31st January 2019

CONSISTENT DELIVERY OF STRONG RESULTS

DIAGEO

Reflecting our ambition to be one of the best performing, most trusted and respected consumer products companies in the world

Delivering through our six priorities with clear goals defined by our Performance Ambition

Four measures of our progress

- efficient growth
- value creation
- credibility and trust
- motivated people

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- Good morning everyone.
- Diageo has delivered another strong set of results, demonstrating consistent progress and momentum towards our Performance Ambition – to be among the best performing, most trusted and respected consumer goods companies.
- I would like to thank all Diageo employees for their contribution to these results.

CONSISTENT DELIVERY OF STRONG RESULTS

DIAGEO

- Organic volume 3.5%. Organic net sales 7.5%* ✓
- Organic operating margin expansion 152bps ✓
- Consistent strong cash delivery: Free cash flow £1.3bn ✓
- Eps pre-exceptionals up 14% ✓
- Returned £1.3bn to shareholders through share buyback and increasing F19 full year share buyback to return up to £3.0bn ✓
- Interim dividend up 5% to 26.1p ✓

* Includes +31bps impact from the sale of 19 brands to Sazerac

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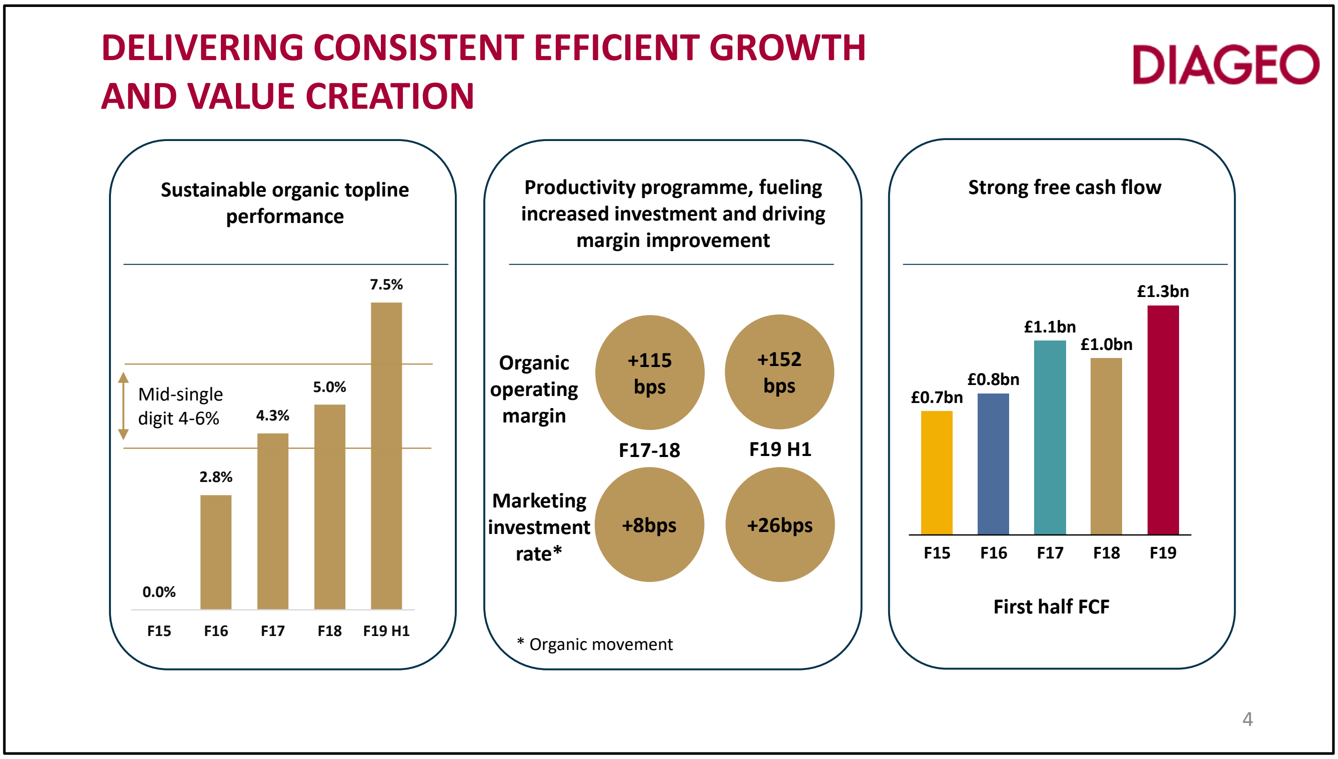
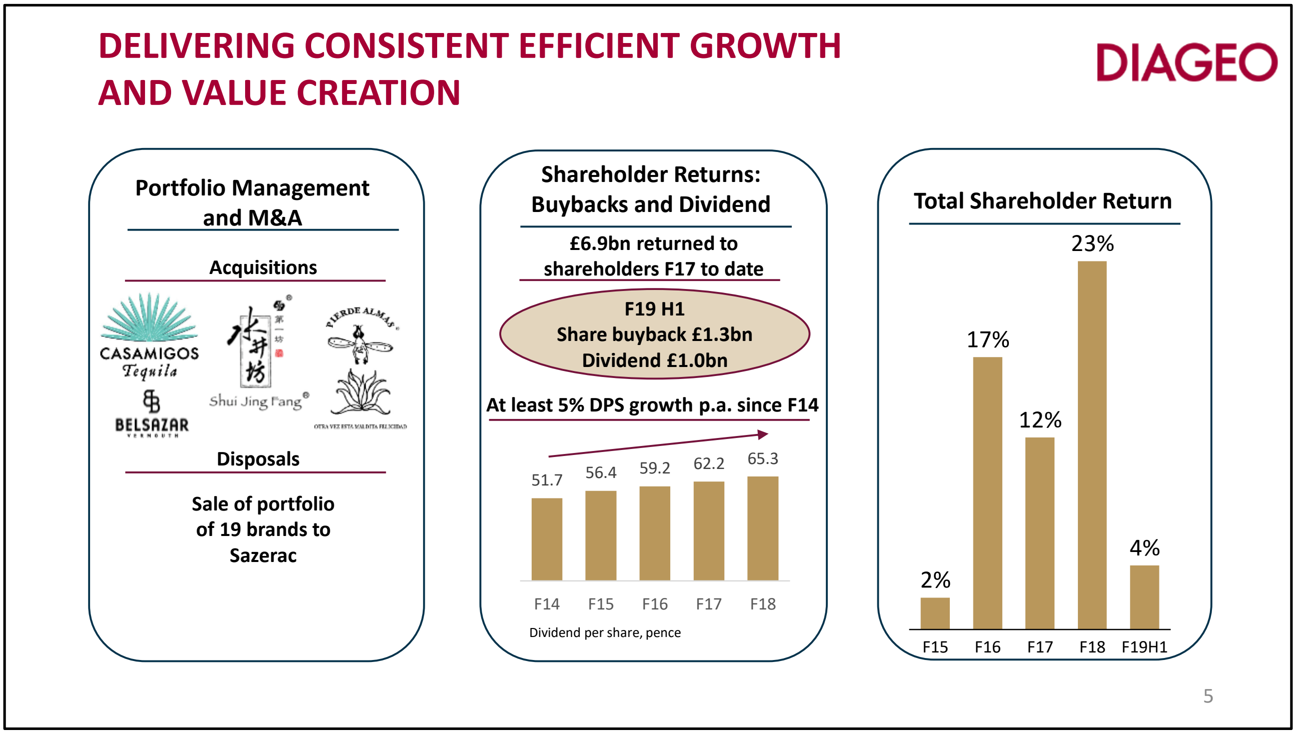
- In this first half of fiscal 19 we have delivered particularly strong top line growth with organic net sales up 7.5%.
- This was driven by good volume performance and strong price/mix with growth broad based across categories and regions, including our three focus areas of scotch, US Spirits and India.
- We still expect to deliver mid-single digit top line growth for the full year as these results benefitted from a number of gains that will unwind in the second half. Kathy will share more on this in a moment.
- I am pleased to see the step up in price/mix coming through. This reflects our ongoing work on net revenue management and the mitigation of more of the cost inflation we face.
- We have also delivered organic operating margin expansion ahead of expectations while continuing to up-weight marketing investment.
- Kathy will walk you through some of the factors that favoured the first half margins. We continue to feel good about delivery of our margin guidance, which remains unchanged.
- Our focus on consistently delivering strong cash flow performance continues with the £1.3bn free cash flow in the first half.
- Pre-exceptional EPS was up 14% driven predominantly by organic growth.
- We returned £1.3bn to shareholders in the half through a share buyback.
- Today we are announcing an increase to our fiscal 19 share buyback programme which will now return up to £3.0bn to shareholders, an additional £660m. And we have again increased the interim dividend by 5%.



- Our strategy is to be a reliable compounder of growth, creating a virtuous circle of consistent top line performance, margin expansion and increased investment in our brands.
- Consistent execution of our strategy is delivering the results we intended.
    - Sustainable organic net sales growth
    - Investment behind our brands to fuel long-term growth
    - Expanding our operating margins
    - And strong free cash flow



- We also maintain a disciplined approach to capital allocation to maximise value for shareholders.
- We have increased investment in the business as our top priority.
- We actively manage our portfolio. In this half we;
    - Increased our investment in Shui Jing Fang and
    - Completed the sale of a portfolio of 19 brands to Sazerac
- Since fiscal 17, we have returned just under £7bn to shareholders in dividends and share repurchases. Today we announced the additional £660m to be returned to shareholders in fiscal 19 through our share buyback programme.
- Finally, our TSR, at 4% remains towards the top of our peer group.
- Now, let me hand over to Kathy to talk you through these results in more detail.

ANOTHER SET OF STRONG CONSISTENT RESULTS

DIAGEO

Efficient growth:	F19 H1
Organic net sales growth	7.5%
Organic operating margin improvement	+152bps
Free cash flow	£1.3bn
Pre-exceptional eps	up 13.6% to 77p

Value creation:	
ROIC	up 135bps to 17.8%
Total Shareholder Return	up 4%

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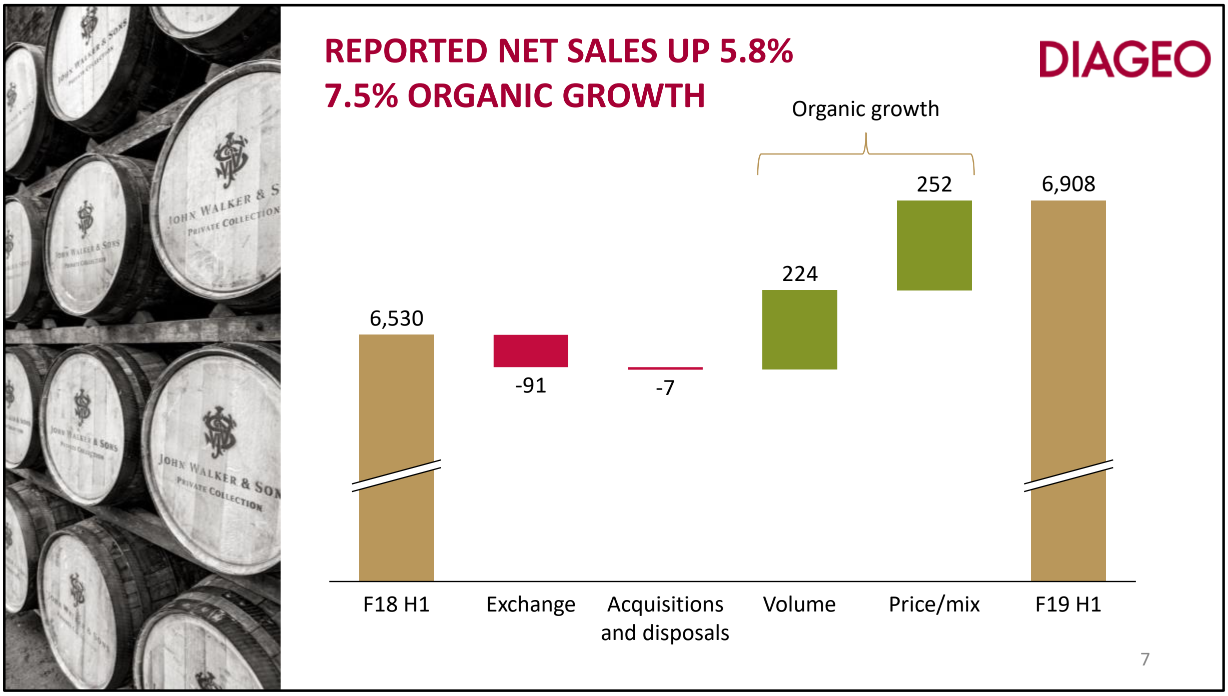
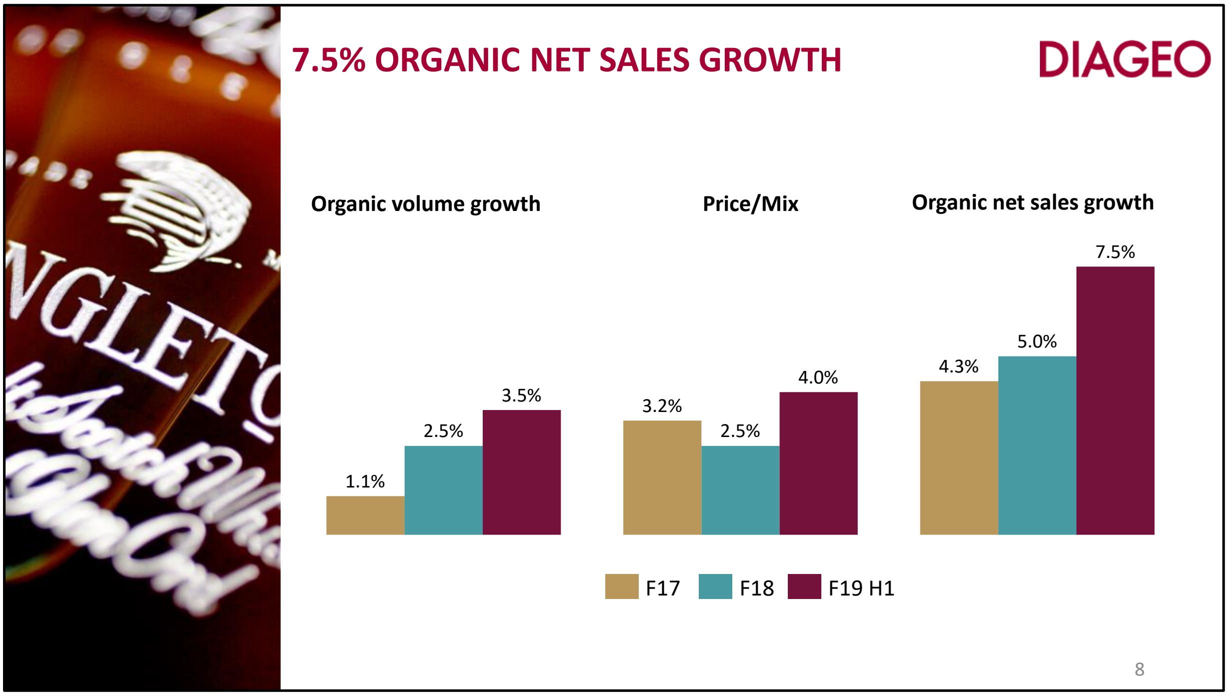
- Thank you Ivan and good morning everyone.
- During the half we delivered another strong set of results.
- Our underlying results are consistent with our medium term guidance, with this half year benefitting significantly from phasing of savings and costs, as well as some positive one-off items.
- Let me start with some highlights.
- Organic net sales grew 7.5%, with 3.5% volume growth and 4% positive price/mix.
- Organic operating margin increased 152bps.
- At £1.3bn, free cash flow continued to be strong, £317m higher than last year.
- Pre-exceptional eps grew 13.6% to 77p mainly driven by organic operating profit growth.
- Return on invested capital improved 135bps to 17.8%. This was largely driven by operating profit growth.
- And we delivered total shareholder return that is in the top quartile relative to our peer group. It was up 4% in the months to December 2018.
- Let’s dive into it.



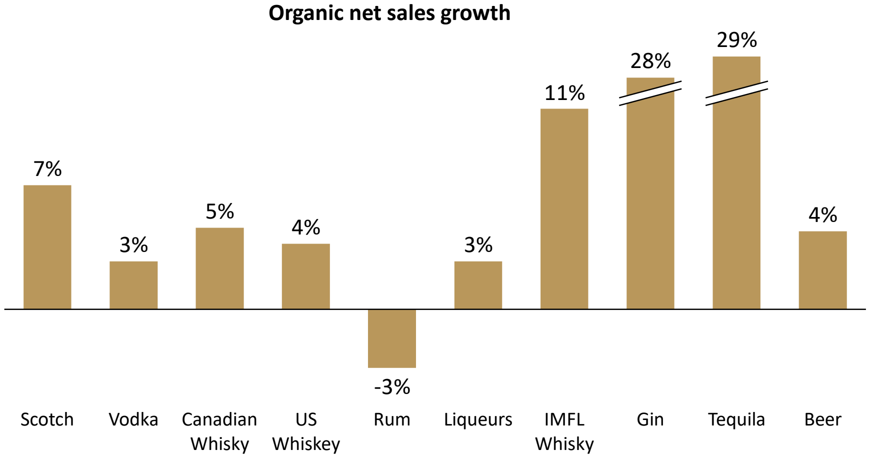
Reported net sales were up 5.8% as organic growth more than offset unfavourable foreign exchange and the impact of disposing of a portfolio of 19 brands to Sazerac.



- Organic net sales grew 7.5%. It was broad based across all the regions, with a step up in both volume growth and positive price/mix.
- Growth in the half was ahead of our medium term guidance as it benefitted from lapping a weaker prior year performance in markets like India, Kenya, Cameroon, and CCA; an earlier Chinese New Year in 2019; very successful innovations, such as “White Walker by Johnnie Walker” and Ketel One Botanical; and the disposal of the portfolio of 19 brands. The disposal, which completed in late December, favourably impacted organic growth in North America and Diageo by about 80bps and 30bps, respectively.
- I expect net sales growth in the second half to be slower. For the full year I expect it to be towards the upper end of our mid-single digit net sales growth guidance.
- Volume growth accelerated. This was largely driven by India, which accounted for nearly 60% of total volume growth as it lapped a weaker prior year period. There were also volume gains in gin and scotch.
- Contribution from price/mix continued to be strong, with every region delivering positive price/mix. Improved growth in US Spirits and scotch more than offset the adverse impact of the double digit net sales growth of Diageo India, a business with lower average NSV per case compared to Diageo’s average.

BROAD BASED ORGANIC GROWTH ACROSS OUR CATEGORIES

DIAGEO



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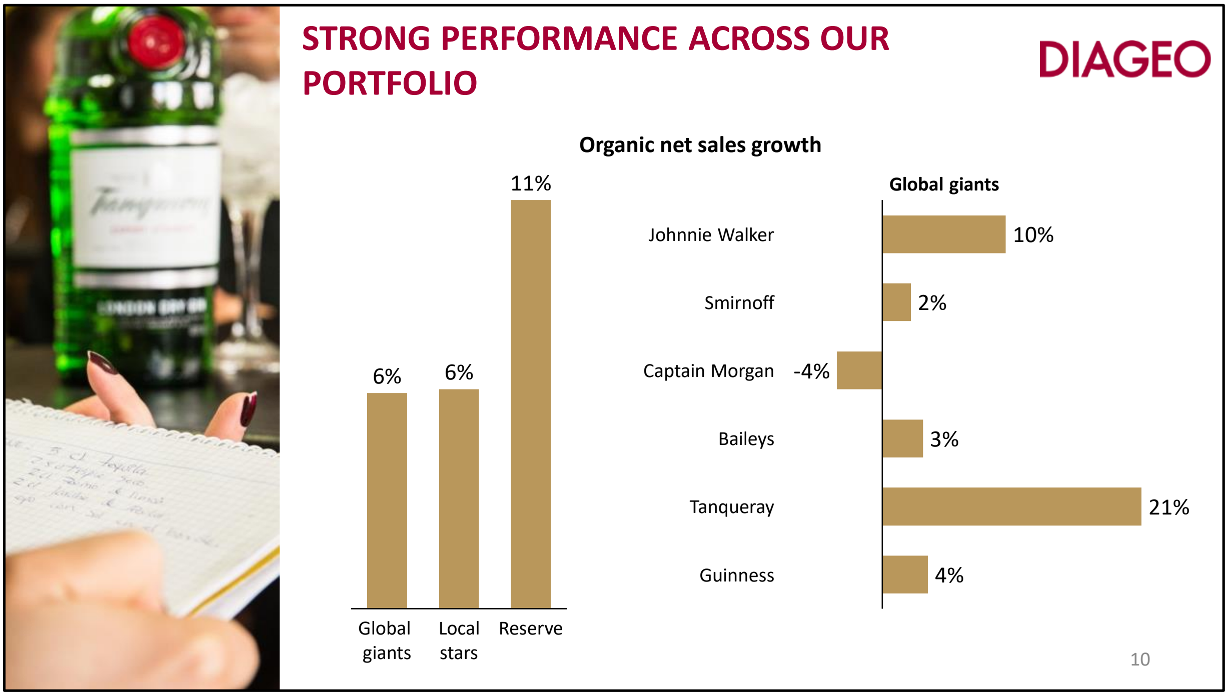
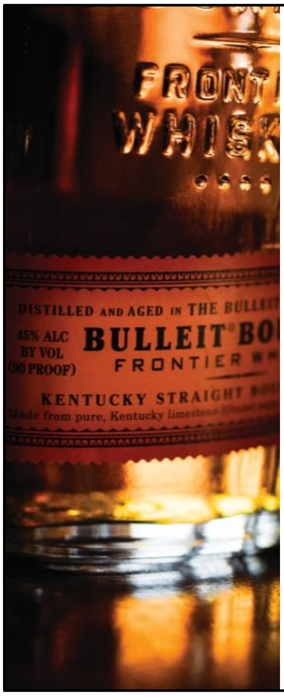
- Net sales growth continued to be broad based across our regions and across our categories, with the exception of rum.
- Scotch, our largest category, delivered a strong performance, with net sales up 7%. Growth was broad based across most regions and brands. Johnnie Walker growth accelerated, with net sales up 10%. This was largely driven by Johnnie Walker Black Label and "White Walker by Johnnie Walker", a successful limited edition inspired by the HBO series Game of Thrones. Johnnie Walker Blue Label also performed well, with net sales up double digit. Growth across our primary scotch brands was also good, up 10%, with LAC and India performing strongly. Both Old Parr and Buchanan's improved, as they benefitted from lapping a weaker prior year in Colombia, as a result of the tax changes in the market. Elsewhere net sales declined in Windsor in South Korea, amidst category decline, and in J&B in Europe.
- Performance in vodka continued to improve with net sales up 3%. Performance improved in US Spirits, where net sales were flat, as growth from the Ketel One Botanical innovation roughly offset declines in Smirnoff and Cîroc vodka. Outside the US, vodka net sales increased 6%, with growth in every region.
- Canadian whisky net sales were up 5% driven by Crown Royal, which continued to gain share in the category. Crown Royal Regal Apple, now in the fifth year since its launch, delivered double digit net sales growth. It continued to recruit new consumers into the brand and the seasonal LTO Salted Caramel also performed strongly.
- In US whiskey, growth was driven by Bulleit, with net sales up 7% in the US where it continued to gain share.
- Rum net sales declined 3%. This was largely driven by a 9% decline in Captain Morgan net sales in US Spirits, as a result of category weakness and a strong comparable in the previous year. Outside US Spirits net sales in Captain Morgan were up 4%.
- In liqueurs, net sales increased 3%. Growth in Baileys was broad based across all regions with the exception of Europe, which was flat, as a result of shipment phasing in GB where we continued to gain share in the category.
- Net sales in IMFL whisky were up 11% driven by our prestige and above brands. Diageo India delivered a solid performance, as a result of good execution and lapping soft results last year.
- In gin, net sales growth accelerated to 28%. Both Gordon's and Tanqueray net sales were up strong double digit and continued to gain share in Europe, their biggest market.
- In tequila, net sales increased 29% with both Don Julio and Casamigos delivering strong growth and share gains in the US.
- Beer net sales were up 4%. This was largely driven by Guinness, with net sales up 4%, Senator keg in Kenya and Serengeti Lite in Tanzania. In Kenya, our business benefitted from a soft comparable period due to last year's presidential elections. Beer net sales growth was partially offset by weakness in Nigeria, where good performance in Guinness and Guinness Malta was not sufficient to offset net sales decline in Satzenbrau, which participates in the competitive value lager segment.



- Net sales growth was broad based across our portfolio of brands.
- Global giants were up 6%, with all brands in growth except Captain Morgan.
- Net sales of local stars also increased 6%. This was mainly driven by strong growth in Chinese white spirits, Crown Royal and McDowell’s in India, and partially offset by declines of Windsor in South Korea and J&B in Europe.
- In reserve, net sales were up 11% largely driven by strong performance of SJF in China, Ketel One in the US, and Tequila, both Don Julio and Casamigos.



REPORTED OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS UP 12%
ORGANIC OPERATING PROFIT UP 12%

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£m	F19 H1	F18 H1
PRIOR PERIOD OPERATING PROFIT *	2,190	2,065
Exchange	-	(15)
Acquisitions & Disposals	(3)	2
Organic growth	264	138
CURRENT PERIOD OPERATING PROFIT *	2,451	2,190

Reported operating Margin** F18 H1	Exchange	Acquisitions and disposals	Organic growth	Reported operating margin** F19 H1
33.5%	47bps	(5)bps	152bps	35.5%

*Reported operating profit before exceptional items
** Reported operating margin before exceptional items

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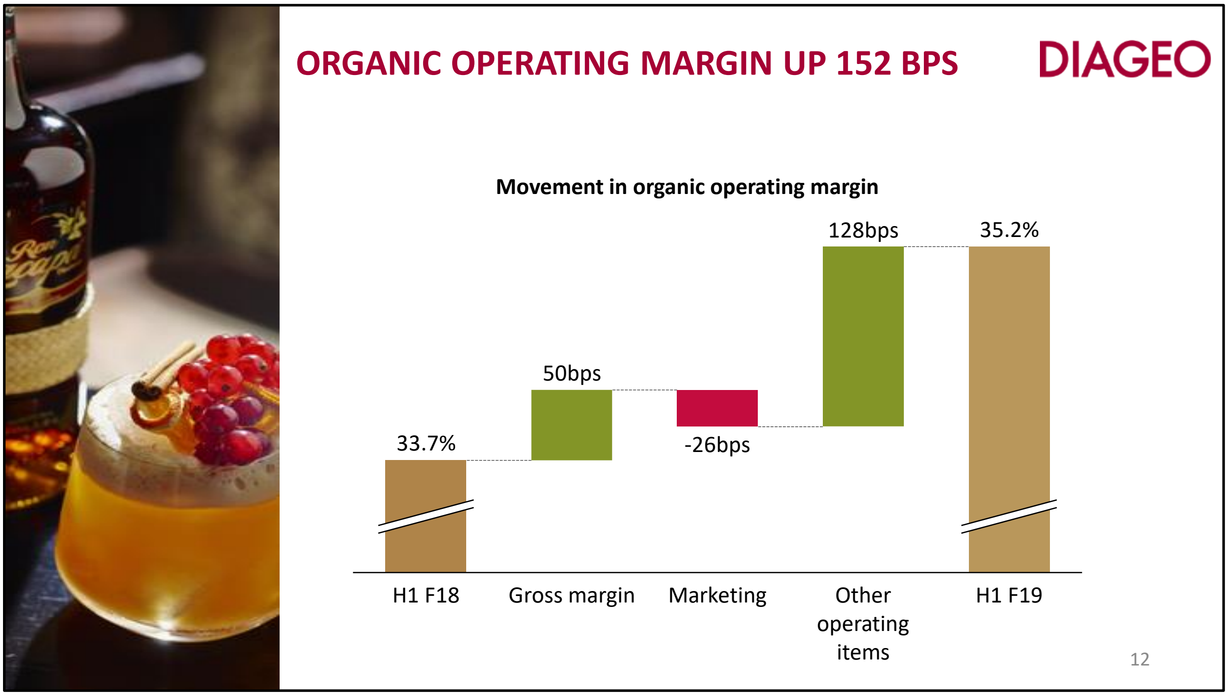
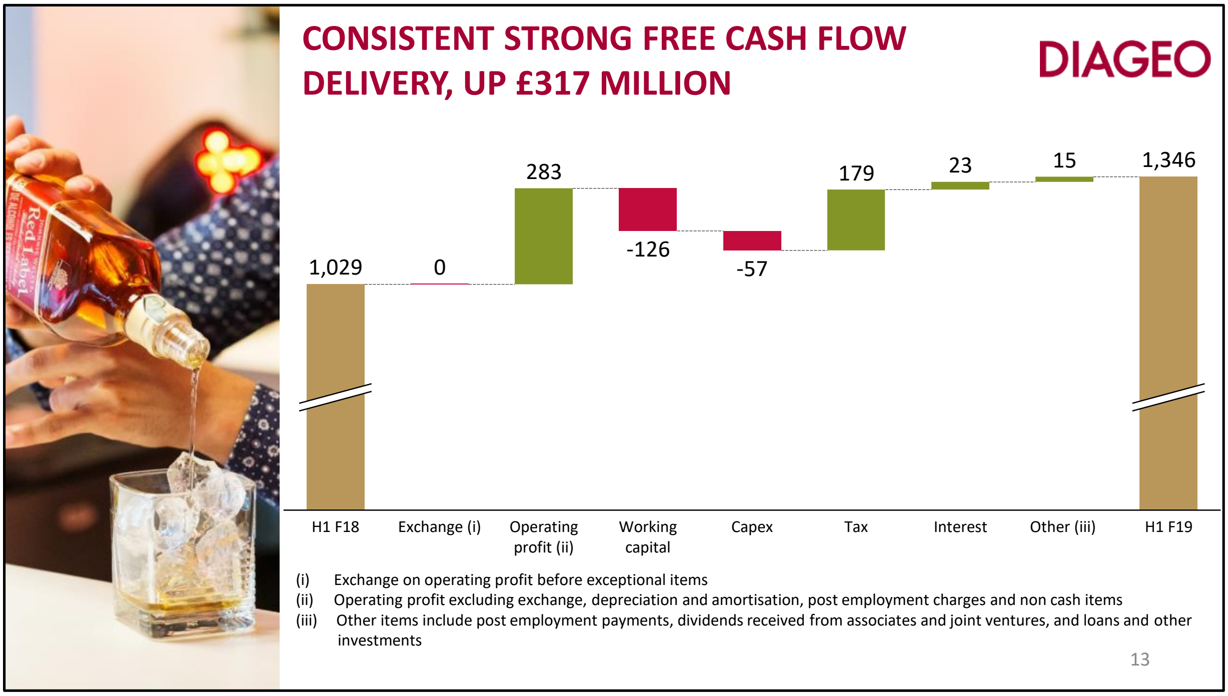
- Reported operating profit and organic operating profit were both up 12% largely driven by organic growth.



- Organic operating margin expanded 152bps in the half, ahead of our expectations largely as a result of phasing benefits.
- I will walk you through more detail on these in a minute.
- You can see here that our gross margin expanded 50bps in the half. This resulted from positive price/mix and productivity efficiencies which more than offset the adverse impact of COGS inflation in the half. We experienced upwards inflationary pressure across our commodity costs, including Agave, cereals, utilities and glass, as well as transportation costs in the US. I expect this inflation pressure to continue in the second half.
- Our marketing spend was up 9% in the half, driving a 26bps higher investment rate. Although this was ahead of net sales growth, it was a bit less than expected as some of the investment has been shifted to the second half. We have continued to increase investment in our three focus areas, US Spirits, scotch and India, and in attractive growth categories such as gin and Chinese white spirits.
- Other operating items delivered 128bps of margin improvements largely as a result of overhead productivity initiatives. In the half we also benefitted from phasing of productivity related costs which delivered about 20bps of margin improvement.
- I am pleased with the progress that we have made across all our productivity workstreams and how our programme continued to contribute to our organic margin expansion and to building a simpler, more efficient business.
- As we look to the second half I expect margin expansion to be muted. Our marketing investment rate and productivity related costs are expected to be higher, just due to phasing, as we continue to support future productivity initiatives.
- As such, we remain on track to deliver our medium term guidance of 175 bps of margin expansion for the three years ending 30 June 2019.
- Let’s now move on to cash.



- Cash delivery continues to be strong with Free Cash Flow at about £1.3bn.This is £317m higher than last year, as operating profit growth and lower tax payments more than offset increased investment in maturing stock, higher year on year working capital outflow, and higher capex.
- Looking to the balance sheet the operating working capital position improved in the half, compared to this time last year. And our every day focus on working capital management continued to deliver good results with average working capital as a percentage of net sales reduced by 67bps.
- Net capex increased £57m versus last year. Looking ahead for the full year, I still expect net capex to be in the range of £650m to £700m. This is in line with our guidance, as we increase investment in Scotland to transform our scotch whisky visitor experience, and continue to expand capacity in emerging markets.
- Tax payments were £179m lower year-over-year largely driven by the benefit of lapping the one-off payment made to the UK tax authorities in August 2017.

IMPROVED COST OF DEBT SUPPORTED BY FAVOURABLE FUNDING TERMS

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		F19 H1	F18 H1	Movement
Closing net debt*	£m	(10,352)	(9,198)	(1,154)
Average net debt*	**£m**	**(10,183)**	**(8,819)**	**(1,364)**
Net interest charge	£m	(120)	(130)	10
Net other finance charges	£m	(8)	(24)	16
Net finance charges	**£m**	**(128)**	**(154)**	**26**
Effective interest rate	**%**	**2.4**	**3.0**	**(0.6)**
Adjusted ** **net debt** * **/ EBITDA**	**x**	**2.3**	**2.3*****	**-**

Net debt is equivalent to net borrowings ** Adjusted to include post employment plan benefit liabilities
*** The post employment benefit asset is excluded from the net borrowings to EBITDA calculation. To be comparable for the half year ended 31 Dec 2017 the ratio has been restated to 2.3 from the previously reported 2.2.

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- Average net debt increased by about £1.4bn. The two main drivers of this increase were the execution of our share buyback programme and the closing of the partial tender offer to increase our holding in SJF to 60%.
- Our effective interest rate was 2.4%, 60bps lower than last year. This resulted largely from efficient debt funding and higher than anticipated gains on our swap portfolio.
- During the second half, we expect lower gains on our swap portfolio. So for the full year I expect our effective interest rate to be in a range between 2.5% and 2.8%
- Other finance charges were £16m lower than last year largely driven by the decreased charges in respect of the Zacapa put option and lower pension charges.
- While we expect higher charges year on year in the second half related to the Zacapa put option, overall I now expect other finance charges for the full year to be broadly in line with fiscal 2018 due to lower pension charges.

A DISCIPLINED APPROACH TO CAPITAL STRUCTURE

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Leverage policy
Adjusted Net Debt* to EBITDA: 2.5x – 3.0x

Organic growth	Dividends – 1.8x to 2.2x dividend cover	M&A and portfolio management

Return excess cash to shareholders

* Net debt is equivalent to net borrowings. Adjusted net debt includes post employment plan liabilities

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- We have a disciplined approach to our capital structure through a leverage policy that targets an adjusted Net Debt to EBITDA ratio of 2.5x to 3.0x.
- Our priority remains to invest in the business to deliver sustainable and efficient organic growth and generate value through acquisitions that further strengthen our exposure to fast growing categories.
- Last year we completed the acquisition of Casamigos, a brand that increased our participation in the fast growing high end tequila segment. We also acquired Belsazar, a premium vermouth from Germany's black forest, and Pierde Almas, an ultra premium mezcal.
- This year, we increased our shareholding in Shui Jing Fang, our fast growing Chinese White spirits business, from approximately 40% to 60%.
- We also regularly review our portfolio to ensure that we allocate resources behind the opportunities that can maximise shareholder value in the long term. In the first half we disposed of a portfolio of 19 brands principally in the value segment in US spirits. This segment has been in structural decline in the US and this disposal enables us to focus our resources on premium and above brands, where there are stronger growth and profit opportunities.
- Our adjusted net debt to EBITDA at the end of the first half increased to 2.3x. This planned increase resulted from higher adjusted net debt which was up by about £1.4bn, partially offset by increased EBITDA.
- At the end of this fiscal year we expect to be back within our targeted leverage range.
- We have a clear dividend policy to target dividend cover of 1.8x to 2.2x. We finished fiscal 18 at 1.8x and today we have announced an interim dividend of 26.1 pence per share. This is an increase of 5% from last year, and is in line with our guidance to maintain mid-single digit increases until we are comfortably back in the policy range
- Should we have any excess capital, we seek to return it to shareholders.
- In July last year the board approved a share buybacks programme to return up to £2bn of capital to shareholders. Later in the first half we announced an increase in the programme, utilizing the £340m of net proceeds from the recent disposal.
- And as you have heard from Ivan we have announced a further increase of up to £660m in share buybacks
- We are on track to execute the first tranche of the share buyback programme, with £1.3bn utilised to repurchase 46.5m shares in the first half.

F19 EXCHANGE IMPACT FORECAST TO BE FAVOURABLE FOR BOTH OPERATING PROFIT AND NET SALES

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Exchange rates

Translation rate

	F18*	F19 H1**	F19 forecast ***
$/£	1.35	1.29	1.31
€/£	1.13	1.12	1.14

* Average rate **Average rate Jul-Dec ***Weighted average rate of F19 H1 and spot rate for H2

Transaction rate

	F18	F19 H1	F19 forecast[1]
$/£	1.36	1.31	1.34
€/£	1.16	1.13	1.14

Average of hedging and spot rates

1. 80% of £/$ exposure hedged
47% of €/£ exposure hedged

Total Exchange Impact

£m	F18	F19 H1	F19 forecast
Net Sales	(454)	(91)	(80)
Operating profit	(56)	-	(10)
Net Interest	1	(2)	(6)

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- Moving now to foreign exchange.
- Exchange negatively impacted net sales by £91m in the half. There was no impact on operating profit due in part to our hedging programme, which delays some of the impact of exchange, and in part due to the devaluation of some emerging market currencies, which have higher a impact on net sales relative to operating profit
- Adverse exchange impact on net sales in the first half was driven by the weakening of emerging market currencies, mainly the Turkish lira, Indian rupee and Brazilian real, only partially offset by the strengthening of the US Dollar.
- As I look to the full year, using the rates presented here, exchange is expected to have an adverse impact of £80m on net sales and £10m on operating profit .

BASIC EPS DECREASED 1.6%
EPS BEFORE EXCEPTIONAL ITEMS UP 13.6%

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	Pence per share
F18 H1 eps before exceptional items	67.8
Exchange	0.1
Organic operating profit growth	10.4
Associates and joint ventures	0.4
Tax	(4.0)
Finance charges	2.2
Non-controlling interest	(0.9)
Share buy-back	1.1
Other	(0.1)
F19 H1 eps before exceptional items	77.0

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- Earnings per share before exceptional items increased 13.6%.
- Organic operating profit growth, lower finance charges, the positive impact of the share buy-back programme and higher income from associates more than offset the negative impact of higher tax expense and non-controlling interest.
- Our tax rate before exceptional items was 21.2%, in line with our guidance. Our current expectation for the full year is that our tax rate before exceptional items will continue to be between 21% and 22%.
- As I mentioned earlier finance charges were lower than last year and had a positive impact on eps.
- Non-controlling interest had a negative impact on eps as a result of higher profit in our listed subsidiaries.
- The execution of our share buyback programme reduced the weighted average number of shares and had a positive impact on eps.
- Basic eps decreased 1.6% as the gain from disposal of the portfolio of 19 brands was lower than last year's exceptional tax credit due to the balance sheet re-measurement of our deferred tax liabilities in the US.

ANOTHER SET OF STRONG CONSISTENT RESULTS

DIAGEO

Efficient growth:	F19 H1
Organic net sales growth	7.5%
Organic operating margin improvement	+152bps
Free cash flow	£1.3bn
Pre-exceptional eps	up 13.6% to 77p
Value creation:	
ROIC	up 135bps to 17.8%
Total Shareholder Return	up 4%

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- These are another strong set of results, with good performance against all the metrics that we use to measure efficient growth and value creation.
- Both organic net sales and operating profit growth were ahead of expectations. This was largely a result of phasing benefits with good continued underlying momentum.
- Cash delivery, at £1.3bn, also continued to be strong.
- And as such, we have announced a further increase in our share buyback programme bringing the total programme for fiscal 19 up to £3bn.
- Looking at the second half I expect net sales growth to be lower, as we will lap a stronger prior year comparable in many markets, as I explained earlier. Overall I expect net sales growth for the full year to be towards the upper range of our mid-single digit organic net sales growth guidance.
- I also see limited opportunity for organic operating margin expansion in the second half, largely as a result of phasing of productivity costs and marketing expenses. Continued inflationary pressure across our commodity costs will also impact margin expansion for the remainder of the year.
- We are on track to deliver another year of organic mid single digit net sales growth and the margin expansion required to deliver our guidance of 175bps of organic margin expansion we set as a target for the three years ending in June 2019.
- And back to you Ivan.

CONSISTENT DELIVERY OF STRONG RESULTS

DIAGEO

Reflecting our ambition to be one of the best performing, most trusted and respected consumer products companies in the world

Delivering through our six priorities with clear goals defined by our Performance Ambition

Four measures of our progress

- efficient growth
- value creation
- credibility and trust
- motivated people

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- Thank you Kathy.
- We are also making good progress on our ambition to be “most trusted and respected”.
- At the full year we will also share details of our annual employee engagement survey.

MOST TRUSTED AND RESPECTED

DIAGEO

THOMSON REUTERS

Ranked #4 in Top 100
Globally listed companies

WINNER BRITAIN'S MOST ADMIRED COMPANIES 2018

Management Today

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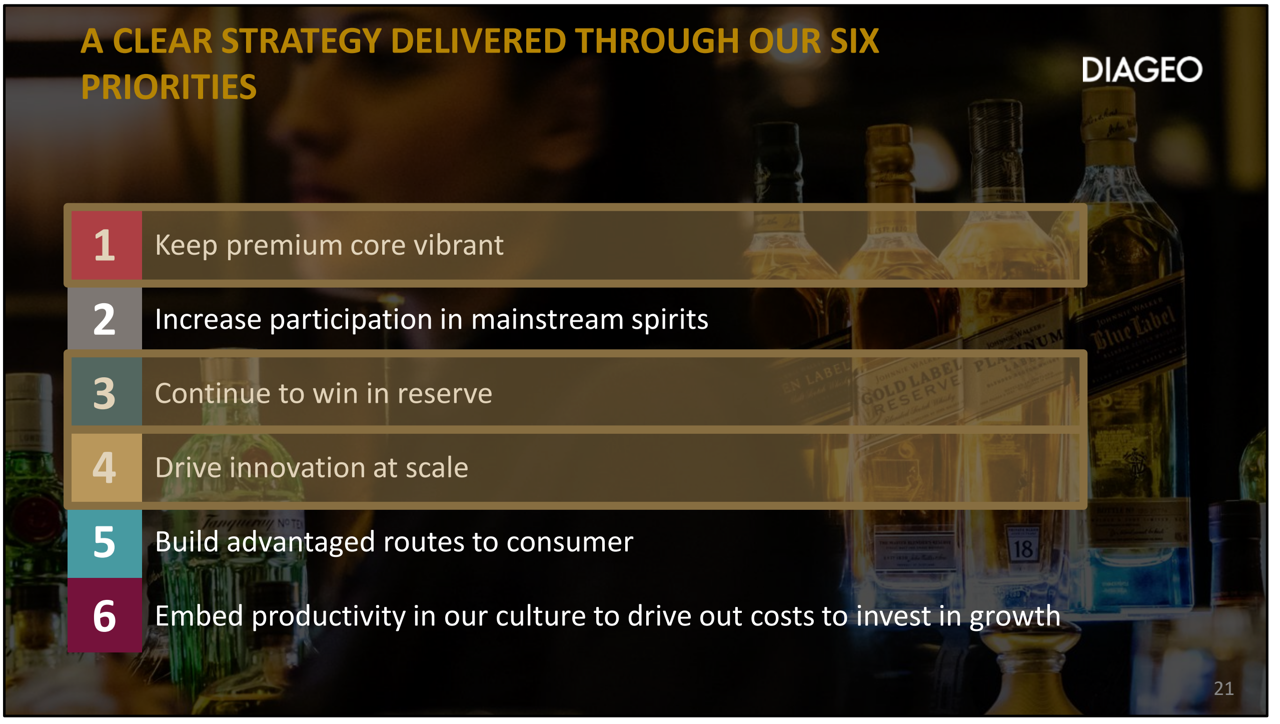
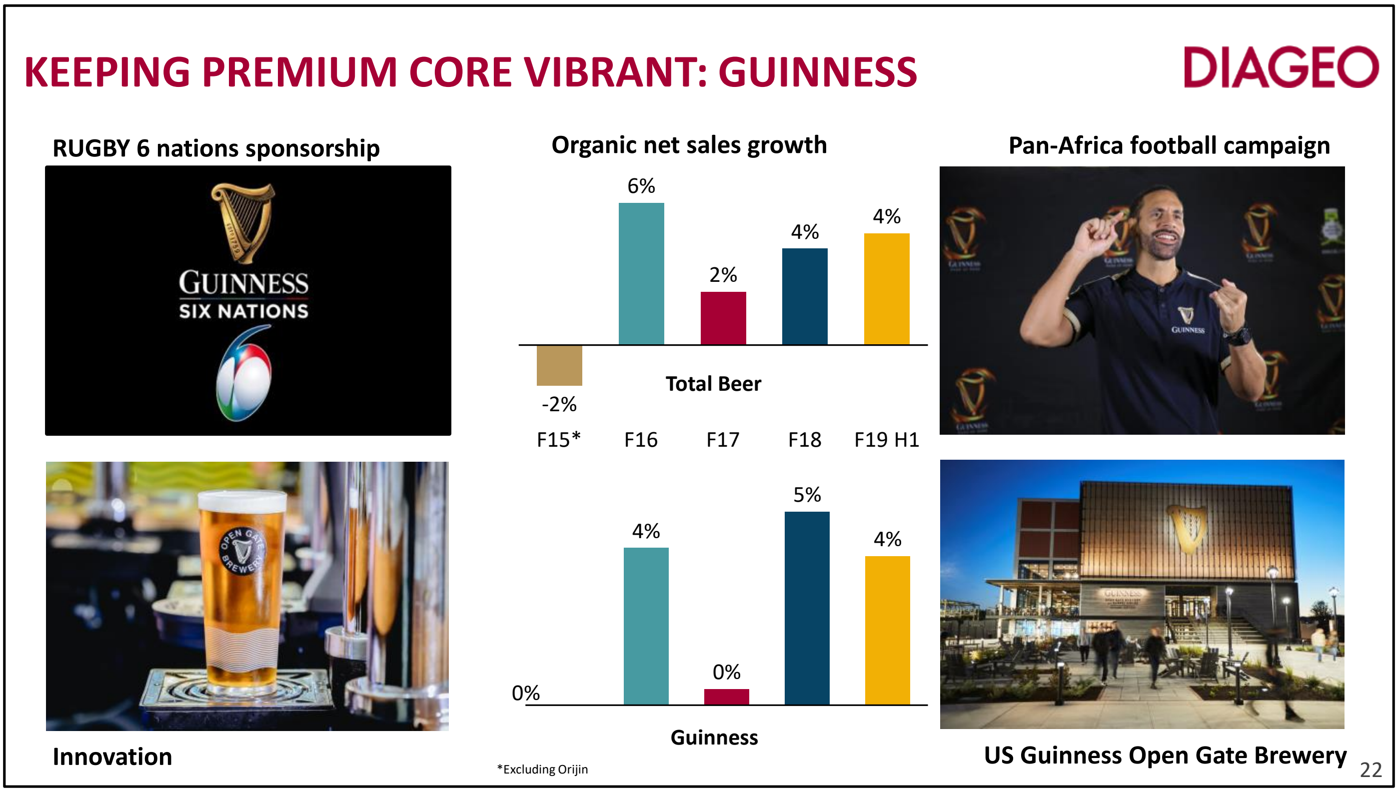
- We are driving a step change in industry efforts to promote responsible drinking, focussing on reducing underage drinking, drink driving and binge drinking.
- We have committed to industry leading targets to educate 5 million young people about not engaging in underage drinking; generate 50 million pledges to never drink and drive; and reach 200 million people with messages of moderation through our Marketing. We are making rapid progress:
    - Our “Drink Positive” campaign is running across our markets, with over 17,000 employees participating in the first half
    - We have just launched a new campaign to promote DrinkiQ, our alcohol education platform for consumers in the UK, which has already reached over half a million people
    - ‘Smashed’, our youth theatre programme is now live in 20 countries and performed in 13 languages.
    - We have collected over 15 million pledges to Join the Pact against drink driving
- And I am particularly excited about the work of our brands, creatively engaging with consumers with moderation messages, including:
    - Crown Royal’s ‘Hydrate Generously’ campaign around the NFL in North America
    - Haig Club’s ‘Leave as You Arrived’ campaign with David Beckham and
    - Captain Morgan’s ‘Live Like a Captain’ moderation campaign with grime artist Lady Leshurr.
- Our work to promote inclusion and diversity – essential for any business truly to thrive – continues to drive engagement among our employees and I am proud that we have been recognised externally for this, including ranking 4th in the Thomson Reuters Global Diversity and Inclusion Index of the Top 100 publicly listed companies.
- I am also delighted that in December, Diageo was named ‘Britain’s Most Admired Company 2018’, in Management Today’s long running awards, voted for by business peers from across all industry sectors.
- We have strong foundations in place but there is always more to do. Earning trust and respect for the way we treat our people, the way we conduct our business and our overall contribution to society remains central to everything we do at Diageo.



- Consistent execution of our strategy is yielding results.
- Let me take you through some of the examples of great execution in three of the six priorities: keeping premium core vibrant, winning in reserve and driving innovation at scale.



- Beer grew by 4% in the half, largely driven by continued momentum from Guinness, improved performance of Senator Keg beer in Kenya and growth of Serengeti in Tanzania now the number 1 brand in volume and value share.
- In Europe, Guinness performance was led by GB through Guinness Draught and Hop House 13 lager. We continued to gain share in GB over the last six months.
- Guinness is a committed supporter of rugby and we were very excited to announce recently our title sponsorship of the Six Nations rugby tournament. We know this association works, in the home nations autumn internationals match day we saw a double digit uplift on Guinness sales compared to a year ago in some of our key accounts.
- In Africa, Guinness was up 5% with broad growth across all key markets. Across Africa we have continued to activate around football with our Guinness ambassador Rio Ferdinand visiting both Nigeria and Kenya in December, with a very positive response.
- Guinness in Africa is leveraging our category leading partnership with Facebook. We are now able to deliver highly targeted content, increasing our reach to 38 million consumers, almost 8 times higher than 2 years ago. In evaluation studies in Nigeria, we have found this targeted approach drives a double digit uplift in sales and gives access to data to help us improve our effectiveness in the future.
- In the US our core variants are in healthy growth. The new Open Gate Brewery and Barrel House in Maryland is generating a lot of interest, welcoming nearly 200,000 visitors since it opened in August.

CONTINUE TO WIN IN RESERVE: WORLD CLASS

DIAGEO

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- Our reserve portfolio is second to none and plays right into consumer aspiration for special moments and experiences with our brands.
- Our reserve teams have been raising the bar to create the best experiences for consumers through our World Class programme for some ten years now.
- The programme goes from strength to strength, enabling highly targeted PR, stronger bartender capabilities and engagement with key influencers globally.
- Each year culminates in the annual bartender of the year competition and 2018’s final, held in Berlin, was the biggest ever.
- Our online viewership of the competition peaked to the highest level in World Class history, with over 2 million cocktail lovers joining.
- And we more than doubled the average number of media articles and broadcast pieces this year.
- We invited some of the biggest influencers to the finals and worked with them to create hundreds of pieces of brand content. We found that this content delivered a significant uplift in consumer engagement on social media.
- I am delighted that later this year we will be bringing the World Class final to Glasgow in the home country of scotch, a key category for reserve.

DRIVE INNOVATION AT SCALE

DIAGEO

Recruit | Re-recruit | Disrupt

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- Driving sustainable growth, led by consumer trends, is at the heart of our innovation strategy.
- The role for each innovation falls into one of three categories: recruit, re-recruit or disrupt.
- Our innovation model demands that we have a clear consumer insight which serves as the core purpose of each launch.
- Our focus over the past few years has been on recruiting new consumers to our brands or recruiting into new occasions.
- I am pleased with the results of this strategy with successes like Ketel One Botanical, Gordon's Pink gin, Hop House 13 Lager and Crown Royal Regal Apple, to name just a few.
- This year we expect more than 50% of innovation projects to be within this recruit category, compared to around 30% four years ago.

IMPROVED GROWTH IN THE THREE FOCUS AREAS: ORGANIC NET SALES GROWTH

DIAGEO

Scotch	7.0%
US Spirits	4.7%
India	12.3%

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- Now let’s move on to our three focus areas: Scotch, US Spirits and India where we saw a strong step-up in performance in all three areas.

F19 FOCUS AREAS: SCOTCH IMPROVED BROAD BASED PERFORMANCE

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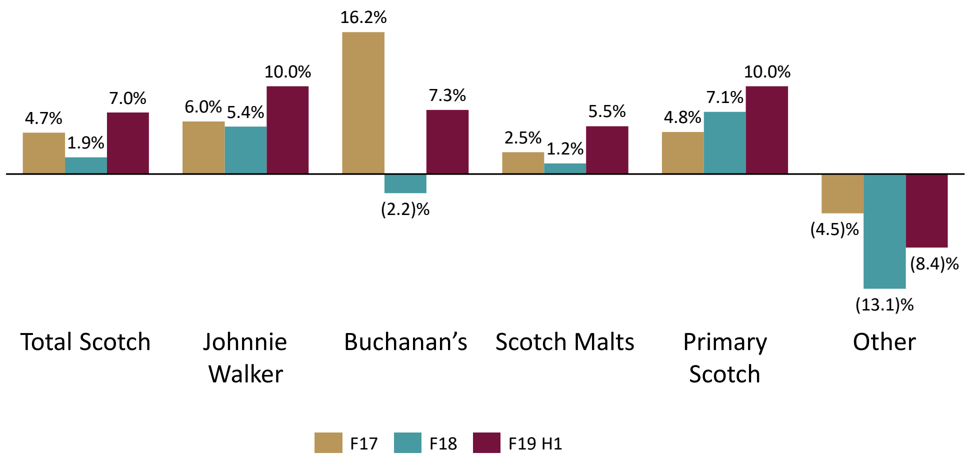
Organic net sales growth



% of Scotch net sales	58%	9%	12%	11%	10%

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- Scotch had a strong first half with 7% top line growth.
- I am delighted with the performance of Johnnie Walker over the past six months with net sales up 10% including the launch of a limited edition, "White Walker by Johnnie Walker", a collaboration with HBO on their TV series Game of Thrones. I will talk more about this in a moment.
- Buchanan's net sales were up 7%, with both the US and LAC delivering high single digit growth.
- Scotch malts improved with strong performance across Asia Pacific, where malts are a core element of the region's focus on prestige scotch. Within Asia Pacific, Greater China made the strongest contribution, with strong double digit growth of malts in mainland China, coupled with stabilisation of our business in Taiwan. We also delivered in the US supported by growth in the core malts range and a further limited edition collaboration with HBO on Game of Thrones.
- Primary scotch continued to perform well in LAC and in India, led by Black & White and the local brand, Black Dog.
- In other scotch, performance improved as Old Parr recovered following the impact from the tax changes in Colombia last year. However we continued to see decline on Windsor due to the contraction of the scotch category in Korea and J&B continues to be under pressure in Europe. However our total share of scotch in Spain was broadly flat year on year.

F19 FOCUS AREAS: SCOTCH
CONNECTING CONSUMERS WITH SCOTCH

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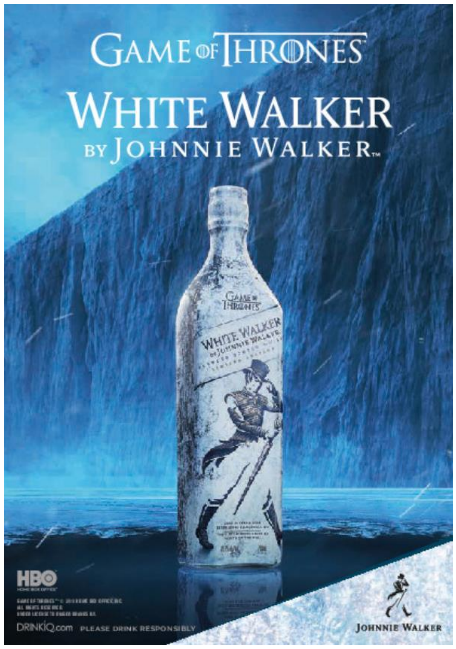
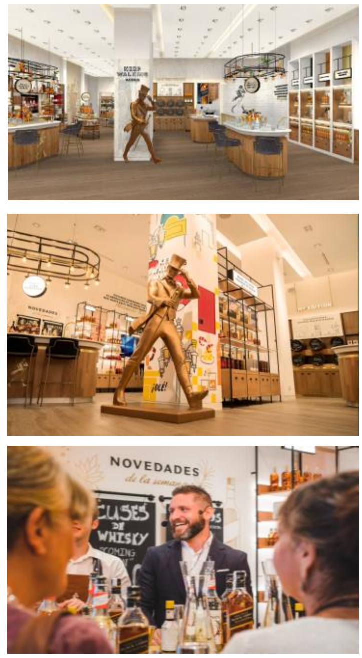
Four corners communications



Recruiting new consumers



Engaging consumers in retail

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- "White Walker by Johnnie Walker" is the biggest cultural collaboration within the history of this 200 year old brand. With this innovation we are opening up scotch to a whole new audience thanks to the global cultural phenomenon that is Game of Thrones.
- This is a limited edition, brand new blend, drawing cues from the TV series story-line and executed in a stunning pack.
- We have seen great consumer appetite which has translated into strong sales over the half.
    - White Walker became the number one most watched video ever on Johnnie Walker Instagram and became the most talked about Whisky on social media.
    - In GB, the product was the number one best seller in Amazon grocery for over a week
    - And in the US, White Walker became the second most searched for product in the history of the on-line platform, Drizly.
- We have also launched a unique, limited edition range of eight malt whiskies each paired with one of the iconic houses of Westeros, as well as the Night's Watch, all inspired by Game of Thrones.
- White Walker by Johnnie Walker and the Game of Thrones malt whiskies have been rolled out in many of our markets across the globe and have made a real contribution to our first half results but more importantly we have connected new consumers to Johnnie Walker and scotch.

F19 FOCUS AREAS: US SPIRITS
CONTINUED PERFORMANCE IMPROVEMENT

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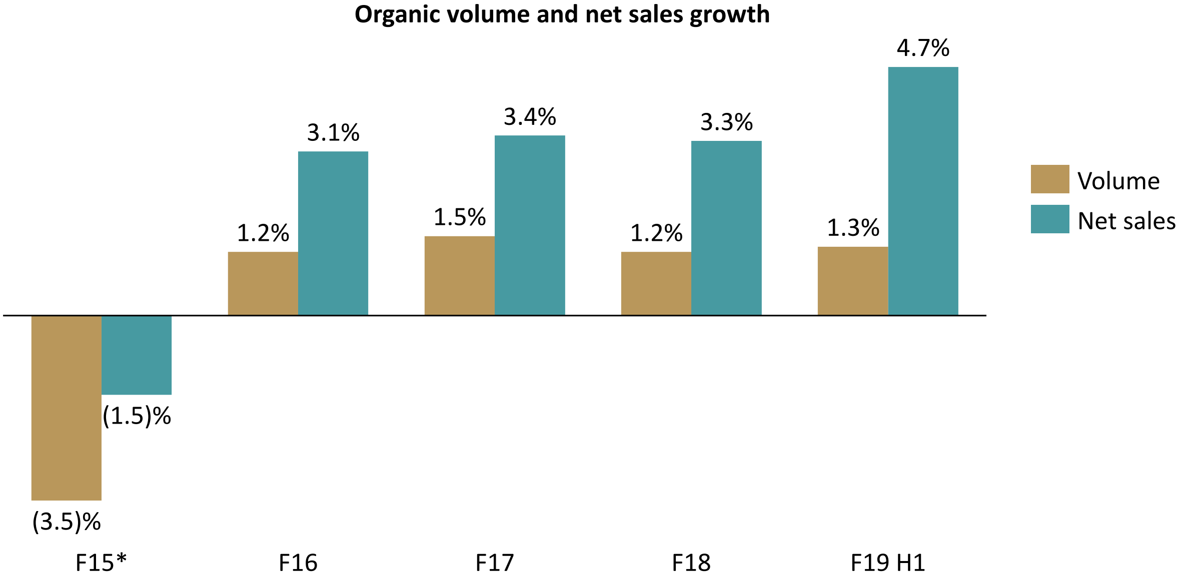

* Excluding Wine

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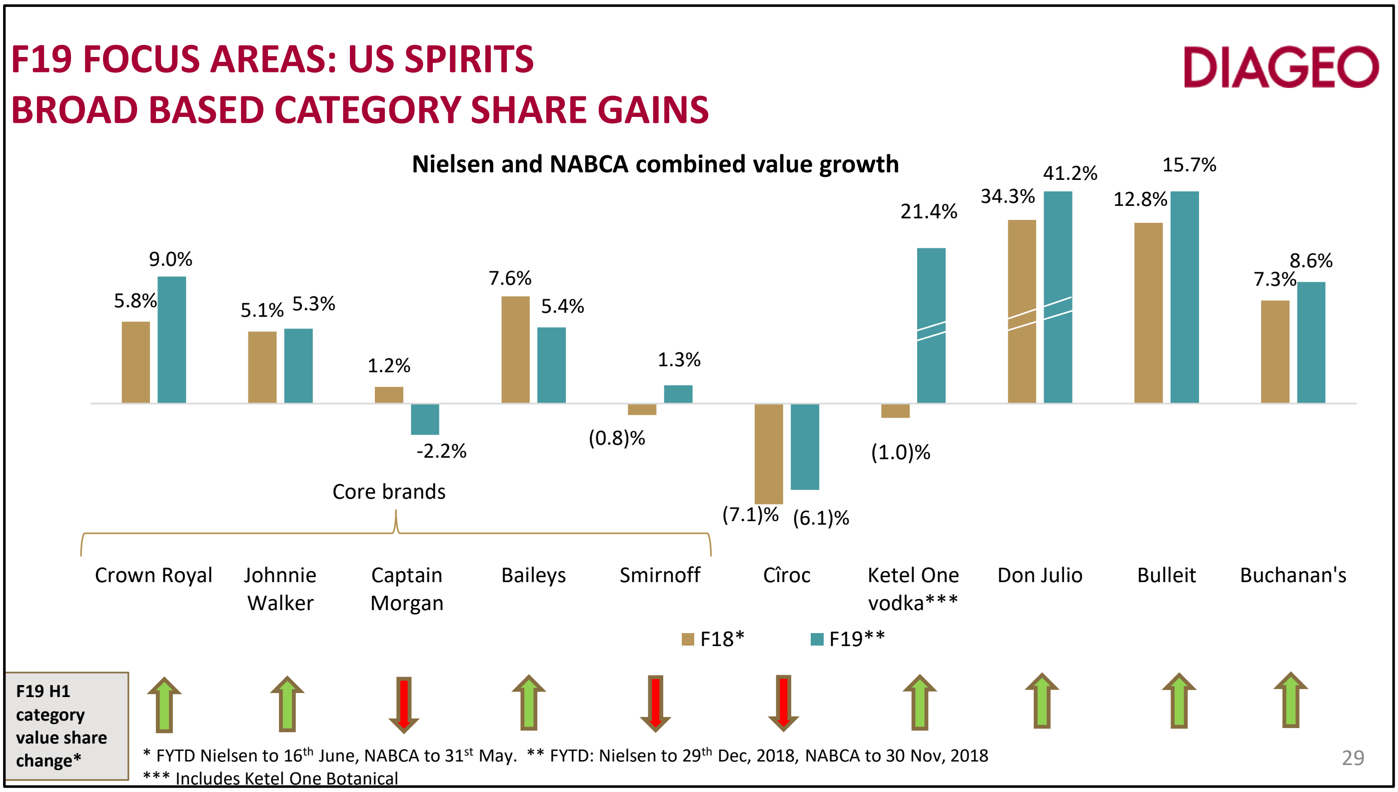
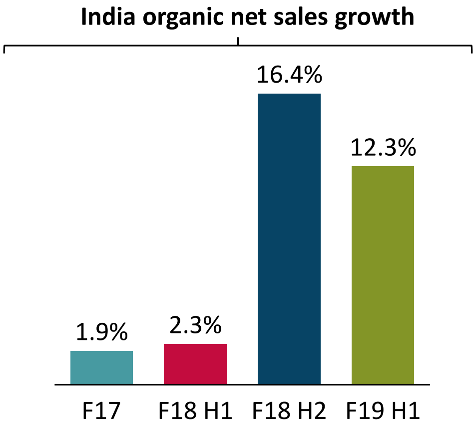
- Turning to US Spirits.
- I am pleased to see a step up in net sales growth. We are now growing broadly in line with the market.
- Growth was underpinned by continued strong performance from Canadian whisky, American whiskey, tequila and scotch, improved performance in vodka and the impact of the sale of the portfolio of 19 brands which closed in December 2018.

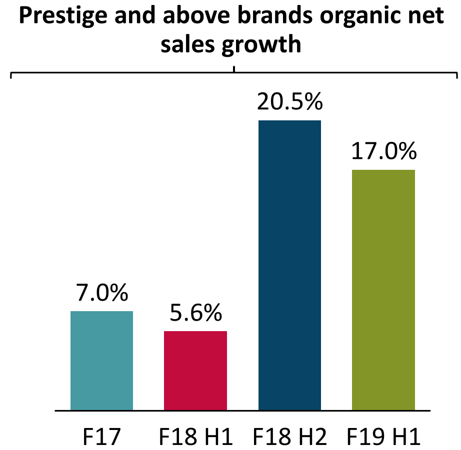


- The underlying performance in US spirits continues to improve.
- Crown Royal continues to benefit from consistent execution against the brand's generosity platform and has again gained share in the Canadian whisky category.
- We see continued strong performance in scotch, tequila, American whiskey and Baileys.
- Smirnoff has improved and we see the superb performance of Ketel One driven by Ketel One Botanical and supported by continued improvement from the base variant. Cîroc continues to show weakness and remains a focus for us.
- Captain Morgan has come under increasing pressure recently after successfully delivering share growth in the declining rum category over the past couple of years. We continue to invest in the proven "Live like a Captain" campaign through TV and digital media. And we are focusing on expanding consumption beyond the Captain & Cola serve, educating consumers on new ways to drink Original Spiced Rum such as Captain & Ginger Ale or Captain & Iced tea.
- We are confident that the increased marketing investment and improved effectiveness of our brand plans is supporting sustainable growth in the US.

F19 FOCUS AREAS: INDIA
NET SALES UP 12%, MARGIN IMPROVEMENT AND INCREASED MARKETING INVESTMENT

DIAGEO





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- India saw a strong start to the year, with net sales up 12% benefitting from a weaker prior year and strong performance of our prestige and above brands which were up 17%.
- Scotch delivered a strong half with Johnnie Walker growing double digit following the successful "Keep Walking India" campaign and our continued strategy to make the brand more accessible to younger, more affluent consumers through activities like sampling Johnnie & Ginger across key on-trade outlets.
- Locally bottled scotch brands also performed well with Black Dog, Black & White and VAT69 all in double digit growth.
- I am pleased with the progress the Indian business continues to make on operating margin, now firmly in mid-teens operating margin territory. This is driven by positive price/mix and productivity improvements while we continue to invest in our brands with growth in marketing investment ahead of net sales.

EFFECTIVE EXECUTION OF OUR STRATEGY CONSISTENT DELIVERY OF STRONG RESULTS:

DIAGEO

Delivering our strategy

Strong performance driven by a more agile, disciplined and high performing organisation

Consistent top line growth, increased marketing investment and margin expansion enabled by productivity programme

Confidence in delivering our medium term guidance

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- Before we close, let me sum up;
- We have made a particularly strong start to this first half of fiscal 19 and remain on track to deliver our guidance.
- These results have been delivered through our consistent focus on all six of our execution priorities, with a stand out performance from innovation.
- We are a stronger, more agile and disciplined business.
- As we deploy our strategy, we remain focussed on building the long term health of our brands to grow our business in a consistent and sustained way.
- Thank you.

APPENDIX 1: 1/2
FORWARD LOOKING STATEMENTS

DIAGEO

Exchange rate outlook
Using exchange rates £1 = $1.32; £1 = €1.16, the exchange rate movement for the year ending 30 June 2019 is estimated to adversely impact net sales by approximately £80 million and operating profit by approximately £10 million.

Net sales
Looking at the second half we expect net sales growth to be lower, as we will lap a stronger prior year comparable in many markets. Overall I expect net sales growth for the full year to be towards the upper range of our mid-single digit organic net sales growth guidance.

Operating margin
We see limited opportunity for organic operating margin expansion in the second half. largely as a result of phasing of productivity costs and marketing expenses. Continued inflationary pressure across our commodity costs will also impact margin expansion for the remainder of the year.
We are on track to deliver another year of organic mid single digit net sales growth and the margin expansion required to deliver our guidance of 175bps of organic margin expansion we set as a target for the three years ending in June 2019.

Net finance charges
for the full year we expect our effective interest rate to be in a range between 2.5% and 2.8%

We expect other finance charges for the full year to be broadly in line with fiscal 2018, and therefore lower than the guidance we gave in July, as a result of the lower pension charges and higher charges in the second half related to the Zacapa put option .

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APPENDIX 1: 2/2
FORWARD LOOKING STATEMENTS

DIAGEO

Taxation
Our current expectation is that the tax rate before exceptional items for the year ending 30 June 2019 will be in the range of 21% to 22% which reflects changing business mix and the increased levels of uncertainty in the current tax environment for most multinationals.

Capital expenditure
We expect our full year Capex spend to be in the range of £650m to £700m.

Post employment plans
Total cash contributions by the group to all post employment plans in the year ending 30 June 2019 are estimated to be approximately £200 million.

Dividend
We target dividend cover between 1.8x and 2.2x and we finished fiscal 18 at 1.8x, just into our policy range. We expect to maintain a mid single digit increase in our dividend until we are comfortably back in the policy range.

Capital structure and share buy-back
We ended the first half of F19 with an adjusted Net Debt to EBITDA ratio of 2.3 and we announced an increase of our share buy-back programme. We expect to be back within our targeted leverage range at the end of F19.

Share buy-back
On 25 July 2018 the Board approved a share buy-backs programme to return up to £2bn of capital to shareholders. Later in the first half we announced our plan to return the £340m of proceeds from the recent disposal. Today we have announced a further £660m in share buy-backs, bringing the total F19 programme up to £3bn.

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APPENDIX 2: RECONCILIATION OF CASH FLOW STATEMENT

DIAGEO

Statement of cash flows (£m)	F18 H1	F19 H1	Movement
Operating profit after exceptional items	2,190	2,430	240
Increase in working capital excluding maturing stock	*(428)*	*(503)*	*(75)*
Increase in maturing stock	*(102)*	*(153)*	*(51)*
Working capital	(530)	(656)	(126)
Depreciation, amortisation and impairment	187	185	(2)
Dividends received	3	3	0
Post employment charges in operating profit	*45*	*53*	*8*
Post employment payments	*(111)*	*(114)*	*(3)*
Post employment payments less amounts included in operating profit	(66)	(61)	5
Other Items	0	37	37
Tax paid	(408)	(229)	179
Net interest	(128)	(105)	23
Net capex	(201)	(258)	(57)
Movements in loans and other investments	(18)	0	18
Free cash flow	**1,029**	**1,346**	**317**

Reconciliation of free cash flow waterfall

Movement on OP as shown in YoY waterfall (£m)	
Operating profit after exceptional items	240
Depreciation, amortisation and impairment	(2)
Other items	37
Post employment charges in operating profit	8
Operating profit movement excluding non-cash items	**283**
Operating profit excluding exchange	283
Exchange on operating profit	0
Operating profit movement excluding non-cash items	**283**

Other movements as shown in YoY waterfall (£m)	
Post employment payments	(3)
Movements in loans and other investments	18
Other operating activities	**15**

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Cautionary statement concerning forward-looking statements

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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 any strategic transactions and restructuring programmes, anticipated tax rates, changes in the international tax environment, 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:

- economic, political, social or other developments in countries and markets in which Diageo operates, which may contribute to a reduction in demand for Diageo's products, adverse impacts on Diageo's customer, supplier and/or financial counterparties, or the imposition of import, investment or currency restrictions (including the potential impact of any global, regional or local trade wars or any tariffs, duties or other restrictions or barriers imposed on the import or export of goods between territories, including but not limited to, imports into and exports from the United States, Canada, Mexico, the United Kingdom and/or the European Union);
- the negotiating process surrounding, as well as the final terms of, the United Kingdom's exit from the European Union, which could lead to a sustained period of economic and political uncertainty and complexity whilst detailed withdrawal terms and any successor trading arrangements with other countries are negotiated, finalised and implemented, potentially adversely impacting economic conditions in the United Kingdom and Europe more generally as well as Diageo's business operations and financial performance (see more detailed status on Brexit below);
- changes in consumer preferences and tastes, including as a result of changes in demographics, evolving social trends (including any shifts in consumer tastes towards locally produced small-batch products), changes in travel, vacation or leisure activity patterns, weather conditions, and/or a downturn in economic conditions;
- any litigation or other similar proceedings (including with customs, competition, environmental, anti-corruption or other regulatory authorities), including litigation directed at the beverage alcohol industry generally or at Diageo in particular;
- changes in the domestic and international tax environment, including as a result of the OECD Base Erosion and Profit Shifting Initiative and EU anti-tax abuse measures, leading to uncertainty around the application of existing and new tax laws and unexpected tax exposures;
- the effects of climate change, or legal, regulatory or market measures intended to address climate change, on Diageo's business or operations, including on the cost and supply of water;
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- changes in the cost of production, including as a result of increases in the cost of commodities, labour and/or energy or as a result of inflation;
- legal and regulatory developments, including changes in regulations relating to production, distribution, importation, marketing, advertising, sales, pricing, labelling, packaging, product liability, antitrust, labour, compliance and control systems, environmental issues and/or data privacy;
- the consequences of any failure by Diageo or its associates to comply with anti-corruption, sanctions, trade restrictions or similar laws and regulations, or any failure of Diageo's related internal policies and procedures to comply with applicable law or regulation;
- the consequences of any failure of internal controls, including those affecting compliance with new accounting and/or disclosure requirements;
- contamination, counterfeiting or other circumstances which could harm the level of customer support for Diageo's brands and adversely impact its sales;
- Diageo's ability to maintain its brand image and corporate reputation or to adapt to a changing media environment;
- increased competitive product and pricing pressures, including as a result of actions by increasingly consolidated competitors or increased competition from regional and local companies, that could negatively impact Diageo's market share, distribution network, costs and/or pricing;
- any disruption to production facilities, business service centres or information systems, including as a result of cyber-attacks;
- Diageo's ability to derive the expected benefits from its business strategies, including in relation to expansion in emerging markets, acquisitions and/or disposals, cost savings and productivity initiatives or inventory forecasting;
- increased costs for, or shortages of, talent, as well as labour strikes or disputes;
- fluctuations in exchange rates and/or interest rates, which may impact the value of transactions and assets denominated in other currencies, increase Diageo's cost of financing or otherwise adversely affect Diageo's financial results;
- movements in the value of the assets and liabilities related to Diageo's pension plans;
- Diageo's ability to renew supply, distribution, manufacturing or licence agreements (or related rights) and licences on favourable terms, or at all, when they expire;
- or any failure by Diageo to protect its intellectual property rights.

Brexit

There continues to be uncertainty with respect to the process surrounding the United Kingdom's proposed exit from the European Union and the eventual outcome of the ongoing Brexit negotiations. We continue to believe that, in the event of either a negotiated exit or no-deal scenario, the direct financial impact to Diageo will not be material. In the EU, we expect that our finished case goods will continue to trade tariff free in either scenario. While there continues to be uncertainty over future trading arrangements between the UK and the rest of the world, we have mitigation plans in place for the short-term disruption that could arise from a 'no deal' scenario; in which the UK leaves the EU on the current deadline for exit, under the Article 50 notification of 29 March 2019, without the parties reaching a formal withdrawal agreement approved by the UK Parliament, and including the inability of the UK Government to renew existing EU Free Trade Agreements with third party countries to which we export and where trading could revert to WTO rules.

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We have further considered the principal impact to our supply chain which we have assessed as limited and have appropriate stock levels in place to mitigate this risk. The full implications of Brexit will not be understood until future tariffs, trade, regulatory, tax, and other free trade agreements to be entered into by the United Kingdom are established. Furthermore, we could experience changes to laws and regulations post Brexit, in areas such as intellectual property rights, employment, environment, supply chain logistics, data protection, and health and safety.

A cross-functional working group is in place that meets on a regular basis to identify and assess the consequences of Brexit, with all major functions within our business represented. We continue to monitor this risk area very closely, including a continuing focus on identifying critical decision points to ensure potential disruption is minimised, and take prudent actions to mitigate risk wherever practical.

Other Information

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 risk factors and by the 'Risk factors' section contained in the annual report on Form 20-F for the year ended 30 June 2018 filed with the US 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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CELEBRATING LIFE, EVERY DAY, EVERYWHERE

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