DIAGEO PLC
Form 6-K
January 30, 2014

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

30 January 2014

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: 30 January 2014 By:/s/ V Cooper
Name: V Cooper
Title: Senior Company Secretarial Assistant

30 January 2014
Interim results, six months ended 31 December 2013

The strength of a diverse portfolio in a tougher environment

- Net sales grew 1.8% in the first half, following growth of 2.2% in Q1*
  - North America up 4.6%
  - Western Europe down 1.0%, continuing the improving trend seen in Q1
  - Emerging markets up 1.3%, impacted by weakness in baijiu in China and in Nigeria
- Continued strong price/mix in both developed and emerging markets at 4ppts
- Marketing investment up 2.7%, ahead of net sales growth, to 15.6% of net sales
- Super and ultra premium brands grew strongly, with reserve brands up 18.5%
- Beer was the only category to decline, down 2.6%, with weakness in Nigeria and Ireland
- Operating profit grew 2.9% with 0.4ppts of operating margin improvement
- Free cash flow was £326 million
- eps pre-exceptional items 62.6 pence per share, up 4%
- Interim dividend increased 9%
- Detailed plans to be developed to de-layer the organisation and deliver further operating efficiencies

- Savings of £200 million a year by year ending 30 June 2017 will fund future change programmes, investment in growth and improved margin

- Restructuring costs, expected to be taken as an exceptional charge, will be between £200 million and £250 million

**Q1 organic growth restated to $1 = VEF19 (Venezuelan Bolivars). See explanatory note on organic movements on page 35.*

Ivan Menezes, Chief Executive, commenting on the six months ended 31 December 2013

"We have continued to demonstrate the strength of our broad portfolio and diverse global business in a period which saw a more challenging emerging market environment. Sustained performance in the US and improved performance in Western Europe enabled Diageo to absorb the current challenges in some of our emerging markets. We reacted quickly to the changing emerging market environment, reducing inventory levels in several key markets, which led to a weaker Q2, and tightly managing our cost base to deliver improved operating margins in line with our expectations. We continued to invest in the business increasing marketing spend ahead of net sales growth and keeping our strong focus on innovation and route to consumer improvements.

In the first half the organisation has aligned behind the six key performance drivers which I identified when I was appointed CEO; premium core brands, reserve, innovation, route to consumer, cost and talent. This clarity of focus at a market level enables me to take the changes I have already made to the operating model to the next level. Over the next two months we will set out detailed plans to simplify our processes and de-layer our organisation. This will create a more agile, accountable and effective organisation to deliver our performance ambition. I expect this to deliver cost savings of £200 million a year by the end of fiscal 2017.

We do expect some top line improvement in the second half and our focus across the business on the six key performance drivers means that even though some markets may remain challenging, this business is in good shape for the medium and long term and we remain committed to achieving our performance ambition."

1

Key financials:

		2014 H1	2013 H1	Organic growth %	Reported growth %
Volume	EUm	84.3	88.4	(3)	(5)
Net sales	£million	5,932	5,975	2	(1)
Marketing spend	£million	903	918	3	(2)
Operating profit before exceptional items	£million	2,060	2,001	3	3
Operating profit	£million	2,040	2,017		1
Profit attributable to parent company's equity shareholders	£million	1,599	1,521		5
Free cash flow	£million	326	708		
Basic eps	pence	63.8	60.8		5
eps pre-exceptional items	pence	62.6	60.2		4
Interim dividend	pence	19.7	18.1		9

Operating profit before exceptional items includes attributable transaction and integration costs of £7 million (2012 – £29 million) in respect of business acquisitions.

The reported tax rate, which includes tax on exceptional items, remained unchanged at 18.2% (2012 – 18.2%). The tax rate before exceptional items for the six months ended 31 December 2013 was 19.4% compared with 18.3% in the six months ended 31 December 2012. In the six months ended 31 December 2013 a higher level of profit in the group's Venezuelan operations impacted the tax charges for the period. Excluding the group's Venezuelan operation, the tax rate before exceptional items was 17.9%.

Organic growth by region:

	Volume %	Net sales %	Marketing spend %	Operating profit %
North America	(2)	5	5	8
Western Europe	(2)	(1)	(2)	(3)
Africa, Eastern Europe and Turkey	(4)	2	8	(4)
Latin America and Caribbean	(2)	8	8	10
Asia Pacific	(4)	(6)	(3)	(4)

Exchange rate movement

	£million
Net sales	(86)
	(54)

Operating profit
before
exceptional items

The exchange rate movement for net sales and operating profit before exceptional items include the translation of prior year reported results at current year exchange rates. A rate of $1 = VEF9 has been used in respect of the translation of the current and prior period's reported performance in Venezuela.

In the calculation of organic growth for the six months ended 31 December 2013, the group's Venezuelan operations have been translated at a rate of $1 = VEF19 (£1 = VEF30.4) to ensure currency controls do not materially distort the group's performance. The rate of $1 = VEF19 is derived from the consolidation rate of $1 = VEF9 adjusted by inflation. Applying this method the exchange rate for the year ending 30 June 2014 is expected to be approximately $1 = VEF26 (£1 = VEF42.4) and our full year guidance, for reported results and for the organic growth calculation is based on this rate.

Using the following rates (£1 = $1.65 ; £1 = €1.21 ; £1 = VEF42.4), exchange rate movements for the year ending 30 June 2014 are expected to adversely impact operating profit by £280 million and decrease finance charges by £10 million (excluding IAS21 and IAS39).

2

Update on strategic transactions

On 26 November 2013, Diageo acquired an additional 1.35% equity share (1.97 million shares) in United Spirits Limited (USL) through an on-market purchase on the Bombay Stock Exchange. This purchase brought the aggregate equity stake of USL held by Diageo to 26.37% and followed the closing of the earlier USL transaction announced on 9 November 2012 under which, as previously announced on 4 July 2013, Diageo acquired a shareholding of 25.02% of USL for a total consideration of INR 52 billion (£592 million).

There are currently various proceedings pending in courts in India in relation to the earlier USL transaction. More detailed analysis of these proceedings appears in Note 13 to the Financial Statements.

Definitions

Unless otherwise stated in this announcement:

- volume is in millions of equivalent units (EUm)
- net sales are sales after deducting excise duties
- percentage movements are organic movements
- commentary refers to organic movements
- share refers to value share

See page 35 for additional information for shareholders and an explanation of non-GAAP measures.

3

BUSINESS REVIEW

For the six months ended 31 December 2013

North America

Larry Schwartz, President, Diageo North America, commenting on the six months ended 31 December 2013, said:

"Our North American business has delivered a strong set of results in a market where economic recovery has been uneven. Net sales grew 5% with 7ppts of positive price/mix, driven by price increases, favourable mix in US spirits and new innovation launches. Our reserve brands grew 26%, driven by Cîroc, Bulleit, Ketel One vodka and Johnnie Walker which gained a point of share and consolidated its leadership position in the category. Smirnoff's volume declined as it maintained its price position in an increasingly competitive standard vodka category. Our leadership in innovation continued to be a key driver of growth with a number of current and prior year launches amongst the strongest performers in innovation in the United States. Diageo Canada has been affected by economic slowdown as well as a decline in ready to drink and Baileys. While DGUSA net sales declined 10% as a result of destocking in the pouch segment, Guinness was back in growth as our new marketing campaign reinvigorated the brand. Marketing investment was up 5% and focused on key brands such as Guinness and Johnnie Walker and our reserve brands. We have continued to build on our already strong route to market, covering more retail outlets and increasing dedicated resources. Our strong price/mix drove gross margin expansion and overheads were reduced, resulting in an operating margin expansion of 1.3ppts."

Key financials £m:

	2013 H1	FX	Acquisitions and disposals	Organic movement	2014 H1	Reported movement %
Net sales	1,942	(9)	(111)	82	1,904	(2)
Marketing spend	299	(1)	(18)	13	293	(2)
Operating profit before exceptional items	822	-	(31)	60	851	4
Exceptional items	-				(1)	
Operating profit	822				850	3

Key markets and categories:

Organic

The strategic brands**:

Organic

	volume* %	Organic net sales %	Reported net sales %		volume* %	Organic net sales %	Reported net sales %
North America	(2)	5	(2)	Johnnie Walker	1	13	13
				Crown Royal	(3)	1	-
US Spirits & Wines	(1)	6	(1)	Buchanan's	18	19	19
DGUSA	(8)	(10)	(10)	Smirnoff	(7)	(5)	(5)
Canada	(3)	(1)	(7)	Ketel One vodka	4	7	7
				Cîroc	16	18	18
Spirits**	(2)	5	(1)	Captain Morgan	2	3	2
Beer	(3)	-	(1)	Baileys	(1)	2	1
Wine	(3)	5	5	Tanqueray	(4)	(3)	(3)
Ready to drink	(10)	(17)	(30)	Guinness	1	4	3

* Organic equals reported movement for volume except for North America (7)%, US Spirits & Wines (7)%, Canada (5)%, spirits (7)% and ready to drink (17)%, reflecting the disposal of Nuvo and the termination of the Jose Cuervo distribution agreement.

** Spirits brands excluding ready to drink.

In **US Spirits & Wines**, which grew net sales 6% with 7ppts of positive price/mix, super and ultra premium segments and new innovation launches fuelled growth. Weaker volume in Smirnoff was the main driver of the 1% volume decline. Good performance from the Smirnoff Sorbet line and the extension of the Confectionary line was not enough to offset a decline in the Smirnoff core variant, whose price premium in an increasingly price competitive segment has impacted volume. Net sales of Johnnie Walker grew 16% on the back of increased marketing investment and the successful launches of new super premium variants such as Johnnie Walker Platinum Label and Johnnie Walker Gold Label Reserve. Crown Royal and Bulleit continued to perform well in the growing North American whiskey category. Crown Royal grew net sales 1% after lapping last year's launch of Crown Royal Maple Finished, Bulleit outperformed the category and grew net sales 59%. Ketel One vodka and Cîroc grew ahead of the vodka category with Ketel One vodka net sales up 7% driven by the new 'Ketel One vodka of substance' campaign and Cîroc up 16% following the successful launch of Cîroc Amaretto. Don Julio continued to perform strongly as net sales grew 25%, and gained share. Buchanan's volume and net sales grew double digit through its continued focus on the Hispanic community. Net sales growth in the second quarter benefitted from the shipment of Captain Morgan white rum ahead of the launch in January.

- In **Canada,** net sales were impacted by the weaker economy. Guinness and Cîroc grew while weakness in ready to drink and Baileys led to net sales decline of 1%.
- In **DGUSA** net sales were down 10% driven by category decline and destocking in the pouch segment, weakness in Smirnoff Ice, which continued to face competition from innovation in beer, and in Red Stripe. However, Guinness improved its performance and grew net sales 2%, benefitting from increased marketing investment on a new campaign.
- Marketing investment was up 5%, largely driven by increases in spend on premium core and reserve brands. Investment was focused on Johnnie Walker's super and ultra premium variants with the 'Keep walking' campaign aimed at maintaining the brand's relevance for a new generation of consumers, and on Guinness largely driven by the 'Basketball' national television commercial which generated 18 million views on YouTube. We increased media spend on proven campaigns such as the Crown Royal 'Reign on' campaign, 'Luck be a lady' campaign for Cîroc and launched the first Hispanic marketing programme for Captain Morgan, 'Noches del capitan', which contributed to making the brand popular amongst Hispanic male consumers. Marketing investment in our reserve portfolio grew 10% driven by increased commercial activation in Don Julio and support of the launch of Cîroc Amaretto.

Western Europe

John Kennedy, President, Diageo Western Europe, commenting on the six months ended 31 December 2013, said:

"The improvement in performance we delivered in the first quarter has continued through the half as a result of investment in brands and markets and successful innovation. The net sales decline of 1% was largely driven by the tough economic environment in Southern Europe and Ireland, where the beer market continues to decline. Great Britain and France both grew in this half and Germany continues to perform well. We continue to pursue our strategy to invest behind our premium core brands, our innovation agenda and our reserve portfolio. Overall marketing investment declined broadly in line with net sales, we have delivered greater efficiency in marketing spend and increased our media spend especially on Captain Morgan and Tanqueray which were the best performing brands in the region. Our upweighted investment on Cîroc, Johnnie Walker, Zacapa and Talisker has been an important driver of the continued double digit growth of our reserve brands. Innovation was a key contributor to Western Europe's improved performance, as we invested behind recent multi-country launches such as Baileys Chocolat Luxe and Parrot Bay Frozen Pouches, and sustained prior year launches. These results show we have the strategy to capture the growth opportunities in the region."

Key financials £m:

	2013 H1	FX	Acquisitions and disposals	Organic movement	2014 H1	Reported movement %
Net sales	1,174	38	(21)	(12)	1,179	-
Marketing spend	176	6	(2)	(3)	177	1
Operating profit before exceptional items	378	6	(2)	(12)	370	(2)
Exceptional items	20				-	-
Operating profit	398				370	(7)

5

Key market and categories:	Organic volume* %	Organic net sales %	Reported net sales %	The strategic brands**:	Organic volume* %	Organic net sales %	Reported net sales %
Western Europe	(2)	(1)	-	Johnnie Walker	(1)	(2)	2
				J B	(11)	(14)	(9)
Spirits**	(1)	(1)	1	Smirnoff	(2)	(4)	(2)
Beer	(7)	(4)	-	Captain Morgan	14	11	14
Wine	(7)	(1)	(11)	Baileys	(5)	(2)	1
Ready to drink	(1)	-	2	Guinness	(6)	(3)	(1)

* Organic equals reported movement for volume except for Western Europe (4)%, spirits (2)% and wine (15)%, reflecting the termination of the Jose Cuervo and Pommery distribution agreements.

** Spirits brands excluding ready to drink.

- Volume in **Southern Europe** declined 7% and net sales 6% as the weak economy continued to affect consumption. Scotch net sales represents half of the business and declined double digit mainly driven by J B, as promotional activity was reduced. In contrast, Tanqueray grew double digit as the brand benefited from a new communication platform in the more vibrant gin category.
- In **Ireland** net sales were down 6% as the beer market continued to decline across all channels. As a result Guinness net sales declined 6% and the brand lost 0.5ppts of share mainly due to the warm summer. Excise duty was increased for the second year and contributed to the 16% net sales decline of the spirits portfolio.
- In **Great Britain,** net sales grew 1%. Reserve brands performed strongly, up 24% driven by Cîroc and Talisker. Successful innovations also drove growth including Cîroc Red Berry, Smirnoff Gold and Baileys Chocolat Luxe. Pimm’s net sales nearly trebled in the good summer weather and Captain Morgan performed well driven by increased media activity. Guinness performance was flat, however price increases and competitors’ pricing and promotional activity impacted Smirnoff and net sales declined 2%. The decision to hold price on Bell’s impacted performance and net sales were down 21%.
- **Germany** delivered net sales and volume growth of 6% and 3% respectively. Baileys and Johnnie Walker Red Label were weak as a result of price pressure. However the reserve portfolio performed well and net sales were up 22% driven by a strong performance of malts. Captain Morgan continued to perform strongly with net sales up 20%, gaining 2.6ppts of share on the back of a new television campaign.
- In **France** net sales were up 2% with 1ppt of positive price/mix, mainly driven by the solid performance of malts which gained share.
- **Diageo Wines Europe** net sales declined 1% as Justerini & Brooks discontinued distribution of spirits to focus on the core wine business, which was up 1% overall.
- Marketing investment decreased 2% mainly driven by Guinness, following last year’s significantly increased investment. We upweighted our investment in media, supporting Johnnie Walker’s ‘Where flavour is king’ campaign, Captain Morgan’s ‘Live like the captain’ campaign in Germany which brings to life the legendary tales of Captain Henry Morgan and Baileys’ ‘Christmas with spirit’ campaign featuring a modern telling of the Nutcracker.
- Innovation has been a key contributor to Western Europe’s performance. Successful recent launches include Baileys Chocolat Luxe, Parrot Bay frozen pouches, Cîroc Red Berry, Smirnoff Gold, Talisker Storm and Pimm’s Blackberry and Elderflower.

Africa, Eastern Europe and Turkey

Nick Blazquez, President, Diageo Africa, Eastern Europe and Turkey commenting on the six months ended 31 December 2013, said:

"Our regional performance has been impacted by two factors; contraction of the beer market and the growth of value beers in Nigeria, and a decline in Senator keg as excise duty was introduced on the brand. This has led to a weaker top line performance and negatively impacted our margin. That said, the region has also achieved success in a number of areas; reserve brands grew strongly, South Africa delivered a very good performance, and in East Africa, net sales of Guinness and Tusker were up double digit. Russia and Poland delivered robust results through focused efforts on whiskey and Captain Morgan. Turkey delivered a solid performance given the recent duty increases and legislative changes to the sale and advertising of alcohol. We have continued to build our brands with the region's emerging market consumers and marketing was up 8%, driven by the rollout of successful innovations, notably in ready to drink in Africa and scotch in Russia and Eastern Europe. We relaunched the Guinness brand in Nigeria and East Africa with a step change in the quality of our packaging, new visibility materials, and a full suite of advertising assets as part of the new 'Made of more' global positioning. We continued to make good progress in improving our route to consumer in Nigeria and Ghana and we have driven out costs in East Africa by optimising our supply chain. All of these initiatives further strengthen our position to capture the growth opportunities in the region."

Key financials £m:

	2013 H1	FX	Acquisitions and disposals	Organic movement	2014 H1	Reported movement %
Net sales	1,188	(50)	(3)	20	1,155	(3)
Marketing spend	137	(11)	(1)	10	135	(1)
Operating profit before exceptional items	371	(33)	1	(12)	327	(12)
Exceptional items	-				(2)	
Operating profit	371				325	(12)

Key markets and categories:

	Organic volume* %	Organic net sales %	Reported net sales %
Africa, Eastern Europe and Turkey	(4)	2	(3)
			(4)
Africa	(6)	2	(2)
Nigeria	(13)	(10)	(10)
East Africa	(9)	4	3
Africa Regional Markets	(8)	1	(2)
South Africa	7	20	1
Russia and Eastern Europe	4	5	3
Turkey	(5)	(1)	(10)
Spirits**	2	2	(6)
Beer	(16)	(4)	(5)
Ready to drink	91	70	62

The strategic brands**:

	Organic volume* %	Organic net sales %	Reported net sales %
Johnnie Walker	4	2	(2)
J B	(3)	(10)	
Smirnoff	(3)	(4)	(13)
Captain Morgan	21	17	9
Baileys	(11)	(5)	(6)
Guinness	(9)	(2)	(2)

* Organic equals reported movement for volume except for South Africa 6%, Russia and Eastern Europe 3% and Spirits 1% reflecting the termination of the Jose Cuervo distribution agreement.

** Spirits brands excluding ready to drink.

- The beer market decline in **Nigeria** continued at a mid-single digit rate, and consumers continued to be drawn to value offerings, particularly in lager, as low government spending and high inflation constrained disposable incomes and Harp and Guinness were both impacted by this trading down and by the effect of price increases. Dubic, which was launched in fiscal 2012, is still a relatively small proportion of the business but grew strongly and nearly doubled in size. In ready to drink, Snapp drove category net sales growth of 10%. Spirits volume was up 22% and net sales grew nearly 30% as a significant increase in marketing investment drove 39% growth on Johnnie Walker and reserve brands doubled.
- In **East Africa**, Senator keg was originally developed to replace illicit alcohol products and the government initially reduced and then eliminated duty on the brand. In October the duty remission was halved, leading to a 67% price

increase. Following the price rise, volume fell roughly significantly, and net sales were down for the half year. The bottled beer market in Kenya softened slightly following the introduction of the VAT act, but the Tusker brand remained strong and it delivered double digit net sales growth, maintained its leadership position and increased price. Guinness net sales also grew double digit and price increases were taken, supported by a significant increase in marketing investment behind the brand. The success of recent innovations, Jebel and Jebel Gold, a mid-proof spirit in a keg, drove almost half of the spirits net sales growth.

Net sales in **Africa Regional Markets** grew 1%. While beer net sales in Ghana and Cameroon were roughly flat, as Malta compensated for softness in Guinness, Meta delivered a strong performance and the 15% growth of the brand drove 21% growth in Ethiopia. In West and Central Africa Johnnie Walker and Guinness net sales grew 35% and 21% respectively, on the back of strong brand execution and more consistent regional pricing. However, this was offset by the destock of Johnnie Walker in Angola as a result of the change in route to market which was introduced at the end of last year, and while net sales declined 74% in spirits, depletions continued to be strong.

7

- In **South Africa** net sales grew 20%, despite softness in the macroeconomic environment, on the success of recent innovations and the strength of marketing execution. Spirits performance was led by Johnnie Walker Red Label, with net sales growth of nearly 30%, as the brand was supported by increased distribution and activations in outlets. The growth of Johnnie Walker Red Label was offset in part by a 9% net sales decline in Smirnoff 1818, which continued to take share from competitor offerings but was lapping a strong performance in the comparable period. Ready to drink performed very well with the continued success of Smirnoff Ice Double Black & Guarana.
- **Russia and Eastern Europe** delivered 5% net sales growth driven by whiskey and rum. In Russia, scotch volume was up 6%, with strong depletions driven by significant share gains on Johnnie Walker Red Label and Bell's, which was up 49%. Bushmills delivered a particularly good performance with net sales up 33%. Rums also performed well as Captain Morgan gained share against its main competitor in Russia with net sales up 36% and Zacapa net sales doubled. Vodka net sales declined slightly with a strong performance of Smirnoff in Poland offset by weakness in Smirnov in Russia where the mass vodka segment has been in double digit decline following duty increases.
- In **Turkey**, volume declined 5% and net sales were down 1%. Raki volume declined 6% in line with the category and the Diageo Raki portfolio maintained share. Scotch volume grew 2% but net sales declined as strong domestic depletions were offset by volume softness in duty free and North Cyprus, and recent price increases did not fully cover excise duty increases. In vodka, net sales declined 7%. Smirnoff domestic depletions were strong but price increases did not fully cover excise duty increases and Istanblue slowed in the increasingly price competitive value segment.

Latin America and Caribbean

Alberto Gavazzi, President, Diageo Latin America and Caribbean, commenting on the six months ended 31 December 2013, said:

"Our performance in Latin America in the half has been solid reflecting resilience in consumer demand, albeit growth is now at more modest levels. This has resulted in the good performance of our domestic businesses. However the fluctuating currency environment has impacted trade in the free trade zone and border channels. This together with our tight management on pricing has led to destocking in West LAC. In Venezuela and Argentina the trading environment continues to be challenging. In both markets we are actively managing pricing and working to build our domestic portfolio and the strength of our scotch brands delivered good growth. In Brazil, performance improved, net sales were up mid-single digit, despite a destock which halved the rate of net sales growth. Our acquisition of Ypióca is now fully integrated and all the synergies identified. Our strong scotch portfolio continued to be a key driver of net sales growth, up 6% despite destocking and we are diversifying into other categories, with rums up over 20% and cachaça growing nearly 30%. We're building the strength of our brands with an 8% increase in marketing investment and we actively managed our cost base, driving operating margin expansion of 51 basis points, despite investment in route to consumer in Brazil, Mexico and Colombia."

Key financials £m:

	2013 H1	FX*	Acquisitions and disposals	Organic movement	2014 H1	Reported movement %
Net sales	794	53	(5)	58	900	13
Marketing spend	120	(4)	(2)	9	123	3
Operating profit before exceptional items	301	60	-	25	386	28
Exceptional items	-				(1)	
Operating profit	301				385	28

* The net foreign exchange adjustment for net sales, marketing spend and operating profit before exceptional items includes an adjustment to the calculation of Venezuela’s organic growth of £83 million, £2 million and £73 million respectively, after adjusting the current and prior period’s performance at $1 = VEF19 (£1 = VEF30.4).

8

Key markets and categories:

	Organic volume* %	Organic net sales %	Reported net sales %
Latin America and Caribbean	(2)	8	13
PUB	5	3	(6)
Andean	(4)	83	92
Mexico	3	-	-
West LAC	(13)	(14)	(17)
Spirits**	(2)	8	14
Beer	5	10	-
Wine	(11)	9	(6)
Ready to drink	3	14	18

The strategic brands**:

	Organic Volume* %	Organic net sales %	Reported net sales %
Johnnie Walker	(4)	2	3
Buchanan's	(28)	6	23
Smirnoff	-	(2)	(9)
Baileys	3	13	13

* Organic equals reported movement for volume except for: Andean (6)%, Mexico 2%, West LAC (14)% and Spirits (3)% reflecting the disposal of Nuvo and the termination of the distribution agreement with Cuervo.

** Spirits brands excluding ready to drink.

- **Paraguay, Uruguay and Brazil (PUB)** delivered 3% net sales growth. Declines in Paraguay and Uruguay, resulted from currency movements which drove significant destocking in the duty free businesses in those countries. Net sales growth in Brazil was strong, driven by scotch and cachaça. Within scotch, super premium Johnnie Walker variants were up 29%, and Old Parr and White Horse were particularly strong with net sales growth of 50% and 46% respectively, reflecting the bifurcation of consumer spending patterns. The Ypióca brand was re-launched with new packaging and a media campaign featuring John Travolta. Ypióca has been fully integrated into the portfolio and top line growth was 31%. Vodka net sales declined 8% as softness in Smirnoff was only partially offset by strong double digit growth of Cîroc. Smirnoff Ice declined as lower priced regional players gained share in a declining market.
- The **Andean business of Venezuela and Colombia** continued to grow. In Venezuela, price increases were taken on the scotch portfolio to address inflation and this has now impacted total volume which was down 5%. Net sales growth was driven by premium scotch, notably Buchanan's, Old Parr and Johnnie Walker Black Label. Net sales of rum more than doubled as price increases and on and off trade activations built on the already strong Cacique brand equity.
- Net sales were flat in **Mexico**. The strong performances of Johnnie Walker Black Label and Johnnie Walker super premium, which both delivered double digit net sales growth and Black & White which nearly trebled in size, were offset by weakness in Johnnie Walker Red Label and J B in the increasingly competitive standard segment, and Buchanan's 12 in the premium segment. Baileys continued to lead the liqueur category and support behind the 'Baileys with coffee' platform helped drive 15% top line growth of the brand.
- Diageo's largest market in the region, **West LAC**, saw net sales decline 14%. This was driven almost exclusively by wholesale channels where there was significant destocking and Chile, where price re-alignment led to significant destocking, impacting key brands such as Buchanan's and Old Parr. In Argentina, Johnnie Walker, Smirnoff and Navarro wines performed well after import restrictions were eased. In Jamaica, new flavour innovations on Smirnoff

and Smirnoff Ice and net sales growth of 11% on beer drove 17% top line growth.

Asia Pacific

Gilbert Ghostine, President, Diageo Asia Pacific, commenting on the six months ended 31 December 2013, said:

"The region faced some specific challenges. Chinese white spirits declined significantly due to the anti-extravagance measures and South East Asia was impacted by weakness in some markets and channels, including Thailand. Aside from these difficulties, however, we had a number of successes. In Greater China, super and ultra premium scotch growth was fuelled by Johnnie Walker innovations and Blue Label and The Singleton which grew 35%. We had success in Korea, Windsor performance improved significantly and this along with growth of J B resulted in net sales growth. We saw strong growth in India and started to see benefits from the USL sales promotion agreement that we have put in place. Across a number of our markets we gained share in key categories including vodka in Japan, ready to drink in Australia and Japan and volume share gains in scotch in Korea, China and India. Organic operating margin improved as we increased focus on driving cost efficiencies, with a significant reduction in overheads."

9

Key financials £m:

	2013 H1	FX	Acquisitions and disposals	Organic movement	2014 H1	Reported movement %
Net sales	835	(36)	(3)	(44)	752	(10)
Marketing spend	182	(7)	-	(5)	170	(7)
Operating profit before exceptional items	201	(15)	16	(9)	193	(4)
Exceptional items	-				-	-
Operating profit	201				193	(4)

Key markets and categories:

	Organic volume* %	Organic net sales %	Reported net sales %
Asia Pacific	(4)	(6)	(10)
South East Asia	(15)	(11)	(13)
Greater China	(7)	(23)	(22)
India	27	35	19
GTME	4	1	-
Australia hub	1	(1)	(13)
North Asia	(3)	4	(2)
Spirits**	(4)	(8)	(10)
Beer	1	-	(6)
Ready to drink	1	(1)	(12)

The strategic brands**:

	Organic volume* %	Organic net sales %	Reported net sales %
Johnnie Walker	(10)	(10)	(11)
Windsor	(7)	(1)	1
Smirnoff	3	4	(4)
Baileys	4	5	-
Guinness	1	-	(7)

* Organic equals reported movement for volume except for Greater China (8)% and Australia (1)% reflecting the termination of the distribution contract for Jose Cuervo.

** Spirits brands excluding ready to drink.

- In **South East Asia** net sales declined 11%. In Thailand, political unrest, a weaker market environment and double digit price increases due to tax rises significantly impacted performance. Elsewhere in South East Asia, it has been a mixed picture. In some markets and channels, sales were impacted by lower shipments as economic softness and currency weakness affected trade confidence, while in Indonesia and Vietnam net sales have grown double digit. Guinness net sales growth in Indonesia slowed to 5%, impacted by tightening of government regulations which has reduced the number of outlets stocking beer.
- **Greater China** performance largely reflects the impact of the government's anti-extravagance measures. The Shui Jing Fang business was most affected, with significant price discounting by competitors in the baijiu category driving a 66% decline in net sales**.** Johnnie Walker Black Label net sales declined, with shipments impacted by management of trade stock levels, however, depletions increased slightly compared to last year and the brand grew volume share. Super and ultra premium scotch performed strongly and also gained volume share driven by Johnnie Walker Blue

Label in China and Johnnie Walker Gold Label XR and The Singleton in Taiwan. Increased investment behind media, sampling and gifting resulted in continued growth of Baileys, with 37% net sales growth.

- **India** delivered strong double digit net sales growth driven by volume share gains and initial distribution gains resulting from our sales promotion agreement with USL, lower stock in trade at the start of the financial year and a soft comparison against the prior period. Momentum continued on scotch as Johnnie Walker net sales grew 87% and delivered almost half of India's growth. Smirnoff net sales returned to growth, growing double digit due to increased focus on flavours through upweighted on trade activation, experiential events and a new global brand campaign 'Smirnoff experience'.
- **Global Travel Asia & Middle East (GTME)** reflected the strong performance in the Middle East, largely offset by the Asia duty free business. In the Middle East, net sales grew double digit driven by improvement in our route to consumer and on trade growth partly due to increased tourism in the Gulf region. Innovation also played a key role in driving growth, particularly super and ultra premium variants in the Middle East travel retail channel. The Asia duty free business net sales declined significantly as a result of destocking by key customers.
- In **Australia**, growth in spirits was offset by the continued decline of ready to drink. Spirits net sales grew 5% driven by the launch of Smirnoff Double Black and the significant growth of Ketel One vodka, Tanqueray and Don Julio. Captain Morgan also contributed with rapid growth of the spiced rum segment resulting in 81% net sales growth. In the declining ready to drink category, net sales declined 6%. Within the segment, innovation, increased shopper activities and marketing campaigns resulted in share gains, particularly for vodka, gin and rum brands. Marketing investment declined 2% reflecting reduced spend behind ready to drink brands partly offset by increased focus on innovation and super premium brands.

- **North Asia** returned to growth with net sales increasing 4%, through the recovery of scotch volume share in Korea and continued growth of Smirnoff Ice in Japan. In Korea, the whisky market continues to contract, but now that competitors have taken price increases, Diageo has regained and extended its volume share. Windsor net sales are in line with last year, supported by the launch of Windsor 17 Black. In Japan, Smirnoff Ice net sales grew double digit and gained share, with growth from Smirnoff Ice Red and incremental net sales from the launch of Smirnoff Ice Green Apple Bite. Net sales of Guinness in Japan declined, due to lower foot traffic in the on premise and loss of share as a result of significant investment by Japanese beers to capture growth in the craft beer segment.
- Marketing investment declined 3% largely driven by Korea in response to the contracting whisky market and in Thailand in response to market softness. Investment increased behind Baileys to support growth, particularly in Vietnam and China. Investment also increased behind Bundaberg rum in Australia to support the launch of Bundaberg 125th Anniversary in the ultra premium rum segment. Marketing spend on Shui Jing Fang increased to support the brand in the competitive environment and behind innovation.

Corporate revenue and costs

Net sales were £42 million in the period ended 31 December 2013, flat relative to the comparable prior period. Net operating charges were £67 million in the period ended 31 December 2013 (2012 – £72 million). The reduction comprised, a £6 million decrease in corporate costs, less a £1 million adverse exchange rate movement.

CATEGORY REVIEW

For the six months ended 31 December 2013

Key financials category performance:

	Organic volume* %	Organic net sales %	Reported net sales %		Organic volume* %	Organic net sales %	Reported net sales %
Spirits**	(1)	2	-	Rum:	9	9	10
Beer	(12)	(3)	(3)	Captain Morgan	6	6	5
Wine	(6)	3	(2)				
Ready to drink	12	5	(6)	Liqueurs:	(3)	-	(3)
Total	(3)	2	(1)	Baileys	(3)	1	1
Strategic brand performance**				Tequila:	29	26	(67)
Whisk(e)y:	(3)	2	4	Gin:	(1)	-	1
Johnnie Walker	(3)	(1)	(1)	Tanqueray	2	2	2
Crown Royal	(3)	1	-				
J B	(9)	(9)	(9)	Beer:	(12)	(3)	(3)
Buchanan's	(20)	9	23	Guinness	(5)	(1)	(1)
Windsor	(7)	(1)	1				
Bushmills	17	13	14				
Vodka:	(3)	3	2				
Smirnoff	(4)	(3)	(5)				
Ketel One vodka	6	9	8				
Cîroc	20	22	22				

* Organic equals reported movement for volume except for total (5)%, spirits (4)%, wine (11)%, ready to drink 6%, liqueurs (5)%, and tequila (80)%, largely reflecting the disposal of Nuvo and the termination of the distribution agreement of Pommery and Jose Cuervo.

** Spirits brands excluding ready to drink.

Category percentages of net sales are for the year ended 30 June 2013.

Spirits represents 69% of Diageo net sales and grew 2% and delivered 3ppts of positive price/mix. The growth was driven by North America, whereas volatility in emerging markets resulted in flat net sales. Super and ultra premium

spirits led the growth and contributed to positive price/mix.

Whisk(e)y represents 36% of Diageo net sales and contributed over half of total net sales growth, driven by North America and Latin America and Caribbean. Scotch performance was in line with total whiskey, with net sales growth of 2% and volume decline of 4%.

- **Johnnie Walker** net sales declined slightly. The decline was driven by Johnnie Walker Red Label and Black Label performance which was impacted by market weakness in Thailand and destocking across a number of markets including South East Asia, Asia duty free, West LAC and PUB. Performance was also impacted by the comparison against the prior period in North America when Johnnie Walker Double Black was launched. Super and ultra premium variants grew double digit, largely driven by North America which along with pricing in Venezuela drove positive price mix. In North America as a result of the successful launches of new super premium and above variants and marketing activity aimed at recruiting the new generation of whisky drinkers, net sales grew 13%.
- Net sales of **Crown Royal** in North America grew, driven by the launch of Crown Royal XO, a super premium variant. This growth was partly offset by the comparison against the prior period when Crown Royal Maple Finished was launched. Marketing investment was focused on the 'Reign on' marketing campaign. With strong brand equity in place, price was increased and delivered 4ppts of positive price/mix.
- **J B** net sales declined 9%, primarily driven by continued contraction in Spain and weakness in emerging markets also having an impact. This was partly offset by growth in South Africa, the brand's third largest market and growth in Korea where the brand more than doubled net sales.
- **Buchanan's** net sales increased despite volume decline. In Latin America and Caribbean, volume performance was significantly impacted by destocking in wholesale channels and a slow down in Mexico, offset by Venezuela, where price increases delivered significant net sales growth but volume declined. Net sales grew double digit in North America where the brand continued to target Latin American consumers and marketing investment increased to support the 'A lo Grande' campaign, sponsorships and trade activation.

12

- **Windsor** performance improved and net sales were broadly in line with last year. In the brand's primary market, Korea, the brand has regained and extended its volume share position and a new super premium variant, Windsor 17 Black was launched to drive incremental growth in the on trade.
- **Bushmills** again performed strongly with particularly strong performance in Russia and Eastern Europe and in Germany and Austria where net sales for the brand more than doubled. Growth was driven by 'Bushmills live' marketing events, collaborations with Elijah Wood and Aaron Paul and the expansion of the Bushmills Honey innovation in Western and Eastern Europe.
- **Malts** continue to perform well with net sales growth of 22%. The recently launched Talisker Storm and the Talisker Whisky Atlantic Challenge drove net sales growth for the brand of 44%. The Singleton and Lagavulin also contributed with net sales growth of 28% and 22% respectively.

Vodka represents 12% of Diageo net sales. Net sales grew 3%, with growth of super and ultra premium variants driving 6ppts of positive price/mix. North America contributed over 60% of vodka net sales and 90% of the net sales growth for the category.

- **Smirnoff** net sales declined in North America, its largest market, where the brand lost share in an increasingly price sensitive segment. However, innovations performed well, as the Smirnoff Light Sorbet line and the launch of new Smirnoff Wild Honey and Cinna-Sugar Twist flavoured vodka positively impacted performance. Net sales in Western Europe also declined, primarily driven by competitive pricing in the on trade in Great Britain and difficult market conditions in Ireland. This was largely offset by the launch of the new signature serve Smirnoff Apple Bite in both countries and Smirnoff Gold in Great Britain, with both innovations supported by strong marketing campaigns. In Australia, net sales grew 4% driven by the launch of Smirnoff Double Black, with a national campaign.
- **Ketel One** vodka grew both net sales and volume. In North America, net sales growth was driven by the launch of the 'Vodka of substance' campaign and brand ambassador and mentoring programmes. Outside of North America, net sales grew by almost 50%, led by net sales in Australia more than doubling.
- **Cîroc** again performed strongly, with net sales growth of 22%. In North America, growth was driven by price increases and the launch of Cîroc Amaretto, supported by increased marketing investment behind the 'Luck be a lady' campaign. Net sales doubled outside of the United States, with all markets performing well, in particular, Canada and Great Britain.

Rum represents 6% of Diageo net sales. Net sales of rum grew 9% driven by Captain Morgan, Cacique and Zacapa. Cacique net sales increased 38% driven by both volume growth and price increases in Venezuela.

- **Captain Morgan** net sales grew 6% fuelled by growth in Germany and Austria, Great Britain and Russia and Eastern Europe through success of the 'Keys to adventure' experiential events and the new 'Live like the captain' campaign. In North America, which contributes over 70% of net sales for the brand, net sales grew 3%. The sell in of Captain Morgan white rum ahead of a planned launch early in the second half and the Captain Morgan Sherry Oak limited edition offer offset the impact on performance of increased competition from flavoured whiskies and other spiced rums.
- **Zacapa** performed strongly with double digit net sales growth, driven by 28% growth in its largest region, Western Europe. Investment focused on trade persuasion, mentoring and sampling. The successful Zacapa Rooms, a luxury temporary lounge dedicated to tasting events for key influencers, media and consumers, continued to be rolled out across Western Europe.

Liqueurs represents 5% of Diageo total net sales. Performance was driven by Baileys, which represents over 85% of the category.

- **Baileys** net sales grew 1% with mixed performance across markets. The brand continued to grow net sales in North America driven by the success of the Baileys Vanilla Cinnamon launch with the campaign 'The most stylish shot of the night'. In Greater China, building on the success achieved in Shanghai, Baileys was launched in Beijing, growing net sales 37%. Baileys also grew in Latin America and Caribbean following the roll out of the global campaign 'Cream with spirit' and activation in Mexico focused on 'Baileys and coffee'. In Western Europe, net sales declined slightly. Performance was impacted by price increases in Germany and Benelux and high stock in trade levels at the start of the financial year in Great Britain, however, this was partly offset by the successful launch of Baileys Chocolat Luxe. Marketing investment increased slightly behind the global marketing campaign and local campaigns such as 'Christmas with spirit', the first Christmas television commercial in Great Britain for five years.

Tequila net sales grew 26% driven by strong performance of **Don Julio**. In its primary market, North America, net sales grew 25% and share increased. This was driven by a significant increase in marketing investment to support new brand positioning and commercial activation around the summer programme, 'Elevate your summer'. Don Julio continued to perform strongly outside of the United States, growing net sales 33%.

Gin represents 3% of Diageo net sales and net sales were flat. Growth in Africa was offset by a 4% net sales decline of Gordons across all regions except Latin America and Caribbean.

- **Tanqueray** net sales grew 2% largely driven by a strong performance in Western Europe. The launch of new print and online communications is helping to drive significant net sales growth across the region. In North America, depletions performed well and Diageo grew share but shipments were impacted by higher stock levels at the start of the financial year.

Beer, which represents 21% of Diageo net sales, declined 3% driven by Nigeria, where in a weak market consumers are trading down to value beer and by challenges in the beer market in Ireland.

- **Guinness** net sales declined 1%, delivering 4ppts of positive price/mix from price increases. Guinness performed well in East Africa, North America and South East Asia. In East Africa, a price increase drove net sales growth of 23%, and this was supported by a significant increase in marketing investment. In North America, the United States grew slightly and Canada grew net sales 15% supported by the 'Basketball' advertising. Offsetting this growth was a decline in Nigeria and Ireland due to difficult market conditions and in Japan due to on premise decline and a significant increase in competitor investment in craft beer.

- Performance of local African beers was negatively impacted by the decline of mainstream beer and increased pricing pressure in Nigeria, with the Harp brand most affected. The excise duty impact on Senator in Kenya also resulted in net sales decline. These challenges were in part offset by growth of other local beer brands including Tusker which grew double digit driven by price increases and strong football related marketing programmes.

Wine represents 4% of Diageo net sales and grew 3%. Growth was largely driven by North America, as a result of price increases and innovation.

Ready to drink represents 6% of Diageo's net sales and grew 5% driven by South Africa, Venezuela and Japan, partly offset by a decline in North America and Australia. In South Africa, the growth was driven by the successful launch of Smirnoff Ice Double Black & Guarana. In Japan, net sales grew 32% driven by both Smirnoff Ice core variants and the launch of Smirnoff Ice Green Apple Bite as a permanent variant. Destocking of pouches largely drove the net sales decline in North America, and in Australia, category decline continued to impact performance.

FINANCIAL REVIEW

Summary consolidated income statement

	Six months ended 31 December 2013£ million	Six months ended 31 December 2012 (restated) £ million
Sales	**8,014**	8,131
Excise duties	**(2,082)**	(2,156)
Net sales	**5,932**	5,975
Operating costs before exceptional items	**(3,872)**	(3,974)
Operating profit before exceptional items	**2,060**	2,001
Exceptional operating items	**(20)**	16
Operating profit	**2,040**	2,017
Non-operating items	**138**	-
Net finance charges	**(225)**	(229)
Share of associates' profits after tax	**181**	140
Profit before taxation	**2,134**	1,928
Taxation	**(388)**	(351)
Profit from continuing operations	**1,746**	1,577
Discontinued operations	**(92)**	-
Profit for the period	**1,654**	1,577
Attributable to:		
Equity shareholders of the parent company	**1,599**	1,521
Non-controlling interests	**55**	56
	1,654	1,577

Sales and net sales

On a reported basis, sales decreased by £117 million from £8,131 million in the six months ended 31 December 2012 to £8,014 million in the six months ended 31 December 2013 and net sales decreased by £43 million from £5,975 million in the six months ended 31 December 2012 to £5,932 million in the six months ended 31 December 2013. Exchange rate movements decreased reported sales by £143 million and reported net sales by £86 million. Disposals decreased reported sales by £179 million and reported net sales by £143 million.

Operating costs before exceptional items

On a reported basis, operating costs before exceptional items decreased by £102 million from £3,974 million in the six months ended 31 December 2012 to £3,872 million in the six months ended 31 December 2013 due to a decrease in cost of sales of £64 million from £2,248 million to £2,184 million, a decrease in marketing spend of £15 million from £918 million to £903 million, and a decrease in other operating expenses before exceptional costs of £23 million, from £808 million to £785 million. Exchange rate movements benefited total operating costs before exceptional items by £32 million.

Exceptional operating items

Exceptional operating charges of £20 million in the six months ended 31 December 2013 comprised £3 million (2012 – £nil) in respect of the Supply excellence restructuring programme and £17 million (2012 – £4 million) for the restructuring of the group’s supply operations in Ireland.

In the six months ended 31 December 2012 exceptional operating items also included a gain of £20 million in respect of changes to future pension increases for the Diageo Guinness Ireland Group Pension Scheme.

In the six months ended 31 December 2013 total restructuring cash expenditure was £41 million (2012 – £34 million). An exceptional charge of approximately £70 million is expected to be incurred in the year ending 30 June 2014 in respect of the Supply excellence review and the restructuring of the group’s supply operations in Ireland, and the cash expenditure in respect of these programmes is expected to be approximately £75 million.

Operating profit

Reported operating profit for the six months ended 31 December 2013 increased by £23 million to £2,040 million from £2,017 million in the comparable prior period. Before exceptional operating items, operating profit for the six months ended 31 December 2013 increased by £59 million to £2,060 million from £2,001 million in the comparable prior period. Exchange rate movements decreased both operating profit and operating profit before exceptional items for the six months ended 31 December 2013 by £54 million. Acquisitions increased reported operating profit by £22 million and disposals decreased reported operating profit by £38 million.

Non-operating items

In the six months ended 31 December 2013 non-operating items of £138 million included a gain of £140 million following the acquisition of additional equity shares in United Spirits Limited (USL) which increased the group's equity interest in USL from 10.04% to 25.02% and triggered a change in accounting from available-for-sale investments to associates. As a result, the accumulated fair value movements, in respect of the 10.04% holding in USL, previously reported in other comprehensive income were recycled to the income statement.

Net finance charges

Net finance charges amounted to £225 million in the six months ended 31 December 2013 (2012 – £229 million).

Net interest charge decreased by £13 million from £201 million in the comparable prior period to £188 million in the six months ended 31 December 2013. The effective interest rate was 4.1% (2012 – 4.9%) in the six months ended 31 December 2013 and average net borrowings increased by £1,016 million compared to the comparable prior period. For the calculation of effective interest rate, the net interest charge excludes fair value adjustments to derivative financial instruments and borrowings and average monthly net borrowings include the impact of interest rate swaps that are no longer in a hedge relationship but exclude the market value adjustment for cross currency interest rate swaps.

Net other finance charges for the six months ended 31 December 2013 were £37 million (2012 – £28 million). There was a decrease of £15 million in finance charges in respect of post employment plans from £22 million in the six months ended 31 December 2012 to £7 million in the six months ended 31 December 2013. Other finance charges also included £3 million (2012 – £6 million) in respect of the unwinding of discounts on liabilities and a hyperinflation adjustment of £27 million (2012 – £2 million) in respect of the group's Venezuela operations.

Associates

The group's share of associates' profits after interest and tax was £181 million for the six months ended 31 December 2013 compared to £140 million in the comparable prior period. Diageo's 34% equity interest in Moët Hennessy contributed £164 million (2012 – £132 million) to share of associates' profits after interest and tax.

Profit before taxation

Profit before taxation increased by £206 million from £1,928 million in the comparable prior period to £2,134 million in the six months ended 31 December 2013.

Taxation

The reported tax rate remained unchanged at 18.2% in the six months ended 31 December 2013 compared to the comparable prior period. The tax rate before exceptional items for the six months ended 31 December 2013 was 19.4% compared with 18.3% in the six months ended 31 December 2012. In the six months ended 31 December 2013 an increase in the hyperinflation charge for Venezuela which is not tax deductible, and an increase in the proportional share of profit from Venezuela impacted the tax charge for the period. Excluding the group's Venezuelan operation, the tax rate before exceptional items was 17.9%, and it is expected that it will remain at approximately 18%.

Discontinued operations

Discontinued operations in the six months ended 31 December 2013 represented a charge after taxation of £92 million (2012 – £nil) in respect of the settlement of the litigation in Australia and New Zealand (£51 million) and anticipated future payments to thalidomide injured individuals and thalidomide organisations (£41 million). It is anticipated that approximately £65 million will be paid in the year ending 30 June 2014.

Exchange rate and other movements

Exchange rate movements are calculated by retranslating the prior period results as if they had been generated at the current period exchange rates. The difference is excluded from organic growth. The estimated effect of exchange rate and other movements on profit before exceptional items and taxation for the six months ended 31 December 2013 is set out in the table below.

	Gains/(losses) £ million
Operating profit before exceptional items	
Translation impact	(9)
Transaction impact	(45)
Total exchange effect on operating profit before exceptional items	(54)
Interest and other finance charges	
Net finance charges – translation impact	1
Mark to market impact of IAS 39 on interest expense	1
Impact of IAS 21 and IAS 39 on other finance charges	(1)
Associates – translation impact	9
Total effect on profit before exceptional items and taxation	(44)

	Six months ended 31 December 2013	Six months ended 31 December 2012
Exchange rates		
Translation £1 =	$ 1.60	$ 1.60
Transaction £1 =	$ 1.58	$ 1.59
Translation £1 =	€ 1.18	€ 1.25
Transaction £1 =	€ 1.23	€ 1.21

The results for the six months ended 31 December 2013 include net sales and operating profit attributable to Venezuela of £294 million (2012 – £126 million) and £204 million (2012 – £68 million), respectively. Cash and cash equivalents include £291 million denominated in Venezuelan bolivar as at 31 December 2013. A change in the exchange rate from $1 = VEF9 (£1 = VEF14.9) to $1 = VEF19 (£1 = VEF30.4) would, for the six months ended 31 December 2013, reduce net sales by £149 million (2012 – £66 million), operating profit by £108 million (2012 – £35 million) and cash and cash equivalents by £148 million.

Dividend

An interim dividend of 19.7 pence per share will be paid to holders of ordinary shares and ADRs on the register as of 28 February 2014. This represents an increase of 9% on last year's interim dividend. The interim dividend will be paid to shareholders on 7 April 2014. Payment to US ADR holders will be made on 10 April 2014. A dividend reinvestment plan is available in respect of the interim dividend and the plan notice date is 14 March 2014.

	Six months	Six months

	ended 31 December 2013 £ million	ended 31 December 2012 (restated) £ million
Cash generated from operations before exceptional costs	1,210	1,467
Exceptional operating costs paid	(41)	(34)
Cash generated from operations	1,169	1,433
Interest paid (net)	(275)	(262)
Taxation paid	(288)	(176)
Net capital expenditure	(279)	(264)
Movements in loans and other investments	(1)	(23)
Free cash flow	326	708

Free cash flow decreased by £382 million to £326 million in the six months ended 31 December 2013. Cash generated from operations decreased from £1,433 million to £1,169 million primarily driven by lower creditors across the regions as the result of larger proportion of marketing activities being incurred in the first quarter in the current period coupled with a one off €100 million (£85 million) payment into the Irish pension plans and the dividend from Moët Hennessy being received earlier in the comparable prior period. Higher tax payments are principally the result of increased taxable profits and tax audit payments. See page 39 for the definition of free cash flow.

Balance sheet

At 31 December 2013 total equity was £8,038 million compared with £8,088 million at 30 June 2013. The decrease was mainly due to the dividend paid out of shareholders' equity of £735 million, adverse exchange movements of £770 million, a net remeasurement of the post employment liability of £89 million and fair value movements on available-for-sale investments of £90 million. These decreases were partially offset by the profit for the period of £1,654 million.

The deficit in respect of post employment plans before taxation decreased by £54 million from £541 million at 30 June 2013 to £487 million at 31 December 2013 primarily as a result of a one off €100 million (£85 million) cash contribution into the Irish pension plans. Cash contributions to the group's post employment plans in the six months ended 31 December 2013 were £182 million (2012 – £98 million) and are expected to be approximately £290 million for the year ending 30 June 2014.

Net borrowings were £9,096 million at 31 December 2013, an increase of £693 million from £8,403 million at 30 June 2013. The principal components of this increase were £735 million (2012 – £673 million) equity dividends paid, and £420 million (2012 – £301 million) paid for the acquisition of businesses, primarily in respect of United Spirits Limited, which were partially offset by favourable exchange movements of £337 million (2012 – £111 million) and free cash flow of £326 million (2012 – £708 million).

Diageo manages its capital structure to achieve capital efficiency, maximise flexibility and give the appropriate level of access to debt markets at attractive cost levels in order to enhance long term shareholder value. To achieve this, Diageo targets a range of ratios which are currently broadly consistent with an A band credit rating. Diageo would consider modifying these ratios in order to effect strategic initiatives within its stated goals, which could have an impact on its rating. If Diageo's ratings were to be negatively impacted by the financing of an acquisition, it would seek over time to return to such ratios that are consistent with an A band credit rating.

To ensure that intangibles with indefinite useful lives are not carried above their recoverable amount an impairment triggering event review was carried out in the six months ended 31 December 2013 for all material intangibles and recent acquisitions. As a result of the weak performance in China, in particular in respect of the Shui Jing Fang brand, due to a downturn in the baijiu category, an impairment test was carried out to support the book value of the Shui Jing Fang brand and the Greater China cash generating unit. This resulted in no impairment charge for the six months ended 31 December 2013. As announced by Sichuan Shuijingfang Co., Ltd (Shuijingfang), a new strategy is currently being developed, based on which the impairment test will be updated in the second half of the financial year. At 31 December 2013, the book value of the Greater China cash generating unit was £660 million of which £499 million is in respect of the Shui Jing Fang brand. The non-controlling interest in respect of Shuijingfang amounted to £317 million.

Economic profit

Economic profit decreased by £4 million from £1,001 million in the six months ended 31 December 2012 to £997 million in the six months ended 31 December 2013. See page 39 for the calculation and definition of economic profit.

DIAGEO CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**Six months ended 31 December 2013 £ million**	Six months ended 31 December 2012 (restated) £ million
Sales	2	**8,014**	8,131
Excise duties		**(2,082)**	(2,156)
Net sales	2	**5,932**	5,975
Cost of sales		**(2,200)**	(2,251)
Gross profit		**3,732**	3,724
Marketing		**(903)**	(918)
Other operating expenses		**(789)**	(789)
Operating profit	2	**2,040**	2,017
Non-operating items	3	**138**	-
Net interest payable	4	**(188)**	(201)
Net other finance charges	4	**(37)**	(28)
Share of associates' profits after tax		**181**	140
Profit before taxation		**2,134**	1,928
Taxation	5	**(388)**	(351)
Profit from continuing operations		**1,746**	1,577
Discontinued operations	3	**(92)**	-
Profit for the period		**1,654**	1,577
Attributable to:			
Equity shareholders of the parent company		**1,599**	1,521
Non-controlling interests		**55**	56
		1,654	1,577
Basic earnings per share			
Continuing operations		**67.5p**	60.8p
Discontinued operations		**(3.7)p**	-
		63.8p	60.8p
Diluted earnings per share			
Continuing operations		**67.2p**	60.4p
Discontinued operations		**(3.7)p**	-
		63.5p	60.4p

Average shares (in million)	**2,507**	2,501

Figures for the six months ended 31 December 2012 have been restated following the adoption of IFRS 11 and the amendment to IAS 19. See Note 1 and 15 to the financial information.

19

DIAGEO CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 December 2013 £ million	Six months ended 31 December 2012 (restated) £ million
Other comprehensive income		
Items that will not be recycled subsequently to the income statement		
Net remeasurement of post employment plans		
- group	(90)	(80)
- associates	1	-
Tax credit on post employment plans	11	7
	(78)	(73)
Items that may be recycled subsequently to the income statement		
Exchange differences on translation of foreign operations excluding borrowings		
- group	(862)	(206)
- non-controlling interests	(82)	(31)
- associates	(191)	9
Exchange differences on borrowings and derivative net investment hedges	365	103
Tax on exchange differences on borrowings and derivative net investment hedges	(7)	2
Effective portion of changes in fair value of cash flow hedges		
- gains/(losses) taken to other comprehensive income	30	(14)
- recycled to income statement	49	11
Tax on effective portion of changes in fair value of cash flow hedges	2	9
Fair value movements on available-for-sale investments		
- gains taken to other comprehensive income	56	-
- recycled to income statement	(146)	-
Hyperinflation adjustment	51	2
Tax on hyperinflation adjustment	(11)	-
	(746)	(115)
Other comprehensive loss, net of tax, for the period	(824)	(188)
Profit for the period	1,654	1,577
Total comprehensive income for the period	830	1,389

Attributable to:

Equity shareholders of the parent company	859	1,365
Non-controlling interests	(29)	24
Total comprehensive income for the period	830	1,389

Figures for the six months ended 31 December 2012 have been restated following the adoption of IFRS 11 and the amendment to IAS 19. See Note 1 and 15 to the financial information.

20

DIAGEO CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2013		30 June 2013		31 December 2012	
					(restated)		(restated)
	Notes	**£million**	**£million**	£million	£million	£million	£ million
Non-current assets							
Intangible assets		**8,324**		9,013		8,877	
Property, plant and equipment		**3,393**		3,425		3,083	
Biological assets		**34**		36		34	
Investments in associates		**3,329**		2,521		2,407	
Other investments		**68**		412		98	
Other receivables		**110**		127		115	
Other financial assets	9	**276**		393		449	
Deferred tax assets		**229**		242		326	
Post employment benefit assets		**177**		312		18	
			15,940		16,481		15,407
Current assets							
Inventories	6	**4,320**		4,207		4,165	
Trade and other receivables		**2,957**		2,437		2,849	
Assets held for sale		**8**		51		76	
Other financial assets	9	**129**		65		57	
Cash and cash equivalents	7	**891**		1,750		686	
			8,305		8,510		7,833
Total assets			**24,245**		24,991		23,240
Current liabilities							
Borrowings and bank overdrafts	7	**(3,007)**		(1,852)		(2,205)	
Other financial liabilities	9	**(153)**		(122)		(123)	
Trade and other payables		**(3,040)**		(3,212)		(3,220)	
Corporate tax payable		**(276)**		(224)		(416)	
Provisions		**(90)**		(109)		(99)	
			(6,566)		(5,519)		(6,063)
Non-current liabilities							
Borrowings	7	**(6,716)**		(8,217)		(6,220)	
Other financial liabilities	9	**(453)**		(473)		(506)	
Other payables		**(103)**		(118)		(96)	
Provisions		**(268)**		(256)		(273)	
Deferred tax liabilities		**(1,437)**		(1,467)		(1,519)	
Post employment benefit liabilities		**(664)**		(853)		(1,132)	
			(9,641)		(11,384)		(9,746)
Total liabilities			**(16,207)**		(16,903)		(15,809)
Net assets			**8,038**		8,088		7,431

Equity

Share capital	**797**	797	797
Share premium	**1,344**	1,344	1,344
Other reserves	**2,540**	3,154	3,127
Retained earnings	**2,405**	1,741	1,059
Equity attributable to equity shareholders of the parent company	**7,086**	7,036	6,327
Non-controlling interests	**952**	1,052	1,104
Total equity	**8,038**	8,088	7,431

Figures as at 31 December 2012 and as at 30 June 2013 have been restated following the adoption of IFRS 11. See Note 1 and 15 to the financial information.

21

DIAGEO CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Retained earnings/(deficit)			Equity attributable
Share	Share	Other	Own	Other	to parent