DIAGEO PLC
Form 6-K
February 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

4 February 2016

Commission File Number 1-10691

DIAGEO plc

(Translation of registrant s name into English)

Lakeside Drive, Park Royal, London NW10 7HQ, England

(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): ¨

This report on Form 6-K shall be deemed to be filed and incorporated by reference in the registration statements on Form F-3 (File No. 333-202774, 333-110804, 333-132732, 333-153488 and 333-179426) and registration statements on Form S-8 (File Nos. 333-206290, 333-169934, 333-162490, 333-153481, 333-154338 and 333-182315) and to be a part thereof from the date on which this report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

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INTRODUCTION

Diageo plc is a public limited company incorporated under the laws of England and Wales. As used herein, except as the context otherwise requires, the term company refers to Diageo plc and the terms group and Diageo refer to the company and its consolidated subsidiaries. References used herein to shares and ordinary shares are, except where otherwise specified, to Diageo plc s ordinary shares.

PRESENTATION OF FINANCIAL INFORMATION

Diageo plc s fiscal year ends on 30 June. The company publishes its consolidated financial statements in pounds sterling. In this document, references to pounds sterling , sterling , £ , pence or p are to UK currency, references to dollars , US$, $ or ¢ are to US currency and references to the euro or are to the euro currency. For the conven the reader, this document contains translations of certain pounds sterling amounts into US dollars at specified rates, or, if not so specified, the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the noon buying rate) on 31 December 2015 of £1 = $1.47. No representation is made that the pounds sterling amounts have been, could have been or could be converted into US dollars at the rates indicated or at any other rates.

Diageo s condensed consolidated financial information has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted for use in the European Union (EU) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). References to IFRS hereafter should be construed as references to both IFRS as adopted by the EU and IFRS as issued by the IASB. Unless otherwise indicated, all financial information contained in this document has been prepared in accordance with IFRS. This interim condensed consolidated financial information is unaudited and has been prepared on the basis of accounting policies consistent with those applied in the consolidated financial statements for the year ended 30 June 2015.

The business review, selected consolidated financial data and financial information included in this document for the six months ended 31 December 2015 and 31 December 2014 have been derived from the published Diageo interim condensed consolidated financial information.

The principal executive office of the company is located at Lakeside Drive, Park Royal, London NW10 7HQ, England and its telephone number is +44 (0)20 8978 6000.

TRADEMARKS, TRADE NAMES AND MARKET DATA

This report on Form 6-K includes names of Diageo s products which constitute trademarks or trade names which Diageo owns or which others own and license to Diageo for use.

The market data and competitive set classifications are taken from independent industry sources in the markets in which Diageo operates.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook, objectives and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to Diageo, anticipated cost savings or synergies, expected investments, the completion of Diageo s strategic transactions and restructuring programmes, anticipated tax rates, expected cash payments, outcomes of litigation, anticipated deficit reductions in relation to pension schemes and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo s control.

These factors include, but are not limited to:

- changes in political or economic conditions in countries and markets in which Diageo operates, including changes in levels of consumer spending, failure of customer, supplier and financial counterparties or imposition of import, investment or currency restrictions;
- changes in consumer preferences and tastes, demographic trends or perceptions about health related issues, or contamination, counterfeiting or other circumstances which could harm the integrity or sales of Diageo s brands;
- developments in any litigation or other similar proceedings (including with tax, customs and other regulatory authorities) directed at the drinks and spirits industry generally or at Diageo in particular, or the impact of a product recall or product liability claim on Diageo s profitability or reputation;
- the effects of climate change and regulations and other measures to address climate change including any resulting impact on the cost and supply of water;
- changes in the cost or supply of raw materials, labour and/or energy;
- legal and regulatory developments, including changes in regulations regarding production, product liability, distribution, importation, labelling, packaging, consumption or advertising; changes in tax law, rates or requirements (including with respect to the impact of excise tax increases) or accounting standards; and changes in environmental laws, health regulations and the laws governing labour and pensions;
- the costs associated with monitoring and maintaining compliance with anti-corruption and other laws and regulations, and the costs associated with investigating alleged breaches of internal policies, laws or regulations, whether initiated internally or by external regulators, and any penalties or fines imposed as a result of any breaches;
- ability to maintain Diageo s brand image and corporate reputation, and exposure to adverse publicity, whether or not justified, and any resulting impacts on Diageo s reputation and the likelihood that consumers choose products offered by Diageo s competitors;
- increased competitive product and pricing pressures and unanticipated actions by competitors that could impact Diageo s market share, increase expenses and hinder growth potential;
- the effects of Diageo s strategic focus on premium drinks, the effects of business combinations, partnerships, acquisitions or disposals, existing or future, and the ability to realise expected synergies and/or costs savings;
- Diageo s ability to complete existing or future business combinations, restructuring programmes, acquisitions and disposals;
- contamination, counterfeiting or other events that could adversely affect the perception of Diageo s brands;

increased costs or shortages of talent;
disruption to production facilities or business service centres, and systems change programmes, existing or future, and the ability to derive expected benefits from such programmes;
changes in financial and equity markets, including significant interest rate and foreign currency exchange rate fluctuations and changes in the cost of capital, which may reduce or eliminate Diageo s access to or increase the cost of financing or which may affect Diageo s financial results and movements to the value of Diageo s pension funds;
renewal of supply, distribution, manufacturing or licence agreements (or related rights) and licences on favourable terms when they expire;
technological developments that may affect the distribution of products or impede Diageo s ability to protect its intellectual property rights.

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All oral and written forward-looking statements made on or after the date of this document and attributable to Diageo are expressly qualified in their entirety by the above factors and by the Risk factors section contained in the annual report on Form 20-F for the year ended 30 June 2015 filed with the U.S. Securities and Exchange Commission (SEC). Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made. Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo s expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Diageo may make in any documents which it publishes and/or files with the SEC. All readers, wherever located, should take note of these disclosures.

The information in this document does not constitute an offer to sell or an invitation to buy shares in Diageo plc or an invitation or inducement to engage in any other investment activities.

This document may include information about Diageo s target debt rating. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating.

Past performance cannot be relied upon as a guide to future performance.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set out below has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU) and IFRS as issued by the International Accounting Standards Board (IASB) and should be read in conjunction with, and are qualified in their entirety by reference to, the unaudited financial information and notes presented elsewhere in this document and to Diageo s annual report on Form 20-F for the year ended 30 June 2015.

The following table presents selected consolidated financial data for Diageo: for the six months ended 31 December 2015 and 31 December 2014 and as at the respective period ends, derived from the unaudited interim condensed consolidated financial information presented elsewhere in this document; and for the five years ended 30 June 2015 and as at the respective year ends, derived from Diageo s consolidated financial statements audited by Diageo s independent auditor. The group s former auditors, KPMG LLP and its affiliates (KPMG) reported on the financial statements for the five years ended 30 June 2015. The financial information for the year ended 30 June 2011 has been derived from Diageo s financial statements, audited by KPMG, and restated in the year 30 June 2014 to reflect the adjustments resulting from the adoption of IFRS 11 and the amendment to IAS 19. The unaudited interim condensed consolidated financial information, in the opinion of Diageo management, includes all adjustments, consisting solely of normal, recurring adjustments, necessary to present fairly the information contained therein. The results of operations for the six months ended 31 December 2015 are not necessarily indicative of the results for the year ending 30 June 2016.

	Six months ended 31 December							**Year ended 30 June**
	2015	**2015**	**2014**	**2015**	**2014**	**2013**	**2012**	**2011**
Income statement data(1)(6)	**$ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
Sales	**12,152**	**8,267**	8,724	15,966	13,980	15,276	14,392	13,043
Operating profit	**2,371**	**1,613**	1,668	2,797	2,707	3,380	3,108	2,552
Profit for the period								
Continuing operations(2)	**2,187**	**1,488**	1,364	2,467	2,264	2,550	2,032	1,960
Discontinued operations(3)					(83)		(11)	
Total profit for the period(2)	**2,187**	**1,488**	1,364	2,467	2,181	2,550	2,021	1,960
Per share data	**$**	**pence**	**pence**	**pence**	**pence**	**pence**	**pence**	**pence**
Dividend per share(4)	**0.33**	**22.6**	21.5	56.4	51.7	47.4	43.5	40.4
Earnings per share								
Basic								
Continuing operations(2)	**0.82**	**56.1**	52.3	95.0	93.0	98.0	76.6	74.3
Discontinued operations(3)					(3.3)		(0.4)	
Basic earnings per share	**0.82**	**56.1**	52.3	95.0	89.7	98.0	76.2	74.3
Diluted								
Continuing operations(2)	**0.82**	**55.8**	52.2	94.6	92.6	97.4	76.2	74.1
Discontinued operations(3)					(3.3)		(0.4)	

Diluted earnings per share	**0.82**	**55.8**	52.2	94.6	89.3	97.4	75.8	74.1

	million	**million**	**million**	**million**	**million**	**million**	**million**	**million**
Average shares	**2,507**	**2,507**	2,506	2,505	2,506	2,502	2,495	2,493

		As at 31 December						**As at 30 June**
	2015	**2015**	**2014**	**2015**	**2014**	**2013**	**2012**	**2011**
Balance sheet data(1)(6)	**$ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
Total assets	**39,392**	**26,797**	27,910	25,804	22,964	24,991	22,269	19,720
Net assets	**14,225**	**9,677**	8,696	9,256	7,590	8,088	6,792	5,959
Net borrowings(5)	**13,565**	**9,228**	10,668	9,527	8,850	8,403	7,573	6,480
Equity attributable to the parent company s equity shareholders	**11,964**	**8,139**	7,228	7,771	6,823	7,036	5,588	5,245
Share capital	**1,172**	**797**	797	797	797	797	797	797

This information should be read in conjunction with the notes on pages 7 to 8.

Notes to the selected consolidated financial data

(1) IFRS accounting policies The unaudited condensed consolidated financial information for the six months ended 31 December 2015 has been prepared in accordance with *IAS 34 Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) and adopted for use in the European Union.

(2) Exceptional items Exceptional items are charges or credits which, in management s judgement, need to be disclosed separately by virtue of their size or nature in order for the user to obtain a proper understanding of the financial information. Such items are included within the income statement caption to which they relate. An analysis of exceptional items is as follows:

	Six months ended 31 December		**Year ended 30 June**				
	2015	**2014**	**2015**	**2014**	**2013**	**2012**	**2011**
	£ million	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
Items included in operating profit							
Brand and goodwill impairment	**(104)**			(264)	(50)	(59)	(39)
Restructuring programmes		(26)	(82)	(163)	(69)	(96)	(111)
Duty settlements		(145)	(146)				(127)
Associate impairment			(41)				
Pension changes past service credits					20	115	
SEC settlement							(12)
	(104)	(171)	(269)	(427)	(99)	(40)	(289)
Non-operating items							
Gains/(losses) on sale of businesses	**303**	(5)	247	(2)	(83)	147	(14)
Step up gains		103	156	140			
Other non-operating items	**(92)**		(30)	2			
	211	98	373	140	(83)	147	(14)
Items included in taxation							
Tax credit on exceptional operating items	**10**	38	51	99	27	19	51
Tax on sale of businesses	**12**				28		3
Loss of future tax amortisation						(524)	
Settlements with tax authorities							66
	22	38	51	99	55	(505)	120
Exceptional items included in continuing operations	**129**	(35)	155	(188)	(127)	(398)	(183)

Discontinued operations net of taxation (note 3)				(83)		(11)	
Exceptional items	**129**	(35)	155	(271)	(127)	(409)	(183)

(3) Discontinued operations In the year ended 30 June 2014 discontinued operations represented a charge after taxation of £83 million (2013 £nil; 2012 £11 million; 2011 £nil) in respect of the settlement of the litigation in Australia and New Zealand and anticipated future payments to thalidomide injured individuals and thalidomide organisations.

(4) Dividends The board expects that Diageo will pay an interim dividend in April and a final dividend in October of each year. Approximately 40% of the total dividend in respect of any financial year is expected to be paid as an interim dividend and approximately 60% as a final dividend. The payment of any future dividends, subject to shareholder approval, will depend upon Diageo s earnings, financial condition and such other factors as the board deems relevant. Proposed dividends are not considered to be a liability until they are approved by the board for the interim dividend and by the shareholders at the annual general meeting for the final dividend.

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The table below sets out the amounts of interim, final and total cash dividends paid by the company on each ordinary share. The dividends are translated into US dollars per ADS (each ADS representing four ordinary shares) at the actual rate on each of the respective dividend payment dates.

		Six months ended 31 December					Year ended 30 June	
		2015	**2014**	**2015**	**2014**	**2013**	**2012**	**2011**
		pence	**pence**	**pence**	**pence**	**pence**	**pence**	**pence**
Per ordinary share	Interim	**22.6**	21.5	21.5	19.7	18.1	16.6	15.5
	Final			34.9	32.0	29.3	26.9	24.9
	Total	**22.6**	21.5	56.4	51.7	47.4	43.5	40.4
		$	**$**	**$**	**$**	**$**	**$**	**$**
Per ADS	Interim	**1.28**	1.28	1.28	1.31	1.10	1.05	1.01
	Final			2.14	2.06	1.89	1.72	1.59
	Total	**1.28**	1.28	3.42	3.37	2.99	2.77	2.60

Note: The interim dividend for the six months ended 31 December 2015 will be paid on 7 April 2016, and payment to US ADR holders will be made on 12 April 2016. In the table above, an exchange rate of £1 = $1.42 has been assumed for this dividend, but the exact amount of the payment to US ADR holders will be determined by the rate of exchange on 7 April 2016.

(5) Net borrowings definition Net borrowings are defined as gross borrowings (short term borrowings and long term borrowings plus finance lease obligations plus interest rate hedging instruments, cross currency interest rate swaps and funding foreign currency swaps and forwards used to manage borrowings) less cash and cash equivalents.

(6) Exchange rates A substantial portion of the group s assets, liabilities, revenues and expenses is denominated in currencies other than pounds sterling. For the convenience of the reader, selected consolidated financial information for the six months ended 31 December 2015 has been translated into US dollars at the noon buying rate on 31 December 2015 of £1 = $1.47.

The following table shows, for the periods indicated, information regarding the US dollar/pound sterling exchange rate, based on the noon buying rate, expressed in US dollars per £1.

	Six months ended 31 December					Year ended 30 June	
	2015	**2014**	**2015**	**2014**	**2013**	**2012**	**2011**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Period end/year end	**1.47**	1.56	1.57	1.71	1.52	1.57	1.61
Average rate[(i)]	**1.52**	1.62	1.57	1.64	1.57	1.59	1.59

(i) The average of the noon buying rates on the last business day of each month during the six months ended 31 December and during the years ended 30 June.

The average exchange rate for the period 1 January to 29 January 2016 was £1 = $1.44 and the noon buying rate on 29 January 2016 was £1 = $1.42.

These rates have been provided for information only. They are not necessarily the rates that have been used in this document for currency translations or in the preparation of the consolidated financial information. See note 2 to the unaudited condensed consolidated financial information for the actual rates used in the preparation of the consolidated financial information.

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CAPITALISATION AND INDEBTEDNESS

The following table sets out on an IFRS basis the unaudited capitalisation of Diageo as at 31 December 2015:

	31 December 2015 £ million
Short term borrowings and bank overdrafts (including current portion of long term borrowings)	**1,935**
Long term borrowings	
Due from one to five years	**3,772**
Due after five years	**4,158**
	7,930
Finance lease obligations	**238**
Non-controlling interests	**1,538**
Equity attributable to the equity shareholders of the parent company	
Share capital	**797**
Share premium	**1,346**
Capital redemption reserve	**3,146**
Fair value, hedging and exchange reserve	**(1,096)**
Own shares	**(2,218)**
Other retained earnings	**6,164**
	8,139
Total capitalisation	**19,780**

Notes

(1) At 31 December 2015 the group had cash and cash equivalents of £541 million.

(2) At 31 December 2015, 2,754,345,238 ordinary shares of 28 $^{101}/_{108}$ pence each were issued, all of which were fully paid, including shares issued, shares issued and held in employee share trusts and those held as treasury shares.

(3)

In May 2015, a loan of $135 million (£92 million) provided by Standard Chartered Bank (SCB) to Watson Limited guaranteed by Diageo Holdings Netherlands B.V became due. The date from which the guarantee can be called was extended to 29 January 2016 and $135 million was deposited during the period into an escrow account with SCB. Given the risks in relation to the enforcement and recoverability of associated security and counter-indemnities, Diageo believes that the outstanding amounts may not be fully recoverable. Therefore the $135 million deposited with SCB was provided for in the period to 31 December 2015. The guarantee was called on 29 January 2016 and the $135 million deposited with SCB was released to SCB (for more information, see note 13 (a) of the condensed consolidated financial statements).

(4) Save as disclosed above there have been no material changes to performance guarantees or indemnities in respect of liabilities of third parties from those reported in Diageo s Annual Report on Form 20-F for the year ended 30 June 2015.

(5) At 31 December 2015, £149 million of the group s net borrowings were secured on assets of the group.

(6) Since 31 December 2015 no shares have been acquired by Diageo as part of the share buyback programs or to be held as treasury shares for hedging share scheme grant provided to employees.

(7) Save as disclosed above there has been no material change since 31 December 2015 in the group s net borrowings, performance guarantees, indemnities and capitalisation.

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BUSINESS REVIEW

INFORMATION PRESENTED

Diageo is the world s leading premium drinks business and operates on an international scale selling all types of beverage alcohol. It is one of a small number of premium drinks companies that operate globally across spirits, beer and wine.

The following discussion is based on Diageo s results for the six months ended 31 December 2015 compared with the six months ended 31 December 2014.

Unless otherwise stated in this section, percentage movements are organic movements. These movements and organic operating margin are before exceptional items. Commentary, unless otherwise stated, refers to organic movements. Share, unless otherwise stated, refers to value share. See Definitions and reconciliations of non-GAAP measures to GAAP measures for an explanation of organic movements on page 40.

RECENT TRENDS

Ivan Menezes, Chief Executive of Diageo, commenting on the six months ended 31 December 2015 said:

Diageo has become a stronger, more competitive business. We have delivered volume growth, a stronger top line, improved the performance of our key brands, driven cost productivity and continued to generate strong cash flow. While trading conditions remain challenging in some markets, Diageo s brands, capabilities in marketing and innovation and our route to consumer have proved resilient. I am confident that Diageo can deliver improved, sustained performance.

For the full year we expect volume growth to drive stronger top line performance, margin to slightly improve and strong cash conversion to continue. This will set us up to deliver better momentum in F17, with productivity gains supporting margin expansion and investment in growth. We remain confident of achieving our objective of mid-single digit top line growth and 100bps of organic operating margin improvement in the three years ending fiscal 19.

The above comments were made by Ivan Menezes, Chief Executive of Diageo, in connection with the release of the Interim Announcement published on 28 January 2016.

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OPERATING RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2015 COMPARED WITH THE SIX MONTHS ENDED 31 DECEMBER 2014

Key highlights

1.8% organic net sales growth, on 1.0% organic volume growth
2.4% organic operating profit growth
Adverse exchange and the impact of the disposal of non core assets, reduced net sales by £400 million and operating profit* by £156 million to £5,606 million and £1,717 million, respectively
Free cash flow £0.8 billion up £140 million on comparable period
eps of 56.1 pence, up 7%. Pre-exceptional eps 51.3 pence, down 4%
Interim dividend up 5% to 22.6 pence per share

***Before exceptional items**

Summary financial information		**First Half F16 Reported**	**First Half F15 Reported**	**Organic growth %**	**Reported growth %**
Volume	EUm	**130.3**	134.1	1	(3)
Net sales	£ million	**5,606**	5,900	2	(5)
Marketing spend	£ million	**822**	896	(5)	(8)
Operating profit before exceptional items	£ million	**1,717**	1,839	2	(7)
Operating profit(i)	£ million	**1,613**	1,668		(3)
Share of associates and joint ventures profit after tax	£ million	**136**	113		20
Exceptional items	£ million	**107**	(73)		
Net finance charges	£ million	**176**	239		
Tax rate	%	**16.6**	16.8		(1)
Tax rate before exceptional items	%	**19.0**	18.3		4
Profit attributable to parent company s shareholders	£ million	**1,406**	1,311		7
Basic earnings per share	pence	**56.1**	52.3		7
Earnings per share before exceptional items	pence	**51.3**	53.7		(4)
Interim dividend per share	pence	**22.6**	21.5		5

(i) Operating profit for the six months ended 31 December 2015 includes an exceptional operating charge of £104 million (2014 £171 million).

Exceptional items

Operating items before taxation	First Half F16 £ million
Impairment of Ypióca brand and goodwill	(104)
Non-operating items before taxation	
Sale of wines in the United States and Percy Fox	(123)
Sale of Jamaican, Singapore and Malaysia brewing businesses	457
Provision for a receivable related to a loan guarantee	(92)
Other	(31)
Total non-operating items before taxation	**211**
Total exceptional items before taxation	**107**

Tax relief in respect of the exceptional operating item was £10 million. Tax relief in respect of the exceptional non-operating items was £12 million. For further details of exceptional items see page F-11.

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Key performance indicators

Net sales growth (£ million)

Organic net sales growth of 1.8% driven by volume and mix

Adverse exchange and sale of non core assets reduced reported net sales

Reported net sales declined primarily as a result of the adverse impact of exchange and the disposals of non core assets. Organic net sales growth was 1.8% with volume growth and positive price/mix.

Later timing of innovations and new processes for innovation launches (the replenishment model) in the United States led to a decline in net sales of Cîroc which reduced Diageo net sales growth by approximately 1ppt and impacted performance of Diageo North America by approximately 3pps and reserve brands by some 7pps.

Operating profit growth (£ million)

Organic operating profit growth 2.4%

Adverse exchange and sale of non core assets reduced reported operating profit

Reported operating profit declined mainly as a result of adverse exchange and the sale of non core assets. Organic operating profit was up 2.4%.

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Exchange

The exchange rate movement reflects the translation of prior year reported results at current exchange rates.

Reported net sales and operating profit were impacted by adverse exchange movements driven by the weakness of many currencies against sterling, in particular the euro, the Venezuelan bolivar and the Brazilian real partially offset by the strenghtening of the US dollar.

Using current exchange rates (£1 = $1.45; £1 = 1.33), the exchange rate movement for the year ending 30 June 2016 is estimated to adversely impact net sales by approximately £260 million and operating profit by approximately £85 million. This estimate excludes the impact of IAS 21 and IAS 39.

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Acquisitions and disposals

Acquisitions made in the year ended 30 June 2015 increased net sales in the first half by £52 million and operating profit by £21 million, largely due to the acquisition of the remaining 50% shareholdings in Don Julio and United National Breweries.

Disposals, primarily the sale of Bushmills and Gleneagles in the year ended 30 June 2015 and the sale of wines in the United States and Percy Fox in Great Britain and beer assets in Jamaica and Asia in the year ending 30 June 2016 contributed net sales of £332 million and operating profit of £74 million in the six months ended 31 December 2014 and net sales of £171 million and operating profit of £17 million in the six months ended 31 December 2015.

For further details on the impact of acquisitions and disposals see page 44.

Change in operating margin (%)

Organic margin improved by 16bps

Exchange reduced operating margin by 66bps

Reported margin decreased by 54bps mainly due to adverse exchange which reduced margin by 66bps. Organic operating margin improved by 16bps. Gross margin decline was driven by negative market mix. Marketing efficiencies, together with lower spend on innovation launches in US Spirits, led to margin improvement. Overheads increased primarily driven by a higher bonus accrual. Margin improvement from other income includes the profit on the sale by United Spirits Limited (USL) of its shareholding in United Breweries Limited shares of £28 million in the period.

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Earnings per share before exceptional items (pence)

Organic operating profit growth increased eps by 1.54 pence

eps adversely impacted by exchange and disposals

Earnings per share decreased 2.4 pence largely driven by adverse exchange. Disposals adversely impacted eps because of low interest rates on the sale proceeds. Lower finance charges from lower debt, reduced hyperinflation charge and higher associate income increased eps. Operating profit growth in USL was the main driver of the increase in non-controlling interests which reduced eps.

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Movement in net finance charges	**£ million**
First Half F15	239
Net interest charge reduction	(31)
Reduction in other finance charges	(32)
First Half F16	**176**

	First Half F16	**First Half F15**
Average monthly net borrowings (£ million)	**9,671**	10,698
Effective interest rate (i)	**3.4%**	3.7%

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

The decrease in average net borrowings arose from the disposals proceeds and stronger cash flow offset by the increase in the dividend payment. The effective interest rate decreased in the six months ended 31 December 2015 largely driven by the reduction of debt in USL together with the repayment of Diageo bonds with a higher interest rate.

Free cash flow (£ million)

Free cash flow up £140 million with lower interest and tax payments and higher operating profit

offset by exchange.

(i) Exchange on operating profit before exceptional items.
(ii) Movement on operating profit before exchange and after exceptional items adjusted for depreciation and amortisation, post employment payments and non-cash items.
(iii) Other items include post employment payments, dividends received from associates and joint ventures and movements in loans and other investments.

Growth in free cash flow from operating profit before exchange results from the organic operating profit improvement, and the higher operating exceptional items in respect of restructuring in the comparative period. In the first half the operating exceptional item (impairment of Ypióca brand and goodwill) has no cash impact. The negative working capital movement was mainly driven by a reduction in provisions following the settlement of the Korean customs dispute in the second half of last year.

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Return on average invested capital (%)[i]

Adverse exchange movements reduced ROIC by 0.9pps.

(i) ROIC calculation excludes exceptional items.

(ii) The group revised the calculation of ROIC at 30 June 2015 by excluding the net assets and net profit attributable to non-controlling interests. Prior to this adjustment, in the six months ended 31 December 2014 the ROIC reported was 13.9%.

Adverse exchange reduced ROIC by 0.9pps. Increased operating profit, higher income from associates and lower tax payments all had a positive impact on ROIC. Increased profit in USL was the main driver of higher non-controlling interests, which had a negative impact on ROIC.

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Additional financial information

Income statment

	31 December 2014 £ million	Exchange (a) £ million	Acquisitions and disposals (b) £ million	Organic movement(ii) £ million	31 December 2015 £ million
Sales	8,724	**(463)**	**(161)**	**167**	**8,267**
Excise duties	(2,824)	**181**	**52**	**(70)**	**(2,661)**
Net sales	5,900	**(282)**	**(109)**	**97**	**5,606**
Cost of sales(i)	(2,418)	**106**	**71**	**(51)**	**(2,292)**
Gross profit	3,482	**(176)**	**(38)**	**46**	**3,314**
Marketing	(896)	**29**	**5**	**40**	**(822)**
Other operating expenses(i)	(747)	**22**	**(3)**	**(47)**	**(775)**
Operating profit before exceptional items	1,839	**(125)**	**(36)**	**39**	**1,717**
Exceptional operating items (c)	(171)				**(104)**
Operating profit	1,668				**1,613**
Non-operating items (c)	98				**211**
Net finance charges	(239)				**(176)**
Share of after tax results of associates and joint ventures	113				**136**
Profit before taxation	1,640				**1,784**
Taxation	(276)				**(296)**
Profit for the period	1,364				**1,488**

(i) Before exceptional operating items.
(ii) For the definition of organic movement see page 40.

(a) Exchange

The impact of movements in exchange rates on reported figures is principally in respect of the Venezuelan bolivar, the euro and the Brazilian real partially offset by the US dollar.

Venezuela is a hyper-inflationary economy where the government maintains a regime of strict currency controls with multiple foreign currency rate systems. Access to US dollar on these exchange systems is very limited. The foreign currency denominated transactions and balances of the group s Venezuelan operations are translated into the local functional currency (VEF) at the rate they are expected to be settled, applying the most appropriate official exchange rate. For consolidation purposes, the group converts its Venezuelan operations using management s estimate of the rate that capital and dividend repatriations are expected to be realised. The consolidation rate and the accounting treatment are monitored and reviewed depending on the economic and regulatory developments in the country.

The effect of movements in exchange rates and other movements on profit before exceptional items and taxation for the six months ended 31 December 2015 is set out in the table below.

	Gains/ (losses) £ million
Translation impact	**(62)**
Transaction impact	**(63)**
Operating profit before exceptional items	**(125)**
Net finance charges translation impact	**(3)**
Mark to market impact of IAS 39 on interest expense	**(5)**
Impact of IAS 21 and IAS 39 on net other finance charges	**(2)**
Interest and other finance charges	**(10)**
Associates translation impact	**(11)**
Profit before exceptional items and taxation	**(146)**

	Six months ended 31 December 2015	Six months ended 31 December 2014
Exchange rates		
Translation £1 =	**$1.52**	$1.61
Transaction £1 =	**$1.57**	$1.58
Translation £1 =	**1.39**	1.26
Transaction £1 =	**1.33**	1.24

(b) Acquisitions and disposals

The impact of acquisitions and disposals on the reported figures was primarily attributable to the disposals of The Old Bushmills Distillery Company Limited on 27 February 2015, Gleneagles Hotels Limited on 30 June 2015, Desnoes & Geddes Limited (D&G) on 7 October 2015, the wine businesses in the United States and the UK Percy Fox wine business on 1 January 2016, partly offset by the acquisition of the 50% equity interest in Don Julio in Mexico that Diageo did not already own on 27 February 2015.

(c) Exceptional items

Exceptional operating charges in the six months ended 31 December 2015 included an impairment charge in respect of the Ypióca brand and goodwill allocated to the Paraguay, Uruguay and Brazil (PUB) cash-generating unit of £62 million and £42 million, respectively. Forecast cash flow assumptions have been reduced principally due to a challenging economic environment in Brazil and significant adverse changes in local tax regulation. A pre-tax discount rate of 17% (2014 14%) and 19% (2014 18%) have been used to calculate the net present value of the future cash flows expected to be generated by Ypióca and PUB, respectively.

In the six months ended 31 December 2014 exceptional operating charges included £145 million in respect of a settlement agreement of disputes with the Korean customs authorities and £26 million in respect of restructuring programmes.

Non-operating items in the six months ended 31 December 2015 included an exceptional gain of £457 million in respect of the sale of Diageo s 57.87% shareholding in D&G (Jamaican Red Stripe business) and a 49.99% stake in GAPL Pte Limited (Singapore and Malaysian beer business) to Heineken, which completed on 7 October 2015. The gain is net of a £13 million cumulative exchange loss, in respect of prior years, recycled from other comprehensive income and transaction costs of £8 million. As part of the transaction, Diageo agreed to purchase an additional 20% shareholding in Guinness Ghana Breweries Limited (GGBL) from Heineken which increased Diageo s shareholding in GGBL to 72.42%.

On 1 December 2015, Diageo disposed of its 42.25% equity interests in DHN Drinks, 25% equity stake in Sedibeng Breweries Limited and its 15.01% equity stake in Namibia Breweries Limited (South African associate interests). The net cash consideration received was £120 million, which includes £31 million in respect of loans made to DHN Drinks and Sedibeng Breweries Limited. An exceptional non-operating loss of £28 million, net of a £30 million cumulative exchange loss, in respect of prior years, recycled from other comprehensive income, was accounted for in the income statement.

On 1 January 2016, Diageo completed the sale of the majority of its wine interests in the United States and its UK based Percy Fox businesses to Treasury Wine Estates. As at 31 December 2015 the assets and liabilities of the US wine business and Percy Fox were transferred to assets and liabilities held for sale on the consolidated balance sheet. Together with the sale of the group s other wine interests in the United States the transactions resulted in an exceptional loss of £123 million in the period including an estimated provision for the settlement of a guarantee given in respect of the lease payments due to the lessor of the vineyards. In the full year it is expected that the sale of the businesses will result in an exceptional loss before taxation on disposal of approximately £135 million. A cumulative exchange gain of £12 million, in respect of prior years, to be recycled from other comprehensive income and other costs of approximately £24 million will be accounted for in the second half of the year.

On 30 September 2015, the group completed the disposal of its shareholding in Central Glass Industries Limited (CGI), a Kenyan glass bottle manufacturer, resulting in an exceptional gain of £14 million, net of £1 million transaction costs. £7 million of the gain is attributable to non-controlling interests.

On 5 November 2015, Diageo agreed the sale of its interests in Argentina to Grupo Peñaflor. The transaction will be completed in the second half of the year. Net balances were transferred to assets and liabilities held for sale on the consolidated balance sheet and resulted in an exceptional loss of £17 million in the six months ended 31 December 2015. It is expected that for the full year the transaction will result in an exceptional loss on disposal of approximately £45 million. The cumulative exchange loss, in respect of prior years, of approximately £20 million to be recycled from other comprehensive income and other directly attributable costs of some £8 million will be accounted for in the second half of the year.

In May 2015, a loan of $135 million (£92 million) provided by Standard Chartered Bank (SCB) to Watson Limited guaranteed by Diageo Holdings Netherlands B.V became due. The date from which the guarantee can be called was extended to 29 January 2016 and $135 million was deposited during the period into an escrow account with SCB. Given the risks in relation to the enforcement and recoverability of associated security and counter-indemnities, Diageo believes that the outstanding amounts may not be fully recoverable. Therefore the $135 million deposited with SCB has been provided for (see note 13(a)).

In the six months ended 31 December 2014 a gain of £103 million arose on the increase of the group s investment in United Spirits Limited (USL) from 25.02% to 54.78% (excluding the 2.38% interest owned by USL Benefit Trust) and the group incurred £5 million transaction costs in respect of the sale of the group s shareholding in Bushmills.

Cash payments in the six months ended 31 December 2015 for exceptional restructuring and for the deposit into the escrow account with SCB in respect of the Watson guarantee (reported in movements in loans and other investments in the consolidated statement of cash flows) were £33 million (2014 £62 million) and £92 million (2014 £nil), respectively. Cash expenditure on exceptional restructuring in the second half of the year is expected to be approximately £30 million.

(d) Dividend

An interim dividend of 22.6 pence per share will be paid to holders of ordinary shares and ADRs on the register as of 26 February 2016. The ex-dividend date is 25 February 2016. This represents an increase of 5% on last year s interim dividend. The interim dividend will be paid to shareholders on 7 April 2016. Payment to US ADR holders will be made on 12 April 2016. A dividend reinvestment plan is available to holders of ordinary shares in respect of the interim dividend and the plan notice date is 15 March 2016.

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Movement in net borrowings

	2015 £ million	2014 £ million
Net borrowings at 30 June	**(9,527)**	(8,850)
Free cash flow (a)	**839**	699
Acquisition and sale of businesses (b)	**643**	(664)
Net purchase of own shares for share schemes (c)	**(20)**	(7)
Dividends paid to non-controlling interests	**(56)**	(34)
Purchase of shares of non-controlling interests (d)	**(21)**	
Net movements in bonds (e)	**(489)**	(371)
Net movements in other borrowings (f)	**94**	1,316
Equity dividends paid	**(876)**	(801)
Net increase in cash and cash equivalents	**114**	138
Net decrease/(increase) in bonds and other borrowings	**395**	(945)
Exchange differences (g)	**(259)**	(143)
Borrowings on acquisition of businesses		(849)
Borrowings disposed through sale of businesses	**7**	
Other non-cash items	**42**	(19)
Net borrowings at 31 December	**(9,228)**	(10,668)

(a) See page 16 for the analysis of free cash flow.

(b) Acquisitions and sale of businesses include the disposal of the group s shareholdings in D&G and GAPL on 7 October 2015 for a net cash consideration, including disposal costs, of $752 million (£490 million), the disposal of the group s equity stake in its South African associate interests on 1 December 2015 for a cash consideration of ZAR 2,517 million (£119 million), net of disposal costs and the proceeds from the sale of CGI, a Kenyan glass manufacturer, for KES 3,931 million (£25 million).

In the six months ended 31 December 2014 cash payments primarily comprised £1,118 million in respect of the acquisition of additional 26% investment in USL partially offset by £395 million in respect of sale of the Whyte and Mackay Group.

(c) Net purchase of own shares comprised purchase of treasury shares for the future settlement of obligations under the employee share option schemes of £39 million (2014 £39 million) less receipts from employees on the exercise of share options of £19 million (2014 £32 million).

(d) In the six months ended 31 December 2015 Diageo purchased an additional 20% shareholding in Guinness Ghana Breweries Limited for £21 million.

(e) In the six months ended 31 December 2015, the group repaid bonds of $750 million (£489 million). In the comparable period, the group repaid bonds of 1,000 million (£792 million) and issued bonds of 1,000 million (£791 million), and a bond of £370 million acquired on the purchase of USL was repaid using the proceeds from the sale of the Whyte and Mackay Group.

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

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

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Movement in equity

	2015 £ million	2014 £ million
Equity at 30 June	**9,256**	7,590
Profit for the period	**1,488**	1,364
Exchange adjustments (a)	**81**	266
Net remeasurement of post employment plans	**(240)**	(341)
Exchange recycled to the income statement (b)	**43**	79
Fair value movements on available-for-sale investments	**(20)**	11
Non-controlling interests acquired (b)	**(21)**	594
Disposal of non-controlling interest	**(24)**	
Dividends to non-controlling interests	**(56)**	(34)
Dividends paid	**(876)**	(801)
Other reserve movements	**46**	(32)
Equity at 31 December	**9,677**	8,696

(a) Movement in the six months ended 31 December 2015 primarily arose from exchange gains in respect of the US dollar, euro and Indian rupee partially offset by the exchange loss on Brazilian real denominated net investments.

(b) In the six months ended 31 December 2015 exchange losses of £43 million were recycled to the income statement in respect of disposals.

In the six months ended 31 December 2014 following the change in accounting for United Spirits Limited from an associate to a subsidiary, an exchange loss of £79 million was recycled to the income statement and a 43.9% non-controlling interest of £594 million was recognised.

Post employment plans

The deficit in respect of post employment plans before taxation increased by £239 million from £259 million at 30 June 2015 to £498 million at 31 December 2015. The increase primarily arose due to a decrease in the market value of assets owned by the plans partially offset by a reduction in long term inflation rates (UK RPI from 3.2% to 3.1%, UK CPI from 2.2% to 2.1% and Ireland CPI from 1.6% to 1.5%) used to calculate the liabilities in the plans. Total cash contributions by the group to all post employment plans in the year ending 30 June 2016 are estimated to be approximately £180 million.

Analysis by reporting segments

The organic movements for volume, net sales, marketing spend and operating profit before exceptional items by reporting segments for the six months ended 31 December 2015 were as follows:

Organic growth by region	Volume %	Volume EUm	Net sales %	Net sales £ million	Marketing spend %	Marketing spend £ million	Operating profit* %	Operating profit* £ million
North America	(2)	(0.4)	(2)	(31)	(12)	(36)	(2)	(19)
Europe, Russia and Turkey	2	0.5	3	42			5	20
Africa	7	0.9	3	19	(4)	(3)		
Latin America and Caribbean	4	0.4	9	40	4	3	5	7
Asia Pacific		(0.1)	2	26	(2)	(4)	18	36
Corporate			6	1			(8)	(5)
Diageo	**1**	**1.3**	**2**	**97**	**(5)**	**(40)**	**2**	**39**

* before exceptionals

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North America

Performance in North America was in line with expectations. In US Spirits, later innovation launches in the half and the implementation of the replenishment model for innovations reduced the level of shipments against the first half last year, especially for Cîroc, however most key brands delivered stronger performance in the half. Action taken on Smirnoff and Captain Morgan led to net sales growth. Crown Royal performed strongly as a result of the continued success of Crown Royal Regal Apple. Performance in scotch benefitted from mix, especially on Johnnie Walker. Bulleit and Don Julio each continued to deliver double digit net sales growth. In addition Diageo delivered improved performance in DGUSA as net sales grew 2% and in Canada with net sales up 5%. The number and timing of innovation launches, together with procurement benefits resulted in marketing spend down 12%. Excluding these impacts, marketing would have been broadly flat. However net sales and negative mix impacted gross margin and operating margin declined 29bps. In the drive for stronger, sustained performance the new management team in Diageo North America have made a number of changes to refocus marketing activity, upweight on premise activity and enhance distributor relationships.

Key financials	First Half F15 Reported £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	First Half F16 Reported £ million	Reported movement %
Net sales	1,867	83	(52)	(31)	1,867	
Marketing spend	304	10	(3)	(36)	275	(10)
Operating profit before exceptional items	819	30	(21)	(19)	809	(1)
Exceptional items	(11)					
Operating profit	808				809	

Markets and categories	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
North America	(2)	(3)	(2)	
US Spirits and Wines	(2)	(4)	(3)	
DGUSA			2	7
Canada	4	3	5	(7)
Spirits	(2)	(2)	(3)	1
Beer	(1)	(1)	(1)	2
Ready to drink	3	(3)	6	5

Global giants and local stars[(i)]

	Organic volume movement %	Organic net sales movement %	Reported net sales movement %
Crown Royal	8	8	13
Smirnoff	2	4	7
Captain Morgan	3	1	5
Johnnie Walker	(6)		5
Ketel One vodka	(1)	(2)	4
Cîroc	(42)	(43)	(40)
Baileys	2	4	7
Guinness	1		3
Tanqueray	1	2	7
Don Julio	25	28	35
Bulleit	24	27	34
Buchanan s	4	9	15

(i) Spirits brands excluding ready to drink.

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Volume in **US Spirits** declined 2% with shipments down nearly 500k cases in the half. This was mainly driven by the reduction in the volume of Cîroc against the prior period when 750k cases were shipped for the launch of Cîroc Pineapple. In comparison, in this half for the launch of the new Cîroc flavour, Cîroc Apple, which occurred later in the half, 250k cases were shipped.

Net sales declined 3% as the decline in volume in Cîroc led to negative mix which was only partially offset by the higher net sales growth of Diageo s North American whiskey brands. Smirnoff has returned to growth although it continues to underperform the vodka category growth. Smirnoff has increased the activation behind electronic dance music (EDM) in the half and has further amplified this through social media and retail programming. Captain Morgan has also improved and the brand has outperformed the declining rum category, driven by the launch of Cannon Blast and the growth of Captain Morgan Original Spiced Rum (OSR) as on premise programming was stepped up using the activation army to revitalise recruitment. Strong growth of Johnnie Walker super deluxe variants drove positive mix with volume decline of Johnnie Walker Red and Black Label. The growth of North American whiskey is driven by flavours which is broadening reach to mass appeal and in the shot occasion, and growth in unflavoured driven by authenticity, craftsmanship and premiumisation. Crown Royal has variants for each of these growth drivers and therefore depletions grew double digit and net sales grew 8% despite lapping the high level of shipments associated with the launch of Crown Royal Regal Apple in the first half last year. In contrast depletions of Cîroc declined in the half. With 80% of sales from flavour variants, growth of the Cîroc brand is more reliant on a pipeline of high impact flavours and therefore lapping the very successful innovation of Cîroc Pineapple last year did impact performance. With the move to a replenishment model for innovations and with the launch of the new Cîroc Apple innovation later in the year, shipments of Cîroc were lower which together with weaker depletions led to a 43% decline in net sales. Cîroc marketing spend was refocused to drive broader reach though digital and high profile PR events and increased sampling. For Buchanan s, premiumisation and positioning within the Hispanic consumer base continues to be the core strategy for growth, despite slower growth in the half as a result of price increases to support the new packaging and brand positioning. Don Julio and Bulleit continued to build their positions in their respective categories with another period of industry leading growth, both growing above 25% in the half.

The **marketing** organisation in US Spirits was refocused in the half on Release brands[ii], North American whiskey, reserve brands and scotch to create a more efficient structure. Marketing spend benefitted from the achievement of further marketing spend efficiencies and a reduction in the level of spend on innovations against the prior period, reflecting the later timing of innovation launches.

DGUSA delivered net sales growth through mix with strong growth of Smirnoff ready to drink driven by new marketing programmes and flavours. Beer was down as the launch of Guinness Nitro IPA was offset by the decline in Guinness Keg, Smithwicks and Harp.

In **Canada** strong growth across the portfolio drove volume growth and mix.

(ii) Release brands include Smirnoff, Captain Morgan and Cîroc.

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Europe, Russia and Turkey

The region s performance reflected continued momentum in Europe, growth in Turkey and net sales growth in Russia against the prior period although the trading environment there remains challenging. In Europe net sales were up 2% and Diageo gained share, with continued growth in Great Britain and improved performance in Continental Europe and France. Reserve brands in Europe delivered another strong performance with net sales up 18%. In both Great Britain and Ireland Guinness momentum continued with innovations from The Brewers Project . Baileys was back to growth as a result of increased in-outlet activation and consumer sampling. Continued investment in our route to consumer led to a 10% increase in outlets covered and coverage is expected to increase further in the second half. In Russia price increases to offset devaluation led to a volume decline of 12% however net sales grew 20% driven by positive brand mix and Diageo gained share in rum although scotch share declined. In Turkey net sales were up 9% with premiumisation in the raki category and double digit growth of Johnnie Walker and Smirnoff. Total operating margin for the region improved 46bps largely driven by procurement savings in marketing spend.

Key financials	First Half F15 Reported £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	First Half F16 Reported £ million	Reported movement %
Net sales	1,459	(114)	(26)	42	1,361	(7)
Marketing spend	225	(3)	(4)		218	(3)
Operating profit before exceptional items	480	(36)	(14)	20	450	(6)
Exceptional items	(4)					
Operating profit	476				450	(5)

Markets and categories	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
Europe, Russia and Turkey	2	1	3	(7)
Europe	3	1	2	(5)
Russia	(12)	(15)	20	(28)
Turkey	3	3	9	(11)
Spirits	2	1	5	(7)
Beer	2	2	1	(5)
Ready to drink	(2)	(2)	(5)	(7)

Global giants and local stars(i)	Organic volume movement %	Organic net sales movement %	Reported net sales movement %

Guinness	5	4	(1)
Johnnie Walker	2	6	(4)
Smirnoff	(2)	(5)	(8)
Baileys	6	7	
Yenì Raki	5	5	(15)
Captain Morgan	13	11	2
J B	(4)	(5)	(13)

(i) Spirits brands excluding ready to drink.

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In **Europe** net sales were up 2%:

- In **Great Britain** net sales were up 3%, with spirits and beer in growth. Baileys was back in growth with net sales up 14% driven by increased in-outlet activation and consumer sampling. Captain Morgan net sales were up 2% with growth driven by the launch of Captain Morgan White. Smirnoff volume was up 1%, however net sales were down driven by higher volume sold on promotion during the holidays as part of a strategy to drive our broader vodka portfolio in certain channels. Ready to drink net sales were down 6% due to increased competition in the frozen pouch segment. Beer net sales were up 3% with Guinness net sales up 4% driven by strong Rugby World Cup activation and continued success of The Brewers Project launches. Reserve brands net sales were up 31% driven by Cîroc, scotch malts and Tanqueray No. TEN.
- In **Ireland** Guinness performance accelerated with net sales up 5%, supported by the continued growth of F15 innovations launched through The Brewers Project Hop House 13 Lager, Dublin and West Indies Porter. Net sales of agency lager brands declined 6% and net sales in spirits were down 6% driven by channel restructuring.
- In **France** net sales increased 4% driven by reserve brands up 8%, growth in Johnnie Walker Double Black and Johnnie Walker Red Label, and the strong performance of Captain Morgan which almost doubled net sales.
- In **Continental Europe** net sales were up 2%:
  - Net sales in **Iberia** were flat. Activation against a broader brand portfolio drove growth in Baileys, Johnnie Walker and Gordon s in a vibrant gin category which offset a decline in JeB.
  - Net sales in **Germany, Austria and Switzerland** grew 8% driven by double digit growth in Johnnie Walker, reserve brands, Baileys and Tanqueray.
  - **Benelux** net sales were up 5% driven by growth in reserve brands, Smirnoff, Tanqueray and Gordon s Gin.
  - Growth in scotch and gin and double digit growth of reserve brands were the main drivers behind the 4% net sales growth in **Italy**.
  - In **Greece**, net sales were up 3% driven by route to consumer investment and increased activation.
  - Net Sales in **Poland** were up 1% and net sales declined in the **Eastern Europe Partner Markets**.

Performance in **Russia** continued to be impacted by the events in the region. In Russia price increases were implemented to offset devaluation, which impacted volume, down 12% but net sales grew 20% in part driven by growth of reserve brands where volume grew 24%. While Diageo s share of scotch declined as a result of these price increases, Captain Morgan continued to achieve strong share gains behind the launch of Captain Morgan White.

In **Turkey** net sales grew 9%. Raki net sales were up 5% with Yenì Raki and the super premium variant Tekirdağ Raki premiumising the category. Net sales of Johnnie Walker, Smirnoff, Gordon s and Tanqueray all grew double digit.

Marketing investment was held flat through procurement savings on marketing spend. Excluding procurement savings marketing spend increased 3%. The increased investment was focused on the biggest growth opportunities such as reserve brands, gin, beer and innovation.

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Africa

Net sales grew 3% in Africa, with strong growth of beer as net sales grew 15%, offset by a significant decline in Orijin following its strong distribution growth in the prior year, and the decline of scotch in South Africa and Angola given the economic conditions. The beer performance was led by the roll back of excise duty increase on Senator in Kenya, growth in Guinness and Malta Guinness in Nigeria, and good performance in the growing value beer segment with Satzenbrau in Nigeria, and Balozi and Allsopps in Kenya. Weaker demand for scotch was offset by the strong growth of vodka and rum in both East Africa and South Africa. In Ghana, the successful launch of Orijin Bitters and ready to drink formats drove net sales growth. Reserve brands have grown net sales 65% driven by the strong performance of Johnnie Walker Blue in Nigeria and Africa Regional Markets.

Key financials	First Half F15 Reported £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	First Half F16 Reported £ million	Reported movement %
Net sales	746	(76)	27	19	716	(4)
Marketing spend	85	(9)	1	(3)	74	(13)
Operating profit before exceptional items	175	(38)	1		138	(21)
Exceptional items	(1)					
Operating profit	174				138	(21)

Markets and categories	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
Africa	7	17	3	(4)
Nigeria	(8)	(8)	(9)	(18)
East Africa	21	21	13	
Africa Regional Markets	12	63	6	17
South Africa	(5)	(4)	2	(12)
Spirits	(3)	(3)		(12)
Beer	23	45	15	10
Ready to drink	(35)	(28)	(44)	(43)

Global giants and local stars[(i)]	Organic volume movement %	Organic net sales movement %	Reported net sales movement %
Guinness	14	15	4
Malta	24	27	17

Tusker	(13)	(14)	(26)
Senator	145	144	111
Harp	(8)	(8)	(17)
Johnnie Walker	(17)	(4)	(13)
Smirnoff	2	8	(7)

(i) Spirits brands excluding ready to drink.

In **Nigeria,** net sales declined 9% driven by the comparison against the strong distribution growth on Orijin, which lapped its successful introduction last year when it defined a new category in Nigeria. The brand also saw rate of sale fall as competitors entered the category. A number of interventions to bring new news to the brand and the category have been made, including innovation and packaging changes at appropriate price points. Beer delivered a very strong performance with both volume and net sales up 28%. This is driven by strong double digit shipment growth for Guinness and Malta Guinness, reflecting momentum against a weak prior period, and high single digit growth in underlying depletions benefitting from new marketing, distribution changes and in part as consumers switch back from Orijin. Satzenbrau performed strongly with half year net sales growth of 54% as the brand builds its position in the growing value beer segment.

In **East Africa** net sales were up 13% largely driven by the strong growth of beer and mainstream spirits. In Kenya Senator keg volume more than doubled following a duty reduction early in the year. Mainstream spirits net sales were up 17%, largely driven by the strong performance of Kenya Cane and Kane Extra. Guinness, Smirnoff Ice Double Black and Guarana, and reserve brands all grew both volume and net sales by double digits.

In **Africa Regional Markets** net sales grew 6% reflecting strong growth in Ghana, Cameroon and Ethiopia. In Ghana net sales were up 27% largely driven by the launch of Orijin Bitters and ready to drink variants, and good performance in beer with net sales up 5%. In Cameroon, net sales growth of 4% was driven by a good performance from Guinness, despite short term supply constraints, and Johnnie Walker which grew 30% as it continued to benefit from an improved route to consumer. In Ethiopia, strong net sales growth of Malta of 63% was partly offset by a small decline in beer, in an increasingly aggressive sector as brewing capacity expands in the market. We have relaunched our Meta beer brand in November. Reported net sales increased £26 million in the half following the acquisition of the remaining 50% of United National Breweries in South Africa in May 2015. Net sales in Angola declined 52% reflecting economic and currency issues leading to reduced stock levels. Reserve brands continue to perform well driven by Johnnie Walker Blue Label.

In a challenging economic environment net sales in **South Africa** were up 2%. Net sales of spirits were flat as a 9% growth in vodka was offset by scotch net sales down 6%. Smirnoff 1818 continued its strong performance with net sales growth of 3%, and is now the biggest spirits brand in South Africa. Net sales of Johnnie Walker increased 5%, with Johnnie Walker Black depletions of 12%, as marketing focused on the brand s quality credentials. Overall scotch net sales performance reflects weaker performance of Johnnie Walker Red, JeB and Bell s as the economic issues led to lower stock levels in the retail trade. Net sales in rum were up 14% as a result of consumer events to drive awareness. Reserve brands net sales were up 19% as it benefited from launches of Bulleit, Ketel One, Cîroc Pineapple and Cardhu.

Marketing investment in Africa decreased 4% driven by Nigeria and East Africa. In Nigeria, investment was down 16% as activity on beer started slowly in the half, reflecting economic uncertainty. In East Africa, investment declined 1% reflecting the growth in the value sector and some re-phasing of marketing to the second half. Investment increased 5% in African Regional Markets reflecting a continued focus on core brands, alongside renovating the Meta brand in Ethiopia and the launch of Orijin in Ghana. Investment behind scotch increased 14% notably behind Johnnie Walker in South Africa and Africa Regional Markets. Ready to drink investment increased driven by Smirnoff Ice Double Black & Guarana in South Africa.

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Latin America and Caribbean

In LAC volume and net sales growth of 4% and 9% respectively reflect strong performances across the domestic markets. Despite difficult market conditions, Brazil net sales were up 12% reflecting price increases and positive shipment phasing ahead of a December duty increase. Performance in both Mexico and Colombia was strong with net sales up 20% and 24% respectively, driven by scotch and the introduction of Baileys flavours. Net sales growth in the export channels reflects the comparison against last year when stocks held by customers in the channel were reduced. There has also been a significant decline in depletions in the export channels given the continued currency weakness. Following a number of years of currency devaluation which has impacted demand, net sales in Venezuela were only £4 million. Scotch net sales across LAC grew 9% reflecting strong Johnnie Walker Red Label performances in Mexico and Brazil, and Buchanan s in Mexico and Colombia, driven by invigourated marketing campaigns, some price increases and growth in reserve scotch brands. Vodka net sales were up 22% driven by growth in Mexico and in Brazil as a result of the pre-duty buy in.

Key financials	First Half F15 Reported £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	First Half F16 Reported £ million	Reported movement %
Net sales	619	(139)	2	40	522	(16)
Marketing spend	110	(21)	4	3	96	(13)
Operating profit before exceptional items	207	(63)	3	7	154	(26)
Exceptional items	(4)				(104)	
Operating profit	203				50	(75)

Markets and categories	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
Latin America and Caribbean	4	5	9	(16)
PUB	1	1	9	(21)
Colombia	5	6	24	(11)
Mexico	26	41	20	20
West LAC	5	(2)	4	(7)
Venezuela	7	6	39	(94)
Spirits	5	7	9	(13)
Beer	11	(28)	7	(41)
Ready to drink	(9)	(9)	3	(33)

Global giants and local stars[i]	**Organic volume movement %**	**Organic net sales movement %**	**Reported net sales movement %**
Johnnie Walker	7	11	(7)
Buchanan s	(10)	5	(27)
Smirnoff	14	21	(14)
Old Parr	(11)		(24)
Baileys	(1)	5	(10)
Ypióca	(6)	4	(28)
Black & White	49	72	25

(i) Spirits brands excluding ready to drink.

Net sales in **Paraguay, Uruguay and Brazil (PUB)** increased 9% largely driven by Brazil where, despite challenging market conditions, net sales were up 12% reflecting price increases following a currency devaluation and positive shipment phasing ahead of a significant excise duty increase in December 2015. Scotch net sales in Brazil were up 17% with strong performance of Johnnie Walker Red Label, Black and White, and White Horse with Diageo holding share despite price increases, reflecting a consistent and targeted investment behind these brands. Vodka net sales were up 15% driven by Smirnoff and Cîroc as a result of the pre-duty buy in. Despite the decline in the cachaça market, Ypióca net sales were up 4% as on-trade activations focused on increasing coverage in its core region. An impairment charge in respect of the Ypióca brand and its goodwill has been made reflecting the challenging economic environment and a significant adverse change in local tax regulation which will lower its future profitability. Net sales in the duty free zones of Paraguay and Uruguay declined 15% reflecting currency devaluation. Reserve brands net sales in PUB increased 14% driven by Cîroc and a focus on customer experience through on trade marketing activity.

Net sales in **Colombia** were up 24%, with 18pps of positive price/mix. Scotch delivered strong double digit net sales growth in each segment. Johnnie Walker continues to grow with volume up 13%, and net sales up 40% driven by price increases. Old Parr grew net sales 21% and share benefited from the launch of Old Parr Tribute. Buchanan s delivered 37% net sales growth and made share gains primarily due to increases in Buchanan s Deluxe and Special Reserve. Innovation through flavours, plus strong focus behind brilliant execution during peak selling seasons contributed to a 7% increase in Baileys net sales, and increased share in a growing category. As the business looks to widen its portfolio, gin and vodka categories posted net sales growth above 40% and 50% respectively, albeit from a small base, driven by innovation and reserve brands.

Mexico net sales were up 20% largely driven by scotch where net sales increased 18%, reflecting strong brand momentum and improved execution of marketing campaigns and commercial platforms. A full revamp of the Buchanan s trademark through the launch of a new bottle and the successful Good vs Great campaign contributed to 18% net sales growth. Johnnie Walker net sales grew 17% benefitting from greater visibility with the Keep Walking Walk With Joy (Walk With Joy) campaign and digital activations. Black and White net sales grew 87% reflecting strong focus on trade activations. A robust turnaround plan has been implemented for Smirnoff having regained distribution of the brand, focused on brand availability through trade activations. The acquisition of Don Julio drove reported net sales growth. Don Julio is the fastest growing tequila brand in the country nearly doubling category growth.

In **West LAC** net sales increased 4%. Net sales growth in the export channels reflects the comparison against last year, when stock held by customers in the channel were reduced, and a significant decline in depletions given the continued currency weakness. Domestic markets net sales increased 3% driven by Peru, Chile, and Central America and Caribbean. In Peru net sales were up 22% reflecting some pricing actions, with strong contributions from Old Parr and across the Johnnie Walker portfolio on the back of the Walk With Joy campaign and Johnnie Ginger activations in the first half. In Chile, net sales improved 11% driven by strong scotch volume and net sales growth of 18% and 15% respectively benefiting from trade activations. Central America and Caribbean net sales grew 2% driven by Smirnoff ready to drink up 14% reflecting the launch of Smirnoff Ice Double Black and Guarana in Central America in the half. In Argentina, changes in the channel mix reduced net sales by 4% in the half. Diageo has now agreed to sell its Argentina wine business and move to a full distribution sales model, which is expected to complete in the second half. In addition, the beer business in Jamaica was sold in October 2015 as part of a focus on spirits.

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Following the change in consolidation exchange rate to recognise local inflation, net sales for **Venezuela** in the half were £4 million.

An increase in **marketing** investment of 4% supported the expansion of brand portfolios in the region, but spend was reduced in Brazil in line with the weaker economic environment. In Mexico, investment growth of 16% was driven by spend on Smirnoff as we continue to invest having regained distribution, and on ready to drink behind the launch of Smirnoff Ice Double Black & Guarana. Elsewhere, Smirnoff ready to drink investment also increased behind the new Green Apple flavour in Colombia. Scotch spend increased 2% and was focused on Johnnie Walker Black in Brazil, Mexico and West LAC supported by the Walk With Joy campaign, and Buchanan s in Mexico and Colombia with the relaunch of the new image.

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Asia Pacific

The overall performance in Asia Pacific improved, with net sales up 2% as Australia, South East Asia, Greater China and India all grew. The performance of Shui Jing Fang drove growth in Greater China and the successful renovation of Royal Challenge drove top line growth in India. There was some weakness in Korea, driven by a shift towards lower ABV spirits, and in Global Travel Asia and Middle East, given geopolitical developments. The reserve portfolio continued to deliver a strong performance, up 15%, with growth coming from Master Distiller s No.8 brand in Greater China and the reintroduction of Johnnie Walker Green Label in Australia. Marketing spend was down 2% as a result of reduced spend on Johnnie Walker Black Label and Blue Label in China. Operating margin improved strongly as margin in India increased significantly driven by both underlying improvement in operating margin and the sale by USL of United Breweries Limited shares.

Key financials	First Half F15 Reported £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	First Half F16 Reported £ million	Reported movement %
Net sales	1,166	(34)	(35)	26	1,123	(4)
Marketing spend	168	(6)	(1)	(4)	157	(7)
Operating profit before exceptional items	214	(15)	(1)	36	234	9
Exceptional items	(147)					
Operating profit	67				234	249

Markets and categories	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
Asia Pacific		(10)	2	(4)
South East Asia	(2)	(2)	6	2
Greater China			4	6
India		(12)	6	(3)
Global Travel Asia & Middle East	(6)	(6)	(12)	(12)
Australia	2	2	2	(11)
North Asia	10	10	(2)	(6)
Spirits		(10)	2	(2)
Beer	2	2	(1)	(8)
Ready to drink	(8)	(8)	(9)	(18)

Global giants and local stars[(i)]	Organic volume	Organic net sales	Reported net sales

	movement %	movement %	movement %
Johnnie Walker	(4)	(5)	(7)
McDowell s	2	3	(2)
Windsor		(7)	(10)
Smirnoff	(3)	(3)	(7)
Guinness	2	(1)	(8)
Bundaberg	(5)	(4)	(17)
Shui Jing Fang	155	69	73

(i) Spirits brands excluding ready to drink.

In **South East Asia** net sales were up 6%. This growth was driven by increased net sales in the wholesale channels which lapped the inventory reduction of Johnnie Walker Black Label and Johnnie Walker Red Label in F15. This inventory reduction has continued in the first half, however while shipments are below depletions, shipments are up on last year. Other countries in the market were weaker. In Indonesia, increased regulation banning off trade sales had a material impact resulting in a net sales reduction of 16%. In Thailand, net sales were down 6% due to the weak scotch market. However, Johnnie Walker grew share by 1ppt. In addition, the successful launch of Smirnoff Midnight 100 in the first quarter contributed to share gains of 40bps in Smirnoff ready to drink. In Vietnam net sales declined by 29% with Johnnie Walker particularly impacted.

In **Greater China** net sales increased 4%. The performance in Shui Jing Fang continued to improve with net sales up 81%, driven by the continuing strong performance of the Master Distiller s No.8 which competes in the premium baijiu segment. In China net sales of international spirits were down 40%, largely due to scotch, which was down 42% as the effects of the government s anti-extravagance measures on the traditional on trade persist and competition increases in the modern on trade channel. In Taiwan, net sales were up 9% driven by the continued success of The Singleton which gained share consolidating its number one scotch position.

In **India,** net sales were up 6% for the half. Shipments of Johnnie Walker were down as a result of delays in registration in some states and stock levels of Smirnoff were reduced. IMFL brands, especially prestige and above, performed strongly in Q2 offsetting some weakness in the first quarter. The renovation of the Royal Challenge brand drove net sales growth of 57% and the brand gained share in the category. This offset a temporary pricing related challenge in Karnataka on our lead brand of Haywards which declined 32% and impacted the reported India results by 2pps. In addition, Scotch performed strongly with double digit net sales growth from revamped brand campaigns and category management across the consolidated portfolio. Share gains were achieved in Premium White Spirits driven by Smirnoff despite a softening category. Overall India s gross profit margin improved 3pps due to improved product/price mix and stronger collaboration with third party suppliers and productivity initiatives that delivered a reduction in cost of sales.

Global Travel Asia and Middle East net sales declined by 12% as geopolitical developments led to softness in the domestic and travel retail business in the Middle East. In Global Travel Asia net sales declined 4% impacted by softness in China and South East Asia.

Australia performed well in tough market conditions and net sales grew 2%. Growth in spirits and beer more than offset the continued decline in the ready to drink segment. Smirnoff, Captain Morgan and Baileys performed strongly and all gained share. However, the overall Bundaberg brand net sales were down 2% driven by spirits as ready to drink was flat year on year. Johnnie Walker was down low single digit driven by Johnnie Walker Red Label partially offset by the re-introduction of Johnnie Walker Green Label.

North Asia net sales were down 2%. In Japan, net sales grew 9%, largely driven by strong growth in scotch which offset the decline in ready to drink, a category that is becoming more competitive due to new entrants in craft beer and wine based ready to drink. In Korea net sales were down 6%. Decline in the whisky category and a shift towards lower ABV spirits was partially offset by continued growth in beer as Diageo broadened its participation. In response to the shift towards lower ABV spirits Korea launched W Ice by Windsor in March 2015 and K Rare by Windsor in November 2015 and initial results show the brands are being well received both by customers and consumers.

Marketing spend decreased 2% with a significant reduction in Johnnie Walker investment predominantly in China with a planned move away from in-outlet promotion. In North Asia, while marketing spend reduced overall in response to the contraction of the whisky market, Korea increased its investment in Guinness to broaden the portfolio. The spend in South East Asia has increased by 12% with the execution of the Johnnie

Walker Walk With Joy marketing campaign and the launch of Smirnoff ready to drink Midnight 100 in Thailand being the key focus. In India marketing spend was down as marketing spend is focused on key brand renovations.

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Corporate

Key financials	First Half F15 Reported £ million	Exchange £ million	Acquisitions and disposals £ million	Organic movement £ million	First Half F16 Reported £ million	Reported movement %
Net sales	43	(2)	(25)	1	17	(60)
Marketing spend	4		(2)		2	(50)
Operating profit before exceptional items	(56)	(3)	(4)	(5)	(68)	(21)
Exceptional items	(7)					
Operating profit	(63)				(68)	(8)

Reported corporate net sales in the six months ended 31 December 2015 were £17 million, down 60% from the previous year largely due to the sale of the Gleneagles Hotel. Operating charges in the period were £68 million, as cost savings in global functions were more than offset by the release of provisions which benefited the comparative. There were no exceptional charges in respect of restructuring costs in the half.

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Category and brand review

Key categories	Organic volume movement %	Reported volume movement %	Organic net sales movement %	Reported net sales movement %
Spirits[(i)]		**(5)**	**1**	**(4)**
Scotch	(2)	(2)	1	(8)
North American whiskey	7	7	10	15
IMFL	(4)	(8)	2	(1)
Vodka	(1)	(1)	(8)	(9)
Rum	7	7	4	
Tequila	7	87	6	45
Liqueurs	6	6	7	2
Gin	2	2	6	3
Beer	**15**	**26**	**7**	**1**
Ready to drink	**(14)**	**(14)**	**(13)**	**(20)**

(i) Spirits brands excluding ready to drink.

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Global giants, local stars and reserve[i]	Organic volume movement %	Organic net sales movement %	Reported net sales movement %
Global giants			
Johnnie Walker	(1)	1	(5)
Smirnoff	2	2	(1)
Baileys	4	6	2
Captain Morgan	5	3	3
Tanqueray	8	8	9
Guinness	8	9	2
Local stars			
Crown Royal	7	8	13
Yenì Raki	5	5	(14)
Buchanan s	(5)	7	(13)
J B	(6)	(9)	(16)
Windsor	1	(7)	(10)
Old Parr	(10)		(22)
Bundaberg	(5)	(4)	(17)
Bell s	(2)	(3)	(15)
White Horse	(6)	10	(18)
Ypióca	(6)	4	(28)
Cacique	53	9	(56)
Shui Jing Fang	154	68	72
Reserve			
Scotch malts	8	10	5
Cîroc	(36)	(37)	(34)
Ketel One vodka		(1)	4
Don Julio	24	27	75
Bulleit	27	29	36

(i) Spirits brands excluding ready to drink.

Global giants represent 45% of Diageo net sales and grew 4%.

Johnnie Walker net sales were up 1% as reserve brands performed well with net sales up 13%, tempered by inventory reductions of Johnnie Walker Red Label in Asia Pacific. Johnnie Walker Black Label net sales were also down 3%, largely driven by the continued effects of the government s anti extravagance measures in Greater China and geopolitical developments which led to softness in the Middle East domestic and travel retail business.

Smirnoff net sales grew 2%, returning to growth in the United States, its biggest market, where Smirnoff net sales were up 4% driven by Smirnoff Red and the launch of Smirnoff Peppermint. In Europe net sales were down 7% due to decline in Great Britain with higher volume sold on promotion in the holiday season as part of a strategy to drive our broader vodka portfolio in certain channels and a decline in Continental Europe as we restructured trade terms with certain customers to create a more profitable and sustainable business.

Baileys net sales increased by 6% mainly driven by growth in Great Britain and the United States. In Great Britain Baileys net sales were up 14% supported by increased media, sampling and in-outlet visibility and promotions during the holiday season. In the United States the growth was driven by the launch of Baileys Espresso Crème.

Captain Morgan net sales were up 3% with growth in Europe, Russia and the United States. In Europe there was double digit net sales growth in Iberia, Poland, Nordics, Italy, Southern Europe and France. In the United States, which accounts for nearly two thirds of Captain Morgan net sales, net sales were up 2% with the launch of Captain Morgan Cannon Blast. In Russia, Captain Morgan continued a strong performance behind the Captain Morgan White launch.

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Tanqueray net sales were up 8% with all regions delivering net sales growth as Europe, Latin America and Caribbean and Asia Pacific all achieved double digit net sales growth. In its biggest market, the United States, net sales were up 1%, driven by Tanqueray No. TEN as the super-premium category continued to expand. Tanqueray No. TEN was supported with variant-specific communication to drive awareness and trial to drive distribution in top-end bars and restaurants nationally.
Guinness net sales increased 9%. In Nigeria net sales grew 28% as it continued to benefit from the distribution drive launched last year to capture the growing off trade category. In Kenya net sales increased 11% supported by the Get Booked 2 and Made of Black marketing campaigns. Guinness also gained share and increased net sales in Great Britain by 4% and Ireland by 5%.

Local stars represent 16% of Diageo net sales. Despite tough economic conditions in many of the markets for local stars overall performance was good with net sales up 5%. Net sales growth of 8% in Crown Royal in the United States and high double digit growth in Shui Jing Fang driven by the continuous strong performance of Master Distiller s No.8 accounted for over 90% of the net sales growth. Elsewhere strong performances in Buchanan s across North America and LAC and Raki in Turkey offset the decline in JeB in Continental Europe and Windsor in Korea.

Reserve brands net sales decline of 2% was largely driven by lower volume of Cîroc as the United States business moved to a replenishment model on innovations and the launch of Cîroc Apple occurred later in this half than the launch of Cîroc Pineapple last year. Overall scotch reserve brand net sales are up 9% with double digit growth of Johnnie Walker more than offsetting a decline in Haig Club as it laps the launch last year. Bulleit, the fastest growing unflavoured North American whiskey, delivered double digit growth and both Bulleit Bourbon and Bulleit Rye led growth in their respective segments through increased distribution, consumer experience marketing, and the engagement of key trade influencers.

Other key highlights

Scotch represents 25% of Diageo net sales and net sales were up 1%. A good performance in Latin America and Caribbean, with net sales up 9%, was largely driven by Johnnie Walker and Buchanan s, supported by successful marketing campaigns such as Buchanan s Good vs Great campaign and Johnnie Walker s Walk With Joy campaign. Good overall performances by Black & White and White Horse were offset by net sales decline in JeB and Bell s. Windsor net sales declined double digit in Korea due to the decline of the whisky category and a market shift towards lower ABV spirits.
North American whiskey represents 8% of Diageo s net sales and grew 10%. Performance was driven by the success of Crown Royal Regal Apple and the strong growth of Bulleit which continued to gain share in the category in the United States.
Vodka represents 12% of Diageo s net sales and declined 8%. The decline was largely driven by Cîroc in the United States. Smirnoff, the largest brand in the category, performed well with net sales up 1% in developed markets and 4% in emerging markets.
Beer represents 17% of Diageo s net sales and grew 7% largely driven by a strong performance in Africa where beer net sales were up 15%. Key contributors were East Africa and Nigeria. In East Africa there was strong growth of Senator, which more than doubled volume following the duty remission early in the fiscal year. In Nigeria, Guinness benefited from trade activations, and a price and quality focus. While Malta continued its distribution drive in to the growing off trade sector. Guinness also gained share and increased net sales in Great Britain by 4% and Ireland by 5%, its two biggest markets.

Ready to drink represents 5% of Diageo s net sales with net sales down 13%. This was largely driven by a decline of Orijin in Nigeria as it lapped last year s national roll out and faced increased competition in this category. The decline was partially offset by a good performance in Smirnoff Ice Flavours in the United States driven by new marketing programmes and flavours and the launch of Orijin in Ghana. In Thailand, Smirnoff Midnight 100 was successfully launched in the ready to drink segment in the first quarter and contributed to share gains of 40bps in Smirnoff ready to drink.

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LIQUIDITY AND CAPITAL RESOURCES

The primary source of the group s liquidity has been cash generated from operations. These funds have generally been used to pay interest, taxes and dividends, and to fund capital expenditure and acquisitions.

Analysis of cash flow, movement in net borrowings and equity

For an analysis of movement in net borrowings, movement in equity and post-employment deficit refer to pages 21-22. For an analysis of free cash flow refer to page 16.

Analysis of borrowings

The group policy with regard to the expected maturity profile of borrowings of group finance companies is to limit the proportion of such borrowings maturing within 12 months to 50% of gross borrowings less money market demand deposits, and the level of commercial paper to 30% of gross borrowings less money market demand deposits. In addition, it is group policy to maintain backstop facility terms from relationship banks to support commercial paper obligations.

The group s net borrowings and gross borrowings in the tables below are measured at amortised cost with the exception of borrowings designated in fair value hedge relationships, interest rate hedging instruments and foreign currency swaps and forwards. For borrowings designated in fair value hedge relationships, Diageo recognises a fair value adjustment for the risk being hedged in the balance sheet, whereas interest rate hedging instruments and foreign currency swaps and forwards are measured at fair value. Net borrowings, reported on this basis, comprise the following:

	31 December 2015 £ million
Overdrafts	**(74)**
Other borrowings due within one year	**(1,861)**
Borrowings due within one year	**(1,935)**
Borrowings due between one and three years	**(2,328)**
Borrowings due between three and five years	**(1,444)**
Borrowings due after five years	**(4,158)**
Fair value of foreign currency forwards and swaps	**327**
Fair value of interest rate hedging instruments	**7**
Finance lease obligations	**(238)**
Gross borrowings	**(9,769)**
Offset by:	
Cash and cash equivalents	**541**
Net borrowings	**(9,228)**

The percentage of the group s gross borrowings and cash and cash equivalents at 31 December 2015 denominated in the following currencies were as follows:

	Total £ million	US dollar %	Sterling %	Euro %	Korean won %	South African Rand %	Other(i) %
Gross borrowings(ii)	(9,769)	33	41	20	1		5
Cash and cash equivalents	541	9	4	12	17	10	48

(i) No currency included within the other category exceeds 10% of the total cash and cash equivalents balance.
(ii) Including foreign exchange forwards and swaps.

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Based on average monthly net borrowings and net interest charge, the effective interest rate for the six months ended 31 December 2015 was 3.4%. For this calculation, 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.

In the six months ended 31 December 2015, the group repaid bonds of $750 million (£489 million). In the six months ended 31 December 2014, the group repaid bonds of 1,000 million (£792 million) and issued bonds of 1,000 million (£791 million), and a bond of £370 million acquired on the purchase of USL was repaid using the proceeds from the sale of the Whyte and Mackay Group.

The £299 million decrease in net borrowings from 30 June 2015 to 31 December 2015 was principally the result of £643 million received on disposals less acquisitions and free cash flow of £839 million offset by £876 million equity dividends paid, and £259 million adverse exchange movements.

The group issues short term commercial paper regularly in order to finance its day-to-day operations.

The group had available undrawn committed bank facilities as follows:

	31 December 2015 £ million
Expiring within one year	**735**
Expiring between one and two years	
Expiring after two years	**1,646**
	2,381

These facilities can be used for general corporate purposes and, together with cash and cash equivalents, support the group s commercial paper programmes.

There are no financial covenants on the group s material short and long term borrowings. However, certain of these borrowings contain cross default provisions, covenants on pari passu ranking, negative pledges and restrictions on certain sale and leaseback transactions.

The committed bank facilities are subject to a single financial covenant, being minimum interest cover ratio of two times (defined as the ratio of operating profit before exceptional items, aggregated with share of after tax results of associates and joint ventures, to net interest). They are also subject to pari passu ranking and negative pledge covenants.

Any non-compliance with covenants underlying Diageo s financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain borrowings and the inability to access committed facilities. Diageo was in full compliance with its financial and other covenants throughout each of the periods presented.

Capital management

The group s management is committed to enhancing shareholder value in the long term, both by investing in the businesses and brands so as to deliver continued improvement in the return from those investments and by managing the capital structure. Diageo manages its capital structure to achieve capital efficiency, provide flexibility to invest through the economic cycle and give efficient access to debt markets at attractive cost levels. This is achieved by targeting a net borrowing to EBITDA leverage of 2.5 3.0 times, this range for Diageo being currently broadly consistent with an A band credit rating. Diageo has and would in the future consider operating outside of this range in order to effect strategic initiatives within its stated goals, which could have an impact on its rating. It is Diageo s current policy that in the event that the financing of an acquisition negatively impacts Diageo s leverage, it will seek over time to return to the range of 2.5 3.0 times. The group regularly assesses its debt and equity capital levels against its stated policy for capital structure. For this calculation net borrowings is adjusted by the pension deficit whilst EBITDA equals operating profit less exceptional operating items and depreciation, amortisation and impairment and includes share of after tax results of associates and joint ventures.

Capital repayments

Authorisation was given by shareholders on 23 September 2015 to purchase a maximum of 251,514,000 shares at a minimum price of 28 101/108 pence and a maximum price of the higher of (a) 105% of the average of the middle market quotations for an ordinary share for the five preceding business days and (b) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out. The programme expires at the conclusion of the next Annual General Meeting or on 22 December 2016, if earlier.

OFF-BALANCE SHEET ARRANGEMENTS

Neither Diageo plc nor any member of the Diageo group has any off-balance sheet financing arrangements that currently have or are reasonably likely to have a material future effect on the group s financial condition, changes in financial condition, results of operations, liquidity, capital expenditure or capital resources.

DEFINITIONS AND RECONCILIATION OF NON-GAAP MEASURES TO GAAP MEASURES

Diageo s strategic planning process is based on the following non-GAAP measures. They are chosen for planning and reporting, and some of them are used for incentive purposes. The group s management believes these measures provide valuable additional information for users of the financial statements in understanding the group s performance. These non-GAAP measures should be viewed as complementary to, and not replacements for, the comparable GAAP measures and reported movements therein.

Volume

Volume is a non-GAAP measure that is measured on an equivalent units basis to nine-litre cases of spirits. An equivalent unit represents one nine-litre case of spirits, which is approximately 272 servings. A serving comprises 33ml of spirits, 165ml of wine, or 330ml of ready to drink or beer. Therefore, to convert volume of products other than spirits to equivalent units, the following guide has been used: beer in hectolitres, divide by 0.9; wine in nine-litre cases, divide by five; ready to drink in nine-litre cases, divide by 10; and certain pre-mixed products that are classified as ready to drink in nine-litre cases, divide by five.

Organic movements

In the discussion of the performance of the business, organic information is presented using pounds sterling amounts on a constant currency basis excluding the impact of exceptional items and acquisitions and disposals. Organic measures enable users to focus on the performance of the business which is common to both periods and which represents those measures that local managers are most directly able to influence.

Calculation of organic movements

The organic movement percentage is the amount in the row titled Organic movement in the tables below, expressed as a percentage of the amount in the row titled 2014 adjusted . Organic operating margin is calculated by dividing operating profit before exceptional items by net sales after excluding the impact of exchange rate movements and acquisitions and disposals.

(a) Exchange rates

Exchange in the organic movement calculation reflects the adjustment to recalculate the prior period results as if they had been generated at the current period s exchange rates.

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Exchange impacts in respect of the external hedging of intergroup sales of products and the intergroup recharging of third party services are allocated to the geographical segment to which they relate. Residual exchange impacts are reported in Corporate.

Exchange impacts in respect of profit on intergroup sales of products and the intergroup recharges are reported in other operating expenses .

(b) Acquisitions and disposals

For acquisitions in the current period, the post acquisition results are excluded from the organic movement calculations. For acquisitions in the prior period, post acquisition results are included in full in the prior period but are included in the organic movement calculation from the anniversary of the acquisition date in the current period. The acquisition row also eliminates the impact of transaction costs that have been charged to operating profit in the current or prior period in respect of acquisitions that, in management s judgement, are expected to complete.

Where a business, brand, brand distribution right or agency agreement was disposed of, or terminated, in the period up to the date of the external results announcement, the group, in the organic movement calculations, excludes the results for that business from the current and prior period. In the calculation of operating profit, the overheads included in disposals are only those directly attributable to the businesses disposed of, and do not result from subjective judgements of management. In addition, disposals include the elimination of the results (for volume, sales, net sales and marketing only) of operations in India where United Spirits Limited (USL) previously fully consolidated the results and which are now operated on a royalty or franchise model where USL now receives royalties only for sales made by that operation.

(c) Exceptional items

Exceptional items are those which, in management s judgement, need to be disclosed by virtue of their size or nature in order for the user to obtain a proper understanding of the financial information. Such items are included within the income statement caption to which they relate but are excluded from the organic movement calculations.

Organic movement calculations for the six months ended 31 December 2015 were as follows:

	North America million	Europe, Russia and Turkey million	Africa million	Latin America and Caribbean million	Asia Pacific million	Corporate million	Total million
Volume (equivalent units)							
2014 reported	25.6	24.0	13.9	11.2	59.4		134.1
Disposals[(ii)]	(0.6)	(1.0)	(0.1)	(0.3)	(6.1)		(8.1)
2014 adjusted	25.0	23.0	13.8	10.9	53.3		126.0
Acquisitions and disposals[(ii)]	**0.3**	**0.6**	**1.6**	**0.4**	**0.1**		**3.0**
Organic movement	**(0.4)**	**0.5**	**0.9**	**0.4**	**(0.1)**		**1.3**
2015 reported	**24.9**	**24.1**	**16.3**	**11.7**	**53.3**		**130.3**

Organic movement %	**(2)**	**2**	**7**	**4**	**1**

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	North America £ million	Europe, Russia and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	Corporate £ million	Total £ million
Sales							
2014 reported	2,102	2,596	992	786	2,205	43	8,724
Exchange(i)	96	(210)	(104)	(179)	(64)	(2)	(463)
Disposals(ii)	(149)	(107)	(16)	(42)	(90)	(25)	(429)
2014 adjusted	2,049	2,279	872	565	2,051	16	7,832
Acquisitions and disposals(ii)	**95**	**67**	**46**	**53**	**7**		**268**
Organic movement	**(31)**	**102**	**37**	**53**	**5**	**1**	**167**
2015 reported	**2,113**	**2,448**	**955**	**671**	**2,063**	**17**	**8,267**
Organic movement %	**(2)**	**4**	**4**	**9**		**6**	**2**
Net sales							
2014 reported	1,867	1,459	746	619	1,166	43	5,900
Exchange(i)	83	(114)	(76)	(139)	(34)	(2)	(282)
Disposals(ii)	(144)	(75)	(11)	(35)	(42)	(25)	(332)
2014 adjusted	1,806	1,270	659	445	1,090	16	5,286
Acquisitions and disposals(ii)	**92**	**49**	**38**	**37**	**7**		**223**
Organic movement	**(31)**	**42**	**19**	**40**	**26**	**1**	**97**
2015 reported	**1,867**	**1,361**	**716**	**522**	**1,123**	**17**	**5,606**
Organic movement %	**(2)**	**3**	**3**	**9**	**2**	**6**	**2**

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	North America £ million	Europe, Russia and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	Corporate £ million	Total £ million
Marketing							
2014 reported	304	225	85	110	168	4	896
Exchange(i)	10	(3)	(9)	(21)	(6)		(29)
Disposals(ii)	(9)	(5)		(4)	(1)	(2)	(21)
2014 adjusted	305	217	76	85	161	2	846
Acquisitions and disposals(ii)	**6**	**1**	**1**	**8**			**16**
Organic movement	**(36)**		**(3)**	**3**	**(4)**		**(40)**
2015 reported	**275**	**218**	**74**	**96**	**157**	**2**	**822**
Organic movement %	**(12)**		**(4)**	**4**	**(2)**		**(5)**
Operating profit before exceptional items							
2014 reported	819	480	175	207	214	(56)	1,839
Exchange(i)	30	(36)	(38)	(63)	(15)	(3)	(125)
Acquisitions and disposals(ii)	(39)	(20)	(3)	(8)	(2)	(3)	(75)
2014 adjusted	810	424	134	136	197	(62)	1,639
Acquisitions and disposals(ii)	**18**	**6**	**4**	**11**	**1**	**(1)**	**39**
Organic movement	**(19)**	**20**		**7**	**36**	**(5)**	**39**
2015 reported	**809**	**450**	**138**	**154**	**234**	**(68)**	**1,717**
Organic movement %	**(2)**	**5**		**5**	**18**	**(8)**	**2**
Organic operating margin %							
2015	**44.6%**	**33.8%**	**19.8%**	**29.5%**	**20.9%**	**n/a**	**31.17%**
2014	44.9%	33.4%	20.3%	30.6%	18.1%	n/a	31.01%
Margin (decline)/improvement (bps)	**(29)**	**46**	**(57)**	**(108)**	**280**	**n/a**	**16**

(1) For the reconciliation of sales to net sales and operating profit before exceptional items to operating profit see page 18 and page F-9.

(2) Percentages and margin improvement are calculated on rounded figures.

Notes: Information in respect of the organic movement calculations

(i) The exchange adjustments for sales, net sales, marketing and operating profit are principally in respect of the Venezuelan bolivar, the euro, the Brazilian real and the US dollar.
(ii) In the six months ended 31 December 2015 the acquisitions and disposals that affected volume, sales, net sales, marketing and operating profit were as follows:

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	Volume equ. units million	Sales £ million	Net sales £ million	Marketing £ million	Operating profit £ million
Six months ended 31 December 2014					
Acquisitions					
Transaction costs					(1)
					(1)
Disposals					
Wine businesses in the United States and Percy Fox	(1.0)	(195)	(174)	(9)	(37)
Bushmills	(0.4)	(45)	(34)	(6)	(19)
Jamaica incl Red Stripe	(0.4)	(54)	(42)	(4)	(10)
Gleneagles		(26)	(26)	(1)	(4)
Bouvet	(0.1)	(9)	(9)		(1)
USL owned to franchise	(6.0)	(80)	(33)	(1)	
Others	(0.2)	(20)	(14)		(3)
	(8.1)	(429)	(332)	(21)	(74)
Acquisitions and disposals	(8.1)	(429)	(332)	(21)	(75)
Six months ended 31 December 2015					
Acquisitions					
Don Julio	**0.2**	**30**	**19**	**5**	**19**
United National Breweries	**1.4**	**26**	**26**	**1**	**4**
Others	**0.1**	**10**	**7**		
Transaction costs					**(1)**
	1.7	**66**	**52**	**6**	**22**
Disposals					
Wine businesses in the United States and Percy Fox	**0.9**	**147**	**131**	**8**	**11**
Jamaica incl Red Stripe	**0.3**	**35**	**25**	**2**	**4**
Bouvet		**7**	**7**		**1**
Others	**0.1**	**13**	**8**		**1**
	1.3	**202**	**171**	**10**	**17**
Acquisitions and disposals	**3.0**	**268**	**223**	**16**	**39**

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Earnings per share before exceptional items

Earnings per share before exceptional items is calculated by dividing profit attributable to equity shareholders of the parent company before exceptional items by the weighted average number of shares in issue.

Earnings per share before exceptional items for the six months ended 31 December 2015 and 31 December 2014 are set out in the table below.

	2015	2014
	£ million	£ million
Profit attributable to equity shareholders of the parent company	**1,406**	1,311
Exceptional operating items attributable to equity shareholders of the parent company	**104**	170
Non-operating items attributable to equity shareholders of the parent company	**(203)**	(98)
Tax in respect of exceptional operating and non-operating items	**(22)**	(38)
	1,285	1,345
	million	**million**
Weighted average number of shares in issue	**2,507**	2,506
	pence	**pence**
Earnings per share before exceptional items	**51.3**	53.7

Free cash flow

Free cash flow comprises the net cash flow from operating activities aggregated with the net movements in loans receivable and other investments and with the net purchase of property, plant and equipment and computer software that are included in net cash flow from investing activities.

The remaining components of net cash flow from investing activities that do not form part of free cash flow, as defined by the group s management, are in respect of the acquisition and sale of businesses.

The group s management regards the purchase and disposal of property, plant and equipment and computer software as ultimately non-discretionary since ongoing investment in plant, machinery and technology is required to support the day-to-day operations, whereas acquisitions and sales of businesses are discretionary.

Where appropriate, separate explanations are given for the impacts of acquisitions and sale of businesses, dividends paid and the purchase of own shares, each of which arises from decisions that are independent from the running of the ongoing underlying business.

Free cash flow reconciliations for the six months ended 31 December 2015 and 31 December 2014 are set out in the table below:

	Six months ended 31 December 2015 £ million	Six months ended 31 December 2014 £ million
Net cash from operating activities	**1,037**	957
Disposal of property, plant and equipment and computer software	**8**	36
Purchase of property, plant and equipment and computer software	**(204)**	(270)
Movements in loans and other investments	**(2)**	(24)
Free cash flow	**839**	699

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Return on average total invested capital

Return on average total invested capital is used by management to assess the return obtained from the group s asset base and is calculated to aid evaluation of the performance of the business.

The profit used in assessing the return on average total invested capital reflects operating profit before exceptional items attributable to the equity shareholders of the parent company plus share of after tax results of associates and joint ventures after applying the tax rate before exceptional items for the period. Average total invested capital is calculated using the average derived from the consolidated balance sheets at the beginning and end of the period. Average capital employed comprises average net assets attributable to equity shareholders of the parent company for the period, excluding post employment benefit net liabilities (net of deferred tax) and average net borrowings. This average capital employed is then aggregated with the average restructuring and integration costs net of tax, and goodwill written off to reserves at 1 July 2004, the date of transition to IFRS, to obtain the average total invested capital.

Calculations for the return on average total invested capital for the six months ended 31 December 2015 and 31 December 2014 are set out in the table below:

	2015 £ million	**2014 (restated)[i] £ million**
Operating profit	**1,613**	1,668
Exceptional operating items	**104**	171
Profit for the period attributable to non-controlling interests	**(74)**	(54)
Share of after tax results of associates and joint ventures	**136**	113
Tax at the tax rate before exceptional items of 19% (2014 18.3%)	**(338)**	(347)
	1,441	1,551
Average net assets (excluding net post employment liabilities)	**9,736**	8,649
Average non-controlling interests	**(1,512)**	(1,118)
Average net borrowings	**9,378**	9,759
Average integration and restructuring costs (net of tax)	**1,639**	1,587
Goodwill at 1 July 2004	**1,562**	1,562
Adjustment in respect of acquisition of USL[ii]		740
Average total invested capital	**20,803**	21,179
Return on average total invested capital	**13.9%**	14.6%

(i) The group revised the calculation of ROIC at 30 June 2015 by excluding the net assets and net profit attributable to non-controlling interests. Prior to this adjustment, in the six months ended 31 December 2014 the ROIC reported was 13.9%.
(ii) For the six months ended 31 December 2014 average net assets were adjusted for the inclusion of USL as though it was owned throughout the period as it became a subsidiary on 2 July 2014.

Tax rate before exceptional items

Tax rate before exceptional items is calculated by dividing the total tax charge on continuing operations before tax charges and credits, classified as or in respect of exceptional items, by profit before taxation adjusted to exclude the impact of exceptional operating and non-operating items, expressed as a percentage. The measure is used by management to assess the rate of tax applied to the group s continuing operations before tax on exceptional items.

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The tax rates from continuing operations before exceptional and after exceptional items for the six months ended 31 December 2015 and 31 December 2014 are set out in the table below:

	2015 £ million	2014 £ million
Tax before exceptional items (a)	**318**	314
Tax in respect of exceptional items	**(22)**	(38)
Taxation on profit from continuing operations (b)	**296**	276
Profit from continuing operations before taxation and exceptional items (c)	**1,677**	1,713
Non-operating items	**211**	98
Exceptional operating items	**(104)**	(171)
Profit before taxation (d)	**1,784**	1,640
Tax rate before exceptional items (a/c)	**19.0%**	18.3%
Tax rate from continuing operations after exceptional items (b/d)	**16.6%**	16.8%

Other definitions

Volume share is a brand s retail volume expressed as a percentage of the retail volume of all brands in its segment. Value share is a brand s retail sales value expressed as a percentage of the retail sales value of all brands in its segment. Unless otherwise stated, share refers to value share.

Net sales are sales less excise duties. Diageo incurs excise duties throughout the world. In some countries excise duties are based on sales and are separately identified on the face of the invoice to the external customer. In others it is effectively a production tax which is incurred when the spirit is removed from bonded warehouses. In these countries excise duties are part of the cost of goods sold and are not separately identified on the sales invoice.

Price/mix is the number of percentage points by which the organic movement in net sales differs to the organic movement in volume. The difference arises because of changes in the composition of sales between higher and lower priced variants/markets or as price changes are implemented.

References to emerging markets include Russia, Eastern Europe, Turkey, Africa, Latin America and Caribbean, and Asia Pacific (excluding Australia, Korea and Japan).

References to reserve brands include Johnnie Walker Blue Label, Johnnie Walker Green Label, Johnnie Walker Gold Label 18 year old, Johnnie Walker Gold Label Reserve, Johnnie Walker Platinum Label 18 year old, John Walker & Sons Collection, Johnnie Walker The Gold Route, Johnnie Walker The Royal Route, and other Johnnie Walker super premium brands; The Singleton, Cardhu, Talisker, Lagavulin and other malt brands; Buchanan s Special Reserve, Buchanan s Red Seal; Bulleit Bourbon, Bulleit Rye; Tanqueray No. TEN, Tanqueray Malacca; Cîroc, Ketel One vodka; Don Julio, Zacapa, Bundaberg SDlx, Shui Jing Fang, Haig Club whisky and DeLeón Tequila.

References to global giants include the following brand families: Johnnie Walker, Smirnoff, Captain Morgan, Baileys, Tanqueray and Guinness. Local stars spirits excluding ready to drink include, but are not limited to, Bell s, Buchanan s, Bundaberg, Bulleit, Cacique, Crown Royal, Don Julio, JeB, Old Parr, Yenì Raki, Ketel One vodka, scotch malts, White Horse, Windsor and Ypióca.

References to ready to drink also include ready to serve products, such as pre-mix cans in some markets, and progressive adult beverages in the United States and certain markets supplied by the United States.

References to beer include non-alcoholic products such as Guinness Malta.

References to the group means Diageo plc and its consolidated subsidiaries.

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NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

A number of IFRS standards and interpretations have been issued by the IASB or IFRIC. Those that are of relevance to the group are disclosed in note 1 to the unaudited condensed consolidated financial information.

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INDEX TO THE UNAUDITED CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015 AND 31 DECEMBER 2014

The unaudited condensed consolidated financial information was approved by the board of directors on 27 January 2016.

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UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 31 December 2015 £ million	Six months ended 31 December 2014 £ million
Sales	2	**8,267**	8,724
Excise duties		**(2,661)**	(2,824)
Net sales	2	**5,606**	5,900
Cost of sales		**(2,292)**	(2,428)
Gross profit		**3,314**	3,472
Marketing		**(822)**	(896)
Other operating expenses		**(879)**	(908)
Operating profit	2	**1,613**	1,668
Non-operating items	3	**211**	98
Finance income	4	**110**	159
Finance charges	4	**(286)**	(398)
Share of after tax results of associates and joint ventures		**136**	113
Profit before taxation		**1,784**	1,640
Taxation	5	**(296)**	(276)
Profit for the period		**1,488**	1,364
Attributable to:			
Equity shareholders of the parent company		**1,406**	1,311
Non-controlling interests		**82**	53
		1,488	1,364
		million	**million**
Weighted average number of shares			
Shares in issue excluding own shares		**2,507**	2,506
Dilutive potential ordinary shares		**11**	7
		2,518	2,513
		pence	**pence**

Basic earnings per share	**56.1**	52.3
Diluted earnings per share	**55.8**	52.2

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 December 2015 £ million	Six months ended 31 December 2014 £ million
Other comprehensive income		
Items that will not be recycled subsequently to the income statement		
Net remeasurement of post employment plans		
group	**(240)**	(337)
associates and joint ventures		(4)
Tax on post employment plans	**55**	53
	(185)	(288)
Items that may be recycled subsequently to the income statement		
Exchange differences on translation of foreign operations		
group	**118**	384
associates and joint ventures	**80**	(51)
non-controlling interests	**63**	83
Exchange losses recycled to the income statement	**43**	79
Net investment hedges	**(180)**	(150)
Tax on exchange differences	**4**	5
Effective portion of changes in fair value of cash flow hedges		
gains/(losses) taken to other comprehensive income - group	**45**	(34)
gains/(losses) taken to other comprehensive income - associates and joint ventures	**1**	(2)
recycled to income statement	**(50)**	(96)
Tax on effective portion of changes in fair value of cash flow hedges	**(5)**	15
Fair value movements on available-for-sale investments		
gains taken to other comprehensive income - group	**4**	6
gains taken to other comprehensive income - non-controlling interests	**4**	5
recycled to income statement - group	**(15)**	
recycled to income statement - non-controlling interests	**(13)**	
Tax on available-for-sale fair value movements	**5**	
Hyperinflation adjustment	**(2)**	29
Tax on hyperinflation adjustment	**1**	(1)
	103	272
Other comprehensive loss, net of tax, for the period	**(82)**	(16)
Profit for the period	**1,488**	1,364

Total comprehensive income for the period	**1,406**	1,348
Attributable to:		
Equity shareholders of the parent company	**1,270**	1,207
Non-controlling interests	**136**	141
Total comprehensive income for the period	**1,406**	1,348

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UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2015		30 June 2015		31 December 2014	
	Notes	£ million	£ million	£ million	£ million	£ million	£ million
Non-current assets							
Intangible assets		**11,333**		11,231		11,379	
Property, plant and equipment		**3,624**		3,690		3,754	
Biological assets		**9**		65		66	
Investments in associates and joint ventures		**2,314**		2,076		2,491	
Other investments		**29**		109		161	
Other receivables		**49**		46		52	
Other financial assets	9	**259**		292		279	
Deferred tax assets		**167**		189		291	
Post employment benefit assets		**224**		436		137	
			18,008		18,134		18,610
Current assets							
Inventories	6	**4,387**		4,574		4,597	
Trade and other receivables		**3,077**		2,435		3,462	
Assets held for sale	12	**563**		143		325	
Other financial assets	9	**221**		46		114	
Cash and cash equivalents	7	**541**		472		802	
			8,789		7,670		9,300
Total assets			**26,797**		25,804		27,910
Current liabilities							
Borrowings and bank overdrafts	7	**(1,935)**		(1,921)		(2,845)	
Other financial liabilities	9	**(111)**		(156)		(156)	
Trade and other payables		**(3,194)**		(2,943)		(3,297)	
Liabilities held for sale	12	**(175)**		(3)		(45)	
Corporate tax payable		**(294)**		(162)		(284)	
Provisions		**(91)**		(105)		(188)	

		(5,800)	(5,290)	(6,815)
Non-current liabilities				
Borrowings	7	**(7,930)**	(7,917)	(8,518)
Other financial liabilities	9	**(439)**	(443)	(475)
Other payables		**(58)**	(69)	(83)
Provisions		**(248)**	(238)	(251)
Deferred tax liabilities		**(1,923)**	(1,896)	(2,147)
Post employment benefit liabilities		**(722)**	(695)	(925)
		(11,320)	(11,258)	(12,399)
Total liabilities		**(17,120)**	(16,548)	(19,214)
Net assets		**9,677**	9,256	8,696
Equity				
Share capital		**797**	797	797
Share premium		**1,346**	1,346	1,345
Other reserves		**2,050**	1,994	2,393
Retained earnings		**3,946**	3,634	2,693
Equity attributable to equity shareholders of the parent company		**8,139**	7,771	7,228
Non-controlling interests		**1,538**	1,485	1,468
Total equity		**9,677**	9,256	8,696

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £ million	Share premium £ million	Other reserves £ million	Own shares £ million	Retained earnings/(deficit) Other retained earnings £ million	Retained earnings/(deficit) Total £ million	Equity attributable to parent company shareholders £ million	Non-controlling interests £ million	Total equity £ million
At 30 June 2014	797	1,345	2,243	(2,280)	4,718	2,438	6,823	767	7,590
Total comprehensive income			150		1,057	1,057	1,207	141	1,348
Employee share schemes				39	(44)	(5)	(5)		(5)
Share-based incentive plans					18	18	18		18
Share-based incentive plans in respect of associates					1	1	1		1
Tax on share-based incentive plans					(6)	(6)	(6)		(6)
Acquisitions								594	594
Change in fair value of put options					(9)	(9)	(9)		(9)
Dividends paid					(801)	(801)	(801)	(34)	(835)
At 31 December 2014	797	1,345	2,393	(2,241)	4,934	2,693	7,228	1,468	8,696
At 30 June 2015	797	1,346	1,994	(2,228)	5,862	3,634	7,771	1,485	9,256
Total comprehensive income			**56**		**1,214**	**1,214**	**1,270**	**136**	**1,406**
Employee share schemes				**10**	**(28)**	**(18)**	**(18)**		**(18)**
Share-based incentive plans					**13**	**13**	**13**		**13**
Share-based incentive plans in respect of associates					**1**	**1**	**1**		**1**
Tax on share-based incentive plans					**(3)**	**(3)**	**(3)**		**(3)**

Disposal of non-controlling interests								**(24)**	**(24)**
Change in fair value of put options					**(1)**	**(1)**	**(1)**		**(1)**
Purchase of non-controlling interests					**(18)**	**(18)**	**(18)**	**(3)**	**(21)**
Dividends paid					**(876)**	**(876)**	**(876)**	**(56)**	**(932)**
At 31 December 2015	**797**	**1,346**	**2,050**	**(2,218)**	**6,164**	**3,946**	**8,139**	**1,538**	**9,677**

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 31 December 2015		Six months ended 31 December 2014	
	£ million	£ million	£ million	£ million
Cash flows from operating activities				
Profit for the period	**1,488**		1,364	
Taxation	**296**		276	
Share of after tax results of associates and joint ventures	**(136)**		(113)	
Net finance charges	**176**		239	
Non-operating items	**(211)**		(98)	
Operating profit		**1,613**		1,668
Increase in inventories	**(78)**		(175)	
Increase in trade and other receivables	**(698)**		(668)	
Increase in trade and other payables and provisions	**254**		366	
Net increase in working capital		**(522)**		(477)
Depreciation, amortisation and impairment	**281**		190	
Dividends received	**3**		10	
Post employment payments less amounts included in operating profit	**(32)**		(32)	
Other items	**(8)**		20	
		244		188
Cash generated from operations		**1,335**		1,379
Interest received	**81**		88	
Interest paid	**(235)**		(312)	
Taxation paid	**(144)**		(198)	
		(298)		(422)
Net cash from operating activities		**1,037**		957
Cash flows from investing activities				
Disposal of property, plant and equipment and computer software	**8**		36	
Purchase of property, plant and equipment and computer software	**(204)**		(270)	
Movements in loans and other investments	**(2)**		(24)	
Sale of businesses	**654**		396	
Acquisition of businesses	**(11)**		(1,060)	
Net cash inflow/(outflow) from investing activities		**445**		(922)

Cash flows from financing activities				
Net purchase of own shares for share schemes	**(20)**	(7)		
Dividends paid to non-controlling interests	**(56)**	(34)		
Purchase of shares of non-controlling interests	**(21)**			
Proceeds from bonds		791		
Repayment of bonds	**(489)**	(1,162)		
Net movements on other borrowings	**94**	1,316		
Equity dividends paid	**(876)**	(801)		
Net cash (outflow)/inflow from financing activities			**(1,368)**	103
Net increase in net cash and cash equivalents			**114**	138
Exchange differences			**(29)**	15
Net cash and cash equivalents at beginning of the period			**382**	532
Net cash and cash equivalents at end of the period			**467**	685
Net cash and cash equivalents consist of:				
Cash and cash equivalents			**541**	802
Bank overdrafts			**(74)**	(117)
			467	685

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NOTES

1. Basis of preparation

This condensed set of financial information has been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as adopted by the EU.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB and as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company s published consolidated financial statements for the year ended 30 June 2015. IFRS is subject to ongoing review and endorsement by the EU or possible amendment by interpretative guidance and the issuance of new standards by the IASB. In preparing these condensed interim financial statements, the significant judgements made by management when applying the group s accounting policies and the significant areas where estimates were required were the same as those that applied to the consolidated financial statements for the year ended 30 June 2015, with the exception of changes in estimates disclosed in note 13 - Contingent liabilities and legal proceedings.

Having reassessed the principal risks the directors considered it appropriate to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements.

New accounting standards

No amendments to the accounting standards were issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC) that are first applicable to Diageo in the year ending 30 June 2016.

The following standards issued by the IASB (not yet endorsed by the EU) have not yet been adopted by the group:

IFRS 9 Financial instruments (effective in the year ending 30 June 2019) is ultimately intended to replace IAS 39 and covers the classification, measurement and derecognition of financial instruments together with a new hedge accounting model and new impairment methodology.

Based on a preliminary assessment the group believes that the adoption of IFRS 9 will have no significant impact on its consolidated results or financial position.

IFRS 15 Revenue from contracts with customers (effective in the year ending 30 June 2019) is based on the principle that revenue is recognised when control of goods or services is transferred to the customer and provides a single, principles based five-step model to be applied to all sales contracts. It replaces the separate models for goods, services and construction contracts under current IFRS.

Based on a preliminary assessment the group currently believes that the adoption of IFRS 15 will have no significant impact on its consolidated results or financial position.

IFRS 16 Leases (effective in the year ending 30 June 2020) sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. It eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model where the lessee is required to recognise assets and liabilities for all leases that have a term of greater than a year.

The group is currently considering the implications of IFRS 16 which is expected to have an impact on the group s consolidated results and financial position.

There are a number of amendments to IFRS, effective for the year ending 30 June 2017, which are not expected to significantly impact the group s consolidated results or financial position.

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The comparative figures for the financial year ended 30 June 2015 are not the company s statutory accounts for that financial year. Those accounts have been reported on by the company s previous auditor, KPMG LLP and delivered to the registrar of companies. The report of the previous auditor, KPMG LLP was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Segmental information

The segmental information presented is consistent with management reporting provided to the executive committee (the chief operating decision maker).

The executive committee considers the business principally from a geographical perspective based on the location of third party sales and the business analysis is presented by geographical segment. In addition to these geographical selling segments, a further segment reviewed by the executive committee is International Supply Centre (ISC), which manufactures products for other group companies and includes the production sites in the United Kingdom, Ireland, Italy and Guatemala.

Continuing operations also include the Corporate function. Corporate revenues and costs are in respect of central costs, including finance, corporate relations, human resources and legal, as well as certain information systems, facilities and employee costs that are not allocable to the geographical segments or to the ISC. They also include rents receivable and payable in respect of properties not used by the group in the manufacture, sale or distribution of premium drinks and the results of Gleneagles Hotel (disposed on 30 June 2015).

Diageo uses shared services operations, including captive and outsourced centres, to deliver transaction processing activities for markets and operational entities. These centres are located in Hungary, Romania, Kenya, Colombia, the Philippines and India. The captive business service centre in Budapest also performs certain central finance activities, including elements of financial planning and reporting and treasury. The results of shared service operations are recharged to the regions.

The segmental information for net sales and operating profit before exceptional items is reported at budgeted exchange rates in line with management reporting. For management reporting purposes the group measures the current period at, and restates the prior period net sales and operating profit to, the current year s budgeted exchange rates. These exchange rates are set prior to the financial year as part of the financial planning process and provide a consistent exchange rate to measure the performance of the business throughout the year. The adjustments required to retranslate the segmental information to actual exchange rates and to reconcile it to the group s reported results are shown in the tables below. The comparative segmental information, prior to retranslation, has not been restated at the current year s budgeted exchange rates but is presented at the budgeted rates for the year ended 30 June 2015.

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In addition, for management reporting purposes Diageo presents separately the result of acquisitions and disposals completed in the current and prior year from the results of the geographical segments. The impact of acquisitions and disposals on net sales and operating profit is disclosed under the appropriate geographical segments in the tables below at budgeted exchange rates.

Six months ended 31 December 2015	North America £ million	Europe, Russia and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	ISC £ million	Eliminate inter-segment sales £ million	Total operating segments £ million	Corporate and other £ million	Total £ million
Sales	**2,113**	**2,448**	**955**	**671**	**2,063**	**774**	**(774)**	**8,250**	**17**	**8,267**
Net sales										
At budgeted exchange rates(i)	**1,720**	**1,337**	**671**	**527**	**1,168**	**818**	**(774)**	**5,467**	**19**	**5,486**
Acquisitions and disposals	**101**	**63**	**35**	**57**	**9**			**265**		**265**
ISC allocation	**7**	**25**	**3**	**5**	**4**	**(44)**				
Retranslation to actual exchange rates	**39**	**(64)**	**7**	**(67)**	**(58)**			**(143)**	**(2)**	**(145)**
Net sales	**1,867**	**1,361**	**716**	**522**	**1,123**	**774**	**(774)**	**5,589**	**17**	**5,606**
Operating profit/(loss)										
At budgeted exchange rates(i)	**779**	**424**	**130**	**157**	**243**	**77**		**1,810**	**(67)**	**1,743**
Acquisitions and disposals	**20**	**7**	**5**	**16**	**2**			**50**		**50**
ISC allocation	**11**	**43**	**5**	**10**	**8**	**(77)**				
Retranslation to actual exchange rates	**(1)**	**(24)**	**(2)**	**(29)**	**(19)**			**(75)**	**(1)**	**(76)**
Operating profit/(loss) before exceptional items	**809**	**450**	**138**	**154**	**234**			**1,785**	**(68)**	**1,717**
Exceptional items				**(104)**				**(104)**		**(104)**
Operating profit/(loss)	**809**	**450**	**138**	**50**	**234**			**1,681**	**(68)**	**1,613**

Non-operating items	**211**
Net finance charges	**(176)**
Share of after tax results of associates and joint ventures	**136**
Profit before taxation	**1,784**

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Six months ended 31 December 2014	North America £ million	Europe, Russia and Turkey £ million	Africa £ million	Latin America and Caribbean £ million	Asia Pacific £ million	ISC £ million	Eliminate inter-operating segment sales £ million	Total operating segments £ million	Corporate and other £ million	Total £ million
Sales	2,102	2,596	992	786	2,205	797	(797)	8,681	43	8,724
Net sales										
At budgeted exchange rates(i)	1,916	1,463	753	608	687	836	(797)	5,466	44	5,510
Acquisitions and disposals	8				478			486		486
ISC allocation	6	24	1	4	4	(39)				
Retranslation to actual exchange rates	(63)	(28)	(8)	7	(3)			(95)	(1)	(96)
Net sales	1,867	1,459	746	619	1,166	797	(797)	5,857	43	5,900
Operating profit/(loss)										
At budgeted exchange rates(i)	851	459	174	198	176	52		1,910	(55)	1,855
Acquisitions and disposals	(8)				30			22		22
ISC allocation	7	31	3	6	5	(52)				
Retranslation to actual exchange rates	(31)	(10)	(2)	3	3			(37)	(1)	(38)
Operating profit/(loss) before exceptional items	819	480	175	207	214			1,895	(56)	1,839
Exceptional items	(11)	(4)	(1)	(4)	(147)	3		(164)	(7)	(171)
Operating profit/(loss)	808	476	174	203						