Slide 1

• Title Slide – No script.

Slide 2

• Good morning and thank you for your time today.
• I want to welcome Deirdre Mahlan for her first set of results as Diageo’s CFO. Deirdre will take you through the results we released this morning in more detail, and then I will review the trends we have seen and the investments we have made in the half.
• Our four regional presidents, Ivan Menezes, Andrew Morgan, Stuart Fletcher and Gilbert Ghostine and Andy Fennell, our Chief Marketing Officer will then join the two of us to take your questions.

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• We are building momentum across the clear majority of our markets. Double digit growth in International, stronger performance in North America and improving top and bottom line growth in Asia Pacific.
• The global economic recovery is uneven and Europe was weaker. The economy rebounded in Russia and Eastern Europe and we generated very strong growth. We grew modestly in markets such as France and Germany. However, in the rest of Europe we faced challenges. Weaker consumer and business confidence in Greece and Spain, import restrictions in Turkey and pressure on margins in GB from the shift from on to off trade and from spirits to wine. These depressed our performance in Europe in the half.
• However, mix improvement and focus on cost of goods led to gross margin improvement and we invested significantly in marketing up 10% in the half. This increase was focused behind our strategic brands in North America and the growing number of middle class consumers in Latin America, Africa and Asia Pacific.
• Operating profit grew 2% and eps pre-exceptionals grew 9% while our focus on cash generation again led to strong free cash flow: £775 million in the half.
• Our priority is investing to drive growth and we are confident in the strength of our business. Therefore we are increasing our interim dividend by 6%.
• And now I will hand over to Deirdre to take you through the figures in more detail.

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• Thank you Paul and good morning everyone.
• As Paul said, I am now going to take you through the results in more detail.

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• Let’s look first at volume and net sales.
• Organic and reported volumes grew 3% in the period, led by spirits.
• The organic increase in net sales of 4% reflects the return to volume growth and improved price/mix in North America, and our stronger volume growth in Asia Pacific. By category, Scotch and vodka were the biggest drivers of top line growth while the faster growth of premium and super premium brands drove positive price/mix.
• The weaker Venezuelan Bolivar had a negative FX impact of £211 million. In H1 last year, the bolivar/US dollar exchange rate was 2.15 and this year we have moved to 9. Excluding this impact, exchange would have had a positive impact mainly due to the
appreciation of the US and Australian dollars and the South African rand although the euro was weaker.

• The scope change is the disposal of wine businesses in Europe and North America as we restructure these businesses to improve returns.

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• Turning now to organic net sales growth on a regional basis.
  • In North America, high levels of unemployment and low income growth continue to restrain consumer confidence and are holding back a broad-based recovery in consumer spending. However, there are signs of a gradual recovery in beverage alcohol with an improvement in the on trade environment and the faster growth of some super premium spirits. We took the decision to reduce discounts on our brands in US Spirits. We knew it would lead to share loss but that it would contribute to better price/mix and this is what happened.
  • The overall economic and consumer environment in Europe continues to be weak.
  • In Greece and Spain, the financial crisis has led to a further decline in consumer confidence and reduced the availability of working capital for local businesses which led to trade destocking. In Ireland, the ongoing contraction of the on trade led to a decline in our predominantly beer business. In GB, net sales growth was driven by the growth of wine which reduced margins as did the very competitive pricing environment on spirits. In contrast, the consumer recovery in Russia and a bounce-back in Eastern Europe, aided by some wholesaler restocking, led to strong double digit growth in these emerging markets.
  • We continue to drive double digit top line growth in International benefiting from our brand range and strong distribution. In Latin America and the Caribbean, Johnnie Walker grew over 20%, maintaining its leadership of the scotch category in the region. Our strategy of widening the brand range beyond scotch to appeal to the emerging middle class is now contributing to growth. Smirnoff and Captain Morgan both responded well to an increase in marketing spend and delivered exceptional growth and we will continue to invest in these emerging middle class opportunities. In Africa, our range of beer brands at various price points again provided strong growth.
  • The performance of Asia Pacific improved in the half. The emerging markets, primarily India, Thailand, Vietnam and Taiwan, grew very strongly, offsetting a flat performance in Australia which represents nearly 30% of the region’s sales. We extended our number one position in scotch in the region with share gains in all markets.

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• We have returned to positive price/mix, up 1 percentage point.
• In North America, the stunning growth on Cîroc and, to a lesser extent, scotch led to net sales growth of the premium and above segments in the high single digits, while the value and standard segments recorded a small decline. This improved mix, combined with reduced promotional activity, drove positive price/mix.
• In Europe, there was negative price/mix as the slowdown of the on trade in Southern Europe and Ireland led to declines on scotch and beer respectively.
• Overall though, the delivery of price/mix at a Diageo level reflects the strength of International which now has the scale to impact overall performance. Price/mix was primarily driven by favorable brand mix as super deluxe scotch grew double digit and by price increases, primarily in Venezuela, to keep step with local inflation.
• Although there was faster growth of premium and super premium brands in Asia Pacific, this positive mix impact was offset by some price reductions and an intense promotional environment in Australia, our largest market in the region.
• Looking at net sales growth through the lens of price segments, the stronger growth of 
  scotch in emerging markets and Cîroc in North America meant the super premium 
  segment grew strongly and was the fastest growing segment in each of our four 
  regions.
• The premium segment also grew well, mainly due to Johnnie Walker Black Label in the 
  emerging markets and Crown Royal in North America.
• The standard segment was held back by declines in scotch, primarily Johnnie Walker 
  Red Label and JεB Rare in Spain and Greece and whiskey and wine in North America 
  offset by the growth of Johnnie Walker Red Label in Latin America.
• The value segment comprises just 3% of total net sales and growth in the half was very 
  localised, over half coming from increased distribution of Senator beer in Kenya.
• Overall, this data is encouraging, suggesting that some consumers are again moving up 
  the price ladder but it is very market and category specific, and as the performance of 
  Cîroc demonstrates, sometimes brand specific.

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• Looking at the growth of our business by category. Our spirits brands in total drove 
  over 80% of our growth in the half and the largest categories of scotch and vodka made 
  the biggest contribution.
• Within scotch, Johnnie Walker grew net sales 10% overall, with growth of over 20% in 
  emerging markets, as the “Walk with Giants” platform was activated across the globe. 
  Other Diageo scotch brands also performed strongly with double digit net sales growth 
  in the premium segment on the strength of Windsor in Asia and Buchanan’s in Latin 
  America and Caribbean. In the standard and value segments, White Horse, VAT 69, 
  Johnnie Walker Red Label and Black & White all grew very strongly as emerging market 
  consumers across the globe returned to the category.
• Growth in vodka was led by North America, mainly Cîroc and the launch of RȌKK and 
  Moon Mountain vodka. Smirnoff grew very strongly in emerging markets but 
  performance was held back in the highly competitive, off-trade led markets of Great 
  Britain, Australia and the United States.
• Our beer brands remain a growth engine for Diageo but it’s a story of two regions. 
  Once again our local lager brands in Africa offset the decline of Guinness which was 
  impacted by the continuing contraction of the on trade in Ireland and Great Britain.
• Wine grew 5%, driven mainly by growth in GB, partially offset by the decline of wine in 
  the US.

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• You will have seen from this morning’s release that we have changed the way in which 
  we report brand performance. Over the last year, we have moved to a category 
  approach to ensure we have brands at each profitable price point in each major 
  category. Our 14 strategic brands will replace our Global Priority Brands which we 
  introduced in 2002 following the Seagram acquisition. We are reporting in this way 
  because it better reflects the way we manage our brands. It is a natural evolution, 
  having dropped the classification of Local Priority and Category brands this time last 
  year.

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• Turning now to operating profit.
• On a reported basis the FX benefit to operating profit was £70 million. A transaction benefit of £96 million and a £2 million benefit under IAS 21 were offset by the negative translation impact of £28 million, again relating principally to the Venezuelan bolivar.
• I am now going to take you through the main drivers of the 2% growth in operating profit by region.

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• I will start with Corporate.
• As you know, the performance by region is reported using budget transaction exchange rates and the difference between the budget and actual exchange rates is taken to corporate. For H1 F11, this amounted to an adverse movement of £39 million.
• Corporate costs amount to about £200 million a year. In the half, they were £94 million, down £4 million against H1 last year.
• Since I was appointed to the Senior Leadership team in Diageo and of course since I became CFO, my focus has been on how we can consistently improve the efficiency of our P and L. We will do this most effectively if we manage the drivers of gross margin, the effectiveness of our marketing spend and our investment in other operating expenses. I am now going to show you the effect these three had on operating margin by region.

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• Gross margin improved on an organic basis in the half, up 50 basis points.
• There was a full percentage point increase in North America led by cost of goods reductions and an improved brand mix led by Cîroc and Crown Royal.
• The gross margin decline in Europe was driven by margin decline in Greece and Turkey, and in Great Britain, driven by the growth of wine there and the shift to the off trade. In the rest of Europe gross margin increased.
• In International, the faster growth of premium and super premium scotch delivered significant price/mix leading to 70 basis points of gross margin improvement.
• In Asia Pacific, the 1 percentage point of negative price/mix I referred to earlier was the main driver of the gross margin decline.

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• Marketing spend increased significantly in the period which reduced operating margin by 80 basis points.
• It was focused by region and category investing where our future growth will come from. In fact, over 60% of our incremental marketing spend was focused in the emerging markets and 35% was targeted at driving growth of our strategic brands in the United States.
• In addition we are focused by category. In the half, over 90% of the incremental marketing spend was behind scotch and vodka, which as you saw in the previous slide were the greatest contributors to overall net sales growth.
• Outside of these categories, the global roll out of Captain Morgan continued using proven drivers. Almost 50% of the incremental spend on the brand was in markets outside North America. In these markets the brand grew 37% and now accounts for over 20% of total sales.
• Of course, in being selective, we have chosen where not to invest and this led to some sharp reductions in Iberia and Southern Europe, where the returns on activities such as on trade consumer promotions are no longer attractive.
• I would expect that we will also see marketing spend grow ahead of net sales growth in H2.
• The negative impact on margin of increased overheads is exaggerated by the inclusion of the budget to actual FX movement which is included in corporate and which I referred to earlier. Overheads reduced in North America and Asia Pacific and grew less than sales in International. In Europe, overheads were up as a percentage of sales although overheads were reduced in Greece and Spain.

• In summary.
• Despite double digit marketing spend increases, the operating margins of North America, International and Asia Pacific all grew in the period.
• Negative price/mix in the developed markets of Europe and an increase of marketing investment in Russia and Eastern Europe led to weaker margins in Europe.

Moving on to the other lines in the income statement.
• Associate income increased by £10 million, mainly Moët Hennessy.
• Net finance charges fell £28 million.

The net interest charge was broadly flat. The effective interest rate was 4.9%, up 20 basis points from H1 fiscal 2010 on lower average net debt of £7.5 billion as against £8 billion last year. This gave a pre IAS 39 interest charge of £184 million. The IAS 39 impact increased the interest charge by £12 million.

Net other finance charges were £27 million lower than last year with the main driver being the lower IAS 19 charge for post employment plans. Other finance charges were £10 million, comprising £8 million for the unwinding of discounts on liabilities.

For the full year, I would expect our interest charge to be about 5%. It increases in the second half as we move to a higher proportion of fixed rate debt. Last year in the second half we benefitted from the sale of interest rate swaps which will not reoccur this year.

Moving now to exceptional items.
• Operating exceptional charges were £9 million, comprising the Global Supply and Ireland Brewing restructuring programmes.
• For the full year, I would expect total exceptional charges in respect of restructuring programmes to be approximately £45 million while the cash expenditure is likely to be £150 million.

The overall tax charge increased by £42 million.
• The underlying tax rate remained at broadly 22% as per last year and we expect to maintain this going forward.
• The impact of higher reported operating profit growth together with lower finance charges and exceptional costs delivered 16% growth in profit for the period.

There was a continued focus on cash delivery in the half.
• Increased operating profit and lower interest and tax paid all contributed to our strong free cash flow in the half.
• As this slide shows, we have reduced working capital as a percentage of sales over the last 2 years and in the half it reduced from 4.6% in H1 last year to 2.3% this.

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• Moving now to eps.
• Eps pre-exceptionals is 48.2 pence per share compared to 44.2 pence last year, an increase of 9%.
• Foreign exchange benefits drove 5 percentage points of this growth while organic operating profit drove 3 percentage points of eps growth and the lower post employment charges under IAS19 added 2 percentage points.

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• In summary, in my first set of results, I can say that Diageo has performed well in a world which is presenting both opportunities and challenges.
• There have been some exceptional performances, both by brand and geography. Cîroc in North America and Johnnie Walker in Latin America and Global Travel are particular highlights.
• Europe was weaker as some markets have been operating in environments which are significantly more challenging than last year.
• Overall, the return of positive price/mix to our business, although small, is an encouraging sign.
• This mix improvement and the efficiency programmes in our supply business to reduce our underlying cost of goods per case, led to a further gross margin increase.
• And we continued to invest in those brands and markets that we believe will drive growth. Primarily this has been in emerging markets and in North America where we see signs of a fragile recovery.
• We have kept our focus on cash and maintained working capital efficiencies, improved return on invested capital by 50 basis points and economic profit by £68 million.
• This improved performance and the investments we have made give us the confidence to increase the Interim dividend by 6%.
• And now I will hand back to Paul.
• Paul.

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• Thank you Deirdre.

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• The world economy, and therefore our performance in the first half, was uneven. Double digit net sales growth in emerging markets, improved trading in North America and a challenging economic situation in Europe.
• Last year, I outlined the ways in which we had strengthened our business in the tough environment we faced. In this half, as the global economy recovers, albeit at a very uneven way, we are moving into growth mode.
• We have done this in four ways.
• Increased marketing spend ahead of net sales with over 60% of the incremental investment directed to emerging markets and with the balance being behind our strategic brands in North America.
• An innovation programme tailored to different opportunities around the globe which delivers a steady stream of sustainable growth from a balanced pipeline of over 180 new ideas.
• Building new routes to market, particularly focused on the middle class consumer in the emerging markets, and continuing to build customer relationships which identify new growth opportunities both in developed and emerging markets.
• And finally making those changes and investments which will improve our supply footprint and deliver further cost savings.

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• Diageo’s strengths continued to provide us with the platform for consistent growth. Our global reach and brand range give us the diversity needed to win in this environment. We are investing to drive top line growth behind the opportunities presented by the emerging middle class in Latin America, Africa and Asia and behind specific brand and category opportunities in the developed markets.
• Our operational strength is underpinned by our financial strength which we have enhanced again this half with strong cash flow and improved returns.
• I am now going to look at how we are using our strengths to deliver growth in this new global environment.

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• As this slide shows our investment profile is changing as we give greater focus to the emerging market opportunity.
• Marketing spend in the half reflects the focus we have placed behind brand building in emerging markets.
• In developed markets, we focused spend in North America behind our leading brands as signs of recovery emerge.
• In recent years operating expenses have represented a larger proportion of net sales in emerging markets as we built infrastructure. In the half, we continued to invest in the infrastructure we have in emerging markets, but here, overheads were down as a proportion of net sales as we generated leverage through the P and L. In developed markets we are focused on driving efficiency from the overhead base we already have in place.
• Finally capital expenditure. In the developed markets, Capex was driven by changes to drive efficiencies, primarily in Europe. In contrast, in the emerging markets Capex is driving growth, primarily through expanding our beer supply footprint in Africa.

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• Despite the different pace of growth across markets, effective marketing remains key to driving growth in both developed and emerging markets.
• We have focused spend in these four ways.
• Firstly we have aggressively increased spend behind our proven growth drivers skewing the spend to the categories, brands and markets where we see the greatest opportunity, for example, Nightlife Exchange for Smirnoff and the Johnnie Walker “Keep Walking” campaign, Grand Prix sponsorship and the highly successful mentoring programme.
• Diageo was an early adopter of digital channels for media.
• Broadband penetration on PC and mobile is high almost everywhere and marketing is now digital. We have built strong relationships with the technology companies of Silicon Valley and with entertainment providers around the world. The fundamentals of great marketing haven’t changed but our approach has. For example, in Kenya, Guinness is the producer of a peak time football based TV show. Five million people have directly participated either by appearing on the show or by texting into it. In November, 14 cities swapped nightlife as Smirnoff partnered with MTV, Facebook and 50,000 consumers to create the content. In the last 2 months in China 12 films were created under the “Keep
Walking” campaign in partnership with a celebrated Chinese film maker. Five million people have engaged with the content in less than 8 weeks. Downloading the films, discussing them and commenting on what we should do next. These are just a few examples of how we intend to stay at the cutting edge of marketing in the digital era.

- Scotch has been a key driver of our performance in the half. Increased spend has driven growth in the emerging markets. In addition we have spent more on brands such as Black and White, VAT 69 and White Horse to reach the increasing number of middle class consumers in the emerging markets.
- And the fourth pillar is increased spend on Reserve brands which has delivered 40% of our growth this half. This isn’t global, it is in targeted markets and supports the dedicated sales teams we have for Reserve Brands in a number of cities. As Deirdre showed, the growth of our super premium brands has outstripped the growth of premium and standard brands in the half. As the global economy continues to recover this will become an increasingly important growth driver for us.

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- Our innovation pipeline is delivering a steady stream of sustainable growth and again there are four pillars to our innovation strategy.
- First premiumisation. We have been successful, across a range of brands and price points in bringing new premium offerings to consumers who desire the quality assurance of our brands while looking for something new. In the half, Johnnie Walker Double Black in Global Travel and Crown Royal Black in North America were key contributors to brand performance and overall growth.
- In emerging markets, innovation is geared to increasing accessibility and building categories as these markets develop. In Africa, we have introduced 20cl formats of our market leading international spirits brands which has bought these brands to new consumers and allowed us to participate with spirits in mainstream beer led outlets. In Colombia, Haig Supreme is providing deluxe whisky packaging at a standard whisky price point to capture the emerging middle class consumers looking to celebrate a special occasion.
- In developed markets, innovation is driving growth in new consumer occasions and maintaining consumer interest in mainstream categories by broadening our offering. For example, Bundaberg Bare Premix in Australia leveraged the trend for low carb beers and diet soft drinks and offers consumers a Bundaberg premixed rum with no sugar cola.
- And finally we are building a pipeline for the future. While most of our focus is on keeping our current brands fresh and dynamic, it is important to have a broad and powerful pipeline of ideas and “new to world” brands, especially as we reach out to the emerging middle class. These are brands such as the test we are running on Blackburn Blended Whiskey in Mexico.

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- We have entered into a number of strategic partnerships to grow our business and enhance the range of brands we offer to consumers, primarily in emerging markets. Some have been in place for a number of years although we are trying to deepen them, for example, our interest in Shui Jing Fang in China, and our exclusive arrangement with Zacapa rum. More recently, we have announced a new strategic partnership in Vietnam and the acquisition of the controlling interest in Serengeti Breweries in Tanzania, as we extend our footprint in emerging Africa.
- And where we have established routes to market, we have also continued to improve our operating model, for example the new arrangements we have with Glazers in North America. Here we have enhanced our dedicated sales force model with a more
efficient leadership structure, and increased the resources behind our key priorities: the
on trade, multi-cultural consumers and innovation.
• Stronger customer collaboration is also part of the way we do business in emerging
markets. With Walmart in Mexico we created “Mundo Fiesta”, which makes the
beverage alcohol aisle more appealing to female shoppers. This concept is being rolled
out to over 40 Walmart stores in Mexico.

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• As our operating margin demonstrates, we have an efficient supply organisation. However, we are driving further improvements as we build an efficient supply organisation which supports our growth agenda.
• In November we opened our new rum distillery in the US Virgin Islands. This facility will supply a significant cost of goods benefit for Captain Morgan, that will in turn allow us to fund further marketing spend behind one of our top performing strategic brands.
• Our new distillery at Roseisle is now up and running to support the considerable emerging market scotch growth
• Looking to the future we will be investing to increase brewing capacity in Nigeria and we are already discussing expansion at the new Sedibeng brewery in South Africa.
• Whilst we build new capacity to support future demand we are also improving efficiencies and driving down costs across our 70 manufacturing sites.

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• Before we take your questions let me summarise by region.
• In North America increased marketing behind our strategic brands and continued strong innovation has improved top line growth. Reduced costs in both our supply and our demand organisation, especially in wine have improved operating margin. As the economy improves we will continue this strategy and build our position as the leading spirits company in the US to drive growth in the world’s most profitable beverage alcohol market.
• In Europe, we have scale and leading brands. The economic situation is changing the consumer environment. While some of these changes were dramatic in their scope we can manage their impact on our business. We will continue to invest behind the growth markets of Eastern Europe and Russia. Specific issues such as import restrictions in Turkey should be resolved with legislative changes now taking place. In Spain and Greece we have seen the impact of further destocking but we have customer programmes in place to manage through this and we have upweighted innovation to drive the top line. While the top line grew in GB, margins and operating profit declined and there were some one off costs in the half. These costs won’t be repeated and we have plans to improve margin.
• In the emerging markets the investments we have made over a number of years are now delivering the top line growth they were designed to generate. We are reaching growing numbers of middle class consumers with local brands such Jun Daiti Sake in Brazil and Senator in Kenya, with international brands such White Horse and Guinness and innovations such as Blackburn. We are also building on our leadership position in scotch in Latin America and Asia to grow premium and super premium brands across all categories.
• We have a great many strengths in Diageo, namely our people, our brands, our routes to market and our balance sheet. In the second half we will be focused on the opportunities which will come from improving consumer confidence in North America, from the investments we are making in the emerging markets and on improving the operating profit performance in Europe. Therefore, I expect us to deliver full year results which improve on the momentum we have delivered in the first half.
• And now we will take your questions.