

Diageo Overseas Holdings Limited
Annual Report and Financial Statements

30 June 2018

Registered number: 03341331



Diageo Overseas Holdings Limited
Registered number: 03341331
Year ended 30 June 2018

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Diageo Overseas Holdings Limited
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Year ended 30 June 2018

STRATEGIC REPORT

The directors present their strategic report for the year ended 30 June 2018.

Activities

The principal activity of the company is to act as an investment holding company.
The directors foresee no changes in the company's activities.

Business review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2018

In the year ended 30 June 2018, impairment charges of £310,655,000, £49,155,000 and £356,000 were recorded in respect of the company's investments in Diageo Atlantic B.V., Guinness Overseas Limited and Diageo Supply Marracuene Limitada.

Diageo Atlantic B.V. is the parent company of Diageo Korea Company Limited (shareholding of 100%). Diageo Atlantic B.V.'s value in use depends on the operational performance of Diageo Korea Company Limited. The scotch category in Korea continued to contract as consumers switched to lower alcohol content alternatives. In addition, there has been an increased level of market competition for low alcohol content products and international brands.

Guinness Overseas Limited owns shares in Guinness Nigeria plc, which company's shares are publicly traded in Nigeria. The share price decreased significantly after the balance sheet date, reflecting the competitive pressure impacting the lager segment, resulting provision for impairment to be recognized.

In terms of investment in Diageo Supply Marracuene Limitada, the underlying reason for impairment is the economic downturn in Mozambique.

The recoverable amount of the investments was determined by estimating the asset's fair value and a total amount of provision for impairment of £360,166,000 was recognized.

Loss for the year ended 30 June 2018 increased by 96% to £376,314,000 mainly as a result of the impairment charge and the decrease in the income from group undertakings. Net assets have decreased by £376,314,000 as a result of these movements.

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STRATEGIC REPORT (continued)

Financial and other key performance indicators

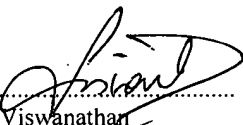
As the company is an intermediary holding company within the group, the principal key performance indicator used by management to analyse the development, performance and position of the company's business is adherence to the group dividend policy.

Principal risks and uncertainties facing the company as at 30 June 2018

As the company forms part of the group's financial operations, the financial risk management measures used by management to analyse the development, performance and position of the company's business are mainly similar to those facing the Diageo group ("the group") as a whole and are managed by the group's treasury department.

One company-specific risk has been identified, which is the recoverability of the company's investments in subsidiaries.

On behalf of the board


.....
P Viswanathan
Director

Lakeside Drive
Park Royal
London
NW10 7HQ
UK

23 May 2019

Diageo Overseas Holdings Limited
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DIRECTORS' REPORT

The directors are pleased to submit their annual report, together with the audited financial statements for the year ended 30 June 2018.

The company is incorporated and domiciled as a private limited company in the United Kingdom. The registered address is Lakeside Drive, Park Royal, London, NW10 7HQ.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the strategic report on page 2. The company is expected to continue to remain in positive net asset position for the foreseeable future. The company participates in the group's centralised treasury arrangements and the parent and fellow group undertakings are expected to provide financial support for the foreseeable future. The company is not reliant on external third party financing. The only liabilities at the balance sheet date are in respect of balances due to fellow group undertakings. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company 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 as a fellow group undertaking has agreed to provide financial support for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial

The result for the year ended 30 June 2018 is shown on page 9.

The loss for the year transferred from reserves is £376,314,000 (2017 - £191,575,000).

No dividend was paid during the year (2017 - £32,043,000).

Directors

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

E McShane (resigned 31 August 2017)

P Viswanathan (appointed 31 August 2017)

J M C Edmunds (appointed 8 March 2018)

J J Nicholls (resigned 9 March 2018)

The following directors were appointed after the year end:

K E Major (appointed 1 August 2018)

Cs Hajos (appointed 13 March 2019)

The following directors resigned after the year end:

D F Harlock (resigned 1 August 2018)

V Rao (resigned 13 March 2019)

Directors' remuneration

None of the directors received any remuneration during the year in respect of their services as directors of the company (2017 - £nil).

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DIRECTORS' REPORT (continued)

Secretary

On 5 January 2018, C E Matthews resigned as secretary of the company.

On 5 January 2018, J M Guttridge was appointed, and on 20 April 2018 resigned, as secretary of the company.

Directors' indemnity

The Articles of Association permit qualifying third-party indemnities for the directors as defined by Section 234 of the Companies Act 2006. No such indemnity was in force during the last financial year, nor is any currently in force.

Internal control and risk management over financial reporting

The company operates under the financial reporting processes and controls of the group. Diageo plc's internal control and risk management systems including its financial reporting process of Diageo plc, which include those of the company, are discussed in the Group's Annual Report 2018 on pages 66 to 67 at www.diageo.com, which does not form part of this report.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors, PricewaterhouseCoopers LLP, have been reappointed and will continue in office as auditors of the company.

Post balance sheet events

As part of a reorganisation project, the parent undertaking, Diageo Investment Holdings Limited subscribed for 13,000 ordinary shares of £1.00 each in the company for a total consideration of £130,000,000. On 8 May 2019 the Board of Directors approved a capital contribution to the subsidiaries, Diageo Australia Limited and DEF Investments Limited, in the amount of A\$75,000,000 and £51,000,000, respectively. Additionally, the Company will use funds from a loan settlement to repay an existing loan with Diageo Finance plc in the amount of £287,500,000. The steps are scheduled to be implemented on 30 May 2019.

Disclosure of information to the auditors

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 auditors are 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 auditors are aware of that information.

On behalf of the board



P Viswanathan
Director

Lakeside Drive
Park Royal
London
NW10 7HQ
UK

23 May 2019

Diageo Overseas Holdings Limited
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Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholder in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Diageo Overseas Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Diageo Overseas Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 30 June 2018; the Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Christopher Richmond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 May 2019

Diageo Overseas Holdings Limited
Registered number: 03341331
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STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Year ended 30 June 2018 £ 000 | Year ended 30 June 2017 £ 000 |
|---|-------|-------------------------------------|-------------------------------------|
| Operating costs | 2 | (360,167) | (181,922) |
| Income from shares in group undertakings | 3 | <u>31,408</u> | <u>37,259</u> |
| Operating loss | | (328,759) | (144,663) |
| Net finance charges | 4 | <u>(46,353)</u> | <u>(46,252)</u> |
| Loss before taxation on ordinary activities | | (375,112) | (190,915) |
| Taxation on loss on ordinary activities | 5 | <u>(1,202)</u> | <u>(660)</u> |
| Loss for the financial year and total comprehensive expense for the year | | <u>(376,314)</u> | <u>(191,575)</u> |

The accompanying notes are an integral part of these financial statements.

The company had no other comprehensive income or expense during the current and previous year.

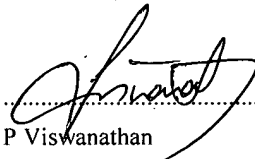
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BALANCE SHEET

| | Notes | 30 June 2018 £ 000 | 30 June 2017 £ 000 |
|-----------------------------|-------|-----------------------|-----------------------|
| Non-current assets | | | |
| Investments | 6 | 1,591,901 | 1,951,711 |
| Other investments | 6 | - | 256 |
| Trade and other receivables | 7 | 287,500 | 287,500 |
| | | <u>1,879,401</u> | <u>2,239,467</u> |
| Current assets | | | |
| Trade and other receivables | 7 | 19,127 | 43,330 |
| Cash and cash equivalents | | - | - |
| Corporate tax receivables | | 542 | 542 |
| | | <u>1,899,070</u> | <u>2,283,339</u> |
| Total assets | | | |
| | | <u>1,899,070</u> | <u>2,283,339</u> |
| Current liabilities | | | |
| Trade and other payables | 8 | (932,009) | (939,964) |
| | | <u>967,061</u> | <u>1,343,375</u> |
| Net assets | | | |
| | | <u>967,061</u> | <u>1,343,375</u> |
| Equity | | | |
| Called up share capital | 9 | 208,558 | 208,558 |
| Share premium | | 1,212,367 | 1,212,367 |
| Accumulated deficit | | (453,864) | (77,550) |
| | | <u>967,061</u> | <u>1,343,375</u> |
| Total equity | | | |
| | | <u>967,061</u> | <u>1,343,375</u> |

The accounting policies and other notes on pages 12 to 22 form part of the financial statements.

These financial statements on pages 9 to 22 were approved by the Board on 23 May 2019 and were signed on its behalf by:


P Viswanathan
Director

Diageo Overseas Holdings Limited
Registered number: 03341331
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STATEMENT OF CHANGES IN EQUITY

ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

| | Called up share capital £ 000 | Share premium £ 000 | Accumulated deficit £ 000 | Total £ 000 |
|--------------------------------|--|------------------------------------|--|------------------------|
| Balance at 30 June 2016 | <u>208,558</u> | <u>1,362,367</u> | <u>(3,932)</u> | <u>1,566,993</u> |
| Loss for the year | - | - | (191,575) | (191,575) |
| Transfer | - | (150,000) | 150,000 | - |
| Dividends to shareholders | <u>-</u> | <u>-</u> | <u>(32,043)</u> | <u>(32,043)</u> |
| Balance at 30 June 2017 | 208,558 | 1,212,367 | (77,550) | 1,343,375 |
| Loss for the year | <u>-</u> | <u>-</u> | <u>(376,314)</u> | <u>(376,314)</u> |
| Balance at 30 June 2018 | <u><u>208,558</u></u> | <u><u>1,212,367</u></u> | <u><u>(453,864)</u></u> | <u><u>967,061</u></u> |

The accompanying notes are an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

These financial statements are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (IFRS), but makes amendments where necessary in order to comply with Companies Act 2006 and sets out below where the FRS 101 disclosure exemptions have been taken.

These financial statements are prepared on a going concern basis under the historical cost convention, except that certain financial instruments are stated at their fair value.

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.

The company has taken advantage of the following exemptions from the requirements of IFRS in the preparation of these financial statements, in accordance with FRS 101:

- a cash flow statement and related notes;
- comparative period reconciliations for share capital and investments;
- disclosures in respect of transactions with wholly owned subsidiaries;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Diageo plc include equivalent disclosures, the company has also utilised exemptions available under FRS 101 in respect of the following disclosures:

- the disclosures required by *IFRS 7 Financial Instruments Disclosures*;
- the disclosures required by *IFRS 13 Fair Value Measurement*.

The company has taken advantage of the exemption under IAS 27, 'Consolidated and separate financial statements', from the requirement to prepare consolidated financial statements as it and its subsidiaries are included in the consolidated financial statements of its ultimate parent, Diageo plc.

These financial statements are separate financial statements.

Going concern

The financial statements have been prepared on a going concern basis as a fellow group undertaking has agreed to provide financial support for the foreseeable future. The only liabilities at the balance sheet date are in respect of balances due to fellow group undertakings.

New accounting policies

The following standard, issued by the IASB and endorsed by the EU, has been early adopted by the company from 1 July 2017:

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NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

New accounting policies (continued)

- **IFRS 9 - Financial instruments replaces IAS 39** (Financial instruments - Recognition and measurement) and addresses the classification and measurement of financial instruments, introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets. All classes of financial assets and financial liabilities had as at 1 July 2017 the same carrying values under IFRS 9 as they had under IAS 39. The new impairment model under IFRS 9 requires the recognition of allowances for doubtful debt based on expected credit losses (ECL), rather than incurred credit losses as under IAS 39. The adoption of the ECL approach did not result in any additional impairment loss for trade and other receivables as at 1 July 2017.

Functional and presentational currency

These financial statements are presented in sterling (£), which is the company's functional currency.

All financial information presented in sterling (£) has been rounded to the nearest thousand unless otherwise stated.

Finance costs

Finance costs are recognised in the statement of comprehensive income in the year in which they are incurred.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the financial year end exchange rates and these foreign exchange differences are recognised in the statement of comprehensive income.

Investments in subsidiaries

Investments in subsidiaries are stated at historical cost less impairment provisions for any permanent decrease in value. The carrying amounts of the company's investments are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the asset's recoverable amount is estimated. Losses are recognised in the statement of comprehensive income and reflected in an allowance against the carrying value. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

Financial assets and liabilities

Financial assets and liabilities are initially recorded at fair value, where permitted by IFRS 9, including any directly attributable transaction costs. For those financial assets that are not subsequently held at fair value, the company assesses whether there is evidence of impairment at each balance sheet date. The company classifies its financial assets and liabilities into the following categories: financial assets and liabilities at amortised cost, financial assets and liabilities at fair value through profit and loss and financial assets at fair value through other comprehensive income. Where financial assets or liabilities are eligible to be carried at either amortised cost or fair value the company does not apply the fair value option.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Trade and other receivables Amounts owed by other group companies are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade receivables are stated at their nominal value as they are due on demand. Allowance for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward-looking data. Such allowance are measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

Trade and other payables Amounts owed to other group companies are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade payables are stated at their nominal value as they are due on demand.

Other investments Other investments represent equity instruments, which are non-derivative financial assets that are either designated as such upon initial recognition or not classified in any of the other financial asset categories. Other investments are included in non-current assets as they are held not for trading. Subsequent to initial measurement, other investments are stated at fair value. In accordance with IFRS 9, gains and losses arising from the changes in fair value of other investments are recognized in the statement of comprehensive income as the company has not elected the option to recognize fair value gains and losses through other comprehensive income. Previously, under IAS 39, there was an exemption which allowed to use measuring unquoted equity instruments at cost less impairment provisions for any permanent decrease in value, however, IFRS 9 eliminated this exemption and the company has changed from cost to fair value measurement in respect of other investments.

Taxation

Current tax is based on taxable profit for the year. Taxable profit is different from accounting profit due to temporary differences between accounting and tax treatments, and due to items that are never taxable or tax deductible. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, tax benefits are reviewed each year to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. Tax provisions are included in current liabilities. Penalties and interest on tax liabilities for the year ended 30 June 2018 are included in profit before taxation. In prior years penalties and interest on tax liabilities were provided for in the tax charge.

Dividends paid and received

Interim dividend is included in the financial statements in the year in which they are approved by the directors, and the final dividend in the year in which it is approved by shareholders. Dividends received are included in the financial statements in the year in which they are receivable.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Judgements in applying accounting policies and key sources of estimation uncertainty

The directors make estimates and assumptions concerning the future of the company. The resulting accounting estimates will, by definition, seldom equate to actual results. The company's directors are of the opinion that there are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of the assets and liabilities for the company within the next financial year due to the nature of the business.

The critical accounting policy, which the directors consider is of greater complexity and particularly subject to the exercise of judgements, is set out in detail in the accounting policy for investments in subsidiaries. A critical accounting judgement, specific to the company, is the assessment that recoverable amount of the company's investment in subsidiaries is greater than the carrying amount.

2. OPERATING COSTS

| | Year ended 30 June 2018 £ 000 | Year ended 30 June 2017 £ 000 |
|--------------------------|--|--|
| Other operating expenses | 360,167 | 181,922 |
| | <u>360,167</u> | <u>181,922</u> |
| Comprising: | | |
| Other external charges | 1 | 1 |
| Impairment (Note 6) | 360,166 | 181,921 |
| | <u>360,167</u> | <u>181,922</u> |

The auditors' remuneration of £3,000 was paid on behalf of the company by a fellow group undertaking (2017 - £3,000). There were no fees payable to the auditors in respect of non-audit services (2017 - £nil).

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 (2017 - £nil).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

3. INCOME FROM SHARES IN GROUP UNDERTAKINGS

| | Year ended 30 June 2018 £ 000 | Year ended 30 June 2017 £ 000 |
|---|-------------------------------------|-------------------------------------|
| Dividends income from shares in group undertakings | | |
| Diageo Atlantic B.V. | 31,408 | 35,015 |
| Diageo Australia Limited | - | 2,244 |
| | <u>31,408</u> | <u>37,259</u> |

4. FINANCE INCOME AND CHARGES

| | Year ended 30 June 2018 £ 000 | Year ended 30 June 2017 £ 000 |
|--|-------------------------------------|-------------------------------------|
| Net interest | | |
| Interest income from fellow group undertakings | | |
| Diageo Finance plc | 192 | 252 |
| Diageo Treasury Australia LLP | 12,018 | 12,018 |
| Total interest income | 12,210 | 12,270 |
| Interest charge from fellow group undertakings | | |
| Diageo Finance plc | (58,563) | (58,522) |
| Total interest charges | (58,563) | (58,522) |
| Net finance charges | <u>(46,353)</u> | <u>(46,252)</u> |

Diageo Overseas Holdings Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

5. TAXATION

| | Year ended 30 June 2018 £ 000 | Year ended 30 June 2017 £ 000 |
|---|--|--|
| (a) Analysis of taxation charge for the year | | |
| Current tax | | |
| Foreign taxes suffered | (1,202) | (1,202) |
| Adjustments in respect of prior years | - | 542 |
| Current tax | (1,202) | (660) |
| Deferred tax | - | - |
| Taxation on profit on ordinary activities | <u>(1,202)</u> | <u>(660)</u> |

| | Year ended 30 June 2018 £ 000 | Year ended 30 June 2017 £ 000 |
|---|--|--|
| (b) Factors affecting total tax charge for the year | | |
| Loss on ordinary activities before taxation | <u>(375,112)</u> | <u>(190,915)</u> |
| Taxation on loss on ordinary activities at UK corporation tax rate of 19% (2017 - 19.75%) | 71,271 | 37,706 |
| Items not chargeable for tax purposes | 5,967 | 7,359 |
| Adjustments in respect of prior periods | - | 542 |
| Expenses not deductible for tax purposes | (68,431) | (35,929) |
| Group relief surrendered for nil consideration | (10,470) | (11,213) |
| Foreign taxes suffered | (1,202) | (1,202) |
| Withholding tax suffered | 228 | 130 |
| Other tax effects for reconciliation between accounting loss and tax expense | <u>1,435</u> | <u>1,947</u> |
| Total tax charge for the year | <u>(1,202)</u> | <u>(660)</u> |

The UK tax rate is 19% effective from 1 April 2017 which is applied for year ended 30 June 2018. A further reduction to 17% (effective from 1 April 2020) was enacted in September 2016.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

6. INVESTMENTS

Shares in group undertakings and other investments

| | Investments | Other | Total |
|------------------------|--------------------|--------------------|------------------|
| | £ 000 | investments | £ 000 |
| | | £ 000 | £ 000 |
| Cost | | | |
| At 30 June 2017 | 2,335,747 | 256 | 2,336,003 |
| Additions | | 100 | 100 |
| At 30 June 2018 | <u>2,335,747</u> | <u>356</u> | <u>2,336,103</u> |
| Provisions | | | |
| At 30 June 2017 | 384,036 | - | 384,036 |
| Provided | 359,810 | 356 | 360,166 |
| At 30 June 2018 | <u>743,846</u> | <u>356</u> | <u>744,202</u> |
| Carrying amount | | | |
| At 30 June 2018 | <u>1,591,901</u> | <u>-</u> | <u>1,591,901</u> |
| At 30 June 2017 | <u>1,951,711</u> | <u>256</u> | <u>1,951,967</u> |

Additions

£100,000 investments increase relates to equity injection into Diageo Supply Marracuene Limitada.

Other investments

The investments represent equity instruments, which are non-derivative financial assets that are either designated as such upon initial recognition or not classified in any of the other financial asset categories. They are included in non-current assets. Subsequent to initial measurement, the investments are stated at fair value. The company values its investments using unobservable inputs for the asset (Level 3). Gains and losses arising from the changes in fair value of the investments are recognized in the statement of comprehensive income.

Provisions for impairment

In the year ended 30 June 2018, impairment charges of £310,655,000, £49,155,000, and £356,000 were recorded in respect of the company's investments in Diageo Atlantic B.V., Guinness Overseas Limited and Diageo Supply Marracuene Limitada. In terms of the current year's capital contribution to Diageo Supply Marracuene Limitada, in amount of £100,000 was impaired immediately due to the economic downturn in Mozambique. The recoverable amount of the investments was determined by estimating the asset's fair value and a net amount of provision for impairment of £360,166,000 (2017 - £181,921,000) was recognized.

Diageo Overseas Holdings Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

6. INVESTMENTS (continued)

Sensitivity to change in key assumptions

Impairment testing for the year ended 30 June 2018 has identified the following investment as being sensitive to reasonably possible changes in assumptions. The table below shows the headroom at 30 June 2018 and the additional impairment charge that would be required if the assumptions in the calculation of its value in use were changed:

| Name of investment | Headroom £ 000 | 1ppt increase in discount rate £ 000 | 2ppt decrease in annual growth rate £ 000 |
|---------------------------|---------------------------|---|--|
| Diageo Atlantic B.V. | - | (89,500) | (171,409) |

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows. Unless otherwise stated the percentage of shares held are in respect of ordinary share capital.

| Name of investment | Notes | Registered office address | Proportion of ownership interest % |
|--------------------------------|--------------|--|---|
| Direct holdings | | | |
| <i>Subsidiary undertakings</i> | | | |
| Guinness Overseas Limited | | Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom | 100% |
| Diageo Australia Limited | | Level 1, 162 Blues Point Road, McMahons Point, NSW 2060, Australia | 100% |
| DEF Investments Limited | | Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom | 100% |
| Diageo Atlantic B.V. | | Molenwerf 12, 1014 BG Amsterdam, The Netherlands | 100% |

Diageo Overseas Holdings Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

6. INVESTMENTS (continued)

| Name of investment | Notes | Registered office address | Proportion of ownership interest % |
|-------------------------------|--------------|--|---|
| <i>Other investments</i> | | | |
| Diageo Mozambique Lda. | (iii) | Avenida Marginal parcela 141 2do Andar - Predio da Global Alliance Caixa Postal 96 Maputo, Mozambique | 0.1% |
| Diageo Supply Marracuene Lda. | (iii) | Estrada Nacional numero 1, Micanhine, Marracuene | 2.5% |

| Name of investment | Notes | Registered office address | Proportion of ownership interest % |
|--|--------------|--|---|
| Indirect holdings <i>Subsidiary undertakings</i> | | | |
| Atalantaf Limited | | Canon's Court 22 Victoria Street Hamilton HM12, Bermuda | 100% |
| Diageo Brands Nigeria Ltd | | 24 Oba Akran Avenue, PMB | 100% |
| Diageo Korea Company Limited | | 46 Dumujae-ro, Bubal-eup, Icheon-shi, Gyeonggi-do, 17317 Korea | 100% |
| Guinness Canada Limited | | Labatt House, 207 Queen's Quay West, Suite 299, Toronto on M5J 1A7, Canada | 51% |
| Guinness Nigeria plc | | 24 Oba Akran Avenue, PMB 21071, Ikeja, 100001 Lagos, Nigeria | 58.02% |
| Phenix Gabon SARL | | c/o SOBRAGA, P O Box 487, Libreville, Gabon | 99.75% |
| Bundaberg Distilling Company Pty. Limited | | Whitted Street, Bundaberg, QLD 4670, Australia | 92.09% |
| Bundaberg Distilling Investments Pty Ltd | | Level 1, 162 Blues Point Road, McMahons Point, NSW 2060, Australia | 100% |
| Crescendo Australia Pty Ltd | | Level 1, 162 Blues Point Road, McMahons Point, NSW 2060, Australia | 100% |

Diageo Overseas Holdings Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

6. INVESTMENTS (continued)

| Name of investment | Notes | Registered office address | Proportion of ownership interest % |
|----------------------------------|---|---|---|
| <i>Associate undertaking</i> | | | |
| Seychelles Breweries Limited | | O Brien House, PO Box 273, Le Roucher, Mahe, Seychelles | 26% |
| <i>Joint venture undertaking</i> | | | |
| Diageo Angola Limitada | | Rua Fernao de Sousa, Condominio Bengo, Letter A, 11.s floor, Fraction A37, neighbourhood Vila Alice, Municipality of Luanda, Province of Luanda, Angola | 50% |
| (i) | Directly owned - 99.99%; indirectly owned - 0.01% | | |
| (ii) | Directly owned - 0.1%; indirectly owned - 99.9% | | |
| (iii) | Directly owned - 2.5%; indirectly owned - 97.5% | | |

The investments in subsidiaries are held at cost less, where appropriate, provision for impairment in value. In the opinion of the directors, the investment in (and amounts due from) the company's subsidiary undertakings are worth at least the amount at which they are stated in the financial statements.

7. TRADE AND OTHER RECEIVABLES

| | 30 June 2018 | | 30 June 2017 | |
|---|----------------------------|---------------------------|----------------------------|---------------------------|
| | Due within one year | Due after one year | Due within one year | Due after one year |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Amounts owed by fellow group undertakings | | | | |
| Diageo Finance plc | 16,130 | - | 40,334 | - |
| Diageo Treasury Australia LLP | 2,997 | 287,500 | 2,996 | 287,500 |
| | <u>19,127</u> | <u>287,500</u> | <u>43,330</u> | <u>287,500</u> |

The amount owed by Diageo Treasury Australia LLP is interest bearing, unsecured and repayable in 3 years. The amount owed by Diageo Finance plc is interest bearing, unsecured and repayable on demand.

8. TRADE AND OTHER PAYABLES

| | 30 June 2018 | 30 June 2017 |
|---|---------------------|---------------------|
| | £ 000 | £ 000 |
| Amounts owed to fellow group undertakings | | |
| Diageo Finance plc | 932,009 | 939,964 |
| | <u>932,009</u> | <u>939,964</u> |

The amount owed to fellow group undertakings is interest bearing, unsecured and repayable on demand.

Diageo Overseas Holdings Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

9. SHARE CAPITAL

Allotted, called up and fully paid:

| | 30 June 2018 £ 000 |
|--|-------------------------------------|
| 22,563,293 (2017 - 22,563,293) Ordinary shares of £1 each | 22,563 |
| 20,000,000 (2017 - 20,000,000) Preference shares of \$15 each at 0.62/\$ | 185,995 |
| | <u>208,558</u> |

10. POST BALANCE SHEET EVENTS

As part of a reorganisation project, the parent undertaking, Diageo Investment Holdings Limited subscribed for 13,000 ordinary shares of £1.00 each in the company for a total consideration of £130,000,000. On 8 May 2019 the Board of Directors approved a capital contribution to the subsidiaries, Diageo Australia Limited and DEF Investments Limited, in the amount of A\$75,000,000 and £51,000,000, respectively. Additionally, the Company will use funds from a loan settlement to repay an existing loan with Diageo Finance plc in the amount of £287,500,000. The steps are scheduled to be implemented on 30 May 2019.

11. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking of the company is Diageo Investment Holdings Limited, a company incorporated and registered in England.

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