

RNS Half-year/Interim Report

Half-year Report

DIAGEO CAPITAL PLC

Released 10:58:23 08 March 2021

RNS Number : 4908R
Diageo Capital plc
08 March 2021

Diageo Capital plc **LEI: 213800L23DJLALFC4095** **Half-year results for the six months ended 31 December 2020**

The directors present their interim financial report for the six months ended 31 December 2020.

Activities

Diageo Capital plc (the "company") is engaged in the provision of treasury, risk and cash management services for Diageo plc and its subsidiary undertakings (the "group"). 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 intragroup loans and deposits. Foreign exchange translation and transactional hedging, interest rate risk management and cash management are also performed by the company.

The company does not anticipate any changes in its activities in the remaining six months of the financial year.

Business review

Development and performance of the business of the company during the period and position of the company as at 31 December 2020

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 group is included in the Annual Report 2020 of Diageo plc (see note 15 of the consolidated financial statements of Diageo plc).

Net finance charge was £5 million in the six months ended 31 December 2020, which is a £2 million increase from net finance charge of £7 million in the six months ended 31 December 2019.

External borrowings decreased by £1,186 million in the six months ended 31 December 2020 to £5,606 million from £6,792 million in the year ended 30 June 2020, which was mainly due to the company repaid bonds with a nominal value of US\$ 696 million.

Financial and other key performance indicators

As the company forms part of the group's treasury operations, the company's performance is measured at the group level.

There was no profit or loss transferred to reserves in the six month ended 31 December 2020, (six months ended 31 December 2019 - profit of £2 million) and the other comprehensive loss is £105 million (six months ended 31 December 2019 - loss of £8 million).

The directors do not propose the payment of an interim dividend to be distributed to shareholders in regard to the six months ended 31 December 2020 (six months ended 31 December 2019 - £nil).

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 pages 2-4. 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 and the parent and fellow group undertakings are expected to provide financial support for the foreseeable future. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the 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 interim financial statements.

Principal risks and uncertainties facing the company as at 31 December 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.

In addition, given that the company performs treasury functions for the group, it is exposed to 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. Fair value hedges are carried out to manage the currency and/or interest rate risks to which the fair value of certain assets and liabilities are exposed.

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 directors have assessed that the key impacts on the company would be in respect of Covid-19 on remote working and ability to access IT systems, along with a potentially heightened cyber risk. 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 to 39 of Diageo plc's 2020 Annual Report ("Annual Report").

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.

Statement on Section 172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires the directors to promote the success of the company for the benefit of the members as a whole, having regard to the interests of stakeholders in their decision-making. In making decisions, the directors consider what is most likely to promote the success of the company for its shareholders in the long term, as well as the interests of the group's stakeholders. The directors understand the importance of taking into account the views of stakeholders and the impact of the company's activities on local communities, the environment, including climate change, and the group's reputation.

The company is a member of the group of companies whose ultimate holding company is Diageo plc ("Diageo"). In accordance with the requirements of UK company law, Diageo has included, in its 2020 Annual Report and Accounts on page 5, a statement as to how the directors of Diageo have had regard to the matters set out in Section 172 of the Companies Act 2006.

In order to ensure consistency in how the group operates with regard to its wider stakeholders, the group has adopted an internal Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure, amongst other things, that all companies throughout the group, including the company, have regard to its wider stakeholders in a consistent manner.

The company has therefore had regard to the matters set out in Section 172 of the Act in a manner that is consistent with the approach adopted by Diageo, while at the same time ensuring the directors of the company are fulfilling their duties.

Independent review

This interim report has not been audited or reviewed by auditors.

Statement of directors' responsibilities

The directors confirm that this condensed set of interim financial information has been prepared in accordance with Financial Reporting Standard 104: Interim Financial Reporting, issued by the Financial Reporting Council, and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year, and

- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the last annual report.

The directors of the Company are listed in the Company's annual report and financial statements for the year ended 30 June 2020.

M Pais

Director

8 March 2021

**INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020**

		Six months ended 31 December 2020	Six months ended 31 December 2019 (restated)
	Notes	£ million	£ million
Other operating income		5	9
Finance income	1	145	146
Finance charges	1	(150)	(153)
Operating profit		-	2
Profit before taxation on ordinary activities		-	2
Taxation on profit on ordinary activities		-	-
Profit for the period		-	2

Prior year profit was restated to include pro-rated intercompany management and interest income.

**STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020**

		Six months ended 31 December 2020	Six months ended 31 December 2019 (restated)
	Notes	£ million	£ million
Other comprehensive income/(expense)			
Items that may be recycled subsequently to the income statement			
Effective portion of changes in fair value of cash flow hedges			
-losses taken to other comprehensive income		(280)	(60)
-recycled to income statement		150	50
-tax income on effective portion of changes in fair value of cash flow hedge	2	25	2
Other comprehensive expense		(105)	(8)
Profit for the period		-	2
Total comprehensive expense for period		(105)	(6)

**BALANCE SHEET (UNAUDITED)
AT 31 DECEMBER 2020**

		31 December 2020	30 June 2020
	Notes	£ million	£ million
Non-current assets			
Trade and other receivables		7,274	8,393
Other financial assets	4	347	644
		7,621	9,037
Current assets			
Trade and other receivables		72	14
		72	14

Total assets		7,693	9,051
Current liabilities			
Trade and other payables		(1,877)	(1,955)
Borrowings and bank overdrafts	3	(7)	(566)
		(1,884)	(2,521)
Non-current liabilities			
Borrowings and bank overdrafts	3	(5,599)	(6,226)
Other financial liabilities	4	(79)	(43)
Deferred tax liability		(11)	(36)
		(5,689)	(6,305)
Total liabilities		(7,573)	(8,826)
Net assets		120	225
Equity			
Share premium		250	250
Fair value and hedging reserves		50	155
Other reserves		70	70
Retained deficit		(250)	(250)
Total equity		120	225

**STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020**

ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Share premium	Hedging reserve	Other reserves	Subtotal Other reserves	Retained deficit	Total £ million
	£ million	£ million	£ million	£ million	£ million	£ million
Balance at 30 June 2019	250	38	70	108	(250)	108
Other comprehensive income for the year	-	117	-	117	-	117
Balance at 30 June 2020	250	155	70	225	(250)	225
Other comprehensive expense for the year	-	(105)	-	(105)	-	(105)
Balance at 31 December 2020	250	50	70	120	(250)	120

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020**

The company is incorporated and domiciled as a public limited company in the United Kingdom.

The interim financial statements of the company for the six months ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 8 March 2021.

Basis of preparation

The annual report and financial statements of the company for the year ended 30 June 2020 were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and Companies Act 2006.

The interim condensed financial statements for the six months ended 31 December 2020 have been prepared in accordance with Financial Reporting Standard 104 *Interim Financial Reporting* (FRS 104), issued by the Financial Reporting Council. The interim condensed financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the company's annual financial statements at 30 June 2020.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the company's annual report and financial statements for the year ended 30 June 2020.

These condensed interim financial statements have not been subject to a full audit or audit review and do not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The annual report and financial statements for the year ended 30 June 2020 were approved by the directors of the company on 28 October 2020 and have

been filed with the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

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.

These financial statements are separate financial statements.

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 million.

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.

1. FINANCE INCOME AND CHARGES

	Six months ended 31 December 2020	Six months ended 31 December 2019 (restated)
	£ million	£ million
Net interest		
Interest income from fellow group undertakings	90	133
Fair value gain on intra-group derivative financial instruments	12	7
Fair value adjustment on borrowings	43	5
Amortisation of bonds	-	1
Total interest income	145	146
Interest charge to fellow group undertakings	(11)	(45)
Interest charge on all other borrowings	(79)	(88)
Fair value loss on intra-group derivative financial rate instruments	(55)	(12)
Fair value adjustment on borrowings	-	(1)
Discount and fee amortisation	(5)	(7)
Total interest charges	(150)	(153)
Net finance charges	(5)	(7)

Prior year interest income was restated to include pro-rated interest income from fellow group undertakings.

2. TAXATION

The total tax income for the six months ended 31 December 2020 was £25 million (31 December 2019 - £2 million), in accordance with decrease in deferred tax liability in relation to the effective portion of changes in fair value of cash flow hedges. The change in deferred tax liability is presented as part of the other comprehensive income.

3. BORROWINGS AND BANK OVERDRAFTS

	31 December 2020	30 June 2020
	£ million	£ million
Bank overdrafts	7	-
Commercial paper	-	-
Bank loans	-	-
Credit support obligations	-	-
US\$ 696 million 4.828% bonds due 2020	-	566
Fair value adjustment to borrowings	-	-
Borrowings due within one year and bank overdrafts	7	566
US\$ 1,350 million 2.625% bonds due 2023	991	1,096
US\$ 500 million 3.500% bonds due 2023	367	405
US\$ 600 million 2.125% bonds due 2024	440	487
US\$ 750 million 1.375% bonds due 2025	548	606
US\$ 500 million 3.875% bonds due 2028	366	404
US\$ 1,000 million 2.375% bonds due 2029	727	804
US\$ 1,000 million 2.000% bonds due 2030	729	807
US\$ 750 million 2.125% bonds due 2032	545	603

US\$ 600 million 5.875% bonds due 2036	437	483
US\$ 500 million 3.875% bonds due 2043	361	400
Fair value adjustment to borrowings	88	131
Borrowings due after one year	5,599	6,226
Total external borrowings	5,606	6,792

The interest rates of external borrowings shown in the table above are those contracted on the underlying borrowings before taking into account any interest rate hedges. Bonds are stated net of unamortised finance costs of £40 million (30 June 2020 - £45 million). The company repaid bonds in the six months period ended 31 December 2020, with a nominal value of US\$ 696 million.

Bonds are reported at amortised cost with a fair value adjustment shown separately. All bonds, medium term notes and commercial papers issued by the company are fully and unconditionally guaranteed by Diageo plc.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value measurements of financial instruments are presented through the use of a three-level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.

The group maintains policies and procedures to value instruments using the most relevant data available. If multiple inputs that fall into different levels of the hierarchy are used in the valuation of an instrument, the instrument is categorised on the basis of the most subjective input.

Foreign currency forwards and swaps, cross currency swaps and interest rate swaps are valued using discounted cash flow techniques. These techniques incorporate inputs at levels 1 and 2, such as foreign exchange rates and interest rates. These market inputs are used in the discounted cash flow calculation incorporating the instrument's term, notional amount and discount rate, and taking credit risk into account. As significant inputs to the valuation are observable in active markets, these instruments are categorised as level 2 in the hierarchy.

The company's financial assets and liabilities measured at fair value are categorised as follows:

	31 December 2020	30 June 2020
	£ million	£ million
Derivative assets	347	644
Derivative liabilities	(79)	(43)
Valuation techniques based on observable market input (Level 2)	268	601

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lsej.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

IR FLFEIVEITIL

London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. [Terms and conditions](#), including restrictions on use and distribution apply.

© 2021 London Stock Exchange plc. All rights reserved.