

Diageo Finance US Limited

Directors' report and financial statements

30 June 2020

Registered number: 04036745



Diageo Finance US Limited
Registered number: 04036745
Year ended 30 June 2020

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Diageo Finance US Limited
Registered number: 04036745
Year ended 30 June 2020

DIRECTORS' REPORT

The directors are pleased to submit their Directors' Report, together with the audited financial statements for the year ended 30 June 2020.

The directors are entitled to take advantage of the small companies' exemption in not preparing a strategic report. This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Activities

The company acts as a financing vehicle for the Diageo group's ("the group") US sub-group.

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

Financial

The result for the year ended 30 June 2020 are shown on page 8.

The profit for the year transferred to reserves was £41,417,000 (2019 - £70,868,000).

Dividends paid during the year ended 30 June 2020 and 30 June 2019 were £nil and £103,323,000 respectively. There was no dividend proposed to be distributed to the shareholders in regards to the current financial year.

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 on the company's ability 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 a period of at least 12 months from the date the financial statements are approved for this period. In arriving at this conclusion, the directors have also considered the potential impact that the Covid-19 pandemic may have on the company and believe that it would not have an impact on the company's ability to continue as a going concern. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

J M C Edmunds

C M Lewin (appointed 1 August 2020)

K E Major

Cs Hajos

P Viswanathan (resigned 1 August 2020)

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DIRECTORS' REPORT (continued)

Directors' remuneration

None of the directors received any remuneration during the year in respect of their services as directors of the company (2019 - £nil).

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 2020 on page 79 at www.diageo.com, which does not form part of this report.

Principal risks and uncertainties facing the company as at 30 June 2020

The company believes the following to be the principal risks and uncertainties it faces. If any of these risks occur, the company's business, financial condition and operational results could suffer. 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 group as a whole and are managed by the group's treasury department.

Covid-19

At the beginning of calendar year 2020 a new coronavirus, referred to as 'Covid-19', emerged and has been classified as a pandemic due to its spread across the world. Given the global nature of the Covid-19 pandemic, and the uncertainty as to the severity and duration of the impact across multiple markets, it is difficult to accurately assess the impact the virus will have on the future financial performance of the group and the company. The global economic outlook remains uncertain currently, as the pandemic has created volatility in the short term as a result of the social restrictions implemented across the world. The impact of the virus on economic conditions over the medium-term (one to three years) is highly uncertain, in sharp contrast to the stable and growing GDP performance across most markets experienced in recent years. As a result, significant volatility is likely to continue or increase as markets face challenging economic conditions and higher levels of unemployment leading to reduced consumer spending.

To mitigate these challenges the group regularly gathers data and obtains insights which enable management to assess conditions in the markets where the group operates and to amend forecasts and investment decisions appropriately. The directors believe that the risk mitigation actions taken in relation to the pandemic have been agile and effective and that the group will maintain adequate liquidity and be strongly positioned for a recovery in consumer demand. Further information on the group's risk management measures in relation to Covid-19 are disclosed on pages 38-40 of Diageo plc's 2020 Annual Report ("Annual Report") and on page 61 of Diageo plc's interim results for the six months ended 31 December 2020.

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DIRECTORS' REPORT (continued)

Brexit

The European Union and the United Kingdom have now signed the EU-UK Trade and Cooperation Agreement which provisionally came into force on 1 January 2021. We remain of the view that the direct financial impact to the group or the company will not be material. A cross-functional working group is in place that meets on a regular basis to identify and assess the consequences of Brexit, with all major functions within our business represented, including the function of raising external funding. The group will monitor the implications of the Agreement very closely, as well as the broader environment risks, including a continuing focus on identifying critical decision points to ensure potential disruption is minimised, and take prudent actions to mitigate these risks wherever practical. Further information on the group's risk management measures in relation to Brexit are disclosed on page 39 of Annual Report.

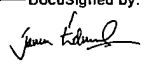
Independent auditors

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

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

DocuSigned by:

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J M C Edmunds
Director

Lakeside Drive
Park Royal,
London
NW10 7HQ

29 June 2021

Diageo Finance US Limited
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Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' 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;
- 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 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.

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.

Independent auditors' report to the members of Diageo Finance US Limited

Report on the audit of the financial statements

Opinion

In our opinion, Diageo Finance US Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 and of its profit 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 Directors' report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2020; the statement of comprehensive income, and 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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 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.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 30 June 2020 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 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 5, 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

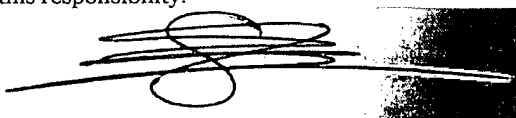
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Steve Reid (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 June 2021

Diageo Finance US Limited
Registered number: 04036745
Year ended 30 June 2020

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 30 June 2020 £ 000	Year ended 30 June 2019 £ 000
Finance income	3	27,431	108,448
Finance charges	3	(1,541)	(1,830)
Profit before taxation on ordinary activities		25,890	106,618
Taxation on profit on ordinary activities	4	15,527	(35,750)
Profit for the financial year and total comprehensive income for the year		41,417	70,868

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.

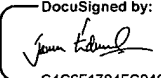
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BALANCE SHEET

	Notes	30 June 2020 £ 000	30 June 2019 £ 000
Current assets			
Trade and other receivables	5	144,310	1,758,545
Cash and cash equivalents		4	4
Total assets		144,314	1,758,549
Current liabilities			
Trade and other payables	7	(1,541)	(1,641,666)
Corporate tax payable		(20,223)	(35,750)
		(21,764)	(1,677,416)
Net assets		122,550	81,133
Equity			
Called up share capital	9	—	—
Retained earnings		122,550	81,133
Total equity		122,550	81,133

The accounting policies and other notes on pages 11 to 19 form part of the financial statements.

These financial statements on pages 8 to 19 were approved by the Board on 29 June 2021 and were signed on its behalf by:

DocuSigned by:

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J M C Edmunds

Director

Diageo Finance US Limited
Registered number: 04036745
Year ended 30 June 2020

STATEMENT OF CHANGES IN EQUITY

ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Called up share capital £ 000	Retained earnings £ 000	Total £ 000
Balance at 30 June 2018	<u>—</u>	<u>113,588</u>	<u>113,588</u>
Profit for the financial year	—	70,868	70,868
Dividends to shareholders	<u>—</u>	<u>(103,323)</u>	<u>(103,323)</u>
Balance at 30 June 2019	—	81,133	81,133
Profit for the financial year	—	41,417	41,417
Balance at 30 June 2020	<u>—</u>	<u>122,550</u>	<u>122,550</u>

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

Diageo Finance US Limited
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NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 measured 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 following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 79(a)(iv) (comparative information requirements);
 - 111 (cash flow statement information);
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'
- The following paragraphs of IAS 8, 'Accounting policies, changes in accounting estimates and errors':
 - 30 (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
 - 31 (disclosures relating to the new IFRS).
- The following paragraphs of IAS 24 'Related party disclosures':
 - 17 (key management compensation);
 - 18A (key management services provided by a separate management entity).
- The requirements of IFRS 7 Financial Instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

New accounting standards and interpretations

The following amendments to the accounting standards, issued by the IASB which have been endorsed by the EU, have been adopted by the group and therefore by the company from 1 July 2019 with no impact on the company's results, financial position or disclosures:

- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 9 - Prepayment Features with Negative Compensation
- Improvements to IFRS 3 and IFRS 11 - Business combinations and Joint arrangements - Accounting for previously held interests
- Improvements to IAS 12 - Income taxes - Accounting for income tax consequences of payments on financial instruments that are classified as equity
- Improvements to IAS 23 - Borrowing costs on completed qualifying assets
- IFRS 16 - Leases

The following amendment and standard, issued by the IASB have not been adopted by the company:

- IFRS 17 - Insurance contracts
- Amendments to IFRS 9, IAS 39 and IFRS 17 - Interest rate benchmark reform (Phase 1)

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 income

Finance income is recognised in the statement of comprehensive income in the year in which it is earned.

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 £ at the financial year end exchange rates and these foreign exchange differences are recognised in 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. Allowances 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 allowances are measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

Cash and cash equivalents Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

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

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 are included in profit before taxation.

Full provision for deferred tax is made for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their value for tax purposes. The amount of deferred tax reflects the expected recoverable amount and is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the basis of taxation enacted or substantively enacted by the balance sheet date. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future.

Dividends

The 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.

Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The critical accounting policies, which the directors consider are of greater complexity and/or particularly subject to the exercise of judgements, are set out in detail in the relevant accounting policy:

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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 (continued)

Taxation

The evaluation of uncertain tax positions requires judgements to be made, specifically regarding the outcome of ongoing HMRC enquiries impacting the company. The directors believe that the company has complied with all applicable tax laws, however there are several outcomes that are possible. As such the directors have made an estimate of the amounts to be provided in the financial statements in accordance with IFRIC 23.

2. OPERATING COSTS

The auditors' remuneration of £2,500 (2019 - £2,500) was paid on behalf of the company by a fellow group undertaking. There were no fees payable to the auditors in respect of non-audit services (2019 - £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 (2019 - £nil).

3. NET FINANCE INCOME

	Year ended 30 June 2020 £ 000	Year ended 30 June 2019 £ 000
Interest income		
Interest income from fellow group undertakings		
Diageo Finance plc	1,010	852
Diageo Inc.	12,350	53,714
Diageo North America, Inc.	12,241	53,879
Other interest income	1,830	—
Total interest income	27,431	108,448
Other interest expense	(1,541)	(1,830)
Total interest charges	(1,541)	(1,830)
Net finance income	25,890	106,618

Other interest expense represents interest on the provision for uncertain tax positions (see note 4.)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 2020 £ 000	Year ended 30 June 2019 £ 000
(a) Analysis of taxation credit/(charge) for the year		
UK corporation tax	15,527	(7,310)
Adjustments in respect of prior years	—	(28,440)
Total current tax	15,527	(35,750)
Deferred tax	—	—
Taxation on profit on ordinary activities	15,527	(35,750)
(b) Factors affecting total tax credit/(charges) for the year		
Profit on ordinary activities before taxation	25,890	106,618
Taxation on profit on ordinary activities at UK corporation tax rate of 19% (2019 - 19%)	(4,919)	(20,257)
Group relief received for nil consideration	344	724
Provision for uncertain tax position	20,223	(35,750)
Amounts not recognized	(4,641)	(348)
Other tax effects for reconciliation between accounting profit and tax income	4,520	19,881
Total tax credit/ (charge) for the year	15,527	(35,750)

The UK tax rate is 19% effective from 1 April 2017 which is applied for the year ended 30 June 2020. In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

There is an ongoing HMRC enquiry in relation to the amount of interest that is deductible for tax purposes in respect of loan payables due by the company for years from 2015 to 2020. The company has engaged with HMRC over an extended period to seek to resolve the enquiry however it has not been possible to agree on this matter. Following further discussions with HMRC, it is expected that HMRC will raise additional tax assessments which the company will appeal against at the First-tier Tribunal, although any litigation is not expected to progress within the next 12 months from the date of these financial statements.

The company believes it has complied with all applicable tax laws and will continue to defend the HMRC challenge. There are several potential outcomes. Given the developments, the company has reassessed the various outcomes and, based on the assessment of management, the company believes that a corporation tax liability of £20,223,000 and related interest of £1,541,000 should be provided in accordance with IFRIC 23. Accordingly, the brought forward provision from the prior year has been reduced by £15,527,000. The company calculates the maximum potential liability to be £54,100,000, including interest of £3,800,000, and the minimum potential liability to be £nil.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

5. TRADE AND OTHER RECEIVABLES

	30 June 2020	30 June 2019
	£ 000	£ 000
Amounts owed by fellow group undertakings		
Diageo Finance plc	144,310	118,111
Diageo Inc.	—	787,699
Diageo North America, Inc.	—	852,735
	<u>144,310</u>	<u>1,758,545</u>

The loan amounts owed by Diageo North America Inc. and Diageo Inc. were repaid on 19 September 2019. The amount owed by Diageo Finance plc represents a loan which bears interest at a floating rate, is unsecured and is repayable on demand.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Currency risk

The company presents its financial statements in sterling and conducts business in US dollar and sterling. As a result, it is subject to foreign currency risk due to exchange rate movements, which will affect the company's transactions.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. Credit risk arises on cash balances, derivative financial instruments and other receivables. Since all financial assets of the company are with a fellow member of the group, the risk of non-performance is considered remote.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Reconciliation of financial instruments

The table below sets out the company's accounting classification of each class of financial assets and liabilities.

At 30 June 2020 and 30 June 2019, the loans, trade and other receivable and trade and other payables are due within one year.

	Loans and receivables and liabilities at amortised cost £ 000
2020	
Trade and other receivables	144,310
Cash and cash equivalents	4
Total financial assets	<u>144,314</u>
Trade and other payables	<u>(1,541)</u>
Total financial liabilities	<u>(1,541)</u>
Total net financial assets	<u><u>142,773</u></u>
	Loans and receivables and liabilities at amortised cost £ 000
2019	
Trade and other receivables	1,758,545
Cash and cash equivalents	4
Total financial assets	<u>1,758,549</u>
Trade and other payables	<u>(1,641,666)</u>
Total financial liabilities	<u>(1,641,666)</u>
Total net financial assets	<u><u>116,883</u></u>

At 30 June 2020 and 30 June 2019, the carrying values of cash and cash equivalents, other financial assets and liabilities approximate to their fair values.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Capital management

The group's management is committed to enhancing shareholder value in the long term, both by investing in the businesses and brands so as to deliver continued improvement in the return from those investments and by managing the capital structure. Diageo manages its capital structure to achieve capital efficiency, provide flexibility to invest through the economic cycle and give efficient access to debt markets at attractive cost levels. The company is not subject to externally imposed capital requirements.

7. TRADE AND OTHER PAYABLES

	30 June 2020 £ 000	30 June 2019 £ 000
Amounts owed to fellow group undertakings		
Diageo Hungary Finance Limited Liability Company	—	1,639,836
Other payable	1,541	1,830
	<u>1,541</u>	<u>1,641,666</u>

The loan amount of £1,639,836,000 (\$2,082,592,000) was paid on 19 September 2019 to Diageo Hungary Finance Limited Liability Company. The loan was denominated in US dollar.

Other payables represent interest on the provision for uncertain tax positions (note 4).

8. DEFERRED TAX ASSETS

Unrecognised deferred tax assets

Deferred tax assets have been 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. Where this is not the case, deferred tax assets have not been recognised, as set out below:

	30 June 2020 £ 000	30 June 2019 £ 000
Temporary timing differences - uncertain tax positions	<u>293</u>	<u>311</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

9. CALLED UP SHARE CAPITAL

Share capital

Allotted, called up and fully paid:

	30 June 2020
	£
1 (2019 - 1) ordinary share of £1 each	<u><u>1</u></u>

10. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking of the company is UDV (SJ) Limited, a company incorporated and registered in England, United Kingdom.

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