DIAGEO
INDIA

UNITED SPIRITS LIMITED

PRESS RELEASE

Unaudited financial results for the quarter and six months ended 30 September 2018

(Standalone only)

Net sales grew 14% supported by robust performance of Prestige & Above portfolio

Second quarter performance highlights:

- Reported net sales increased 14% delivered through the continued strong performance of the Prestige and Above segment, an improved performance in the popular segment as well as benefitting from lapping the impact of the highway ban in the same period last year. Net sales excluding the one-off impact of operating model changes increased 15%.
- Prestige & Above segment net sales grew 19%, despite growing double digits in the same period last year.
- Popular segment reported net sales grew 8% driven by the underlying momentum and benefitting from a low base last year. Net sales growth, after adjusting for the impact of operating model changes, was 10%. Net sales of Popular segment in priority states grew by 11%.
- Gross margin was 49.1%, up 147bps, largely driven by productivity gains that more than offset the adverse impact of inflation. Underlying* gross margin improvement was 120bps.
- Reported EBITDA was Rs. 432 Crores, up 36%, driven by increased gross profit and lower staff costs, which more than offset higher marketing investment. Reported EBITDA margin was 19.4%, up 313bps. Underlying* EBITDA increased 36% and underlying* EBITDA margin improved by 303bps.
- Interest costs were Rs. 42 Crores, 37% lower than prior year, driven by lower debt, improved debt-mix and lower interest rates.
- Profit after tax was Rs. 259 Crores, up 69%.

First half performance highlights:

- Reported net sales increased 14% as the business benefitted from lapping the impact of the highway ban last year and driven by strong performance of Prestige & Above segment. Underlying net sales excluding the impact of the operating model changes also grew 14%.
- Prestige & Above segment net sales grew 19% with 5ppts positive price/mix.
- Popular segment reported net sales grew 3%. Underlying net sales excluding the impact of operating model changes grew 5%. Net sales of Popular segment in priority states grew by 9%.
- Gross margin was 49.1%, up 226bps, mainly due to productivity gains and flow through effect of pricing that more than offset the adverse impact of inflation. Underlying* gross margin, improved by 190bps.
- Reported EBITDA was Rs. 625 Crores, up 31%; reported EBITDA margin was 14.7%, up 201bps primarily driven by increased gross margin and savings in staff costs and other overheads, which more than offset higher marketing investment that increased by 34%. Underlying * EBITDA increased by 33% and underlying* EBITDA margin was higher by 221bps.
- Interest costs were Rs.97 Crores, 28% lower than prior year, driven by lower debt and more favourable debt-mix.
- Profit after tax was Rs.340 Crores, up 57%.

Anand Kripalu, CEO, commenting on the quarter and six months ended 30 September 2018 said:

We continued to deliver a strong performance with a second consecutive quarter of double digit sales growth. Reported net sales growth during the quarter was 14%, driven by strong growth in both the Prestige and Above and Popular segments, while also benefitting from a relatively lower base last year.

In the second quarter, the Prestige and Above segment net sales grew 19%, despite growing by double digits in the same quarter last year. With a third consecutive quarter of double digit sales growth, the segment now represents 66% of net sales. Within the segment, our Scotch brands showed strong growth and our renovated Prestige brands, such as Royal Challenge and Signature, also grew faster than the overall segment.

On the profitability front, I am pleased that we have delivered robust gross margin improvement both in the quarter as well as the first half, driven mainly by savings from our productivity programme which more than offset the adverse impact of inflation.

Investing behind our brands continues to be an area of focus for us, with reinvestment rate increasing to 9.7% in the first half, versus 8.2% in the same period last year.

Increased gross margin coupled with organizational efficiencies has led to an underlying* EBITDA margin of 15.6% in the first half, up 221bps, despite significantly higher marketing investment.

Improved operating performance combined with lower interest costs have helped us deliver an overall PAT increase of 57% in the first half.

We continue to focus on our strategic priorities to capture the long-term opportunity in the spirits market and achieve our medium-term ambition to grow top line by double digits consistently and improve EBITDA margin to mid-high teens."

**Underlying movement in margin excludes the one-off impact of operating model changes as well as any one-off costs.*

DIAGEO INDIA

KEY FINANCIAL INFORMATION

For the six months ended 30 September 2018

Summary financial information

		F19 H1	F18 H1	Movement %
Volume	*EUm*	**38.6**	36.6	**6**
Net sales	*Rs. Crores*	**4,240**	**3,733**	**14**
COGS	*Rs. Crores*	(2,158)	(1,984)	9
Gross profit	*Rs. Crores*	**2,082**	**1,749**	**19**
Staff cost	*Rs. Crores*	(346)	(325)	6
Marketing spend	*Rs. Crores*	(412)	(308)	34
Other Overheads	*Rs. Crores*	(700)	(641)	9
EBITDA	*Rs. Crores*	**625**	**475**	**31**
Other Income	*Rs. Crores*	46	61	(25)
Depreciation	*Rs. Crores*	(69)	(65)	6
EBIT	*Rs. Crores*	**602**	**472**	**28**
Interest	*Rs. Crores*	(97)	(136)	(28)
PBT before exceptional items	*Rs. Crores*	**505**	**336**	**50**
Exceptional items	*Rs. Crores*	-	(15)	(100)
PBT	*Rs. Crores*	**505**	**320**	**58**
Tax	*Rs. Crores*	(165)	(104)	58
PAT	*Rs. Crores*	**340**	**216**	**57**

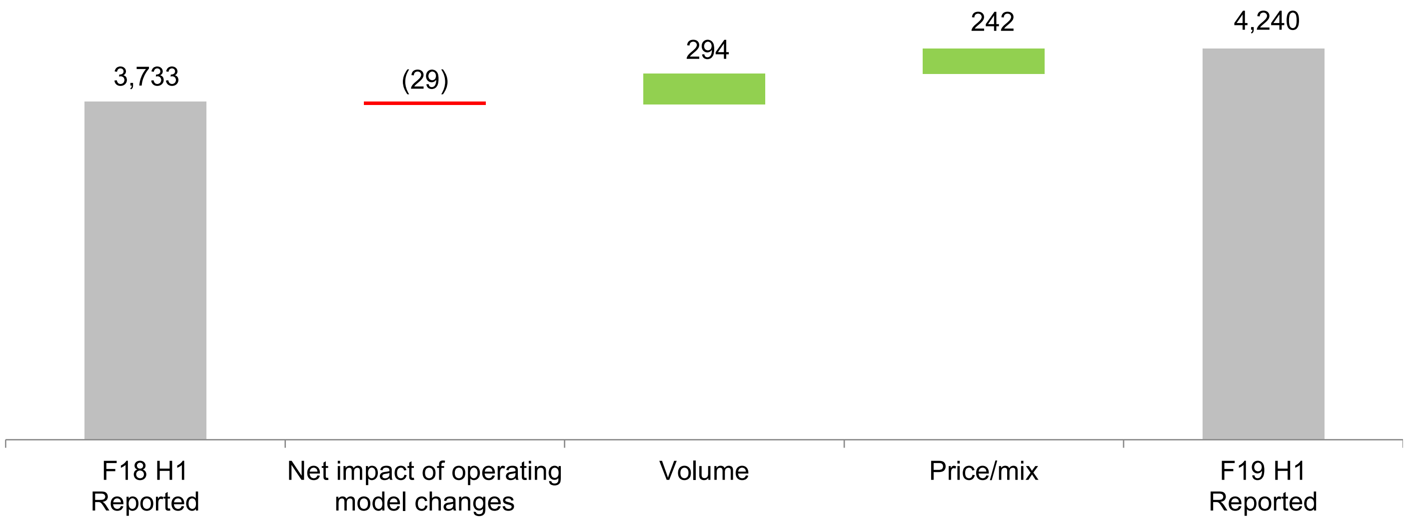
Key performance indicators as a % of net sales:

		F19 H1	F18 H1	Movement bps
Gross profit	%	49.1	46.8	226
Staff cost	%	8.2	8.7	55
Marketing spend	%	9.7	8.2	(147)
Other Overheads	%	16.5	17.2	67
EBITDA	%	14.7	12.7	201
PAT	%	8.0	5.8	223
Basic earnings per share*	*rupees*	4.7	3.0	1.7 rupees
Earnings per share before exceptional items*	*rupees*	4.7	3.1	1.6 rupees

The company in compliance with Schedule III of the Companies Act, 2013 has reported revenue from operations inclusive of excise duty.

EPS for F18H1 has been adjusted to reflect the new number of shares post the 1:5 share-split that became effective in F19.

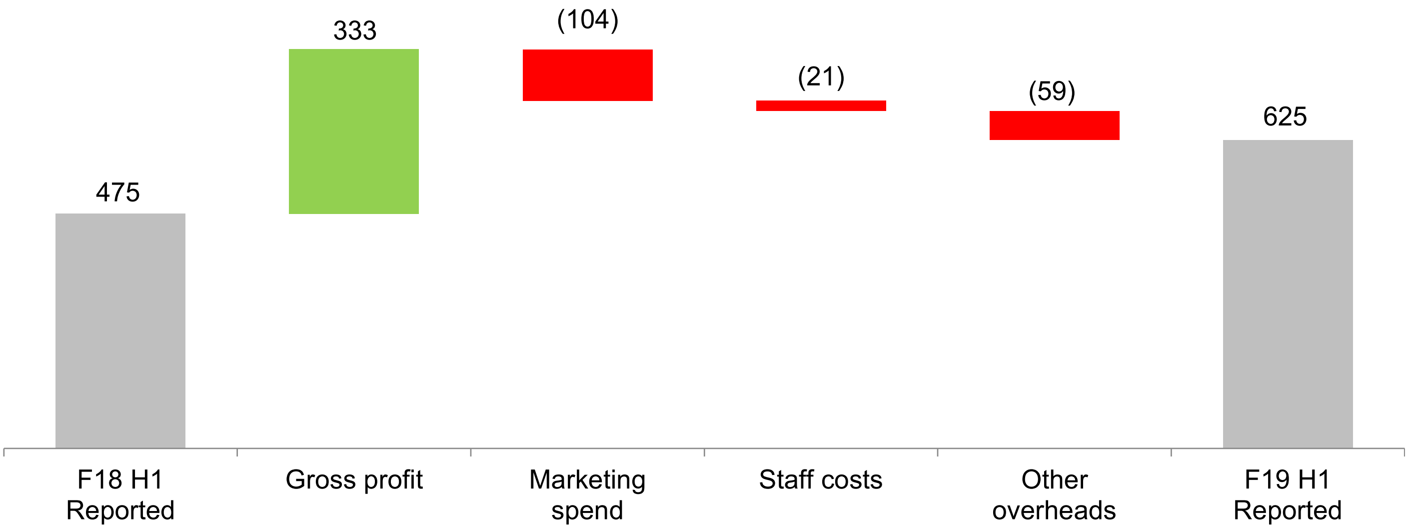
Net sales (Rs. Crores)



Reported net sales in the first half of the financial year grew 14%, largely driven by growth in the Prestige & Above segment, improved performance of the Popular segment while also benefitting from a low comparative impacted by the highway ban last year. Even after adjusting for the operating model changes, net sales increased 14%. Net Sales of Prestige & Above segment grew 19% while net sales of Popular segment grew 5% after adjusting for the operating model changes.

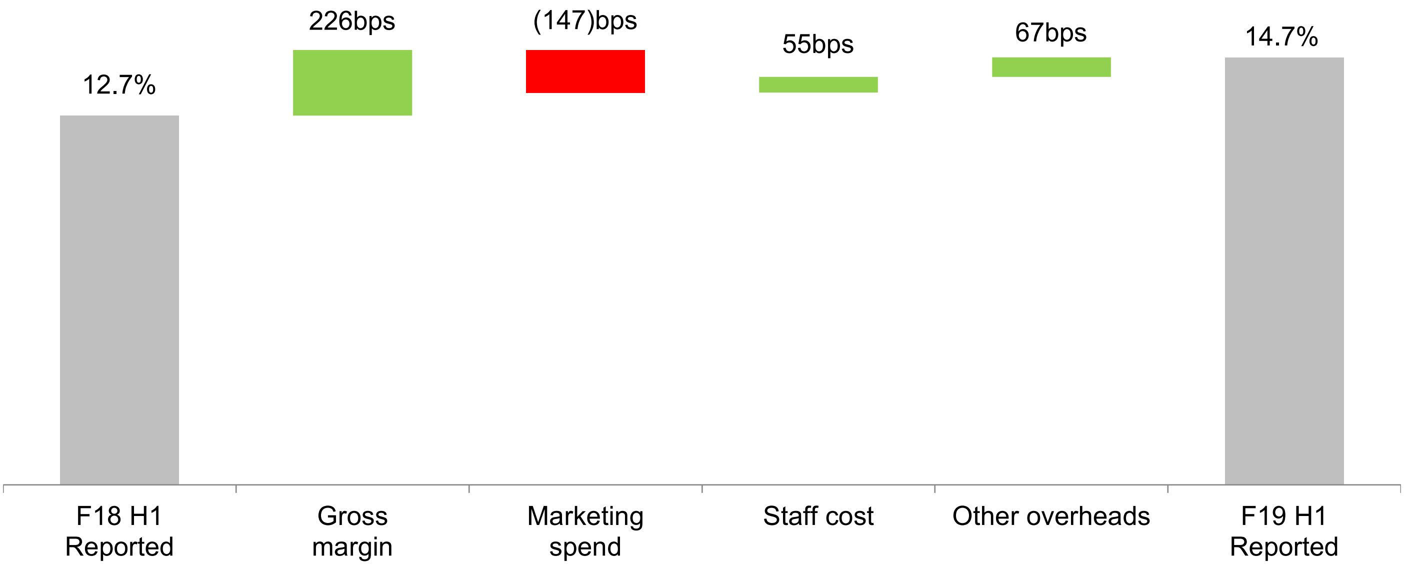
After adjusting for the operating model changes, underlying volume increased 8% as the Prestige & Above volume growth of 14% outpaced Popular segment volume growth of 2%. Underlying price/mix for the first half was 6.5%, as we benefitted from prior year pricing and faster growth in the more premium parts of the portfolio.

EBITDA (Rs. Crores)



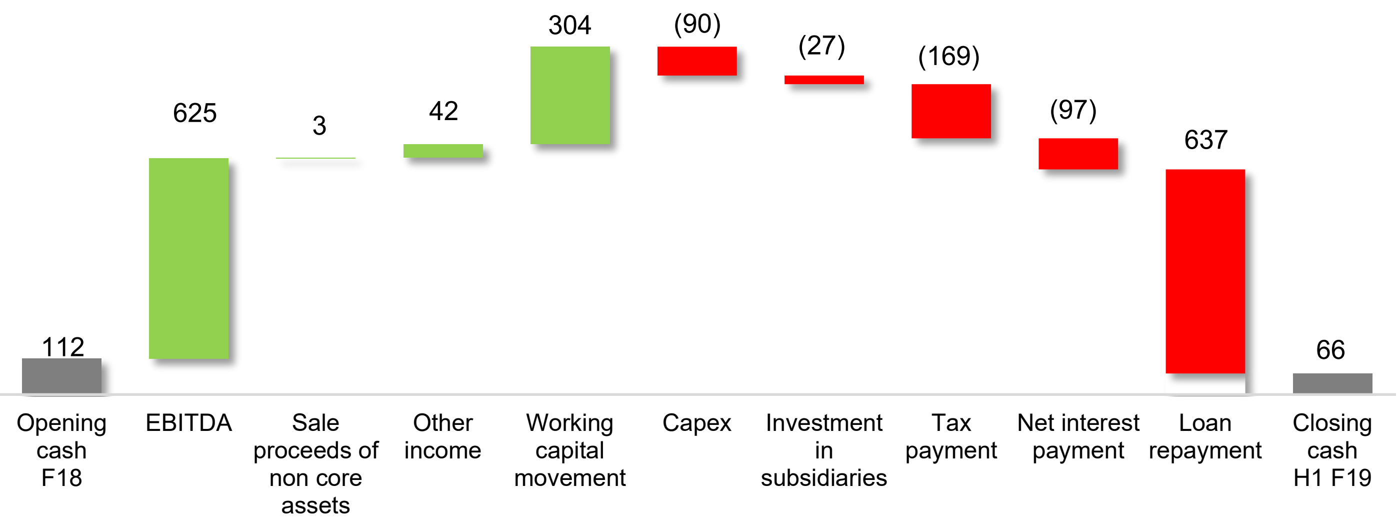
EBITDA at Rs. 625 Crores, increased 31% versus last year. Gross profit increased by Rs. 333 Crores, mainly driven by higher sales, savings from our productivity programme and flow through effect of pricing which more than offset the negative impact of inflation. We continued to invest behind our brands as marketing investment increased by 34% with an overall reinvestment rate of 9.7%, up 147 bps versus last year. Reported staff cost increased 6%, driven by one-off restructuring cost of Rs. 36 Crores in the first quarter. Adjusted for the restructuring costs, staff costs declined 1% in the first half, as savings from prior year restructuring efforts more than offset inflation. Other overheads increased 9% mainly due to investment in capability building projects and factory improvements undertaken in the first quarter. Underlying EBITDA, after adjusting for the operating model changes as well as one-off costs increased by 33% versus last year.

EBITDA margin (%, bps)



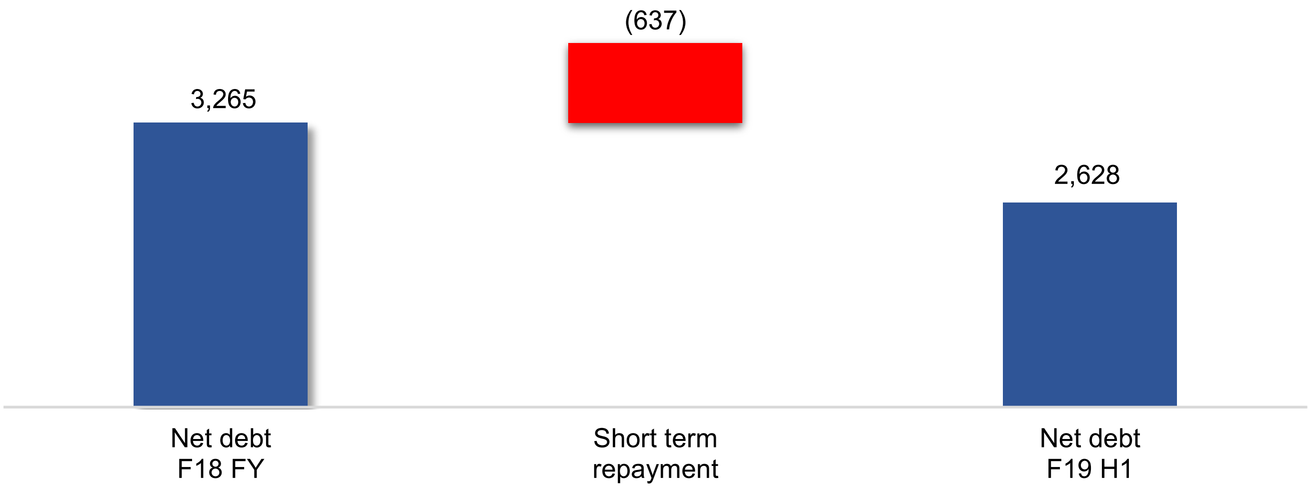
EBITDA margin of 14.7% improved by 201bps. Gross margin improved by 226bps while underlying gross margin, net of operating model changes, improved by 190bps. This improvement was primarily driven by productivity initiatives and pricing that more than offset the adverse impact of inflation. The improved gross margin was partially reinvested in marketing investments. Staff costs increased by 6%, despite higher one-off restructuring costs in the current period, but due to higher net sales growth, they contributed 55bps to EBITDA margin improvement. Other overheads increased by 9% versus last year but contributed 67bps to EBITDA margin improvement due to higher net sales growth. Underlying EBITDA margin, net of operating model changes and any one-off costs was 15.6%, higer by 221bps compared to same period last year.

Movement in cash (Rs. Crores)



Cash closed at Rs. 66 Crores for the first half. Non core asset divestment proceeds amounted to Rs 3 Crores and other income amounted to Rs 42 Crores. Decrease in working capital was mainly driven by reduction in receivables and lower advances. Capex was focused on projects for productivity and helath and safety. Cash generated from the underlying business was used towards debt repayment of Rs 637 Crores, resulting in a reduction in interest costs.

Movement in debt (Rs. Crores)



Closing net debt was Rs. 2,628 Crores. The company utilized profit from operations primarily to repay its short term borrowings amounting to Rs. 637 Crores. This reduction in debt together with better management of borrowing rates and favourable mix of debt reduced the total interest cost by Rs. 39 Crores in the first half of the year.

DIAGEO
INDIA

SEGMENT AND BRAND REVIEW

For the quarter and six months ended 30 September 2018

Key segments:

For the six months ended 30 September 2018

	Volume				Net Sales			
	F19 H1 Reported *EUm*	F18 H1 Reported *EUm*	Reported movement %	**Underlying* movement %**	**F19 H1 Reported *Rs. Cr.***	F18 H1 Reported *Rs. Cr.*	Reported movement %	**Underlying* movement %**
P&A	**20.0**	17.5	14	**14**	**2,815**	2,359	19	**19**
Popular	**18.6**	19.0	(2)	**2**	**1,340**	1,308	3	**5**

For the quarter ended 30 September 2018

	Volume				Net Sales			
	F19 Q2 Reported *EUm*	F18 Q2 Reported *EUm*	Reported movement %	**Underlying* movement %**	**F19 Q2 Reported *Rs. Cr.***	F18 Q2 Reported *Rs. Cr.*	Reported movement %	**Underlying* movement %**
P&A	**10.5**	9.1	15	**15**	**1,506**	1,264	19	**19**
Popular	**9.9**	9.4	5	**8**	**711**	658	8	**10**

- The **Prestige & Above segment** accounted for 66% of net sales during the first half of the year, up 3ppts compared to the same period last year.

  During the first half of the year, our Premium & Luxury portfolio grew faster than the Prestige portfolio led by our premiumisation efforts. Within the Scotch portfolio, Johnnie Walker and Black & White both showed robust growth, aided by activations that included a new visual identity of Johnnie Walker and the first ever TV commercial of Black & White.

  In the Prestige segment, key brands like Signature and Royal Challenge continued to deliver strong growth.

- The **Popular segment** accounted for 32% of net sales during the first half, down 3ppts compared to same period last year. The Popular segment net sales grew 5% during the first half, after adjusting for the one-off impact of operating model changes. Net sales of Popular segment in Priority states grew 9% during the first half of this year.

* Underlying movement excludes the one-off impact of operating model changes.

Cautionary statement concerning forward-looking statements

This document contains 'forward-looking' statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook 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 United Spirits Limited („USL"), anticipated cost savings or synergies, expected investments, the completion of USL's strategic transactions and restructuring programmes, anticipated tax rates, expected cash payments, outcomes of litigation, anticipated deficit reductions in relation to pension schemes and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside USL's control. USL neither intends, nor assumes any obligation, to update or revise these forward-looking statements in the light of any developments which may differ from those anticipated.

Media enquiries to:	Mona Kwatra	+91 98 2021 0441	Mona.kwatra@diageo.com
Investor enquiries to:	Nidhi Verma	+91 97 6940 1515	Nidhi.Verma@diageo.com

DIAGEO
INDIA

Q&A CONFERENCE CALL

Anand Kripalu, Managing Director and Chief Executive Officer and Sanjeev Churiwala, Executive Director and Chief Financial Officer will be hosting a Q&A conference call on Thursday, **1 November 2018** at **12:00 pm** (IST time). If you would like to listen to the call or ask a question, please use the dial in details below.

A transcript of the conference call will be available for download on 7 November 2018 at www.diageoindia.com.

Conference Access Information

Option 1

Connect to your call without having to wait for an operator. It's easy, It's convenient, It's effective.

The above button has been hyperlinked for this specific conference only and should not be reused for other calls.

Option 2

When using dial-in numbers mentioned below please do so 10 minutes prior to the conference schedule to ensure that you are connected to your call in time.

Universal Access	+91 22 7115 8151
	+91 22 6280 1250
Local Access Available all over India	+91-7045671221

International Toll Free

Hong Kong	800964448
Singapore	8001012045
UK	08081011573
USA	18667462133

International Toll

Hong Kong	85230186877
Singapore	6531575746
UK - London	442034785524
USA – Los Angeles	13233868721