

**Diageo Finance plc**  
**Financial statements**  
**30 June 2014**

Registered number: 213393



## **Strategic report**

The directors have pleasure in submitting their strategic report, their annual report and the audited financial statements for the year ended 30 June 2014.

### **Activities**

The company is engaged in treasury risk and cash management for Diageo plc and its subsidiary undertakings. It raises the external funds it requires principally using the London financial markets. It operates as the bank of the group, finances operating companies via intra-group loans and deposits and makes third party payments on behalf of other group companies. Foreign exchange transactional hedging deals are carried out in the company to hedge brand owners' future foreign currency cash flows with a margin defined on an arms' length basis. Foreign exchange translation hedging, interest rate risk management, commodity price risk management and cash management is also performed by the company.

The company's operations are based in the United Kingdom. The directors foresee no changes in the company's activities.

### **Business review**

#### *Principal risks and uncertainties facing the company as at 30 June 2014*

The company forms part of the Diageo group's treasury operations, which manage the Diageo group's funding, liquidity, interest rate, commodity price and foreign exchange risks. The principal risks and uncertainties facing the company are foreign currency risk associated with certain foreign currency transactions and interest rate risk arising principally on changes in interest rates. The fair value movement on these financial instruments is recorded in the profit and loss account.

#### *Development and performance of the business of the company during the financial year and position of the company as at 30 June 2014*

The results of the company and the development of its business are influenced to a considerable extent by group financing requirements. Further information on the risk management policies of the Diageo group is included in the annual report of Diageo plc (see note 15 of the consolidated financial statements of Diageo plc).

Results from interest income and expense have increased by £343 million in the year ended 30 June 2014 from a net interest expense of £98 million in the year ended 30 June 2013, mainly due to changes in intra-group lending terms.

Amounts owed by fellow group undertakings decreased by £7,142 million offset by a decrease in amounts owed to fellow group undertakings of £9,703 million which resulted from changes in the funding requirements of fellow group undertakings.

External borrowings have increased by £1,273 million in the year ended 30 June 2014 primarily as a result of bonds issued by the company during the year.

**Strategic report (continued)**

**Business review (continued)**

*Financial and other key performance indicators*

As the company forms part of the group's treasury operations, the principal key performance indicator used by management to analyse the development, performance and position of the company's business is net interest income in respect of intra-group lending.

By order of the board



M Pais  
*Director*  
Lakeside Drive  
Park Royal  
London  
NW10 7HQ

11 December 2014

## **Directors' report**

### **Going concern**

The company is expected to continue to generate profit for its own account and to remain in positive net asset position for the foreseeable future. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Diageo group to continue as a going concern. On the basis of their assessment, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **Financial**

The results for the year ended 30 June 2014 are shown on page 7.

The profit for the year transferred to reserves is £264 million (2013 - loss of £71 million transferred from reserves).

No dividend was paid during the year (2013 - £nil).

### **Directors**

The directors who held office during the year were as follows:

G Geiszl (resigned 1 October 2013)  
D Heginbottom  
J J Nicholls  
M Pais  
P D Tunnacliffe

On 1 October 2014, D Heginbottom resigned and S Fennessy and E McShane were appointed as directors of the company.

### **Directors' remuneration**

None of the directors received any remuneration during the year in respect of their services as directors of the company (2013 - £nil).

### **Post balance sheet events**

On 23 September 2014, the company issued €500 million fixed rate Euro denominated bonds with a coupon of 1.75% due in September 2024 and a €500 million fixed rate Euro denominated bond with a coupon of 1.125% due in May 2019. The payment of the principals and interests are fully guaranteed by Diageo plc.

On 5 December 2014, the company repaid bonds of €1,000 million (£792 million).

## **Directors' report (continued)**

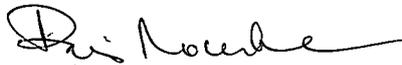
### **Auditor**

On 30 June 2014, KPMG Audit Plc resigned as the company's auditor, having instigated an orderly wind down of its business. KPMG LLP, an intermediate parent, was appointed statutory auditor on 3 July 2014.

### **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

By order of the board



M Pais  
*Director*  
Lakeside Drive  
Park Royal  
London  
NW10 7HQ

11 December 2014

## **Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements**

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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.

## **Independent auditor's report to the members of Diageo Finance plc**

We have audited the financial statements of Diageo Finance plc for the year ended 30 June 2014 set out on pages 7 to 22. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Karen Wightman, Senior Statutory Auditor**  
for and on behalf of KPMG Audit LLP, Statutory Auditor



*Chartered Accountants*

15 Canada Square  
London  
E14 5GL

11 December 2014

## Profit and loss account

	<i>Notes</i>	<b>Year ended 30 June 2014 £'million</b>	<b>Year ended 30 June 2013 £'million</b>
Interest income	<i>1</i>	<b>1,093</b>	974
Interest expense	<i>2</i>	<b>(848)</b>	(1,072)
		<hr/>	<hr/>
Net interest income/(expense)		<b>245</b>	(98)
Other operating (expense)/income	<i>3</i>	<b>(19)</b>	10
Gain on disposal of fixed asset investments	<i>5</i>	-	21
		<hr/>	<hr/>
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>226</b>	(67)
Taxation on profit/(loss) on ordinary activities	<i>6</i>	<b>38</b>	(4)
		<hr/>	<hr/>
<b>Profit/(loss) for the financial year</b>		<b>264</b>	(71)
		<hr/> <hr/>	<hr/> <hr/>

The accounting policies and other notes on pages 10 to 22 form part of the financial statements.

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

All results arise from continuing operations.

**Balance sheet**

	Notes	30 June 2014		30 June 2013	
		£'million	£'million	£'million	£'million
<b>Fixed assets</b>					
Other financial assets	7		328		471
Debtors: due after more than one year	8		32		30
			360		501
<b>Current assets</b>					
Debtors	8	34,987		42,085	
Other financial assets	7	128		109	
Cash and cash equivalents	10	14		991	
			35,129	43,185	
<b>Creditors: amounts falling due within one year</b>					
Other financial liabilities	7	(191)		(96)	
Borrowings	11	(967)		(172)	
Other creditors	12	(28,823)		(38,525)	
			(29,981)	(38,793)	
<b>Net current assets</b>			5,148		4,392
<b>Total assets less current liabilities</b>			5,508		4,893
<b>Creditors: amounts falling due after more than one year</b>					
Other financial liabilities	7	(326)		(453)	
Borrowings	11	(1,360)		(882)	
			(1,686)	(1,335)	
<b>Net assets</b>			3,822		3,558
<b>Capital and reserves</b>					
Called up share capital	13		3,660		3,660
Profit and loss account	14		162		(102)
<b>Shareholders' funds</b>	15		3,822		3,558

The accounting policies and other notes on pages 10 to 22 form part of the financial statements.

These financial statements on pages 7 to 22 were approved by the board of directors on 11 December 2014 and were signed on its behalf by:

  
M Pais  
Director

## Note of historical cost profits and losses

	Year ended 30 June 2014 £'million	Year ended 30 June 2013 £'million
<b>Reported profit/(loss) on ordinary activities before taxation</b>	<b>226</b>	<b>(67)</b>
Market value differential on foreign exchange contracts – gain	(2)	(8)
Market value differential on foreign exchange options – loss	4	-
Market value loss on external derivative interest rate instruments	29	29
Market value gain on intra-group derivative interest rate instruments	(16)	(18)
Market value loss on external derivative cross currency interest rate swaps	8	58
Market value gain on intra-group derivative cross currency interest rate swaps	(8)	(58)
Amortization of bonds	(19)	(17)
<b>Historical cost profit/(loss) on ordinary activities before taxation</b>	<b>222</b>	<b>(81)</b>

## **Accounting policies**

### **Future changes to accounting policies**

The Financial Reporting Council recently issued *FRS 100 – Application of Financial Reporting Requirements*, *FRS 101 – Reduced Disclosure Framework* and *FRS 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland* which will be first effective for the company for the year ending 30 June 2016. FRS 100 sets out the overall financial reporting framework whereas FRS 101 applies to the company financial statements allowing them to apply the same accounting policies as the IFRS group accounts but with less disclosure. FRS 102 will replace the current UK GAAP standards with an IFRS based new standard and include a set of disclosure exemptions for qualifying entities formerly preparing UK GAAP financial standards. The company is currently evaluating the impact of these requirements in relation to FRS 100, FRS 101 and FRS 102.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

### **Basis of preparation**

The financial statements are prepared on a going concern basis under the historical cost convention except that derivative financial instruments are stated at their fair value. The financial statements are prepared in accordance 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 exempt under the terms of Financial Reporting Standard No. 8 from disclosing related party transactions (but not balances) with entities that are wholly owned by a member of the Diageo plc group ("group undertakings").

### **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 foreign currency contract. Assets and liabilities denominated in foreign currencies are translated into sterling at the financial year end exchange rates. Exchange gains and losses are taken to the profit and loss account.

### **Financial liabilities**

Borrowings are initially recognised at fair value net of transaction costs and are subsequently reported at amortised cost. Certain bonds are designated as being part of a fair value hedge relationship. In these cases, the amortised cost is adjusted for the fair value of the risk being hedged, with changes in value recognised in the income statement. The fair value adjustment is calculated using a discounted cash flow technique based on unadjusted market data.

## Accounting policies (continued)

### Financial instruments

The company's accounting policies under UK GAAP namely *FRS 26 – Financial instruments: measurement* and *FRS 29 – Financial instruments: disclosure* are the same as the group's accounting policies under IFRS, namely *IAS 32 – Financial instruments: disclosure and presentation* and *IAS 39 – Financial instruments: recognition and measurement*. These standards are effective from 1 July 2005. The company has taken the exemption not to provide all the financial instrument disclosures, as IFRS 7 disclosures are given in note 15 to the group financial statements.

### Derivative financial instruments

On behalf of Diageo plc and its subsidiaries (the 'group'), the company participates in hedging of foreign exchange exposures arising on group transactions and the underlying net assets of the group's foreign subsidiaries by using forward contracts and currency swaps.

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

The company participates in the group's interest rate management and uses interest rate swaps in the management of the interest rate exposure arising on the group's borrowings.

At the group and company level, derivative financial instruments are recognised in the balance sheet at fair value that is calculated using discounted cash flow techniques taking into consideration assumptions based on market data.

At the group level, the purpose of hedge accounting is to mitigate the impact of potential volatility in the profit and loss account of the changes in exchange rates or interest rates, by matching the impact of the hedged item and the hedging instrument in the profit and loss account. To qualify for hedge accounting, the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. For group purposes, at the inception of the transaction the company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction. This process includes linking all derivatives designated as hedges to specific assets and liabilities. For group purposes the company also documents its assessment, both at the hedge inception and on a quarterly basis, as to whether the derivatives that are used in hedging transactions have been, and are likely to continue to be, highly effective in offsetting changes in fair value or cash flows of hedged items.

For the purposes of the group consolidated financial statements prepared under International Financial Reporting Standards the group designates derivatives which qualify for hedge accounting as either: (a) a hedge of the fair value of a recognised asset or liability (fair value hedge); or (b) a hedge of a forecast transaction or the cash flow risk from a change in foreign exchange or interest rates (cash flow hedge); or (c) a hedge of a net investment in foreign operations.

## **Accounting policies (continued)**

### **Derivative financial instruments (continued)**

The group uses derivative financial instruments to manage the currency and/or interest rate risk to which the fair value of certain assets and liabilities are exposed. Changes in the fair value of derivatives that are fair value hedges are recognised in the profit and loss account, along with any changes in the relevant fair value of the underlying hedged asset or liability that is attributable to the hedged risk. If a hedge relationship is de-designated, fair value movements on the derivative continue to be taken to the profit and loss account while any fair value adjustments made to the underlying hedged item to that date are amortised on an effective interest basis through the profit and loss account over its remaining life.

For the purposes of the company's statutory financial statements any change in the fair value of derivatives is recorded in the profit and loss account. Fair value hedge accounting is applied for interest rate swap derivatives only.

### **Taxation**

Current tax, including UK corporation tax and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted at the balance sheet date. Except as otherwise required by FRS 19, deferred tax is provided in full on timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more tax, or a right to pay less tax, in the future. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Any interest or penalties on tax liabilities are provided in the tax charge.

## Notes to the financial statements

### 1. Interest income

	Year ended 30 June 2014 £'million	Year ended 30 June 2013 £'million
Interest from fellow group undertakings	879	623
Other deposits and swaps	121	119
Market value differential on foreign exchange contracts	2	24
Market value gain on intra-group derivative interest rate instruments	35	75
Market value gain on external derivative interest rate instruments	27	58
Market value gain on intra-group cross currency interest rate swaps	9	58
Market value gain on external cross currency interest rate swaps	1	-
Amortization of bonds	19	17
	<u>1,093</u>	<u>974</u>

### 2. Interest expense

	Year ended 30 June 2014 £'million	Year ended 30 June 2013 £'million
Interest to fellow group undertakings	559	667
Other loans, borrowings and swaps	179	172
Bank loans and overdrafts	25	15
Market value differential on foreign exchange contracts	-	16
Market value loss on intra-group derivative interest rate instruments	19	57
Market value loss on external derivative interest rate instruments	56	87
Market value loss on intra-group cross currency interest rate swaps	1	-
Market value loss on external cross currency interest rate swaps	9	58
	<u>848</u>	<u>1,072</u>

## Notes to the financial statements (continued)

### 3. Other operating (expense)/income

	Year ended 30 June 2014 £'million	Year ended 30 June 2013 £'million
Foreign exchange (loss)/gain on operations	(28)	2
Margin on transaction hedging	8	8
Market value movement on transactional foreign exchange derivative transactions	(1)	1
Other income/(expense)	2	(1)
	<hr/>	<hr/>
	(19)	10
	<hr/>	<hr/>

Fees in respect of audit services provided by the auditor are: £108,000 (2013 - £113,000). There were no fees payable to the auditor in respect of non-audit services (2013 - £nil).

### 4. Directors and employees

The company did not employ any staff during either the current or prior year.

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2013 - £nil).

### 5. Gain on disposal of fixed asset investment

In August 2012, the company established Diageo Financing Turkey Limited, with a share capital of £238 million. In April 2013, a dividend of £225 million was distributed to the Company resulting in a significant decrease in the subsidiary's net assets. On 20 June 2013, this wholly owned subsidiary undertaking was sold to UDV (SJ) Limited, for a consideration of £34 million, resulting in a gain of £21 million to the company.

The tax charge on these items amounted to £nil.

Notes to the financial statements (continued)

6. Taxation

	Year ended 30 June 2014 £'million	Year ended 30 June 2013 £'million
<b>(i) Analysis of taxation credit for the year</b>		
<b>Current tax</b>		
Overseas corporation tax	(4)	(4)
	<hr/>	<hr/>
Total current tax charge	(4)	(4)
	<hr/>	<hr/>
<b>Deferred tax</b>		
Origination/(reversal) of timing differences	12	-
Effect of changes in tax rates	(3)	-
Adjustment in respect of prior years	33	-
	<hr/>	<hr/>
Total deferred tax	42	-
	<hr/>	<hr/>
Taxation on profit/(loss) on ordinary activities	38	(4)
	<hr/>	<hr/>
	<hr/>	<hr/>
<b>(ii) Factors affecting current tax charge for the year</b>		
Profit/(loss) on ordinary activities before taxation	226	(67)
	<hr/>	<hr/>
Taxation on profit/(loss) on ordinary activities at UK corporation tax rate of 22.5% (2013 - 23.75%)	(51)	16
Expenses not deductible for tax purposes	-	(25)
Items not chargeable for tax purposes	61	5
Movement of other timing difference	1	-
Double tax relief	-	4
Overseas corporation tax	(3)	(4)
Tax losses not utilised	(12)	-
	<hr/>	<hr/>
Current ordinary tax charge for the year	(4)	(4)
	<hr/>	<hr/>

**Factors which may affect future tax charges**

Reductions in the UK corporation tax rate from 24% to 23% (effective from 1 April 2013) and 21% (effective from 1 April 2014) were substantively enacted on 3 July 2012 and 2 July 2013 respectively. Further reduction to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. It is expected that this will reduce the company's future current tax.

Notes to the financial statements (continued)

7. Other financial assets and liabilities

	Non-current financial assets £'million	Current financial assets £'million	Current financial liabilities £'million	30 June 2014 Non-current financial liabilities £'million
<b>External derivative assets/(liabilities) not designated in hedge relationship</b>				
Foreign exchange contracts - transaction	6	87	(9)	-
Foreign exchange contracts - other	2	21	(93)	-
Interest rate derivatives	133	9	(3)	(73)
Cross currency interest rate swaps	101	-	-	(13)
	<u>242</u>	<u>117</u>	<u>(105)</u>	<u>(86)</u>
<b>Intra-group derivative assets/(liabilities) not designated in hedge relationship</b>				
Foreign exchange contracts - transaction	-	10	(84)	(6)
Foreign exchange contracts - other	-	1	(1)	-
Interest rate derivatives	73	-	(1)	(133)
Cross currency interest rate swaps	13	-	-	(101)
	<u>86</u>	<u>11</u>	<u>(86)</u>	<u>(240)</u>
<b>Total derivative assets/(liabilities)</b>	<u><u>328</u></u>	<u><u>128</u></u>	<u><u>(191)</u></u>	<u><u>(326)</u></u>

The company entered into external cross currency interest rate swaps on behalf of a fellow group undertaking, Diageo Capital plc, market value of which amounted to £88 million at the balance sheet date

(2013 - £183 million). The external deals are mirrored through Diageo plc to Diageo Capital plc, the ultimate beneficiary. Market value of intra-group cross currency interest rate swaps amounts to a net liability of £88 million (2013 - £183 million) presented as amounts falling due after more than one year.

Fair value movements of cross currency interest rate swaps are taken to the profit and loss account: the foreign exchange component of change in market value is presented as foreign exchange result on operations, the interest related amounts are recognised as interest income or expense.

Notes to the financial statements (continued)

7. Other financial assets and liabilities (continued)

	Non-current financial assets £'million	Current financial assets £'million	Current financial liabilities £'million	30 June 2013 Non-current financial liabilities £'million
<b>External derivative assets/(liabilities) not designated in hedge relationship</b>				
Foreign exchange contracts - transaction	1	12	(44)	(9)
Foreign exchange contracts - other	1	47	(41)	-
Interest rate derivatives	184	-	-	(90)
Cross currency interest rate swaps	189	-	-	(6)
	<u>375</u>	<u>59</u>	<u>(85)</u>	<u>(105)</u>
<b>Intra-group derivative assets/(liabilities) not designated in hedge relationship</b>				
Foreign exchange contracts - transaction	9	47	(11)	(1)
Foreign exchange contracts - other	-	3	-	-
Interest rate derivatives	81	-	-	(158)
Cross currency interest rate swaps	6	-	-	(189)
	<u>96</u>	<u>50</u>	<u>(11)</u>	<u>(348)</u>
<b>Total derivative assets/(liabilities)</b>	<u><u>471</u></u>	<u><u>109</u></u>	<u><u>(96)</u></u>	<u><u>(453)</u></u>

Derivative assets and liabilities have been recognised at fair value since the adoption of FRS 26 on 1 July 2005. The company does not use derivative financial instruments for speculative purposes. All transactions in derivative financial instruments are undertaken to manage risk arising from underlying business activities at the group level.

Notes to the financial statements (continued)

8. Debtors

	30 June 2014		30 June 2013	
	Due within one year £'million	Due after more than one year £'million	Due within one year £'million	Due after more than one year £'million
Amounts owed by fellow group undertakings	34,925	-	42,067	-
Other debtors	20	32	17	30
Deferred taxation (note 9)	42	-	1	-
	<u>34,987</u>	<u>32</u>	<u>42,085</u>	<u>30</u>

Amounts owed by fellow group undertakings represent transactions with companies in the Diageo group with which the company has a long term financing relationship. These financing relationships are expected to continue for the foreseeable future. For the purposes of financial statement classification, amounts owed by group undertakings that do not have a specified repayment date are regarded as short term and consequently are considered to have a fair value which is not materially different to the book value.

Other debtors include interest accrual of £19 million (2013 - £17 million).

Included within other debtors are loans provided to ventures in South Africa formed by fellow group undertakings with third parties: DHN Drinks (Pty) Limited and Sedibeng Brewery (Pty) Limited. The company provides long term funding to these entities amounting to £32 million (2013 - £30 million).

Included in deferred taxation is an asset of £42 million (2013 - £1 million), which falls due after one year.

9. Deferred taxation

	30 June 2014 £'million	30 June 2013 £'million
Other timing differences	42	1
	<u>42</u>	<u>1</u>

Deferred taxation asset was recognised to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

## Notes to the financial statements (continued)

### 10. Cash and cash equivalents

The company has entered into a joint and several guarantee with other Diageo plc UK group undertakings such that any balance on the company's bank accounts within the cashpool may be offset against the bank balances or overdrafts of those companies included in the cashpool.

Cash at bank as at 30 June 2014 was £14 million (2013 - £nil) and liquidity funds were £nil (2013 - £991 million).

### 11. Borrowings, facilities and financial liabilities

Financial instruments comprise net borrowings, including borrowings from fellow group undertakings, together with other instruments deemed to be financial instruments under FRS 26 including long term debtors and other long term creditors. Disclosures dealt within the following two notes exclude short term debtors and creditors where permitted by FRS 26, but include short term borrowings to and from fellow group undertakings.

#### External borrowings

	30 June 2014 £'million	30 June 2013 £'million
<b>Amounts falling due within one year:</b>		
Bank overdrafts	108	100
Credit support obligations	59	72
€1,000 million 6.625% bonds due 2014	800	-
	<u>967</u>	<u>172</u>
<b>Amounts falling due after more than one year:</b>		
€1,000 million 6.625% bonds due 2014	-	853
€850 million 1.125% bonds due 2019	676	-
€850 million 2.375% bonds due 2026	674	-
Fair value adjustment to borrowings	10	29
	<u>1,360</u>	<u>882</u>

The interest rates shown above are contracted on the underlying borrowings before taking into account any interest rate protection. The above loans are stated net of unamortised finance costs of £10 million (2013 - £1 million). None of the borrowings are secured on any assets of the Diageo group.

## Notes to the financial statements (continued)

### 11. Borrowings, facilities and financial liabilities (continued)

The company had, along with other financing companies in the Diageo group, available undrawn committed bank facilities with third parties as follows:

	30 June 2014 £'million	30 June 2013 £'million
Expiring within one year	365	-
Expiring between one and two years	632	411
Expiring after two years	1,050	1,891
	<hr/>	<hr/>
	<b>2,047</b>	<b>2,302</b>
	<hr/> <hr/>	<hr/> <hr/>

These facilities can be used for general corporate purposes and, together with cash and cash equivalents, support the group's commercial paper programmes.

There are no financial covenants on the group's material short and long term borrowings. Certain of these borrowings contain cross default provisions and negative pledges.

The committed bank facilities are subject to a single financial covenant, being minimum interest cover ratio of two times (defined as the ratio of operating profit before exceptional items, aggregated with share of after tax results of associates and joint ventures, to net interest). They are also subject to pari passu ranking and negative pledge covenants.

Any non-compliance with covenants underlying Diageo's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain borrowings and the inability to access committed facilities. Diageo was in full compliance with its financial, pari passu ranking and negative pledge covenants throughout each of the years presented.

Notes to the financial statements (continued)

12. Other creditors: amounts falling due within one year

	30 June 2014 £'million	30 June 2013 £'million
Amounts owed to fellow group undertakings	28,779	38,482
Accruals and deferred income	44	43
	<u>28,823</u>	<u>38,525</u>

Amounts owed to fellow group undertakings represent transactions with companies in the Diageo group with which the company has a long term financing relationship. These financing relationships are expected to continue for the foreseeable future. For the purposes of financial statement classification, amounts owed to group undertakings that do not have a specified repayment date are regarded as short term and consequently are considered to have a fair value which is not materially different to the book value.

Other creditors include interest accrual of £43 million (2013 - £42 million).

13. Share capital

	30 June 2014 £'million	30 June 2013 £'million
<i>Allotted, called up and fully paid:</i>		
73,200,000,000 (2013 - 73,200,000,000) ordinary shares of 5p each	3,660	3,660
	<u>3,660</u>	<u>3,660</u>

14. Reserves

	Profit and loss account £'million
At 30 June 2013	(102)
Profit for the financial year	264
<b>At 30 June 2014</b>	<u>162</u>

## Notes to the financial statements (continued)

### 15. Reconciliation of movement in shareholders' funds

	30 June 2014 £'million	30 June 2013 £'million
Profit/(loss) for the financial year	264	(71)
<b>Net addition to/(reduction in) shareholders' funds</b>	<b>264</b>	<b>(71)</b>
Shareholders' funds at the beginning of the year	3,558	3,629
<b>Shareholders' funds at the end of the year</b>	<b>3,822</b>	<b>3,558</b>

### 16. Post balance sheet events

On 23 September 2014, the company issued €500 million fixed rate Euro denominated bonds with a coupon of 1.75% due in September 2024 and a €500 million fixed rate Euro denominated bond with a coupon of 1.125% due in May 2019. The payment of the principals and interests are fully guaranteed by Diageo plc.

On 5 December 2014, the company repaid bonds of €1,000 million (£792 million).

### 17. Immediate and ultimate parent undertaking

The immediate and ultimate parent undertaking of the company is Diageo plc, a company incorporated and registered in England. The consolidated financial statements of Diageo plc can be obtained from the registered office at Lakeside Drive, Park Royal, London, NW10 7HQ.

### 18. Guarantees

In the year ended 30 June 2014 the company guaranteed the debt of a third party amounting to £30 million (2013 - £30 million).