DIAGEO

Interim Results
Fiscal 24

Debra Crew &
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30 January 2024

No script

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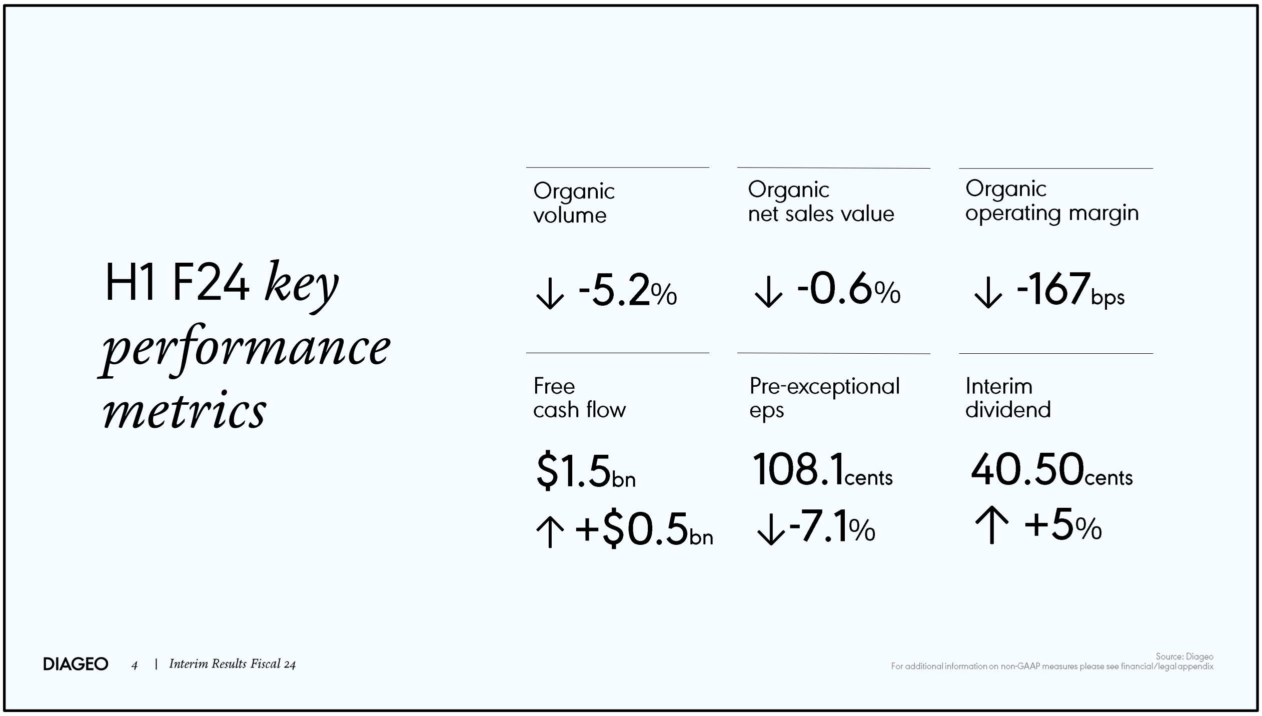
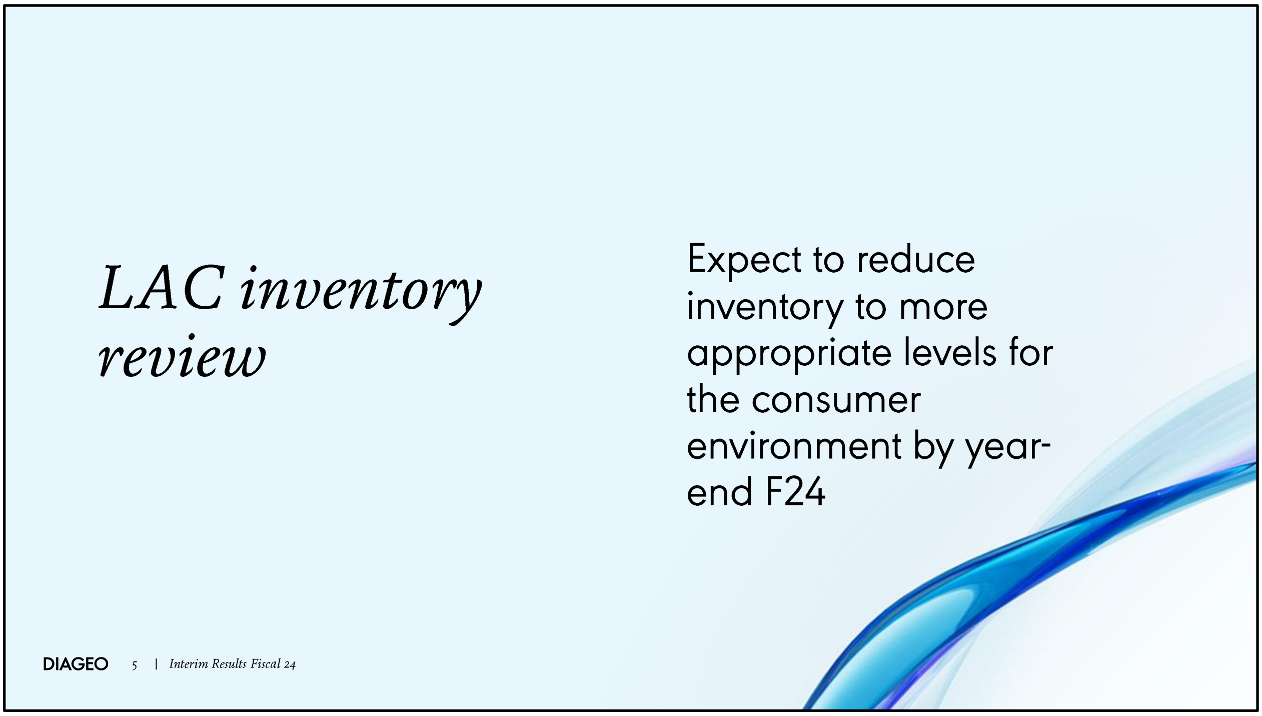
No script

- Good morning everyone. Thank you for joining our results presentation for the first half of fiscal 24.
- As we shared in November, we expected that the first half of fiscal 24 was going to see slower growth than the second half of fiscal 23 due to materially weaker performance in LAC, our Latin American region, which is nearly 10% of Diageo's net sales value.
- We ended the half in line with our November trading update. But let me be clear – we are not satisfied with these results.
- Today, I will share my reflections on our performance for the half, including an update on LAC.
- Lavanya will then discuss our results in more detail, before I return to discuss our near-term outlook.



- The group's organic net sales declined 0.6% in the first half of fiscal 24, and organic operating margin declined by 167bps.
- Excluding LAC, organic net sales grew 2.5%, driven by good growth in Europe, Asia Pacific and Africa.
- And, while North America declined versus the prior year, we did deliver sequential improvement period on period, as our actions in the region began to show an early impact.
- Organic operating margin declined 53bps, excluding LAC, driven entirely by increased marketing investment.
- We generated strong free cash flow of $1.5 billion, up $0.5 billion, while continuing to invest in the future growth potential of our brands. This was driven by strong working capital improvement. And Lavanya will discuss this further.
- Once again, we increased our dividend, up 5%, maintaining our track record of increases since Diageo's formation over 25 years ago.



- Usually, our performance discussion begins with a tour around the world, starting with North America because it is our largest region.
- But, as I promised in November, I first want to give you an update on the inventory issue in LAC, the actions we have taken, and our expectations for fiscal 24.
- Lavanya and I have spent a lot of time with our LAC team since November to understand exactly what happened. And with the local teams, we have formulated action plans towards reducing inventory to more appropriate levels for the current consumer environment by the end of the fiscal and, most importantly, to be confident that this does not happen again.
- During the Covid super-cycle, LAC experienced an extraordinary period of growth, organic NSV increased by 50% on a constant currency basis over the three years from fiscal 19 through fiscal 22.
- The spirits category showed significant volume growth and significant premiumisation, and according to IWSR, we gained around 130bps between calendar years 2020 and 2022.
- The strong category growth started to turn rapidly in the second half of fiscal 23 and continued into this fiscal, with elections and macro economic slowdowns in key markets, that followed higher inflation and US interest rate hikes. We saw a shift in where and how consumers were spending in the spirits category. As an example, in Brazil, we saw downtrading, primarily into beer. And we saw large channels like Cash and Carry decline by double digits. This meant that some quantities of inventory shipped in the first half of fiscal 23 was not the right product and ultimately did not pull through to the consumer. The net result was a build up in inventory levels at our direct customers which we flagged at the end of fiscal 23.
- While the team expected to work through this by the end of the first quarter of fiscal 24, persistent category decline and a weak consumer environment impacted their ability to reduce inventories in certain channels, including in the second tier of customers below our direct customers, to which we had limited visibility.
- LAC ended the half with a 23.5% decline in organic net sales value, and while direct customer inventories came down, there is still inventory at elevated levels in the channel.
- But as you've seen in our announcement this morning, we are taking actions towards reducing inventories to a more appropriate level for the current consumer environment by the end of our fiscal. And therefore, in the second half of the fiscal, we expect a 10-20% organic net sales decline in LAC versus the prior year.
- Lastly, in terms of inventory in other regions – we have conducted a global review to validate with our other regions the robustness of their processes and mechanisms.
- Post this review, I am confident that we have the necessary processes, data, incentives and sell-out culture across all regions.

Robust action plan to expand *inventory visibility* in LAC

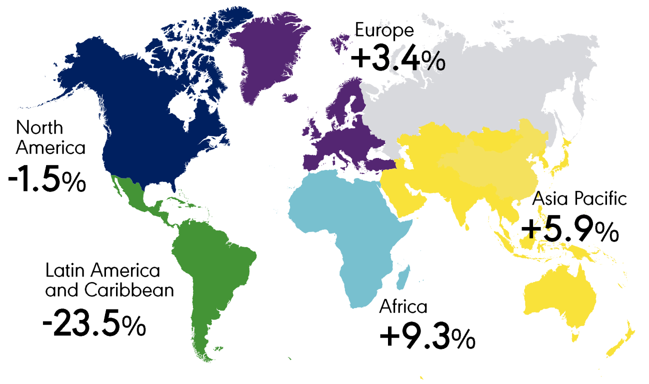
1. Formalise and expand our access to sellout data
2. Incentivise sellout data reporting
3. Incentivise independent stock counts
4. Invest in S&OP and commercial planning, and monitoring improvements
5. Test digital case tracking through distribution network

- So, what are we doing in response?
- We are working to expand the coverage of sellout data by formalising data collection from our largest customers where possible. For example, in Brazil, two of our largest cash and carry customers will give us around 10% better sellout coverage in this market alone.
- In several of our top distributors in our largest markets, we will also be incentivising them to report sellout information and to allow independent stock counts at their top customers. This would provide insights into approximately 200-300 major customers at the second tier within the trade's inventory channel and will allow for better insight and forecasting on our direct customer order patterns.
- We also will be increasing investment to improve our sales and operations planning, commercial planning, and monitoring processes in the region to be more forward-looking and agile.
- Finally, in addition, our Global Team is looking at potential tech solutions to increase visibility. And in the second half, we will test technology that we already use in our China business. With the use of RFID labels, we will be able to track cases as they move through the distribution network.
- We are exploring this with one of our largest customers in Mexico on key SKU's across scotch and tequila. The technology also has future potential for enhanced consumer engagement.
- This is a great example of how we can leverage existing know-how across the breadth of our regions.
- And, I'm very excited about the possibilities for our wider business in terms of speed, efficiency and using digital solutions to drive better insights all the way through our supply chain and route to consumer.

Resilience from our diversified footprint

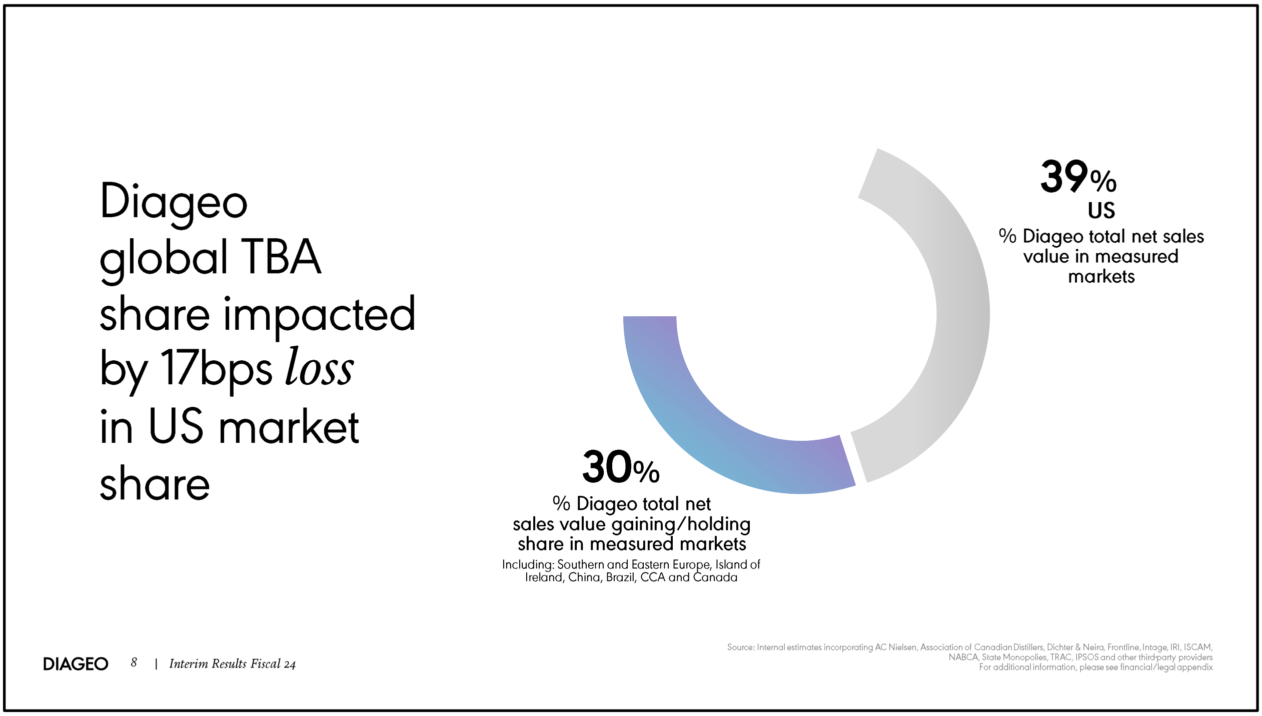
	Group	Group, ex-LAC
H1 organic net sales value decline/growth	-0.6%	+2.5%
H1 organic volume decline	-5.2%	-3.3%

H1 F24 organic net sales growth by region



Source: Diageo
The above map is intended to illustrate general geographic regions where Diageo has a presence and/or in which its products are sold. It is not intended to imply that Diageo has a presence in and/or that its products are sold in every country or territory within a geographic region.

- Turning back to our business as a whole.
- The first half of fiscal 24 was challenging for Diageo and our sector, as we lapped high single digit growth in the prior year and faced an uneven global consumer environment.
- Against this backdrop, the strength and power of our diversified footprint remains more important than ever.
- Across the board, our regional performance for the first half was in line with the expectations we shared in November.
- And as I mentioned earlier, excluding LAC, organic net sales growth was up 2.5%.
- I will cover the performance of each of these regions in a few minutes, but first, let's review our share results.



- In the first half, we held or grew share in 30% of our net sales value in measured markets.
- Markets holding/gaining share include several large markets, including most of Europe, and in China, Brazil, CCA and Canada.
- After three consecutive years of gaining or holding share in the US, our share of TBA declined by 17bps in the first half.
- I know the move in our global market share position looks quite stark, so for context, I will explain how we calculate this metric.
- It is binary, so if the US as a market is in a net share loss position, our overall group metric is therefore lowered by the full impact of the organic net sales value of our US business, even if we are gaining share in key categories. So, for this period, this represents the 39% loss.
- Overall, price competition has intensified in the US, particularly impacting whisk(e)y and tequila. I'll discuss more about the US consumer environment in a few minutes.
- We are not satisfied with where our share is at in the US. And the team is focusing on key interventions to turn this around as consumer behaviour is normalising in our largest market.
- But to be clear, we are focused on doing this the right way: winning high-quality market share.
- We are not interested in gaining 'short-term' share if it comes at the cost of brand equity driven by significant price promotions. We manage our business for the long term.
- And, long-term, I am confident that our advantaged portfolio of brands and focus on operational excellence provides us with an industry-leading high-quality growth opportunity.

Strong focus on *driving growth* and *share gains* in US

Winning in whisk(e)y

Expanding tequila portfolio

Recruiting with innovation

Raise the bar on *execution*

- So, what are we doing to work towards regaining TBA share in the US?
- At our Capital Markets Event in November, we shared our priority areas, which are: winning in whisk(e)y, expanding our tequila portfolio, recruiting with innovation and raising the bar on execution. These have not changed and, as I mentioned earlier, our actions are beginning to show an early impact.
- In the broader world of whisk(e)y, which is one of the fastest-growing and most dynamic areas of spirits in the US, we are currently leading the category in market share, but we know we have the opportunity to do more.
- We are focusing on Crown Royal, Bulleit and our scotch portfolio, particularly Johnnie Walker and Buchanan's.
- On Crown Royal - it is still early days, but recently our share losses have moderated, and net sales improved sequentially in the first half of fiscal 24. This reflects our ongoing investment in the brand and the positive impact of our actions.
- This includes:
  - Maximising distribution in both the on- and off-trade, so Crown is now available to more consumers in more places than ever.
  - And also, our new advertising campaign, highlighting the quality of our liquid, which you might have seen on TV during the key Thanksgiving holiday period.
- For the second half, we have a robust innovation pipeline: the launch of Crown Royal Canadian single malt, capitalising on the popularity of single malts, and Crown Royal Blackberry – delicious in a cocktail with lemonade.
- Our other whisk(e)y brands are gaining share:
  - Over the last twelve months, Bulleit is gaining 25bps of category share and maintaining its position as #1 Rye.
  - Johnnie Walker gained 56bps of scotch in the half, and the Buchanan's trademark gained +11bps of share in US spirits.
- In tequila, our broad portfolio is gaining share of spirits overall. Our depletions performance, which was significantly better than our shipments, remains positive, led by Don Julio.
  - The Don Julio portfolio is leading the pack; leading in culture, from the Oscars to Cinco de Mayo, it is growing 7X faster than the total US spirits industry, and continued to gain category share of tequila and spirits in the half.
  - While Casamigos lost share in the half, it has more than doubled its share of the tequila category over the last four years and depletions volume is growing.
    - We have robust intervention plans for Casamigos in the second half, including expanding distribution of smaller pack sizes.
    - But our participation in tequila is more than Don Julio and Casamigos. Through DeLeón, which we now fully own, along with Astral and 21 Seeds, our tequila portfolio extends into the super-premium price tier enabling us to participate in that booming segment of the category.

Strong focus on *driving growth* and *share gains* in US

Winning in whisk(e)y

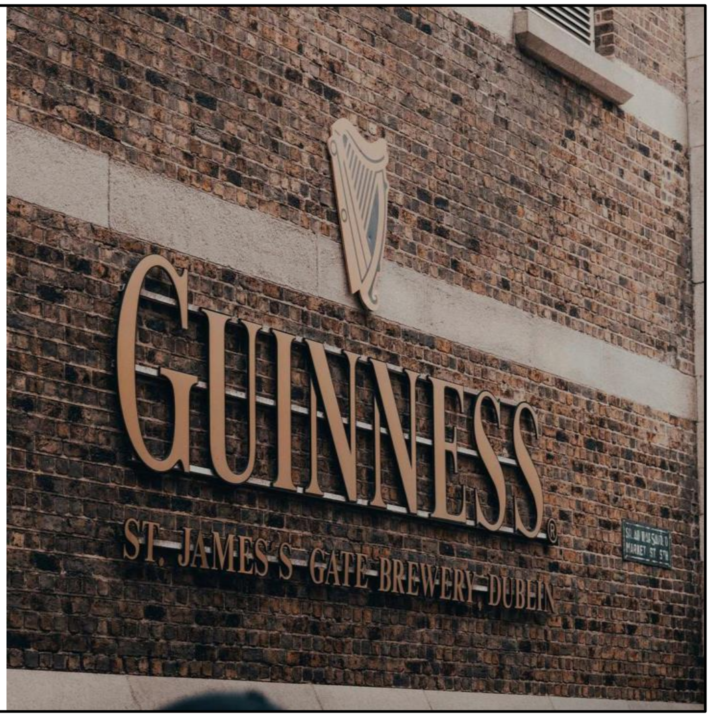
Expanding tequila portfolio

Recruiting with innovation

Raise the bar on *execution*

- On to innovation, as we discussed at our Capital Markets Event, we are focused on consumer-backed innovation that allows us to capture new occasions and the LDA+ consumers.
- Innovation contributed to the sequential improvement in organic NSV in the first half and we currently have 7 out of the top 10 core spirits innovations in Nielsen.
- In November, we introduced our ready-to-serve Cocktail Collection, including the Ketel One Cosmo and Espresso Martini, to participate in the convenience occasion. While it is still early days, these are outperforming expectations and have gained +34bps of category share.
- Since our Capital Markets Event, I have spent a lot time in the US, been on the ground in five states in the on-trade and off-trade. And I've spent time with the team, talking to several customers.
- A couple of things are apparent to me.
- The US consumer environment is still normalising from the Covid super cycle. While consumer sentiment across both our internal sources and external sources is improving versus the prior year, consumers are still facing multiple headwinds, including higher interest rates and higher-priced food baskets. So while consumers are resilient, they are still cautious and choiceful. Premiumisation continues, but there are some pockets of downtrading.
- Fiscal year to date, we are seeing the spirits industry grow in the low single digits.
- We believe the path back to industry normalisation in the US will not necessarily be linear and industry recovery will be more gradual over the next several months.
- Therefore, as we look ahead to the second half of fiscal 24, we expect to drive gradual improvement in organic net sales performance.
- We are confident we have the right actions across our portfolio to navigate the challenges we face through a combination of improved brand-building, and local execution plans that we are putting into place.

Continued momentum of Guinness is driving growth in Europe



- Moving on to Europe, where, as expected, organic net sales growth was slower in the half than the second half of fiscal 23.
  - Excluding the impact of lapping the final sales of inventories in Russia, the region grew 6%.
- The region's 3% organic net sales growth in the half was mainly driven by Guinness, which grew 24% in the period. Nearly all of this growth was in Great Britain and Ireland.
- Guinness 0.0 also continued to perform strongly, more than doubling in the period. In Ireland, there are now around 1,000 trade outlets with a Guinness 0.0 keg.
- Tequila also contributed to Europe's growth - more on that later.
- Scotch performance, excluding the impact of cycling final sales in Russia, grew 5% driven by Johnnie Walker, which grew 15%. Johnnie Walker Red Label drove most of this growth, with Johnnie Walker Black Label also contributing.
- Looking ahead to the remainder of fiscal 24, we expect resilient growth across markets despite lapping strong double-digit growth in the second half of fiscal 23.

Asia Pacific organic NSV **+6%** driven by *Greater China* and *India*

- In Asia Pacific, we maintained good momentum with super-premium-plus price tiers driving most of the region's organic net sales growth, led by Greater China which grew 18%.
- Our participation in Chinese white spirits through Shui Jing Fang puts us in a unique position amongst global Spirits players operating in Greater China.
- With the lifting of on-trade restrictions, which were in place in the prior year, Chinese white spirits proved to be more resilient in the half, driving our growth while momentum decelerated in our international spirits business.
- In India, momentum continued with 9% organic net sales growth, lapping double-digit growth in the prior year.
- India continues to drive strong demand for scotch, with organic net sales up 16% in the half, including a 21% increase in Johnnie Walker.
- In the second half of fiscal 24, we expect growth in APAC to continue from the first half, supported by lapping a subdued Chinese New Year in the prior year, balanced by the weaker consumer confidence we see across the region.

Africa **+9%** organic NSV broad-based growth across *Beer*

Malta

Senator

Guinness

- Finally, in Africa, beer performed strongly, benefitting from price increases while also driving volume growth, driven by Malta Guinness, Senator and Guinness, each delivering double-digit growth.
- The macroeconomic outlook remains challenging; however, given current market conditions, we expect to see continued growth through the second half of fiscal 24.

Scotch gaining share in **7 out of 10** *largest* measured scotch markets

Source: Internal estimates incorporating AC Nielsen, Association of Canadian Distillers, Dichter & Neira, Frontline, Intage, IRI, ISCAM, NABCA, Scentia, State Monopolies, TRAC, IPSOS and other third-party providers
For additional information, please see financial/legal appendix

- I will now share some performance highlights about our three largest categories in the first half of fiscal 24, starting with scotch.
- As we've mentioned before, while LAC is nearly 10% of Diageo's overall organic net sales value, or NSV, it drives almost 25% of Diageo's scotch organic NSV.
- So unsurprisingly, LAC's underperformance impacted our scotch sales in the half.
- About two-thirds of the 10% decline in our scotch organic NSV in the half was attributable to LAC, and a third to the combination of lapping stock increases in the previous year in North America and disposal of inventories in Russia.
- Importantly, we are winning market share in the scotch category, in measured markets that represent 77% of our total NSV(1) including in North America, led by Johnnie Walker.
    - This iconic brand is gaining share in 8 out of the 10 of our largest measured scotch markets.
- We believe the consumer fundamentals of the business are strong and we expect our organic net sales to improve as we normalise inventory levels in LAC and lap a more normalised growth period.

(1) Measure includes Buchanan's Pineapple

Tequila global roll-out delivering *strong growth*

- Moving on to tequila.
- Our global roll-out beyond LAC and NAM continued in the half.
- In markets outside NAM and LAC, net sales more than doubled in the half, albeit off a small base, led almost equally by very strong growth in Europe and APAC, followed by Africa.
- I'm pleased to say that in Europe, we continue to drive tequila using the Paloma cocktail; organic net sales grew just over 80% in the period, driving 19% of the growth in the region.
- 13% of APAC NSV growth was driven by our tequila expansion, this is being fueled by Don Julio 1942.
- While still early, we are encouraged by the global roll-out of our tequila.
- And as we get local market learnings, we can lean in to the versatility of the category and the strength of our tequila brands. We are confident that there is so much more to go after.

Guinness

6th consecutive half-yearly

double-digit growth

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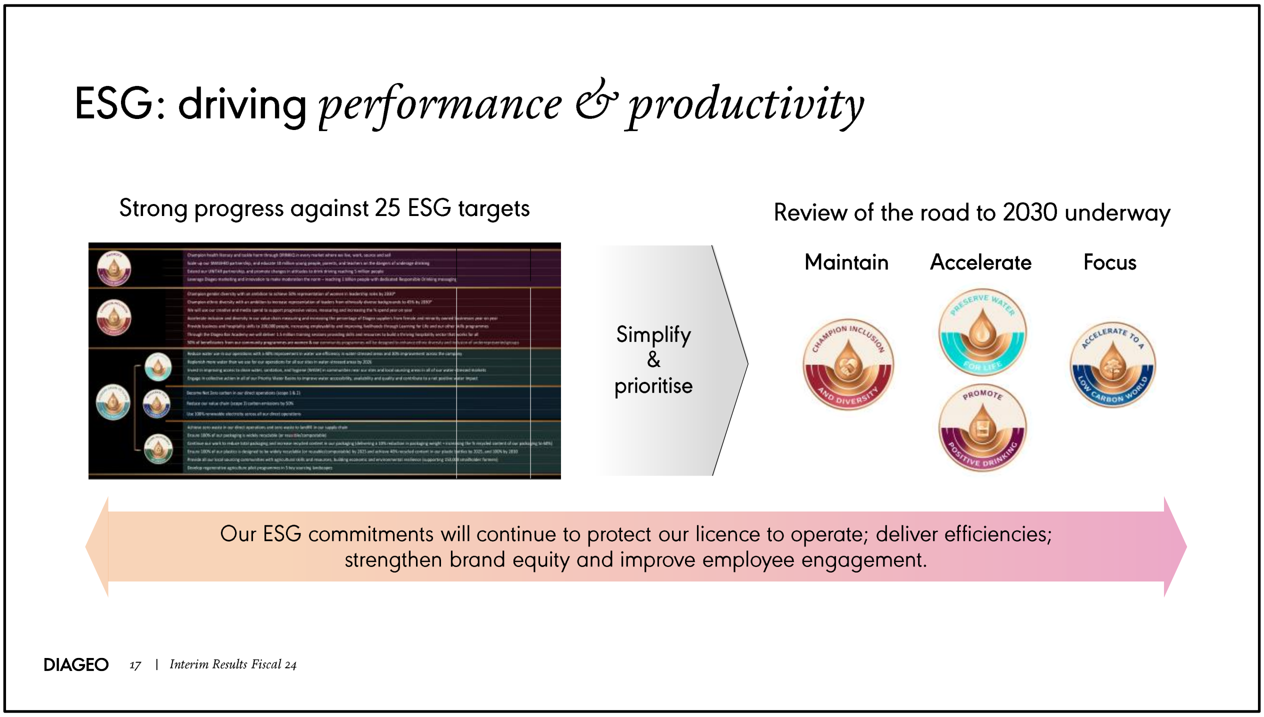
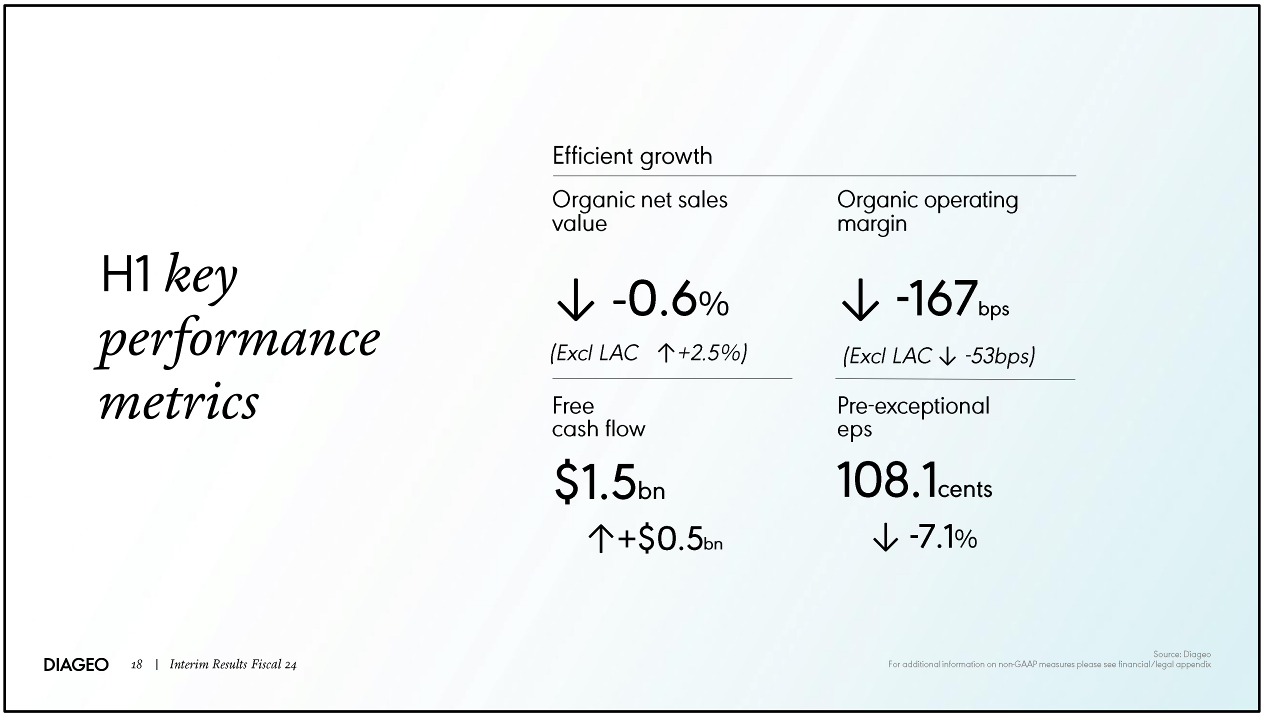
- Guinness continued its strong growth momentum, once again achieving double-digit organic NSV growth, up 14%.
- The majority of the growth was in Europe, followed by Africa and the US.
- Guinness 0.0 continues to gain strong momentum, more than doubling in the period and driving 14% of the uplift in NSV growth of Guinness.
- Over 4% of Guinness brewed at St. James Gate in Dublin is now Guinness 0.0.
- Guinness continues to gain broad appeal. In the US, it was recently named the most popular beer and last month[(1)], our Guinness Storehouse in Dublin was named the world's leading tourist attraction at the 2023 World Travel Awards.

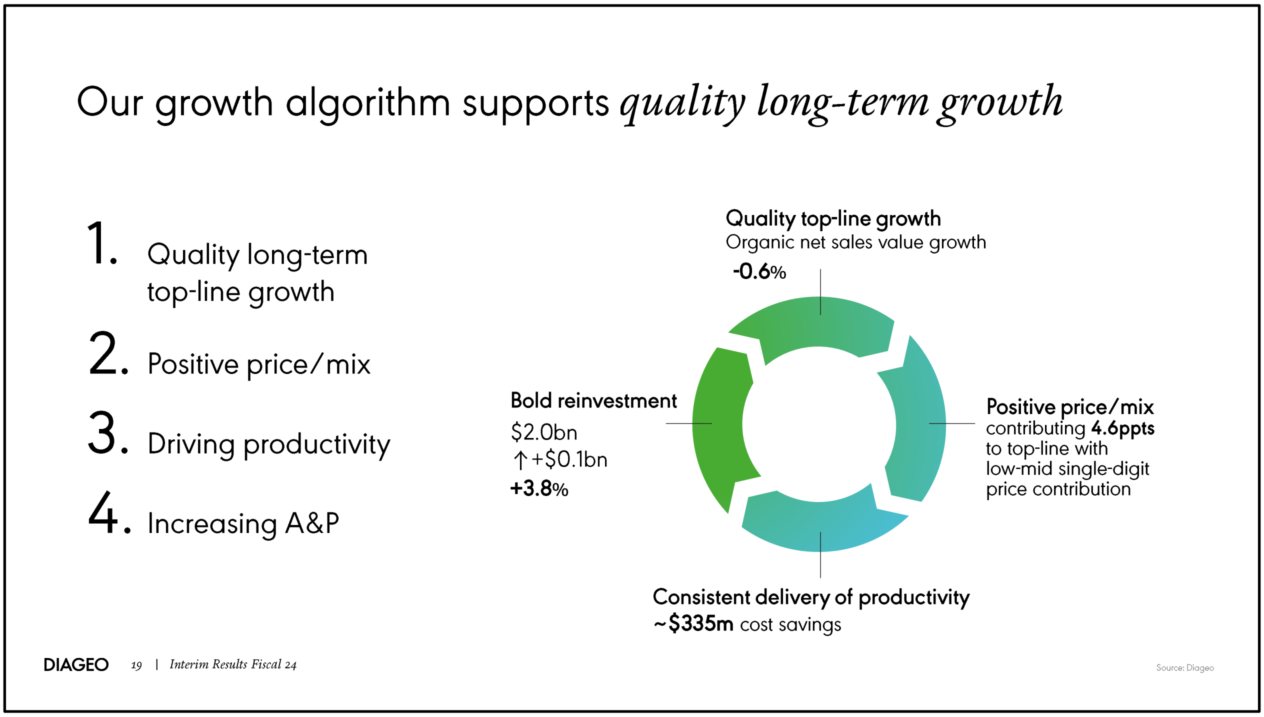
(1) Food and Wine magazine, July 2023, Yahoo Sports, December 2023



- Moving on to ESG.
- I announced back at our Capital Markets Event that I had launched a review into our 2030 Spirit of Progress plan.
- We now have more visibility into what it will take to deliver our goals.
- We will continue to simplify our Spirit of Progress plan so that we can focus on the real priorities for our business. For example, we will accelerate our positive drinking and water ambitions - the two most material areas for us. This simplification and enhanced focus will allow us to drive efficiencies, whilst being responsive to forthcoming regulations.
- On the pillar of accelerating to a more low carbon world, we have pivoted to a more focused approach.
- This pillar requires action by us and significant contribution from outside of Diageo.
- But we cannot do this alone. We will need others including governments, regulators and commercial partners, outside Diageo to go further and move faster together to enable us to achieve our goals. Therefore, we are prioritising and focusing on targeting the triple wins; where not only we can reduce carbon, but also where we can improve cost and cash.
- I'll now hand over to Lavanya, who will take you through our financials in more detail before I return to discuss our outlook for the remainder of fiscal 24 and 25.

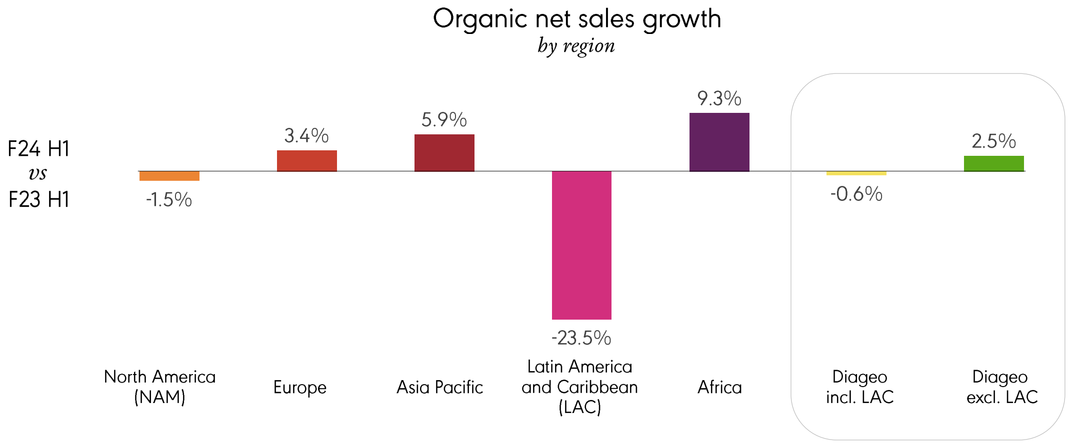


- Thank you, Debra, and good morning, everyone.
- As Debra mentioned, we are disappointed with our fiscal 24 first half results.
- Organic net sales were down 0.6%, with positive price/mix performance mostly mitigating a decline in volume.
- Excluding LAC, the business grew organic net sales by 2.5%, despite the slightly negative impact from North America where we did see sequential improvement to the second half of fiscal 23.
- Organic operating margin declined by 167bps, primarily driven by LAC. Excluding LAC, organic operating margin was down 53bps, driven entirely by increased investment in A&P.
- We generated free cash flow of $1.5 billion. Strong working capital management and lower tax payments more than offset the combined impact of the decline in operating profit, higher interest payments and increased investment in capex.
- Pre-exceptional earnings per share declined mainly due to lower operating profit and higher finance charges.
- We increased our interim dividend by 5%, reflecting our continued confidence in the business and commitment to a progressive dividend policy.



- We believe our profitable growth algorithm continues to support sustainable, long-term growth.
- Our focus continues to be on driving growth through winning quality market share.
- We continue to premiumise our portfolio, benefit from increased prices and drive productivity, all of which enables us to continue to invest smartly back into the business.
- Price/mix contributed 4.6 percentage points to top-line growth, reflecting price increases in all regions except for LAC.
- Price contribution to organic net sales growth was in the low to mid single digits.
- Organic volume was down 5.2%, with the biggest driver by far being the decline of spirits volume in LAC. I will cover this in further detail shortly.
- We unlocked a further $335 million of productivity cost savings across cost of goods, marketing and overheads during the half and are on track to exceed our three year $1.5bn productivity savings target by the end of fiscal 24.
- We drove productivity in our A&P spend and increased marketing investment by 3.8%.
- We deploy marketing investment in a considered and disciplined way and target increases where we believe we will drive long-term sustainable growth and strong returns.

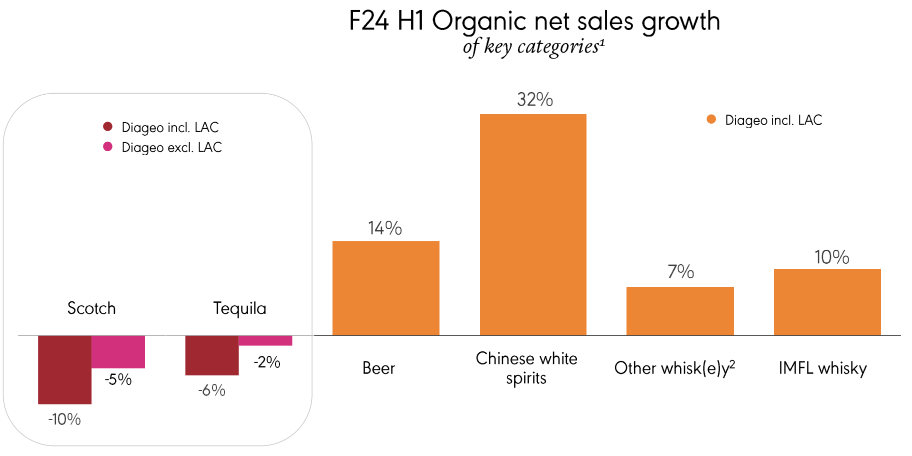
Resilience from our diversified footprint



DIAGEO 20 | *Interim Results Fiscal 24* Source: Diageo

- On 10th November, we updated you on our organic net sales growth expectations for the first half of fiscal 24.
- All five regions delivered the half in line with these expectations.
- In North America, organic net sales growth was down 2%; however, within this, US Spirits depletion growth rate was nearly one percentage point ahead of shipments. And again, we ended the period with overall US Spirits distributor inventory in line with historical levels.
- In LAC, in the first half, organic net sales declined 23.5%. Depletions declined less than shipments. And as Debra said, we are taking actions with the aim of returning to inventory levels appropriate for the current consumer environment. Therefore, in the second half of the fiscal, we expect organic net sales to decline 10 – 20% in the region compared to the prior year.
- On inventories, more broadly, I want to take this opportunity to reiterate the review we conducted with all our regions.
- In addition to reviews by the markets and regional teams the global controller's team and the global audit team have conducted a review of compliance to our stock-in-trade standard and have reconfirmed the effectiveness of our controls.
- I am confident that we have the necessary controls, policies, procedures and sell-out culture in place to monitor and manage stock-in-trade levels across all of our markets.

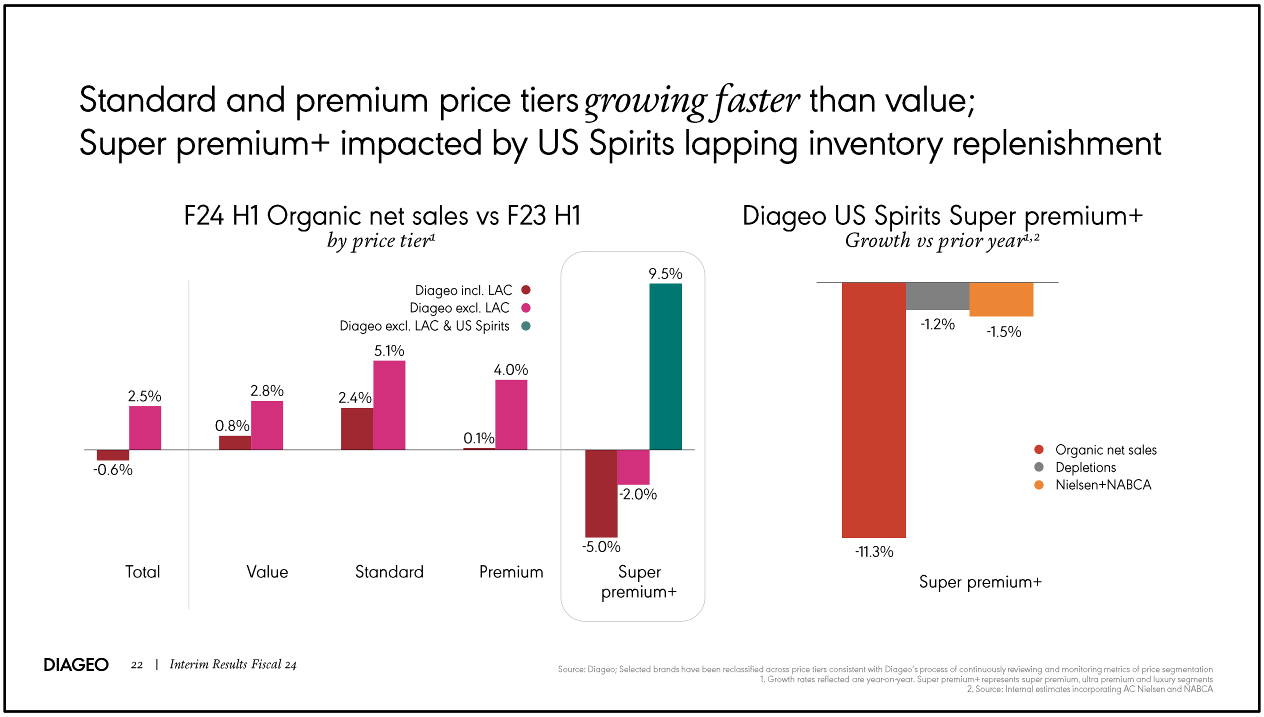
Our *broad portfolio* is a competitive advantage



DIAGEO 21 | *Interim Results Fiscal 24*

Source: Diageo
1. Growth rates reflected are year-on-year
2. Other whisk(e)y comprises all whisk(e)y categories except for scotch and IMFL whisky.

- And now to look at our results at a category level.
- In the first half of fiscal 24, our beer business delivered 14% organic net sales growth primarily driven by continued momentum in Guinness which also grew 14%, and strong double-digit growth in Malta and Senator in Africa.
- Chinese white spirits grew 32% as we lapped the first half of fiscal 23 when Covid-19 restrictions were still in place.
- We also delivered strong growth in other whisk(e)ys fuelled by the successful launch of Buchanan's Pineapple in North America and double-digit growth of IMFL whisky in India.
- However, this growth was offset by the weak performance in LAC which impacted the scotch and tequila results.
- Scotch was also negatively impacted by lapping inventory replenishment in North America and the final sale of inventories in Russia in fiscal 23.
- Tequila organic net sales were down 6%, driven by LAC and lapping inventory replenishments in North America, partially offset by the benefit from the global rollout of the category.
- Recollect, in North America tequila, we only got to supply sufficiency in fiscal 23 and we will continue to lap this inventory replenishment in the second half of fiscal 24 as well.

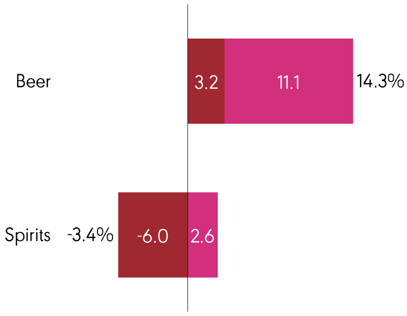


- Our portfolio provides resilience and captures consumer demand during uncertain economic times.
- More recently, the shape of premiumisation has been uneven across the markets and we are seeing pockets of downtrading.
- That said, excluding LAC, the standard and premium price points continue to outperform the value price point.
- And while organic net sales of super-premium-plus price points declined 2.0%, this was primarily in our US Spirits business. Here, organic net sales shipment growth lagged depletions growth as the business lapped the replenishment of inventory levels in the first half of fiscal 23. Adjusting for this our group super-premium-plus portfolio, excluding LAC, would be in good growth.
- Over the recent years, we have significantly premiumised our business and have seen consistent premiumisation trends across Total Beverage Alcohol categories. We believe this long-term trend will resume as we complete the lapping of the unevenness of the Covid-19 inventory replenishment cycle.

Leveraging Revenue Growth Management to drive *sustainable top-line* performance

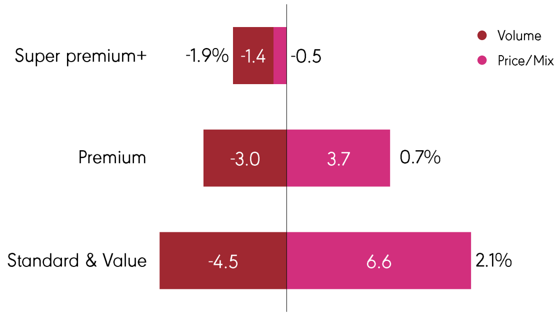
Diageo growth driven by Price/Mix

Percentage points F24 H1 vs F23 H1 [1]



Spirits excl. LAC Volume Price/Mix

Percentage points F24 H1 vs F23 H1 [1]



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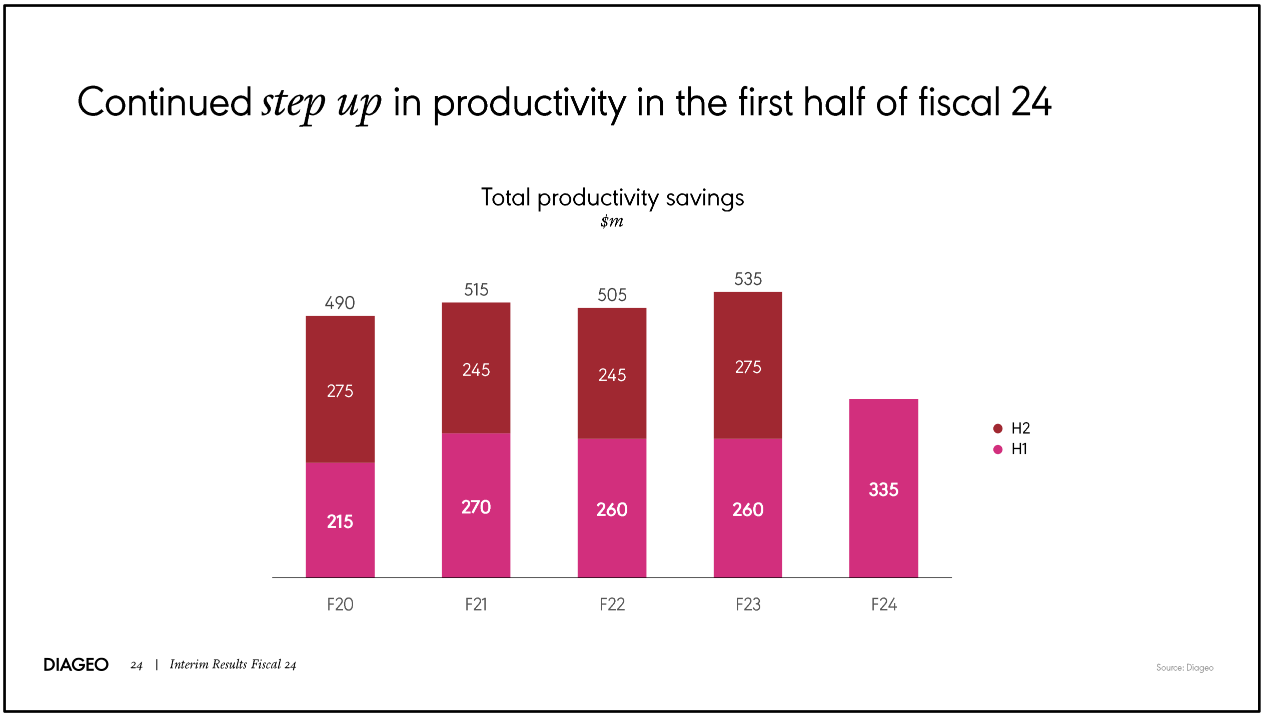
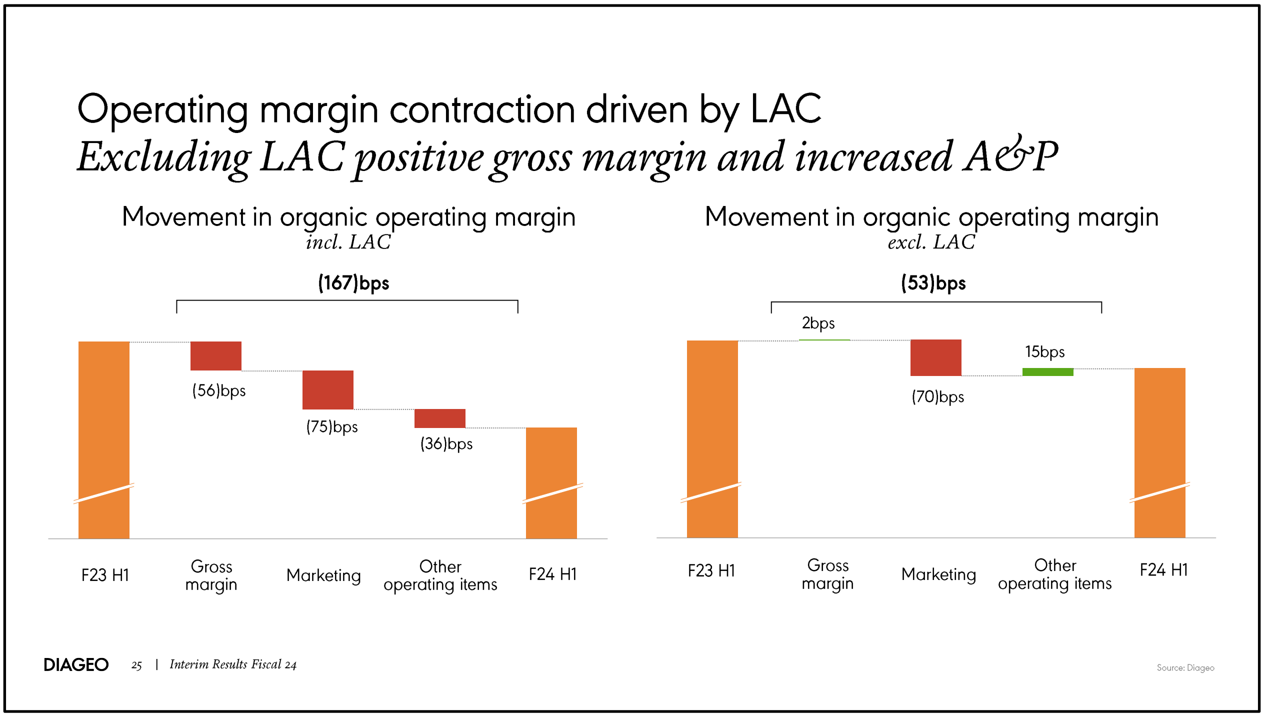
Source: Diageo; Selected brands have been reclassified across price tiers consistent with Diageo's process of continuously reviewing and monitoring metrics of price segmentation
1. Growth rates reflected are year-on-year. Super premium+ represents super premium, ultra premium and luxury segments

- In the half, organic net sales decline was driven by volume, partially offset by positive price/mix.
- We took strong price increases on Guinness in Europe and on Guinness and Malta in Africa. With consistent investment and strong brand equity, volume grew in the half.
- Spirits volume decline was mainly driven by LAC.
- Excluding LAC, targeted pricing actions across our premium, standard and value price points have led to a volume decline; however, the price-mix impact is positive. In fact, excluding LAC across these price tiers, price-mix more than offset the negative volume impact on organic net sales growth.
- These price increases have been essential to help mitigate the impact of cost inflation and protect margins.
- And the organic net sales decline in super-premium-plus spirits price points was, as I just discussed, driven by US Spirits lapping prior year inventory replenishment.
- In the second half, I expect overall volume growth to improve slightly as the impact from strategic pricing actions moderates.
- Looking ahead, we will continue to leverage our RGM capabilities to balance topline growth more evenly between volume, price and mix.

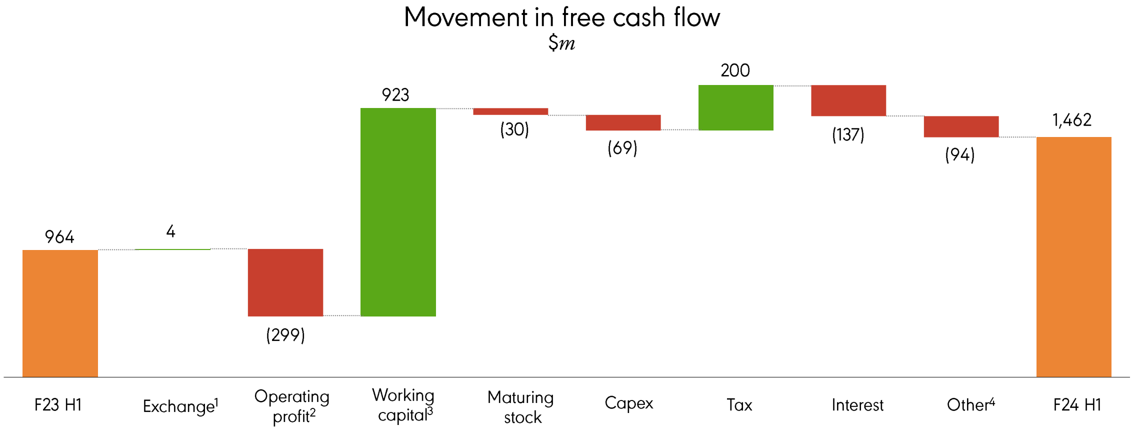


- With our culture of everyday efficiency, we have delivered strong productivity benefits year after year.
- In fiscal 23 we stepped up the delivery of productivity which reduced the impact of cost inflation and enabled us to invest in our business.
- In the first half of fiscal 24, we delivered productivity savings of $335m, up versus previous years. The majority of savings come from cost of goods, through procurement benefits on ocean freight, packaging, other transport costs as well as from manufacturing and logistics efficiencies.
- Marketing and overheads also drove a material contribution.
- As I mentioned earlier, we are on track to exceed the fiscal 22 to fiscal 24 productivity target of $1.5bn.
- Looking ahead, and as I shared at our recent Capital Markets Event, we have committed to significantly step up our productivity commitment to $2bn over the next three years, fiscal 25 through fiscal 27.
- An enabler is the five-year supply agility programme, which we announced at the end of fiscal 22. Savings from this programme are expected to step up from fiscal 25 and accelerate in the following years.



- Organic operating margin declined year on year by 167bps, predominantly driven by LAC.
- LAC operating margin significantly declined driven by lower operating leverage, increased trade spend investment and cost inflation.
- Excluding LAC, operating margin was down by 53bps and this was entirely driven by an increase of 70bps in our marketing re-investment rate.
- At the group level, the positive impact from pricing and supply productivity initiatives more than offset the absolute dollar impact of cost of goods inflation.
- Our disciplined approach to managing overheads allowed us to achieve year on year cost reduction.
- We continued to invest in our brands with marketing investment growth in the first half ahead of net sales.
- We use a disciplined approach to the deployment of A&P investment and target opportunities for long-term sustainable growth and strong returns.
- This half, the increase in marketing investment has been deployed to the global roll-out of tequila, especially in Europe and Asia Pacific.
- We also increased investments in Johnnie Walker in Europe, in Chinese white spirits which recovered from Covid-19 restrictions and in India which grew 9%.
- Looking ahead to the second half, I would expect the increase in our marketing reinvestment rate to moderate as we benefit from marketing efficiencies in North America and lap the prior year increase in reinvestment rate across regions.

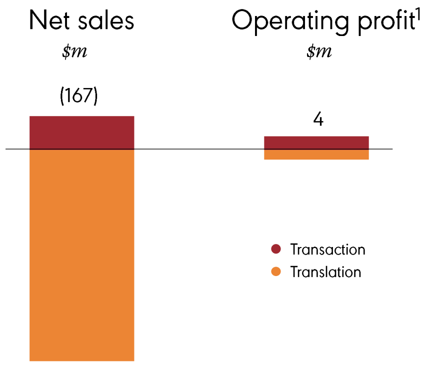
Strong working capital management *driving* free cash flow generation



Source: Diageo
1. Exchange on operating profit before exceptional items
2. Operating profit excluding exchange, depreciation and amortisation, post employment charges and non-cash items but including operating exceptional items
3. Working capital excluding maturing stock
4. Other items include dividends received from associate and joint ventures, post employment payments and movements in loans and other investments

- Free cash flow increased primarily driven by our strong working capital management interventions which was partially offset by lower operating profit and an increase in interest payments.
- Over the past years we had increased inventory to navigate Covid-19 related supply disruptions and we have been actively reducing these levels over the half.
- To enable this, we recently implemented new data analytics solutions and improved stock management processes.
- We also benefitted from a one-time phasing benefit relating to the late receipt of certain raw and packaging materials.
- We renegotiated payment terms with some of our key suppliers and standardised and streamlined work processes.
- We also benefitted from lapping one-off tax payments made in the first half of fiscal 23.
- We continue to invest in maturing stock to support future business growth.
- Capex spend increased in line with our long-term reinvestment strategy and prior guidance.

Foreign exchange benefit on operating profit, negative impact on net sales



Source: Diageo
1. Operating profit excluding exceptional items

- Moving on to foreign exchange.
- Foreign exchange movements positively impacted operating profit, but adversely impacted net sales.
- Translation exchange had a negative impact on both net sales and operating profit. The exchange loss was driven by emerging market currencies, mainly the Nigerian naira, the Turkish lira and the Kenyan shilling partially offset by gains on the British pound and Mexican peso.
- The transaction benefit was mostly due to favourable hedged rates on the British pound and Mexican peso, partially offset by the Nigerian naira.
- We hedge our transactional foreign exchange on a rolling basis for our major currency exposures.
- This strategy results in foreign exchange rates that reflect the average of our hedging positions built over time.

Strong balance sheet drives *resilience* in our business

		F24 H1	F23 H1	Movement
Closing net debt[1]	$m	(20,483)	(18,203)	(2,280)
Average Net Debt[1]	**$m**	**(20,638)**	**(17,454)**	**(3,184)**
Net interest charge	$m	(454)	(333)	(121)
Net other finance charges	$m	23	(12)	35
Net Finance Charges	**$m**	**(431)**	**(345)**	**(86)**
Effective interest rate	%	4.4	3.8	0.6
Adjusted[2] Net Debt[1] / Adjusted[3] EBITDA	**x**	**2.9**	**2.5**	**0.4**

Source: Diageo
1. Net debt is equivalent to net borrowings
2. Adjusted to include net debt and post employment plan benefit liabilities
3. Earnings before exceptional operating items, interest, tax, depreciation, amortisation and impairment
For additional information on non-GAAP measures please see financial/legal appendix

- We completed the half with our leverage ratio at 2.9 times, towards the upper end of our target range of 2.5 to 3.0 times, reflecting higher debt and lower year on year profit.
- In the first half of fiscal 24, our net finance charges increased by $86 million year on year, reflecting the higher interest rate environment.
- Our effective interest rate, at 4.4%, is broadly in line with our guidance.
- Looking ahead to the full year, I expect our effective interest rate to be marginally lower than the first half, given current market conditions.
- I want to emphasise that we remain committed to our target leverage range. And I am conscious that we are at the upper end of the range. We will make the right decisions to support the long-term growth of the business. Should our leverage ratio fall outside of the range, we will take steps to return to the range as soon as practicable.

Consistent and disciplined approach to capital allocation

Leverage ratio policy

Adjusted net debt[1] to adjusted 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

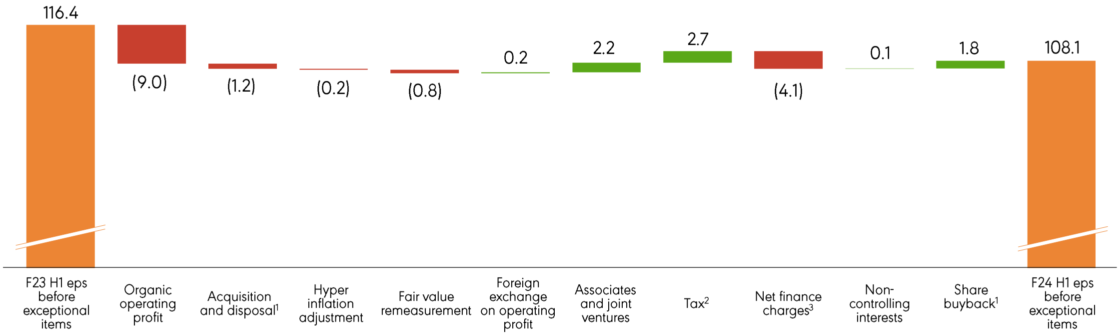
Source: Diageo
1. Net debt is equivalent to net borrowings. Adjusted net debt includes net debt and post-employment plan benefit liabilities

- Our consistent and disciplined approach to capital allocation is unchanged.
- Our priority is to invest in sustainable organic growth and to acquire strategic brands that strengthen our exposure to fast-growing categories.
- Today, we announced an interim dividend of 40.50 cents per share. This is a 5% increase on our interim dividend in fiscal 23, recast to US dollars.
- Our dividend cover, at 1.9 times, is within our target range of 1.8 to 2.2 times.
- When we have excess cash we will return it to shareholders.
- At the beginning of fiscal 24, we announced a new share buyback programme for up to $1 billion.
- As of 31 December 2023, we have returned to shareholders $0.5 billion and expect to return the remaining amount in the second half of the year.

Decline in eps due to softer operating profit and higher finance charges

Movement in earnings per share before exceptional items

(cents)



Source: Diageo

1. Includes finance charges net of tax
2. Excludes tax related to acquisitions, disposals and share buybacks
3. Excludes finance charges related to acquisitions, disposals, share buybacks and includes finance charges related to hyperinflation adjustments

- Basic earnings per share, before exceptional items, decreased 7% from 116.4 cents to 108.1 cents.
- This reduction was primarily driven by weaker operating profit performance compared to the first half of fiscal 23 and an increase in interest charges, as a result of operating in a higher interest rate environment.
- And now, back to you Debra.

Expecting *gradual improvement* in H2 F24

H2 F24:

- Expect gradual improvement when compared to H1 F24
  With -10% to -20% organic net sales decline in LAC
- Expect organic operating profit to decline compared to the prior year,
  With the rate of decline expected to improve compared to H1 F24

- Thank you, Lavanya
- In this uneven global economic environment, for the second half, we expect our organic net sales growth rate to gradually improve compared to the growth rate for the group in the first half.
- And, we expect an organic operating profit decline in the second half, compared to the prior year, but we expect the rate of decline to improve compared to the first half of fiscal 24.
- While we expect headwinds to persist from continued inflation and relatively low operating leverage as we reduce inventory in LAC, we will continue to focus on delivering strong productivity and benefit from revenue growth management. We will continue to invest in marketing and brand building for the future.

Fiscal 25 outlook

- Organic net sales growth trajectory improving in fiscal 25 compared to fiscal 24
- Expect organic operating profit growth to be broadly in line with organic net sales growth
- As consumer environment improves

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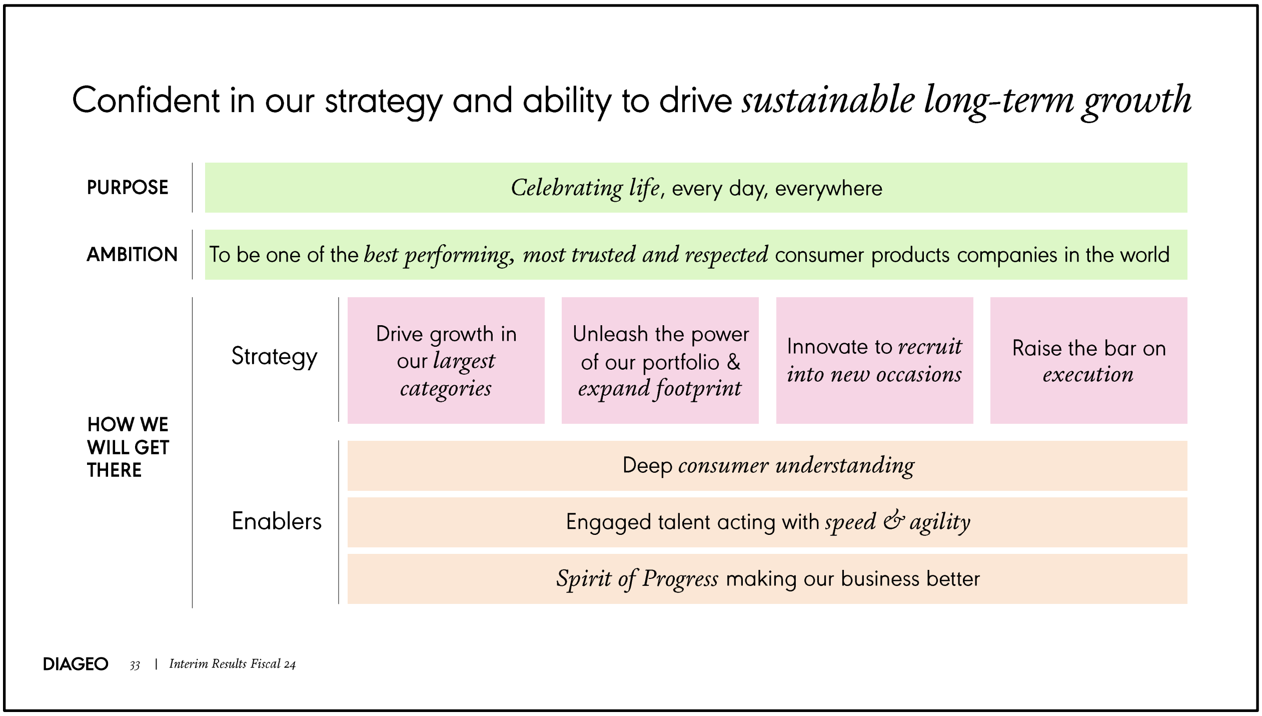
- As we move into fiscal 25 and the consumer environment improves, we expect to progress towards the delivery of our medium-term guidance, with our organic net sales growth trajectory improving compared to fiscal 24.
- And we expect organic operating profit growth in fiscal 25 to be broadly in line with organic net sales growth.



- The first half of fiscal 24 was no doubt challenging - for Diageo and our sector.
- But I am pleased with how we are responding as a team and I would like to thank all my Diageo colleagues for their hard work, dedication and resilience, especially in the last six months.
- I am eight months into my tenure as CEO of this wonderful business.
- And despite the uneven global pattern of economic recovery, we can, and I believe will do much better. We are focused on accelerating the business, winning share, raising the bar on operational execution and building the foundations for our next successful decade of growth.
- My confidence in our ability to drive sustainable growth and returns for shareholders over the long term is as unchanged as when I originally joined the Board of Diageo nearly five years ago, back in 2019.
- Yes, we face an uneven global consumer environment, but this is a resilient company staffed by resilient and talented people who do business the right way. Remember, Diageo has a track record of navigating volatility - we have done it before, and we will do it again.
- We are diversified by category, price point and region, and will continue to invest behind our iconic brands and actively manage the portfolio to maintain our position as an industry leader in total beverage alcohol, an attractive sector with a long runway for growth.
- My focus is to generate long-term, sustainable value for shareholders by driving performance of our brands, especially in scotch, tequila and Guinness, meeting global consumers' evolving tastes and stepping up our operational excellence to win quality market share.
- The job to be done is clear. And we have both the long-term strategy and have put in shorter-term interventions to do it.
- Thank you for watching, and I look forward to meeting many of our shareholders in the weeks ahead.

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Appendix: *Decrease* in operating profit[1] driven by *organic decline*

	F24 H1 *$m*	F23 H1 *$m*	Reported operating margin[2]
Prior period operating profit before exceptional items[1]	3,770	3,730	33.9%
Exchange rate movements	4	(295)	51bps
Fair value remeasurement & other	(22)	10	(56)bps
Acquisitions & disposals	(37)	(25)	(16)bps
Organic (decline)/growth	(205)	350	(167)bps
Current period operating profit before exceptional items[1]	**3,510**	**3,770**	**32.0%**

Source: Diageo
1. Reported operating profit before exceptional items
2. Reported operating margin before exceptional items

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Financial/legal appendix:

Definitions and reconciliation of non-GAAP measures to GAAP measures

Diageo's strategic planning process is based on certain non-GAAP measures, including organic movements. These non-GAAP measures are chosen for planning and reporting, and some of them are used for incentive purposes. The group's management believes that 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.

It is not possible to reconcile the forecast tax rate before exceptional items, forecast organic net sales growth and forecast organic operating profit growth to the most comparable GAAP measure as it is not possible to predict, without unreasonable effort, with reasonable certainty, the future impact of changes in exchange rates, acquisitions and disposals and potential exceptional items.

Volume

Volume is a performance indicator 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 and certain pre-mixed products that are classified as ready to drink in nine-litre cases, divide by ten.

Organic movements

Organic information is presented using US dollar amounts on a constant currency basis excluding the impact of exceptional items, certain fair value remeasurement, hyperinflation and acquisitions and disposals. Organic measures enable users to focus on the performance of the business which is common to both years and which represents those measures that local managers are most directly able to influence.

Calculation of organic movements

An explanation of non-GAAP measures, including organic movements, is set out on pages 232-239 of Diageo's Annual Report for the year ended 30 June 2023.

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(a) Exchange rates

'Exchange' in the organic movement calculation reflects the adjustment to recalculate the reported results as if they had been generated at the prior period weighted average exchange rates.

Exchange impacts in respect of the external hedging of intergroup sales by the markets in a currency other than their functional currency and the intergroup recharging of services are also translated at prior period weighted average exchange rates and are allocated to the geographical segment to which they relate. Residual exchange impacts are reported as part of the Corporate segment. Results from hyperinflationary economies are translated at forward-looking rates.

(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 be completed.

Where a business, brand, brand distribution right or agency agreement was disposed of or terminated in the reporting period, 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.

(c) Exceptional items

Exceptional items are those that in management's judgement need to be disclosed separately. Such items are included within the income statement caption to which they relate and are excluded from the organic movement calculations. Management believes that separate disclosure of exceptional items and the classification between operating and non-operating items further helps investors to understand the performance of the group. Changes in estimates and reversals in relation to items previously recognised as exceptional are presented consistently as exceptional in the current year.

Exceptional operating items are those that are considered to be material and unusual or non-recurring in nature and are part of the operating activities of the group, such as one-off global restructuring programmes which can be multi-year, impairment of intangible assets and fixed assets, indirect tax settlements, property disposals and changes in post- employment plans.

Gains and losses on the sale or directly attributable to a prospective sale of businesses, brands or distribution rights, step up gains and losses that arise when an investment becomes an associate or an associate becomes a subsidiary and other material, unusual non-recurring items, that are not in respect of the production, marketing and distribution of premium drinks, are disclosed as exceptional non-operating items below operating profit in the income statement. Exceptional current and deferred tax items comprise material and unusual or non-recurring items that impact taxation. Examples include direct tax provisions and settlements in respect of prior years and the remeasurement of deferred tax assets and liabilities following tax rate changes.

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(d) Fair value remeasurement

Fair value remeasurement in the organic movement calculation reflects an adjustment to eliminate the impact of fair value changes in biological assets, earn-out arrangements that are accounted for as remuneration and fair value changes relating to contingent consideration liabilities and equity options that arose on acquisitions recognised in the income statement.

Adjustment in respect of hyperinflation

The group's experience is that hyperinflationary conditions result in price increases that include both normal pricing actions reflecting changes in demand, commodity and other input costs or considerations to drive commercial competitiveness, as well as hyperinflationary elements and that for the calculation of organic movements, the distortion from hyperinflationary elements should be excluded.

Cumulative inflation over 100% (2% per month compounded) over three years is one of the key indicators within IAS 29 to assess whether an economy is deemed to be hyperinflationary. As a result, the definition of 'Organic movements' includes price growth in markets deemed to be hyperinflationary economies, up to a maximum of 2% per month while also being on a constant currency basis. Corresponding adjustments have been made to all income statement related lines in the organic movement calculations.

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Shareholder value metrics

• Dividends: Diageo internal information.

• Return of Capital (RoC): Diageo internal information.

• TSR: FactSet as of 31 December 2023. TSR based on time periods of 6 months, 1 year, 5 years and 10 years up to 31 December 2023. TSR for 1 year, 5 years and 10 years calculated as the annualised TSR performance of the stocks up to 31 December 2023. TSR based on trading currency.

Market share approach

• All analysis of data has been applied with a tolerance of +/- 3 bps.

• Percentages represent % of markets by total Diageo net sales contribution who have held or gained total trade share.

• Measured markets indicate a market where we have purchased any market share data.

• Effective fiscal 23 market share now reflects total on and off trade and data may include beer, wine, spirits or other elements.

• Measured market net sales value sums to 89% of total Diageo net sales value in the first half of fiscal 24.

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