

10 May 2017

HMRC to issue preliminary notice of assessment

Diageo reported in its interim results for the six months to 31 December 2016 released on 26 January 2017 that Diageo had been discussing its transfer pricing position and related issues with HM Revenue & Customs, the U.K. tax authority, and that it had entered into a process of collaborative working to seek clarity on those issues. Those discussions are ongoing.

Further to this, Diageo has learned today that HM Revenue & Customs intends to issue preliminary notices of assessment under the new Diverted Profits Tax regime, which came into effect in April 2015. Diageo understands that this will require Diageo to pay additional tax and interest of approximately £107 million in aggregate for the financial years ended 30 June 2015 and 30 June 2016.

Diageo does not believe that it falls within the scope of the new Diverted Profits Tax regime. Accordingly, Diageo will challenge the assessments when they are received. In order to do this, it will be necessary to pay the full amount assessed up front and then continue to work to resolve this matter with HMRC. The payment of this sum is not a reflection of Diageo's view on the merits of the case and, based on its current assessment, Diageo considers no provision is required in relation to Diverted Profits Tax.

This issue does not change Diageo's expectation that the tax rate before exceptional items for the year ending 30 June 2017 will be approximately 21%.

This announcement contains inside information.

The person responsible for arranging the release of this announcement on behalf of Diageo is John Nicholls, Deputy Company Secretary.

ENDS

Enquiries:

| | | |
|----------------------------|--|----------------------|
| Media relations: | Kirsty King | +44 (0)020 8978 6855 |
| | Clemmie Raynsford | +44 (0)020 8978 1221 |
| | press@diageo.com | +44 (0)020 8978 2749 |
| Investor relations: | Sharon Rolston | +44 (0)20 8978 1219 |
| | Andrew Ryan | +44 (0)20 8978 6504 |
| | investor.relations@diageo.com | |

About Diageo

Diageo is a global leader in beverage alcohol with an outstanding collection of brands including Johnnie Walker, Crown Royal, J&B, Buchanan's and Windsor whiskies, Smirnoff, Cîroc and Ketel One vodkas, Captain Morgan, Baileys, Don Julio, Tanqueray and Guinness.

Diageo is a global company, and our products are sold in more than 180 countries around the world. The company is listed on both the London Stock Exchange (DGE) and the New York Stock Exchange (DEO). For more information about Diageo, our people, our brands, and performance, visit us at www.diageo.com. Visit Diageo's global responsible drinking resource, www.DRINKiQ.com, for information, initiatives, and ways to share best practice.

Cautionary statement concerning forward-looking statements

This document contains 'forward-looking' statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook, objectives and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to Diageo, anticipated cost savings or synergies, expected investments, the completion of Diageo's strategic transactions and restructuring programmes, anticipated tax rates, changes in the international tax environment, expected cash payments, outcomes of litigation, anticipated deficit reductions in relation to pension schemes and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo's control.

These factors include, but are not limited to:

- economic, political, social or other developments in countries and markets in which Diageo operates, which may contribute to reduced demand for Diageo's products, reduced consumer spending, negative impacts on Diageo's customer, supplier and financial counterparties or the imposition of import, investment or currency restrictions;
- the results of the decision in the United Kingdom's referendum on 23 June 2016 to leave the European Union and its stated intention to exit the single market, which may lead to a sustained period of economic and political uncertainty and complexity until the detailed terms of the United Kingdom's exit from the European Union and any successor trading arrangements with other countries are finalised, which may negatively impact economic conditions in Europe more generally and could have an adverse impact on Diageo's business operations and financial performance;
- changes in consumer preferences and tastes, including as a result of changes in demographic and social trends, public health regulations and travel, vacation or leisure activity patterns, or as a result of contamination, counterfeiting or other circumstances which could harm the integrity or sales of Diageo's brands;
- any litigation or other similar proceedings (including with tax, customs and other regulatory authorities), including that directed at the drinks and spirits industry generally or at Diageo in particular, or the impact of a product recall or product liability claim on Diageo's profitability or reputation;
- the effects of climate change and related regulations and other measures to address climate change, including any resulting impact on the cost and supply of water;
- changes in the cost of production, including as a result of increases in the cost of commodities, labour and/or energy or as a result of inflation;
- legal and regulatory developments, including changes in regulations regarding production, product liability, distribution, importation, labelling, packaging, consumption, advertising and data privacy; changes in tax law (including tax treaties), rates or requirements (including with respect to the impact of excise tax increases) or accounting standards; and changes in environmental laws, health regulations and the laws governing labour and pensions;
- changes to the international tax environment such as the OECD Base Erosion and Profit Shifting Initiative and EU anti-tax abuse measures resulting in uncertainty around the application of existing and new tax laws, leading to unexpected tax exposures;
- the consequences of any failure by Diageo to comply with anti-corruption and other laws and regulations or any failure of Diageo's related internal policies and procedures to comply with applicable law;

- ability to maintain Diageo's brand image and corporate reputation or to adapt to a changing media environment, and exposure to adverse publicity, whether or not justified, and any resulting impacts on Diageo's reputation and the likelihood that consumers choose products offered by Diageo's competitors;
- increased competitive product and pricing pressures, including as a result of actions by increasingly consolidated competitors, that could negatively impact Diageo's market share, distribution network, costs or pricing;
- the effects of Diageo's business strategies, including in relation to expansion in emerging markets and growth of participation in international premium spirits markets, the effects of business combinations, partnerships, acquisitions or disposals, existing or future, and the ability to realise expected synergies and/or costs savings;
- Diageo's ability to benefit from its strategy, including its ability to expand into new markets, to complete and benefit from existing or future business combinations or other transactions, to implement cost saving and productivity initiatives or to forecast inventory levels successfully;
- contamination, counterfeiting or other events that could adversely affect the perception of Diageo's brands;
- increased costs or shortages of talent;
- disruption to production facilities or business service centres or information systems (including cyber-attack), existing or future;
- fluctuations in exchange rates and interest rates, which may impact the value of transactions and assets denominated in other currencies, increase the cost of financing or otherwise affect Diageo's financial results;
- movements in the value of the assets and liabilities related to Diageo's pension funds;
- renewal of supply, distribution, manufacturing or licence agreements (or related rights) and licences on favourable terms or at all when they expire; and
- failure of Diageo to protect its intellectual property rights.

All oral and written forward-looking statements made on or after the date of this document and attributable to Diageo are expressly qualified in their entirety by the above factors and by the 'Risk factors' section in our annual report for the financial year ended 30 June 2016. Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made. Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Diageo may make in any documents which it publishes and/or files with the US Securities and Exchange Commission (SEC). All readers, wherever located, should take note of these disclosures.

This document includes names of Diageo's products, which constitute trademarks or trade names which Diageo owns, or which others own and license to Diageo for use. All rights reserved. © Diageo plc 2017.

The information in this document does not constitute an offer to sell or an invitation to buy shares in Diageo plc or an invitation or inducement to engage in any other investment activities.

This document may include information about Diageo's target debt rating. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating.

Past performance cannot be relied upon as a guide to future performance.