Diageo

Q&A Session

Ivan Menezes -CEO

Hello, everyone and thank you very much for joining the call. Hopefully you've had a chance to absorb the news on our results that we released today. I'm here with Deirdre in London. And the two of us are going to be here to handle your questions. So without any further ado, let's get into the questions.

Simon Hale - Barclays

Good morning, Ivan. Good morning, Deirdre. A couple of questions, if I can, please. Firstly, just on emerging markets growth in the year. I know you had a tougher second half of the year. But back at the half-year stage, you said that emerging markets sales were up a little over 1% for the first half. I wonder if you could give us that number for the full year.

And then related to that, clearly, that headline sales then was impacted by the de-stocking and the other one-off issues we saw in 2014. What do you think, Ivan, the underlying emerging market depletion or consumer off take rate was in your markets, in the year?

And then secondly, just related to that, obviously the de-stocking is going to continue, as you've highlighted, in Southeast Asia, into 2015. How should we think about the phasing of that? Is that really just an H1 issue, or do you think for the full year, we're going to see that impact? And are there any other areas where you are a little bit nervous around stock levels? I'm thinking around places like Russia at the moment, and perhaps the U.S., against a slowing backdrop there.

Ivan Menezes

Sure, let me start with the overall emerging markets situation, Simon. Good morning. If we look at what's happening, kind of region by region -- I'll just quickly walk you through it. In Latin America emerging markets, I'm confident we're ending, as we've gone into the fourth quarter and started the new year, we're in an improving situation.

In Africa, certainly if you look at our Guinness business, we've had a stronger second half than a first half. And overall beer, as we lapse Senator Keg, which will continue to be tough in the first quarter, I expect to get better. And then the issue, if you take aside the impacts of Shui Jing Fang and the de-stocking in Southeast Asia, actually our scotch business there is in good health.

So emerging markets are down about minus 2%. And that's true in the second half as well. But if you look under it, by category and by country, I see some good improvement and I see some things we won't be lapping as we get into next year.

Getting into the first quarter of next year, the two toughest things we're still lapping in first quarter are Shui Jing Fang and Senator Keg. Those were still strong first quarters. We also had a strong first quarter in U.S. spirits, which will be much slower, since we're lapping a plus nine in the North American business in the first quarter.

If I move to your stocking, de-stocking questions, I would say in Latin America, we're close to being done. There is a little more in the free trade zones. And I would expect to handle that within our first half profile.

In Southeast Asia, the momentum of de-stocking, we still have more to do, as I indicated a few weeks ago. And that will work its way through the year. Clearly, some of Southeast Asia will depend on how we -- the pace at which we see a rebound, if any, in markets like Thailand, which are still a little volatile.

But overall, I would say a little bit more de-stocking to go. We know where it is. We've got visibility to it. And Southeast Asia is the most -- the major area where we still have a bit more to go on.

The U.S. business, I'm confident we'll have a solid year in North America. The underlying trends, and demographics, and health of the business in U.S. spirits is strong. As I mentioned, I think Q1 will be a tough comparison because we were plus 9 last year. And so I expect our Q1 in the U.S. to be slower.

Simon Hale

But overall, you're happy with stock levels in the U.S. as they are, Ivan.

Ivan Menezes

Yes, overall stock levels are more or less where we have them. They move a little bit every year, but they're pretty much where we want them.

Simon Hale

Perfect. Thank you.

Ian Shackleton - Nomura

Yes, good morning, Ivan and Deirdre. Three financial questions. The medium-term guidance on margin is for an increase. I don't think that's been quantified. But if we go back to the £80 million of cost savings, that's quite a big margin increase, the 80 bps, if that all falls l through to the bottom line. Perhaps you can comment on that.

Second question was around tax rate. Deirdre's commentary early on seemed to suggest 18% is okay for this year. But there was some risk of that trending upwards.

And the third question was around interest rate. You're talking about 3.2%, I think on the embedded debt within Diageo, but obviously higher rates for United Spirits. What did we end up with, the overall blended rate for FY '15?

Ivan Menezes

I'll handle the margin question and I'll ask Deirdre to jump in and cover the others. There's a bit of noise on the line, if someone could turn off their mute, or turn on their mute button. Okay. Thank you, Ian. Good morning. On margin, as you rightly point out, we do expect to drive the cost savings, the GBP80 million, and drop that to the bottom line this year.

On overall margin, beyond that, I'd just be a little cautious. In particular, if you look at North America, the last two years, we've driven over 300 basis points of margin improvement. It's been really very substantial. And as we go into next year, we are going to get more competitive, say with our Smirnoff pricing, in terms -- we won't be looking at price increases like we have taken in the last few years. So I would expect the North America margin expansion to reduce substantially, as we put more focus on growing share in North America. So we won't have gains there -- I should be more precise -- to the same extent that we've had in the last two years.

And then there are a few other pockets of the business we do want to invest in. And as we've indicated, after savings, we are going to set aside about GBP30m to invest back into the business.

I'll ask Deirdre to pick up on the tax rate and interest.

Deirdre Mahlan - CFO

Good morning, Ian. On the tax rate, as we said in the presentation, yes, not only this year, but next year, I still expect the tax rate to be at 18%. The point that I was making in the presentation is that I'm conscious of the fact that we are moving, in terms of the mix of our markets, into a mix that is more heavily weighted now to higher tax jurisdiction, so there will be upward pressure on the rate.

And the other point that I wanted to make is we all can be well aware of what's been happening in the global environment around tax. And so, more broadly speaking, relative to policy, I'm just alert to the fact that there is more generally upward pressure on tax rates than downward pressure, although there's nothing I'm pointing to that would cause me to say it's going to go up. I just think we all ought to be conscious of that environment.

In terms of your point on the interest, the blended rate including USL is about 3.5.

Ian Shackleton

So is this because the blended rate, including USL was 3.5?

Deirdre Mahlan

Yes.

Ian Shackleton

And just on the tax, when you talk about this year, next year, are you saying --

Deirdre Mahlan

Oh, I'm sorry. I mean 2015. Sorry, Ian. For the moment, I was still in the prior year. 2014 was 18. I expect 2015 to be 18.

Ian Shackleton

Very good. Thanks for clarifying.

Deirdre Mahlan

Sorry I wasn't clear.

Mitch Collett - Goldman Sachs

Hi there. Three questions, please. Top line guidance, you obviously said you think you'll do a bit better this year or in F '15 than in F '14. At the investor conference, you said that you expect to be able to do -- I think you defined it as top quartile for consumer products companies. Is that still your expectation for this year, specifically? I know that guidance is on a medium-term basis. And I guess consensus is just shy of 4%. So perhaps if you can comment whether you're happy with that.

Secondly, I was interested in the move from a free cash flow number to operating cash flow conversion , when you talk about incentivisation. Is there anything behind that change?

And then thirdly, I just noticed that Johnnie Walker had 6% positive price mix in North America. In other regions, it's more like north of 2%. Is that pricing or mix? Is there a reason for the difference, in terms of price mix performance for Johnnie Walker between the regions? Thanks.

Ivan Menezes

Good morning, Mitch. Let me take the three in turn. As we look at F '15, the way I would categorise F '15 is we would continue the momentum you see in North America. Clearly, if economic and consumer conditions get better, we may do a little better. But I don't see that right now, so I would say it's fair to assume the trends you see this year will continue next year.

Western Europe, which has stabilised this year, I would expect stability to continue into next year. The challenges by no means are over in Western Europe. Southern Europe is still a drag on us, so continuing at about the same level in Western Europe.

And then the emerging markets, we expect improvement. But I don't expect us to bounce back to our historic growth of double digits and 11%, 12% in fiscal '15. I expect us to be somewhere in between where we are this year, and getting back to the full recovery.

So in terms of our ambition of being in the top quartile of top line performance, I would expect that to come in, in F '16, and not in F '15. And as you point out, I'd say it's a fairly good representation of where consensus is on F '15.

On the cash measure that we're changing, this is a very important shift that we're making to really focus our business on our markets, on driving efficient use of cash and working capital. The route to consumer initiative and the supply chain changes we're making and improvements we're making, I see a lot of opportunity for improvement here. We are going to measure the businesses very tightly on conversion. My goal is certainly to get to 100% conversion of operating profit.

And this is a major area of focus that Deirdre, and the supply team, and the supply directors across our 21 markets are putting into F '15 and beyond. And it's very tied into our route to consumer and supply chain initiatives. So this is within our control. And that's why we want to really incentivise management for it.

On Johnnie Walker, you are right. In North America, the growth in Johnnie Walker has been largely due to mix. Our Johnnie Walker Super Deluxe business is up substantially. We have had a terrific run on Blue Label, Platinum, Gold Reserve, very strong double-digit growth there. And that's what's driven what you see in the leverage on Johnnie Walker in North America. It's predominantly mix.

Our total Scotch business in North America was up 14%. So we've got real momentum here. And I'm delighted to also say that now Buchanan's is the number three scotch whisky in the U.S. And I guess you can figure out who it's beaten. So the mix on whisky is continuing to be very positive.

Mitch Collett

Okay, great. Thank you.

Melissa Earlam - UBS

Good morning, Ivan. Good morning, Deirdre. Three questions, please, the first two on the U.S. Could you comment a little more specifically on the on-trade trends that you're seeing?

Secondly, just to follow up, Ivan, on the comment you made that you were looking to be more competitive on Smirnoff pricing next year, just to clarify that you mean that you will be holding price, rather than being a little more tactical on promotional activity.

And then the third question is really in terms of your corporate line. I noticed there was a GBP19m benefit in organic EBIT, coming through there. And I was just wondering if you could give a little clarity of what exactly that is. Thank you.

Ivan Menezes

Sure. First, on the U.S. on trade. Good morning, Melissa. The U.S. on trade has still not come back, is the way I would characterise it. If you look at the most recent data, traffic is still very challenged, so you're not getting more Americans going out. What is interesting, though, is that they're going out on fewer occasions and spending a little more.

Now within the segmentation of on trade, the high end bar and restaurant business, particularly in the metropolitan areas, continues to be very strong. So this is the classic American consumer story. We're seeing the top end of the business very healthy, very strong. Our reserve brands in the on trade, whisky brands, Bullet, Johnnie Walker, Don Julio, all are double digit in the on trade.

But in mainstream America, and certainly in casual dining, it is still very challenged. And I would expect, as consumer confidence picks up a bit, and you get some of the GDP and consumer spending coming back, I do expect that to improve, but we haven't seen it yet. So I would still characterise the on trade as challenged.

On Smirnoff pricing, you're right. We will not be taking our price as much and in as many places as we normally have. If you look over the last four years, we've taken Smirnoff pricing up 2%, 3% a year, and the vodka category hasn't moved. So our relative positioning has got hurt, as it's a pretty competitive space.

Will we promote more? I do expect us to be more active, to get feature and display in the key channels where premium vodka participates. But we will manage that all in the context of holding our pricing and leverage through the P&L. I still expect us to get about a point or north of a point of pricing in the U.S. in fiscal '15.

Corporate costs. The GBP19 million reduction in corporate cost is really a cost reduction. We've done a bunch of things to really tighten up our belts. I think you may have heard me on the webcast talk about the examples. And that really has come from our focus on driving out cost in every aspect of the business. It's lots of little things, but they add up. And we will continue to keep that relentless focus on cost.

Chris Pitcher - Redburn

Good morning, Ivan and Deirdre. A couple of questions. Firstly, on the margin outlook. You mentioned the £110 million, £30 million was going to be reinvested. You said the cost savings would be equally spread by the regions. I was wondering whether that reinvestment is equally spread, and whether it includes promotional support or the pricing support that you're talking about for Smirnoff in the United States.

And also, I might have missed it, but I don't think I heard an outlook for cost of goods inflation this year. If you could give us, that would be helpful.

And then secondly, a question on the culture. You mentioned that 70% of your staff were demonstrating behaviour that you think is conducive to achieving your target. Could you give us a bit more clarity on what's happening with the other 30%? And then, specifically on the executive remuneration, how you feel that you've done versus targets and how you, yourselves, are aligned to delivering a recovery next year, and whether within that corporate cost saving, whether that's lower bonus accruals, year on year.

Ivan Menezes

Let me take the last one first. Yes, obviously our bonuses are way down this year, so in part of the cost savings, you are seeing lower bonuses, and you'll see this in our remuneration report in a couple of weeks. And the exec remuneration, I can assure you, as you'll see in a few weeks, is tied to demanding targets. And you'll see that as well when our Rem report comes out.

On the investment of the GBP30 million, it's not price and promotions that we're putting it back into. It will be in route to consumer and in brand support, so that's where it would go.

Your question on COGS, there's going to be modest increase. And we've got pretty aggressive productivity programs to offset some of the commodity costs, inflation. But I would say you could expect, overall -- we haven't given the number deliberately. You could expect modest increase in COGS.

Trevor Sterling - Sanford Bernstein

Good morning, Ivan and Deirdre. Two questions from my side. First one, on the U.S. What happened to your value share in the United States last year? And what do you think you can do to improve that trend in F '15?

And the second thing. In Southeast Asia, how exactly did you end up with quite as much stock in Southeast Asia, and what's the learning you take away from that, to avoid getting into the mess again?

Ivan Menezes

Yes, thanks, Trevor. Good morning. U.S. value share, if you take the total U.S. spirits business, which is how we look at it, so it's IRI, Napa, the open states, where you have independence, the on premise, we would have held value share in the U.S. We did not grow. We held.

So I see, going into fiscal '15, this fiscal year, Larry and the team have a very clear focus on growing share. The key brands we need to address are Smirnoff, Captain Morgan and Crown Royal. As you know, our reserve business is doing amazingly well. Our whisky business is very strong. These are the three focus and priority brands. We are putting a lot of focus, not just in marketing, but on premise execution, and distributor focus and incentives, around getting execution on these brands right.

There's a big turnaround, a revitalization initiative on Smirnoff, from advertising, to packaging, to innovation, to retail execution, to on premise programming.

So that's going to be key. I do want to see us get back into share growth in U.S. spirits. This is the engine of our company, as you know. And this year, we were flat. And that's disappointing. So that will get addressed, as we go into fiscal '15.

Southeast Asia, I think you raised a very good point, Trevor. And one of the things, visibility and the learning from de-stocking, I would just point to our route to consumer initiative that we're driving across the company.

One of the key shifts within that is that I talk about -- we all talk about the precedence now is we're driving very much to create a sell out culture, particularly in the emerging markets. We have that very much in the U.S. and Western Europe. But in the scotch dependent emerging markets, we want to do that where we've got long chains of distribution, like in Southeast Asia and in West LAC. We are increasing the visibility of our sell out and depletion performance. And in fact, in our monthly performance goals, with the 21 general managers, one of the changes I've made now is we will be focusing our performance conversations around depletions in these markets, and not on shipments and NSV.

When you face volatility, as we did, and currencies move around, you are going to get a level of discontinuity. So in scotch whisky dependent, third-party oriented markets, that will not disappear. So we will always have some degree of volatility, but I expect it to reduce, as we take the stock levels down, fully intend not to rebuild them. And we have better visibility and a much more rigorous focus in our route to consumer work, on sell out and execution of sell out.

[Yaza Anwa] - THS Partners

Good morning, Ivan and Deirdre. Thank you very much for your time. I have four quick questions. When will you resolve the UDV issue with EABL? Will you ever consolidate the spirits business in Nigeria? And do you expect a breakeven with Serengeti and Tanzania this year? Thank you very much for your time.

Deirdre Mahlan

On the first question, with respect to UDV and EABL, with respect to all of our businesses, we continually evaluate what is appropriate with respect to that business. I don't think I would call it a resolution of an issue. I think we'll have to consider, going forward, how best to manage those assets. So if we believe a change is appropriate, then you'll hear about it.

The second question -- can you repeat your second question? Oh, about Serengeti. As you likely know, the operating environment in Serengeti has been challenging. We've taken a number of actions, in terms of building capabilities and on our route to consumer. And so I think the performance has been weaker than we expected, although I'm pleased to say that it is improving. So I don't know, Ivan, if you --

Ivan Menezes

Yes, I believe very strongly in the opportunity in Tanzania. As you know, ever since we made the acquisition, we had a series of issues we were working through, and we lost time. But the recent performance is steadily getting better. We made very strong inroads in getting our sales and route to market set up right. So I'm confident that you will see improved performance come through in Serengeti, Yaza.

Yaza Anwa

But not breaking even this year, but probably next year?

Ivan Menezes

I would think we'll be close to breakeven next year, yes.

Yaza Anwa

Great. And how are the Senator volumes trending in Kenya, given the excise hikes in October?

Ivan Menezes

We took a big hit in Senator Keg. It's cost us £40/50 million this year. We have one more quarter where we will be lapping it. And we are working very hard with the government to get a repeal of the excise duty because, as you know, the unorganised sector has now picked up. And that has dangerous health connotations. But we don't have that yet. So the Senator volumes have dropped substantially. And we will have one more quarter to lap Senator in Kenya.

[Mark Swatberg] - [Steiffer Nicholas]

Yes, thanks. Good morning, Ivan. Hi, Deirdre. A couple questions on the U.S. business, one just technical. Did you say price mix for the total U.S. business you expect around 1%, or was that a vodka comment?

And then specifically, as you look at your more downbeat view of the U.S. spirits outlook, is that purely a function of how you're thinking about vodka and rum, or are there other segments?

And then finally, the data shows that the beer category is getting a little better here. You're taking a more downbeat view on spirits. What do you think is causing that contrast?

Ivan Menezes

Hi Mark, and a very early good morning to you. The little over 1% I was talking about was pure price, not price mix. So that's the kind of level of pricing I'd expect in the U.S. in F '15.

Actually, your comments on spirits, maybe I missed something I don't recognise. I'm very confident about the underlying trends for the spirits category in the U.S. There is one chart I draw everyone's attention to in the presentation I made this morning, which is my favourite chart about the U.S. And what it says is that if you look at young Americans, 21 to 24, and there are four and a half millions Americans turning LDA every year. Their propensity for spirits consumption is much higher than prior years.

Secondly, if you look at multicultural, and if you look at the Hispanic population in particular, their propensity for spirits consumption is higher than the general market. So everything I see on the spirits sustainability is unchanged.

I think what you're facing right now is a couple of factors. One is that I'd say the on trade is tougher and we're not seeing the pickup there. But overall spirits, even in this environment market is growing 4%. It's not growing 5%. It's growing 4%. But it's certainly taking share away from beer, and I would expect that to continue.

Mark Swatberg

Thank you, Ivan. Just a follow-up on that. And maybe this just boils down to comparisons, but spirits is decelerating, at least from your perspective, on a total industry basis. Beer is accelerating, so again, it's not like spirits is losing share, but the pace of share taking is moderating a bit. And I'm just wondering, is that a function of what's going on in vodka? Is it purely comparisons? Is it the on-trade dynamic? It just seems like that trend that's been so favourable is starting to reverse a little bit, in favour of beer, at the expense of spirits.

Ivan Menezes

I think it's a good observation, Mark. I would say you look within beer, craft is now, what, 10% of the market, right? So what you've got is dynamic in beer is clearly being favoured by what's happening in craft beer and the interest that that category is provoking. And also, it's picked up momentum in the on premise. That is probably the biggest increasing shift happening in beer.

On spirits, we look at underlying consumer data and what's happening, in terms of what people are drinking, the penetration of the various categories. I know there's a lot written about vodka, the end of vodka. But vodka is still growing 4% in the U.S. I would not write off vodka just because we've had a couple of quarters of slower growth.

So I would not say there is a shift in secular trends here, in all the underlying data that we look at. The market is slower, and I'd say that the premium and below brands are more pressured. But that is the consumer economic scenario in the U.S. that's driving that. That's where the pressure is. The premium brands, premium plus and above, in the U.S., the category is growing at nearly 10%. So the trend to trading up continues very strongly. Whisky, as you know, is very hot, but vodka too is driving a quarter of the growth in the U.S. spirits market.

So quarter to quarter, there are some shifts. We don't believe they point to any structural change in the attractiveness of spirits going forward.

Andrea Pistacchi - Citigroup

Yes, good morning. I have a couple of general questions on emerging markets, please. The first one is about the medium, long-term growth there. In the past, you've delivered double-digit sales growth in most years. Now on the one hand, the scale of your business now is a lot greater than it was a number of years ago. But pickup consumption of international spirits is still incredibly low in a lot of places. So do you think, as we come out of this downturn, double-digit growth is still a sustainable number for emerging markets?

And the other question is about the pace of the recovery in emerging markets. In 2010, I think the EM sales recovery, when it came, was fast and pretty sharp. You seem to be expecting a more gradual recovery this time, despite the fact that you'll be comping a lot of de-stocking in some markets. So is this more gradual recovery that you're expecting a function of the macro, or are there any other specific factors?

Ivan Menezes

Thank you, Andrea. On the emerging market, medium, longer term growth expectations, I do expect us to get back to solid growth, getting to the double-digit growth, medium term in emerging markets. Why do I say that? It's your point. The penetration levels of both beer and spirits, and the per capita consumption still have a long way to run. Total beverage alcohol in the emerging world per capita runs about half that of the developed world.

But then you look at places like Africa, where beer is still one-fifth the level of North America per cap. Spirits is one-tenth the level of North America per cap. So that and the demographics, with the 1.3 billion emerging middle class coming through, I'd say all those fundamentals are intact. The outlook for growth in beverage alcohol is still robust. And the trading up phenomenon is still robust.

As it relates to the trajectory of coming back, we are still cautious on the macros and the external environment, looking at F '15. And you just need to go around the world, right? You look at Thailand. Do we expect a bounce back? No, we don't. The environment is still uncertain. South Africa is tougher. Russia is clearly uncertain. Even places like Mexico and Brazil, there's a lot of uncertainty around, well, in Brazil, how the elections play out and what happens to GDP growth. Mexico, that's heading in the right direction, but we've got to see it in consumer spending and constants coming back.

So we're cautious, in terms of the pace of recovery. We clearly expect a stronger F '15 than we had this year. And I do expect to see improvement in every region, but I don't expect it to come back to double digits in F '15.

Nik Oliver - BofA Merrill Lynch

Good morning. Thanks for the questions. Just one more follow-up on North America. I think in the past, you talked about a growth model split broadly, one-third volume, one-third price, one-third mix. Does that still hold, as an ultimate aim, or given strong growth in premium, are you more agnostic, if we see more growth coming from price mix over the medium term.

And just one the FX guidance, about 160 million hit. Could you split that out between transactional and translational? And just remind us how you hedge your transactional exposure, and over what period. Thank you.

Ivan Menezes

Good morning, Nik. Thank you. On North America, I do want to see more volume come through. And this gets back to our premium core brands have to perform better, Smirnoff, Captain Morgan, Crown Royal in particular. So the right algorithm and ambition still is to get to a third, a third, a third, as we are more tilted towards price and mix in the last few years and we have pretty clear strategies now to ensure we get better volume performance. I don't expect it to come through immediately, but I think sequentially, you will see us get improvement in our volume performance in North America.

On FX, I'll ask Deirdre to respond.

Deirdre Mahlan

On FX, the translation is about £90 million and the rest is transaction.

Nik Oliver

And just on the hedging of that transactional, is that a rolling 12 months, just to think about how the impact drops through, going forward?

Deirdre Mahlan

Well we currently have, for example -- it varies from currency to currency. We currently are about 65% hedged for this fiscal year. We hedge anywhere from a year and out to 18 months. But it's about 65% hedged.

Anthony Bucalo - Santander

Good morning. Two quick questions, one on whisky, specifically the Irish whisky portfolio or the key brand you have there, and your bourbon brand, Bulleit. You've got two of the hottest categories in global spirits right now. Do you think you're getting enough out of your Irish Whisky brand, just in terms of the rate of growth?

And the Bulleit pricing didn't look particularly aggressive. And on a very robust volume base, do you think there's some room there to take some extra pricing, as that brand strength seems to be very high?

And then the second question is -- or I guess the third question is on how are we thinking about Shui Jing Fang now? It appears to be, I guess broken from the outside. Is that the fair way of looking at it, or is this just going through a re-base, and we expect things to get better, as we go forward?

Ivan Menezes

Great question. Thank you, Anthony. On whisky, I would say, first on Bulleit. Bulleit is, as you know, is the fastest growing bourbon right now. It's doing extraordinarily well. What you see in the price mix is more a function of us building it globally. I'd say the pricing bar and strength in Bulleit is strong. And you'll see us continue to take that in the U.S.

Irish whisky, when you look at our performance on Bushmills, it is mixed. In the U.S., it's not doing well. And I would say our main competitor there has really transcended the Irish category. We have tried hard over the years to get this brand into growth, and we've struggled. So in the U.S.

market, it's not performing well. We've got a little better growth in pockets of Eastern Europe and Russia. But Bushmills, overall, as you've seen in our numbers, was up about 7%.

On Shui Jing Fang, we have -- in fact, Deirdre and I, just yesterday reviewed the business with the China leadership again. Just to keep in context, the Baijiu category is still very healthy and very profitable. What has been hit has been a piece of the super premium consumption that was oriented towards gifting and government entertaining, which is a small segment of the total market.

What we have at Shui Jing Fang is a very contemporary, modern brand. And what we are focused on is building this brand, for private consumption, back up again. We've picked six regions in China. We are innovating. We are extending the price points now to RMB400 to RMB500, taking it down. It's still GBP40 to GBP for a 50cl bottle. And I'm confident, off this base, you will see us build an attractive business again. This participation is strategically very important for us because it gives us access to the with-meal occasion in China, which is the predominant consumption occasion for alcohol.

So I see strength in the route to market emerge. We are now, in parts of southern China, looking at consolidating our route to market with Diageo China brands and Shui Jing Fang. And that should give us a benefit. As we look at launching Haig Club in China, that too is going to go after the with-meal occasion. So overall, I expect recovery on Shui Jing Fang, and I'd say it's still strategically a very important piece of our overall China strategy.

Anthony Bucalo

Okay. So no expectation of any more shoes dropping on this asset, anytime soon.

Ivan Menezes

I would hope not, no much further to go.

Chris Wickham - Oriel Securities

Yes, thank you. Just a couple of questions. I was wondering, given where we are -- you've talked a lot about Benelux. You've talked a lot about some of your brands that have done so very well in Northern Europe and in Scandinavia. We get that sense, obviously that in Southern Europe it's flattening. I'm just wondering why you can't be a little bit more upbeat about Western Europe, going into F '15. In particular, you've clearly promoted your leader there. You think he's done a good job, and you're giving him an enlarged bailiwick.

And the second thing, which closely relates to that, I was just wondering what you can say that's positive about the Guinness brand in particular, going into F '15, what sort of changes we should expect to see and what kind of performance.

Ivan Menezes

On your first question, my expectation of John Kennedy is exactly as you laid it out to me, so I'm expecting bigger things out of him. But I'd just be cautious about the external environment on

Europe, because -- and that's why we're saying holding to stable. We certainly internally would like to do better, but it will depend in part on the external environment.

What I would say about Western Europe is we're growing market share now. And this is a big shift from where we've been over a few years. In the spirits market, we're up four-tenths of a percentage point of market share. And I just want to keep that momentum going, with innovation reserve and our route to consumer, with significantly expanding sales forces across Western Europe. This is one of John's big initiatives. So you're right to expect better performance. We're being cautious about the environment.

On Guinness, I would say I am feeling confident about far better programming and focus behind the brand, going into fiscal '15. If you just look at Africa, even in the second half, we got better performance on Guinness. In the first half, the brand was down 2% in NSV terms. In the second half, it was up 3%. We have done quite a major revitalisation on packaging, advertising, and our route to consumer chain. So I'm feeling good about Guinness in Africa, going into fiscal '15. And we actually have a very exciting new campaign, breaking in a few weeks, which you will see going across Africa.

In G.B. Island and the U.S., the equities, of course, are improving, but they haven't yet converted into accelerated volume momentum. I think we feel confident we'll see better performance in these markets in F '15, than in F '14. So overall on Guinness, I think you should expect us to do better in fiscal '15, compared to F '14.

Great. Well, thanks, everyone for joining the call. And Deirdre and I look forward to meeting up with you over the next few months. And all of you enjoy a great summer, and all the best from us at Diageo. Thank you.