DIAGEO

Half Year Results – Thursday 11 February 2010

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Live Q&A session details - no script.

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2010 Half Year Results title slide - no script.

Paul Walsh – CEO:
Slide 2
Good morning and thank you for your time today.

We are going to stay with the format we have used previously in these results webcasts. Firstly Nick and I will take you through the results we released this morning in some more detail and then we will take your questions. At that point we will be joined by our four regional presidents Stuart Fletcher, Ivan Menezes, Andrew Morgan and Gilbert Ghostine. We also have Andy Fennell, our Chief Marketing Officer with us.

Slide 3
As we expected this was a challenging six months. Economic and consumer trends in many markets remained weak and in addition, as you know, we had a tough comparison against Q1. However, while our results today reflect these headwinds they also reflect our strengths.

Nick will take you through our performance in more detail in a moment but here are the headlines.

Organic net sales were down 6% in Q1 yet up 2% in Q2 so we finished the half slightly stronger than we anticipated, albeit still down 2% overall.

Consumers are looking for value but they are also looking to respected leading brands to deliver this value for them. We have responded with promotions designed to increase the visibility of our brands. We intend to maintain the share gains this has delivered on our priority brands as the markets recover. Consumers haven't yet moved back to the on-trade in developed markets and so we have seen our deluxe brands slow, down about 3% in net sales terms against our standard brands which were flat.

In a difficult pricing environment overall price/mix was therefore flat in the half and we saw some gross margin erosion from the stronger performance of standard brands over premium and super-premium brands so operating profit was down 3%.

Favourable currency movements mean that reported net sales are up 3%, operating profit in reported terms is broadly flat and eps pre-exceptionals is up 5%.

Lower interest rates mean we have reduced our interest costs by £100 million and we will maintain this benefit for the full year.

Our free cash flow performance has been outstanding at almost £1 billion.

We have again increased the interim dividend by 5%.

Slide 4
Those are the financial headlines. What they don't show, and what I will come on to later, is the way we have managed the business.

We have implemented our restructuring programme. As you will have seen from our recent announcements we have made some tough decisions and our cost base has now been reduced as we have delivered more efficient ways of working.

In addition to these structural changes we have sought out and delivered efficiencies in marketing spend and procurement.

We have very strong marketing campaigns which we have consistently invested behind. They have driven the growth of brands such as Smirnoff, Johnnie Walker, Captain Morgan and Guinness over a number of years. Our strong marketing platform gives us agility. We can vary the level of our executions to respond quickly to individual market dynamics. In the half we have up-weighted activity on proven growth drivers, increased our share of voice where we believe it will be effective, while reducing spend in Europe in response to the market trends there.

We have used innovation to build our brands and reach the consumer in new ways. Consumers have made changes in purchasing and consumption in response to the economic slowdown. Being alert to this we have found ways to bring our brands to them in new formats, flavours and price points.

In these challenging times we need to put our brands where consumers are and help our customers deliver against these changing opportunities. In the half we have seen the benefit of the investments that we have made to build a leading sales function. The visibility of our brands has never been better and this has contributed to the share gains we have made on priority brands in key markets.

I am going to return to these themes later in the presentation, but first I will hand over to Nick to take you through the results in more detail.

Nick.

Nick Rose – CFO:
Slide 5
Thank you Paul and good morning everyone.

The last half has been characterised by mixed performance across the regions. Adverse trends, most notably the continued decline of the on-trade channel and an increasingly competitive pricing environment in the off-trade, have been a feature of many markets and there have been some pockets of further de-stocking. Against these mostly developed market trends we have delivered good growth in some of our developing and emerging markets.

In addition, we have experienced some significant "one-off" costs in the half and delivered our cost saving programme.

Slide 6
Looking first at net sales.

Exchange rate movements again benefited reported net sales, adding £207 million. The US Dollar moved from 1.66 to 1.64 and the Euro moved from 1.21 to 1.12. Currency fluctuations in Venezuela accounted for £35 million of the FX benefit while many Asia Pacific currencies strengthened in the year with Australia having the biggest impact.

Organic net sales declined by 2%, reflecting the challenging consumer environment with the continued move from the on-trade to the off-trade and with consumers across the world being currently more value conscious and shopping around for the best deal, in particular in more promotion driven, larger grocery and supermarket outlets. This led to a difficult pricing scenario and an increase in discounting with our customers.

There was a limited impact from acquisitions and disposals in the period, mostly from the acquired distribution rights of Grand Marnier in Europe.

Slide 7

Turning now to organic net sales growth on a regional basis.

In North America, the total beverage alcohol market remained in growth. In US spirits, we estimate that the overall market grew 1%, mainly in the off-trade, and in the larger grocery channel. Diageo grew volume share and maintained value share on our priority brands, although overall value share declined 0.2 percentage points. Depletions in the period were flat and we out-performed most of the other full line spirits companies. There was a 6% decline in shipments reflecting the build up of inventory last year before the recession had really impacted the industry. In addition we reduced stock levels in US spirits, partly because depletions were stronger than we expected in the second half of December. Beer and wine both grew volume but within wine, the growth continued to be at the lower priced variants which drove some negative price/mix.

Europe remained difficult. Great Britain grew net sales and gained share in spirits, beer and wine mainly due to a strong Christmas in the grocery channel. The decline of beer in Ireland and the continued weakness of the Spanish on-trade continued to shape our performance. Developing Europe also remained challenging with consumers trading down to lower priced brands and customers reducing inventories.

International was again the best performing region. In Latin America and the Caribbean, sales of scotch performed strongly in Mexico and Brazil. In Venezuela, price increases to offset cost increases accounted for most of the price/mix improvement we have seen in International. Our beer brands in Africa continued to be very resilient, in particular Guinness in East Africa, Harp in Nigeria, and Tusker in Kenya.

There was also a return to growth in Global Travel and Middle East as passenger numbers started to tick upwards and we increased promotional activities, particularly on scotch.

Excluding India, Asia Pacific recorded net sales growth driven by the return to growth in Australia, the largest market in the region, and a rebound in performance in South East Asia. In India, our performance was impacted by the inappropriately high shipments that were recorded in the prior period, which we adjusted in the second half of last year.

Slide 8

There was no overall impact from price and mix in the half. Positive price/mix in the standard and super-premium segments was offset by negative mix in the value segment. The latter was the result of higher sales of lower priced scotch and a shift towards vodka.

Within spirits, price/mix was negative by one percentage point. This was offset by a strong performance in beer, mainly from Guinness.

The standard price segment continues to demonstrate resilience. Until we see a reversal of current consumer trends, and in particular a return to more on-trade consumption, price/mix will remain under pressure.

Slide 9
Trading within the half showed an improving trend. In Q2, performance improved against the first quarter in all four regions, and we saw NSV growth for the first time since Q2 of F'09 as comparisons eased. As we go into H2 we will again be lapping some easier numbers.

Slide 10
Turning now to operating profit.

As you saw from the announcement this morning, our prior year numbers have been restated mainly for changes in accounting standards and we have given the details in the release.

Organic operating profit declined by 3%. However, on a reported basis FX movements of £43 million benefited operating profit. A translation benefit of £35 million and a transaction benefit of £53 million were offset by an adverse movement of £45 million under IAS 21.

Slide 11
Looking now at the organic profit growth through a regional lens.

In North America, operating profit fell by 2% as a result of the 6% decline in net sales, offset by a slight improvement in gross margin, lower marketing spend and overhead reductions.

Organic operating profit was down 3% in Europe. Declines in gross margin were offset by lower marketing spend and overhead savings.

We again saw the strong contribution from International, where organic operating profit grew 16%. Operating profit in Africa was maintained despite significant increases in local costs as a result of inflation. In Latin America, operating profit growth was driven by net sales growth, some gross margin improvement.

Asia Pacific also recorded good profit growth as gross profit margins increased and overheads were reduced.

There was a significant increase in Corporate costs. £40 million of this increase relates to differences between forecast and achieved FX rates in the period not passed on to the regions.

There are a number of other increased costs within Corporate which are likely to be non-recurring. Our H1 performance, relative to our profit and cash targets, has led to a higher bonus accrual this half. Investment in systems increased particularly around customer and supply chain planning. The revision of IFRS 3 means we now have to take costs associated with M&A studies to the income statement when incurred. In addition, we have incurred substantial legal and accounting costs associated with on-going regulatory matters related to Korea and India. These period on period increases account for the majority of the £49 million incremental corporate costs.

Slide 12
The decline in operating margin during the period has been due mainly to the gross margin impact which was driven by increased promotional activity and a lower proportion of sales from the premium and super-premium segments.

Cost of goods increased, on a like for like basis by about 2%, slightly lower than we had anticipated at the beginning of the year.

The resulting gross profit decline was offset by a 5% reduction in marketing spend, mainly in Europe and I will go into this in a little more detail on the following slide.

We are on track to deliver the full benefits of our global restructuring programme in F10 and overheads decreased by 7%.

The increase in other costs arose mainly in corporate as I have just described.

Looking forward, I would expect to see the gross margin improve in H2 as the high promotional activity that we have seen around Christmas is likely to abate.

Slide 13
Looking at marketing in more detail. Marketing spend was reduced by £40 million and as a percentage of net sales was down 60 basis points. We continue to see media deflation in many markets which accounted for about 25% of the reduction.

In North America, marketing spend as a percentage of net sales was maintained and activities were tightly focused on proven growth drivers on priority brands. Share of voice also increased in the period.

The main driver of the year-on-year reduction was Europe, reflecting the challenging industry backdrop and therefore a focus on fewer growth drivers and brands. The "250th Celebration" campaign on Guinness across the region and the launch of new campaigns on Smirnoff in Great Britain and Johnnie Walker in Greece are good examples of where we fully funded campaigns to drive growth. Conversely, spend has been significantly reduced on J&B in Spain, beer in Ireland and on spirits in Eastern Europe reflecting the reduced growth opportunities.

Growth in marketing spend in International was in line with net sales reflecting efficiencies with increased activation of spirits in Latin America, especially Johnnie Walker in Mexico and Smirnoff in Brazil, higher spend behind beer in Africa, particularly Guinness, Tusker and Harp and increased spend on scotch in Global Travel and Middle East.

In Asia Pacific, spend was again targeted. Growth opportunities were fully funded, including super-deluxe whiskies in Korea, scotch and vodka in South East Asia and a significant increase behind our major spirits and ready to drink brands in Australia. Offsetting this were reductions in spend in India, and in China where the later timing of both the Shanghai Grand Prix and Chinese New Year means spend is more weighted into the second half of this fiscal year.

We expect marketing spend to grow in H2, and marketing as a percentage of net sales to build back to last year's levels.

Slide 14
Moving on to the other lines in the income statement.

There was a £26 million reduction in associate income mainly due to Moët Hennessy.

Against this, there was a significant decrease in net finance charges and therefore PBET was up by £69 million.

Let's look at the net finance charge in more detail.

Slide 15
Net finance charges have decreased by £107 million.

Net interest charges decreased by £100 million as a result of the significant decrease in floating interest rates and favorable FX of £8 million. The revaluation of interest rate swaps to period-end rates under IAS 39, resulted in a small charge this half against a £31 million

charge in the same period last year, giving rise to a £28 million positive year on year movement.

Net other finance charges of £40 million includes £25 million in respect of post employment plans. Other finance charges were £4 million including £7 million for the unwinding of discounts on liabilities. This reflects a £24 million decrease over the prior period, driven by changes in the fair value of investments. Translation differences on inter-company funding were £11 million.

For fiscal 2010, I would expect our interest rate, excluding the impact of IAS 21 and IAS 39 to be 5.1%, compared to 6.2% in the last full year.

Slide 16

The £82 million increase in exceptional charges to £95 million relates to the restructuring programmes that were announced last year and I will come on to these in more detail on the next slide.

The underlying tax rate remained at 22% which was our full year rate for last year. We expect to maintain this going forward.

By comparison, last year the reported tax charge was 15% following the agreement of a number of settlements with tax authorities which gave rise to one-off tax credits in the period totalling £101 million.

Let me now take you through exceptional charges in more detail.

Slide 17

Exceptional charges in the half year amounted to £95 million, comprising £21 million for the global restructuring programme, £69 million for our supply footprint and £5 million for our Irish brewing operations.

The cash paid in H1 F10 was £76 million, comprised of £72 million for the global restructuring programme and £4 million for the Irish brewing operations. For the full year, I would expect the cash paid to be about £240 million.

For the full fiscal year, I expect total restructuring charges for these programmes to be about £180 million and to deliver the cost savings of £120 million that we previously identified. When fully implemented our restructuring programmes will reduce our cost base by around £185 million a year.

Slide 18

Free cash flow remains one of our key strengths. We made the decision to have very tight management of cash in 2009. We introduced a number of new procedures and delivered outstanding results.

Despite a £94 million reduction in reported operating profit, mainly the result of the increase in restructuring charges, we have generated over half a billion pounds more cash this half.

Our net interest paid increased by £18 million despite a lower P&L charge reflecting the phasing of coupon payments.

Tax paid was £61 million higher, despite an unchanged underlying tax rate, due to the payment of audit settlements agreed in the prior year.

The working capital benefit of £769 million was the biggest contributor to the increased free cash flow. The increase in inventories was lower than last year reflecting better management

of finished goods stock and the lower cost of maturing inventories. The increase in debtors was lower period on period reflecting the introduction of earlier collection initiatives and creditors and provisions were up substantially mainly reflecting our move to longer payment terms.

Net capex was £31 million lower in the half.

“Other” items reflects the adjustment to fair value for hedging arrangements and payments made in respect of post employment obligations, primarily in the United States.

I expect to have a strong full year performance on cash. However, some of this performance is not repeatable and F’11 is likely to return to a more normal run rate.

<u>Slide 19</u>
Moving on to net borrowings. The biggest driver of the decrease in net borrowings was the increased free cash flow that we have just been through.

Dividend payments were £551 million. We discontinued our share buy-back programme and I would not anticipate restarting it in this calendar year.

Exchange rate movements accounted for £201 million of the change due to the stronger Dollar and Euro at this balance sheet date versus June ’09 rates.

<u>Slide 20</u>
Reported basic eps was 40.9 pence per share compared to 45.5 pence last year, a deterioration of 10%.

Adjusted for exceptional items, exceptional tax and discontinued operations, eps increased by 5% from 41.9 to 44.2 pence per share.

The make-up of this 5% increase is shown on the bottom of this slide.

Exchange benefited eps by 3.7 pence per share in the half. Disposals, acquisitions and IAS 21 and 39 reduced eps by 0.6 pence per share.

The underlying fall of 0.8 pence per share represents a decline of 2%.

<u>Slide 21</u>
Having already described the impact that individual exchange movements have had on our reported results, I thought it would be helpful to pull them together.

We have slightly reduced our guidance for the full year impact of foreign exchange movements on operating profit from a benefit of £80 million to £75 million. This reflects slightly positive movements on the Dollar, Euro and Naira exchange rates which have benefited translation offset by the anticipated year on year loss of £25 million on the Venezuelan Bolivar.

IAS 21 and 39 movements, which we do not forecast at the beginning of the year, are expected to have little impact in aggregate for the full year although they do have a material impact on the individual lines of operating profit and finance charges. Including the adverse impact of IAS 21, the impact of FX on operating profit for fiscal 2010 will be a positive movement of about £30 million. Including the positive impact of IAS 21 and IAS 39 the impact of FX on finance charges for fiscal 10 is expected to be a positive movement of approximately £40 million.

Slide 22
Economic profit decreased by £59 million to £653 million and ROIC decreased by 110 basis points to 17.6%.

The deterioration is due to slightly lower operating profit before exceptionals, lower associate profits, and higher average invested capital mainly due to higher maturing inventories year on year.

Slide 23
In summary then.

It has been a challenging half. Economic trends are little improved over H2 fiscal 09 and in addition we had a tough comparable top-line growth in Q1 last year of 6%.

We have implemented our restructuring programmes and identified and delivered further cost efficiencies in marketing. In addition, we have mitigated the increase in cost of goods to less than our original plan.

We have invested in IS to improve customer and supply chain management to help strengthen our relationships with our customers, and we have continued to invest in proven growth drivers to build brand equity.

Consequently, we have built a stronger business as Paul will come on to describe, and we are maintaining our guidance for low single digit organic operating profit growth for the full year.

And now I will hand over to Paul.

Paul Walsh – CEO:
Slide 24
Thanks Nick.

Slide 25
The economic recovery is still uncertain and the level of recovery in markets and in consumer confidence around the world is varied. However, despite this challenging environment, we continued to demonstrate our resilience.

Each market is unique. However, our approach remains consistent: - sustained investment behind first class marketing campaigns, introduce great innovation and build superior routes to market.

As I take you through the regions this morning, you will see how we have applied these common tools but tailored them for specific market circumstances.

Whilst signs of recovery are limited in many regions, we believe that in the long run our business will take advantage of the long term resilience of North America, manage the structurally low growth markets of Europe and build on the high growth opportunities in emerging and developing markets.

We can activate our global marketing campaigns quickly where we see the opportunity. At the end of the first half, we made the decision to upweight spend behind Johnnie Walker in Asia and in Global Travel and Middle East. We have used innovation to move quickly to benefit from the tactical opportunities that we have created during this difficult period. The result has been an increase in brand visibility and share gains.

Our outstanding cash flow is further evidence that we have taken the right decisions during an economic downturn. Our balance sheet strength ensures that we are well positioned as markets and regions recover.

Slide 26

Diageo is well positioned to capitalise on changing consumer needs within categories and across regions. Scotch is an aspirational category, especially for consumers in developing markets who want to demonstrate their improved social status and new found success. Scotch is therefore our biggest category and our scotch brands lead our global spirits business in to emerging markets. Our breadth in scotch provides us with agility to launch new brands to meet changing consumer demands. In Brazil for example, we have increased availability of some smaller brands like Old Parr, providing a well priced deluxe scotch, and Black and White at the value end. In addition we have selectively reduced the price of other brands, accepting lower per case margins in order to achieve higher operating profits and stronger share positions.

Our second most important category is beer. Beer is often the consumer's first experience of branded beverage alcohol and the growth of beer in Africa demonstrates how our range of premium beers, led by Guinness, has given us access to the fast growing African markets.

As markets develop, consumers broaden their repertoire. We can see this in the increased proportion of vodka and rum in North America and Europe which were historically beer and traditional brown spirits markets.

Let me now take you through the regions to demonstrate this further.

Slide 27

Signs of recovery in the US are still weak, especially when we look at unemployment trends. Thanksgiving was disappointing with slow consumer demand and we reduced December shipments as a result. The holiday period, however, was stronger and depletions were up 4%.

A more competitive landscape has meant that there has been a short term loss of price/mix benefit given the weaker performance of the super and ultra-premium segments. The weakness of the on-trade has reduced the number of premium occasions in which consumers trade-up but these opportunities will come back. Our promotions have supported visibility and display and our brands continued to command a price premium.

The premium spirit segment, where Diageo is best represented, proved more resilient. Our priority brands continued to gain share and maintain their leadership positions providing the right platform for price/mix acceleration when the market can support it. Value brands are peripheral to our strategy in North America and we are comfortable with the small loss in share we've seen here.

We have improved the efficiency of marketing spend by reducing spend on those activities such as creative and production costs which the consumer does not see. In addition, media deflation also contributed to the 5% reduction in marketing spend in North America. Investment was focused on priority brand activity that drove the best financial return and grew brand equity.

As consumption has switched to the off-trade from the on-trade, so has our focus for innovation. We have continued to support recent launches of our new ready to serve products such as Jeremiah Weed Sweet Tea and Captain Morgan Long Island Iced Tea. These innovations provide great sales opportunities for our customers and great brand experiences for consumers. These are the products which provide the great value, taste and ease of serve that consumers are currently seeking.

Going forward, our strategy for North America remains the same, to grow the market, invest behind proven growth drivers, further enhance our route to market and drive performance of our priority brands.

Slide 28

In Europe, Ireland and Spain were weak. In Poland, our business grew and we gained share but we faced challenges in much of the rest of Eastern Europe where distributors reduced inventories as consumer confidence remained low. In those markets where the economic environment was relatively stable the industry was stronger. In a difficult economic environment resource allocation becomes key, so let me take you through three examples of the choices we have made in Europe.

As expected, Iberia continues to be a slow market. Here we have significantly reduced the marketing spend on JεB due to the continued decline in the on-trade. But taking our learnings from the US market, we have launched Cacique Mojito, a ready to serve product to capitalise on the growing home consumption trend.

Our GB business performed well, with a very strong Christmas. We worked closely with our customers to give our brands the right share of retailer promotions and display to offer consumers a combination of value for money and product availability. Whilst there was some price/mix dilution, off-trade prices of our brands were up year on year, Diageo increased its off-trade share of total beverage alcohol by 0.4 percentage points and its share of spirits by 1.4 percentage points. Marketing spend focused on the launch of the new “Bring it to Life” campaign and the “250th Celebration” for Guinness and Smirnoff “Be There” driving share gains for both brands. When recovery comes, these share gains will give us the best possible platform for growth.

The economic downturn in Russia led consumers to trade down. In response to this we took three key steps. Firstly we refocused our investment from deluxe scotch to standard scotch, with investment on visibility, display and promotion of White Horse. Secondly we introduced smaller formats and thirdly we launched Bell’s at a price point below White Horse to limit the number of consumers leaving the category. The results have been very strong. Diageo’s total share of scotch grew and White Horse is now the number one scotch in Russia.

Europe is the only region where we decided to reduce our marketing spend as a percentage of net sales. The reduction in spend reflects the adverse trading conditions in Iberia and Ireland where we invested behind fewer brands and we switched investment from above the line activity to focus on sales drivers at the point of purchase in Eastern Europe.

Fundamentally, we are selling the right brands at the right price in the current environment. We are protecting our positions to enable us to premiumise consumers as the economy recovers.

Slide 29

In International the investments we have made over a number of years have built a fantastic platform. Across the region our leading brands, great marketing, and great sales execution delivered another period of net sales growth.

In Africa our performance was varied as the most developed economy in the continent, South Africa was impacted by the downturn. Scotch consumers traded down to secondary brands including Black and White and the moderate decline in our net sales reflected this. In spite of this our business here gained 0.9 percentage points of volume share in the category.

The “250th Celebration” for Guinness reinforced the brand’s heritage credentials and its resonance with male consumers. As a result, Guinness grew net sales in all its key markets

with the exception of Cameroon. In anticipation of future growth we have continued to increase our market presence in Africa with a new agreement to produce Guinness in Angola.

Marketing investment in Latin America was focused behind scotch and rum and we made substantial efficiency gains. In Brazil, for example, spend on Johnnie Walker reduced but activity increased as spend was targeted. For example, in the North East, we used the Johnnie Walker "Strides" campaign on TV, elsewhere in Brazil we used that campaign on cable and in Sao Paulo we launched the "Giants" campaign on radio to accompany its digital launch.

The continued slow down of International travel has impacted our Global Travel and Middle East business but passenger numbers began to turn around in the last quarter. We significantly up-weighted activity on Johnnie Walker returning the brand to growth in the half. Johnnie Walker Black Label grew more strongly than deluxe variants and share increased.

Slide 30

Our business in Asia Pacific is a mixture of the mature markets of Australia, Japan and Korea and the fast growing emerging markets of China, India and South East Asia.

The Australian economy weathered the global downturn well and the beverage alcohol market is in growth. In the last quarter the ready to drink segment returned to growth following the significant duty increase in 2008. Ready to drink represents a significant proportion of our business and with its return to growth total net sales in Australia grew 3%.

In contrast, the Korean economy has been impacted by the economic downturn. The whisky category was down 3%, however, Diageo has maintained its leadership with Windsor and Johnnie Walker, and Johnnie Walker grew 2.5 percentage points of share. Here, the Guinness brand also performed well with double-digit growth as a result of great sales execution and increased distribution supported by the "250th Celebration".

In the emerging markets of Asia Pacific, there are signs of recovery. Penetration of International spirits remains low, however, as purchasing power increases, consumers aspire to enjoy global brands.

In China, net sales declined following a reduction in inventory of Johnnie Walker and Dimple. However, consumer off-take was strong and Johnnie Walker share grew over 2 percentage points in the half as we expanded distribution of the brand in a category we estimate is growing in high single digits.

South East Asia showed strong growth, led by Johnnie Walker and Guinness and Indonesia is now the fastest growing market globally for Guinness. We are confident about our new business in Vietnam, where we are one of a few global spirits companies with in-market operations. We have invested behind infrastructure, marketing of priority brands and IT systems as a result, net sales grew double digit.

Slide 31

Total marketing investment, as Nick described, was down 5% as we cut spend in Europe. In contrast, we have increased investment on those brands where we can see growth opportunities. For example on Captain Morgan in new markets and Johnnie Walker in Global Travel and Middle East. More effective spend and increased digital spend together with the continued benefit from media deflation in many markets has allowed us to reduce total marketing costs and maintain our focus on our proven growth drivers.

The biggest marketing event in the half was the "250th Celebration" of Guinness culminating with Arthur's Day in September. This remarkable event was activated at scale across all key

Guinness markets and was the largest and most successful global initiative executed by Guinness, generating over 2 billion media impressions worldwide.

The Smirnoff "Be There" campaign was also launched in the half. The multi-media programme which inspires consumers to create and seek out extraordinary experiences has been launched in all major Smirnoff markets.

Now let me take you through another example of how we deliver marketing synergies by managing a key global message across many markets; the Johnnie Walker 'Keep Walking' campaign.

The inherent brand message is the same across the globe; personal progress. However, the 'Keep Walking' execution subtly changes across different markets and cultures. In Brazil where consumers already recognise the Johnnie Walker brand, the marketing execution is more emotive, here you will rarely see a glass of Johnnie Walker, but you will see an image of an inspirational individual, combined with the iconic image of the striding man.

In markets where consumers are less familiar with both the brand and the scotch category, for example China, the campaign celebrates collective success and features pack shots of a classic Johnnie Walker serve combining functional and emotional messages.

Global campaigns like these have enabled Diageo to drive greater returns whilst delivering clear consistent messaging and improving brand equity.

<u>Slide 32</u>
Our capabilities in innovation have been a valuable asset in this challenging economic climate. We have moved quickly to meet tactical market opportunities with new formats, pack sizes and flavours often built on comprehensive learning from other markets.

Ready to serve cocktails are a great example. We have taken a proven concept from North America. That concept is to meet the current shift in consumption to the off-trade and the growing demand for simple solutions, so consumers can enjoy their favourite drink at home as they would in a bar. Now ready to serve cocktails have been successfully launched in many markets across Europe, Latin America and Asia.

Smaller pack sizes have also provided tactical growth opportunities as consumers want to continue to enjoy leading brands but with a smaller financial outlay. In Europe, we have successfully applied this to Smirnoff in GB and Captain Morgan and Bushmills in Russia.

Flavours continue to provide incremental growth for our global brands, launches in the half include Baileys with a hint of coffee in Australia and Cîroc Berry in North America.

Whilst we have seen down trading, the ultra-premium segment still exists and we continue to selectively innovate in this area. The best example is The John Walker. This is a blend of the finest scotch whiskies in limited supply, beautifully packaged and it retails for $3,000 a bottle in duty free.

<u>Slide 33</u>
Before we take your questions, let me summarise what we have covered this morning.

As we anticipated, this has been a challenging six months driven by a difficult Q1. However, our global reach means that despite the headwinds we have faced in Europe, and the negative impact on the half of our decision to reduce shipments in US spirits, growth in the developed and emerging markets has offset this to deliver a resilient performance overall.

Our category leading brands, focused marketing spend, successful innovation and sales capabilities have led to share gains for Diageo's priority brands in key markets.

We have again generated significant free cash flow further enhancing our financial strength.

We have continued to improve the efficiency of our functions, reduce our cost base, and strengthen our relationships with our customers.

Within the context of economic uncertainty, we believe that these are good results and demonstrate our ability to strengthen our business even in a tough environment.

Thanks you for your time this morning, I would now like to open up for questions.

Start of live Q&A session.