

USL Holdings (UK) Limited
Annual Report and Financial Statements
31 March 2017

Registered number: 06127302

USL Holdings (UK) Limited
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Year ended 31 March 2017

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Directors' report

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 31 March 2017.

The directors were 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 is an investment holding company but did not trade during the year. The directors foresees no changes in the company's activities.

Going concern

The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of United Spirits Limited to continue as a going concern. On the basis of their assessment, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future as a fellow group undertaking has agreed to provide financial support for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial

The results for the financial year ended 31 March 2017 are shown on page 5.

The loss for the financial year transferred from reserves was £87,367,720 (2016 - loss of £24,970,802).

No dividend was paid during the year (2016 - £nil).

Directors

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

G P Crickmore
J J Nicholls

Directors' remuneration

None of the directors received any remuneration during the year in respect of their services as directors of the company (2016 - £nil).

Secretary

On 10 March 2017 V Cooper resigned and J Guttridge was appointed as Company Secretary.

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Directors' report (continued)

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 Diageo group. The internal control and risk management systems over the financial reporting process of Diageo plc, which include those of the company, are discussed in the Diageo group's Annual Report 2016 on pages 60 to 61 at www.diageo.com, which does not form part of this report.

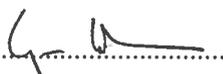
Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor, PricewaterhouseCoopers LLP, is deemed to be reappointed and will continue in office.

Disclosure of information to the 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 auditors are aware of that information.

By order of the board

.....

G P Crickmore
Director

Lakeside Drive
Park Royal
London
NW10 7HQ
UK

19 May 2017

USL Holdings (UK) Limited
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Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 - Reduced Disclosure Framework (FRS 101).

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 the 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.

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STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended 31 March 2017 £	Year ended 31 March 2016 £
Operating costs	2	(86,863,129)	(20,317,686)
Operating loss		<u>(86,863,129)</u>	<u>(20,317,686)</u>
Impairment of receivables from fellow group undertakings and other receivables		(504,591)	(4,653,116)
Loss before taxation		<u>(87,367,720)</u>	<u>(24,970,802)</u>
Taxation	3	-	-
Loss for the year and total comprehensive expense for the year		<u><u>(87,367,720)</u></u>	<u><u>(24,970,802)</u></u>

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

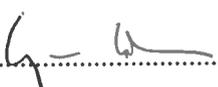
The company had no other comprehensive income or expense during the current and previous year.

BALANCE SHEET

	<i>Notes</i>	31 March 2017 £	31 March 2016 £
Fixed assets			
Investment in subsidiary undertakings	4	1	1
Current assets: due within one year			
Trade and other receivables	5	3,859,320	12,463,911
Cash and cash equivalents		50,618	691
		<u>3,909,938</u>	<u>12,464,602</u>
Creditors: amounts falling due within more than one year			
Trade and other payables	6	(685,051,207)	(606,238,151)
		<u>(681,141,269)</u>	<u>(593,773,549)</u>
Net current liabilities		(681,141,269)	(593,773,549)
Net liabilities		(681,141,268)	(593,773,548)
Equity			
Called up share capital	7	1,000	1,000
Accumulated losses		(681,142,268)	(593,774,548)
Total shareholders' deficit		(681,141,268)	(593,773,548)

The accompanying notes on pages 8 to 16 form part of the financial statements.

These financial statements on pages 5 to 16 were approved by the board of directors on 19 May 2017 and were signed on its behalf by:

.....


G P Crickmore
Director

USL Holdings (UK) Limited
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STATEMENT OF CHANGES IN EQUITY

	Called up share capital £	Accumulated losses £	Total shareholders' deficit £
Balance at 31 March 2015	1,000	(568,803,746)	(568,802,746)
Loss for the year and total comprehensive expense	-	(24,970,802)	(24,970,802)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2016	1,000	(593,774,548)	(593,773,548)
Loss for the year and total comprehensive expense	-	(87,367,720)	(87,367,720)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2017	1,000	(681,142,268)	(681,141,268)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

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

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

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available.

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

- a cash flow statement and related notes;
- comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of Key Management Personnel; and
- the disclosures required by *IFRS 7 Financial Instruments Disclosures*.

The company has taken advantage of the exemption under Section 401 of the Companies Act 2006, from the requirement to prepare consolidated financial statements as it and its subsidiaries are included in the consolidated financial statements of its parent, Diageo plc.

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.

Going concern

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

Foreign currencies

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

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

Investments in subsidiary undertakings

Investments in subsidiary undertakings are initially recorded at cost including transaction costs less, where appropriate, provision for impairment in value where such impairment is expected by the directors to be permanent.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Financial assets

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.

Cash and cash equivalents Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less at acquisition, including money market deposits, commercial paper and investments.

Financial liabilities

Trade creditors Amounts owed to other group companies are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade creditors are stated at their nominal value.

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. Interests and penalties on tax liabilities are provided in the tax charge.

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 and is based on the expected manner of recovery 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.

Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, management reviews each material tax benefit 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Judgements in applying accounting policies and key sources of estimation uncertainty

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

The critical accounting 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 policies:

- Investments in subsidiary undertakings: The carrying value of the investments was assessed to ensure that the investments are worth at least the amount at which they are stated in the financial statements. The impairment review involves management judgement and estimates.
- Impairment of receivables: The calculation of allowance of doubtful debts incorporates management judgements in respect of the recoverable amount.

2. OPERATING COSTS

	Year ended 31 March 2017 £	Year ended 31 March 2016 £
Foreign exchange losses	86,854,969	20,280,890
Other external charges	8,160	36,796
	<u>86,863,129</u>	<u>20,317,686</u>

The foreign exchange losses arose on the inter company balances with other group undertakings.

Fees in respect of services provided by the auditors were: statutory audit £7,000 (2016 - £7,667).

There were no fees payable to the auditor in respect of non-audit services (2016 - £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 (2016 - £nil).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

3. TAXATION

The tax charge for the year (2016-nil) was nil.

	Year ended 31 March 2017	Year ended 31 March 2016
	£	£
Factors affecting total tax charge for the year		
Loss before taxation	(87,367,720)	(24,970,802)
Taxation on loss at UK corporation tax rate of 20% (2016 - 20%)	<u>17,473,544</u>	<u>4,994,160</u>
Charges not deductible for tax purposes	(17,471,912)	(4,992,216)
Movement in unrecognised deferred tax assets	(1,632)	(1,944)
Total taxation for the year	<u><u>-</u></u>	<u><u>-</u></u>

The UK tax rate has been 20% since 1 April 2016. In November 2015 a reduction to 19% was substantively enacted (effective from 1 April 2017), whilst a further reduction to 17% (effective from 1 April 2020) was substantively enacted in September 2016.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

4. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Subsidiaries
	£
Cost and carrying amount	
At 31 March 2016 and 31 March 2017	1
	<hr/> <hr/>

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

	Country of incorporation	Registered office address	Proportion of ownership interest %
Direct holding			
<i>Subsidiary</i>			
United Spirits (UK) Limited	England and Wales	Lakeside Drive, Park Royal, London, NW10 7HQ, England	100
Indirect holding			
<i>Subsidiary</i>			
United Spirits (Great Britain) Limited	England and Wales	Lakeside Drive, Park Royal, London, NW10 7HQ, England	100

The investments in subsidiaries are held at cost less, where appropriate, provision for impairment in value.

In the opinion of the directors, the investment in and amounts due from the company's subsidiary undertakings are worth at least the amount at which they are stated in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. TRADE AND OTHER RECEIVABLES

	31 March 2017	31 March 2016	
	Due within one year £	Due within one year £	Due after one year £
Amounts owed by fellow group undertakings	266,510,879	274,610,879	-
Less: impairment of receivables from fellow group undertakings	(262,651,559)	(262,146,968)	-
Net amounts owed by fellow group undertakings	<u>3,859,320</u>	<u>12,463,911</u>	<u>-</u>
Other receivables	-	2,000,000	2,364,865
Less: impairment of other receivables	-	(2,000,000)	(2,364,865)
Net other receivables	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>3,859,320</u></u>	<u><u>12,463,911</u></u>	<u><u>-</u></u>

Amounts owed by fellow group undertakings are unsecured, interest free and repayable on demand.

After assessing the expected amount recoverable, the impairment provision is in respect of the amounts receivable from the company's immediate subsidiary, United Spirits (UK) Limited.

Other debtors at 31 March 2016 comprised an amount due from Watson Limited, a company registered in Mauritius. It was agreed that this amount would not be paid as part of an overall settlement for the benefit of the group. The receivable and provision were written off during the year ended 31 March 2017.

6. TRADE AND OTHER PAYABLES

	31 March 2017 £	31 March 2016 £
Amounts owed to fellow group undertakings	685,043,107	606,228,933
Accrued expenses	8,100	9,218
	<u>685,051,207</u>	<u>606,238,151</u>

Amounts owed to fellow group undertakings are unsecured, interest free and repayable on demand.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

7. SHARE CAPITAL

Allotted, called up and fully paid:

	31 March 2017
	£
100,000 (2016 -100,000) ordinary shares of £0.01 each	1,000

8. 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:

	31 March 2017	31 March 2016
	£	£
Managements expenses – indefinite	8,160	9,722

9. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking of the company is USL Holdings Limited, a company incorporated and registered in the British Virgin Islands.

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

Transactions between the company and its related parties are made on terms equivalent to those that prevail in an arm's length transactions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. CONTINGENT LIABILITY

In September 2014, the Board of Directors of United Spirits Limited (USL), the holding company of USL Holdings (UK) Limited, directed a detailed inquiry into certain matters referred to in the USL financial statements and Auditor's report for the year ended 31 March 2014 (Initial Inquiry). The Initial Inquiry report stated that between 2010 and 2013, funds involved in many of the transactions that were analysed, had been diverted from USL and/ or its subsidiaries to certain companies in the United Breweries Group, including in particular, Kingfisher Airlines Limited. On the question of the possible existence of any other transaction of a similar nature, the Initial Inquiry identified references to certain additional parties (Additional Parties) and matter (Additional Matter), where the documents identified raised concerns as to the propriety of the underlying transactions which could not be fully analysed during the Initial Inquiry. The Board of Directors of USL therefore mandated that USL's managing director and chief executive officer (MD & CEO) conduct a further inquiry (Additional Inquiry) into historical transactions involving the Additional Parties and Additional Matter, to determine whether these transactions with these Additional Parties or involving these Additional Matter also suffered from improprieties.

Notwithstanding the limitations posed by lack of access to complete documentation despite best efforts, the Additional Inquiry was concluded in July 2016. The Additional Inquiry prima facie revealed further instances of actual or potential fund diversions arising from improper transactions amounting to approximately £112 million (INR 9,135 million) as well as other potentially improper transactions involving USL and certain of its Indian and overseas subsidiaries amounting to approximately £38 million (INR 3,118 million). These transactions occurred during the review period covered by the Additional Inquiry, i.e. from October 2010 to July 2014 (Review Period which was substantially the same as the period covered by the Initial Inquiry), although certain transactions appear to have been initiated in years prior to the Review Period. The improper transactions identified in the Additional Inquiry involved, in most cases, diversion of funds to overseas and Indian entities that appear to be affiliated or associated with USL's former non-executive Chairman, Dr. Vijay Mallya.

In particular, and as regards USL Holdings (UK) Limited, the Additional Inquiry indicated that £33.54 million appeared to have potentially been diverted from USL Holdings (UK) Limited.

There are potential corporation tax consequences in respect of the historic transactions identified in respect of which there are ongoing discussions with HMRC. Based on the latest discussions it is not believed that these will result in an additional liability.

The above amounts identified in the Additional Inquiry with respect to USL Holdings (UK) Limited have been previously provided for or expensed in the financial statements for prior periods.

Independent auditors' report to the members of USL Holdings (UK) Limited

Report on the financial statements

Our opinion

In our opinion, USL Holdings (UK) Limited's financial statements (the financial statements):

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
 - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.
-

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the Annual Report), comprise:

- the balance sheet as at 31 March 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the directors' report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of USL Holdings (UK) Limited (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. 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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the directors' responsibilities statement set out on page 4, 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) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the directors' report, we consider whether this report include the disclosures required by applicable legal requirements.



Christopher Richmond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 May 2017