.



**DIAGEO CAPITAL PLC**  
**AUDITED FINANCIAL STATEMENTS**

The financial information set out below on pages 57 to 64 does not constitute Diageo Capital plc's statutory accounts within the meaning of Section 240 of the Companies Act. The information for the years ended 30 June 2002 and 30 June 2001 has been extracted, without material adjustment, from the audited financial statements of Diageo Capital plc.

**Profit and Loss Account**

		Year ended 30 June 2002 £ million	Year ended 30 June 2001 £ million
	Notes		
Net interest receivable	2	154.9	490.8
Other operating income / (expense)	4	2.1	(18.6)
<b>Profit on ordinary activities before taxation</b>		<b>157.0</b>	<b>472.2</b>
Taxation on profit on ordinary activities	5	(1.0)	—
<b>Profit on ordinary activities after taxation</b>		<b>156.0</b>	<b>472.2</b>
Dividends		(500.0)	—
<b>(Deficit)/profit for the year transferred (from)/to reserves</b>		<b>(344.0)</b>	<b>472.2</b>

There are no recognised gains or losses other than the 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 result for the year and the historical cost result for the year and consequently no note of historical cost results has been presented as part of the financial statements.

**Reconciliation of Movements in Shareholders' Funds**

	Year ended 30 June 2002 £ million	Year ended 30 June 2001 £ million
Profit for the year	156.0	472.2
Dividends	(500.0)	—
Net (decrease)/increase in shareholders' funds	(344.0)	472.2
Shareholders' funds at beginning of the year	595.2	123.0
Shareholders' funds at end of the year	251.2	595.2

**DIAGEO CAPITAL PLC**  
**Balance Sheet as at 30 June 2002**

	Notes	30 June 2002 £ million	30 June 2001 £ million
<b>Current assets</b>			
Debtors — due within one year	6	10,573.9	8,479.7
Cash	7	1.7	3.4
		<u>10,575.6</u>	<u>8,483.1</u>
<b>Creditors — due within one year</b>			
External borrowings	9	(2,031.0)	(1,335.4)
Other creditors	11	(6,834.6)	(4,892.2)
		<u>(8,865.6)</u>	<u>(6,227.6)</u>
<b>Net current assets</b>		<u>1,710.0</u>	<u>2,255.5</u>
<b>Creditors — due after one year</b>			
External borrowings	9	(1,458.8)	(1,660.3)
		<u>251.2</u>	<u>595.2</u>
<b>Capital and reserves</b>			
Called up share capital — equity	12	0.1	0.1
Profit and loss account	13	251.1	595.1
		<u>251.2</u>	<u>595.2</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 rate of exchange under the related forward currency contract. Exchange gains and losses are taken to the profit and loss account.

## DIAGEO CAPITAL PLC

### *Financial instruments*

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.

### *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.

## **2. Interest**

	Year ended 30 June 2002 £ million	Year ended 30 June 2001 £ million
<i>Interest receivable</i>		
Loans to Diageo group undertakings	476.8	932.6
Other deposits and swaps	59.5	117.6
	<u>536.3</u>	<u>1,050.2</u>
<i>Interest payable</i>		
Loans from Diageo group undertakings	(108.2)	(258.7)
Other loans and swaps	(273.2)	(300.7)
	<u>(381.4)</u>	<u>(559.4)</u>
Net interest receivable	<u>154.9</u>	<u>490.8</u>

## **3. Operations**

During the financial period the company was engaged in treasury management for Diageo plc and its subsidiary undertakings. The business and geographical segments that it lent to are as disclosed in the consolidated statutory accounts of Diageo plc. The company's operations are based in the United Kingdom. It raises the external funds it requires principally using the London and New York financial markets.

## DIAGEO CAPITAL PLC

### 4. Operating costs

The company has no employees.

Operating costs include a foreign exchange gain for the year ended 30 June 2002 of £3.1 million (2001: loss of £18.5 million).

Fees in respect of services provided by the auditors were: statutory audit £37,500 (2001: £11,750); and other non-audit work £391,000 (2001: nil).

### 5. Taxation

	Year ended 30 June 2002 £ million	Year ended 30 June 2001 £ million
Factors affecting the current tax charge:		
Profit before taxation	157.0	472.2
Corporation tax at 30%	(47.1)	(141.7)
Group relief received for nil consideration	47.1	141.7
Adjustment in respect of prior year	(1.0)	—
Current tax charge	(1.0)	—

### 6. Debtors — due within one year

	30 June 2002 £ million	30 June 2001 £ million
Amounts owed by Diageo group undertakings	10,556.8	8,471.9
Corporation tax	1.4	2.4
Other debtors	15.7	5.4
	<u>10,573.9</u>	<u>8,479.7</u>

### 7. Cash

£0.4 million of cash at bank represents group scheme balances and supports overdrafts of other Diageo group undertakings (2001 — £3.4 million).

### 8. Fair values

The estimated fair values of borrowings at 30 June 2002 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 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.

# DIAGEO CAPITAL PLC

	30 June 2002		30 June 2001	
	Net carrying amount £ million	Estimated fair value £ million	Net carrying amount £ million	Estimated fair value £ million
<b>Primary financial instruments:</b>				
Loans from Diageo group undertakings	(6,790.5)	(6,820.7)	(4,868.6)	(4,896.2)
External borrowings including overdrafts	(3,489.8)	(3,589.8)	(2,995.7)	(3,048.3)
<b>Derivatives — interest rate contracts:</b>				
Interest rate swaps with Diageo group undertakings:				
— positive values	2.0	65.5	2.9	49.2
— negative values	—	—	—	—
Interest rate swaps with third parties:				
— positive values	0.1	1.9	—	2.1
— negative values	(11.2)	(78.7)	(0.3)	(8.6)
Collars	(4.0)	(20.3)	—	(4.2)

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 group has unrecognised 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		
	Gains £ million	Losses £ million	Total £ million
On hedges at 30 June 2001	48.4	(12.5)	35.9
Arising in previous years recognised during 2002	35.6	(13.8)	21.8
On hedges at 30 June 2002	72.2	(90.7)	(18.5)
Of which gains/(losses) expected to be recognised in:			
— year ending 30 June 2003	25.7	(29.6)	(3.9)
— year ending 30 June 2004 or later	46.5	(61.1)	(14.6)

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 2002. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

## 9. Maturity of financial liabilities

	30 June 2002				30 June 2001			
	Loans from group undertakings £ million	Overdrafts £ million	Other loans £ million	Total £ million	Loans from group undertakings £ million	Overdrafts £ million	Other loans £ million	Total £ million
<i>Analysis by year of repayment:</i>								
After five years	—	—	(231.8)	(231.8)	—	—	(211.3)	(211.3)
From two to five years	—	—	(331.0)	(331.0)	—	—	(1,060.0)	(1,060.0)
From one to two years	—	—	(896.0)	(896.0)	—	—	(389.0)	(389.0)
Due after more than one year	—	—	(1,458.8)	(1,458.8)	—	—	(1,660.3)	(1,660.3)
Due within one year	(6,790.5)	(1.0)	(2,030.0)	(8,821.5)	(4,868.6)	(0.4)	(1,335.0)	(6,204.0)
	<u>(6,790.5)</u>	<u>(1.0)</u>	<u>(3,488.8)</u>	<u>(10,280.3)</u>	<u>(4,868.6)</u>	<u>(0.4)</u>	<u>(2,995.3)</u>	<u>(7,864.3)</u>

## DIAGEO CAPITAL PLC

Other loans comprise:

	Currency	Year end interest rates %	30 June 2002 £ million	30 June 2001 £ million
Guaranteed bond 2003	US dollar	6.0	(328.5)	(353.6)
Guaranteed bond 2004	US dollar	6.625	(656.7)	(707.3)
Guaranteed bond 2005	US dollar	6.125	(327.6)	(352.7)
Commercial paper	US dollar	Various	(1,600.6)	(1,150.3)
Medium term notes	Various	Various	(537.6)	(431.4)
Retail notes	US dollar	Various	(37.8)	—
			<u>(3,488.8)</u>	<u>(2,995.3)</u>

The interest rates shown above are contracted on the underlying borrowings before taking into account any interest rate protection. The company has no committed bank facilities at 30 June 2002.

### 10. Interest rate risk management

At 30 June 2002, 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 were as follows:

	Floating rate £ million	Fixed rate £ million	Total £ million	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Financial liabilities:					
US dollar	(3,671.9)	(2,140.3)	(5,812.2)	5.7	3.0
Euro	(473.8)	—	(473.8)	—	—
Sterling	(3,359.2)	(628.6)	(3,987.8)	6.7	2.7
Other	(6.5)	—	(6.5)	—	—
	<u>(7,511.4)</u>	<u>(2,768.9)</u>	<u>(10,280.3)</u>	5.9	2.9
Financial assets:					
US dollar	5,798.7	—	5,798.7	—	—
Euro	473.1	—	473.1	—	—
Sterling	4,280.4	—	4,280.4	—	—
Other	6.3	—	6.3	—	—
	<u>10,558.5</u>	<u>—</u>	<u>10,558.5</u>	—	—
Net financial assets/(liabilities)	<u>3,047.1</u>	<u>(2,768.9)</u>	<u>278.2</u>	5.9	2.9

## DIAGEO CAPITAL PLC

At 30 June 2001, 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 were as follows:

	Floating rate £ million	Fixed rate £ million	Total £ million	Weighted average fixed rate %	Weighted average period for which rate is fixed Years
<b>Financial liabilities:</b>					
US dollar	(925.9)	(1,950.9)	(2,876.8)	6.6	3.9
Euro	(423.5)	—	(423.5)	—	—
Sterling	(4,429.5)	(128.5)	(4,558.0)	6.7	3.7
Other	(6.0)	—	(6.0)	—	—
	<u>(5,784.9)</u>	<u>(2,079.4)</u>	<u>(7,864.3)</u>	6.6	3.9
<b>Financial assets:</b>					
US dollar	2,857.5	—	2,857.5	—	—
Euro	423.1	—	423.1	—	—
Sterling	5,185.3	—	5,185.3	—	—
Other	6.0	—	6.0	—	—
	<u>8,471.9</u>	<u>—</u>	<u>8,471.9</u>	—	—
<b>Net financial assets/(liabilities)</b>	<u>2,687.0</u>	<u>(2,079.4)</u>	<u>607.6</u>	6.6	3.9

Financial liabilities comprise bonds, medium term notes, commercial papers and borrowings from Diageo group undertakings. Floating rate financial liabilities comprise borrowings from Diageo group undertakings and bear interest based on short term interbank rates (predominantly 6 month LIBOR). Financial assets comprise amounts due from Diageo group undertakings.

In addition to the interest rate and currency swaps reflected in the tables above, Diageo Capital plc has £602 million notional principal US dollar interest rate collars which mature between 1 July 2003 and 1 January 2006 and have floors of 3.05% — 5.44% and caps of 3.64% — 7.98%.

### 11. Other creditors – due within one year

	30 June 2002 £ million	30 June 2001 £ million
Amounts owed to Diageo group undertakings	6,790.5	4,868.6
Other	—	3.1
Accruals and deferred income	44.1	20.5
	<u>6,834.6</u>	<u>4,892.2</u>

### 12. Share capital

	30 June 2002 £ million	30 June 2001 £ million
<i>Authorised, issued and fully paid:</i>		
100,000 ordinary shares of £1 each	<u>0.1</u>	<u>0.1</u>

## DIAGEO CAPITAL PLC

### 13. Reserves

	2002 £ million	2001 £ million
<i>Profit and loss account:</i>		
Balance brought forward	595.1	122.9
(Deficit)/profit for the year	(344.0)	472.2
Balance carried forward	<u>251.1</u>	<u>595.1</u>

### 14. Ultimate parent undertaking

Diageo Capital plc is a wholly owned subsidiary of Diageo plc, a company incorporated and registered in England. Its accounting period end is 30 June.

The consolidated financial statements of Diageo plc for the year ended 30 June 2002 can be obtained from the Registered Office at 8 Henrietta Place, London W1G 0NB.



## **DIAGEO CAPITAL PLC**

### **Directors' Responsibilities**

Reproduced below is the full text of the statement of directors' responsibilities in respect of the financial statements of Diageo Capital plc for the year ended 30 June 2002. The references to page numbers within this statement 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 auditor's report set out overleaf<sup>(1)</sup> is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

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

The directors, in preparing the financial statements on pages 7 to 15<sup>(2)</sup>, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on the going concern basis.

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

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

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<sup>(1)</sup> Page 56 of the Information Memorandum.

<sup>(2)</sup> Pages 57 to 64 of the Information Memorandum.

## **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 2002. 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<sup>(1)</sup>.

#### **Respective responsibilities of directors and auditor**

The directors are responsible for preparing the directors' report and, as described on page 4<sup>(2)</sup>, 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 2002 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  
19 December 2002

<sup>(1)</sup> Pages 67 to 78 of the Information Memorandum.

<sup>(2)</sup> Page 79 of the Information Memorandum.

## DIAGEO FINANCE PLC

### AUDITED FINANCIAL STATEMENTS

The financial information set out below on pages 67 to 78 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 2002 and 30 June 2001 has been extracted, without material adjustment, from the audited financial statements of Diageo Finance plc.

#### Profit and Loss Account

		Year ended 30 June 2002 £ million	Year ended 30 June 2001 £ million
	Notes		
Net interest receivable	2	371.2	375.5
Other operating income		16.7	—
Operating costs	4	<u>(4.1)</u>	<u>(11.4)</u>
<b>Profit on ordinary activities before taxation</b>		383.8	364.1
Taxation on profit on ordinary activities	5	<u>7.2</u>	<u>(3.4)</u>
<b>Profit on ordinary activities after taxation</b>		391.0	360.7
Non-equity dividends	6	<u>—</u>	<u>(166.3)</u>
<b>Profit for the year transferred to reserves</b>	14	<u><u>391.0</u></u>	<u><u>194.4</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 2002 £ million	Year ended 30 June 2001 £ million
Profit for the year		391.0	360.7
Non-equity dividends	6	<u>—</u>	<u>(166.3)</u>
Net increase in shareholders' funds		391.0	194.4
Shareholders' funds at beginning of the year		<u>4,229.3</u>	<u>4,034.9</u>
Shareholders' funds at end of the year		<u><u>4,620.3</u></u>	<u><u>4,229.3</u></u>

# DIAGEO FINANCE PLC

## Balance Sheet as at 30 June 2002

	Notes	30 June 2002 £ million	30 June 2001 £ million
<b>Current assets</b>			
Debtors — due within one year	7	35,993.3	24,157.7
Debtors — due after one year	7	4,195.0	4,522.2
Investments	8	3.1	144.6
Cash at bank	9	79.7	39.0
		<u>40,271.1</u>	<u>28,863.5</u>
<b>Creditors — due within one year</b>			
External borrowings	10	(130.9)	(317.7)
Other creditors	12	(30,131.9)	(18,692.7)
		<u>(30,262.8)</u>	<u>(19,010.4)</u>
<b>Net current assets</b>		<u>10,008.3</u>	<u>9,853.1</u>
<b>Creditors — due after one year</b>			
External borrowings	10	(199.6)	(201.6)
Other creditors	12	(5,188.4)	(5,422.2)
		<u>(5,388.0)</u>	<u>(5,623.8)</u>
		<u>4,620.3</u>	<u>4,229.3</u>
<b>Capital and reserves</b>			
Called up share capital — equity	13	3,660.0	655.0
Called up share capital — non-equity	13	—	3,005.0
		<u>3,660.0</u>	<u>3,660.0</u>
Profit and loss account	14	960.3	569.3
		<u>4,620.3</u>	<u>4,229.3</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

## DIAGEO FINANCE PLC

foreign currencies are translated into sterling at the financial year end exchange rates, or if hedged forward, at the 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 2002 £ million	Year ended 30 June 2001 £ million
<i>Interest receivable</i>		
Loans to Diageo group undertakings	1,552.7	2,116.5
Income from swaps	121.6	38.3
Other deposits	18.5	9.7
Option premia	1.0	—
	<u>1,693.8</u>	<u>2,164.5</u>
<i>Interest payable</i>		
Bank loans and overdrafts	(6.4)	(15.0)
Loans from Diageo group undertakings	(1,283.0)	(1,736.5)
Other loans	(33.2)	(37.2)
Option premia	—	(0.3)
	<u>(1,322.6)</u>	<u>(1,789.0)</u>
Net interest receivable	<u>371.2</u>	<u>375.5</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 £15,600 (2001: £21,779); and other non-audit work £10,500 (2001: £15,809).

### 5. Taxation

	Year ended 30 June 2002 £ million	Year ended 30 June 2001 £ million
Factors affecting the current tax charge:		
Profit before taxation	383.8	364.7
Corporation tax at 30%	(115.1)	(109.4)
Group relief received for nil consideration	115.1	109.4
Adjustment in respect of prior year	7.2	(3.4)
Current tax charge	<u>7.2</u>	<u>(3.4)</u>

## DIAGEO FINANCE PLC

### 6. Dividends

	Year ended 30 June 2002 £ million	Year ended 30 June 2001 £ million
<i>Non-equity:</i>		
5.8% 'E' cumulative redeemable preference shares of £1 each	—	(116.3)
5.0% 'F' cumulative redeemable preference shares of £1 each	—	(50.0)
	<u>—</u>	<u>(166.3)</u>

On 25 July 2001, the 'E' and 'F' cumulative preference shares were converted into a total of 60,100,000,000 ordinary shares of 5p each.

### 7. Debtors

	30 June 2002		30 June 2001	
	Due within one year £ million	Due after one year £ million	Due within one year £ million	Due after one year £ million
Amounts owed by Diageo group undertakings	35,805.5	4,195.0	24,034.8	4,522.2
Corporation tax	15.5	—	14.0	—
Other debtors	172.3	—	108.9	—
	<u>35,993.3</u>	<u>4,195.0</u>	<u>24,157.7</u>	<u>4,522.2</u>

### 8. Investments

	30 June 2002 £ million	30 June 2001 £ million
Term deposits	<u>3.1</u>	<u>144.6</u>

### 9. Cash at bank

£66.1 million of cash at bank represents group scheme balances and supports overdrafts of other Diageo group undertakings (2001: £7.6 million).

## DIAGEO FINANCE PLC

### 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.

#### (i) External borrowings:

	Currency	Year end interest rates %	30 June 2002 £ million	30 June 2001 £ million
Guaranteed bond 2005	Sterling	9	199.6	199.5
Bank loans and other	Various	Various	1.3	4.6
Bank overdrafts	Various	Various	129.6	315.2
			<u>330.5</u>	<u>519.3</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 £1.0 million (2001 — £0.8 million). None of the borrowings are secured on assets of the Diageo group.

#### (ii) Maturity of financial liabilities

	30 June 2002				30 June 2001			
	Bank loans and overdrafts £ million	Other loans £ million	Borrowings from group undertakings £ million	Total £ million	Bank loans and overdrafts £ million	Other loans £ million	Borrowings from group undertakings £ million	Total £ million
<i>Analysis by year of repayment</i>								
From two to five years	—	199.6	—	199.6	—	199.5	4,522.2	4,721.7
From one to two years	—	—	5,188.4	5,188.4	2.1	—	900.0	902.1
Due after one year	—	199.6	5,188.4	5,388.0	2.1	199.5	5,422.2	5,623.8
Due within one year	130.9	—	30,059.8	30,190.7	317.7	—	18,618.6	18,936.3
	<u>130.9</u>	<u>199.6</u>	<u>35,248.2</u>	<u>35,578.7</u>	<u>319.8</u>	<u>199.5</u>	<u>24,040.8</u>	<u>24,560.1</u>

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



# DIAGEO FINANCE PLC

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 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
<b>Financial liabilities:</b>						
US dollar	(7,362.0)	(2,565.8)	(10.7)	(9,938.5)	10.6	1.4
Euro	(1,671.0)	(587.7)	(767.8)	(3,026.5)	4.8	2.2
Sterling	(22,646.1)	(549.6)	1,033.5	(22,162.2)	7.9	0.7
Other	(196.5)	—	(212.4)	(408.9)	—	—
	<u>(31,875.6)</u>	<u>(3,703.1)</u>	<u>42.6</u>	<u>(35,536.1)</u>	9.3	1.4
<b>Financial assets:</b>						
US dollar	9,932.6	—	—	9,932.6	—	—
Euro	3,057.9	—	—	3,057.9	—	—
Sterling	26,709.2	—	—	26,709.2	—	—
Other	383.6	—	—	383.6	—	—
	<u>40,083.3</u>	<u>—</u>	<u>—</u>	<u>40,083.3</u>	—	—
<b>Net financial assets/(liabilities)</b>	<u>8,207.7</u>	<u>(3,703.1)</u>	<u>42.6</u>	<u>4,547.2</u>	9.3	1.4

At 30 June 2001

	Floating rate £ million	Fixed rate £ million	Impact of foreign currency swaps £ million	Total £ million	Weighted average fixed rate %	Weighted average time to maturity Years
<b>Financial liabilities:</b>						
US dollar	(4,455.8)	(2,572.3)	(8.2)	(7,036.3)	9.5	—
Euro	(758.4)	(528.8)	(741.3)	(2,028.5)	4.3	3.1
Sterling	(15,109.7)	(1,024.5)	969.6	(15,164.6)	7.2	1.9
Other	(112.5)	—	(203.8)	(316.3)	—	—
	<u>(20,436.4)</u>	<u>(4,125.6)</u>	<u>16.3</u>	<u>(24,545.7)</u>	8.3	0.9
<b>Financial assets:</b>						
US dollar	7,017.5	—	—	7,017.5	—	—
Euro	2,033.2	—	—	2,033.2	—	—
Sterling	19,371.6	—	—	19,371.6	—	—
Other	318.3	—	—	318.3	—	—
	<u>28,740.6</u>	<u>—</u>	<u>—</u>	<u>28,740.6</u>	—	—
<b>Net financial assets/(liabilities)</b>	<u>8,304.2</u>	<u>(4,125.6)</u>	<u>16.3</u>	<u>4,194.9</u>	8.3	0.9

## DIAGEO FINANCE PLC

Interest bearing financial liabilities comprise bonds, medium term notes, money market loans 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 company had available undrawn committed bank facilities with third parties at 30 June 2002 as follows:

	£ million
Expiring in one year or less	1,250.0
Expiring in more than two years	855.3
	<u>2,105.3</u>

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.

A large number of major international financial institutions are counterparties to the interest rate swaps, forward exchange contracts and deposits. The company continually monitors its positions and the credit ratings of its counterparties and, by policy, limits the amount of agreements or contracts it enters into with any one party.

### 11. Disclosure relating to derivative financial instruments

#### (i) Fair values

The estimated fair values of borrowings and associated derivative financial instruments at 30 June 2002 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.

# DIAGEO FINANCE PLC

	30 June 2002 Net carrying amount £ million	30 June 2002 Estimated fair value £ million	30 June 2001 Net carrying amount £ million	30 June 2001 Estimated fair value £ million
<b>Primary financial instruments:</b>				
External borrowings due within one year including overdrafts	(130.9)	(130.9)	(317.7)	(317.7)
External borrowings due after one year	(199.6)	(218.9)	(201.6)	(220.1)
Borrowings from Diageo group undertakings due within one year	(29,874.7)	(29,882.2)	(18,617.8)	(18,626.2)
Borrowings from Diageo group undertakings due after one year	(5,188.4)	(5,188.4)	(5,422.2)	(5,422.2)
Cash at bank and investments	82.8	82.8	183.6	183.6
<b>Derivatives — interest rate contracts:</b>				
Interest rate swaps with Diageo group undertakings				
— positive values	0.1	—	0.1	(0.8)
— negative values	(2.2)	(69.6)	(2.8)	(48.4)
Interest rate swaps with third parties:				
— positive values	71.0	178.4	36.0	110.8
— negative values	(1.9)	(8.9)	(1.4)	(6.1)
Other interest rate contracts	(2.6)	—	(4.6)	—
<b>Derivatives — foreign exchange contracts:</b>				
Transaction				
— positive values	—	136.4	9.6	102.6
— negative values	—	(137.1)	—	(99.6)
Balance sheet translation				
— positive values	96.1	98.0	32.0	34.1
— negative values	(64.5)	(64.5)	(15.7)	(15.7)
Foreign exchange options (profit translation)				
— positive values	—	18.2	1.8	16.8
— negative values	—	(6.8)	—	(38.6)

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 2002. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

## (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.

# DIAGEO FINANCE PLC

	Unrecognised			Deferred		
	Gains £ million	Losses £ million	Total £ million	Gains £ million	Losses £ million	Total £ million
<b>Gains and losses:</b>						
On hedges at 1 July 2001	187.8	(189.0)	(1.2)	0.2	(1.0)	(0.8)
Arising in previous years recognised in year ended						
30 June 2002	190.4	(171.1)	19.3	0.1	(0.4)	(0.3)
At 30 June 2002	265.6	(218.6)	47.0	0.1	(0.9)	(0.8)
Of which gains and losses expected to be recognised in the year ending 30 June 2003	161.4	(126.1)	35.3	—	(0.4)	(0.4)

## (iii) Option cylinders

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

		30 June 2002		30 June 2001	
		Hedged amount £ million	Weighted average range (against £)	Hedged amount £ million	Weighted average range (against £)
US dollar	— cylinders	—	—	713	1.44 – 1.49
	— forwards	214	1.41	121	1.43
Euro	— cylinders	58	1.52 – 1.64	223	1.56 – 1.64
	— options	250	1.56	108	1.75

## 12. Other creditors

	30 June 2002		30 June 2001	
	Due within one year £ million	Due after one year £ million	Due within one year £ million	Due after one year £ million
Amounts owed to Diageo group undertakings	30,059.8	5,188.4	18,618.6	5,422.2
Accruals and deferred income	72.1	—	74.1	—
	<u>30,131.9</u>	<u>5,188.4</u>	<u>18,692.7</u>	<u>5,422.2</u>

## DIAGEO FINANCE PLC

### 13. Share capital

	30 June 2002 £ million	30 June 2001 £ million
<i>Authorised:</i>		
<b>Equity</b>		
Brought forward from 2001: 13,100,000,000 ordinary shares of 5p each	655.0	655.0
Converted preference shares: 61,200,000,000 ordinary shares of 5p each	3,060.0	—
	<u>3,715.0</u>	<u>655.0</u>
<b>Non-equity</b>		
2,005,000,000 5.8% 'E' cumulative redeemable preference shares of £1 each	—	2,005.0
1,055,000,000 5.0% 'F' cumulative redeemable preference shares of £1 each	—	1,055.0
1,950,000,000 unclassified shares of £1 each	1,950.0	1,950.0
	<u>5,665.0</u>	<u>5,665.0</u>
<i>Allotted, called up and fully paid:</i>		
<b>Equity</b>		
Brought forward from 2001: 13,100,000,000 ordinary shares of 5p each	655.0	655.0
Converted preference shares: 60,100,000,000 ordinary shares of 5p each	3,005.0	—
	<u>3,660.0</u>	<u>655.0</u>
<b>Non-equity</b>		
2,005,000,000 5.8% 'E' cumulative redeemable preference shares of £1 each	—	2,005.0
1,000,000,000 5.0% 'F' cumulative redeemable preference shares of £1 each	—	1,000.0
	<u>3,660.0</u>	<u>3,660.0</u>

On 25 July 2001, the 'E' and 'F' cumulative redeemable preference shares were converted into a total of 60,100,000,000 ordinary shares of 5p each.

Ordinary shares are entitled to one vote each.

### 14. Reconciliation of movements in reserves

	2002 £ million	2001 £ million
<i>Profit and loss account:</i>		
Balance brought forward	569.3	374.9
Retained profit for the year	391.0	194.4
Balance carried forward	<u>960.3</u>	<u>569.3</u>

### 15. Contingent liabilities

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

## **DIAGEO FINANCE PLC**

### **16. Post balance sheet event**

On 13 December 2002 the company entered into a 5 year US\$850,000,000 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.

### **17. Related party transaction**

In connection with PS Walsh's (Chief Executive Officer, Diageo plc, ultimate parent undertaking) 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. These transactions were hedged with a third party on identical terms and involved no cost to the company.

### **18. Ultimate parent undertaking**

The company is a wholly owned subsidiary of Diageo plc. Diageo plc is incorporated and registered in England and has an accounting year end of 30 June.

The consolidated financial statements of Diageo plc for the year ended 30 June 2002 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 2002. 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<sup>(1)</sup>, 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<sup>(2)</sup>, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that accounting standards they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on the going concern basis.

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

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

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<sup>(1)</sup> Page 66 of the Information Memorandum.

<sup>(2)</sup> Pages 67 to 78 of the Information Memorandum.

## **DIAGEO ENTERPRISES**

### **Auditors' Report**

Reproduced below is the full text of the auditors' report on the financial statements of Diageo Enterprises in respect of the year ended 30 June 2002. 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 Enterprises**

We have audited the financial statements on pages 8 to 23<sup>(1)</sup>.

#### **Respective responsibilities of directors and independent auditors**

The directors are responsible for preparing the directors' report and, as described on page 5<sup>(2)</sup>, the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland 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 Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the financial statements agree with the books of account and report to you our opinion as to whether

- the company has kept proper books of account;
- the directors' report is consistent with the financial statements;
- at the balance sheet date a financial situation existed that may require the company to hold an extraordinary general meeting, on the grounds that the net assets of the company, as shown in the financial statements, are less than half of its share capital.

We also report to you if, in our opinion, information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

#### **Basis of audit 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 affairs of the company as at 30 June 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001, and all Regulations to be construed as one with those Acts.

<sup>(1)</sup> Pages 82 to 90 of the Information Memorandum.

<sup>(2)</sup> Page 91 of the Information Memorandum.



We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion, the information contained in the directors' report on pages 2 to 4 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 11<sup>(3)</sup>, are more than half of the amount of its called up share capital and, in our opinion, on that basis, there did not exist at 30 June 2002 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

KPMG  
Chartered Accountants  
Registered Auditors

5 George's Dock  
IFSC  
Dublin 1, Ireland  
12 December 2002

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<sup>(3)</sup> Page 83 of the Information Memorandum.

## DIAGEO ENTERPRISES

### AUDITED FINANCIAL STATEMENTS

The financial information set out below on pages 82 to 90 does not constitute Diageo Enterprises' statutory accounts within the meaning of Section 240 of the Companies Act. The information for the years ended 30 June 2002 and 30 June 2001 has been extracted, without material adjustment, from the audited financial statements of Diageo Enterprises.

#### Profit and Loss Account

		Year ended 30 June 2002	Year ended 30 June 2001
	Notes	\$ million	\$ million
Interest payable	2	(25.0)	(17.0)
Income — continuing operations	3	50.7	119.1
Administrative expenses	4	(1.5)	(0.8)
<b>Profit on ordinary activities before taxation</b>		<b>24.2</b>	<b>101.3</b>
Taxation on profit on ordinary activities	5	(2.7)	(3.7)
<b>Profit on ordinary activities after taxation</b>		<b>21.5</b>	<b>97.6</b>
Dividends	6	—	(146.5)
<b>Profit for the financial year</b>		<b>21.5</b>	<b>(48.9)</b>
<b>Profit and loss account at beginning of the year</b>		<b>10.9</b>	<b>59.9</b>
Transfer from share capital arising from foreign exchange movement		(0.5)	(0.1)
<b>Profit and loss account at the end of the year</b>		<b>31.9</b>	<b>10.9</b>

#### Statement of Total Recognised Gains and Losses

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

#### Note of Historical Cost Profits and Losses

There were no material differences between the results as disclosed in the profit and loss account for the years ended 30 June 2002 and 30 June 2001 and the results for those periods on an historical cost basis.

#### Reconciliation of Movements in Shareholders' Funds

	Year ended 30 June 2002	Year ended 30 June 2001
	\$ million	\$ million
Total recognised gains for the year	21.5	97.6
Dividends	—	(146.5)
Issue of share capital	—	979.8
Redemption of share capital	(1,221.2)	(940.7)
Transfer from share capital arising from foreign exchange movement	(0.5)	(0.1)
<b>Net increase in shareholders' funds</b>	<b>(1,200.2)</b>	<b>(9.9)</b>
<b>Shareholders' funds at beginning of the year</b>	<b>1,550.4</b>	<b>1,560.3</b>
<b>Shareholders' funds at end of the year</b>	<b>350.2</b>	<b>1,550.4</b>

## DIAGEO ENTERPRISES

### Balance Sheet as at 30 June 2002

	Notes	30 June 2002 \$ million	30 June 2001 \$ million
<b>Fixed assets</b>			
Tangible assets		—	0.7
Financial assets	7	95.5	995.0
		<u>95.5</u>	<u>995.7</u>
<b>Current assets</b>			
Debtors — due within one year	8	923.4	1,262.4
Cash at bank		0.1	0.2
		<u>923.5</u>	<u>1,262.6</u>
<b>Creditors — due within one year</b>			
Other creditors	9	(668.8)	(707.9)
<b>Net current assets</b>		<u>254.7</u>	<u>554.7</u>
		<u>350.2</u>	<u>1,550.4</u>
<b>Capital and reserves</b>			
Called up share capital — equity	10	318.3	1,539.5
Profit and loss account		31.9	10.9
		<u>350.2</u>	<u>1,550.4</u>

### Notes to the Financial Statements

#### 1. Accounting policies

##### *Basis of preparation*

The financial statements are prepared in accordance with generally accepted accounting principles under the historical cost convention, and comply with financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland.

##### *Reporting currency*

The financial statements are prepared in US dollars.

##### *Income recognition*

Interest income comprises interest on intra Diageo group loans and bank deposits and is recognised on an accruals basis. Dividend income from subsidiary undertakings is recognised on a declared basis.

##### *Foreign currency translation*

Monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the exchange rates ruling at the balance sheet date (except to the extent that exchange gains or losses have been hedged) and revenues, costs and non-monetary assets at the exchange rates ruling at the date of transactions. Monetary assets are monies held and amounts to be received in money; all other assets are non-monetary.

## DIAGEO ENTERPRISES

Profits and losses arising from currency translations and on settlement of amounts receivable and payable in currencies other than US dollars are dealt with through the profit and loss account.

Since the company is a public unlimited company, where share capital is denominated in a currency other than US dollars and to the extent that it is matched by net monetary assets in the same currency, a transfer is made each period from or to the profit and loss account reserve in order to record the US dollar equivalent of the foreign currency denominated share capital at the closing rate. Other share capital is translated into US dollars at the rate ruling at the date of issue.

### *Unquoted investments*

Unquoted investments are stated at cost less provision for any permanent diminution in value.

### *Loan advances*

Loan advances included under current assets are stated at the lower of cost and net realisable value.

### *Taxation*

Corporation tax is provided on taxable profits at rates relevant to the company's activities.

### *Off balance sheet transactions*

The company uses derivatives, such as currency and interest rate swaps for hedging purposes. Derivatives entered into for hedging purposes are recognised in the financial statements in accordance with the accounting treatment of the underlying asset or liability.

## 2. Interest payable

	Year ended 30 June 2002 \$ million	Year ended 30 June 2001 \$ million
On loans wholly repayable within five years	<u>25.0</u>	<u>17.0</u>

## 3. Income — continuing operations

	Year ended 30 June 2002 \$ million	Year ended 30 June 2001 \$ million
Interest income	49.7	56.6
Dividend income	0.3	62.5
Other income	<u>0.7</u>	<u>—</u>
	<u>50.7</u>	<u>119.1</u>

## DIAGEO ENTERPRISES

### 4. Administrative expenses

	Year ended 30 June 2002 \$ million	Year ended 30 June 2001 \$ million
Wages and salaries	0.3	0.3
Depreciation	0.2	0.2
Other administrative expenses	0.2	0.3
Exceptional item	0.8	—
	<u>1.5</u>	<u>0.8</u>

The average number of people employed by the company during the year was 3 (2001 — 3).

Directors' remuneration is borne by a group undertaking.

During the year the company moved offices from La Touche House, International Financial Services Centre ("IFSC"), Dublin 1 to Front Offices, Finance Building, St James's Gate, Dublin 8. The company had entered into an operating lease on its building in the IFSC on which a premium of US\$1.1 million was paid. The unamortised portion of the lease premium US\$0.5 million has been written off in the current year. The company also incurred US\$0.3 million in relation to rental costs up to the lease breakage date and reorganisation costs resulting from this relocation of premises. The tax effect of these costs reduced the tax charge by US\$0.1 million.

### 5. Tax on profit on ordinary activities

	Year ended 30 June 2002 \$ million	Year ended 30 June 2001 \$ million
Corporation tax charge for the year	<u>2.7</u>	<u>3.7</u>

Tax is calculated at a rate of 10% on profits for the year as the company qualifies for the International Financial Services Centre licence tax rate of 10%.

#### Factors affecting current tax charge

The tax assessed for the period is higher than the standard rate of corporation tax. The differences are explained below:

	Year ended 30 June 2002 \$ million	Year ended 30 June 2001 \$ million
Profit on ordinary activities before taxation	<u>24.2</u>	<u>101.3</u>
Profit on ordinary activities multiplied by 10%	2.4	10.1
Items not chargeable for tax purposes	—	(6.2)
Adjustments in respect of prior periods	<u>0.3</u>	<u>(0.2)</u>
Current tax charge	<u>2.7</u>	<u>3.7</u>

## DIAGEO ENTERPRISES

### 6. Dividends

	Year ended 30 June 2002 \$ million	Year ended 30 June 2001 \$ million
Paid during the year on:		
USD ordinary shares	—	84.0
CAD ordinary shares	—	3.8
DEM ordinary shares	—	7.8
ESP ordinary shares	—	12.9
GBP ordinary shares	—	38.0
	<u>—</u>	<u>146.5</u>

### 7. Financial assets

	30 June 2002 \$ million	30 June 2001 \$ million
Unquoted investments in Diageo group companies:		
At beginning of the year	995.0	878.0
Foreign exchange translation differences	—	—
Share capital redemption in Diageo Enterprises Spain	(6.0)	(736.3)
Share capital redemption in Diageo Enterprises Germany	(7.6)	(89.7)
Share capital redemption in Diageo Enterprises Canada	(0.5)	(37.4)
Share capital (redemption)/injection in Diageo Enterprises International	(885.4)	980.4
At end of the year	<u>95.5</u>	<u>995.0</u>

### 8. Debtors — due within one year

	30 June 2002 \$ million	30 June 2001 \$ million
Amounts due from Diageo group undertakings	0.2	2.0
Loan advances to Diageo group undertakings	923.2	1,260.4
	<u>923.4</u>	<u>1,262.4</u>

### 9. Other creditors — due within one year

	30 June 2002 \$ million	30 June 2001 \$ million
Amounts due to Diageo group undertakings	0.1	11.5
Corporation tax	2.4	4.3
Commercial paper/medium term notes	666.0	692.0
Accruals	0.3	0.1
	<u>668.8</u>	<u>707.9</u>

## DIAGEO ENTERPRISES

### 10. Share capital

	30 June 2002 Number	30 June 2001 Number
<i>Authorised:</i>		
Ordinary shares of CAD1 each	60,000,000	60,000,000
Ordinary shares of DEM1 each	—	350,000,000
Ordinary shares of IEP1 each	—	30,000
Ordinary shares of ESP1 each	—	250,000,000,000
Ordinary shares of GBP1 each	2,000,000,000	2,000,000,000
Ordinary shares of USD1 each	2,000,000,000	2,000,000,000
Ordinary shares of EUR1.27 each	10,000,000	—
<i>Issued and fully paid:</i>		
Ordinary shares of CAD1 each	2	800,000
Ordinary shares of DEM1 each	—	17,500,000
Ordinary shares of IEP1 each	—	30,000
Ordinary shares of ESP1 each	—	1,183,441,383
Ordinary shares of GBP1 each	71,344,590	695,344,590
Ordinary shares of USD1 each	209,850,000	544,850,000
Ordinary shares of EUR1.27 each	13	—

Under the Articles of Association, the directors' authorisation to allot relevant securities as defined for the purposes of Section 20 of the Companies (Amendment) Act, 1983 up to an amount of USD1,790,150,000, GBP1,928,655,410, CAD59,999,998, EUR12,699,983 shall expire on 27 January 2004.

The company had issued share capital of CAD800,000 on 1 July 2001. On 25 October 2001 the company redeemed ordinary share capital of CAD780,000 and on 23 November 2001 the company redeemed ordinary share capital of CAD19,998 decreasing the issued share capital to 2 ordinary shares of CAD1 each.

The company had issued share capital of USD544,850,000 on 1 July 2001. On 12 December 2001 the company redeemed ordinary share capital of USD300,000,000 and on 22 February 2002 the company redeemed ordinary share capital of USD35,000,000 decreasing the issued share capital to 209,850,000 ordinary shares of USD1 each.

The company had issued share capital of GBP695,344,590. During the year the company redeemed the following shares:

5 October 2001	GBP 50,000,000
12 October 2001	GBP 250,000,000
19 October 2001	GBP 20,000,000
26 October 2001	GBP 40,000,000
31 October 2001	GBP 62,500,000
12 December 2001	GBP 175,000,000
8 May 2002	GBP 26,500,000

At 30 June 2002 the remaining issued share capital is GBP71,344,590.

The company had issued share capital of DEM17,500,000 on 1 July 2001. On 25 October 2001 the company redeemed ordinary share capital of DEM16,800,000 and on 23 November 2001 the company redeemed ordinary share capital of DEM699,998 decreasing the issued share capital to 2 ordinary shares of DEM1 each.

The company had issued share capital of ESP1,183,441,383 on 1 July 2001. On 10 July 2001 the company redeemed ordinary share capital of ESP953,268,182, on 25 October 2001 the company redeemed ordinary share

## DIAGEO ENTERPRISES

capital of ESP190,000,000 and on 23 November 2001 the company redeemed ordinary share capital of ESP39,999,997 decreasing the issued share capital to 173,204 ordinary shares of ESP1 each.

On 27 November 2001 the company increased its authorised share capital through the creation of 10,000,000 shares of EUR1.27 each on the same day the company decreased its authorised share capital to 173,204 ordinary shares of ESP1 each when 249,999,826,796 shares of ESP1 were cancelled and 2 ordinary shares of DEM1 each when 349,999,998 shares of DEM1 each were cancelled.

On the same day, the company redeemed the 173,204 shares of ESP1 each, 2 ordinary shares of DEM1 each and 30,000 shares of IEP1 and issued 13 shares of EUR1.27 each.

### 11. Ultimate parent undertaking

Diageo Enterprises is a wholly owned subsidiary of Diageo Holdings Nederland B.V., a company incorporated in the Netherlands. Its ultimate holding company is Diageo plc, a company incorporated and registered in England.

The consolidated financial statements of Diageo plc for the year ended 30 June 2002 can be obtained from the Registered Office at 8 Henrietta Place, London W1G 0NB.

### 12. Subsidiary undertakings

Name	Principal activity
Guinness United Distillers European Collections Limited (100% controlled)	Inter group cash management
Diageo Enterprises Germany (100% controlled)	Inter group lending
Diageo Enterprises Canada (100% controlled)	Inter group lending
Diageo Enterprises Spain (100% controlled)	Inter group lending
Diageo Enterprises International (100% controlled)	Inter group lending

The five companies are incorporated in the Republic of Ireland. The registered office of each company is La Touche House, International Financial Services Centre, Dublin 1.

The capital and reserves of the companies at 30 June 2002 and profit after taxation for the year then ending are:

	Capital and reserves	Profit/(loss) for financial year
GUD European Collections Limited	GBP 323,663	GBP 17,958
Diageo Enterprises Germany	EUR 2,011	EUR 129,642
Diageo Enterprises Canada	CAD 116	CAD 1,417
Diageo Enterprises Spain	EUR 714	EUR (10,083)
Diageo Enterprises International	GBP 87,807,000	GBP 14,766,000

### 13. Swap transactions

The company has entered into currency swap transactions to cover any loans not issued in its reporting currency. The swaps are held with Diageo Finance plc (a wholly owned subsidiary of Diageo plc).



## DIAGEO ENTERPRISES

	Principal value	Hedged value GBP'000	Accrued interest hedged value GBP'000
CAD/USD	CAD 68,500	45,054	5
SEK/USD	SEK 159,736	11,213	10
MXN/USD	MXN 140,000	14,374	28
		<u>70,641</u>	<u>43</u>

### 14. Post balance sheet events

On 30 September 2002, the company purchased loans from Diageo Enterprises International, with a market value of AUD35,000,000, EUR108,238,372 and CAD23,049,000 by means of a novation agreement.

On 13 December 2002, the company entered into a five year US\$850,000,000 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 Diageo plc, and Diageo Finance plc, on a joint and several basis would guarantee in full i.e. up to a maximum of US\$850,000,000 the payment obligations of Burger King and its subsidiaries to the original lending financial institutions.

### 15. Related party transactions

The company is 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.

### 16. Commitments

At 30 June 2002, the company had commitments under an operating lease payable during the next twelve months amounting to US\$0.3 million. Commitments under this lease expire in 2004, although the company has a break clause which it can exercise on 14 July 2003.

### 17. Pension scheme

The company has continued to account for pensions in accordance with the Accounting Standard SSAP 24 and the disclosures given in (a) are those required by that standard. The new accounting standard on pensions, FRS 17 — Retirement Benefits, was issued in November 2001 but will not be fully applicable until 2005. The transitional disclosures required under the new standard, to the extent not given in (a) are set out in (b).

- (a) The company participates in a group defined benefit scheme operated by R&A Bailey & Co. The defined benefit scheme is independently funded and the assets of which are vested in independent trustees for the benefit of members and their dependants. The contributions are based on the advice of independent professionally qualified actuaries on an annual basis.

The latest actuarial valuation of the scheme was at 1 October 1999 and used the Projected Unit Method.

The principal actuarial assumptions were as follows:

- Rate of long term investment returns will exceed the rate of pensionable salary increases by 5.5%
- Rate of long term investment returns will exceed the rate of post retirement pension increases by 3.5%

The actuarial report showed that at that date the market value of the scheme's assets was €84.7 million which was sufficient to cover 180% of the accrued liabilities, based on current earnings, and 124% of the accrued liabilities allowing for expected future increases in earnings.

## DIAGEO ENTERPRISES

The pension charge for the year amounted to US\$6,000 (2001 — US\$15,000). The actuarial report is not available for public inspection.

(b) FRS 17 retirement benefits

The group operates a multi-employer defined benefit scheme and the company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Because of this, as permitted by FRS 17, the scheme will be accounted for by the company, when the accounting standard is fully adopted, as if the scheme was a defined contribution scheme.

The valuations of the defined benefit scheme used for the purpose of FRS 17 disclosures have been based on the most recent actuarial valuations as identified and updated by our independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities as at 30 June 2002. Scheme assets are stated at their market value at the balance sheet date.

The financial assumptions used to calculate the retirement benefit liabilities under FRS 17 were as follows:

Valuation method	2002 Projected unit	2001 Projected unit
Discount rate	6%	6%
Inflation rate	3%	3%
Increase to pension in payment	3%	3%
Salary increases	4.5%	4.5%

The market value of the assets in the pension scheme and the expected rate of return were:

	Expected long term rate of return at 30 June 2002 %	Value at 30 June 2002 €'000	Expected long term rate of return at 30 June 2001 %	Value at 30 June 2001 €'000
Equities	8.3	67,000	8.1	94,000
Other	5.3	200	5.6	3,200
Total market value of pension scheme assets		67,200		97,200
Present value of pension schemes liabilities		(66,800)		(59,000)
Total net retirement benefit surplus		400		38,200
Related deferred tax liability		(56)		(4,775)
Total net retirement benefit surplus		<u>350</u>		<u>33,425</u>

### 18. Approval of the financial statements

The financial statements were approved by the directors on 12 December 2002.

## **DIAGEO ENTERPRISES**

### **Directors' Responsibilities**

Reproduced below is the full text of the statement of directors' responsibilities in respect of the financial statements of Diageo Enterprises for the year ended 30 June 2002.

#### **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to ensure that the financial statements comply with the Companies Acts, 1963 to 2001, and all Regulations to be construed as one with those Acts. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

On behalf of the board

P. Keeley  
*Director*

C. Coase  
*Director*

## **DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES**

### **UNAUDITED INTERIM ANNOUNCEMENT**

The following operating and financial review has been extracted, without material adjustments, from the announcement, dated 20 February 2003, made by the Diageo group setting out its interim results for the six month period ended 31 December 2002.

#### **Explanatory notes**

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

Volume has been measured on an equivalent servings basis to nine litre cases of spirits. Equivalent cases are calculated as follows: beer in hectolitres is divided by 0.9, wine in nine litre cases is divided by 5, ready to drink (RTD) in nine litre cases is divided by 10. An equivalent case represents approximately 272 servings. A serving comprises 35ml of spirits; 165ml of wine; or 330ml of RTD or beer.

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 2002

#### OPERATING REVIEW

##### Diageo

On a reported basis, turnover decreased by £1,050 million (16%) from £6,478 million in the six months ended 31 December 2001 to £5,428 million in the six months ended 31 December 2002, following the disposals of Pillsbury in October 2001 and Burger King in December 2002. For continuing operations, turnover increased by £491 million (11%) from £4,458 million in the six months ended 31 December 2001 to £4,949 million in the six months ended 31 December 2002. On an organic basis, turnover grew 4%. The Seagram spirits and wine businesses, which were acquired on 21 December 2001, contributed £650 million to turnover during the period.

Reported operating profit before goodwill amortisation and exceptional items increased £7 million from £1,236 million to £1,243 million. Reported operating profit before goodwill amortisation and exceptional items, for continuing operations, increased by £221 million (23%) from £967 million to £1,188 million. On an organic basis, operating profit before goodwill amortisation and exceptional items for continuing operations increased 6%. The Seagram spirits and wine businesses contributed £211 million to operating profit before goodwill amortisation and exceptional items.

On a reported basis, marketing investment for continuing operations increased 21% from £554 million to £668 million. Organically, marketing investment increased 13%.

Reported profit before goodwill amortisation, exceptional items, taxation and minority interests increased by £67 million (5%) from £1,228 million in the six months ended 31 December 2001 to £1,295 million in the six months ended 31 December 2002. In local currency terms this was an increase of 5%. The net interest charge increased by £44 million (26%) from £170 million in the prior period to £214 million in the six months ended 31 December 2002.

Exceptional items before taxation were a charge of £1,500 million in the six months ended 31 December 2002. After goodwill amortisation and exceptional items, the result before taxation and minority interests decreased by £1,483 million from a profit of £1,275 million to a loss of £208 million in the six months ended 31 December 2002. The result for the period decreased by £1,269 million from a £810 million profit to a loss of £459 million.

##### Premium drinks

Reported turnover increased by £491 million (11%) from £4,458 million in the six months ended 31 December 2001 to £4,949 million in the six months ended 31 December 2002. Reported operating profit before goodwill amortisation and exceptional items increased by £221 million (23%) from £967 million to £1,188 million. On an organic basis, turnover increased 4% and operating profit increased 6%.

Reported volume increased 13% as a result of the addition of 9.4 million equivalent cases from the Seagram acquisition and organic volume growth of 1%. Organic volume growth in global priority brands was 4%, local priority brands declined 3% and category management brands (all brands other than global priority brands and local priority brands) declined 4%. Volume growth of the global priority brands excluding RTD was 3%, compared to 4% in the six months ended 31 December 2001. Overall, global priority brand volume performance reflects a more consistent performance across the brands than in prior periods. Johnnie Walker Black Label and Red Label both grew volume, up 6% and 5% respectively, and J&B was the only brand on which volume declined. Local priority brand volume was down 3%, reflecting a 341,000 equivalent case reduction of Dimple in South Korea and the reduction in volume of Buchanan's in Venezuela as a result of economic conditions. Excluding the impact of these, overall performance was in line with the same period last year. Category management brands remained in decline due to weaker volume of low value vodkas in North America, Spey Royal in Thailand and Gilbey's Gin in the Philippines.

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Reported net sales increased 11% from £3,341 million to £3,723 million, driven by £518 million of net sales from the Seagram acquisition, a 1% organic increase in volume and a 3% improvement in price and mix. On a reported basis, RTD net sales increased 9% from £382 million to £416 million. Net sales of the global priority brands excluding RTD increased 5%, in line with last year.

Reported marketing investment increased 21% to £668 million and organic growth was 13%. Marketing investment in the global priority brands grew 15% to £421 million, particularly behind Smirnoff Ice, Tanqueray and Guinness. In many markets, particularly in North America, Great Britain and Ireland, share of voice in marketing spend increased as Diageo continued to invest, even in difficult times, behind the drivers of future growth, including new product launches.

The acquisition of certain Seagram businesses, which include the brands Captain Morgan, Crown Royal, Seagram's 7, Seagram's VO, Cacique, Windsor Premier, Myers's Rum and Sterling Vineyards, completed on 21 December 2001. During the six months ended 31 December 2002, volume of these brands was 9.4 million equivalent cases, net sales were £518 million and attributable operating profit was £211 million after a charge of approximately £18 million in respect of the cost of discontinuing Captain Morgan Gold which was launched in May 2002.

### *Volume and net sales growth by brand classification*

	Equivalent cases (millions)	Volume growth %	Net sales growth %
Smirnoff	12.6	6	13
Johnnie Walker	6.3	5	5
Guinness	5.7	—	6
Baileys	4.0	12	14
J&B	3.5	(8)	(7)
Cuervo	2.0	—	(1)
Tanqueray	1.0	2	5
<b>Total global priority brands</b>	<b>35.1</b>	<b>4</b>	<b>7</b>
Local priority brands	7.2	(3)	(5)
Category management brands	14.2	(4)	—
	<b>56.5</b>	<b>1</b>	<b>4</b>
<b>Acquisitions</b>			
Seagram brands	9.4		
<b>Total</b>	<b>65.9</b>		

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

### *Market review*

	Global priority brands %	Local priority brands %	Category management brands %	Total %
<b>Volume growth</b>				
Major markets				
North America	4	(4)	(5)	1
Great Britain	10	1	4	7
Ireland	(1)	(5)	9	(2)
Spain	(13)	(2)	(1)	(11)
	2	(2)	(3)	1
Key markets	1	(6)	(4)	(2)
Venture markets	12	5	(4)	6
<b>Total</b>	4	(3)	(4)	1
<b>Net sales growth</b>				
Major markets				
North America	5	(6)	(8)	1
Great Britain	9	(4)	11	6
Ireland	3	—	4	2
Spain	(11)	(3)	17	(7)
	4	(3)	1	2
Key markets	5	(10)	(2)	—
Venture markets	23	6	1	15
<b>Total</b>	7	(5)	—	4

### *Review by market*

#### *North America*

Volume up 1%  
 Turnover up 1%  
 Net sales up 1%  
 Marketing up 8%  
 Operating profit up 5%

#### Key drivers:

- Volume of global priority brands up 4%
- Disappointing category management and local priority brand performance
- RTD category under pressure
- Market share of spirits brands increased by 0.5 percentage points

Reported turnover was up 29% from £1,147 million to £1,476 million in the six months ended 31 December 2002. On an organic basis, this represented growth of 1%. Volume was up 1% and net sales also grew 1%. During the period, organic operating profit growth was 5% and the Seagram spirits and wine businesses contributed £154 million to the total reported operating profit of £413 million.

Diageo North America continued to make good progress on a number of strategic initiatives. The ex-Seagram brands were successfully integrated into the business, providing Diageo with the critical mass necessary to execute the Next Generation Growth initiative. Diageo has now appointed new distribution partners

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

committed to providing a sales force dedicated to Diageo brands in 26 states. This represents over 70% of Diageo's volume in the United States.

The global priority brands continued to perform well, and volume grew 4% over the comparable period with strong performances from Smirnoff, up 4%, Johnnie Walker Black Label, up 9%, and Baileys, up 12%. Cuervo and Tanqueray also showed volume improvements versus the comparable period with volume up 4% and 1%, respectively. The local priority brands declined 4%, with Beaulieu Vineyard down 18%, and Gordon's Gin down 6%, offset by good volume growth in other local priority brands. Volume of category management brands declined due to intense price competition at the lower price points of some categories. Diageo chose not to pursue volume at the expense of value.

Marketing investment increased 8% over the same period last year, driven by investment behind Smirnoff Ice, Cuervo and Tanqueray. In addition to the increased investment in marketing, Diageo North America was able to generate efficiencies from the move to a single media buyer and the increased market presence provided by the addition of the Seagram brands.

Smirnoff volume was up 4%. Excluding RTD, volume was up 8%, driven by continued strong growth of the Smirnoff flavoured vodka range. Smirnoff Red grew its share of the domestic vodka segment. Smirnoff Ice volume and net sales declined 8% and 5%, respectively. This was due to increasing competition in the RTD category following the entry of a number of new branded RTDs, partially offset by increases in on-premise distribution through the introduction of new packaging formats. While the RTD category has continued to grow and now represents nearly 5% of the sales value of the beer category, Smirnoff Ice's share has declined in the period. Approximately 60,000 equivalent cases of Smirnoff Ice Triple Black were shipped in the period prior to its launch in January 2003.

Johnnie Walker volume increased 1% and net sales grew 7% during the period. This favourable mix was caused by volume growth of 9% in Johnnie Walker Black Label and volume decline of 5% in Johnnie Walker Red Label. However, Johnnie Walker Red Label increased its share of the premium scotch category and Johnnie Walker Black Label grew its share of the deluxe scotch category.

Baileys volume grew 12% during the period with net sales up 16%. Marketing investment was down 12%, although media impact doubled as more effective media planning led to a shift from local to national programming.

While J&B volume declined 1% in the period, net sales were level and contribution from the brand increased 20% as marketing investment was reduced 42%.

Tanqueray volume increased 1% and net sales grew 5%. Price increases were achieved in key states and marketing investment grew 29% following the launch of the "Distinctive Since" campaign.

Cuervo volume grew 4%, whilst net sales grew 2% reflecting the price decrease as the agave shortage started to alleviate. Marketing investment grew 14% focused behind brand building initiatives.

Volume of Captain Morgan was up 21% and Crown Royal was up 19% against the six months ended 31 December 2001 when, under the previous owners, trade stocks were reduced. For both brands, depletions in the United States were still strong, up 10% and 11% respectively. Captain Morgan and Crown Royal have grown shares of the rum and Canadian whiskey categories, respectively.

The performance of the wine brands was mixed in a difficult market. Beaulieu Vineyard volume declined 18% due to temporary disruption caused mainly by changes in the distributor networks and an increasingly price competitive market. In contrast, however, volume of Sterling Vineyards was up 28% as it faced the competitive market with a stronger brand profile. The brand benefited from the increased distribution which has resulted from its integration into the Diageo portfolio and increased marketing investment.



## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

### *Great Britain*

Volume up 7%  
Turnover up 10%  
Net sales up 6%  
Marketing up 19%  
Operating profit up 12%

#### Key drivers:

- Volume growth achieved across the business
- Global priority brands volume up 10%
- RTD profitability adversely affected by duty increase in April 2002

Volume growth was achieved across Diageo's business in Great Britain. Global priority brands were up 10%, local priority brands were up 1% and category management brands were up 4%. Similarly, spirits volume was up 8%, Guinness was up 1% and wine was up 16%. This strong performance was the result of the comprehensive restructuring of the field sales force carried out in the last year and through continued investment behind proven marketing campaigns. Diageo's sales team now visit 34,000 outlets, up from 23,000, and, as a result, on-trade distribution gains were evident for many priority brands. Marketing investment grew 19%, including £9 million spent behind new brand launches, and operating profit was up 12% to £144 million.

Volume growth in the RTD category has been adversely impacted by the increase in excise duty in April 2002. Diageo's RTD volume in Great Britain grew 4%. Volume of Smirnoff Ice grew 7% and it has continued to outperform the category with market share now 26%. This performance has been driven by successful renovation through Smirnoff Black Ice. However, volume of Archers Aqua fell 19% in the period. Operating margins on RTD were adversely impacted by the absorption of the excise duty increase through price discounting and by increased competition.

Smirnoff Red volume was up 11% with net sales up 19% as a result of a 6% price increase implemented in September 2002. Smirnoff Red held market share at 33% despite increased price competition in the vodka category.

Baileys continued to deliver impressive volume growth, up 35%. Brand building activity was focused on driving more regular usage. The launch of Baileys Minis continued this focus. Baileys, which is the clear leader in the cream liqueur category, increased its share of the total spirits market.

Guinness volume was up 1% despite a 1% decline in the overall beer category. The brand has reversed the 1% volume decline seen in the six months ended 31 December 2001.

Volume of Gordon's Gin was up 6%, benefiting from the new advertising campaign and packaging. However, the performance of Gordon's Edge, which has sold about 20,000 equivalent cases since its launch in May 2002, has been disappointing.

Bell's volume grew 2%, supported by the Jools Holland advertising campaign and strong promotional activity.

Diageo's wine brands grew strongly in the period driven mainly by the performance of Blossom Hill, where volume grew 10%. Blossom Hill Red is now the best selling wine in the off trade in Great Britain.

### *Ireland*

Volume down 2%  
Turnover level  
Net sales up 2%  
Marketing up 12%  
Operating profit level

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

### Key drivers:

- Beverage alcohol market impacted by slowing economy
- Guinness volume down 3%
- Baileys volume up 11%
- RTD volume up 23%

In Ireland, turnover was slightly increased on a reported basis, from £518 million in the six months ended 31 December 2001 to £522 million in the six months ended 31 December 2002. Operating profit was up from £86 million to £89 million. On an organic basis, both turnover and operating profit were level.

Continued economic weakness in Ireland has led to a significant slowdown in consumer spending. As a result, the long alcoholic drinks sector declined 3% after a number of years of modest growth. Over 75% of Diageo's business in Ireland is in this sector and hence the overall volume decline of 2% reflects these trends. Strong volume performance in Baileys, up 11%, Smirnoff, up 3%, including Smirnoff Ice, up 12%, was offset by a 5% decline in the volume of beer brands. Guinness volume declined 3% but it held market share, stabilising its position after a number of years of market share declines. Despite the volume decline, operating profit was level as a result of price increases broadly in line with inflation. Marketing investment grew 12%, driven by increased spend on Guinness and the renovation of the RTD portfolio with the launch of Smirnoff Black Ice. Smirnoff Black Ice and Smirnoff Ice on Draught together now represent 25% of Smirnoff Ice volume in Ireland.

### *Spain*

Volume down 11%  
Turnover down 6%  
Net sales down 7%  
Marketing up 10%  
Operating profit down 15%

### Key drivers:

- Spirits market impacted by slowing economy
- Market share gains in scotch, premium scotch, cream liqueur and dark rum

Spain reported turnover of £244 million in the six months ended 31 December 2002, up 9% versus the £224 million reported in the prior period. On an organic basis, volume, turnover and net sales declined 11%, 6% and 7%, respectively. The comparison against the same period last year was impacted by the buy-in which occurred last year ahead of the duty increase in January 2002; this was estimated to be worth 5 percentage points of volume growth in that period.

Reported operating profit was up £1 million as a result of the inclusion of Cacique, an ex-Seagram brand, but operating profit was down 15% on an organic basis. Organic operating profit growth was constrained by increased investment in marketing, up 10%, including the launch costs of J&B Twist.

The pace of growth in the premium drinks business in Spain has been adversely impacted by the slowing economy and increasing inflation, particularly in the on-trade. The introduction of an 8% increase in excise duty on spirits in January 2002 also negatively impacted the growth of the spirits industry. Within this overall environment, Diageo has made clear market share gains in the scotch, premium scotch, cream liqueur and dark rum categories.

The economic environment has particularly affected the standard scotch whisky category, which accounts for 30% of the total spirits market in Spain and which declined in the period. However, although volume of J&B has been affected by this trend and declined 11%, its market share grew. In addition, the premium and malt whisky category continues to grow and Diageo's market share is now over 50%.

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Dark rum is the fastest growing category in Spain, and Diageo, with approximately a 45% share of this increasingly important category, is well placed to maximise this opportunity. Cacique and Pampero have both achieved volume growth, up 47% and 5%, respectively, and Diageo gained share in the dark rum category.

### *Key markets*

Volume down 2%

Turnover level

Net sales level

Marketing up 5%

Operating profit up 5%

### *Key drivers:*

- Global priority brand volume up 1%
- Impact of difficult economic situation in Latin America
- Strong volume and profit growth in Africa and Global Duty Free

Reported turnover in the six months ended 31 December 2002 was £1,163 million, up 6% on the prior period figure of £1,097 million. On an organic basis, turnover was level. Overall growth in key markets, with operating profit up 5% to £317 million, was constrained by the economic situation in Latin America and the decision to change distributors in South Korea. However, several markets performed strongly including Africa and Global Duty Free. During the period, the Seagram brands acquired by Diageo, including Windsor Premier in South Korea and Cacique in Venezuela, contributed £141 million to turnover and £39 million to operating profit.

Volume was down 2%, whilst net sales were level versus the same period last year with price increases achieved in Africa, principally Nigeria, and in Thailand on Johnnie Walker. Marketing investment grew 5%, driven by increased spend behind Guinness in Africa and Johnnie Walker in France, South Korea and Thailand.

Global priority brands achieved volume growth of 1% and net sales growth of 5% during the period. Volume of Guinness was up 7%, reflecting the continued growth in Africa. Volume of Johnnie Walker Red Label increased 7% due to strong performance in Australia and a weak comparative period in Brazil, when distributor de-stocking took place. Volume of Johnnie Walker Black Label was level, with growth in Taiwan offset by the decline in Venezuela. J&B volume declined 9%, mainly due to the Portuguese market where, consistent with Diageo's strategy of maintaining value, it was decided not to follow the large price reductions taken by competitors.

RTD volume was up 22%. New RTDs launched in the period included Archers Aqua and Smirnoff Ice in Australia, Johnnie Walker ONE in Brazil and Smirnoff Ice in Taiwan.

Local priority brand volume fell 6%, impacted by the change of distribution for Dimple in South Korea described below and a 46% decline in volume of Buchanan's in Venezuela. Category management brands fell 4%, mainly driven by declines in VAT 69 in Venezuela and Spey Royal in Thailand.

Africa, representing nearly 40% of the key markets' volume, grew 5% in volume terms and 15% in net sales terms over the prior period. Guinness, which accounts for approximately 24% of African volume, continued to perform well with volume up 7% and net sales up 29%. The continued success of the Michael Power campaign resulted in double-digit volume growth in Ghana, Kenya, Uganda and Cameroon. Volume in Nigeria, however, was level following a price increase taken in July 2002 and a tightening of economic conditions.

Diageo confirmed its position as the leading premium drinks business in Australia as market share grew to 35% in the spirits category and 33% in the RTD category. Overall, volume growth was 20% and net sales increased 15%. There was 25% volume growth in priority brands, excluding RTDs, with Baileys volume up 11%, Smirnoff up 29% and Johnnie Walker up 32%. All priority spirits brands gained market share, and Diageo's RTD products grew strongly with volume up 35%. Margins in RTD declined as a result of the costs associated with new product launches and the decision to reposition prices to a maximum 30% premium to standard beer.

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

In South Korea, Windsor Premier continued to perform strongly in a growing category and volume grew 25%. Windsor 17 leads the super premium category, and the Windsor Premier brand holds around 25% of the total scotch category. The transfer of the distribution of the Dimple brand to Diageo Korea was successfully completed on 31 December 2002. As anticipated, this change to the new route to market necessitated the run down of stock held by the previous distributor. As a consequence, Diageo recorded no sales of Dimple in the period, a decline of 341,000 equivalent cases against the prior period, and market share fell from 23% to 10%. It is expected that market share will be rebuilt now that the brand has moved to Diageo Korea; in the same way as the performance of Johnnie Walker, Baileys and Smirnoff, which were transferred from the previous distributor in April 2002, have improved in the period, albeit from a smaller base.

In Taiwan, the continued strong growth of Johnnie Walker Black Label in the premium sector, with volume up 17%, was the key driver of overall volume growth of 9%. As part of Diageo's strategy to build improved route to market the sales force in Taiwan was reorganised by region and style of outlet. The reorganisation included the creation of a dedicated RTD sales team and Smirnoff Ice was launched in December 2002. The outlook for Taiwan is uncertain following negative publicity there for an advertisement produced in Great Britain for the Smirnoff Ice Christmas campaign. Diageo is working with the Taiwanese authorities to resolve this.

In Thailand, Johnnie Walker Black Label, which accounts for nearly 60% of net sales, grew both volume and market share as a result of continued successful advertising and stock building in the trade ahead of a duty increase. Net sales grew 21% despite a 1% fall in volume as a result of volume decline in Spey Royal.

The trading performance in Latin America reflects the current economic environment. Overall volume and operating profit declined 17%, driven primarily by the £11 million decline in Venezuela. Diageo's policy of actively destocking to reduce credit risk has also negatively impacted volume growth in the period, while substantially mitigating exposure to risk. Diageo is the leading premium drinks business in the region and the strategy in the current environment is to continue to make market share gains.

The worsening economic and political conditions in Venezuela, as evidenced by industrial action and the currency devaluation, which led to price increases on some Diageo brands of over 40%, have resulted in volume down 46%, net sales down 42% and operating profit down approximately 50%. However, Diageo continues to lead the premium drinks market there and market share has increased in both the off- and on-trade in a number of important categories such as standard and secondary scotch.

Global Duty Free volume increased 11% against the comparable period last year which included the impact of September 11. World events continue to negatively impact the overall level of travel and the duty free market remains very competitive, particularly in Europe. However, mix improved and net sales grew faster than volume as a result of the strong performance of the global priority brands, which grew volume 14%.

### *Venture markets*

Volume up 6%  
Turnover up 11%  
Net sales up 15%  
Marketing up 28%  
Operating profit up 15%

### *Key drivers:*

- Continued strong volume performance of global priority brands, up 12%
- Strong performance of spirits brands in the Caribbean, parts of Europe and Asia
- Smirnoff Ice launched in Germany, the Nordics and in several Caribbean markets

Reported turnover was £683 million in the six months ended 31 December 2002, up 9% from £627 million in the prior period. Organic operating profit increased 15%, led by top line growth in the Caribbean, parts of Europe and growth of the spirits brands in Asia.

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

Volume increased 6% during the period, reflecting strong volume growth in priority brands as a result of well executed Christmas campaigns together with the impact of the recent launch of Smirnoff Ice in Germany and the Nordics. In addition, volume benefited modestly from some forward buying in the Netherlands ahead of duty increases and in the Middle East in response to the threat of war in the region. These two factors are estimated to have improved volume growth by 1 percentage point.

Net sales increased 15%, due predominantly to the favourable mix impact. Marketing investment grew 28%, mainly due to increased spend in brand building activities on Johnnie Walker Black Label and Baileys and investment behind the Smirnoff Ice launches.

Global priority brands, which account for more than half of the total volume, performed well, with volume growth of 12% and net sales growth of 23%. The mix improvement was driven by the growth of RTD formats, primarily Smirnoff Ice. Volume growth of Johnnie Walker Black and Deluxe Labels, up 18%, with strong performances across a number of markets, also improved mix. Baileys continued its growth, with volume up 11% and net sales up 10%, again across the majority of markets. Guinness volume declined 6%. Consumers in Indonesia and Singapore continued to move away from stout to lager. Volume of Red Stripe in Jamaica, the venture markets' only local priority brand, grew 5% and net sales grew 6% as a result of increased brand building investment.

European markets had strong performances in Belgium, the Nordics and Germany. In Germany, volume of Johnnie Walker Black and Red Labels continued to be impacted by consumer reaction to the inflationary impact of the Euro introduction. Smirnoff Ice has sold 226,000 equivalent cases in the period, following its launch in February 2002. It is now the leading RTD product in Germany.

Performance in Norway during the six months licence suspension was in line with expectations and has benefited from the overall market uplift following the alcohol tax reduction of 15%, implemented on 1 January 2002. Overall, the Nordics delivered a good performance, with strong growth in Baileys and the successful launch of Smirnoff Ice.

Markets in the Caribbean and the Middle East performed strongly as a result of improved sales execution and strong brand equity, particularly in the Johnnie Walker portfolio, Smirnoff and Baileys.

In Asia, continued growth of the spirits brands, particularly Johnnie Walker Black and Deluxe Labels, generated mix improvement. However, Guinness in Asia continued to prove challenging with volume down 13%.

## FINANCIAL REVIEW

### Exchange rates

Exchange rate movements during the six month period, including the effect of the currency option cylinders, beneficially impacted profit before exceptional items and taxation by £1 million. The adverse impact on group trading profit was £7 million (operating profit £6 million and share of profits of associates £1 million), offset by a beneficial impact on the interest charge of £8 million.

### Post employment plans for year ending 30 June 2003

Diageo continues to comply with the current UK accounting standard on pensions, SSAP 24, in its primary financial statements. The charge at operating profit level in respect of defined benefit schemes in the current year is expected to be approximately £4 million (2002 — a credit of £27 million for continuing operations).

### FRS 17

Under FRS 17, Diageo's net deficit before taxation, applying current equity market values (for example FTSE 100 at 3,700) and discounting liabilities at bond rates as at 7 February 2003, for all significant defined benefit plans (United Kingdom, Ireland and United States), would be approximately £1,400 million. The adoption of the accounting provisions of FRS 17 for the year ending 30 June 2004, would result in a net charge to profit

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before exceptional items and taxation of approximately £120 million, compared with a restated £40 million net charge for the year ending 30 June 2003.

### Associates

The group's share of profits of associates before exceptional items was £266 million for the period compared with £162 million for the same period last year. The 21.4% equity interest in General Mills contributed £157 million (2001 — £46 million for the two months ended 31 December 2001).

### Goodwill

Goodwill amortisation in the period was £3 million (2001 — £10 million) of which £2 million (2001 — £8 million) was in respect of discontinued operations.

### Exceptional items

Exceptional items in the six month period amounted to a net charge before taxation of £1,500 million comprising integration and restructuring costs of £104 million, a share of associates exceptional charges of £15 million, losses on disposals of fixed assets of £3 million and a loss on the sale of businesses of £1,378 million.

In the six month period, £89 million was incurred in respect of the integration of the Seagram spirits and wine businesses, acquired in December 2001 (year ended 30 June 2002 — £164 million). Approximately £26 million of these costs were employee related, £11 million were in respect of writedowns of fixed assets, £23 million was incurred on the Next Generation Growth programme which includes distributor terminations in the United States, and the balance included consultancy and systems costs. The majority of these costs were incurred in North America and the United Kingdom. It is expected that the total cost of restructuring and integrating the business will be approximately \$700 million (£460 million) of which \$590 million (£390 million) is expected to be cash. The majority of the balance of the cost will be incurred in the eighteen months ending 30 June 2004.

£15 million was incurred in respect of the restructuring of the UDV (spirits and wine) and the Guinness (beer) businesses. It is expected that the total costs of this integration will be approximately £170 million and it is anticipated that the remaining £33 million will be charged in the six months ending 30 June 2003.

Exceptional items for associates comprise £10 million for Diageo's share of General Mills' exceptional costs incurred on its restructuring of the acquired Pillsbury business, and £5 million in respect of the restructuring of Moët Hennessy.

Burger King was sold on 13 December 2002 for \$1.5 billion (£0.9 billion). This sale generated a loss before taxes of £1,395 million, after writing back goodwill previously written off to reserves of £673 million. Following the disposal, Diageo retains \$212 million (£132 million) of subordinated debt, with a ten year maturity, from the entity owning Burger King. In addition, Diageo has guaranteed up to \$850 million (£528 million) of borrowings of Burger King. These loans have a 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.

### Interest

The interest charge in the period was £214 million, compared with £170 million for the comparable period last year. The benefits of £65 million arising from the disposal of businesses and £8 million from the effect of exchange rate movements were offset by other factors. These factors include the effect of the Seagram acquisition of £57 million, the share of General Mills' interest charge, which has increased £24 million compared with the six months ended 31 December 2001, and the funding of the share repurchases of £31 million.

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES

### Taxation

The effective rate of taxation on profit before goodwill amortisation and exceptional items for the period was 25%, the same as for the six months ended 31 December 2001. The charge 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 9.9 pence per share on 7 April 2003, an increase of 6.5% on last year's interim dividend. Payment to US ADR holders will be made on 11 April 2003. The record date for this dividend will be 7 March 2003. A dividend reinvestment plan is available in respect of this dividend and the plan notice date will be 17 March 2003.

### Cash flow

Free cash inflow was £301 million, compared with £288 million in the six months ended 31 December 2001. Cash inflow from operating activities was £754 million compared with £821 million in the comparable period. Discontinued operations contributed £60 million to operating cash flow (2001 — £226 million). Cash flow from operating activities was after £99 million of restructuring and integration costs and a £540 million increase in working capital mainly due to seasonal factors.

Net interest payments were £200 million against £184 million in the comparable period. Purchases of tangible fixed assets in the period amounted to £199 million, a decrease of £13 million. Tax payments were £15 million compared with £115 million in the six months ended 31 December 2001.

Sales of businesses generated £803 million, arising principally from the disposal of Burger King and from the receipt of \$89 million (£58 million) from the sale of options to General Mills over 29 million ordinary shares of Diageo's holding in that company.

### Balance sheet

At 31 December 2002, total shareholders' funds were £5,222 million compared with £6,001 million at 30 June 2002. The decrease was mainly due to the £763 million retained deficit for the period, and £552 million costs of the repurchase and cancellation of own shares, offset by the release of £675 million of goodwill previously written off to reserves.

Net borrowings were £5,259 million, a decrease of £237 million from 30 June 2002. This decrease includes the net cash inflow of £694 million on the purchases and sales of businesses and free cash flow of £301 million, less £552 million on the repurchase of shares and £459 million equity dividend payment.

Diageo's share repurchase programme has been driven by a view of an efficient capital structure for Diageo and a belief that the repurchase of shares represents intrinsic value for shareholders. Diageo has a target range for interest cover of five to eight times. Under the current economic environment it is now appropriate for Diageo to move towards the higher end of that range and the pace of the share repurchase programme will be varied having regard to this policy and other factors.

# DIAGEO CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Six months ended 31 December 2002			Six months ended 31 December 2001		
	Before goodwill and exceptional items £ million	Goodwill and exceptional items £ million	Total £ million	Before goodwill and exceptional items £ million	Goodwill and exceptional items £ million	Total £ million
<b>Turnover</b>						
Continuing operations	4,949	—	4,949	4,458	—	4,458
Discontinued operations	479	—	479	2,020	—	2,020
	5,428	—	5,428	6,478	—	6,478
Operating costs	(4,185)	(107)	(4,292)	(5,242)	(291)	(5,533)
<b>Operating profit</b>						
Continuing operations	1,188	(105)	1,083	967	(283)	684
Discontinued operations	55	(2)	53	269	(8)	261
	1,243	(107)	1,136	1,236	(291)	945
Share of associates' profits	266	(15)	251	162	(17)	145
<b>Trading profit</b>	1,509	(122)	1,387	1,398	(308)	1,090
Disposal of fixed assets		(3)	(3)		(5)	(5)
Sale of businesses		(1,378)	(1,378)		360	360
Interest payable (net)	(214)	—	(214)	(170)	—	(170)
<b>Profit/(loss) before taxation</b>	1,295	(1,503)	(208)	1,228	47	1,275
Taxation	(324)	118	(206)	(307)	(116)	(423)
<b>Profit/(loss) after taxation</b>	971	(1,385)	(414)	921	(69)	852
<b>Minority interests</b>						
Equity	(28)	—	(28)	(24)	—	(24)
Non-equity	(17)	—	(17)	(18)	—	(18)
<b>Profit/(loss) for the period</b>	926	(1,385)	(459)	879	(69)	810
Interim dividend	(304)	—	(304)	(309)	—	(309)
<b>Transferred (from)/to reserves</b>	622	(1,385)	(763)	570	(69)	501
<b>Pence per share</b>						
Basic earnings	29.5p	(44.1)p	(14.6)p	26.2p	(2.1)p	24.1p
Diluted earnings	29.5p	(44.1)p	(14.6)p	26.1p	(2.0)p	24.1p
Interim dividend	9.9p	—	9.9 p	9.3p	—	9.3p
<b>Average shares</b>			3,143m			3,358m



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

	Six months ended 31 December 2002 £ million	Six months ended 31 December 2001 £ million
<b>(Loss)/profit for the period</b> – group	(588)	731
– associates	<u>129</u>	<u>79</u>
	(459)	810
Exchange adjustments	(140)	(83)
Tax on exchange in reserves	<u>—</u>	<u>6</u>
<b>Total recognised gains and losses</b>	<u><u>(599)</u></u>	<u><u>733</u></u>

# **DIAGEO CONSOLIDATED BALANCE SHEET**

	31 December 2002		30 June 2002		31 December 2001	
	£ million	£ million	£ million	£ million	£ million	£ million
<b>Fixed assets</b>						
Intangible assets		4,496		5,434		5,589
Tangible assets		1,916		2,545		2,360
Investments		3,340		3,183		3,225
		<u>9,752</u>		<u>11,162</u>		<u>11,174</u>
<b>Current assets</b>						
Stocks	2,239		2,316		2,271	
Debtors	3,717		3,419		3,817	
Cash at bank and liquid resources	1,360		1,596		2,286	
	<u>7,316</u>		<u>7,331</u>		<u>8,374</u>	
<b>Creditors — due within one year</b>						
Borrowings	(3,521)		(3,718)		(3,446)	
Other creditors	(3,461)		(3,645)		(3,877)	
	<u>(6,982)</u>		<u>(7,363)</u>		<u>(7,323)</u>	
<b>Net current assets/(liabilities)</b>		334		(32)		1,051
<b>Total assets less current liabilities</b>		10,086		11,130		12,225
<b>Creditors — due after one year</b>						
Borrowings	(3,463)		(3,711)		(4,132)	
Other creditors	(62)		(49)		(62)	
		<u>(3,525)</u>		<u>(3,760)</u>		<u>(4,194)</u>
<b>Provisions for liabilities and charges</b>		(804)		(814)		(488)
		<u>5,757</u>		<u>6,556</u>		<u>7,543</u>
<b>Capital and reserves</b>						
Called up share capital		910		930		976
Reserves		4,312		5,071		5,993
<b>Shareholders' funds</b>		5,222		6,001		6,969
<b>Minority interests</b>						
Equity	185		184		189	
Non-equity	350		371		385	
		<u>535</u>		<u>555</u>		<u>574</u>
		<u>5,757</u>		<u>6,556</u>		<u>7,543</u>

# **DIAGEO CONSOLIDATED CASH FLOW STATEMENT**

	Six months ended 31 December 2002		Six months ended 31 December 2001	
	£ million	£ million	£ million	£ million
<b>Net cash inflow from operating activities</b>		754		821
<b>Dividends received from associates</b>		30		48
<b>Returns on investments and servicing of finance</b>				
Interest paid (net)	(200)		(184)	
Dividends paid to equity minority interests	(12)		(21)	
		(212)		(205)
<b>Taxation</b>		(15)		(115)
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets	(199)		(212)	
Net purchase of own shares and investments	(78)		(70)	
Sale of fixed assets	21		21	
		(256)		(261)
<b>Free cash flow</b>		301		288
<b>Acquisitions and disposals</b>				
Purchase of subsidiaries	(109)		(3,502)	
Sale of subsidiaries	803		4,294	
		694		792
<b>Equity dividends paid</b>		(459)		(452)
<b>Cash flow before liquid resources and financing</b>		536		628
<b>Management of liquid resources</b>		237		(226)
<b>Financing</b>				
Issue of share capital	1		4	
Own shares purchased for cancellation	(552)		(279)	
(Decrease)/increase in loans	(93)		11	
		(644)		(264)
<b>Increase in cash in the period</b>		129		138

## **MOVEMENTS IN NET BORROWINGS**

	Six months ended 31 December 2002		Six months ended 31 December 2001	
	£ million		£ million	
<b>Increase in cash in the period</b>	129		138	
Cash flow from change in loans	93		(11)	
Change in liquid resources	(237)		226	
<b>Change in net borrowings from cash flows</b>	(15)		353	
Exchange adjustments	241		176	
Non-cash items	11		(44)	
<b>Decrease in net borrowings</b>	237		485	
<b>Net borrowings at beginning of the period</b>	(5,496)		(5,479)	
<b>Net borrowings at end of the period</b>	(5,259)		(4,994)	

# DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES NOTES

## 1. Segmental analysis

	2002		2001	
	Turnover £ million	Operating profit £ million	Turnover £ million	Operating profit £ million
<b>Class of business:</b>				
Major markets				
North America	1,476	413	1,147	253
Great Britain	861	144	845	136
Ireland	522	89	518	86
Spain	244	61	224	60
	<u>3,103</u>	<u>707</u>	<u>2,734</u>	<u>535</u>
Key markets	1,163	317	1,097	287
Venture markets	683	164	627	145
	<u>4,949</u>	<u>1,188</u>	<u>4,458</u>	<u>967</u>
Premium drinks	479	55	2,020	269
Discontinued operations				
	<u>5,428</u>	<u>1,243</u>	<u>6,478</u>	<u>1,236</u>
<b>Geographical area by destination:</b>				
Europe	2,365	439	2,428	433
North America	1,825	464	2,790	501
Asia Pacific	544	130	504	119
Latin America	313	113	403	120
Rest of World	381	97	353	63
	<u>5,428</u>	<u>1,243</u>	<u>6,478</u>	<u>1,236</u>

The above analysis of operating profit is before goodwill amortisation and exceptional items. The geographical analysis is based on the location of the third party customers. The discontinued operations comprise quick service restaurants (Burger King) and the packaged food businesses (Pillsbury).

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES NOTES

	2002	2001
	£ million	£ million
<b>Net assets by class of business</b>		
Premium drinks	8,501	8,772
Discontinued operations	—	1,482
Net operating assets	8,501	10,254
Investments in associates	2,885	2,927
Tax, dividends and other	(370)	(644)
Net borrowings	(5,259)	(4,994)
	<u>5,757</u>	<u>7,543</u>
<b>Net operating assets by geographical area</b>		
Europe	4,046	4,090
North America	3,260	5,450
Asia Pacific	816	286
Latin America	173	247
Rest of World	206	181
	<u>8,501</u>	<u>10,254</u>

Weighted average exchange rates used in the translation of profit and loss accounts were US dollar — £1 = \$1.55 (2001 — £1 = \$1.44) and euro — £1 = €1.57 (2001 — £1 = €1.61). Exchange rates used to translate assets and liabilities at the balance sheet date were US dollar — £1 = \$1.61 (2001 — £1 = \$1.46) and euro — £1 = €1.53 (2001 — £1 = €1.63). The group uses option cylinders and foreign exchange transaction hedges to mitigate the effect of exchange rate movements.

### 2. Goodwill and exceptional items

		2002	2001
		£ million	£ million
<b>Operating costs</b>			
Continuing operations	Goodwill amortisation	(1)	(2)
	Seagram integration	(89)	(40)
	Guinness UDV integration	(15)	(21)
	José Cuervo settlement	—	(220)
		<u>(105)</u>	<u>(283)</u>
Discontinued operations	Goodwill amortisation	(2)	(8)
		<u>(107)</u>	<u>(291)</u>
<b>Associates</b>		(15)	(17)
<b>Disposal of fixed assets</b>		(3)	(5)
<b>Sale of businesses</b>			
Continuing operations	Premium drinks brands	16	(1)
	Guinness World Records	—	35
		<u>16</u>	<u>34</u>
Discontinued operations	Burger King	(1,395)	—
	The Pillsbury Company	1	326
		<u>(1,394)</u>	<u>326</u>
		<u>(1,503)</u>	<u>47</u>

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES NOTES

### 3. Taxation

The £206 million total taxation charge for the six months ended 31 December 2002 comprises a UK tax credit of £43 million, a foreign tax charge of £167 million and tax on associates of £82 million. Included in the total UK credit is current tax payable for the six months ended 31 December 2002 amounting to £6 million.

### 4. Note of consolidated historical cost profits and losses

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

### 5. Movements in consolidated shareholders' funds

	2002	2001
	£ million	£ million
(Loss)/profit for the period	(459)	810
Dividends	(304)	(309)
	(763)	501
Exchange adjustments	(140)	(83)
Tax on exchange in reserves	—	6
New share capital issued	1	4
Purchase of own shares for cancellation	(552)	(279)
Goodwill on disposals of businesses	675	1,697
<b>Net movement in shareholders' funds</b>	<b>(779)</b>	<b>1,846</b>
<b>Shareholders' funds at beginning of the period</b>	<b>6,001</b>	<b>5,123</b>
<b>Shareholders' funds at end of the period</b>	<b>5,222</b>	<b>6,969</b>

### 6. Net borrowings

	31 December 2002	30 June 2002	31 December 2001
	£ million	£ million	£ million
Debt due within one year and overdrafts	(3,521)	(3,718)	(3,446)
Debt due after one year	(3,463)	(3,711)	(4,132)
Net obligations under finance leases	—	(28)	(35)
	(6,984)	(7,457)	(7,613)
Less: — cash at bank and liquid resources	1,360	1,596	2,286
— interest rate and foreign currency swaps	365	365	333
<b>Net borrowings</b>	<b>(5,259)</b>	<b>(5,496)</b>	<b>(4,994)</b>

## DIAGEO PLC AND CONSOLIDATED SUBSIDIARIES NOTES

### 7. Net cash inflow from operating activities

	2002	2001
	£ million	£ million
Operating profit	1,136	945
Exceptional operating costs	104	281
Restructuring and integration payments	(99)	(70)
Depreciation and amortisation charge	147	166
Increase in working capital	(540)	(457)
Other items	6	(44)
<b>Net cash inflow from operating activities</b>	<b><u>754</u></b>	<b><u>821</u></b>

### 8. 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 2002. 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 2002 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 2002 set out on pages 8 to 13<sup>(1)</sup>. 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. 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 2002.

### **KPMG Audit Plc**

Chartered Accountants

London, 19 February 2003

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(1) Pages 104 to 111 in the information memorandum.



## 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 Irish 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 Ireland 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 Irish 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 Ireland.

### 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 and the Irish Stock Exchange are recognised stock exchanges 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 Enterprises 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 Capital 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. Further legislation is expected to be introduced, as provided for by the Finance Bill published on 16 April 2003, to implement in United Kingdom law the proposed EU Savings Directive (for details of which see the paragraph below on the proposed directive).

#### **IRISH TAXATION**

*The following summary in relation to Irish tax aspects of acquiring, holding or disposing of Instruments applies only in respect of Instruments issued by Diageo Enterprises and not by any other Issuer.*

##### **A. Irish Stamp Duty on the Instruments**

Stamp duty is not chargeable on the issue or the transfer by delivery of the Instruments. In the event of a written transfer of the Instruments no stamp duty is chargeable provided that the Instruments:-

- (a) do not carry a right of conversion into stocks or marketable securities (other than loan capital) of a company having a register in Ireland or into loan capital having such a right;
- (b) do not carry rights of the same kind as shares in the capital of a company, including rights such as voting rights, a share in the profits or a share in the surplus upon liquidation;
- (c) are redeemable within 30 years of the date of issue and not thereafter;
- (d) are issued for a price which is not less than 90% of their nominal value (thus bonds issued at a discount may not qualify for this exemption); and
- (e) do not carry a right to a sum in respect of repayment or interest which is related to certain movements in an index or indices specified in any Instrument or other document relating to the Instruments.

#### **B. Irish Withholding Tax on the Instruments**

Payments of principal, interest, discount and premium, made by a Paying Agent outside Ireland on Instruments in bearer form and carrying a right to interest listed on a stock exchange will be made on behalf of Diageo Enterprises ("DE") under section 64 of the Irish Taxes Consolidation Act, 1997 (as amended) without withholding or deduction for or on account of any present taxes or duties of whatever nature imposed or levied by or on behalf of Ireland and DE is not required to make any deduction or withholding in respect of the payment of interest or principal on such Instruments.

A similar position applies under section 64 for payments of principal and interest on Instruments in bearer form and carrying a right to interest listed on a stock exchange where the Paying Agent is within Ireland and:

1. the Instruments are held in a recognised clearing system; or
2. the person who is the beneficial owner of the Instruments and who is beneficially entitled to the interest is not resident in Ireland and has made an appropriate declaration.

In the case of Instruments other than those referred to above (i.e. other than instruments qualifying under section 64), DE will be required to deduct tax at the standard rate of income tax applicable in Ireland at time of payment unless:

- (a) the interest is paid in the ordinary course of DE's trade or business to a company resident in a country with which Ireland has concluded a double tax agreement or a company resident in an EU member state except where such interest is paid to that company in connection with an Irish branch or agency of that company; or
- (b) the interest is paid to a resident of a country with which Ireland has concluded a double tax agreement and authorisation to pay interest without deduction of tax if appropriate has been received from the Revenue Commissioners under the terms of the double tax agreement; or
- (c) the interest is paid (by DE in the ordinary course of carrying on its financial operations in accordance with the Certificate issued to it by the Irish Minister for Finance) prior to 31 December 2005 to persons whose usual place of abode is outside Ireland. Withholding tax will not apply to interest paid on the Instruments after that date if the Instruments are issued prior to 31 December 2005 on terms which oblige DE to redeem the Instruments within a period of 15 years from the date of issue.

#### **C. Irish Source Income**

Notwithstanding the fact that DE may not be required to deduct tax at the standard rate of income tax in accordance with the immediately preceding paragraphs, any interest, discount or premium on Instruments issued in Ireland is Irish source income. Such income is within the charge to Irish income tax. Ireland operates a self-assessment system in respect of income and corporation taxes and any person, including a person who is neither resident nor ordinarily resident, with Irish source income chargeable to tax comes within its scope.

Section 198 of the Irish Taxes Consolidation Act, 1997 (as amended) provides that a person not ordinarily resident in Ireland will not be chargeable to income tax in respect of interest (including any uplift in principal on redemption of indexed redemption Instruments) paid by a company in the course of carrying on trading operations which qualify for the benefit of the 10% tax rate (which under existing Irish legislation will continue for DE until 31 December 2005). For interest paid by DE after 31 December 2005, the exemption from Irish income tax will continue to apply provided the Instruments were issued before 31 December 2005 on terms which oblige DE to redeem the Instruments within a period of 15 years from the date of issue. There is also an exemption from Irish income tax where the recipient is a company resident in another EU member state or in a country with which Ireland has concluded a tax treaty. Furthermore, there is an exemption where the provisions of section 64 of the Irish Taxes Consolidation Act, 1997 (as amended) apply (see above) and the recipient of the interest is the person who is resident in a member state of the European Union (other than Ireland) or in a country with which Ireland has a double taxation agreement. The exemption under Section 198 does not apply where the interest is paid to a foreign company carrying on business in Ireland through a branch or agency or a permanent establishment to which interest paid by DE is attributable.

Interest and discount payments which do not fall within the exemptions outlined above will be subject to Irish income tax. However in the absence of a withholding tax there is no mechanism to enable the Irish Revenue Commissioners to obtain payment of any liability from a non resident person and it has been the practice of the Irish Revenue Commissioners not to seek to collect the liability from such non resident persons unless the recipient of the income has any other tax connection with Ireland such as a claim for repayment of Irish tax deducted at source, an Irish agency, branch, trustee or trade.

A holder of an Instrument will be subject to Irish taxes on capital gains on a disposal of an Instrument unless such holder is a person neither resident nor ordinarily resident in Ireland who does not have an enterprise, or an interest in an enterprise, which carries on business in Ireland through a branch or agency, or a permanent representative, to which or to whom the Instrument is attributable.

#### **PROPOSED EU SAVINGS DIRECTIVE**

On 21 January 2003 the EU Council of Economic and Finance Ministers announced that it had reached political agreement to adopt a new directive regarding the taxation of savings income. It is proposed that, subject to a number of important conditions being met, each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or 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. The proposed directive may be subject to further amendment and/or clarification.

## 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 7 May 2002 as supplemented by a supplemental dealership agreement dated 2 May 2003 (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 requirement of, and otherwise in compliance with, the Securities and Exchange Law of Japan, and other relevant laws and regulations 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 relating to offers to qualified investors.

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**

Each dealer has represented and agreed (and each further Dealer appointed under the Programme will be required to represent and agree) that, in order to comply with the Netherlands Securities Market Supervision Act 1995 (*Wet toezicht effectenverkeer 1995*, the "WTE"), it has only directly or indirectly offered, sold or transferred and that it will only directly or indirectly offer, sell or transfer Instruments in The Netherlands:

- (a) 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 treasury departments of commercial enterprises which as an ancillary activity regularly invest in securities), provided that (i) the applicable Pricing Supplement and any other documents and advertisements in which a forthcoming offering of Instruments is publicly announced states that the offer is exclusively made to those persons and (ii) a copy of the applicable Pricing Supplement is submitted to the Authority for Financial Markets (*Autoriteit Financiële Markten*, the "AFM") before the offer is made; or
- (b) with a denomination of at least EUR 50,000 (or the equivalent in any other currency) provided that if such Instruments are issued:
  - (i) at a discount, they may only be offered if their issue price is not less than EUR 50,000 (or the 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 EUR 50,000 (or the equivalent in any other currency); or
  - (iii) with a denomination of precisely EUR 50,000 (or the equivalent in any other currency), they may only be offered on a fully-paid basis and at par or at a premium; or
- (c) if any other exemption from the prohibition contained in article 3 paragraph 1 of the WTE applies or if the AFM has granted an (individual) dispensation from the above prohibition and the conditions attached to such exemption or dispensation are fully complied with.

### **Ireland**

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

- (a) it will not knowingly sell or offer for sale any Instruments to any person, including any body corporate, resident in Ireland or having its usual place of abode in Ireland (an "Irish Person");
- (b) it will not knowingly issue or distribute, or knowingly cause to be issued or distributed, to any Irish Person the Information Memorandum or any other document offering Instruments for subscription or sale;

- (c) otherwise than in circumstances which do not constitute an offer to the public within the meaning of the Irish Companies Act, 1963 to 2001, it will not offer or sell any Instruments, in Ireland or, in the case of Diageo Enterprises, in Ireland or elsewhere, by means of any document unless:
  - (i) in the case of Diageo Enterprises, such Instruments have a maximum maturity of five years from the date of issue and such offer or sale is made only to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or
  - (ii) in the case of other issuers, such offer or sale is made only to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent); or
  - (iii) if such Instruments are to be listed on the Official List of the Irish Stock Exchange, the offer or sale is effected by means of the Information Memorandum or any other document comprising listing particulars relating to the Instruments, prepared in accordance with the European Communities (Stock Exchange) Regulations, 1984 (as amended) of Ireland and approved by the Irish Stock Exchange and in each case accompanied by an application form for Instruments or by means of a document, accompanied by an application form, which indicates where the Information Memorandum (or such other document as aforesaid) may be obtained or inspected;
- (d) it has not issued and will not issue any application form for Instruments other than the form incorporated in the Information Memorandum or unless the form is accompanied by the Information Memorandum (or such other document as aforesaid);
- (e) it will not make in Ireland an offer of Instruments to which the European Communities (Transferable Securities and Stock Exchange) Regulations, 1992 of Ireland would apply, except in accordance with the provisions of those regulations;
- (f) it has only issued or passed on, and will only issue or pass on, in Ireland, any document received by it in connection with the issue of Instruments to persons who are persons to whom the document may otherwise lawfully be issued or passed on; and
- (g) it has complied and will comply with all applicable provisions of the Investment Intermediaries Act, 1995 (as amended) of Ireland (the "1995 Act") with respect to anything done by it in relation to the Instruments if operating in, or otherwise involving, Ireland and, in the case of a Dealer acting under and within the terms of an authorisation to do so for the purposes of EU Council Directive 92/22/EC of 10 May 1993 (as amended or extended), it has complied with any codes of conduct made under the 1995 Act and, in the case of a Dealer acting within the terms of an authorisation granted to it for the purposes of EU Council Directive 2000/12/EC of 20 March 2000 (as amended or extended), it has complied with any codes of conduct or practice made under section 117(1) of the Central Bank Act, 1989 of Ireland (as amended).

#### **General**

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

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or 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.

Diageo Enterprises

APPLICATION FORM

THIS APPLICATION FORM IS ISSUED WITH THIS INFORMATION MEMORANDUM SOLELY TO COMPLY WITH THE REQUIREMENTS OF THE EUROPEAN COMMUNITIES (STOCK EXCHANGE) REGULATIONS, 1984 OF IRELAND. IF YOU HAVE ALREADY MADE YOUR APPLICATION FOR INSTRUMENTS OF DIAGEO ENTERPRISES OR IF YOU HAVE ALREADY RECEIVED A CONFIRMATION OF YOUR PURCHASE OF INSTRUMENTS OF DIAGEO ENTERPRISES YOU SHOULD NOT TAKE ANY ACTION WITH REGARD TO THIS APPLICATION FORM.

NEITHER DIAGEO ENTERPRISES NOR ANY DEALER SHALL BE BOUND IN ANY WAY WHATSOEVER TO ISSUE OR SELL ANY INSTRUMENTS OF DIAGEO ENTERPRISES TO ANY PERSON WHO COMPLETES AND RETURNS THIS APPLICATION FORM.

To:\*

\* Insert Name of Dealer

I/We offer to purchase Instruments of Diageo Enterprises on and subject to the terms and conditions contained in this Information Memorandum.

COMPANY NAME FORENAME(S) (IN FULL)  
MR MRS MISS OR TITLE

SURNAME

ADDRESS (IN FULL)

Any joint applicants should complete the following details:

COMPANY NAME COMPANY NAME COMPANY NAME  
MR MRS MISS OR TITLE MR MRS MISS OR TITLE MR MRS MISS OR TITLE

FORENAME(S) (IN FULL) FORENAME(S) (IN FULL) FORENAME(S) (IN FULL)

SURNAME SURNAME SURNAME

ADDRESS (IN FULL) ADDRESS (IN FULL) ADDRESS (IN FULL)

SIGNATURE SIGNATURE SIGNATURE

Listing Particulars relating to Instruments of Diageo Enterprises have been prepared, and have been approved by the Irish Stock Exchange Limited in accordance with European Communities (Stock Exchange) Regulations, 1984 of Ireland. Copies of such Listing Particulars can be inspected at or obtained from the registered office of Diageo Enterprises.

## 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 traded on the London Stock Exchange will be admitted to trading upon submission to the London Stock Exchange of the relevant Pricing Supplement and any other information required by the London Stock Exchange, subject to the issue of the relevant Instruments. Prior to admission to trading, 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 traded on the London Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuers, the Guarantor and the relevant Dealer(s) may agree.

Any Tranche of Instruments intended to be listed on the Irish Stock Exchange will be admitted to the Official List of the Irish Stock Exchange upon submission to the Irish Stock Exchange of the relevant Pricing Supplement and any other information required by the Irish Stock Exchange, subject to the issue of the relevant Instruments. Transactions will normally be effected for delivery on the third working day in Dublin after the day of the transaction.

However, Instruments may be issued by Diageo Enterprises pursuant to the Programme which will not be listed on the Irish Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuers, the Guarantor and the relevant Dealer(s) may agree.

2. The establishment of the Programme was authorised by a resolution of the Board of Directors of Diageo plc passed on 29 April 1998, by resolutions of a duly authorised Committee of the Board of Directors of Diageo plc and the Board of Directors of Diageo Capital plc, both passed on 29 July 1998 and by a resolution of the Board of Directors of Diageo Finance plc passed on 4 August 1999 and by a resolution of the Board of Directors of Diageo Enterprises passed on 13 April 2000. 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 8 May 2003.

The listing of the Programme on the Irish Stock Exchange is expected to take place on or around 8 May 2003.

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 Capital plc, Diageo Enterprises or Diageo Finance plc and their respective subsidiaries since 30 June 2002 and no material adverse change in the financial position or prospects of Diageo Capital plc, Diageo Enterprises or Diageo Finance plc and their respective subsidiaries since 30 June 2002, the date of the last published annual accounts of Diageo Capital plc, Diageo Enterprises and Diageo Finance plc.

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 2002 and no material adverse change in the financial position or prospects of Diageo plc and its respective subsidiaries since 30 June 2002, 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 Capital plc, 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)(c) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

KPMG has given and not withdrawn its written consent to the issue of this document and the inclusion herein of its report on Diageo Enterprises and references to its name in the form and context in which it is included and has authorised the contents of that part of the listing particulars for the purposes of Section 46 of the Irish Companies Act, 1963 to 2001 and regulation 6(1)(c) 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 2002, 30 June 2001 and 30 June 2000 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 Capital plc contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act. Statutory accounts for the years ended 30 June 2002, 30 June 2001 and 30 June 2000 have been delivered to the Registrar of Companies in Scotland. Diageo Capital plc's auditors have made reports under Section 235 of the Companies Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Companies Act and did not contain any statements under Section 237(2) or (3) of the Companies Act.
11. The financial information in relation to Diageo Finance plc contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act. Statutory accounts for the years ended 30 June 2002, 30 June 2001 and 30 June 2000 have been delivered to the Registrar of Companies in England and Wales. Diageo Finance plc's auditors have made reports under Section 235 of the Companies Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Companies Act and did not contain any statements made under Section 237(2) or (3) of the Companies Act.
12. The financial information in relation to Diageo Enterprises contained in this document does not constitute full accounts within the meaning of Section 19 of the Companies (Amendment) Act, 1986 of Ireland. Full accounts of Diageo Enterprises for the year ended 30 June 2002, 30 June 2001 and 30 June 2000, have been prepared and the auditors have given unqualified reports on such accounts. The accounts of Diageo Enterprises for the year ended 30 June 2002, 30 June 2001 and 30 June 2000 have been annexed to the relevant annual returns delivered to the Registrar of Companies in Ireland.
13. 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 2002, 30 June 2001 and 30 June 2000 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 Capital plc in respect of the year ended 30 June 2002, 30 June 2001 and 30 June 2000 were audited without qualification by KPMG Audit Plc. Chartered Accountants and Registered Auditors, in accordance with the laws of Scotland.

The financial statements of Diageo Finance plc in respect of the year ended 30 June 2002, 30 June 2001 and 30 June 2000 were audited, without qualification, by KPMG Audit Plc. Chartered Accountants and Registered Auditors.

The financial statements of Diageo Enterprises in respect of the year ended 30 June 2002, 30 June 2001 and 30 June 2000 were audited, without qualification, by KPMG, Chartered Accountants and Registered Auditors. The business address of KPMG is 5 George's Dock, IFSC, Dublin 1, Ireland.

This document includes a form of application for Instruments issued or to be issued by Diageo Enterprises solely to comply with certain Irish legal requirements. It is not necessary for potential purchasers to complete the application form to apply for Instruments. Neither Diageo Enterprises nor the Dealers will be bound in any way whatsoever to issue or sell any Instruments to any person who completes and returns such application form.

14. For so long as the Programme remains in effect or any Instruments shall be outstanding, copies of the following documents may be inspected during normal business hours at the specified offices of the Issue and Paying Agent and the Irish 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 each of the Issuers 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 plc**  
Edinburgh Park  
5 Lochside Way  
Edinburgh  
EH12 9DT

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