

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

Registered number: SC040795

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## **Strategic report**

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

### **Activities**

The company is engaged in the provision of treasury risk and cash management for Diageo plc and its subsidiary undertakings. Diageo Capital plc's principal activity is to raise external funds, principally using the London and New York financial markets. The company finances other companies of the Group via intra-group loans and deposits. Foreign exchange translation hedging, interest rate risk management and cash management are 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 and foreign exchange risks. The principal risks and uncertainties facing the company are foreign currency risk associated with certain foreign currency denominated bonds and interest rate risk arising principally on changes in US dollar and sterling interest rates. The company uses derivative financial instruments to hedge its exposures to fluctuations in interest and exchange rates. Cash flow hedges are carried out to hedge the currency risk of highly probable future foreign currency cash flows, as well as the cash flow risk from changes in interest rates.

#### *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 Diageo plc consolidated financial statements).

Net interest has decreased by £10 million in the year ended 30 June 2014 from a net interest income of £8 million in the year ended 30 June 2013. The favourable movement of yield curves resulted higher market value gain during the prior year, while this year there was no significant change in USD yield curves.

External borrowings decreased by £964 million in the year ended 30 June 2014 to £4,572 million from £5,536 million in the year ended 30 June 2013, which was mainly due to £488 million bond repayment and strengthening the GBP versus USD. This movement is in line with the decrease in intercompany loan receivable of £869 million to £5,571 million in the year ended 30 June 2014 from £6,440 million in the year ended 30 June 2013.

## Strategic report (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 and bonds issued on external financial markets.

The company receives management fee income from Diageo plc to reimburse the expenses incurred in relation to treasury services provided to the group.

By order of the board



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

11 December 2014

## **Directors' report**

### **Financial**

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

The loss for the year transferred from reserves is £10 million (2013 - loss of £4 million transferred from reserves).

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

### **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 company participates in the group's centralised treasury arrangements. 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.

### **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).

### **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.

## Directors' report (continued)

### 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 Capital plc**

We have audited the financial statements of Diageo Capital plc for the year ended 30 June 2014 set out on pages 7 to 20. 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 loss 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**

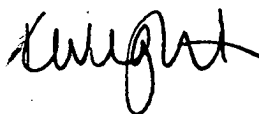
In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **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>323</b>	410
Interest expense	<i>2</i>	<b>(325)</b>	(402)
		<hr/>	<hr/>
Net interest (expense)/income		<b>(2)</b>	8
Other operating income	<i>3</i>	<b>11</b>	6
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		<b>9</b>	14
Taxation on profit on ordinary activities	<i>5</i>	<b>(19)</b>	(18)
		<hr/>	<hr/>
<b>Loss for the financial year</b>		<b>(10)</b>	(4)
		<hr/> <hr/>	<hr/> <hr/>

The accounting policies and other notes on pages 10 to 20 form part of the financial statements.

All results arise from continuing operations.

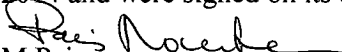


## Balance sheet

		30 June 2014		30 June 2013	
	Notes	£'million	£'million	£'million	£'million
<b>Fixed assets</b>					
Other financial assets	6		243		353
			<u>243</u>		<u>353</u>
<b>Current assets</b>					
Debtors	7	5,571		6,459	
		<u>5,571</u>		<u>6,459</u>	
<b>Creditors: amounts falling due within one year</b>					
Borrowings	8	(129)		(529)	
Other creditors	9	(1,063)		(1,080)	
		<u>(1,192)</u>		<u>(1,609)</u>	
<b>Net current assets</b>			<u>4,379</u>		<u>4,850</u>
<b>Total assets less current liabilities</b>			<u>4,622</u>		<u>5,203</u>
<b>Creditors: amounts falling due after more than one year</b>					
Borrowings	8	(4,443)		(5,007)	
Other financial liabilities	6	(116)		(115)	
			<u>(4,559)</u>		<u>(5,122)</u>
<b>Net assets</b>			<u>63</u>		<u>81</u>
<b>Capital and reserves</b>					
Called up share capital	10		-		-
Share premium	11		250		250
Cash flow reserves	11		57		65
Other reserves	11		70		70
Profit and loss account	11		(314)		(304)
<b>Shareholders' funds</b>	12		<u>63</u>		<u>81</u>

The accounting policies and other notes on pages 10 to 20 form part of the financial statements.

These financial statements on pages 7 to 20 were approved by the board of directors on 11 December 2014 and were signed on its behalf by:

  
M Pais  
Director

## Statement of total recognised gains and losses

	<i>Notes</i>	<b>Year ended 30 June 2014 £'million</b>	<b>Year ended 30 June 2013 £'million</b>
Loss for the financial year	12	(10)	(4)
Effective portion of changes in fair value of cross currency cash flow hedges transferred to interest receivable and payable for the year	12	(8)	(60)
<b>Total recognised losses for the financial year</b>		<b>(18)</b>	<b>(64)</b>

## Note of historical cost profits and losses

	<b>Year ended 30 June 2014 £'million</b>	<b>Year ended 30 June 2013 £'million</b>
Reported profit on ordinary activities before taxation	9	14
Market value gain on external derivative interest rate instruments	(1)	(1)
Market value loss on intra-group derivative interest rate instruments	6	11
Fair value adjustment to borrowings - loss/(gain)	5	(3)
Amortization of bonds	(19)	(21)
<b>Historical cost profit on ordinary activities before taxation</b>	<b>-</b>	<b>-</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 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 part of the Diageo plc group ("group undertakings") or investees of the Diageo plc group.

### 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. 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.

### 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.

## **Accounting policies (continued)**

### **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.

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.

## **Accounting policies (continued)**

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

For the purposes of the company's statutory financial statements the changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The company only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the interest rate swaps hedging fixed rate borrowings is recognised in the profit and loss account. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity.

The company applies cash flow hedge accounting for hedging currency risks on borrowings. The effective portion of changes in the fair value of cross currency swaps that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. Amounts recorded in other comprehensive income are recycled to the income statement in the same period in which the underlying foreign currency exposure affects the income statement.

### **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	279	301
Other deposits and swaps	-	4
Market value gain on intra-group derivative interest rate instruments	23	79
Market value gain on external derivative interest rate instruments	1	1
Fair value adjustments to borrowings	-	3
Amortization of bonds	20	22
	<u>323</u>	<u>410</u>

### 2. Interest expense

	Year ended 30 June 2014 £'million	Year ended 30 June 2013 £'million
Interest to fellow group undertakings	101	113
Other loans and swaps	189	198
Market value loss on intra-group derivative interest rate instruments	29	90
Fair value adjustment to borrowings	5	-
Amortization of bonds	1	1
	<u>325</u>	<u>402</u>

### 3. Other operating income

	Year ended 30 June 2014 £'million	Year ended 30 June 2013 £'million
Intercompany management income	9	5
Foreign exchange gain on operations	2	1
	<u>11</u>	<u>6</u>

Fees in respect of audit services provided by the auditor are: £51,000 (2013 - £48,000). There were no fees payable to the auditor in respect of non-audit services (2013 - £nil).

## Notes to the financial statements (continued)

### 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. Taxation on profit on ordinary activities

	Year ended 30 June 2014 £'million	Year ended 30 June 2013 £'million
<b>(i) Analysis of tax charge for the year</b>		
Current tax	-	-
Deferred tax		
Adjustment in respect of prior years	(19)	(15)
Adjustment for change in rate of corporation tax	-	(3)
Total deferred tax	(19)	(18)
Taxation on profit on ordinary activities	(19)	(18)
<b>(ii) Factors affecting current tax charge for the year</b>		
Profit on ordinary activities before taxation	9	14
Taxation on profit on ordinary activities at UK corporation tax rate of 22.5 % (2013 - 23.75 %)	(2)	(3)
Income not taxable for tax purposes	-	26
Group relief received/(surrendered) for nil consideration	2	(23)
Current ordinary tax charge for the year	-	-

### 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 charge and future deferred tax asset accordingly.

## Notes to the financial statements (continued)

### 6. Other financial assets and liabilities

			30 June 2014	
	Current financial assets £'million	Non-current financial assets £'million	Current financial liabilities £'million	Non-current financial liabilities £'million
<b>External derivative assets</b>				
Cross currency interest rate swaps designated in a cash flow hedge	-	7	-	-
	-	7	-	-
<b>Intra-group derivative assets/(liabilities)</b>				
Interest rate derivatives designated in a fair value hedge	-	6	-	-
Cross currency interest rate swaps designated in a cash flow hedge	-	101	-	(13)
Interest rate derivatives not designated in a hedge relationship	-	129	-	(103)
	-	236	-	(116)
<b>Total derivative assets/(liabilities)</b>	-	243	-	(116)

Diageo Finance plc entered into external cross currency interest rate swaps on behalf of Diageo Capital plc, market value of which amounted to £88 million at the balance sheet date (2013 - £183 million) presented as due after one year. 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 asset of £88 million (2013 - £183 million) presented as due after one year.



## Notes to the financial statements (continued)

### 6. Other financial assets and liabilities (continued)

			30 June 2013	
	Current financial assets £'million	Non-current financial assets £'million	Current financial liabilities £'million	Non-current financial liabilities £'million
<b>External derivative assets</b>				
Cross currency interest rate swaps designated in a cash flow hedge	-	15	-	-
	-	15	-	-
<b>Intra-group derivative assets/(liabilities)</b>				
Cross currency interest rate swaps designated in a cash flow hedge	-	189	-	(6)
Interest rate derivatives not designated in a hedge relationship	-	149	-	(109)
	-	338	-	(115)
<b>Total derivative assets/(liabilities)</b>	-	353	-	(115)

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 derivatives for speculative purposes. All transactions in derivative financial instruments are undertaken to manage risk arising from underlying business activities.

### 7. Debtors

	30 June 2014 £'million	30 June 2013 £'million
Amounts owed by fellow group undertakings	5,571	6,440
Deferred tax	-	19
	5,571	6,459

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.

## Notes to the financial statements (continued)

### 7. Debtors (continued)

#### Deferred tax

	30 June 2014 £'million	30 June 2013 £'million
Other timing differences	19	37
Deferred tax asset	-	19

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.

### 8. Borrowings, facilities and financial liabilities

Financial instruments comprise net borrowings, including borrowings from 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 with in this note exclude where permitted by FRS 26 the short term debtors and creditors, but include short term borrowings to and from group undertakings.

#### External borrowings

	30 June 2014 £'million	30 June 2013 £'million
<b>Borrowings – amounts falling due within one year</b>		
US\$ 804 million 7.375% bonds due 2014	-	(529)
Commercial paper	(129)	-
	(129)	(529)

## Notes to the financial statements (continued)

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

	30 June 2014 £'million	30 June 2013 £'million
<b>Borrowings</b> – amount falling due after more than one year		
US\$ 600 million 5.5% bonds due 2016	(350)	(394)
US\$ 750 million 0.625% bonds due 2016	(437)	(492)
US\$ 1,250 million 5.75% bonds due 2017	(729)	(820)
US\$ 1,000 million 1.5% bonds due 2017	(582)	(655)
US\$ 650 million 1.125% bonds due 2018	(377)	(424)
US\$ 696 million 4.828% bonds due 2020	(355)	(400)
US\$ 1,350 million 2.625% bonds due 2023	(784)	(883)
US\$ 600 million 5.875% bonds due 2036	(346)	(391)
US\$ 500 million 3.875% bonds due 2043	(286)	(322)
US\$ 200 million 4.85% medium term notes due 2018	(117)	(132)
Fair value adjustment to borrowings	(80)	(94)
	<u>(4,443)</u>	<u>(5,007)</u>

On 15 January 2014, the company repaid a \$804 million (£488 million) bond.

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 £75 million (2013 - £86 million). None of the borrowings are secured on assets of the Diageo group.

The company had available undrawn committed bank facilities with third parties as follows:

	30 June 2014 £'million	30 June 2013 £'million
<b>Expiring:</b>		
Expiring within one year*	1,535	-
Expiring between one and two years	632	411
Expiring after two years	1,050	1,891
	<u>3,217</u>	<u>2,302</u>

\*Of the facilities at 30 June 2014 \$2,000 million (£1,170 million) was not drawn down and was cancelled on 2 July 2014.

Other than the committed facility of \$2,000 million relating to the purchase of further shares in a fellow group undertaking, 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 short and long term borrowings. Certain of these borrowings contain cross default provisions and negative pledges.

## Notes to the financial statements (continued)

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

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 associates' profits after tax, 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.

### 9. Other creditors: amounts falling due within one year

	30 June 2014 £'million	30 June 2013 £'million
Amounts owed to fellow group undertakings	1,027	1,023
Accruals and deferred income	36	57
	<u>1,063</u>	<u>1,080</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 statements 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.

### 10. Share capital

	30 June 2014 £	30 June 2013 £
<i>Allotted, called up and fully paid:</i>		
200,000 (2013 - 200,000) ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>

## Notes to the financial statements (continued)

### 11. Reserves

	Share premium account £'million	Cash flow reserve £'million	Other reserves £'million	Profit and loss account £'million	Total £'million
At 30 June 2013	250	65	70	(304)	81
Fair value of cross currency swaps	-	(8)	-	-	(8)
Retained loss for the year	-	-	-	(10)	(10)
<b>At 30 June 2014</b>	<b>250</b>	<b>57</b>	<b>70</b>	<b>(314)</b>	<b>63</b>

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

	30 June 2014 £'million	30 June 2013 £'million
Loss on ordinary activities after taxation	(10)	(4)
Cash flow hedging reserve	(8)	(60)
<b>Net reduction in to shareholders' funds</b>	<b>(18)</b>	<b>(64)</b>
Shareholders' funds at the beginning of the year	81	145
<b>Shareholders' funds at the end of the year</b>	<b>63</b>	<b>81</b>

### 13. 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.