International Assignees

EQUITY TAXATION

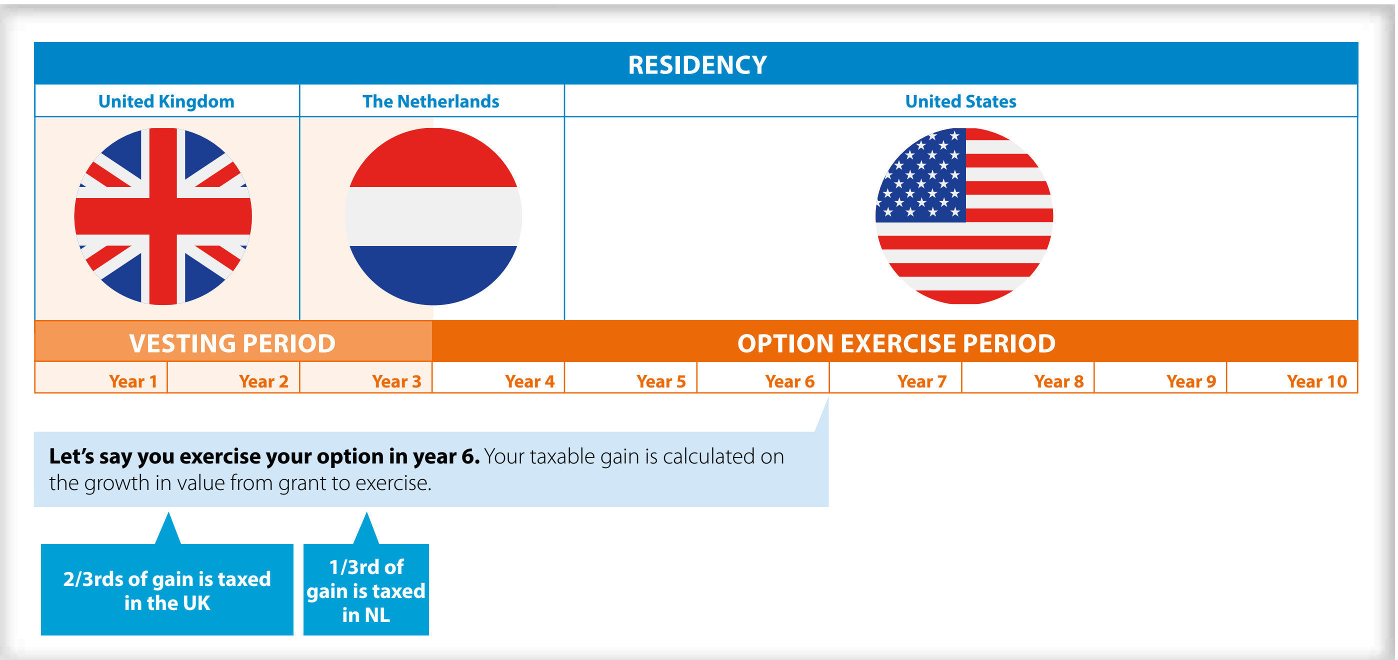
If you are on an international assignment for Diageo, it's important to understand that living in another country could have tax implications for you – even many years into the future – if you participate in one of our employee share plans.

You may have to pay more tax than you expected. This factsheet sets out some of the key issues you should be aware of.

When would my income tax liabilities arise?

If you participate in an employee share plan, you would normally have to pay tax on the gain when you exercise a share option or when your Restricted Stock Units (RSUs) vest.

However, the tax liability arises in each country you lived in **during the vesting period**. This means you may have a tax liability in a country you no longer live in. In most cases the gain is apportioned, depending on how long you spent in each country during the vesting period.



How is my tax liability paid?

Diageo will usually arrange for the sale of enough shares to meet your tax liability, at the point when you exercise a share option or receive shares through one of our share plans.

Diageo has a worldwide policy of withholding any taxes payable at your marginal (i.e. highest) rate of tax. This ensures that the company has deducted enough tax to meet its obligations. This may mean you sell more shares than you might expect. If you prefer to pay the tax from your own resources rather than selling shares, please contact the Shares office at the time of your transaction. You will be provided with a statement giving details of the tax withheld in each country.

Diageo will arrange to pay the correct amount of tax to the local tax authority in the appropriate countries.

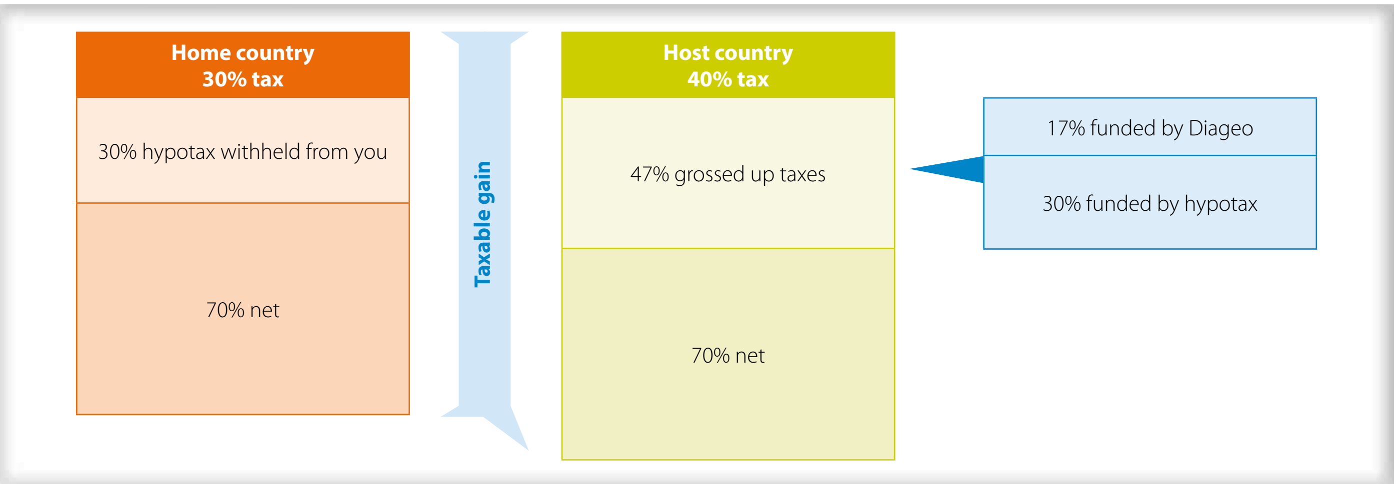
How much tax do I pay?

If you are on an international assignment for Diageo, you would pay 'hypothetical' taxes ('hypotax') on any gain you make from exercising your share options or when your RSUs vest.

'Hypotax' means you pay the same amount of tax as you would have done if you had stayed in your home country. This is called 'tax equalisation'. Diageo pays the actual taxes on your behalf. Paying tax for an employee is regarded as a taxable benefit, so Diageo will also pay tax on the taxes paid on your behalf.

Diageo only provides tax equalisation on a share option up to the point of its exercise. Any future tax liability after exercise (for example, capital gains tax on the sale of shares) is considered personal income and you will bear the tax liabilities (either home or host) arising on any gain.

Let's say you pay tax at 30% in your home country, but prior to the date of vest you move to a country where the tax rate is 40% on the portion of the gain taxable in the host country.



What happens when I cease to be an IA?

If you have unvested or unexercised employee share plans then Diageo will apply the 'Tax Protection' policy for 12 months after the end of your assignment (or after six months if you are no longer an employee).

After that time, you are responsible for any tax due in relation to your share-based compensation.

What support does Diageo provide?

Diageo will provide tax return support during all the years in which you are on assignment, as well as in any years in which you face a higher tax bill as a result of exercising your share options (or because your share awards vest) and being an international assignee. This includes years in which you are responsible for any income taxes due.

The support offered does not include tax planning, so if you need this kind of advice you must arrange this and pay for it yourself.

HOW DOES IT WORK IN PRACTICE?

	Share options	RSUs
Living in UK	01/01/2005	01/01/2005
Date of grant	01/09/2013	01/09/2013
Moved to NL	01/09/2015	01/09/2015
Vesting date	01/09/2016	01/09/2016
Moved to US	01/09/2017	01/09/2017
Date of exercise	01/09/2019	N/A
Exercise price per share	£8	£0
Market value at exercise	£20	£20
Gain per share	£12	£20
Taxable in UK	£8	£13
Taxable in NL	£4	£7
Taxable in US	£0	N/A
Tax point	01/09/2019	01/09/2016

If you have any questions or would like further information please contact **Global.Mobility@diageo.com**