Diageo plc

2010 Half Year Results

Question & Anwser Session

Operator

Thank you. [Operator instructions]. Our first question is from Simon Hales from Evolution Securities.

Simon Hales – Evolution Securities

Good morning, everybody. Three questions if I can. Firstly, obviously going into the end of the first half, you saw organic profits down 3 per cent. Obviously for the full year, you're still guiding towards low single-digit growth in operating profit. If my math is correct, that would suggest you're going to have to see a Half 2 growth rate of somewhere between 5 per cent and 15 per cent organically to get you into that range. Now, given that we're going to see an up-weighting of A&P spend in the second half, is there any particular areas you can point to where you're already starting to see significant improvements in profitability in the current quarter?

Secondly, on the corporate expenses in the first half, obviously a big swing there. Nick, could you just clarify how you expect that to trend in the second half. I think in the second half of last year the corporate line was a negative 115m, and I should be expecting that to be broadly flat.

And then, finally, on the cost savings that you delivered in the first half, how much of that out of the 120 you're targeting for the full year has actually already been realised?

Paul Walsh

Okay. I think kind of all of those questions are somewhat intertwined, because clearly the nonrecurring nature of corporate expenses and the acceleration of cost savings in the second half contribute to our confidence of a better second-half performance, and therefore, our ability to reiterate our guidance.

But maybe, Nick, you can take the specifics of that.

Nick Rose

Yeah. On the corporate cost element, which is one of the impacts, if you like, in the first half that's holding our profit growth down, we're not expecting that, if you like, to trend forward to/through the full year. In other words, the 40 to 50m hit that we've taken, we are not going to see that double to 100. In fact, if anything, I think it could be actually slightly less in the full year than where we are in the half-year.

So in terms of the underlying point of your question, Simon, where is the increased profitability going to come from in the second half? That is definitely an area where we won't see the same proportion of drag.

In terms of the cost savings, obviously we're looking in total for about 120m. That's what we announced when we put the programme together. The majority of that in overhead, you'll remember some of it was going through cost of sales. The majority of it in overheads. And actually, we're broadly on track for about half and half, and so there's not going to be a disproportionate effect either one way or the other between the savings from the restructuring programme first half to second half.

Simon Hales

Okay. And just in terms of the underlying momentum in the business as you go into the second half, obviously clearly in the second quarter, running up to Christmas, you should see an improvement in organic sales growth. When you look at somewhere like the US, where you were seeing that sort of tick-up in sales in that they improved in the second quarter, as you go into the first quarter, given the strength of the holiday season, are you seeing wholesalers restocking to some degree?

Paul Walsh

Well, I'll ask Ivan to comment specifically on the US. But I think a reasonable assumption is that we will not see restocking by distributors in many markets. Our experience is that once our customers get used to operating with lower inventories, they realise the efficiency gains from that, they are very reluctant – as we are – for them to restock.

So our guidance does not assume any fundamental restocking. But Ivan, maybe you can talk to depletion trends in the US.

Ivan Menezes

Sure, Simon. I would say our outlook for the second half is not based on a consumer recovery in the US. We did have a strong – a pretty strong holiday, but I'd say the economic and consumer environment is still tough out there, with unemployment, with the on-premise still weak, even in January was very weak. And so we're working for the next couple of quarters assuming the US consumer environment is still going to be tough. And as a result, our outlook is based on those assumptions.

But however, our plans are to continue to invest behind our brands. We will have a step-up in advertising in the second half, in our priority brands. We have a strong programme of innovation. We have our route-to-market and sales execution strength, which we're taking to the next level. And that's what's behind our outlook for H2. It's not helped from the external environment.

Paul Walsh

It's very interesting. As we look at how consumers react to our brands, we clearly need an improvement in GDP. You need to see unemployment start to ease. And that in turn leads to revitalised consumer confidence. And it's when you get that third element that I think we can start to expect to return to former growth levels. And we do expect to see that return.

Simon Hales

Thank you very much.

Paul Walsh

Next question.

Operator

Next question comes from Ian Shackleton from Nomura.

Ian Shackleton – Nomura International

Good morning, gentlemen. I have two questions. Firstly, although on the US you're quite cautious looking forward, the performance of spirits versus beer. Spirits group looks a lot better, as we've seen beer falling quite dramatically in volumes in the last few months. And I wonder if you just have any thoughts of why spirits was holding up more resilient than beer, and how you saw that trending through 2010.

And the second question was around de-stocking globally. I think Paul, you referred to pockets of de-stocking still being visible in this first half. I think it was mentioned particularly the US, China and Eastern Europe. Do you really have a sense that we're through all of that, or are we still going to feel – hear – comments about that as we go into Q3 and Q4 of this year?

Paul Walsh

Let me talk to the de-stocking issue, and then maybe Ivan can share his insights on the trends around beer.

Of course, stock levels are a function of how you see the business in the future. And I think if we see more confidence returning to these markets, then you will de facto (even with constant inventories) see the number of days come down. If you don't see confidence, and the forward outlook is more negative, then there will be a need to take further stock out. I don't anticipate that, but it is the reality of what we're dealing with. We are not anticipating further de-stocking, but it's a function of your confidence in these markets in that regard.

Before Ivan talks to beer, we are very pleased with our total beer performance. If you look at total beer in the half, it was up 5 per cent. We think that stacks up very, very well against the category on a global basis, so we're pleased with that.

But Ivan, specifically, US trends?

Ivan Menezes

Sure. If you look at what's been happening in the last 12 months, you have spirits growing volumes about 1 per cent and value in the 0 per cent to 1 per cent, the spirits industry. Beer is down 1 per cent to 2 per cent, but value in the 0 per cent to +1 per cent. There has been a shift in volumetric share, but I would say we don't see this as a structural shift in consumer behaviour. If you look at what's happened in the industry, both with innovation and spirits and the growth of vodka, where actually a lot of the – 70 per cent of the growth in the industry is coming out of vodka. That's in part where some of the adjustments are taking place.

We see the sweet spot absolutely remaining premium brands in the spirits space. So for us, Captain Morgan, Cuervo, Crown Royal, Smirnoff – these are the brands which we actually see, even in this environment, consumers are resorting to and staying true to, and that's where we're directing a lot of our money.

So spirits volumetrically is looking robust – +1 per cent. It's not the growth rates we saw a few years ago. But looking at F'11 to your question on outlook, I would say we see a similar trend – spirits about +1 per cent in volumes and the 0 per cent to +1 per cent in value. And in beer, slightly lower. About flat in beer.

If I just take a minute in beer, there are interesting dynamics within the beer segment which are clearly at play. Interestingly, all the growth in beer is really coming out of the craft segment right now, which is, as you know, higher priced and premium. And that's where there's very strong growth right now.

Guinness, for us, is performing well. We had a good first half on beer and we've grown share with Guinness in the important beer segment.

So overall, I would say, Ian, yes there have been some shifts in the last year. I don't see them as structural and starting a big trend. Over time, spirits – if you look at the last 10 years – has gradually gained share of total beverage alcohol volumetrically, and that trend is continuing.

Ian Shackleton

And Ivan, just quickly, I think you referred earlier to January being a bit weak. It obviously seems to have been extraordinarily weak for the beer industry. Is that just a comment on weather and it's a small month? Or is there any sign of any changes really in the dynamics of spirits as we go into calendar 2010?

Ivan Menezes

Firstly, it is a small month, so I wouldn't read too much into January. But clearly, as we talk to our distributors and look at the depletion trends in spirits and wine as well in January, they were disappointing, which is why I think in this environment – even though we had a good December, as Paul talked about – we're cautious, Ian. And I don't think, when you look at all the data points in the US from GDP to unemployment to retail sales in January more broadly, you get a bit of a mixed picture.

But for us, for example, the on-premise is a very key indicator of is consumer confidence coming back and spending levels going up in our sector, and that was still weak in January. So we don't, as I said, anticipate in the second half a strong recovery. We expect things to stay sluggish.

Paul Walsh

And that is what our guidance has been predicated on. But if I can just pick up on the beer point, I find it very encouraging that where you have seen a migration from on-premise to off-premise, the consumer has taken that preference for spirits into the home, despite the inherent inconvenience of that versus a beer offering.

I think five, seven, eight years ago, you may not have seen that. And the research that we continue to see is that yes, people may be dialling back on their spend, but they still aspire for the experiences and the brands that we can provide. So we're encouraged by that.

Next question, please.

Operator

Next question comes from Trevor Sterling from Sanford Bernstein. Please go ahead.

Trevor Sterling – Sanford C. Bernstein & Company, Inc.

Good morning. One question, please. If you looked at the Q3 of last year, organic sales was down around 7 per cent. A reasonably large component of that was de-stocking. Have you any estimate of how much of that was underlying and how much of it was de-stocking?

Paul Walsh

I'm not sure that we've actually disclosed that, and therefore I don't think we're equipped to answer your question.

Trevor Sterling

Okay, thanks, Paul.

Operator

Next question comes from Erwan Rambourg from HSBC.

Erwan Rambourg – HSBC

Yes, hi. Good morning. Erwan Rambourg, HSBC. One question for Ivan, going back to the US. We've seen the shift from on- to off-trade. I was just wondering, do you think this has – before we look at a reversion of trend – do you think we have now stabilised in terms of the share of business between on and off? Or do you still see in recent months that shift continuing to go from on to off?

And then secondly I had a question for more Paul and Nick on balance sheet strength. You were mentioning the balance sheet strength, and the fact that you're not looking to buy back shares at this point. Can you use this balance sheet strength to look at potentially additional brands or potentially invest in route-to-markets in certain areas?

And then thirdly, I just wanted to make sure I understood how the marketing spend would develop in H2. Should we expect marketing spend to be in line with sales growth for H2, or over the full year?

Thank you.

Paul Walsh

I think on marketing spend, we've suggested that in the second half it will be a little ahead of the sales growth. So therefore overall you'll see an improvement in the full year regarding percent of sales invested in marketing.

Regarding the buyback, you talk about other opportunities for investment. We would always fully fund the growth opportunities within the existing business as we see them. Equally, we are always alert to opportunities to expand our business. But we are very disciplined around that expansion criteria. And there have been a number of opportunities we have walked away from. And I would say, judging on certain category performance, we're very pleased that we have walked away from them.

So the first priority on cash is to fund the business and fund our existing growth opportunities. Secondly, we will look at M&A activity. And then we will look at returning excess to shareholders. And that philosophy has not changed at all.

And going into this environment, we took a very conscious effort to focus on cash, because whatever interest rates are, implicit in the current market dynamics is an increased cost of capital. That may not be calculable because of falling interest rates, but it's implied. And we have to recognise that, and I think the cash flow that we've demonstrated does exactly that. It shows what we can generate from a cash flow point of view. And further strengthen our balance sheet.

Regarding the on-premise trend, particularly in the US, before Ivan comments, on a global basis we did see more revitalisation in the on-premise over the holiday period. And I interpret into that people still want to go out, but they don't either have the disposable income or the confidence to spend that disposable income at the rate they used to. But their fundamental desires have not changed.

When we fully see a recovery in the on-premise is very, very difficult to call. It will vary by market. But certainly the research that we did over Christmas shows that there is still a demand, a desire, for consumers to go out, enjoy themselves with premium brands.

Ivan?

Ivan Menezes

Sure. Erwan, I would say the trends are still with the on-premise in decline, though it's declining less than it was a year ago. So if you look at calendar 2009, we estimate the on-premise industry was down about 3 per cent. Off-premise was up about 2 per cent. In the last quarter and into January, as I said, on-premise is still in decline.

However, I think there are a few things about the US market which are important to remember here. One is the on-premise is about 25 per cent of the total market. Second, our profitability – given the three-tier system – and margins are pretty aligned across on- and off-premise. And thirdly, I would say we view the on-premise coming back as actually a very important leading indicator of consumer confidence and the industry coming back.

We are not seeing structural changes in consumer behaviour that would suggest the on-premise won't come back. It's purely an economic issue, in our view, and as the consumer confidence and consumer disposable income picks up in the US, we expect to revert back to the norm. And indeed, that will help our view that price mix and premiumisation will also return when that happens.

Erwan Rambourg

Thanks a lot. You're saying the market is 25 per cent on and 75 per cent off. Are you in line with that?

Ivan Menezes

More or less, yes we are.

Erwan Rambourg

Okay. Thank you very much. Thanks.

Operator

Next question comes from Jamie Isenwater from Deutsche Bank, London.

Jamie Isenwater – Deutsche Bank

Good morning, gentlemen. Just two quick questions. The first one, in terms of the GB performance, which obviously strong volumes, up 6 per cent. I was wondering whether the one-off stocking of Marks & Spencer's had a material impact on that number.

And the second question, back to Ivan, given the budget that's in the US, can you give us a bit of an update on whether you see any risk in terms of FET or any major state tax increases, either? Thanks.

Paul Walsh

I will ask Andrew to talk about GB performance, which was very, very strong. And then maybe Ivan, you can handle the next question.

Andrew Morgan

Jamie, the short answer to your question is no, de-stocking in Marks & Spencer's was not a material part of the performance in GB. One hopes it might be at some point in the future. The strong performance in GB was largely based on market share gains in the grocery channel. We've been working at collaborating much more closely with our big customers in the grocery channel to build category, and at the same time, brand share. So we've got that perfect example in the UK business of the spirits category being up 6 per cent and Diageo spirits being up 14 per cent over the three months leading up to and including Christmas. That's exactly the kind of win-win relationship with our customers that we're trying to build. And we saw share gains right across scotch with Bell's, Smirnoff in the vodka category, Gordon's in the gin category. So a strong performance in grocery leading up to Christmas was really behind the GB performance.

Paul Walsh

And I think on the Marks & Spencer issue, my understanding is that they are testing brands in certain outlets. It's not a declared strategic shift at this point in time.

Andrew Morgan

No, they're running tests in a number of consumer goods categories of branded items, and one of those is vodka, and we've been participating in that with Smirnoff.

Paul Walsh

But it's quite small.

Andrew Morgan

Yes.

Paul Walsh

Ivan?

Ivan Menezes

Clearly, the issue of the deficits both at a federal and state level do give us and the industry concern. However, I would say right now, in terms of calendar 2010, we feel reasonably confident at the federal level that we will avert an FET. At the state level, we literally have battles in every state going on. I think as an industry across suppliers and distributors and retailers, we are very well organised to fight it.

And the key things in our favour is in this current, tough consumer environment, our industry, the hospitality industry, drives a huge number of jobs, and we view alcohol taxes – which are already very highly taxed – as a tax on the middle class. And that's the message we're taking to state capitals and to Washington. And I'd say I feel cautiously confident that we will prevail on the federal level, and we've got to fight the battles – and we're winning many of them at the state level. So by no means is the threat over, but I'd say the industry is well-aligned and organised to ensure we keep some more change in the consumer's pocket.

Paul Walsh

And raising alcohol taxes is very unpopular with the voters. And it's quite interesting that in Ireland, we've actually seen a 20 per cent reduction in excise tax on our product. So hopefully other countries may take a leaf out of their book.

Jamie Isenwater

Great. Thank you very much.

Operator

Next question comes from Melissa Earlam from UBS. Please go ahead.

Melissa Earlam – UBS

Hi. Good morning. I have two questions, please. The first one I guess is a question for Nick. Can you give us an idea on the COGS inflation that you saw in the first half, and how that will compare to your full-year expectation, which I think sounds like kind of flat to +1?

And secondly – and I guess this is a question more for Ivan – in the second half, you said that in the US you were expecting the consumer to remain weak, and that is consistent within your guidance and your budgeting process. Does that mean you are not expecting to take prices up in the US in the second half of fiscal '10? Thanks

Paul Walsh

Nick, on COGS?

Nick Rose

On COGS, Melissa, we came into this year expecting COGS to actually grow at somewhere between 4 per cent and 5 per cent, and that was our planning assumption. The first half has turned out to be more like 2 per cent, and the way I think the world is trending – particularly commodity prices – there's a good expectation that it will be about that for the full year. Of course, within that 2 per cent, there is quite a mix. What I'll call the traditional Western part of our business – Western

Europe part of our business – COGS are actually flat to marginally down. But having a large part of our business with some local production in international markets, including Africa, you're seeing a cost increase that's more than the average. So that, too, is a blend of some very favourable now and some still relatively increasing. But that 2 per cent is significantly different – and lower – than where we came into the year, where we expected more like 4 per cent to 5 per cent. And that's what – that 2 per cent is broadly what I expect for the full year.

Melissa Earlam

Great. And just to clarify on that, you would expect below the 2 per cent in the US as well?

Nick Rose

Yes. And in fact, one of the things you may not have seen, but we actually talk about a small gross margin improvement in the US. And part of that is that because relatively, across the globe, cost of goods in North America is actually pretty good, compared even to the average of 2 per cent.

Paul Walsh

Just on pricing, before Ivan comments, I would not anticipate kind of raw pricing in the balance of this fiscal year from a global perspective. Now, we will price for currency. If we're operating in inflationary environments, we will price for that. But as a sort of general philosophy, I think the next four months – which is the balance of our fiscal year – probably no major price moves.

However, we will remain alert to it. Certainly as we enter our new fiscal year.

Ivan Menezes

Sure. Melissa, I would say we are at the bottom of the cycle on discounting and promotional activities, and so we don't anticipate that deepening as we go into the second half. Secondly, I'd say to Paul's point, we would – our approach is really to keep our brands strong. We will be taking up advertising spend in the second half against our priority brands. And looking for the signs of recovery and consumer confidence – those early indicators I talked about – and that would be our trigger to move back into a cycle of price increases.

Right now I don't see it in the second half. However, when you look at what we're lapping this half versus the half last year, I do expect there to be a slight improvement in gearing in our performance in the second half of this year versus last year.

Melissa Earlam

Sorry, just to clarify, Ivan, you mean an improvement in price mix in the second half of the year, because promotional activity abates somewhat.

Ivan Menezes

A slight improvement, yes. But not through price increases. It’s against the reduced – the bottoming of the discounting and promotional cycle.

Melissa Earlam

Got it. Thank you.

Operator

Next question comes from Matthew Jordan from Matrix.

Matthew Jordan – Matrix Asset Advisors

Yes. Good morning, gentlemen. I have two questions. Firstly, if I could just pin you down specifically on the US stock level. I know there have been a couple of questions about this already, but you commented obviously that sales were a little stronger than you anticipated at the start of December, post-Thanksgiving, and therefore maybe stock levels had run down to a lower level than you might have expected. However, you’ve also said that January was fairly weak. So do we therefore assume from that that there will be no re-stocking as it were in the US market?

And my second question was just on operations in Venezuela. Obviously you referred to a GBP25m currency hit, but could you talk about consumption and how you expect to manage that business going through the next six to 12 months?

Paul Walsh

Maybe on the Venezuelan situation, Stuart can comment. Regarding the US, first of all, we’ve got to keep January in context. It is a very, very low month. But generally speaking, we would not anticipate any restocking. So the under-shipment in December, on our part, that was quite deliberate, borne of soft sell-through in Thanksgiving. You should not expect to see coming back. That is the underlying assumption.

Stuart, Venezuela.

Stuart Fletcher

Yeah. Matthew, in Venezuela, there obviously is quite a difficult economic situation there, with oil revenues falling, disposable income under pressure. And as a result, particular in our imported business, scotch volume was down 11 per cent, in fact, in the first half. But because of the local inflation levels and the FX issues, we’ve been pricing up to cover that cost in FX, and as a result, actually our scotch revenues were up 16 per cent in the first half.

So we are seeing some reduction in the ability and willingness of consumers to spend within the import category. Having said that, as you know, we have some very strong brand properties there in

Buchanan’s, in Johnnie Walker and indeed in Old Parr. And so our investment behind those brands is very targeted, but we continue to believe in those brands. And as I say, our net sales grew.

One of the great pluses that we have in Venezuela in our portfolio is a very strong local portfolio. So Cacique rum is a very healthy brand there. And in fact, what we’ve seen is people switching into rum as they become slightly more challenged from a disposable income perspective. And our Cacique volume was up 11 per cent. But actually our net sales in rum grew about 50 per cent. Part of that was pricing to recover inflation. The rest of that actually was seeing some premiumisation within the rum category.

So we’re seeing Cacique Calientes, the 500 version of Cacique, starting to take volume where people might be moving a little out of scotch because of the relative price points. So for the second half and on, we continue to drive very strongly behind all of our brand equities. Very clear that rum continues to have a very strong role for us there, Cacique and Aniversario. And we continue to be very agile in what is quite probably the most volatile market environment we’re operating in in Latin America. But operating very successfully. We have a lot of track record of operating through those difficult times.

Paul Walsh

Thanks, Stuart. Now, I understand we’ve got quite a queue of questions and time is marching on. So if I can ask that you restrict your question to one so we give as many people as possible the opportunity to ask their question. Next person.

Operator

Next question comes from Chris Pitcher from Redburn Partners.

Chris Pitcher – Redburn Partners

Thank you, gentlemen. Just one question. Given what you’re seeing going into the second half this year, and particularly looking at Europe but also looking at maybe the availability for up-pricing in the short term, do you see your business recovering post the crisis to the previous 7 per cent to 9 per cent level you were talking about beforehand?

Paul Walsh

Clearly not this year, because we guided to single digits, and I’m not offering any guidance at this point regarding the next fiscal year. But I do believe that over time, the point of intervention to be determined, we will see our business return to historic growth levels. Of that I’ve got no doubt. I just don’t know when it is.

Chris Pitcher

Do you think you can taking pricing up on scotch anytime soon?

Paul Walsh

My point on pricing was that this – the second half I am not anticipating raw global price increases. We will be looking at it in the first half next year. That isn't a commitment that we will increase price, but we will look at it.

Chris Pitcher

Okay. Thanks very much.

Paul Walsh

Thank you.

Operator

Next question comes from Philip Morrisey from Citigroup.

Philip Morrisey – Citigroup

Good morning. It looks like LatAm and Africa saw a reasonable acceleration in sales growth in the second quarter, and I wondered how you saw the outlook for top-line growth over the next six to 12 months, both in these two regions, but also please Russia and Eastern Europe.

Paul Walsh

Okay. I'll ask Stuart to comment on that, but I think to put it in context, we have to recognise that at present we've almost got a polarised world – certainly a two-speed world. In Europe and the US, things are pretty flat. Not declining, flattish. And in Asia, in Latin America and in Africa, we are definitely seeing building momentum around growth rates. And we are well-positioned in those markets to exploit that growth. However, we do need to see some recovery, particularly in the US.

But Stuart, why don't you talk specifically to Africa and LatAm?

Stuart Fletcher

Yeah. Briefly, Philip, you're right, we saw some improvement in the second quarter, and indeed in Global Travel & Middle East, alongside LatAm and Africa. And our view is that that kind of outlook for the second half is – that we saw in the first half – is what we'll sort of see in the second half. So we are cycling in the second half of last year, a more difficult period. And therefore, we're looking at slightly better comps. So we will be expecting continued good growth across LatAm, Africa and GTME, particularly in scotch and particularly in beer.

Philip Morrisey

Thank you. I wondered also about Russia and Eastern Europe, if I may? As again, the comps get easy to expect a speedy resumption of growth there.

Paul Walsh

Andrew?

Andrew Morgan

Yeah. Simple answer is yes, Russia is starting to come back, in contrast to the rest of Eastern Europe, where we're not seeing any signs of recovery. But I expect to see growth in Russia in the second half.

Paul Walsh

And I think our team and the performance in Russia has been very impressive in the first half.

Andrew Morgan

We've gained a lot of market share in Russia and are really well set up for coming out of the recession stronger than we entered it.

Philip Morrisey

Thank you.

Operator

Next question comes from Gerard Rijk from ING

Gerard Rijk – ING Group

Yes. Good morning. Question on Africa, Nigeria. You had a very good performance in your beer business. Impression is that the whole beer market there was under pressure. Did you gain substantial market share?

Paul Walsh

Stuart?

Stuart Fletcher

Yeah, Gerard. Yeah, we had a very good first half in Nigeria, as you point out. Harp in particular – Harp Lager – doing very well. In fact, we doubled the sales value/volume delivery from Harp in the first half this year versus first half F'09. So particularly pleased with Harp.

And yes, we gained market share, I'm delighted to say.

Gerard Rijk

And was it filling of the pipelines, or was it for you also the take-off from retail?

Stuart Fletcher

Well, the pipeline is pretty short in Nigeria, frankly. This was consumption.

Gerard Rijk

Okay. Thank you.

Operator

Next question comes from Anthony Bucalo of Credit Suisse.

Anthony Bucalo – Credit Suisse

Hi. Good morning, everyone. A question for Ivan. Just thinking about January. We can appreciate that it's a small month and that the consumer may have been a bit exhausted from Christmas. But February, the Super Bowl ratings tend to indicate that everyone stayed home to watch the game, and the weather on the East Coast has been horrible. Where are we initially on the February read? And if things go much worse than expected in February, is there a certain point within the year where you know that even with conservative budget estimates, that you may not be able to make your numbers?

Paul Walsh

Do you want us to start giving you weekly sales?

[*laughter*]

Anthony Bucalo

Yeah. Can you?

Ivan Menezes

All I would say is just look at the secular trends here, right? Through the deepest recession since the Great Depression, US – the market has held up in terms of spirits, volumetrically to 1 per cent. So I wouldn't get too worried about months and weeks.

So the secular trend is still there.

Anthony Bucalo

Okay. So basically what I'm asking, if February is poor, there is no point in the year where you'll know whether or not things will pan out as you –

Ivan Menezes

The point of the year where I'll be confident is June 30th.

Anthony Bucalo

Fair enough.

Operator

Our final question comes from Nico Lambrechts from Merrill Lynch.

Nico Lambrechts – BofA Merrill Lynch

Good afternoon. Thanks for giving me an opportunity as well. Just, Paul, on marketing. I think there's been a lot written regarding the reduction in the A&P spend within the spirits industry and yourselves. And also that the recovery of spirits in an upturn or recovery is slower than other consumer goods because the spirits industry cuts A&P more than before. What assurance can you give us that you are fully invested behind your brands? The cut that you actually made will not impact the recovery potential that there is relative to other consumer goods?

And then maybe if Nick wants to answer, you could say what is the impact of the FX at the current spot rates, which is 1.56 versus when you did yours at 1.64

Paul Walsh

Okay. I don't whether Nick's prepared for that, but I'll give him a few moments to get his calculator out.

Maybe Andy can comment on our marketing investment profile. But let me give you my context. First of all, there is real deflation. And there is no sign that we are seeing inflation come back into the marketplace. Secondly, there are shifts. We have moved towards digital. It is far more cost-effective, and you can actually make yourself feel very comfortable, because the reach is far broader.

Also, we have definitely cut back in certain markets where we see little prospect for a bounce-back in consumption trends anytime soon. For example, Spain. 80 per cent of consumption was in the on-premise, and a huge proportion of that was in nightclubs. There is nobody going to those places, and therefore, for us to keep spending on party nights, Nightology, hiring boats, just makes no sense. So where it makes sense to invest, we have fully funded our programmes. So I'm pretty confident that we will come out of this in very, very good shape.

Andy, and then Nick, and then we'll sign off.

Andy Fennell, Diageo Chief Marketing Officer

Thanks, Paul. Nico, brands are the heartbeat of our company. They need to be in strong shape, and I'm feeling really good about the shape that they're in. equity is strong, shares are up on the key brands. And the key for conditions like this is the agility that Paul talked to. We've got to move our money to the brands, the geographies and the activities that we have the most confidence in, and that's what we've done.

Paul said that we'd expect to invest more in aggregate in the second half. We would. I would expect to get to the ratios that we had last year, in aggregate, for the full year. But for the whole of this year, we've been moving our money to fully fund the best opportunities, and that's what we need to continue to do.

Nico Lambrechts

Okay. Thank you.

Paul Walsh

Nick?

Nick Rose:

Yeah, Nico. Just a health warning, because people always ask me what's the currency impact of the currency that's moving favourably. And you're right. The dollar has moved a bit. But as you know, we have to keep an eye on every other single currency, and that's particularly true right now, as you've seen some Africa currencies and some Asia currencies move.

And also, right from where we sit today, it's going to be a part-year effect. So if it stayed the way it is, could we see another 15m benefit? Yeah. I'm sure we could. But that's absolutely dependent on what happens to all the other currencies along the way as well.

So we just have to keep an eye on everything.

Nico Lambrechts

Thank you.

Paul Walsh

Can I thank everybody for their time today. And I'll be meeting many of you over the coming weeks. Thank you. Bye.

[end]