Ivan Menezes: Thank you. Good morning everyone and welcome to the call. I'm here with Kathy. I'm going to make a few opening remarks and then we'll open up the line for Q&A. I'm pleased with the overall performance we delivered this year, as we demonstrated our ability to deliver consistent performance across all our key metrics and in line with our goal to deliver consistent mid-single digit top line growth to invest in the business and deliver margin expansion.

It was another year of strong free cash flow at £2.5 billion with operating cash conversion above a 100%, and average working capital improved by 220 bps. This year we returned more than £3 billion to our shareholders through dividends and buybacks. Our TSR grew 23% and is up 17% over the last three years, firmly in the top quartile relative to our peer group.

So as I look at our performance, many areas I'm pleased with the progress we've made, let me just mention a few. Johnnie Walker saw a broad based growth and grew 5%. India stabilised in the second half as we move past the regulatory headwinds and we continued to make really good progress on margins despite the impact of GST.

In US Spirits, all key brands continue to gain category share except Vodka. And on Vodka we saw improvement on both Ketel One and Ciroc, but clearly we have more to do. Guinness grew 5% with strong growth in Europe and Africa, and China continued to be a growth driver with Shui Jing Fang delivering really strong growth and scotch in mainland China also grew double digit.

But of course, there's lots of areas we need to continue to improve performance and I just wanted to mention a few. Africa had a weaker performance this year as a result of volatility in Kenya in the first half, with the elections, and continued weakness in Ethiopia and Cameroon.
While Johnnie Walker did well in scotch I’d say the rest of our scotch portfolio had weakness. Malts were not strong enough in some of our local stars, Buchanan’s and Old Parr, underperformed and we’re determined to get these better as we go into next year. We continue to focus on improving our performance in US Spirits. And finally we continue to build our capability on net revenue management which as you know is a key value driver for the business in the future.

More broadly, I'm proud of the work we’re doing to promote a positive growth for alcohol in society. We launched new stretching targets for 2025 and this year we mobilised all Diageo employees as responsible drinking ambassadors through our new Drink Positive Engagement programme.

I want to thank our employees for their contribution to this consistent, sustainable performance. We have a highly engaged workforce, very proud to be at Diageo. Our annual values survey showed a 1% improvement in employee engagement and a 2% improvement in the number of employees who will see that productivity is having a positive impact on the business.

So as we look forward we continue to focus on the consistent execution of our strategy. We're moving much faster to spot new trends and opportunities and we're sustaining this blend of delivering growth and efficiency. But as you know we operate across 180 countries and as we saw this year there's always going to be some markets where the macro-conditions are challenging. So we continue to expect to deliver our medium-term guidance at mid-single digit organic net sales growth.

In FY19, we expect to see negative market mix headwinds with faster growth in some markets with a lower margin. We will prioritise continued investment in the business and expect to deliver the 175 bps of organic margin expansion for the three years ending June 2019. And with that why don't I open it up for questions?
Sanjeet Aujla:  Hi Ivan, Kathy, a couple of questions for me please, really on the US. In the webcast, Ivan, you said you're well set up for fiscal 2019. Do you think the portfolio is now in a shape where it's better able to grow in line with the market? And tied to that, can you talk a little bit about the performance of the portfolio brands in the US, and the plan for those brands going forward? And finally just on margins for next year, you talked about 60 bps. Given the negative market mix dynamics, how would you break that down between gross margin and other items in the P&L? Thanks.

Ivan Menezes:  Hi Sanjeet; I'll take the first one and turn it over to Kathy for the second. On the US, as I mentioned if you look in every category other than Vodka we’re growing share and we’ve stepped up our investment behind the brands. You've seen our reinvestment rate go up and we will continue to do that going into fiscal 2019.

The second thing I would say is our innovation is now focused on bigger and more sustainable things. And I'm really encouraged with the shift that's happened there. Most recently, the Ketel One botanicals which have just gone in and the Ciroc VS brandy which has just gone in are good examples so where we expect sustainable growth out of the innovation.

As we go into fiscal 2019, our investment levels are strong behind the brand. I feel really good. I was in the US a couple of weeks back and going through all the brand plans in detail with Deirdre and the team; feeling really good about the quality of execution and growth. Having said all of that, as you know, this is a huge business and brands in our business move slowly.

So I expect next year to do better than this year. But as I've said before, we're not predicting when we will grow at or ahead of the market, but the momentum is positive. And the portfolio is performing broadly much better, and then we've got them terrific momentum in Don Julio and Casamigos will come into our performance, and whiskey continues to be good both scotch and American whiskey. Kathy?
Kathryn Mikells: And then if you just look at what we had this year right so delivering overall 78 bps, but we had some headwinds coming through in gross margin this year which you would have seen so that ate into about 23 bps. A&P grew ahead of sales at 7%, right, so that reinvested 27 bps from a margin perspective and then you saw us get strong margin result out of other expenses including 110 bps improvements in overhead.

So if I look at and pick apart what's underneath that, in part in gross margin, we would have had the hurricanes that came through the Virgin Islands this past year right. So that would have caused some one-off expense which we wouldn't repeat, but we also had negative mix. And I would mention transportation costs in the US [which] escalated.

Next year, we're expecting some increase in agave cost, but some of the cost we incurred this year would not repeat. So, overall, I would expect gross margin to give us a bit better result than we saw this year. I'd expect us to continue to invest behind our brands as we feel are appropriate. You've heard us talk about continued up-weighting in both scotch and in the US. And I specifically point out in the US that that has held back our margins in the US and I would expect to see that again next fiscal year.

We continue to push hard on our overhead costs and I'd expect that we'll continue to see some benefit come out next year. So hopefully that gives you a little bit more colour.

Sanjeet Aujla: That's very helpful, and just on the portfolio brands in the US, Ivan, can you talk a little bit about the performance there?

Ivan Menezes: It's not much change. They're still declining low to mid-single digit. So the trend hasn't shifted much and I'm not going to comment on speculation about what we're doing on the portfolio brands. All you can know is we rigorously and continuously look at the Diageo portfolio.
Sanjeet Aujla:  Got it, many thanks.

Ivan Menezes:  Thank you.

Fernando Ferreira:  Good morning Ivan and Kathy. I have two questions please one on the results and one more strategic. On the numbers if you go back to the US, can you comment on the growth we've seen specifically on Ciroc, Ketel One and the RTD portfolio in the second half? Were there any shipment phasing in there to highlight from the new launches? And then second question Ivan, this is clearly the best set of numbers since fiscal 2012 right and the strategy has been very well executed to achieve that level of performance. So the question is really, what's the next challenge for you in the executive committee? Is it really maintaining the consistency and growth and shareholder return or is it something else?

Ivan Menezes:  Sure. I'll take the second first. I mean our focus is really on creating a sustainable, consistent compounder. I mean Diageo has, I'd say, this perfect blend of attractive topline growth, mid-single digit, and the ability to drive margin expansion from the incredibly high returns and margins we have today. But we're focused in smartly investing in the business to sustain both of them.

And I expect us to continue down that track. I mean clearly, we will look at opportunities to pick up brands, which makes sense, but we're positioned well with our geographic footprint and our product portfolio to really benefit. I mean one of the things I'd point to that we are — to me that's most important to us as the management team is that we don't get complacent and that we're really focused on all the shifts that are happening out there. Consumer shifts, technology shifts, channel shifts, regulatory shifts and making sure we're quicker in anticipating those threats and opportunities and move faster and so. And as I mentioned in my opening comments yes, these are strong results, but there's so many parts of the business we know we can and should do better. And so that would be strategically how we'd look at the future. We have a lot of work focused on the disruptive forces that may come at the industry and how we're well prepared to deal, and indeed capitalise on them.
Kathryn Mikells: And then I think you asked about kind of shipment phasing in specifically around our vodka portfolio and RTDs. Overall, for our business in North America, shipments roughly equal to depletions. So I would say nothing material there going on.

With regard to Ciroc and Ketel, I would point to the trend improving there in North America right. So Ciroc down four last year, it was down 15, and Ketel down two last year, it was down six. Now, the one thing I'd point out in terms of overall phasing is just the launch of Botanicals in the US so Ketel One Botanicals was launched late in the fourth quarter. I mean we have, I'd say, very high hopes for it.

It's a 73 calories and it's served with soda, infused with fine fruits and Botanicals is a little bit lower ABV, and is really, is playing into the lighter occasion, and people focus on natural ingredients like non-GMO gluten-free. So we think it may hit a real sweet spot with consumers and we're really hopeful about it. But just in terms of late innovations that hit late in the fourth quarter for us.

And then with respect to RTDs, if you look at our Diageo beer business which is where our Smirnoff RTD is set within North America, that grew really well and we have both Smirnoff Smashed and Smirnoff Seltzer that's doing really well on the US. So we're feeling really good that, but overall, I'd just go back to, from a shipments and depletion perspective, across the overall business, relatively equal.

Fernando Ferreira: That's great. Thanks Ivan and Kathy.

Ivan Menezes: Thank you.

Simon Hales: Thank you. Good morning Kathy. Good morning Ivan. Two or three questions please. Can I just go back to the discussion around margin development looking forward particularly around marketing investments. Clearly, we've seen some up-weighting over the last sort of couple of years. You committed again to continue to up-weight going forward. But we've seen a significant step-up
already now in the US, I think, and the Indian portfolio. Should we still be expecting the same sort of step-up or marketing investment next year as we saw in some of the 27 bps in 2018?

And then also around that on margins, Kathy in your presentation, you talked in quite a bit about net revenue management. Have we actually started to see any benefits to the bottom line from the net revenue management initiative yet or have some of the top line benefits you've seen or savings you've seen been offset by the cost of putting the programme into place, across the globe?

And then just one final one and specifically on the US and Buchanan’s. Clearly some sort of destocking perhaps in the second half of the year on that brand versus the depletion rate. Is that now through and should we start to see shipments matching depletions as we move into fiscal 2019? Thank you.

Kathryn Mikells: So I’ll start out just talking about margins overall. So I’d say one of the things we’re feeling really good about is we talked about the deployment of the tool, catalyst, across the business, which is desktop tool now that sits on all of our marketeers’ desktops. And it enables them to get much more specific about return both across brands in their markets and within brands now in the different growth drivers that they can invest in.

So that helps us I would say to feel better and better about exactly where we’re targeting that A&P investment in targeting it in places that we think will drive really good return. Now we’re also very balanced in wanting to make sure that we’re doing equity building for our brands, which ultimately drive this sustained performance and sustained mid-single digit top line that we’re really targeting.

So I’m not going to get into the specifics of 27 bps kind of increase through investment rate this year, exactly how many basis points is it going to be next year. What I would tell you is that we feel very good that we’re targeting it towards the right place and we’re going to continue to make
the investments that we need to make sure that Diageo can sustain its performance and not just into fiscal 2019, but for the long term.

And then as it relates to NRM, I'd say I characterise what we've done today is really building the right foundation for the future. And this is one of the places that I spoke to over the last year that we've been building our capabilities with the expectation that we'll see more results coming through from NRM in the years to come. I'd expect we'll start to see some of that in next fiscal, but in the next breath, I would point to the fact that having higher growth in some of the regions where we have lower per case rate right would be a headwind for us.

But we've done a lot of work in starting to build that capability. We also have a pretty sophisticated tool that we called Polaris that's already been rolled out in both North America and here in Europe and we've been putting in place I'll call it bespoke and efficient tools in the other markets, concentrating on where we have the biggest opportunity. But definitely building our capability and bringing new talent in to the company by the way from other areas where they have better experience to make sure that we're learning best practices here.

Ivan Menezes: And Simon, Buchanan's, as you pointed out depletions momentum was better in the H2 than H1. So we have good underlying growth in Buchanan and I would expect that to show up in sales next year. So Buchanan's is the brand we'd expect not just in the US, but also in Latin America to do better next year.

Simon Hales: Okay thank you. Can I just clarify? I think Kathy last time you talked about trade spend as a percentage at sales was around 20% of the group; is that still the right sort of starting level?

Kathryn Mikells: Yeah, I'll have IR follow-up, but the statistic that you're quoting is just not resonating with me.
Chris Pitcher:  Thanks very much. Couple of questions please. Firstly, Ivan I know you won't comment on the US portfolio brands, but in terms of understanding the benefit to the business from a potential divestment, is it a case of just removing the growth drag or by consolidating the portfolio, would you see a benefit to the underlying brands as well through greater focus?

And then secondly on China in terms of the evolution of your route to market in China there's an interesting chart with colour coding on slide 27. Could you explain what those colour codes are and give us a bit more update on what your route to market in China looks like? And secondly are you expanding capacity at Shui Jing Fang? Do you have enough to hit this very high level of growth you're delivering at the moment? Thanks.

Ivan Menezes: Sure. Chris, on the first one, I think all I would say is if you look at the company over the last few years, we've taken a disciplined approach to portfolio management. Look at what we did on wine, on non-core beer and getting out of the hotels and we will continue to apply that. And I wouldn't go any further into what we're going to do, or the benefits.

On China, the root consumer strength of both our Shui Jing Fang business, and the way we're now focused on ultra-premium and high-end scotch whisky, we're in a much stronger position. And I do see, a part of Shui Jing Fang's momentum, there's a very disciplined approach to how they are building and then geographically expanding into the next tier of provinces. And we have a very good distribution network, the wholesaler alignment with running a true sell-out culture with great execution supported by good marketing is what's working.
On the point on capacity, on baijiu, yes, the Shui Jing Fang company is focussed on the long-term projection that they've laid out publicly and looking at solutions on how to support the capacity that's going to be needed. So, that's very much part of the plan that Shui Jing Fang has laid out and shared with its investors.

Chris Pitcher: And just specifically on the route to consumer, is it still very much Shui Jing Fang, Diageo China, Moët Hennessy Diageo or have there been changes? I was just intrigued by that chart on the slide as to what that was telling us – what's the reds, what's the yellows, what's the oranges? Is that where you're going direct or – I'm just trying to get a bit more colour on how you have evolved, because your competitors have made some significant advances in terms of changing their routes to consumer.

Ivan Menezes: Yeah. I think what you're seeing on that chart, Chris, is just Shui Jing Fang, Chinese white spirits. So we have, that route to market is separate from Diageo China, which is now focused on the top-end of scotch whisky, so a much more focussed approach. And then we have Moët Hennessy Diageo, where we have our other brands, Johnnie Walker Black and some of our gin brands. So, what I put in the presentation was purely the route to market approach for baijiu that is working really well for Shui Jing Fang.

Chris Pitcher: Okay. Thanks very much.

Ivan Menezes: Cheers.

Trevor Stirling: Hi Kathy and Ivan, three questions from my side please, one technical and two more strategic. But first one, maybe Kathy, on the corporate's line, corporate profit line, you saw a swing from minus 11% in the first half to, I think, plus 35% in the second half. Could you just give us a little bit of colour about what was going on there and how we should think about that line going forward?
And the other two questions for Ivan, one is, you were talking about disruption. What do you think the potential is for cannabis to disrupt US sales, I guess beer and spirits? And the third and final question is we've seen a lot of bolt-on M&A and portfolio adjustment, but is there any potential still for transformational M&A for Diageo in the future?

Kathryn Mikells: I'll take the first question which is about kind of our corporate line items. So, I wouldn't focus really on half-over-half in corporate. You know, there's a lot of, I would say odds-and-end things that kind of run through that line. Overall, we had a little bit of a better experience in corporate this year, both because of lower pensions and then a little bit of favourable FX.

Ivan Menezes: On the cannabis, Trevor, we're tracking it very closely. As you know, it's not federally legal in the US right now. The trends to date I'd say do not suggest any huge shifts that impacts spirits yet. However, it is a development which we are going to stay very closely focused on and watch the trends. And our approach here also is we believe it needs to be regulated, very much like alcohol, in the case of the US, and that's some of what the industry is ensuring as the sector develops. But, no immediate disruptive threats to the business.

What, for us, the big thing in our favour in the US, which continues to be really positive, is the trend to people, the young Americans, 21 to 24, are drinking more spirits than they are before, and a lot of it is coming out of beer, and they're drinking better, so the premiumisation trend is really strong and healthy. And that's what gives us the confidence that the spirits industry will continue to have that good growth – value growth in the US.

On transformational M&A, you know only too well, the situations in the industry, many of them are in family-controlled situations. I mean, we watch it, we have a chessboard, and I won't say much more, but what you saw us do this year with the acquisition of Casamigos, and then the first of our
Distill Venture acquisitions, Belsazar vermouth, both of them which we are really excited about, you can expect us to do more of those.

Trevor Stirling: Thank you very much, Ivan.

Ivan Menezes: Thanks, Trevor.

Olivier Nicolai: Hi. Good morning, Ivan and Kathy, just a couple of questions please. Just first of all, a follow-up on the US, just to make sure I understand the marketing cost, you said will step up next year, so full-year 2019. You will therefore expect a further margin decline in full-year 2019. And then in the mid-term, how should we think about your margin in North America? Is it cost of doing business, recruiting new consumer is going up and actually is there much upside on your North America EBIT margin? So, that's the first question.

Just a quick one on Casamigos. Is it fair to assume that it could add about 50 bps to your organic sales growth in the US? And just lastly on Europe, first of all, what are the drivers behind the weakness in Spain that you’re seeing? And should we expect the UK growth rate to moderate next year? Thank you.

Kathryn Mikells: Okay. So overall, just in looking at the US, I’d say, you know, clearly we're continuing to be focused on making sure we're making the right investments behind marketing in the US for the long-term. And you heard me also talk about in that balance, equity building that we're doing, and I'd say we're feeling very good about improving equity scores on those brands and continuing to put more A&P behind them. And you would have seen this year, Olivier, that that constrains margins in the US, and so we would expect that they would again be constrained next year as we think about that.
Importantly, I think when you've got to try and think about US over the longer term, right. One of the wonderful things about this business is when you have brands with really strong equity, that enables you over time to actually take pricing and it also helps to sustain growth. So, I'd say we're very focused on making the right decision behind A&P for sustained positive performance for Diageo over the long-term. And as we build our NRM capabilities and improve the equity of our brands, again over the long-term, not necessarily immediately in fiscal 2019, we would hope to also get a bit more pricing power. And obviously, mix continues to be a big benefit in the US. Ivan just spoke to, ongoing premiumisation and the fact that young people in the US are also continuing to drink better, and so that's a pretty favourable trend we expect to continue.

Ivan Menezes: On the other two, on Casamigos, you've seen the numbers in our press release, I won't give you shared number precisely, but I think you can figure it out. We have – it's a brand that's doing really well, we're really happy with it, and it will be accretive for share for the US next year. And, I mean, I know the number but I don't want to put it out, so you can calculate it, because you'll come back to me next year and ask me about it.

So, on Europe, on Iberia it's – whisky is the challenge, and the category is really, really soft and we have not been able to revitalise J&B yet. So, we will do better, I'm confident in Iberia going forward.

But if I just step back, to me what's really pleasing about Europe overall, I mean, in this year Iberia was soft, and then you say in the UK, GB was really strong at plus 8%. To me, what the team and John Kennedy and the team have built in Europe, is now a business that's delivering share gains much more reliably. We grew 50 bps of spirit share in Europe this year. If you look at absolute amount of share gains, we have four of the top five brands in Europe in our portfolio. We've stepped up the marketing with the route to market and sales execution. The resources are much better. Innovation is really firing, if you look at what we've done with Gordon's Pink and Tanqueray Sevilla and Hop House 13. So going forward, I'd say we will have ups and downs, I'm sure in particular countries within Europe, but to me the key in Europe is to get a sustained 3 to 4% growth year in,
year out. And that's where I feel the platform is – that we built now in Western Europe – is really strong.

Olivier Nicolai: Thank you very much.

Edward Mundy: Morning everyone. Three questions, please. The first is for Kathy on margins. Kathy, could you remind us where we are on this 700 million in terms of realisation of cost savings? And to the wider question, you've been in the business now for about three years, do you feel that by the end of fiscal 2019, the cost piece will be more or less done, or are there opportunities for more work streams beyond fiscal 2019 over and above, you know, running the business and ZBB and net revenue management and the like?

The second is on Shui Jing Fang, I think you've indicated your increasing from 40 to 60%, I know you've already got management control. What does going up to 60% give you from an operational perspective? And then the third is around low alcohol – you've obviously got the Seedlip, you're doing Ketel Botanicals, Guinness Pure Brew. Should we expect more products being launched within the whole low alcohol arena?

Kathryn Mikells: Okay, so I'll go ahead and get started. As we think about our overall productivity program, I think the best way to think about how is that translating to Diageo's results is in the margin gains and what we've submitted in terms of our mid-term guidance. So we – a year ago, after our mid-term guidance from 100 bps over a three-year period ended fiscal 2019 to 175 bps. If you look at what we delivered this year and what we delivered last year, right, that's 115 bps, hence the – I think – comment earlier with respect to 60 bps yet to deliver in this fiscal 2019. And I would say we feel really good about seeing our productivity efforts both flow to the bottom line, but also from a capability building perspective – so my commentary around A&P and the catalyst tool that we use, my commentary around our building capability and NRM, the Polaris tool that we've rolled out in some of the markets – and that enables us to move at greater speed and pace to get insights

14
more quickly that we can translate into actions in the business. So that's how I would think about overall performance of our productivity program.

Now you commented, how do we think about it beyond fiscal 2019? You know, productivity does not fall off a cliff for Diageo when we get beyond fiscal 2019. It is alive and well and I think, I would have commented, over the time that I've joined the company that for me and I think certainly for Ivan's success and the productivity program is about it being business as usual, built into the culture of this company every day. You know, we would talk about that's driving efficiency and effectiveness in everything that we do. It's about simplification of the business so that we can move at greater pace. It's about making sure people have the data and information they need at their fingertips so that they have insights and they can act on those insights. So I would say we feel very good about that cultural shift in organisation and that we would absolutely expect that we will continue to get benefits beyond fiscal 2019.

Ivan Menezes: On baijiu, on Shui Jing Fang, I mean we just – we see it as a very attractive category and business and we have a very strong management team and a strong strategy in place. And this is really just to increase our participation in the value that we see being created with this company over the next decades. The management team is really strong, the strategy is clear, they have got sustained momentum through – I talked about route to market innovation and brand building – it doesn't really change anything else other than we want a bigger piece of the action and so that process is underway.

On no alc and low alc, this is an area which we are putting more strategic focus behind. You mentioned the number of products we've introduced, including – there's a new Gordon's line in GB, which is 0.5% ABV [Gordon's Ultra Low is 0.05% ABV]. We do see the consumer trend for adult occasions with low alcohol as an important trend over the next many years and we're putting a lot of focus behind it from an innovation standpoint and from M&A. I mean, Seedlip and Belsazar is
another good example which really plays in this early evening lower alcohol occasion. So I expect this to be an important part of focus for the company going forward.

Edward Mundy: Good, thank you.

Andrea Pistacchi: Yes, good morning. I have two questions please. The first one on the US, how are you seeing the pricing environment recently? I think Brown Forman in June on their call were making some more encouraging comments on pricing compared to what they would have said in the past couple of years. Are you detecting any improvement? And secondly, on Africa, you highlighted Africa of course, of having held you back this year. I think on the regional call in March, John O'Keefe was suggesting or expecting a recovery in 2H which did occur, but it was I think quite muted at about 3%. So what really – did anything turn out to be a bit worse than you would have expected towards the end of the year, and how do you think about Africa going into next year? Thanks.

Ivan Menezes: Sure. On Africa, the – if you look at the whole year – and we clearly had a number of factors in markets like Kenya, in the first half I talked about and Cameroon and Ethiopia have been very challenged. And we've had good success in Nigeria, which is coming along nicely. And the whiskey category in South Africa has been more challenged. We take a consistent medium-term view here, Andrea, and I do expect us to perform better in Africa next year, both in beer and in spirits and in mainstream spirits. But we'll always get hit by some degree of volatility. Our strategy is clear, we have an intense focus on productivity and efficiency right across the business and we've got strong plans.

Through all of this, the Guinness brand grew 7%, Guinness is really healthy and our growth drivers and the effectiveness of our marketing across all the Guinness markets in Africa has never been stronger. So I feel really good about that. Mainstream spirits in Nigeria and Kenya are continuing
to do really, really well, high growth and that's margin accretive for us. So there were a number of factors that impacted us this year, but our focus and strategy is unchanged.

Kathryn Mikells: And then your other question was about US pricing, and I would say, you know, the US is obviously a very big business however we participate across, you know, almost all categories. So we would not depict the US as seeing, you know, significant pricing improvement. Pricing continues to be pretty muted in the US.

Andrea Pistacchi: Thanks, would you say it's sort of, bottoming out in high end vodka, the worst of the discounting, would that be bottoming out, do you think?

Ivan Menezes: Again, I mean, I'd say we're watching it very closely. It's a market that has – as you know – very good data, and we'll track it and our intention over time is to get a decent pricing rhythm back into that marketplace.

Andrea Pistacchi: Thank you.

Mitch Collett: Hi there. Two questions please. On growth for next year – organic net sales growth – I think you've said it should be roughly similar to this year. But I guess if we run through the moving parts, the US should be better because you get a contribution from Casamigos. I think you said you expect India to be better and you've just said Africa should be better. So I guess the parts that offset that, I guess, Europe is running slightly ahead of what you've said in terms of medium term growth, maybe Shui Jing Fang a bit softer and perhaps LatAm. Are you able to comment on what you'd expect from FY2019 for LatAm? And then, related to that, perhaps you could give us some perspective on how we should think about the phasing of growth for next year? In particular India and the US have easy comparators for the first half. Is there anything we should know about the innovation pipeline that might skew growth between the first and second half next year? Thanks.
Kathryn Mikells: So I think you roughly got a lot of the puts and takes correct as you kind of, went across some of the regions on fiscal 2019. I guess the only thing I'd point out as it relates to India, specifically, right, GST enabled India to get more pricing this year than generally we would have seen across India. And so just in volume price and mix we'd expect that to pan out a bit differently for India. So we'd expect to see a little bit more volume growth in India and a bit less in pricing. We've always talked about India in stables times being, call it, high single-digit to low double-digit growth, and this year they were at 9%, right.

So I think you have those puts and takes pretty well. I wouldn't have the time to get into specifics, on phasing sort of, by region, one half to another half. And the only other comments I would have make – and I think Ivan got into this a little bit when he was taking about Africa – Diageo’s in 180 markets across the globe. I mean, we do have a quite global footprint and one of the things in that quite global footprint is that in any given year we're going to have a couple of markets that are just off and have some kind of dislocation.

What we would have seen in Africa this year was a combination of you know, political instability in Kenya in the first half, right, Africa in certain regions also suffered from really heavy rains and flooding this year, right, that keeps people out from going to trade and has a dampening effect on our business. FX is also pretty important to our business, given international spirits and the fact that we're such a big exporter across the globe. So, you know, I'd also say while we can't tell you exactly what countries are going to have, you know, have challenges next year, we certainly would expect they're not all going to be hitting on all cylinders.

Mitch Collett: And then maybe just one unrelated follow up. You listed three factors that negatively impacted gross margin. Are you able to quantify how material the hurricane remediation costs were in the US VI?

Kathryn Mikells: Between 15 and 20 million.
Mitch Collett: Okay, thank you.

Nico Van Stackelberg: Hi there, yes. My question is just on the cost of debt going up to 3.3 and also the tax rate going up a little bit higher. I get your forward-looking statements are for next year. I'm really wondering if you could help me out with the following years and maybe just longer term. So is it reasonable to expect that these costs continue to rise in 2020 and beyond? Thanks.

Kathryn Mikells: So if you look at the guidance that we've got in terms of just our effective interest rate, I'd say that's all about what happens to interest rates in the future. So I'm not at this point going to try and predict interest rates beyond next year. But you know, based on what we're seeing in a forward curve for interest rates, that's informed the guidance we gave. So other things, just in terms of our effective interest rate going up, it's also because this year we've benefitted significantly from heavier use of commercial paper and some positive swapping that we had, right? And so, you know, we'll continue to look at the markets and inform that as fiscal 2019 evolves.

On tax rate, I'd say for several years we have been talking to the fact that overall, for all multi nationals, there's upward pressure across the globe on taxes. And so you're seeing next year that we've guided 21 to 22%, we were just a little bit below 21% this year, excluding exceptional. And so generally speaking, we would say tax is a bit of a headwind and that we don't see that changing.

Nico Van Stackelberg: Okay, but I guess as a modelling for 2020 and beyond, so that should maintain, that 21 to 22 over that period? Is that right?

Kathryn Mikells: Again, I cannot predict tax rates at this point beyond next year. I have some I'd say reasonably good insight to be able to predict it for next year. But overall the environment, as it relates to tax rates for multinationals putting aside the positive we got from US tax reform is a bit of
a headwind and you’re seeing that in our guidance next year and I’m not going to try and predict what is going to be beyond that.

Nico Van Stackelberg: I appreciate that. Thank you so much.

Jamie Norman: Very good morning to you both. Couple of questions from me. Firstly, if you take a medium term look at gross margins, obviously impossible to predict many of the moving parts such as input cost. But if you look at the kind of tension between on the one hand premiumisation and on the other negative mix as emerging markets become more important or the affordable products element increases. Into the medium term, what is going to be the net result between those two? Do you think that we are going to see some gross margin growth sort of beyond F19? And the second question on the US if I may, a very good performance overall but very much driven by RTD. Just a comment if you could on the core spirits market; where are you versus the market itself and whether you see that closing over the next year also?

Ivan Menezes: Sure. I’ll take the second one Jamie. On US spirits, the market is growing at about 4%, is how we see it right now, the value growth in the spirits industries in the US. And as you see in these results, we grew at 3.3%. So our growth is under the market. We expect to do better. So some of the comments I made earlier on the call, but we’re not going to predict when we’re going to get the market growth rate or get ahead of it.

All I would say is what we are focused on is building reliable sustainable consistent growth in the US. And the actions that Deidre and the team have made on refocusing our innovation up-weighting investment against our brands, changes in commercial execution, building the net revenue management capability, driving efficiency, I’m confident we will see continued improvement in our top line growth happening there.
In a business like this, you really don’t want to be in a hurry. These brands move slowly. And to get them into sustainable growth, takes investment and creativity but it also takes time. And for Diageo to deliver its goals that we’ve laid out in terms of our medium-term guidance, we feel the US is performing in line to deliver it and I expect it to get better as I said.

Kathryn Mikells: And then just in trying to think about gross margins over the long term, I’d make a couple of comments. So while we absolutely can get negative mix from higher growth in certain regions across the globe, there is also an overall trend across the globe of premiumisation that we’re certainly participating in. And so within individual markets before we start to talk about the overall impact of Diageo, I’ll call it, country mix, within individual markets, we’re very much leaning into premiumisation.

You would have seen done some things occur in this fiscal year that over time we wouldn’t expect to have the same heightened impact. So as an example, primaries grew within our scotch portfolio at 7% by clearly ahead of our overall scotch growth. And so that was caused some negative mix in scotch. We’re very focused on the high end of our portfolio and making sure that we’re growing strongly the high end of our portfolio.

And then I would point to – over the longer term, we had a discussion about pricing and NRM and more over the longer term, we can get pricing kind of moving more positively especially I’d say in Europe and North America where pricing has been more muted. That will also help margins overall. So I’m not going to predict where gross margins are going to be beyond the commentary we’ve made on fiscal 2019 which is a little bit more near term. But I’d say one of the great benefits of Diageo is the breadth of our portfolio both in participating and changing consumer habits and occasion but also in just how we participate across markets and across price points and we’re very focused on trying to create favourability within markets in terms of the mixed dynamics.
Jamie Norman: That’s very helpful colour. Ivan, just on the US, I mean it strikes me, it’s very much about you and your peers kind of driving the growth. Are you seeing any incremental tailwinds from the macro from things like casual dining, which you might expect at this stage of the cycle, or it’s just you’re just having through your own good efforts drive the growth?

Ivan Menezes: I wouldn’t call it grinding the growth. Consumer product category growing at 4% in the US is a very attractive sector to be in.

Jamie Norman: Sorry, I said driving.

Ivan Menezes: Yeah. So it’s sustained and that’s what I like about why we are confident about the US industry momentum continuing. It is very much driven by pace changes, demographic changes and a preference of premium spirits brands. And that continues to be strong. To your point of casual dining, no, it still has not come back as strongly. You’ve not seen the on-trade channels accelerate in the US yet, which with GDP growth, the stock market, the unemployment levels etc., we are seeing a more cautious consumer on the shift.

I mean, you’re seeing the high end of on trade very strong. But the casual dining sector in particular continues to be challenged.

Jamie Norman: Got it. Thank you very much.

Simon Hales: Thank you. I’ll try a follow up if I can. Could I just ask a little bit about the timing of the share buyback programme, Ivan? I just wanted just to clarify that if you want to you could begin to execute that buyback immediately. And when we think about the duration, it could run through the whole of the year. I’m just conscious that last year’s buyback programme, which obviously completed in February. I assume that was because you saw the share prices opportunistic that meant you just sort of completed it earlier than perhaps it might have been the case.
And then just secondly, I may have missed this. But just in terms of Ketel One’s performance for the full year, could you tell us what the base brand’s performance was, i.e., ex Botanicals?

Ivan Menezes: I will deal with Ketel One and ask for Kathy on the buyback.

Kathryn Mikells: So if we just talk about the buyback, I would say we could go into the market to start the buyback reasonably quickly post our results and our results I’d say settling in getting digested in the marketplace. And that overall we would look to participate across the year in the market. So I would say generally speaking we would be looking to target the programme in that way.

Ivan Menezes: And on Ketel One, we are very focused on the total franchise of the brand and the base brand. The main improvement I expect to see happening is as we go into next year. Overall Ketel as you see in our numbers has done better in fiscal 2018 than in fiscal 2017 and we had a better second half than first half, it was helped by Botanicals. We don’t – there is still work to do, Simon, in terms of getting Ketel into total trademark into sustained growth and to me F19 is the year that’s going to prove that. We’re upweighting our investment behind the brand and we’re – I expect to see improvement continue into F19.

This brand still has tremendous support from bartenders in the US. It’s on premise strength is really good. We know vodka is very, very competitive. But I feel – we feel that what we’ve seen with Botanicals is going to help the total trademark including the base.

Simon Hales: Okay. Many thanks.

Ivan Menezes: Great. Well, thanks everyone for joining the call. I appreciate your interest in the company. Kathy and I will be out next week meeting many of you and look forward to continuing the conversations. So thanks again.