

DIAGEO PLC
Form 6-K
February 16, 2007

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SECURITIES AND EXCHANGE COMMISSION

FORM 6-K

Report of Foreign Issuer

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

Diageo plc

(Translation of registrant's name into English)

8 Henrietta Place, London W1G 0NB

(Address of principal executive offices)

indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F

Form 20-F ☐

Form 40-F ☐

indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby
furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐

No ☐

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82 ☐

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SIGNATURES

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

Diageo plc

(Registrant)

Date 15 February 2007

By /s/ J Nicholls

Name: J Nicholls

Title: Deputy Company Secretary

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**List identifying information required to be furnished
by Diageo plc pursuant to Rule 13a-16 or 15d-16 of
The Securities Exchange Act 1934
15 February 2007**

Information

Required by/when

Public Announcements/Press

The Stock Exchange,
London

Announcement

Interim results for the year ended 31 December 2006.
(15 February 2007)

Table of Contents***Interim results for the six months ended 31 December 2006*****Diageo reports strong first half performance and increases guidance for full year organic operating profit growth to 8%**

Paul Walsh, Chief Executive of Diageo, commenting on the six months ended 31 December 2006 said:

Diageo has made a strong start to the year. Excellent performances in North America and International and unchanged profits in Europe delivered double digit underlying earnings growth. Our spirits brands, especially Scotch where net sales grew 11%, did particularly well, benefiting from increased investment in marketing. As a result of this strong start we are increasing our guidance for organic operating profit growth to 8% for the full year. We still expect to return a total of £1.4 billion to shareholders through share buybacks this year and to continue our progressive dividend policy.

In North America our continued outperformance in the US spirits market was the key driver of the 11% organic operating profit growth we delivered. Operating leverage from price and mix improvements in beer, wine and ready to drink also contributed to the margin expansion we achieved.

In International, we again grew marketing spend faster than net sales. This investment delivered stronger top line growth, share gains in markets from China to Mexico, organic operating margin expansion and organic operating profit grew 17%.

In Europe, growth in our Continental Europe hub and in Russia was offset by weaker top line performance in Great Britain, Ireland and Spain and total net sales declined. However, as in North America, price and mix improvement led to organic operating margin expansion and on an organic basis operating profit was maintained.

We believe that a capital structure broadly consistent with a single A credit rating gives Diageo the appropriate level of flexibility and given our strong free cash flow this capital structure would allow us to fund a £1 billion share buyback programme in fiscal 2008.

Key highlights of the six months ended 31 December 2006

8% net sales growth in spirits is the key driver of overall performance

Marketing spend increased by a further 6% with spend focused on growth brands and markets

Operating margin improved by 90 basis points

Using an effective tax rate of 25% eps before exceptional items rose from 31.1 pence in first half F 06 to 34.4 pence in first half F 07, which adjusted for exchange is a 14% increase

Return on invested capital increased 90 basis points to 17.7%

Strong free cash flow of £672 million

High payout ratio maintained as interim dividend per share is increased by 5% to 12.55 pence

£1.22 billion returned to shareholders through £524 million in dividends and £700 million of share buybacks

Results at a glance

		First half F 07	First half F 06	Reported movement	Organic movement
Volume in millions of equivalent units		75.7	72.6	4%	4%
Net sales	£ million	4,022	3,960	2%	6%
Operating profit	£ million	1,306	1,261	4%	8%
Profit attributable to parent company's equity shareholders	£ million	895	1,166	(23)%	

Basic eps	Pence	32.8*	40.4*	(19)%	14%
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* For six months
ended 31
December 2006
tax rate 28.3%.
For six months
ended 31
December 2005
tax rate 14.0%.

Net sales in this document are sales after deducting excise duties. Percentage movements in this document are organic movements unless otherwise stated. Commentary, unless otherwise stated, refers to organic movements. Share, unless otherwise stated, refers to volume share. See page 27 for additional information for shareholders and an explanation of non-GAAP measures including the reconciliation of basic eps as reported to underlying basic eps.

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Regional Summary

North America focus on priority brands delivered share gains in spirits

Volume up 3%

Net sales up 7%

Marketing spend up 6%

Operating profit up 11%

In North America, net sales grew 8% for spirits, 9% for wine and 5% for beer, while ready to drink declined 1%. The outperformance of Diageo's spirits brands was the key driver of overall top line growth and operating margin expansion. Spirits grew volume by 4%, ahead of overall market growth of approximately 2%, as Diageo continued to gain both value and volume share, up 0.7 percentage points and 1.2 percentage points respectively. The priority brands drove volume growth and mix improvement with strong consumer demand for Johnnie Walker, Smirnoff vodka, Baileys, Captain Morgan and Jose Cuervo.

Europe strong growth in the Continental Europe hub was offset by weakness in other markets

Volume down 5%

Net sales down 2%

Marketing spend reduced by 7%

Operating profit unchanged

In Europe, strong growth in the Continental Europe hub, led by Johnnie Walker, Smirnoff and Baileys, was offset by weaker volume performance mainly in Great Britain but also in Ireland and Spain. In Great Britain, promotional activity was reduced in the off trade, and while net sales per case improved and brand equity was maintained, volume declined. A reduction in marketing spend behind ready to drink in Great Britain and France was the main driver of the reduction in total marketing spend. However, investment was increased behind spirits brands in the Continental Europe hub.

International top and bottom line growth improved

Volume up 14%

Net sales up 16%

Marketing spend up 22%

Operating profit up 17%

Growth in Diageo's International business was driven by a focus on key brands in growth markets, innovation, additional high levels of marketing spend and improved sales execution with customers. The strong performance of Diageo's Scotch brands was the key driver of top line mix improvement. In the deluxe Scotch segment, brands such as Windsor in Korea and Buchanan's in Latin America continued to gain share. In Africa, beer grew strongly as did spirits and ready to drink in South Africa. Investment in marketing spend again grew ahead of net sales growth particularly in fast growing markets such as India and Mexico. In China marketing spend was up 70% resulting in strong net sales growth and share gains.

Financial

The deficit in respect of post employment plans reduced by £42 million from £801 million at 30 June 2006 to £759 million at 31 December 2006

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In the six months ended 31 December 2006, exchange rate movements reduced operating profit by £53 million and the interest charge by £7 million

At current exchange rates, exchange rate movements are estimated to reduce operating profit by £90 million and the interest charge by approximately £10 million (excluding the exchange impact of re-translating trading and short term inter-company loans under IAS 21) for the full year ending 30 June 2007

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	Reported volume movement	Organic volume movement	Reported net sales movement	Organic net sales movement
	%	%	%	%
Global priority brands	5	5	1	6
Local priority brands	(1)	(1)	(2)	2
Category brands	7	6	5	10
Total	4	4	2	6
Key brands:				
Smirnoff vodka	6	6	2	7
Smirnoff ready to drink	(6)	(6)	(12)	(6)
Johnnie Walker	10	10	8	13
Guinness			(1)	2
Baileys	3	3	3	6
Captain Morgan (excl. ready to drink)	5	5	2	9
JeB	(1)	(1)	(4)	(1)
Crown Royal	4	4	(1)	8
Jose Cuervo (excl. ready to drink)	7	7	1	8
Tanqueray	4	4	(1)	6
Buchanan's Venezuela	65	65	88	71
Windsor Korea	13	13	15	13

The global priority brands grew volume by 5% as growth in Johnnie Walker, Smirnoff and Baileys offset a decline in Smirnoff ready to drink and JeB. Strong growth of Guinness in International, where volume grew 8%, was offset by the performance in Europe and therefore volume was flat. Net sales of global priority brands grew 6% as a result of price increases in some markets and mix improvement throughout the world.

Local priority brands volume declined 1% as strong growth of Buchanan's and Windsor was offset by declines in Bell's and Gordon's. Mix improved and as a result, net sales were up by 2%.

Category brands grew volume by 6% and net sales were up 10% as mix improved due to the strong growth of Scotch brands such as Old Parr and Black & White.

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OPERATING AND FINANCIAL REVIEW
For the six months ended 31 December 2006

OPERATING REVIEW**Analysis by region****North America****Summary:**

Continued share growth in spirits: value and volume share up 0.7 and 1.2 percentage points respectively

Volume growth of priority brands and price increases drove 7% growth in net sales

Key measures:

	First half F 07 £ million	First half F 06 £ million	Reported movement %	Organic movement %
Volume			3	3
Net sales	1,313	1,329	(1)	7
Marketing spend	206	209	(1)	6
Operating profit	486	476	2	11

Reported performance:

Net sales were £1,313 million in the six months ended 31 December 2006 down by £16 million from £1,329 million in the comparable period. Operating profit increased by £10 million to £486 million in the period ended 31 December 2006.

Organic performance:

The weighted average exchange rate used to translate US dollar sales and profit moved from £1 = \$1.76 in the six months ended 31 December 2005 to £1 = \$1.91 in the six months ended 31 December 2006. Net sales decreased by £99 million as a result of the weakening US dollar. Acquisitions increased net sales by £1 million and there was an organic increase in net sales of £82 million. Operating profit decreased by £38 million as a result of exchange rate movements. Acquisitions had no impact on operating profit. There was an organic increase in operating profit of £48 million.

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	Reported volume movement	Organic volume movement	Reported net sales movement	Organic net sales movement
	%	%	%	%
Global priority brands	6	6		8
Local priority brands	1	1	(5)	3
Category brands	(2)	(2)	1	8
Total	3	3	(1)	7
Key brands:				
Smirnoff vodka	8	8	4	12
Smirnoff ready to drink	(20)	(20)	(22)	(16)
Captain Morgan (excl. ready to drink)	5	5	1	9
Crown Royal	4	4	(1)	8
Jose Cuervo (excl. ready to drink)	5	5	(2)	7
Baileys	22	22	16	25
Johnnie Walker	2	2	(2)	6
Tanqueray	3	3	(4)	4
Guinness	2	2	(3)	5
Beaulieu Vineyard	(8)	(8)	(14)	(6)
Sterling Vineyards	8	8	(9)	(1)

Smirnoff vodka grew volume 8%, outpacing category growth of 3%. A price increase in many states led to 12% growth in net sales. Smirnoff vodka grew value and volume share 0.2 and 0.8 percentage points respectively.

Price increases on Captain Morgan Original Spiced Rum and Parrot Bay flavoured rum in most states drove growth of net sales of 9% on a 5% increase in volume.

Jose Cuervo, excluding ready to drink, grew volume 5%, driven by growth of Jose Cuervo Flavored Tequilas. Strong performance of super premium variants improved mix and net sales grew 7%. The successful launch of Jose Cuervo Black Medallion in February 2006 and the continued growth of Jose Cuervo Tradicional have almost doubled Cuervo's participation in the super premium and ultra premium tequila segments.

Baileys showed particularly strong growth with volume up 22% and net sales up 25% following the national launch of Baileys flavours and the continued strong performance of Baileys Original Irish Cream.

Johnnie Walker outpaced the category and increased share by 1.6 percentage points with growth across all variants.

Volume grew 2% reflecting further reductions in stock levels. Mix improvement toward Johnnie Walker Black Label and the super deluxe variants drove 6% growth in net sales.

Tanqueray grew volume 3%, share increased by 0.9 percentage points and net sales rose 4%.

Guinness Draught in Bottle grew volume 13% while Guinness Draught increased volume by 4%. Changes in shipment phasing benefited the prior period performance and therefore Guinness Extra Stout volume declined. As a result, total Guinness volume grew 2%. A national price increase on Guinness Draught and select market increases on other packs drove mix improvement and as a consequence, net sales were up 5%.

Volume on the local priority brands grew 1%, as strong performances by Crown Royal, Buchanan's and Sterling Vineyards were partly offset by declines in Gordon's gin, Seagram's VO and Beaulieu Vineyard. Net sales of local priority brands rose 3% following the positive mix shift towards Crown Royal and Buchanan's. Crown Royal volume grew 4% and net sales were up 8% following a price increase in selected states and the introduction of the super premium variant Crown Royal Extra Rare. In wines, mix of Beaulieu Vineyard improved due to lower sales of the mid-priced variant Century Cellars, while Sterling Vineyards mix was diluted as a result of lower sales of the Reserve wines following the warehouse fire in October 2005.

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Category brands volume declined 2%. Lower value brands such as Popov and Gordon's vodka declined but more premium spirits brands such as Cîroc, Don Julio and Bushmills, premium beer brands like Red Stripe and wine brands such as Chalone Vineyards increased. As a result of this mix improvement, net sales grew 8%.

Ready to drink volume was down 6% as continued growth of Jose Cuervo ready to drink and the launch of Parrot Bay was more than offset by a decline in Smirnoff Ice and Twisted V. However, prices increased, mix improved and as a result, net sales were down only 1%.

Europe**Summary:**

Net sales down 2% due to weakness in Great Britain, Ireland and Spain

Strong growth in Continental Europe hub led by Johnnie Walker, Smirnoff vodka and Baileys

Marketing spend declined 7% due to reduced spend on ready to drink in Great Britain and France, and lower investment in Spain following a significant increase in the prior period

Key measures:

	First half F 07 £ million	First half F 06 £ million	Reported movement %	Organic movement %
Volume			(4)	(5)
Net sales	1,357	1,408	(4)	(2)
Marketing spend	208	225	(8)	(7)
Operating profit	484	494	(2)	

Reported performance:

Reported net sales in Europe in the period ended 31 December 2006 were down £51 million from £1,408 in the comparable period, to £1,357 million. Reported operating profit decreased by 2% from £494 million to £484 million.

Organic performance:

Net sales decreased by £9 million as a result of the impact of exchange rate movements. Acquisitions increased net sales by £4 million, disposals decreased net sales by £14 million and there was an organic decrease in net sales of £32 million. The exchange impact resulted primarily from a weakening of the euro. Operating profit decreased by £2 million as a result of exchange rate movements. Acquisitions increased operating profit by £2 million and disposals decreased operating profit by £2 million compared to the comparable six month period ended 31 December 2005. Additional costs of £7 million were transferred to the region. There was an organic decrease in operating profit of £1 million.

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	Reported volume movement	Organic volume movement	Reported net sales movement	Organic net sales movement
	%	%	%	%
Global priority brands	(4)	(4)	(3)	(3)
Local priority brands	(11)	(11)	(7)	(6)
Category brands	(1)	(2)	(2)	1
Total	(4)	(5)	(4)	(2)

Key brands:

Smirnoff vodka			(1)	1
Smirnoff ready to drink	(17)	(17)	(15)	(14)
Johnnie Walker	(1)	(1)	4	4
Baileys	(8)	(8)	(6)	(5)
JeB	(4)	(4)	(3)	(3)
Guinness	(7)	(7)	(5)	(4)

Smirnoff vodka volume was flat as a decline in volume in Great Britain was offset by growth in Germany, Belgium and Greece. Net sales grew 1% benefiting from stronger pricing in Greece and Germany. Smirnoff ready to drink volume was down 17%, as the segment continued to decline in Great Britain. Net sales were down 14% as promotions were moderated.

Johnnie Walker volume was down 1% due to a decline in Johnnie Walker Red Label volume in Spain, where the standard Scotch segment has contracted, and in Greece, where there was a shortage of product following a strike at the port of Piraeus. Volume of Johnnie Walker Black Label and Johnnie Walker super deluxe increased in Greece and Eastern Europe as marketing continued to trade consumers up from standard variants. This, together with mix improvement in Russia on Johnnie Walker Red Label, improved overall mix and as a result, net sales grew 4%. Baileys volume declined by 8% and net sales were down 5%. In Great Britain, funding of promotions was limited, which maintained brand equity but negatively impacted Baileys volume. Excluding Great Britain, volume grew 6% driven by strong growth in Belgium and France and the successful launch of Baileys flavours throughout the region. JeB volume was down 4% as the continued decline in standard Scotch in Spain was only partially offset by good performance in France where volume grew 4% and in Central and Eastern Europe where volume was up 19%. Guinness volume declined 7% due to the continued consumer shift from the on trade to the off trade and exceptionally warm weather in both Great Britain and Ireland. Net sales decline was restricted to 4% as a result of price increases in both markets.

Total local priority brands performance was negatively impacted by the decline of Bell's and Gordon's in Great Britain and the decline of lagers in Ireland.

Category brands volume declined 2% and net sales increased 1% as growth of Bushmills, Pampero and the Classic Malts offset declines in Piat D'Or and VAT 69.

In Great Britain, a shift from the on trade to the off trade, a reduction in retailer funded promotions and a smoking ban introduced in Scotland in March 2006 have resulted in a volume decline of 1% in the beverage alcohol market. In addition, there has been a consumer trend to value brands and a reduction in customer stock levels ahead of the introduction of strip stamps. Diageo increased prices in July 2006 and moderated its Christmas promotions to protect brand equity and increase net sales per case. This provided a challenging background for Diageo's performance and as a result, volume declined 12% and net sales were down 9%.

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In Ireland, on trade beer volume continued to decline, while off trade beer and overall wine and spirits consumption increased. Consumers are widening their repertoire and becoming more value conscious particularly in the off trade. These trends affected Diageo's performance in Ireland with beer net sales down 3%, while spirits and wine net sales were both up 5%. Total volume and net sales declined 3% and 2% respectively.

The trend to lower on trade consumption led to a 3% decline in the Spanish spirits market. The standard Scotch category lost share to rum and was down 6%. Diageo's volume in Iberia was down 6%, although net sales were only down 3% due to stronger pricing in Portugal.

In the Continental Europe hub, volume grew 4% driven by growth in Central and Eastern Europe, Benelux and Italy. Consumers continued to trade up to deluxe and super deluxe variants of Johnnie Walker throughout the hub. This mix improvement was offset by the continued decline of ready to drink in France and Germany and as a result, net sales were up 4%.

The introduction of excise duty strip stamps severely disrupted the Russian market. As a result, Diageo volume was down 12%. However, termination of the previous distribution contract and the formation of a 75% owned company for the distribution, sale and marketing of spirits brands, led to higher net sales per case and as a result, net sales were up by 8%.

International**Summary:**

Continued strong growth in Latin America, Asia and Africa

Further investment with marketing spend up 22%

Strong performance in Global Travel despite disruptions due to increased airport security

Strong growth and share gains in the Scotch category, especially in Latin America and China

Strong Guinness performance particularly in Nigeria and East Africa

Key measures:

	First half F 07 £ million	First half F 06 £ million	Reported movement %	Organic movement %
Volume			14	14
Net sales	1,314	1,183	11	16
Marketing spend	212	184	15	22
Operating profit	413	371	11	17

Reported performance:

Reported net sales in the period ended 31 December 2006 were £1,314 million, up £131 million from £1,183 million in the comparable prior period. Reported operating profit was up 11% to £413 million for the six months ended 31 December 2006.

Organic performance:

Net sales decreased by £50 million as a result of exchange rate impacts. There was an organic increase in net sales of £181 million. Operating profit decreased by £15 million as a result of exchange rate movements and additional costs transferred to the region decreased operating profit by £4 million. There was an organic increase in operating profit of £61 million. Acquisitions and disposals had no impact on net sales or operating profit for the period.

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	Reported volume movement	Organic volume movement	Reported net sales movement	Organic net sales movement
	%	%	%	%
Global priority brands	14	14	10	16
Local priority brands	7	7	8	11
Category brands	16	16	16	20
Total	14	14	11	16
Key brands:				
Smirnoff vodka	12	12	3	13
Smirnoff ready to drink	31	31	14	26
Johnnie Walker	17	17	13	18
Baileys	13	13	9	13
Guinness	8	8	7	11
Buchanan's Venezuela	65	65	88	71
Windsor Korea	13	13	15	13

Smirnoff vodka grew volume 12% and net sales by 13% driven by increased distribution and successful advertising throughout Latin America, Africa and Asia. Smirnoff ready to drink volume grew 31% due to continued growth in Brazil, the successful launch of Smirnoff Storm in South Africa and the relaunch of Smirnoff Ice in Japan.

Johnnie Walker continued to benefit from increased investment throughout Asia and Latin America and continued activation of its grand prix team sponsorship. As a result, the brand grew volume 17% and net sales were up 18%. Baileys grew volume 13% reflecting the successful launch of Baileys flavours in Global Travel, Latin America and Australia, as well as 5% volume growth of Baileys Original Irish Cream. Net sales grew by 13%.

Guinness volume grew 8% driven by strong performances in Nigeria and East Africa due to increased marketing spend, renewed customer focus and economic growth. Net sales were up 11% mainly due to stronger pricing in Nigeria.

Local priority brands' performance was driven by growth of Buchanan's in Venezuela and Windsor in Korea.

The Scotch category drove very strong growth in category brands resulting in a 16% increase in volume and a 20% increase in net sales. Old Parr, Buchanan's (excluding Venezuela where it is a local priority brand) and Black & White were all up, particularly in Latin America and Benmore continued to perform strongly in Thailand.

Asia Pacific

In Asia Pacific, share gains in fast growing markets such as India and China, as well as in more established markets, such as Thailand and Korea, resulted in volume growth of 7%. Net sales increased by 9%, driven by strong growth of Johnnie Walker Black Label, particularly in China.

In Australia, spirits brands drove volume growth of 7%. Johnnie Walker volume was up 13% reflecting increases in both Johnnie Walker Red Label and Johnnie Walker Black Label. The launch of Baileys flavours resulted in a 10% increase in Baileys volume. Total net sales were up 3%, as ready to drink volume increased 1%.

In Korea, the whisky market grew marginally, and therefore, performance was driven by share gains. Overall share increased by 1.5 percentage points as Diageo further established its leadership position in the Scotch category. The successful renovation of the Windsor brand continued to resonate with consumers as the brand increased share by 3.0 percentage points and as a result, volume and net sales both grew 13%.

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In Japan, volume declined 1% while net sales grew 11%. Mix improved as a result of the relaunch of Smirnoff Ice. Consumers moved away from the larger standard Scotch segment to more premium Scotch segments. Reflecting this trend, Johnnie Walker super deluxe volume grew 13% but Johnnie Walker Red Label volume declined 20%.

In Thailand, volume grew 5% and net sales grew 18%. Mix improved due to a 68% increase in Johnnie Walker Red Label volume led by a 23% increase in marketing spend. Benmore continued to build its appeal to consumers and grew net sales by 56%, more than offsetting declines in Spey Royal and Golden Knight as these brands have been de-emphasised.

In Taiwan, volume declined 1% and net sales were flat. Johnnie Walker Green Label grew volume 15% offsetting a decline in Johnnie Walker Red Label and Johnnie Walker Black Label as consumers migrated from standard and deluxe blended Scotch to malts.

In China, volume grew 43% and net sales were up 73%. Johnnie Walker Black Label was key to this performance as volume grew 92% and net sales doubled, driven by marketing spend which was up more than 70%. Share was estimated to be up 8 percentage points. Johnnie Walker super deluxe volume and net sales also doubled from a small base.

In India, volume grew 26% and net sales were up 24%. Johnnie Walker Black Label and Smirnoff vodka grew strongly with volume up 46% and 28% respectively, due to continued category growth and successful marketing. Haig Gold Label Scotch and Shark Tooth vodka were launched to broaden consumer appeal in the premium value segment.

Africa

Africa grew volume 15% and net sales increased 16% due to strong growth throughout the region.

In Nigeria, volume grew 11% and net sales were up 8%. A price increase on Guinness led net sales to increase by 12% on 8% volume growth. However, improved performance of Malta Guinness and the continued growth of Harp had an overall negative impact on mix. Harp volume was up 12% as the brand benefited from its first national marketing programme.

In East Africa, volume grew 22% and net sales were up 23%. East Africa has traditionally been a lager market, however, increased marketing spend on Guinness led volume to grow 23% and net sales to increase 30%. The continued decline of Pilsner in Kenya was offset by strong growth of Pilsner and Tusker in Uganda and continued success of Senator in Kenya.

Trading in Cameroon improved due to increased promotions and a more stable market place. As a result, Guinness returned to growth with volume up 26% and net sales up 33%.

In Ghana, volume grew 3% and net sales were up 16%. Malta Guinness drove performance with volume up 9% and net sales grew 26% following a price increase in November 2006 and 2005.

In South Africa, volume grew 14% and net sales were up 23%. Mix improved due to continued strong growth of Smirnoff ready to drink, which grew volume 54%. Diageo's Scotch brands grew as a result of the increased consumer interest in the category. Johnnie Walker grew volume 46%, Bell's grew volume by 17% and J&B grew volume by 9%. Share grew in vodka, standard Scotch, deluxe Scotch, ready to drink and cream liqueurs.

Latin America and Caribbean

Increased share gains in Scotch and overall growth in the Scotch category were the key factors driving Diageo's performance in Latin America. Total volume grew 21% and net sales were up 26%.

In Mexico, volume grew 17% driven by growth across Diageo's Scotch brands resulting in a 3.4 percentage point increase in share. Buchanan's volume was up 14% and Johnnie Walker was up 26%, driven by Johnnie Walker Black Label volume growth of 41%.

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In Venezuela, the trend towards premium products continued as consumers traded up from value Scotch. As a result of this trend, Diageo's total share in Scotch increased by 6.2 percentage points.

In Paraguay, Uruguay and Brazil, total volume grew 11% and net sales were up 21%. Positive mix was driven by strong growth in Johnnie Walker and Smirnoff ready to drink. Johnnie Walker Red Label grew volume 13%, net sales were up 18% and share increased 1.7 percentage points. Johnnie Walker Black Label grew volume 12% and net sales were up 16%. Smirnoff ready to drink grew volume 26% and net sales were up by 53% as the brand continued to gain traction with consumers.

Global Travel and Middle East

Despite the disruption caused by the conflict in Lebanon, reduced tourism following the military coup in Thailand and issues around airport security, Global Travel and Middle East volume grew 9% and net sales were up 11%. Johnnie Walker grew volume 7%, driven by 10% growth in Johnnie Walker Red Label as continued promotions leveraged Johnnie Walker's ongoing grand prix team sponsorship. Johnnie Walker Black Label declined 1% mainly due to the conflict in the Middle East. Johnnie Walker super deluxe grew volume 29%, with strong growth in Asia due to the continued focus on gift packs and the launch of Johnnie Walker Blue Label King George V, a new super deluxe variant. Performance also benefited from the global roll out of Baileys flavours and as a result, Baileys volume increased by 15%. Continued growth in Scotch in Latin America resulted in strong performances of Buchanan's and Old Parr, which grew volume 179% and 129% respectively.

Corporate revenue and costs

Net sales were £38 million in the six months ended 31 December 2006, down by £2 million from £40 million in the prior period. Net reported operating costs decreased by £3 million to £77 million in the six months ended 31 December 2006.

Net operating costs decreased by £11 million as a result of additional costs being transferred to the regions and there was a net decrease of £2 million in respect of exchange rate movements that included a charge of £5 million for exchange adjustments on inter-company short term balances under IAS 21 *The effects of changes in foreign exchange rates*.

Diageo will report preliminary results for the year ending 30 June 2007 on the new basis of four regions: North America, Europe, International and Asia Pacific, together with Corporate. The results for the year ended 30 June 2006 and for the six months ended 31 December 2006, restated for the new four regions, will be issued at the time of the year end trading statement.

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	Six months ended 31 December 2006 £ million	Six months ended 31 December 2005 £ million
Sales	5,358	5,359
Excise duties	(1,336)	(1,399)
Net sales	4,022	3,960
Operating costs	(2,716)	(2,699)
Operating profit	1,306	1,261
Disposal of investments		151
Net finance charges	(98)	(88)
Associates profits	91	77
Profit before taxation	1,299	1,401
Taxation	(367)	(196)
Profit for the period	932	1,205
Attributable to:		
Equity shareholders	895	1,166
Minority interests	37	39
	932	1,205

Sales and net sales

On a reported basis, sales decreased by £1 million from £5,359 million in the six months ended 31 December 2005 to £5,358 million in the six months ended 31 December 2006. On a reported basis net sales increased by £62 million from £3,960 million in the six months ended 31 December 2005 to £4,022 million in the six months ended 31 December 2006. Acquisitions and disposals contributed a net decrease to both reported sales and net sales of £9 million in the period and exchange rate movements also decreased reported sales by £199 million and reported net sales by £158 million, principally arising from the weakening of the US dollar.

Operating costs

On a reported basis operating costs increased by £17 million in the six months ended 31 December 2006 due to an increase in marketing costs of £8 million, from £618 million to £626 million, an increase in cost of sales of £23 million, from £1,511 million to £1,534 million, offset by a decrease in other operating costs of £14 million, from £570 million to £556 million. The impact of exchange rate movements decreased total operating costs by £105 million.

Post employment plans

Post employment costs for the six months ended 31 December 2006 of £28 million (2005 £44 million) included amounts charged to operating profit of £52 million (2005 £54 million) and finance income of £24 million (2005 £10 million). At 31 December 2006, Diageo's deficit before taxation for all post employment plans was £759 million (30 June 2006 - £801 million).

Operating profit

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Operating profit for the six months ended 31 December 2006 increased by £45 million to £1,306 million from £1,261 million in the comparable prior period.

Exchange rate movements reduced operating profit for the six months ended 31 December 2006 by £53 million.

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Disposal of investments

In the six months ended 31 December 2005 disposal of investments represented the gain of £151 million on the sale of all of the group's remaining 25 million shares of common stock of General Mills.

Net finance charges

Net finance charges increased by £10 million from £88 million in the six months ended 31 December 2005 to £98 million in the six months ended 31 December 2006.

The net interest charge increased by £28 million from £92 million in the comparable prior period to £120 million in the six months ended 31 December 2006. This increase principally resulted from the increase in net borrowings in the period and the increase in floating US Dollar interest rates. Exchange rate movements reduced interest by £7 million. Other net finance income of £22 million (2005 - £4 million) included income of £24 million (2005 - £10 million) in respect of the group's post employment plans. This movement in income related to the post employment plans principally reflects the increase in the value of the assets held between 1 July 2005 and 30 June 2006. Other finance income in the six months to 31 December 2005 also included £5 million dividend income in respect of the group's interest in General Mills. Other finance charges for the six months ended 31 December 2006 include income of £4 million (2005 - charge of £4 million) in respect of exchange rate translation differences on inter-company funding arrangements that do not meet the accounting criteria for recognition in equity.

Associates

The group's share of profits of associates after interest and tax was £91 million for the six months ended 31 December 2006 compared to £77 million