DIAGEO PLC
Form 6-K
January 29, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF THE

SECURITIES EXCHANGE ACT OF 1934

29 January 2015

Commission File Number: 001-10691

DIAGEO plc

(*Translation of registrant's name into English*)

Lakeside Drive, Park Royal, London NW10 7HQ

(*Address of principal executive offices*)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ....X..... Form 40-F ....

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ....

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ....

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

Diageo plc
(Registrant)

Date: 29 January 2015 By:/s/ J Fahey
Name: J Fahey
Title: Senior Company Secretarial Assistant

Interim results, six months ended 31 December 2014
29 January 2015

A strong business improving in a challenging environment

- **Organic net sales in the half were broadly flat (-0.1%) with volume down 1.9%. Performance improved in Q2**
- **Continued strong performance of reserve brands, up 10%, was a key driver of positive overall price/mix**
- **Marketing spend was in line with net sales, as effective spend benefitted from procurement efficiencies worth 3% of total marketing investment**
- **Restructuring benefits drove operating margin improvement of 28bps with organic operating profit up 0.7%**
- **Free cash flow was £699 million, up £373 million on the first half last year**
- **Eps before exceptional items was 53.7 pence per share, down 8.9 pence per share driven mainly by negative exchange impacts and lower income from associates and joint ventures**
- **Interim dividend up 9% to 21.5 pence per share**

Ivan Menezes, Chief Executive, commenting on the six months ended 31 December 2014

"We have improved our performance during the half and we have again shown: the strength of our brands, which is driving our share gains; our strong innovation capability, which has enabled us to access new growth opportunities; and our focus on cost. We delivered the planned savings from our global efficiency programme together with procurement benefits in marketing spend which we have reinvested in our brands and we increased our investment in our routes to consumer while again expanding our margins.

We have already taken action to improve the performance of those brands and markets that have not performed as well as we would expect. This contributed to our stronger second quarter performance and I expect to maintain this momentum through the year.

The half saw Diageo acquire control of USL, putting us in the position to create an iconic leader in spirits in an attractive market. We have also reached agreement to acquire all of Don Julio, which will significantly strengthen our position in one of our fastest growing categories.

The quality of these results in a tough environment, with depletions ahead of shipments and improving cash flow, reinforce my confidence that Diageo can realise its full potential and deliver our performance ambition."

Ends

Foreign exchange movements relating to Venezuela

From March 2014 the group has applied the Sicad II rate when consolidating operations in Venezuela. For the six months ended 31 December 2013 the consolidation rate of $1=VEF9 was applied. The change in March 2014 was applied to the total reported operations for the nine months ended 31 March 2014 and subsequent periods. This change reduced the previously reported net sales and operating profit for the six months ended 31 December 2013 by £237 million and £183 million respectively. This reduction in net sales and operating profit was incorporated into Diageo's results for the nine months ended 31 March 2014 and in the Q3 F14 IMS Diageo reported net sales decline of 7.4% for the nine months ended 31 March 2014.

Unless otherwise stated, commentary refers to organic movements.

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RESULTS SUMMARY

Half year results, six months ended 31 December 2014

Key financial information

Key performance indicators		**First Half F15**	First Half F14
Organic net sales growth	%	**-**	2
Organic operating margin improvement	basis points	**28**	37
Earnings per share before exceptional items	pence	**53.7**	62.6
Free cash flow	£ million	**699**	326
Return on average invested capital	%	**13.9**	17.8

Other financial information		**First Half F15 Reported**	First Half F14 Reported	**Organic growth %**	**Reported growth %**
Volume	EUm	**134.1**	84.3	(2)	59
Net sales	£ million	**5,900**	5,932	-	(1)
Marketing spend	£ million	**896**	903	-	(1)
Operating profit before exceptional items (a)	£ million	**1,839**	2,060	1	(11)
Operating profit (b)	£ million	**1,668**	2,040		(18)
Share of associates and joint ventures profit after tax	£ million	**113**	181		(38)
Net finance charges	£ million	**239**	225		6
Reported tax rate	%	**16.8**	18.2		(8)
Reported tax rate before exceptional items	%	**18.3**	19.4		(6)
Profit attributable to parent company's shareholders	£ million	**1,311**	1,599		(18)
Basic earnings per share	pence	**52.3**	63.8		(18)
Interim dividend per share	pence	**21.5**	19.7		9

(a) Operating profit before exceptional items included attributable transaction and integration costs of £10 million in the six months ended 31 December 2013 in respect of business acquisitions.

(b) Operating profit includes an exceptional charge of £171 million, an analysis for which is provided on page 21.

	Volume		**Net sales**		**Marketing spend**		**Operating profit(a)**	
Organic growth by region	**%**	EUm	**%**	£ million	**%**	£ million	**%**	£ million
North America	(2)	(0.6)	-	(1)	3	8	(1)	(7)
Europe	(1)	(0.2)	-	(4)	3	6	1	3
Africa	9	1.1	5	38	12	9	4	7

Latin America and Caribbean	(10)	(1.3)	(1)	(4)	3	3	7	13
Asia Pacific	(7)	(0.6)	(5)	(39)	(15)	(24)	(7)	(14)
Corporate	-	-	8	3	(20)	(1)	16	11
Diageo	**(2)**	**(1.6)**	**-**	**(7)**	**-**	**1**	**1**	**13**

(a) Before exceptional items.

Organic net sales growth by region %	**Q1**	**Q2**
North America	0.1	(0.2)
Europe	(1.4)	0.4
Africa	-	9.4
Latin America and Caribbean	(1.4)	(0.2)
Asia Pacific	(7.4)	(4.0)
Diageo	**(1.5)**	**0.7**

	Net sales £ million	Marketing spend £ million	Operating profit £ million
Foreign Exchange rate movements	(488)	(43)	(268)

Reported net sales and operating profit were significantly impacted by negative foreign exchange, driven by the strengthening of the pound against many currencies, in particular the Venezuelan bolivar, the Russian rouble and the euro. Using current exchange rates (£1 = $1.50; £1 = €1.34), the exchange rate movements for the year ending 30 June 2015 are estimated to adversely impact net sales and operating profit by approximately £120 million and £85 million respectively, and increase net finance charges by £10 million. This excludes the impact of IAS 21 and IAS 39. It is estimated that the hyperinflation charge for the year ending 30 June 2015 will be approximately £60 million.

Acquisitions and disposals	Volume EUm	Net sales £ million	Marketing spend £ million	Operating profit £ million
Acquisitions	52	484	35	23
Disposals	-	3	-	-
Total	**52**	**487**	**35**	**23**

The impact of acquisitions and disposals on the reported figures arose primarily in respect of the full consolidation of United Spirits Limited (USL) and the termination of the transitional arrangements following the disposal of Jose Cuervo. It also includes acquisition and integration costs incurred in the year, largely in respect of USL.

Operating exceptional Items

On 5 January 2015, Diageo accepted the Korean court recommendation to settle litigation against Korean customs regarding the transfer pricing methodology applicable to spirits imported between 2004 and 2010. For the six-month period ended 31 December 2014 Diageo has charged £145 million before tax in respect of resolving this dispute as well as other related pending issues.

Interim Management Statements

Following the announcement by the Financial Conduct authority in November 2014 in respect of the future obligation for listed companies to provide Interim Management Statements (IMS), Diageo will publish an IMS in respect of the nine month period ending 31 March 2015 but will not publish an IMS for for March and September beginning in the year ending 30 June 2016.

Notes to the business and financial review

Unless otherwise stated:

- volume is in millions of equivalent units (EUm)
- net sales are sales after deducting excise duties
- percentage movements are organic movements
- share refers to value share
- GTME refers to Global Travel Asia and Middle East

See page 40 for explanation of non-GAAP measures.

FINANCIAL REVIEW
For the six months ended 31 December 2014

Net sales growth (£ million)
Reported net sales were flat. Adverse foreign exchange was offset by the full consolidation of USL. Growth in reserve brands and pricing in Venezuela offset volume decline

(a) Impact of acquisitions and disposals on the first half F14 and the first half F15. See page 43 for further details.

Reported net sales were flat. Adverse foreign exchange was offset by the full consolidation of USL. Organic volume decline was largely driven by currency related market contraction in West LAC and South East Asia, a challenging environment in Venezuela and weakness in the standard price segment in North America. Positive price/mix was largely driven by the strong performance of reserve brands and price increases in Venezuela.

Operating margin improvement (%)
Cost savings delivered 28bps of organic margin improvement

The full consolidation of USL has rebased Diageo's operating margin by 2pps. Adverse foreign exchange, primarily in respect of the Venezuelan bolivar, reduced reported margins while the organic increase in operating margin was 28bps driven by cost savings from the global efficiency programme.

Earnings per share before exceptional items (pence)
Eps before exceptionals impacted by adverse foreign exchange, decrease in associate profit and increase in finance charges

Eps fell 8.9 pence largely as a result of adverse foreign exchange movements, which reduced eps 8.4 pence. Operating profit after tax and excluding foreign exchange movements had a positive impact on eps as a result of organic growth and the lower tax rate. Lower income from associates and joint ventures and the increase in other finance charges, which largely reflects updated projections for dividends payable in respect of the Zacapa agreement, also had a negative impact on eps.

Basic eps was 52.3 pence (6 months ended 31 December 2013 – 63.8 pence), with exceptionals reducing eps by 1.4 pence (6 months ended 31 December 2013 – 1.2 pence favourable).

For movements in net finance charges see below:

Movement in net finance charges	**£ million**
First Half F14 Reported	225
Net interest charge	6
Post employment charges	1
Venezuela hyperinflation adjustment	(3)
Other finance charges	10
First Half F15 Reported	239

	First Half F15 Reported	First Half F14 Reported
Average monthly net borrowings (£ million)	**10,698**	9,160
Effective interest rate	**3.7%**	4.1%

For the calculation of the effective interest rate, the net interest charge excludes fair value adjustments to derivative financial instruments and borrowings. Average monthly net borrowings include the impact of interest rate swaps that are no longer in a hedge relationship but excludes the market value adjustment for cross currency interest rate swaps.

The increase in average net borrowings was principally the result of the acquisition of the controlling interest in USL, completed on 2 July 2014, and the inclusion of USL’s net borrowings. The effective interest rate decreased in the six months ended 31 December 2014 principally as a results of lower interest rates on new debt issues.

Free cash flow (£ million)
Positive working capital movement, lower interest and tax payments offset the impact of reduced operating profit and the full consolidation of USL on cash flow

(a) Operating profit adjusted for non cash items including depreciation and amortisation.
(b) Other movements includes dividends received from associates and joint ventures, movements in loans receivable and other investments, and payments in respect of the settlement of Thalidomide litigations.

The increase in free cash flow was primarily driven by the positive working capital movement, largely due to increases in creditor balances. Lower interest and tax payments are due to phasing. Contributions to pension plans were lower than the same period last year, largely driven by the one off payment made into the Irish pension scheme last year.

Return on average invested capital (ROIC) (a)
The investment in USL has rebased ROIC and adverse FX reduced ROIC in the period

(a) ROIC calculation excludes exceptional items

The full consolidation of USL reduced ROIC by 2.1pps. Foreign exchange movements which reduced operating profit, were partially offset by the impact of foreign exchange on invested capital.

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BUSINESS REVIEW

Half year results, six months ended 31 December 2014

North America

"Net sales in North America were in line with last year, given the slowdown in the US spirits market as a result of weaker pricing and our comparison against a strong first half last year. In our US Spirits and Wines business volume was down but continued strong performance of reserve brands was the main driver of 2.6 percentage points of price/mix. Given our already premium price position in many categories, we have taken fewer price increases and engaged in more tactical promotional activities in the most competitive segments. Scotch shipments were down 9% against the prior period which benefitted from a number of innovations. Depletions, however, were up for our scotch malts portfolio and Buchanan's and both gained share, and Buchanan's became the number two super premium scotch by value behind Johnnie Walker. Our strength in innovation continues to be a key growth driver and Cîroc Pineapple and Crown Royal Regal Apple contributed to overall growth in Diageo's vodka and North American whiskey categories, up 6% and 3% respectively, while Captain Morgan gained share in rum driven by Captain Morgan White Rum. Smirnoff saw improved consumer offtake driven by promotional activities and the new campaign and packaging, with the core brand gaining share. Consumer demand for more authentic deluxe brands continued and our reserve brand business grew 10%, with strong performance from Don Julio and Bulleit which both outperformed their categories and gained share. In DGUSA net sales were broadly flat as ready to drink performance stabilised and the success of Guinness Blonde American Lager contributed to overall growth of the Guinness brand. Diageo Canada has already seen some benefit from our new distribution system with net sales up 1%. Brand investment was up 3% focused on our innovation launches and Smirnoff. Gross margin was negatively impacted by lower scotch shipments together with the one off impact on net sales from the change in the distribution system in Canada. This was only partially offset by lower overheads in the region and operating margin declined by 35 basis points."

Key financials £ million:

	First Half F14 Reported	**Exchange**	**Acquisitions and disposals**	**Organic movement**	**First Half F15 Reported**	**Reported movement %**
Net sales	1,904	(25)	(11)	(1)	1,867	(2)
Marketing spend	293	(4)	7	8	304	4
Operating profit before exceptional items	851	(21)	(4)	(7)	819	(4)
Exceptional items	(1)				(11)	
Operating profit	850				808	(5)

Markets and categories:

	Organic volume movement(a)	**Organic net sales movement**	**Reported net sales movement**

	%	%	%
North America	(2)	-	(2)
US Spirits and Wines	(3)	-	(1)
DGUSA	(2)	-	(1)
Canada	-	1	(8)
Spirits (b)	(2)	-	(1)
Beer	(3)	(3)	(5)
Wine	2	1	1
Ready to drink	(1)	1	(12)

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Global giants and local stars (b):

	Organic volume movement(a)	Organic net sales movement	Reported net sales movement
	%	%	%
Smirnoff	(5)	(7)	(8)
Crown Royal	-	(1)	(2)
Captain Morgan	(7)	(8)	(9)
Johnnie Walker	(4)	(14)	(15)
Cîroc	27	27	26
Ketel One vodka	(1)	(1)	(1)
Guinness	-	(1)	(3)
Baileys	(4)	(6)	(8)
Tanqueray	-	2	1
Don Julio	13	21	20
Buchanan's	30	32	31
Bulleit	52	59	58

(a) Organic equals reported movement for volume except for North America (3)%, US Spirits and Wines (4)%, spirits (3)% and ready to drink (17)% reflecting the termination of the transitional arrangements following the disposal of Jose Cuervo.

(b) Spirits brands excluding ready to drink.

- In **US Spirits and Wines,** which represents 82% of the net sales in the region, net sales were broadly flat, with 2.6pps of positive price/mix, driven by the double digit growth of reserve brands and innovation launches. Net sales in vodka grew 6% on the back of the successful launch of Cîroc Pineapple which resulted in an overall net sales growth of 28% for the Cîroc brand. High stock levels impacted Smirnoff net sales which were down 8%, however the relaunch of the brand with a new packaging and marketing campaign, coupled with targeted promotional activities have improved the core brand's performance, which gained share. Captain Morgan net sales were down 9% as Captain Morgan Spiced Rum suffered from increasing competition in the spiced rum category and from lapping the launch of Captain Morgan White Rum last year, which performed well and gained share. Net sales in North American whiskey increased 3%, Bulleit continued to outperform the category with net sales up 58%, Crown Royal net sales declined 1%, with strong growth from the launch of Crown Royal Regal Apple offset by lapping the launch of Crown Royal XO in the same period last year. Johnnie Walker net sales were down 17% as it lapped the launch in the first half last year of super premium variants Johnnie Walker Platinum Label and Johnnie Walker Gold Label Reserve and the promotional activities and phasing of shipments in Johnnie Walker Black Label and Johnnie Walker Blue Label respectively. Buchanan's net sales were up 33% as it continued to leverage its strong connection with the Hispanic community and it is now the second largest super premium scotch in value behind Johnnie Walker. Net sales of tequila were up 37%, driven by the continued success of Don Julio, with net sales up 21%, and the launches under Diageo's ownership of the newly acquired Peligroso and DeLeón brands.

DGUSA net sales were broadly flat, with volume down 2%. Guinness net sales were up 1%, driven by the successful launch of Guinness Blonde American Lager, but the core brand was still impacted by the decline in the on trade.

- Ready to drink net sales were up 2% as it benefitted from comparison against last year's destocking in the pouches segment.

Net sales in **Canada** benefitted from the change in distribution system and increased 1%, with volume broadly flat.

- Growth in Johnnie Walker Black Label and reserve brands partially offset the decline of Guinness, which was impacted by weakness in the on trade.

Marketing spend increased 3%, with the upweighted investment largely focused on supporting Smirnoff, with the

- new 'Exclusively for Everybody' campaign, innovations such as Cîroc Pineapple, Guinness Blonde American Lager, Crown Royal Regal Apple and Peligroso.

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Europe

"Diageo's performance in Europe reflected a stable performance in Western Europe, strong growth in Turkey, and tough trading conditions in Russia and Eastern Europe. In Western Europe, we continued our strategy to improve efficiency and invest behind our brands. Great Britain, France and Italy were all in growth, driven by successful innovation launches and reserve brands, which were up double digit. We continued to invest behind our route to consumer, which coupled with our focus on cost, enabled us to increase our coverage without increasing overheads. In Turkey, net sales grew mainly through the continued premiumisation of the raki category, driven by Yenì Raki, the leading brand. Share increased in the premium segment as a result of strong focus in the on trade. Performance in Russia and Eastern Europe was significantly impacted by the economic environment in Russia, where consumer confidence is weak due to sanctions, currency devaluation and tighter credit. In this challenging environment we gained share in scotch and rum. Marketing spend was up 3%, up 44 basis points as a percentage of net sales, largely supporting the launch of Haig Club in Western Europe. Margins in Western Europe were broadly flat, and despite weakness in Russia the strong performance of Turkey resulted in margin improvement of 30 basis points."

Key financials £ million:

	First Half F14 Reported	**Exchange**	**Acquisitions and disposals**	**Organic movement**	**First Half F15 Reported**	**Reported movement %**
Net sales	1,560	(92)	(5)	(4)	1,459	(6)
Marketing spend	231	(12)	-	6	225	(3)
Operating profit before exceptional items	509	(31)	(1)	3	480	(6)
Exceptional items	-				(4)	
Operating profit	509				476	(6)

Markets and categories:

	Organic volume movement(a) %	**Organic net sales movement %**	**Reported net sales movement %**
Europe	(1)	-	(6)
Western Europe	(1)	-	(4)
Russia and Eastern Europe	(8)	(12)	(25)
Turkey	5	11	(1)
Spirits (b)	(1)	-	(8)
Beer	-	-	(4)
Wine	4	2	(3)
Ready to drink	(5)	2	-

Global giants and local stars (b):			
Guinness	(2)	(1)	(4)
Johnnie Walker	(10)	(13)	(20)
Smirnoff	(3)	(5)	(8)
Yenì Raki	(2)	10	(2)
Baileys	(3)	(4)	(10)
J B	(2)	(5)	(10)
Captain Morgan	7	6	(2)

(a) Organic equals reported movement for volume

(b) Spirits brands excluding ready to drink.

- **Western Europe** net sales were broadly flat as the performance of individual markets continued to reflect the mixed economic recovery across Europe.
- In **Great Britain,** net sales increased 2% with 2pps of positive price/mix, driven by strong growth of ready to drink and reserve brands. Innovation, including the launches of Haig Club and Cîroc Amaretto, and increased consumer focused activations such as the Global World Class Finals in London last summer and the London cocktail week, were the main drivers of the 50% net sales growth in reserve brands. In the more price competitive standard segment, Captain Morgan and Baileys performed well with net sales up 6% and 2% respectively. Smirnoff net sales were flat, as it lapped the launch of Smirnoff Gold last year but with good performance from Smirnoff Red, which was up 3% and gained share. Net sales in beer were down 2% as Guinness was impacted by weakness in the on trade, however it maintained share. Ready to drink net sales were up 23% principally driven by Captain Morgan Original Spiced, Gordon's & Tonic and Gordon's Slimline & Tonic.

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- In **Ireland,** net sales declined 2%, largely driven by the transfer of sales of wines to Diageo Wines Europe which was worth 2pps of growth. Guinness net sales were up 1%, growing after more than six years of decline. The growth came from increased focus on execution in the on trade, partially offset by softness in spirits following last year's duty increase.
- In Southern Europe, net sales declined 1% with 0.5pps of positive price/mix. While still a challenging trading environment, the performance in these countries has improved, as Italy and Greece were in growth and the decline in Spain moderated to 2%. In Spain, category performance was mixed with Tanqueray and Smirnoff net sales up 24% and 7% respectively, however largely offset by a soft performance of Johnnie Walker. Reserve brands performed well and net sales grew double digit with a strong performance from scotch malts, Cîroc, which nearly trebled in Italy, and Zacapa.
- Net sales in **Germany and Austria** declined 13%. In Germany, net sales were down 9% largely driven by commercial negotiations and the transfer of sales of Yenì Raki to Mey İçki, which was worth 5pps of growth. Scotch net sales declined 12% due to Johnnie Walker Black Label performance lapping a year of upweighted marketing investments. In Austria, performance was impacted by the comparison against the prior period which saw forward buying ahead of the January 2014 duty increase.
- In **France** net sales increased 2%, driven by a good performance in scotch malts and reserve brands. Smirnoff and Baileys were impacted by a competitive pricing environment and both net sales declined 7%, while Captain Morgan continued to perform well and doubled its net sales following its successful launch last year.
- Net sales in **Benelux** decreased 12% mainly driven by price realignment in Johnnie Walker and Smirnoff with both brands gaining share.
- **Diageo Wines Europe** net sales increased 7%, driven by strong growth in [yellow tail], expansion in other countries and the transfer of sales of wines from Diageo Ireland, which was worth 2pps of growth. Blossom Hill net sales were down 1% as it lapped prior year strong promotional activities.
- The consumer environment in **Russia and Eastern Europe** has been severely impacted by the economic and political events there and net sales declined 12%. Scotch, Diageo's largest category in Russia, was hardest hit and declined 17%, although Johnnie Walker Red Label maintained its leadership position in standard scotch, and White Horse gained share. Locally produced innovations, Rowson's Reserve, an Irish whiskey drink, and Shark Tooth, which competes in rum, were successful with distribution gains and strong rates of sales, and Shark Tooth is now the third largest brand in the category in its second year in the market. In Poland, net sales declined 18% as there was forward buying before an excise duty increase in the comparable period. Johnnie Walker regained its leadership position in whisk(e)y, but net sales declined 24% and while depletions stabilised, Smirnoff Black was down 35%. In Eastern Europe the conflict in Ukraine and route to market disruptions in Kazakhstan and Azerbaijan led to double digit net sales decline on Johnnie Walker Red Label and Baileys. This was partially offset by the strong performance of Captain Morgan across Eastern Europe resulting in a net decline of 7%.
- Net sales in **Turkey** were up 11%, driven by raki and included the transfer of sales from the German former distributor to Mey İçki which was worth 2pps of growth. Yenì Raki continued to drive premiumisation with Yenì Seri in the premium segment and Yenì Raki Ala in the super premium segment, recruiting consumers through perfect serve trade activations and limited edition innovations. Tekirdağ gained share and a new ultra premium variant, Tekirdağ No: 10, was launched to reinforce the upper end of Diageo's raki range. The lower priced raki portfolio reached its highest market share in three years, driven by distribution gains and consumption shifting to lower priced tiers following excise duty increases. Diageo's International spirits continued to gain share with Johnnie Walker and the whiskey portfolio up 50 and 130 basis points respectively.
- Marketing spend in the region increased 3% largely driven by increased spend in Western Europe, up 4%, focused on innovations, including the launch of Haig Club, and reserve brands. In Russia and Eastern Europe, marketing spend declined 4%, reflecting the challenging macroeconomic environment, and spend was focused on driving penetration, awareness and trial as opposed to image building, with accelerated spend in digital. In Turkey, marketing spend declined slightly as the mix of programmes changed following the introduction of greater restrictions in advertising legislation and spend was also cut from non-core categories such as wine and re-directed to higher priorities such as

raki and scotch initiatives.

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Africa

"Our overall performance in Africa has improved, with net sales up 5%. We have begun to lap the excise duty change on Senator in Kenya in the half, performance in our Africa Regional Markets has improved as beer in Ghana and Cameroon is in good growth, we have delivered strong growth in spirits in Angola as a result of improved route to consumer and our performance in Nigeria improved. Nigeria remains a challenging market, though, as consumers continue to trade down into value beer. However, the successful launch of Orijin and the improved performance of Satzenbrau drove growth in beer despite softness in other brands and destocking. In South Africa Smirnoff 1818 and Johnnie Walker delivered very strong performances. Spirits in Africa were up 19% with double digit growth in every market, driven by both mainstream international spirits and our strong local spirits brands. Across Africa we have continued to build our route to consumer and invested in our brands, with marketing spend up 12%, driven by the global Guinness platform 'Made of More' and our latest execution 'Made of Black'. Reserve has gone from strength to strength with net sales up 25% and we have driven out costs from all of our markets. Operating margin however was down 26 basis points. Mix in South Africa and price and mix in East Africa drove margin improvement in these two markets, but margin declined in Nigeria and despite strong margin expansion in Ghana and Angola, net sales declines in other countries in Africa Regional Markets eroded margin for that market."

Key financials £ million:

	First half F14 Reported	**Exchange**	**Acquisitions and disposals**	**Organic movement**	**First half F15 Reported**	**Reported movement %**
Net sales	774	(67)	-	39	746	(4)
Marketing spend	81	(5)	-	9	85	5
Operating profit before exceptional items	188	(20)	-	7	175	(7)
Exceptional items	(2)				(1)	
Operating profit	186				174	(6)

Markets and categories:

	Organic volume movement(a) %	**Organic net sales movement %**	**Reported net sales movement %**
Africa	9	5	(4)
Nigeria	14	1	(6)
East Africa	7	11	5
Africa Regional Markets	15	16	(3)
South Africa	2	(6)	(16)
Spirits (b)	25	19	9
Beer	1	5	(4)
Ready to drink	(37)	(32)	(38)

Global giants and local stars (b):			
Guinness	(9)	(11)	(19)
Malta	(12)	(15)	(26)
Johnnie Walker	19	15	8
Smirnoff	21	18	6
Tusker	(3)	13	7
Harp	(39)	(52)	(55)
Senator	(28)	(33)	(36)

(a) Organic equals reported movement for volume.
(b) Spirits brands excluding ready to drink.

In **Nigeria,** volume and net sales were up driven by the national launch of Orijin, for which extra capacity has been introduced to support growth, but performance of the beer portfolio remained relatively flat as the stout category continued to lose share to lager which impacted Guinness. Value lagers outperformed the mainstream and premium segments, which benefitted Satzenbrau but exacerbated pricing issues and the planned destocking of Harp. While spirits net sales were up 29% in total, driven by strong local spirits performance, international spirits net sales declined by approximately a third as a result of a strategic decision to reduce inventory levels in the market.

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- **East Africa's** performance, with volume and net sales up 7% and 11% respectively was driven by robust performances in both beer and spirits. Double digit net sales growth of both Tusker and Guinness for East Africa, along with value offerings Balozi in Kenya and Kibo Gold in Tanzania, more than offset the continued decline of Senator that resulted from excise duty changes in the comparable period and accounted for 5pps of net sales growth. Spirits net sales growth was driven by Kane Extra and Johnnie Walker, which benefitted from increased distribution and new 'Tavern Packs' which combine 20 cl pack sizes of Red Label with ginger beer and a cup and are targeted at premium pubs and mainstream outlets that previously did not stock the brand.
- In **Africa Regional Markets** net sales grew 16%. Spirits performance in Angola recovered with the implementation of a new route to consumer strategy and the appointment of a new distributor. In Ghana, Malta also benefitted from an improved route to consumer, along with a new advertising campaign and new packaging launched in the previous fiscal year that have driven 2.4pps of share gains. Spirits in Ghana also performed well, up over 50%, driven by Johnnie Walker and Baileys. Both beer and spirits in Cameroon were key drivers of performance, with share gains from Harp, a resilient Guinness performance despite short term supply constraints and Johnnie Walker which more than doubled net sales. In the rest of Africa Regional Markets, the strong net sales growth of Malta was offset by the decline of Meta in Ethiopia in an increasingly competitive pricing environment.
- In a challenging economic environment, net sales in **South Africa** were down 6%. This was driven by Smirnoff Ice Double Black and Guarana as the brand lapped very strong net sales and high stock levels in the comparable period, and transferred to DHN in the second quarter of this fiscal year. The underlying performance of the business was driven by spirits, notably Smirnoff 1818, which was up 23% with new packaging and sampling programmes. Johnnie Walker also delivered a strong performance with Black Label and Red Label net sales up 13% and 17% respectively, supported by the 'King of Flavours' and 'Johnnie and Ginger' campaigns that focus on quality and liquid credentials.
- **Marketing spend** in Africa increased 12%. Net sales of spirits was up 19% supported by a double digit increase in investment driven by South Africa where spend was significantly upweighted on vodka, both Smirnoff 1818 and Cîroc, as well as scotch and local spirits in East Africa. A marketing services agreement with the new distributor in Angola drove spirits marketing spend efficiencies. Spend on beer was up 6% as investments on Guinness and the 'Made of More' platform increased 20%, and Orijin was rolled out nationally in Nigeria.

Latin America and Caribbean

"In LAC we have delivered a good performance across the domestic business while the the border business remains challenging. Currency volatility continues to impact underlying demand in the border trade and therefore inventory levels reduced to reflect this. Together with reduced imports into Venezuela, this has impacted net sales of our scotch brands which were down 7% in the half. A strong contribution from our domestic markets mitigated the impact on net sales. In Venezuela, the actions we are taking to maximise our import and local portfolios, given limited access to foreign exchange, delivered net sales growth. In Brazil, our decision to harmonise interstate price variances and our continued work on route to consumer led to inventory reduction in the distributor channel, the impact of which was partially offset by price increases. Performance in Colombia was strong with share gains, and in Mexico the strength of our scotch portfolio delivered good growth. Chile, Peru and Jamaica benefitted from our route to consumer interventions and all delivered good growth. A reduction in overheads, particularly in Venezuela, led to an operating margin increase of 2.3 percentage points for the region."

Key financials £ million:

	First half F14 Reported	Exchange	Acquisitions and disposals	Organic movement	First Half F15 Reported	Reported movement %
Net sales	900	(277)	-	(4)	619	(31)
Marketing spend	123	(16)	-	3	110	(11)
Operating profit before exceptional items	386	(192)	-	13	207	(46)
Exceptional items	(1)				(4)	
Operating profit	385				203	(47)

Markets and categories:

	Organic volume movement(a) %	Organic net sales movement %	Reported net sales movement %
Latin America and Caribbean	(10)	(1)	(31)
PUB	(9)	-	(7)
Venezuela	(44)	6	(79)
Colombia	10	12	2
Mexico	4	7	-
West LAC	(11)	(11)	(17)
Spirits (b)	(11)	(4)	(34)
Beer	8	19	7
Wine	(14)	(3)	(29)
Ready to drink	2	30	(10)

Global giants and local stars (b):

Johnnie Walker	(13)	(10)	(24)
Buchanans	(13)	(4)	(50)
Old Parr	(8)	(12)	(47)
Smirnoff	(11)	18	-
Ypióca	(7)	(5)	(12)
Baileys	(5)	3	(13)

(a) Organic equals reported movement for volume.
(b) Spirits brands excluding ready to drink.

- Net sales in **Paraguay, Uruguay and Brazil (PUB)** were flat as price increases in Brazil partially offset volume decline as Diageo's strategy to address interstate tax variances and to reduce commercial discounts together with route to consumer initiatives reduced stock levels held by distributors. Net sales of Johnnie Walker were down 11% as competitor pricing activity in the off trade increased Johnnie Walker Red Label's price premium over competitor brands. Old Parr and White Horse performed well up 18% and 28% respectively and gained share following acceleration of recruitment platforms in the on trade and media campaigns. Net sales growth in vodka was driven by Smirnoff, up 23% following price increases and ready to drink net sales increased 22% following the launch of Smirnoff Ice Green Apple. Net sales of the Ypióca brand, which declined 5%, were affected by a change in distribution and a decline in flavours. While the brand has performed strongly in its core region, last year coverage was expanded to new areas and changes were made to distribution for that roll out which impacted performance in the half.

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- In **Venezuela**, the impact of high inflation together with restrictions on imported goods led to scotch volume declining 40% and net sales declining 13%. The strong performance of local brands led to total net sales increasing 6%, despite a shortage of glass impacting volumes. Price increases on Cacique rum resulted in net sales growing 39% supported by strong equity scores and trade activations, while Gordon's Vodka gained share supported by the 'Vive Simple, Vive Gordon's' campaign led to an increase in net sales of 215%, albeit off a small base. Reserve brands increased 84% predominantly driven by Johnnie Walker super premium variants and Buchanan's Special Reserve.
- Net sales in **Colombia** increased 12% as Diageo's brands gained share with the expansion of the route to consumer programme. Within scotch, Old Parr grew 19% benefitting from the launch of Old Parr Tribute and Buchanan's delivered 13% growth with a strong contribution from Buchanan's Special Reserve. Johnnie Walker net sales were flat following price repositioning during the half, however share gains were made across all variants following consumer events and trade activations.
- **Mexico** delivered 7% net sales growth driven by the strong performance of scotch. Johnnie Walker Red Label drove 40% of the overall growth benefitting from great visibility with the 'Keep Walking Mexico' campaign and digital activations. This was the main contributor to total Johnnie Walker net sales up 8%. The introduction of Black & White supported by the Buchanan's family connection resulted in net sales growth of 70% and the brand gained 4.1pps of share.
- Net sales in **West LAC** declined 11% driven by further market contraction in the border zones, down 50%, as a result of currency volatility. In the domestic markets net sales grew 4% with strong contributions from Peru, Chile and Jamaica. In Peru net sales grew 20% with strong contributions from across the Johnnie Walker portfolio and Baileys following the introduction of the Dulce de Leche flavour variant. Standard scotch brands, including White Horse and Johnnie Walker Red Label along with Pampero, contributed to 8% net sales growth in Chile and in Jamaica strong consumer campaigns on Red Stripe along with the introduction of new formats led to net sales growth of 14%, which together with a good performance of Guinness in West LAC led to the beer category growth in the region. There was also good net sales growth in Costa Rica and Venture Central America.
- An increase in **marketing spend** of 3% supported the expansion of brand portfolios in the region. Smirnoff spend increased behind the new global positioning and distribution expanded in Brazil, Mexico and Chile. Scotch spend was focused on Old Parr in Colombia and the launch of Old Parr Tribute, Johnnie Walker Black Label and Red Label in Mexico and Colombia. Elsewhere spend also increased on Red Stripe driving greater consumer engagement around the football platform and to maintain Cacique's leading position in Venezuela.

Asia Pacific

"Performance for Asia Pacific reflects inventory reductions and a tough comparison against high shipments in South East Asia last year, and weakness in scotch in China. Elsewhere, North Asia, Taiwan, India and GTME delivered growth and Australia's performance improved, led by innovation in the ready to drink segment. Innovation contributed significantly to the region's net sales performance, with the high profile launch of Haig Club in South East Asia, Korea, China and GTME an important driver of this. Our reserve performance was good, up 7%, with 36% growth of the reserve scotch malts, and all markets except South East Asia grew their reserve portfolio double digit. The weaker top line and cost inflation has impacted margin and despite cost efficiencies, gross margin was down. Marketing spend is lower as a result of reduced spend in China and South East Asia. We have reviewed our investment priorities in these markets to improve returns while also supporting long term growth drivers, such as the premiumisation of scotch and expanding scotch to new consumer occasions in China, and upweighted investment behind Johnnie Walker Red Label in Thailand to encourage consumers to step up to international brands from beer and local spirits. We have also invested to extend our coverage and influence through route to consumer interventions in a number of markets, and as a result overheads for the region increased, with operating margin down 50 basis points."

Key financials £ million:

	First half F14 Reported	**Exchange**	**Acquisitions and disposals**	**Organic movement**	**First Half F15 Reported**	**Reported movement %**
Net sales	752	(26)	479	(39)	1,166	55
Marketing spend	170	(6)	28	(24)	168	(1)
Operating profit before exceptional items	193	(4)	39	(14)	214	11
Exceptional items	-				(147)	
Operating profit	193				67	(65)

Markets and categories:

	Organic volume movement(a) %	**Organic net sales movement %**	**Reported net sales movement %**
Asia Pacific	(8)	(5)	55
South East Asia	(31)	(31)	(33)
Greater China	(20)	(3)	(7)
India	12	6	1690
Global Travel Asia and Middle East	13	12	11
Australia	(4)	(1)	(6)
North Asia	1	4	1
Spirits (b)	(7)	(7)	69
Beer	(9)	(4)	(11)

Ready to drink	1	8	1
Global giants and local stars (b):			
Johnnie Walker	(16)	(17)	(19)
Windsor	(4)	(2)	(2)
Smirnoff	(4)	(12)	(15)
Guinness	(8)	(2)	(9)
Bundaberg	(21)	(17)	(22)
Baileys	(2)	(11)	(15)

(a) Organic equals reported movement for volume except for Asia Pacific 622%, India 6,707% and spirits 723%, reflecting the full consolidation of USL.

(b) Spirits brands excluding ready to drink.

In **South East Asia** net sales were down, as wholesale channels which accounted for 31% of South East Asia's net sales in the same period last year, saw a decline of over 80%. This decline was as a result of the comparison against the prior period when increased shipments were followed by a period when currency weakness led to a significant reduction in underlying demand. This resulted in higher inventory levels which have now partially reduced. Performance in these channels was also impacted by the transfer of net sales, relating to Indian travel retail customers, to the Global Travel Asia business. In Thailand, net sales declined 13%, lapping a strong first quarter last year when the impact of the excise duty increase and political unrest were not yet affecting performance. The rate of decline in Thailand slowed in the second quarter. In Indonesia, the beer category declined and Guinness was impacted by consumers trading down to value beer and in Vietnam, net sales declined double digit largely due to pressures on household income and later timing of TET in 2015.

In **Greater China**, international brands represented 81% of Diageo's net sales in the half, with Taiwan contributing half of this and following the significant decline of Shuijingfang last year, baijiu now accounts for 19%. Net sales performance in the second quarter reflected the improved performance of Shuijingfang, up 25%, benefitting from weak performance in the comparable period and the performance of Master Distiller's No.8 which competes in the premium baijiu segment. Shuijingfang volumes declined due to lower bulk sales and this was the main driver of positive price/mix for Greater China. In mainland China, scotch was down 22% as the effects of the government's anti extravagance measures persist. Closure of traditional on trade outlets, leading to increased brand competition in the modern on trade, significantly impacted Johnnie Walker Black Label as did a reduction in wholesaler inventory levels. Lower demand for super premium variants impacted Johnnie Walker Blue Label and other ultra premium variants. Despite the challenging environment in China, Diageo grew share in premium scotch and super premium and above scotch with the launch of Haig Club and growth of scotch malts contributing to this. In Taiwan, net sales were up 5% driven by continued success of The Singleton which grew its share of whisky.

Diageo India continued to grow, driven by category growth and share gains across scotch and vodka, as the business benefitted from the sales promotion agreement in place with USL since October 2013. Johnnie Walker Black Label and Double Black led growth, supported by the marketing campaign 'Johnnie Walker the Journey', on trade activations and limited edition packs. Smirnoff also gained share benefitting from the first marketing campaign for the brand in India, 'Unfake It', and momentum in the flavoured vodka category.

Global Travel Asia and Middle East net sales grew 12%, with 5pps of growth coming from the transfer of sales for some Indian travel retail customers from the South East Asia market. Johnnie Walker Black Label and Double Black led the growth supported by increased marketing spend and gift with purchase promotions. Johnnie Walker Blue Label, scotch malts, especially Mortlach, and the launch of Haig Club further contributed to a 14% net sales growth in scotch and increased share. Growth in travel retail was tempered by the geo political environment in the Middle East, which led to softness in domestic markets.

Australia net sales were down 1%, with 8% growth of ready to drink driving improved performance. While the ready to drink segment continued to decline and traditional premix offerings such as Bundaberg & Cola and Johnnie Walker & Cola were most impacted as increased excise duty adversely impacted the price relative to beer, this was more than offset by innovations in the segment targeted at wine occasions, including the launch of Smirnoff frozen pouches, Smirnoff flavours and Gordon's 500ml. This performance and a price increase within the segment drove positive price/mix for the market. In spirits, Captain Morgan performed strongly with net sales up 61% and share gains of 2.8pps. Captain Morgan is now the number 2 rum behind Bundaberg and this growth was supported by a significant increase in marketing spend focused on sampling to drive trial. However, increased pressure on prices led to a decline in spirit net sales of 7%, with Smirnoff and Bundaberg particularly impacted.

North Asia net sales grew 4%, with Guinness up 34% in Korea as it grew share following the introduction of the 'Made of More' campaign, in store promotions and expanded outlet coverage. Innovation also contributed to growth, with the performance of Windsor Black and Haig Club driving growth of scotch in Korea and the launch of Smirnoff Ice flavours driving growth in ready to drink in Japan and Korea. Decline of whisk(e)y in Japan partially offset this growth, as Johnnie Walker Red Label was impacted by the brand's price premium to competitors and as a result of the decline of I.W. Harper.

· **Marketing spend** decreased 15%, with a significant reduction in Shui Jing Fang investment and lower spend in international spirits in China and South East Asia. In mainland China, the 20% reduction in marketing spend for Johnnie Walker reflects optimised spend in the modern on trade to improve profitability, and a repositioning of some of this spend to launch Johnnie Walker Double Black and to test new campaigns in the more profitable off trade channel to build new occasions for scotch. Marketing spend in China was also focused on Johnnie Walker Blue Label and the Johnnie Walker Houses with the Johnnie Walker Blue Label 'White Tiger' media campaign and mentoring programme and the addition of the Johnnie Walker House in Chengdu. In South East Asia, while marketing spend reduced in response to slowing demand, the percentage decline was lower than the net sales decline as the business continued to invest to maintain brand equity and capture sales in the festive season. Ready to drink benefitted from increased marketing spend, supporting the excise duty led price increase and ready to drink innovations in Australia and the earlier phasing of Smirnoff Ice media in Japan to support the launch of new Smirnoff flavour variants in the peak season. Investment was prioritised to Haig Club in launch markets.

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Corporate

Key financials £ million:

	First half F14 Reported	Exchange	Acquisitions and disposals	Organic movement	First Half F15 Reported	Reported movement %
Net sales	42	(2)	-	3	43	2
Marketing spend	5	-	-	(1)	4	(20)
Operating profit before exceptional items	(67)	-	-	11	(56)	16
Exceptional items	-				(7)	
Operating profit	(67)				(63)	6

CATEGORY AND BRAND REVIEW
For the six months ended 31 December 2014

Key categories:

	Organic volume movement(a) %	Organic net sales movement %	Reported net sales movement %
Spirits (b)	**(2)**	**(1)**	**1**
Scotch	(5)	(6)	(19)
North American whiskey	1	3	1
Vodka	(1)	4	1
Rum	(6)	(2)	(14)
Liqueurs	(5)	(6)	(11)
Tequila	32	35	22
Gin	7	7	2
Beer	**-**	**2**	**(4)**
Ready to drink	**(10)**	**(1)**	**(12)**
Wine	**1**	**-**	**(4)**
Total	**(2)**	**-**	**(1)**

(a) Organic equals reported movement for volume except for total 59%, spirits 74%, ready to drink (14)%, liqueurs (5)%, and tequila (35)%, largely reflecting the full consolidation of USL and the termination of agency brand distribution agreements, including Jose Cuervo.

(b) Spirits brands excluding ready to drink.

Global giants, local stars and reserve (b):

	Organic volume movement(a) %	Organic net sales movement %	Reported net sales movement %
Global giants			
Johnnie Walker	(9)	(12)	(18)
Smirnoff	(3)	(3)	(7)
Captain Morgan	(2)	(4)	(7)
Baileys	(4)	(5)	(10)
Tanqueray	9	12	9
Guinness	(4)	(4)	(9)
Local stars			
Crown Royal	1	(1)	(2)
Yenì Raki	(2)	10	(3)
J B	(2)	(5)	(10)
Buchanan's	(3)	5	(38)
Windsor	(4)	(1)	(1)
Old Parr	(11)	(14)	(47)
Bundaberg	(21)	(17)	(22)
Bells	(4)	(4)	(15)
White Horse	4	(3)	(21)
Ypioca	(6)	(3)	(11)
Cacique	(45)	8	(63)
Shui Jing Fang	170	101	96
Reserve			
Scotch malts	8	10	5
Cîroc	27	27	26
Ketel One vodka	(2)	(1)	(2)
Don Julio	16	21	19
Bulleit	44	57	55

(a) Organic equals reported movement for volume.

(b) Spirits brands excluding ready to drink. See page 47 for a description of brands categorized by Diageo as global giants, local stars and reserve.

- Global giants represent 30% of Diageo's net sales.

- **Johnnie Walker's** net sales and volume decline was largely driven by currency related inventory reductions in South East Asia and the border zones in West LAC, but it was also impacted by the challenging environment in Russia and Eastern Europe, and the lapping of strong innovation shipments in the United States. Elsewhere the brand performed well. In Africa net sales were up double digit as Johnnie Walker more than doubled in Angola and delivered strong growth in other African countries, including South Africa where Johnnie Walker Red Label was up 17%. In Western Europe, soft performance in Spain and Benelux was partially offset by growth of 8% in Great Britain driven by the performance of Johnnie Walker Black and Blue Label.

- **Smirnoff** net sales declined 3% largely driven by the lapping of high shipments in the prior period in the United States. However, the relaunch of the brand with new packaging and the marketing campaign 'Exclusively for Everybody' and targeted price promotions improved the performance of Smirnoff Red, which gained 0.2pps of share. In Western Europe the brand was impacted by price realignment in Benelux, however it performed well in other countries including Great Britain where Smirnoff Red gained 1.7pps of share. Net sales were down in Australia, due to increased price pressure, but up double digit in Latin America, with a strong performance in Brazil, where net sales grew 24% driven by the launch of the new marketing campaign 'Cheers to Real Life', and in Africa, where net sales of Smirnoff 1818 in South Africa were up 23%.
- **Captain Morgan** net sales were down 4% largely driven by the performance of the brand in the United States where it suffered from increased competition in the spiced rum category and lapped the launch of Captain Morgan White Rum last year. Captain Morgan White Rum is performing well as it gained share in the United States and was also launched in Mexico, with further roll outs planned in the second half. In Great Britain, Captain Morgan net sales grew 6% and the brand gained 1.2pps of share. In Australia, the brand grew net sales 61% as a result of strong consumer sampling activities.

- **Baileys** net sales declined 5% as the brand entered the year with high inventory levels and saw softer depletions in the United States, Greater China and Nigeria. In Western Europe, net sales declined 4% as the brand lapped successful innovation launches in the prior period, however brand equity scores remain strong supported by the launch of the 'Here's to Us' campaign, celebrating the spirit of women.
- **Tanqueray** net sales were up 12% with 3pps of positive price/mix, driven by strong double digit growth across Western Europe, particularly Spain and Great Britain. The 'Tonight we Tanqueray' campaign supported the performance of Tanqueray 10, with net sales up double digit in nearly every region.
- **Guinness** net sales declined 4% primarily driven by weakness in Nigeria where consumers continued to trade down into value lager. The brand performed well in Africa Regional Markets and Kenya where net sales grew double digit driven by an increased focus on trade visibility. In Great Britain the brand maintained share in a competitive beer category and in Ireland net sales were up 1% and Guinness gained share supported by the 'Made of More' campaign. In the United States, net sales were up 1% driven by the successful launch of Guinness Blonde American Lager.

- **Local stars** represent 16% of Diageo's net sales. Performance was mixed with net sales broadly flat. Growth from Buchanan's, which continued to outperform the category in the United States, and Yenì Raki in Turkey was offset by net sales decline of Old Parr in the border zones in West LAC, while in Venezuela, high inflation and import restrictions impacted demand of imported spirits, led to strong double digit growth of our local portfolio . In Asia Pacific improved performance in baijiu was partially offset by net sales decline from Bundaberg in Australia.

- **Reserve brands** continued to perform well and net sales grew 10%, driven by the successful launch of Cîroc Pineapple in the United States, the strong performance of Bulleit, which outperformed the category and continued to gain share, and the double digit growth of scotch malts. Zacapa also continued to perform well with net sales growth in every region, while net sales in Ketel One vodka declined 1% as the brand was impacted by pricing pressure in the United States. The recent launch of Haig Club also brought new momentum to the reserve portfolio accessing new consumers and occasions in the markets where it was launched. Don Julio net sales grew 21% and the brand continued to gain share in the fast growing super premium tequila category in the United States.

Other Key Highlights

- **Spirits** represent 72% of Diageo's net sales, with net sales down 1% largely driven by inventory reductions in South East Asia and the border zones in West LAC and the challenging environment in Russia and Eastern Europe.
- **Scotch** represents 26% of Diageo's net sales. Performance was strong in Africa, where net sales were up double digit, however the category was impacted by the inventory reductions in South East Asia and West LAC and overall net sales declined 6%. Johnnie Walker's performance was soft, while Buchanan's in the United States, scotch malts, Haig Club and The Singleton all performed strongly.
- **North American whiskey** represents 6% of Diageo's net sales and grew 3%, delivering 1.6pps of positive price/mix. The performance was mostly driven by Bulleit with net sales up 57%. Crown Royal net sales declined 1% as it lapped innovation launches in the comparable period last year, partially offset by the successful launch of Crown Royal Regal Apple.
- **Vodka** represents 13% of Diageo's net sales and grew 4%, delivering 5.4pps of positive price/mix, mainly driven by the strong performance of Cîroc in the United States, Africa and Western Europe. In the United States, the successful launch of Cîroc Pineapple supported by increasing marketing investment, partially offset a soft performance by Smirnoff.

- **Beer**, which represents 17% of Diageo's net sales, grew 2% and delivered 2.1pps of positive price/mix. Beer in Africa was up 5% driven by an improved performance in Africa Regional Markets and a double digit growth of Tusker and Guinness in East Africa. In Nigeria the successful launch or Orijin offset the decline of Harp and Guinness. Elsewhere performance of Guinness was good with improvement in Ireland and DGUSA, driven by the launch of Guinness Blonde American Lager.
- **Ready to drink** represents 5% of Diageo's with net sales down 1% as the impact of the fall in production volumes of Smirnoff Ice Double Black and Guarana in South Africa was partially offset by growth in Australia, largely driven by innovation, and also positive performance of Smirnoff Ice in Brazil and Kenya. In Great Britain, net sales were up 23% driven by good performance of ready to drink cans and pouches.
- **Wine** represents 4% of Diageo's net sales and was broadly flat. In the United States, net sales grew 2% mainly driven by innovation and growth in the premium segment. In Western Europe, net sales grew 1%, driven by good performance in [yellow tail].

ADDITIONAL FINANCIAL INFORMATION

For the six months ended 31 December 2014

INCOME STATEMENT

	31 December 2013	Exchange (a)	Acquisitions and disposals (b)	Organic movement	**31 December 2014**
	£ million	£ million	£ million	£ million	**£ million**
Sales	8,014	**(637)**	**1,225**	**122**	**8,724**
Excise duties	(2,082)	**149**	**(762)**	**(129)**	**(2,824)**
Net sales	5,932	**(488)**	**463**	**(7)**	**5,900**
Cost of sales*	(2,184)	**129**	**(359)**	**(4)**	**(2,418)**
Gross profit	3,748	**(359)**	**104**	**(11)**	**3,482**
Marketing	(903)	**43**	**(35)**	**(1)**	**(896)**
Other operating expenses*	(785)	**48**	**(35)**	**25**	**(747)**
Operating profit before exceptional items	2,060	**(268)**	**34**	**13**	**1,839**
Exceptional operating items (c)	(20)				**(171)**
Operating profit	2,040				**1,668**
Non-operating items (c)	138				**98**
Net finance charges	(225)				**(239)**
Share of after tax results of associates and joint ventures	181				**113**
Profit before taxation	2,134				**1,640**
Taxation	(388)				**(276)**
Profit from continuing operations	1,746				**1,364**
Discontinued operations (c)	(92)				**-**
Profit for the period	1,654				**1,364**

* before exceptional operating items

(a) Exchange

The impact of movements in exchange rates on reported figures is principally in respect of the Venezuelan bolivar, the Russian rouble and the euro.

In March 2014, the Central Bank of Venezuela opened the Second Ancillary Foreign Currency Administration System (Sicad II) that allows private and public companies to trade foreign currency at a higher exchange rate than the official exchange rate. As a result, the group has applied Sicad II exchange rate to consolidate its Venezuelan operations for the year ended 30 June 2014 ($1 = VEF49.98; £1 = VEF85.47). Applying the consolidation rate of $1 = VEF49.99 (£1 = VEF77.98) at 31 December 2014 compared to the rate of $1 = VEF9 (£1 = VEF14.94) at 31 December 2013 reduced the net assets and cash and cash equivalents as at 31 December 2014 by £583 million and £404 million, respectively. The impact of applying the consolidation rate for the six months ended 31 December 2014 would have reduced the previously reported net sales and operating profit for the six months ended 31 December 2013 by £237 million and £183 million, respectively.

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The effect of movements in exchange rates, associated finance charge movements and mark to market impact on interest expense on profit before exceptional items and taxation for the six months ended 31 December 2014 is set out in the table below.

	Gains/ (losses) £ million
Translation impact	**(221)**
Transaction impact	**(47)**
Operating profit before exceptional items	**(268)**
Net finance charges – translation impact	**(1)**
Mark to market impact of IAS 39 on interest expense	**5**
Impact of IAS 21 and IAS 39 on net other finance charges	**1**
Interest and other finance charges	**5**
Associates – translation impact	**(11)**
Profit before exceptional items and taxation	**(274)**

	Six months ended 31 December 2014	Six months ended 31 December 2013
Exchange rates		
Translation £1 =	**$1.61**	$1.60
Transaction £1 =	**$1.58**	$1.58
Translation £1 =	**€1.26**	€1.18
Transaction £1 =	**€1.24**	€1.23

(b) Acquisitions and disposals

The impact of acquisitions and disposals on the reported figures was primarily attributable to the acquisition of United Spirits Limited (USL).

(c) Exceptional items

Exceptional operating charges of £171 million (2013 – £20 million) in the six months ended 31 December 2014 comprise:

- £18 million (2013 – £nil) in respect of the Global efficiency programme announced in January 2014;
- £11 million (2013 – £3 million) in respect of the Supply excellence restructuring programme;
- a gain of £3 million (2013 – charge of £17 million) arising from a property sale in respect of the restructuring of the group's supply operations; and
- £145 million (2013 – £nil) representing an estimate of the income statement charge for the settlement cost of several related disputes with the Korean customs authorities regarding the transfer pricing methodology applicable to

imported spirits. Payments to be made pursuant to settlement of these related disputes will be reduced by £88 million which was paid to the customs authorities prior to 30 June 2014, and was previously accounted for as a receivable from Korea customs.

In the second half of the year an exceptional operating charge of approximately £80 million is expected to be incurred primarily in respect of the Global efficiency and Supply excellence programmes.

Non-operating items in the six months ended 31 December 2014 include a gain of £103 million (2013 – gain of £140 million) following the acquisition of additional equity shares in USL which increased the group's investment in USL from 25.02% to 54.78% excluding the 2.38% interest owned by the USL Benefit Trust (2013 – 10.04% to 25.02%). As a result of USL becoming a subsidiary of the group a gain is recognised on the difference between the book value of the 25.02% investment and the market value on the acquisition of the controlling stake on 2 July 2014. The gain includes a £79 million cumulative exchange loss recycled from other comprehensive income and £10 million of transaction costs.

Exceptional non-operating items comprise transaction costs of £5 million (2013 – £nil) in respect of the expected disposal of Bushmills.

Discontinued operations in the six months ended 31 December 2013 represent a charge after taxation of £92 million in respect of the settlement of the thalidomide litigation in Australia and New Zealand and anticipated future payments to thalidomide organisations.

Cash payments in the six months ended 31 December 2014 in respect of exceptional restructuring items and thalidomide were £62 million (2013 – £41 million) and £8 million (2013 – £2 million), respectively. Cash expenditure on exceptional restructuring items in the second half of the year is expected to be approximately £120 million.

(d) Dividend

An interim dividend of 21.5 pence per share will be paid to holders of ordinary shares and ADRs on the register as of 27 February 2015. This represents an increase of 9% on last year’s interim dividend. The interim dividend will be paid to shareholders on 7 April 2015. Payment to US ADR holders will be made on 10 April 2015. A dividend reinvestment plan is available to holders of ordinary shares in respect of the interim dividend and the plan notice date is 12 March 2015.

Diageo's dividend philosophy has been a consistent increase in the annual dividend payable while maintaining dividend cover between 1.8 and 2.2 times earnings per share. In recent years this has allowed the group to increase its dividend by 9% a year. Given the economic slowdown in emerging markets and the associated currency weakness expected in the future both of which had such a significant impact on Diageo’s reported results in the year ended 30 June 2014, the group’s dividend coverage ratio is now below the lower end of the range set. However cash flow is improving as these results show and the strength of the dollar is providing some offset to emerging market currency weakness. Therefore the interim dividend growth was maintained at 9%, but this will be reviewed for the full year and if necessary the rate of increase may be changed for the final dividend in order to maintain the coverage ratio, albeit at the lower end of the range.

22

MOVEMENT IN NET BORROWINGS AND EQUITY

Movement in net borrowings

	2014	2013
	£ million	£ million
Net borrowings at 30 June	**(8,850)**	(8,403)
Free cash flow (a)	**699**	326
Acquisition less sale of businesses (b)	**(664)**	(420)
Net purchase of own shares for share schemes (c)	**(7)**	(61)
Dividends paid to non-controlling interests	**(34)**	(61)
Purchase of shares of non-controlling interests (d)	**-**	(35)
Net movements in bonds (e)	**(371)**	(983)
Net movements in other borrowings (f)	**1,316**	1,122
Equity dividends paid	**(801)**	(735)
Net increase/(decrease) in cash and cash equivalents	**138**	(847)
Net increase in bonds and other borrowings	**(945)**	(139)
Exchange differences (g)	**(143)**	337
Borrowings acquired on acquisition of USL	**(849)**	-
Other non-cash items	**(19)**	(44)
Net borrowings at 31 December	**(10,668)**	(9,096)

(a) See page 6 for the analysis of free cash flow.

(b) On 2 July 2014 the group acquired an additional 26% investment in USL for INR 114.5 billion (£1,118 million). On 31 October 2014 the sale of the Whyte and Mackay Group by USL resulted in a net cash receipt of £395 million. In the six months ended 31 December 2013 cash payments primarily comprised £474 million in respect of the acquisition of a 18.74% investment in USL.

(c) Net purchase of own shares comprised purchase of treasury shares for the future settlement of obligations under the employee share option schemes of £39 million (2013 – £116 million) less receipts from employees on the exercise of share options of £32 million (2013 – £55 million).

(d) In the six months ended 31 December 2013 Diageo purchased the remaining 7% equity stake in Sichuan Chengdu Shuijingfang Group Co., Ltd.

(e) In the six months ended 31 December 2014, the group repaid bonds of €1,000 million (£792 million) and issued bonds of €1,000 million (£791 million). In the comparable period, the group repaid bonds of €1,150 million (£983 million). A bond of £370 million acquired on the purchase of USL was repaid using the proceeds from the sale of the Whyte and Mackay Group.

(f) Net movements in other borrowings are primarily in respect of the net drawdown of short term commercial paper which is used to finance day-to-day operations.

(g) Exchange differences primarily arose on US dollar and euro denominated borrowings partially offset by the favourable change on foreign exchange swaps and forwards.

23

Movement in equity

	2014	2013
	£ million	£ million
Equity at 30 June	**7,590**	8,088
Profit for the period	**1,364**	1,654
Exchange adjustments (a)	**266**	(770)
Net remeasurement of post employment plans	**(341)**	(89)
Exchange recycled to the income statement (b)	**79**	-
Fair value movements on available-for-sale investments (b)	**11**	(90)
Non-controlling interests acquired (b)	**594**	-
Purchase of shares of non-controlling interests	**-**	(35)
Dividends to non-controlling interests	**(34)**	(61)
Dividends paid	**(801)**	(735)
Other reserve movements	**(32)**	76
Equity at 31 December	**8,696**	8,038

(a) Movement in the six months ended 31 December 2014 primarily arose on the US dollar, the euro, Brazilian real and the Indian rupee denominated net investments.

(b) Following the change in accounting for USL from an associate to a subsidiary, an exchange loss of £79 million has been recycled to the income statement in the six months ended 31 December 2014 and a 43.9% non-controlling interest has been recognised of £594 million. In the six months ended 31 December 2013 a gain of £85 million, in respect of USL, was recycled to the income statement reflecting the step up from available-for-sale investment to associate.

Post employment plans

The deficit in respect of post employment plans before taxation increased by £313 million from £475 million at 30 June 2014 to £788 million at 31 December 2014. The increase was primarily due to the reduction in returns from ‘AA’ rated corporate bonds used to calculate the discount rates on the liabilities of the post employment plans (United Kingdom reduced from 4.2% to 3.5% and Ireland from 3% to 2.1%) partially offset by a reduction in long term inflation and an increase in the value of the assets held by the plans. Total cash contributions to the group’s post employment plans for the year ending 30 June 2015 are expected to be approximately £185 million.

DIAGEO CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**Six months ended 31 December 2014 £ million**	Six months ended 31 December 2013 £ million
Sales	2	**8,724**	8,014
Excise duties		**(2,824)**	(2,082)
Net sales	2	**5,900**	5,932
Cost of sales		**(2,428)**	(2,200)
Gross profit		**3,472**	3,732
Marketing		**(896)**	(903)
Other operating expenses		**(908)**	(789)
Operating profit	2	**1,668**	2,040
Non-operating items	3	**98**	138
Finance income	4	**159**	130
Finance charges	4	**(398)**	(355)
Share of after tax results of associates and joint ventures		**113**	181
Profit before taxation		**1,640**	2,134
Taxation	5	**(276)**	(388)
Profit from continuing operations		**1,364**	1,746
Discontinued operations	3	**-**	(92)
Profit for the period		**1,364**	1,654
Attributable to:			
Equity shareholders of the parent company		**1,311**	1,599
Non-controlling interests		**53**	55
		1,364	1,654
Basic earnings per share		**pence**	pence
Continuing operations		**52.3**	67.5
Discontinued operations		**-**	(3.7)
		52.3	63.8
Diluted earnings per share			
Continuing operations		**52.2**	67.2
Discontinued operations		**-**	(3.7)
		52.2	63.5
Weighted average number of shares		**million**	million
Shares in issue excluding own shares		**2,506**	2,507
Dilutive potential ordinary shares		**7**	13
		2,513	2,520

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DIAGEO CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 December 2014 £ million	Six months ended 31 December 2013 £ million
Other comprehensive income		
Items that will not be recycled subsequently to the income statement		
Net remeasurement of post employment plans		
- group	**(337)**	(90)
- associates and joint ventures	**(4)**	1
Tax on post employment plans	**53**	11
	(288)	(78)
Items that may be recycled subsequently to the income statement		
Exchange differences on translation of foreign operations excluding borrowings		
- group	**384**	(862)
- non-controlling interests	**83**	(82)
- associates and joint ventures	**(51)**	(191)
Exchange loss recycled to the income statement in respect of USL	**79**	-
Exchange differences on borrowings and derivative net investment hedges	**(150)**	365
Tax on exchange differences on borrowings and derivative net investment hedges	**5**	(7)
Effective portion of changes in fair value of cash flow hedges		
- (losses)/gains to other comprehensive income - group	**(34)**	29
- (losses)/gains to other comprehensive income - associates and joint ventures	**(2)**	1
- recycled to income statement	**(96)**	49
Tax on effective portion of changes in fair value of cash flow hedges	**15**	2
Fair value movements on available-for-sale investments		
- gains to other comprehensive income - group	**6**	56
- gains to other comprehensive income - non-controlling interests	**5**	-
- recycled to income statement	**-**	(146)
Hyperinflation adjustment	**29**	51
Tax on hyperinflation adjustment	**(1)**	(11)
	272	(746)
Other comprehensive (loss) net of tax, for the period	**(16)**	(824)
Profit for the period	**1,364**	1,654
Total comprehensive income for the period	**1,348**	830
Attributable to:		
Equity shareholders of the parent company	**1,207**	859
Non-controlling interests	**141**	(29)
Total comprehensive income for the period	**1,348**	830

DIAGEO CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2014		30 June 2014		31 December 2013	
	Notes	**£ million**	**£ million**	£ million	£ million	£ million	£ million
Non-current assets							
Intangible assets		**11,379**		7,891		8,324	
Property, plant and equipment		**3,754**		3,433		3,393	
Biological assets		**66**		53		34	
Investments in associates and joint ventures		**2,491**		3,201		3,329	
Other investments		**161**		63		68	
Other receivables		**52**		107		110	
Other financial assets	9	**279**		250		276	
Deferred tax assets		**291**		246		229	
Post employment benefit assets		**137**		251		177	
			18,610		15,495		15,940
Current assets							
Inventories	6	**4,597**		4,222		4,320	
Trade and other receivables		**3,462**		2,499		2,957	
Assets held for sale	12	**325**		8		8	
Other financial assets	9	**114**		118		129	
Cash and cash equivalents	7	**802**		622		891	
			9,300		7,469		8,305
Total assets			**27,910**		22,964		24,245
Current liabilities							
Borrowings and bank overdrafts	7	**(2,845)**		(1,576)		(3,007)	
Other financial liabilities	9	**(156)**		(146)		(153)	
Trade and other payables		**(3,297)**		(2,800)		(3,040)	
Liabilities held for sale	12	**(45)**		-		-	
Corporate tax payable		**(284)**		(197)		(276)	
Provisions		**(188)**		(132)		(90)	
			(6,815)		(4,851)		(6,566)
Non-current liabilities							
Borrowings	7	**(8,518)**		(7,638)		(6,716)	
Other financial liabilities	9	**(475)**		(447)		(453)	
Other payables		**(83)**		(94)		(103)	
Provisions		**(251)**		(253)		(268)	
Deferred tax liabilities		**(2,147)**		(1,365)		(1,437)	
Post employment benefit liabilities		**(925)**		(726)		(664)	
			(12,399)		(10,523)		(9,641)
Total liabilities			**(19,214)**		(15,374)		(16,207)
Net assets			**8,696**		7,590		8,038
Equity							
Share capital		**797**		797		797	

Share premium	**1,345**	1,345	1,344
Other reserves	**2,393**	2,243	2,540
Retained earnings	**2,693**	2,438	2,405
Equity attributable to equity shareholders of the parent company	**7,228**	6,823	7,086
Non-controlling interests	**1,468**	767	952