

The risk factor of diageo

Economics, Currency



RISK FACTORS Investing in the securities offered using this prospectus involves risk. You should consider carefully the risks described below, together with the risks described in the documents incorporated by reference into this prospectus and any risk factors included in the prospectus supplement, before you decide to buy our securities. If any of these risks actually occur, our business, financial condition and results of operations could suffer, and the trading price and liquidity of the securities offered using this prospectus could decline, in which case you may lose all or part of your investment.

Risks Relating to Diageo's Business You should read " Risk Factors" in Diageo's Annual Report on Form 20-F for the fiscal year ended June 30, 2008, which is incorporated by reference in this prospectus, or similar sections in subsequent filings incorporated by reference in this prospectus, for information on risks relating to Diageo's business. **Risks Relating to Diageo's Shares** Diageo's shares and American depositary shares may experience volatility which will negatively affect your investment. In recent years most major stock markets have experienced significant price and trading volume fluctuations.

These fluctuations have often been unrelated or disproportionate to the operating performance of the underlying companies. Accordingly, there could be significant fluctuations in the price of Diageo's shares and American depositary shares, or ADSs, each representing four ordinary shares, even if Diageo's operating results meet the expectations of the investment community. In addition, • announcements by Diageo or its competitors relating to operating results, earnings, volume, acquisitions or joint ventures,

capital commitments or spending, • changes in financial estimates or investment recommendations by securities analysts, changes in market valuations of other food or beverage companies, • adverse economic performance or recession in the United States or Europe, or • disruptions in trading on major stock markets, could cause the market price of Diageo's shares and ADSs to fluctuate significantly. Risks Relating to the Debt Securities, Warrants, Purchase Contracts and Units Because Diageo is a holding company and currently conducts its operations through subsidiaries, your right to receive payments on debt securities issued by Diageo or on the guarantees is subordinated to the other liabilities of its subsidiaries.

Diageo is organized as a holding company, and substantially all of its operations are carried on through subsidiaries. Diageo plc had guaranteed a total of \$ 6, 970 million of debt as of June 30, 2008. Diageo's ability to meet its financial obligations is dependent upon the availability of cash flows from its domestic and foreign subsidiaries and affiliated companies through dividends, intercompany advances, management fees and other payments. Diageo's subsidiaries are not guarantors of the debt securities we may offer. Moreover, these subsidiaries and affiliated companies are not required and may not be able to pay dividends to Diageo. Claims of the creditors of Diageo's subsidiaries have priority as to the assets of such subsidiaries over the claims of Diageo. Consequently, in the event of insolvency of Diageo, the claims of holders of notes guaranteed or issued by Diageo would be structurally subordinated to the prior claims of the creditors of subsidiaries of Diageo. 2 Table of Contents In addition, some of Diageo's subsidiaries are subject to laws restricting the amount of dividends they may pay.

For example, subsidiaries of Diageo incorporated under the laws of England and Wales may be restricted by law in their ability to declare dividends due to failure to meet requirements tied to net asset levels or distributable profits. Because the debt securities are unsecured, your right to receive payments may be adversely affected. The debt securities that we are offering will be unsecured. The debt securities are not subordinated to any of our other debt obligations and therefore they will rank equally with all our other unsecured and unsubordinated indebtedness. As of June 30, 2008, Diageo group had \$ 5 million aggregate principal amount of secured indebtedness outstanding. If Diageo Investment, Diageo Capital, Diageo Finance or Diageo default on the debt securities or Diageo defaults on the guarantees, or in the event of bankruptcy, liquidation or reorganization, then, to the extent that Diageo Investment, Diageo Capital, Diageo Finance or Diageo have granted security over their assets, the assets that secure these debts will be used to satisfy the obligations under that secured debt before Diageo Investment, Diageo Capital, Diageo Finance or Diageo could make payment on the debt securities or the guarantees, respectively.

If there is not enough collateral to satisfy the obligations of the secured debt, then the remaining amounts on the secured debt would share equally with all unsubordinated unsecured indebtedness. Your rights as a holder of debt securities may be inferior to the rights of holders of debt securities issued under a different series pursuant to the indenture. The debt securities are governed by documents called indentures, which are described later under "Description of Debt Securities and Guarantees". We may issue as many distinct series of debt securities under the indentures as we wish.

We may also issue a series of debt securities under the indentures that provides holders with rights superior to the rights already granted or that may be granted in the future to holders of another series. You should read carefully the specific terms of any particular series of debt securities which will be contained in the prospectus supplement relating to such debt securities. Should Diageo, Diageo Capital or Diageo Finance default on its debt securities, or should Diageo default on the guarantees, your right to receive payments on such debt securities or guarantees may be adversely affected by applicable insolvency laws.

Diageo plc is incorporated under the laws of England and Wales, Diageo Capital is incorporated under the laws of Scotland and Diageo Finance is incorporated under the laws of The Netherlands. Accordingly, insolvency proceedings with respect to Diageo or Diageo Capital are likely to proceed under, and be governed by, UK insolvency law and insolvency proceedings with respect to Diageo Finance are likely to proceed under, and be governed by, Dutch insolvency law.

The procedural and substantive provisions of such insolvency laws are generally more favorable to secured creditors than comparable provisions of United States law. These provisions afford debtors and unsecured creditors only limited protection from the claims of secured creditors and it will generally not be possible for Diageo, Diageo Capital or Diageo Finance or other unsecured creditors to prevent or delay the secured creditors from enforcing their security to repay the debts due to them under the terms that such security was granted.

The debt securities, warrants, purchase contracts and units lack a developed trading market, and such a market may never develop. Each of Diageo, Diageo Investment, Diageo Capital and Diageo Finance may issue debt securities in different series with different terms in amounts that are to be determined. Debt securities issued by Diageo, Diageo Capital or Diageo Finance may be listed on the New York Stock Exchange or another 3 Table of Contents recognized stock exchange and we expect that debt securities issued by Diageo Investment will not be listed on any stock exchange.

However, there can be no assurance that an active trading market will develop for any series of debt securities of Diageo, Diageo Capital or Diageo Finance even if we list the series on a securities exchange. Similarly, there can be no assurance that an active trading market will develop for any warrants issued by Diageo. There can also be no assurance regarding the ability of holders of our debt securities, warrants, purchase contracts and units to sell their debt securities, warrants, purchase contracts or units or the price at which such holders may be able to sell their debt securities, warrants, purchase contracts or units.

If a trading market were to develop, the debt securities, warrants, purchase contracts and units could trade at prices that may be higher or lower than the initial offering price and, in the case of debt securities, this may result in a return that is greater or less than the interest rate on the debt security, in each case depending on many factors, including, among other things, prevailing interest rates, Diageo's financial results, any decline in Diageo's credit-worthiness and the market for similar securities.

Any underwriters, broker-dealers or agents that participate in the distribution of the debt securities, warrants, purchase contracts or units may make a market in the debt securities, warrants, purchase contracts or units as permitted by applicable laws and regulations but will have no obligation to do so, and any such market-making activities may be discontinued at any time. Therefore, there can be no assurance as to the liquidity of any trading market for the debt securities, warrants, purchase contracts and units or that an active public market for the debt securities, warrants, purchase contracts or units will develop.

General Information regarding Foreign Currency Risks This prospectus does not describe all the risks of an investment in debt securities denominated in a currency other than U. S. dollars. You should consult your financial and legal advisors as to any specific risks entailed by an investment in debt securities that are denominated or payable in, or the payment of which is linked to the value of, foreign currency. These debt securities are not appropriate investments for investors who are not sophisticated in foreign currency transactions.

The information set forth in this prospectus is directed to prospective purchasers who are United States residents. We disclaim any responsibility to advise prospective purchasers who are residents of countries other than the United States of any matters arising under foreign law that may affect the purchase of or holding of, or receipt of payments on, the debt securities. These persons should consult their own legal and financial advisors

concerning these matters. Exchange Rates and Exchange Controls May Affect the Debt Securities' Value or Return

Debt securities Involving Foreign Currencies Are Subject to General Exchange Rate and Exchange Control Risks . An investment in a debt security that is denominated or payable in, or the payment of which is linked to the value of, currencies other than U. S. dollars entails significant risks. These risks include the possibility of significant changes in rates of exchange between the U. S. dollar and the relevant foreign currencies and the possibility of the imposition or modification of exchange controls by either the U. S. or foreign governments. These risks generally depend on economic and political events over which we have no control.

Exchange Rates Will Affect Your Investment. In recent years, rates of exchange between U. S. dollars and some foreign currencies have been highly volatile and this volatility may continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur during the term of any debt security. Depreciation against the U. S. dollar of the currency in which a debt security is payable would result in a decrease in the effective yield of the debt security below its coupon rate and could result in an overall loss to you on a U.

S. dollar basis. In addition, depending on the specific terms of a currency-linked debt security, 4 Table of Contents changes in exchange rates relating to any of the relevant currencies could result in a decrease in its effective yield and in your loss of all or a substantial portion of the value of that debt

security. We Have No Control Over Exchange Rates. Foreign exchange rates can either float or be fixed by sovereign governments. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to the U. S. dollar and to each other.

However, from time to time governments may use a variety of techniques, such as intervention by a country's central bank or the imposition of regulatory controls or taxes, to influence the exchange rates of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or relative exchange characteristics by a devaluation or revaluation of a currency. These governmental actions could change or interfere with currency valuations and currency fluctuations that would otherwise occur in response o economic forces, as well as in response to the movement of currencies across borders. As a consequence, these government actions could adversely affect the U. S. dollar-equivalent yields or payouts for (a) debt securities denominated or payable in currencies other than U. S. dollars and (b) currency-linked debt securities. We will not make any adjustment or change in the terms of the debt securities in the event that exchange rates should become fixed, or in the event of any devaluation or revaluation or imposition of exchange or other regulatory controls or taxes, or in the event of other developments affecting the U.

S. dollar or any applicable foreign currency. You will bear those risks. Some Foreign Currencies May Become Unavailable. Governments have imposed from time to time, and may in the future impose, exchange controls that

could also affect the availability of a specified foreign currency. Even if there are no actual exchange controls, it is possible that the applicable currency for any debt security not denominated in U. S. dollars would not be available when payments on that debt security are due. Alternative Payment Method Used if Payment Currency Becomes Unavailable.

If a payment currency is unavailable, we would make required payments in U. S. dollars on the basis of the market exchange rate. However, if the applicable currency for any debt security is not available because the euro has been substituted for that currency, we would make the payments in euro. The mechanisms for making payments in these alternative currencies are explained in " Description of Debt Securities and Guarantees—Additional Mechanics—Unavailability of Foreign Currency" below. We Will Provide Currency Exchange Information in Prospectus Supplements.

The applicable prospectus supplement will include information regarding current applicable exchange controls, if any, and historic exchange rate information for any debt security denominated or payable in a foreign currency or requiring payments that are related to the value of a foreign currency. That information will be furnished only for information purposes. You should not assume that any historic information concerning currency exchange rates will be representative of the range of or trends in fluctuations in currency exchange rates that may occur in the future.

Currency Conversions May Affect Payments on Some Debt securities The applicable prospectus supplement may provide for (1) payments on a non-U. S. dollar denominated debt security to be made in U. S. dollars or (2)

payments on a U. S. dollar denominated debt security to be made in a currency other than U. S. dollars. In these cases, The Bank of New York Mellon, in its capacity as exchange rate agent, or a different exchange rate agent identified in the prospectus supplement, will convert the currencies. You will bear the costs of conversion through deductions from those payments. 5