Good morning, afternoon and evening everyone, I am Sam Fischer and I am taking this call from our offices in Singapore.

The call will follow the usual format. I will spend the next 25 minutes reminding you about the consumer opportunity in Diageo’s Asia Pac region and our strategy to capture this opportunity, how we are executing that strategy by market and why Diageo is best positioned to win. I will then open to questions. Given its strategic focus, Diageo separates management responsibility for India from Asia Pacific. The area I am responsible for is about 11% of Diageo’s net sales and about 10% of operating profits. It is a diverse, rich and vibrant region with an attractive growth opportunity. Let me remind you why:

- The market already represents a £100 billion in beverage alcohol sales.
- That’s a third of global consumption
- It has a large fast growing middle class population which is becoming increasingly urbanized
- And an increasing proportion of that growing population are affluent consumers. Last year, Asia also recorded the highest increase in high net worth individuals, up nearly 9%.

I am sure you recognise these dynamics from my call last year, as despite volatility in these markets, the growth opportunity of the region hasn’t changed.

The beverage alcohol market is comprised mainly of beer and Chinese white spirits, and we selectively participate in both categories with Guinness and our stake in Shui Jing Fang. International style spirits account for 10% of the region’s net sales and has a great opportunity to increase its penetration. Within international style spirits scotch is the largest category across the region, double the size of Cognac, and therefore Diageo, with its strength in scotch is the market leader in international spirits in every major market with the exception of China.

In this context our strategy is to drive growth by increasing penetration of international style spirits. The execution of the strategy is based on 5 key areas:

- Win in scotch
- Strengthen our local premium core brands
- Continue to grow reserve
- Innovate to broaden our participation to recruit new consumers
- All underpinned by driving productivity to invest in growth

Let me spend a few words on each of these

Win in Scotch to accelerate growth is our number one priority. Scotch is more than half of our business in the region and about 70% of our reserve brands business, so growing scotch is also a key driver of mix improvement. We have ambitious plan to grow scotch driven by Johnnie Walker, and, across the region we are leveraging the global “Keep Walking” to increase the brand’s connection with
consumers. Our message is increasingly focused on telling inspirational stories of progress, coupled with communicating our rich brand heritage and provenance.

Given the size of our scotch business it forms the biggest part of our premium core offering in many markets. However there are markets where we reach scale through local brands and categories, such as beer in Guinness, rum in Australia with Bundaberg, Chinese white spirits in China with Shui Jing Fang. So driving growth means strengthening our local premium core brands in every market. Last year we grew these brands and I expect that momentum to continue in F17.

Given the growing number of affluent consumers in the region, we have an exciting opportunity to accelerate growth from our reserve brands. The performance of our reserve portfolio is an area I am particularly proud of as it represents an excellent example of how Diageo can use our capabilities and strengths to deliver sustained growth. We have an unrivalled portfolio, a proven operating model and high quality marketing capabilities on luxury, and we have pioneered the Johnnie Walker House retail concept as embassies of Scotch whisky to mentor consumers and showcase our brands. The biggest reserve markets in the region are China, with Chinese White Spirits and scotch, Taiwan, mainly scotch, and we have a big growth opportunity in Australia. To grow Reserve will remain a focus for the region with Chinese White Spirits and scotch being the core priorities through Shui Jing Fang, Johnnie Walker and our Malts portfolio. We also have an opportunity to expand beyond these categories and continue to build our luxury vodka, bourbon, gin and tequila.

Last year I spoke about how key innovation is in enabling us to broaden our participation across different price points and categories to drive recruitment of new consumers. We have made significant progress in this area. Products such as Smirnoff Midnight 100 in Thailand, Guinness Zero in Indonesia, Master distiller No. 8 in China, and the W range in Korea have proven to be very successful at expanding our offering into new occasions which I will talk about later. In the last year, we have created a centre of innovation excellence and a technical centre in Singapore which supports the dedicated innovation teams in each market. This has enabled us to respond to market insights much faster allowing us to go from insight to execution in as little as 3 months. It has also allowed us to drive more scale from new launches as we can quickly take learnings. It is working; two years ago we launched over 100 innovations in APAC, last year we launched just over 70, but these new launches delivered nearly double the average NSV per project.

Finally on productivity, an area which is core to achieve our strategy, as it will allow us to invest in growth and margin expansion. In my business only Australia has a sizeable supply chain footprint, so for me the biggest opportunities lies in net revenue management, marketing effectiveness, indirect costs and organization effectiveness. On net revenue management we have a dedicated regional team that is partnering with external consultants to conduct in market assessments. In Australia, for example we are working with the independent channel to improve their forecasting and allocate non-working trade spend to working trade spend. In China, we are reducing expensive investments in the modern on trade channel and allocating those funds to mentoring activities in food and on trade outlets. On marketing effectiveness, we are training all of our marketers in the region to improve our Measurement and Evaluation processes to drive a return on investment mindset. We are evolving the concept of the Johnnie Walker Houses from being located in expensive city center buildings to airport pop ups which generate higher visibility at a lower cost. This year, for the first time every market, has adopted a Zero Based Budgeting approach for their indirect costs including launching new T&E policies. Finally every market is reviewing their optimal organizational blue print as we aim to leverage more our shared service centres globally and rationalize our structures to simplify processes and reduce duplications of work. Overall we have the right plans in place to do our part in delivering the £500m that Diageo has committed.
A relentless focus on high quality execution is at the heart of delivering our strategy. The focus we put on each strategic priority in a market depends on our position in that market and the local economic, demographic and consumption trends. So let me now talk about what we are doing by market to drive sustainable growth.

Starting with South East Asia. It is over 20% of the region net sales and is one of our most diverse and vibrant markets, consisting of 15 different countries in different stages of development and including markets with high levels of volatility. The market has about 10% of the global population, more than half of consumers are under 30s and 80 million new consumers are expected to enter legal drinking age over the next 10 years. It is a compelling consumer opportunity. Within international spirits scotch is the largest and one of the fastest growing categories, and we are the leader in this category in every country. In fact we are the leader in international spirits overall, being double the size of our nearest competitor.

Our three biggest markets, representing 75% of our business, are Thailand, Indonesia and Key Accounts. In both Thailand and Indonesia our strategy is similar; growing scotch in Thailand and beer in Indonesia, while broadening our participation into other categories.

Thailand has seen a relatively stable period of low macro-economic growth. We had to navigate some volatility in the first half of last year due to reduced tourism and regulatory restrictions on outlet sales. Excise duty increases impacting the imported whisky category has also led to consumers trading down into local spirits. We have also seen consumers shift away from the modern on trade to more casual food and drinking outlets. Despite these challenges last year we have gained 1.4ppts of share in imported whisky, which followed the 4ppts of share achieved the previous year.

The secret for success for gaining share in scotch was all in execution.

Great execution against the “Keep Walking” campaign, increased awareness of the Johnnie Walker trademark by 16%, making Johnnie Walker the most recognised whisky trademark in Thailand. We have also extended the occasions for Black Label with the successful Black Highball program, which promoted Black Label and Soda cocktails in over 150 premium reserve outlets.

With affordability increasing becoming an issue, we have also reviewed our pricing on Johnnie walker Red label to ensure competitiveness.

And we continued to enhance our route to consumer by increasing our outlet coverage by 20%, particularly in the growing food on trade channels.

In parallel to growing our scotch business, we are also working to broaden our participation. Thailand is home to a very large beer market and last year we launched Smirnoff Midnight 100 Guarana to recruit consumers from beer. Smirnoff Midnight 100 Guarana stands out as a great example of local adaptation of a global idea. The naming was grounded in local culture whilst the global liquid and positioning remained unchanged. It recruited 700k consumers into the Smirnoff brand and it achieved 22% share in the ready to drink segment. All of this achieved through a ruthless focus on execution and investing in very specific growth drivers. This focus will remain in F17 as we continue to expand the brand into different formats.

On to Indonesia a market where we play at scale in the growing beer segment, a platform we can use to grow our spirits business.

Last year we were very quick to adapt to the new regulations banning off trade sales of beer by restructuring the commercial team and reviewing our outlet coverage. After a challenging first half
beer net sales were up 4% for the full year. Guinness Zero, which was up 42%, and Guinness Limited Edition, which celebrated Indonesia pride, are both expanding our consumer reach and relevance. The designs were co-created with Indonesian millennial influencers and were grounded in a culturally relevant idea of Batik, a much loved and respected Indonesian tradition/art.

We want to use our beer assets to broaden our participation in mainstream spirits and last year we started using local manufacturing for spirits and ready to drink. Smirnoff, which is now locally bottled doubled in size in F16 and we have plans to start local production of Captain Morgan.

Let me now spend a few words on what we call Key accounts, the third largest market in SEA which is made of a number of distributors that sell into markets where we do not have a direct presence. In the first half last year we completed our planned destocking and we now have optimal level of stocks and shipments are in line with depletions.

Moving on to Greater China now.

Our Greater China business is also over 20% of net sales in the region with China being 60% and Taiwan 40%.

China is the single largest beverage alcohol market in the world. It has positive demographics as 21 million LDA consumers will enter the market every year over the coming years. There is strong growth in income as China has pulled hundreds of millions of its citizens out of poverty and by 2022, 630 million Chinese — or 75% of the nation’s urban population — will be classified as middle class. And today 57% of the population is already living in urban areas compared to 36% in 2000. These all contribute to a growing beverage alcohol market.

Baijiu, accounts for about two thirds of the beverage alcohol market and Diageo is the only international spirits company with a direct participation in this category with a 40% stake in Shui Jing Fang: an established local super premium brand with 600 years of heritage. There is also a large penetration opportunity for international style spirits which represent just 2% of the NSV pool.

The consumer environment is changing fast, with younger consumers preferring to spend more time at home and online to connect with friends, resulting in rising home parties’ occasions and a decline in modern on trade traffic. Consumers are also more open to new offerings as status is no longer all about materialism but increasingly about experience, particularly amongst millennial consumers. This means there is a growing opportunity for brands with purpose, heritage, provenance and craft credentials such as Johnnie Walker and our single malts to win. Premiumization continues to be a strong underlying trend with consumers looking for quality international brands at accessible price points.

We are well positioned to ride these trends and grow our business, in both Baijiu and international spirits. We have three differentiated routes to consumer: a cost-sharing joint venture with Moët Hennessy; Diageo China, our own in-market company; and Shui Jing Fang. And we focus our investment on the biggest opportunities by province, as I will come on to.

The baijiu category is now stable following the impact of the government’s anti-extravagance policies, and is expected to grow mid-single digit.
We met the challenge of the anti-extravagance policy as an opportunity to accelerate the transformation of the business and the results are starting to pay off. Traditionally the core SJF brand was positioned in the super premium segment. We were quick to adapt to the new market conditions, adjusting our Well Bay pricing to maintain relativity to Moutai and Wu Liang Ye while innovating into a new segment through Master Distiller No. 8. As I said we focused our marketing and commercial investments by key provinces to achieve industry leading growth. In the last reported period Shui jing Fang was the fastest growing Baijiu company in China and net sales were up strong double digit.

Next year we will relaunch the Shui Jing Fang super premium core variant, bringing to life its quality and heritage and we have a clear roadmap to continue to enhance our route to consumer using local city distributors. I have ambitious expectations for our baijiu brand and I expect it to continue to lead industry growth.

Scotch is our second largest category. The anti-extravagance campaign reduced spend in the Traditional on Trade channel, especially in high end outlets. As a result, competition increased in the Modern on Trade channel, making this channel with its expensive contractual volumes un-profitable. Hence our decision to pull out of those contracted outlets which negatively impacted our scotch business, in F16 down 34%, while underlying depletions were down double digit.

More importantly these changes have opened up the scotch opportunity for us. The opportunity for scotch in China is now in super premium where Diageo leads driven by Johnnie Walker Blue Label and our Malts. The number of whisky bars or collectors club are increasing in tier 1 cities, with over 100 new bars opening last year, with a growing trend of single malts as consumers look for brands with quality and heritage. Over the last 12 months we made fundamental changes to our Diageo China business to establish stronger foundations to support future profitable growth particularly in the super premium segment, and in this segment scotch is gaining share over cognac.

Our Johnnie Walker Houses have been instrumental in driving awareness for the brand and the category since their launch and we now include more retailing offerings.

Over the last 3 years we have mentored more than 20k VIP consumers in meal occasions. Our focus on high worth net individuals and mentoring has been a key driver of share gains in super deluxe scotch and it will continue to be as we increase investment in this space

As with baijiu we are focused on key provinces. More than 90% of international spirits are consumed in 3 provinces: Guangdong, Fujian and Shanghai. That is where our key battle grounds are and that is where we will focus our investment

These changes, combined with the fact we will lap the impact from exiting the contracted outlets make me confident that scotch will be back in growth this year.

A few words on Taiwan now. This has been an outstanding market for us, largely made of scotch, which has delivered 9% CAGR net sales growth over the last 6 years, largely driven by The Singleton. And we have gained share too, moving from 31% in 2011 to 37% in 2016, in fact last year alone we gained 200 basis points of share in scotch.

Last year Johnnie Walker net sales were up 16%. We leveraged the global “Keep Walking” campaign which was implemented at scale and focused on digital content, which was amplified by PR activation,
and physical mentoring through our blender’s room. It resonated well with consumers and the brand took 85 basis points of share. This year we will continue to invest behind the campaign and we will maximize innovation through the Blender’s Batch to further build Johnnie Walker as the most aspirational and crafted whisky brand in the country.

The Singleton has been a tremendous success since its launch in 2007 and during this period it has become the number 1 single malts in the country. Last year it extended its leadership position by gaining a further 130 basis points of share. We will continue to invest behind the brand through the new global platform “Pleasure from the first sip” and the launches of limited editions to strengthen the equity and its leadership within malts.

Let’s move on to the developed markets in the region, starting with North Asia

North Asia is also about 20% of my business, with South Korea representing approximately 2/3 of the business and the remainder being Japan.

In South Korea we are the market leader in scotch with Windsor which accounts for three quarters of our sales. In Japan, spirits brands account for two thirds of NSV, with the remainder generated from RTDs and beer.

South Korea continues to be an attractive opportunity for us. Despite the recent GDP slow down, it is one of the largest and most robust economies in Asia. It has a vibrant beverage alcohol market, with a strong drinking culture amongst both men and women.

However consumer behaviour is changing. Consumers are moving away from the traditional on trade occasions, which was largely corporate entertainment driven, and it has been the stronghold of the scotch business. More than 60% of our business is still linked to the traditional on trade and we haven’t fully unlocked the opportunity to leverage the rest of the Diageo portfolio. Our strategy in South Korea is clear, and it is about continuing to maximise the profitable but declining business we have with Windsor, which remains an important generator of funds, while we look to develop categories out of the traditional on trade. This will include the development of Johnnie walker and Guinness in modern on trade, causal hang outs and modern off trade.

Last year we have already made progress on both.

Windsor has been broadly holding share in a competitive category that have seen other international spirits companies losing share to new local entrants attracted by the good margins on offer. The innovation into what we call the “W range” has been instrumental in achieving it. In March 2015 we launched W ICE by Windsor followed by W RARE. They both are a blend of scotch whisky with flavours and natural essences. They both already account for 15% of Windsor net sales and W ICE contributed to gain 1.1ppt in the local whisky segment.

This year we will also revamp the Windsor brand with a new pack renovation, we will further innovate into Lower ABV through the W range and malts, and we will expand our distribution in smaller outlets. I expect to gain share in a declining category.

In order to participate more into new channels, we need to transform our route to consumer, as well as innovate and extend our portfolio.
Currently our RTC is heavily skewed towards the traditional on trade, but it is small in other channels. Over the next 2 years we want to double our sales coverage, with a particular focus on growing the “hangout” and “premium meals” outlets, and the modern off trade to tap more in the home entertainment. We will transform our beer business, as international beers are expected to continue to grow faster than local beers, and Guinness can play a bigger role by leveraging its brand equity and the global innovations we have launched in other regions. We are also exploring the possibility to use our beer business to play a bigger role in the ready to drink segment, which fits very well in the growing need for lower ABV and sweeter products.

Korean consumers still love scotch and I want Johnnie Walker to play a bigger role and become the new standard in the modern on trade. Amongst millennial consumers there is a desire for new drink experiences beyond beer and soju and we need to tap into that, by using different packages and formats which will tap into different occasions and increase affordability. We will also create a new whisky drinking culture which moves away from the traditional neat or on the rocks serve and expands into new cocktails.

In summary we will effectively move from what is a single brand, single channel strategy focused primarily on one occasion, to a robust multi-brand, multi-channel participation strategy addressing a broader range of consumer occasion.

Moving on to Japan. Japan is the world’s 3rd largest economy with an estimated beverage alcohol market value of £11bn. It represents an untapped growth opportunity for Diageo as we currently have less than 1% share of this market.

Japan has an ageing declining population but beverage alcohol is still a vibrant and dynamic market and the category trends are positive for the categories and segments where we operate, as Beer, Sake and Sochu, which together make up over 70% of beverage alcohol market value, are in decline and losing share to whisky, RTD, premium beer and wine. Our route to consumer here consists of two joint ventures which give us access to different channels, one with Kirin for premium core spirits, RTDs and beer and one with Moët Hennessy for our luxury spirits portfolio. Whisky is a hot category in Japan and last year our scotch business was up 21%. But we want to do more as we currently only have 5% of total whisky

In Japan, our strategy is to drive top-line growth by focussing on two areas:

• Drive strong growth in scotch across all price points, focussing on Johnnie Walker with tactical growth opportunities in Malts and Value scotch;
• Transform our RTD business focussing on innovation in formats and flavours and accessible pricing to expand occasions and recruit millennials into the Smirnoff brand;

Johnnie Walker has a long history in Japan, and the brand has strong global credentials. This can set it apart from other whiskies and give it credibility in the eyes of Japanese consumers. So we will invest more in communications on its quality and craftsmanship and more generally in explaining the art of blending. The launch of Johnnie Walker Green Label will also enhance the image of Johnnie Walker and will provide an accessible price point into premium imported whisky for the local consumers. In addition we will continue to build luxury credibility for Johnnie Walker Blue by dialing up mentoring and gifting programs.
There is also an opportunity for primary scotch to play a bigger role in the large standard whisky segment in Japan. Last year net sales in our standard scotch brands were up 36%, driven by Johnnie Walker Red Label and White Horse. There could be more to come as we increase the penetration in this segment.

Transforming our RTD business is a big opportunity for us in the medium term. Our Smirnoff brand has strong brand equity amongst millennials as it is perceived as cool and stylish, however its high price and bottle format restrict it to a limited sets of occasions. We want it to become the brand of choice for millennials through new formats that will tap more into the home-meal and PET format for the high volume on trade meal occasion.

Finally we are also working to enhance our route to consumers and leverage more our partner’s distribution platform by expanding into the trendy Izakaya outlets, where Kirin’s beer is also sold.

I am positive about Japan as it is a good example on how we can still grow and transform our business despite a shrinking beverage alcohol market.

And last, but not least Australia, my home country.

Shifting consumer lifestyles and twice yearly duty increases have impacted beverage alcohol consumption per capita as the excise duty system favours wine and beer, with spirits and RTD categories disproportionately highly taxed. Despite this, spirits value has grown ahead of other beverage alcohol categories over the last five years, driven by accelerated growth in premium and above segments. The Australian market has a significantly larger RTD category than other markets, and most major spirits brands offer RTD formats. Diageo is a market leader in both spirits and RTD.

In Australia, which is about a quarter of my business, we operate through a sales and manufacturing IMC and distribute through third parties in New Zealand and the South Pacific Islands. Spirits account for more than half of market NSV, with RTDs contributing the remainder. Our medium term strategy is to grow penetration and drive premiumisation by strengthening our premium core, revitalize the RTD category and accelerate growth in reserve.

Bundaberg and Johnnie Walker represent nearly half of our spirits business and they are key brands to us. Bundaberg has had a tough times over the last few years, particularly as its heartland was heavily impacted by the mining slowdown. We will expand our geographic presence through a brand relaunch with a new packaging and a campaign that will highlight is provenance and quality credentials. On Johnnie Walker we will leverage the global “Keep Walking” platform and will establish the brand as an icon for luxury. Last year alone Johnnie walker gained 220bps of share in scotch as it benefited from the launch of Johnnie Walker green Label, and I want it to continue.

RTD is a big part of our business and we need to revitalise the category. We will do that by innovating into smaller formats that will keep our products affordable given the disproportionate impact tax have on prices, and by launching new products. One I am particularly excited about is Lazy Bear. This is a RTD, packaged in a cool beer bottle style, with a refreshing citron flavoured liquid, and it is aimed at recruiting consumers from beer and expand our participation in the popular lower tempo occasions. Our Reserve portfolio is still small, about 9% of the business, but growing fast, and it is a big opportunity, as in the last 3 years deluxe and reserve spirits have grown value share of spirits from 25% to 31%. We have now centralized our reserve business into one brand team and this is an area which will get more and more focus in F17 as we have the right portfolio and structure to continue to drive growth.
Let me sum up before opening for questions. Beverage alcohol in this region is an attractive opportunity and we have a clear strategy. The 2017 fiscal year has started well with performance broadly improving across the region. The volatility we navigated last year has left the business in a stronger place, as we completed destocking in South East Asia, mitigated the impact of regulatory and tax changes in Indonesia and Thailand, and started to rebalance our businesses in Korea and China. A clear strategy, focus on operational execution and productivity means we can build on this momentum: drive growth and deliver margin expansion for the full year.

Looking further forward, this region has great dynamics as I have described. And Diageo has the organization, the brands, the resources, the culture and the strategy to capture these opportunities.

Operator, we can now open to the line for questions.

Q&A

Edward Mundy – Jefferies:
Hi, Sam. Thanks for taking the question. I've got three, please. Just taking the Indian business to one side, what do you feel is a reasonable medium-term growth revenue growth rate for your business? You mentioned that fiscal 2017 had started well.

Second of all, you mentioned Scotch as a key driver of mix and that international premium spirits are quite underpenetrated in Asia. How do you think about the opportunity to make Scotch pricing more competitive per the significant sterling devaluation? And then thirdly on Thailand; what's your outlook for this market this year following last week's news and the current official mourning period?

Sam Fischer:

OK, great. Thanks, Edward. So let me just kick off with growth. As I mentioned, we feel good about the momentum that we are building in the region and we expect that momentum to continue. So my medium-term outlook is that the growth in AsiaPac will be higher than average, Diageo growth, and accretive to that growth.

You know, when we look at Scotch – and it's a good question; I really do see Scotch as an aspirational category across the region in all markets. From the research we’ve done, we know that as people look to premiumize, Scotch is kind of number one on their choice. So, we will continue to drive Scotch.

How will we do that? I think principally with Johnnie Walker and ensuring that we continue to invest behind Johnnie Walker and everything that it offers.

In terms of pricing, I think there's terrific opportunities for us in formats, in innovating through blenders’ batch to continue to recruit people into Johnnie Walker. In some markets, we are looking selectively at participation with primary scotches. And again, making accessible price points and formats that allow us to recruit consumers into Scotch. So the combination of those across the regions, I think, offers tremendous opportunity for us to continue to drive Scotch performance and
momentum.

You know, obviously Thailand, a market that I talked a little bit about. You know, we’re deeply saddened by the recent events in Thailand, and obviously our sympathies go out to all Thais and particularly our customers and out employees and our consumers. And we will certainly respect the protocols that the government has issued.

In relation to the business this is a relatively small business in the context of Diageo, and we have seen some indications from the government as to when we think that market might, you know, get back to something which is more normal. At the moment, we expect the on-trade to be locked or shut for a minimum of 30 days and we expect the mourning period to be anywhere between 30 days and 90 days.

So we will be doing everything we can to mitigate any business risk, but in the context of Diageo, it’s not material.

Edward Mundy – Jefferies:

Thanks so much. And just – sorry, just to get back to that. In the first question, you mentioned a medium-term outlook, you know, probably higher than Diageo's average growth. Is that sort of mid, single digits, or was that a high, single digits? Because we’re not getting back to sort of double digit growth.

Sam Fischer:

I think in the medium – in the medium term, given all of the potential I talked about in my expectation is high single digit growth.

Edward Mundy – Jefferies:

Very good. Thank you.

Sanjeet Aujla – Credit Suisse:

Hi, Sam. Just on China, the Scotch business there. I think Scotch for you guys was down 40 percent last year. Do you think that’s now in the base, and you are completely out of the expensive channels, or has some of that continued into this year? And secondly, can you just talk a little bit about distribution in China? Is this goal for you to merge some of those distribution systems that you have, and what are you doing in e-commerce and how big is that for you China business today? Thanks.

Sam Fischer:

Great. As I mentioned, Scotch in China has been challenged over the last 24 months for several reasons. I mean, anti-extravagance and the impact in the TOT has had an impact and we’ve shifted
our focus.

The second impact, as I mentioned, is these MOT outlets, these higher energy, modern on-trade outlets. As a result of the shutdown in traditional on-trade, have become, you know, really expensive outlets to participate in. So, you know, we’ve made some conscious decisions that that’s not the place that we believe is appropriate for us to build our Scotch category. And the added concern around profitability has also meant that we’ve consciously shifted our focus. So, most of that I believe is in the base and my expectation is that this year we will grow Scotch and will grow Scotch through what we consider to be far more sustainable practices. Off-trade, gifting, mentoring occasions. And I mentioned there’s a real Scotch trend going on in China with the opening of these whiskey bars. And again, they’re discerning bars that allow consumers to immerse themselves in the world of Scotch. So I see that category trend continuing. We see auctions for Scotch whiskey in China becoming much more prevalent, and we see Scotch being gifted more and more, particularly super-deluxe Scotch and malts.

So I think medium to longer-term the category trends look really positive for Scotch. I think we’re fueling that conversation with the work we’re doing with mentor programs with our Johnnie Walker house platform. So this year I expect growth and I think, as I mentioned, longer-term very positive.

Moving onto distribution. Last year you probably do remember that we were experimenting with merging distributional channels to try and unlock some synergies, particularly across Baijiu and Scotch. We did learn quite a lot when we did that, and we found actually that those are quite distinct channels with different wholesale customers and kind of different retail – both wine and off-trade customers. And there wasn’t a lot of synergy there, and I think when we looked at our geographic focus, again, it was slightly different. So we decided to focus on each one of those distribution channels on its own and really drive the execution of the key growth drivers through Baijiu independently and Scotch independently, and I think we will continue to do that until we see a fundamental change in the marketplace.

E-commerce. We participate in e-commerce through the established platforms; whether it is JD.com, Tmall and Alibaba, or Jiu Xian Hua, which is a specialist liquor e-commerce platform. Most of these are pure play, so we need to ensure that as we participate, we do that in synergies with all of our other platforms so we that don’t disrupt our entire distribution platform in China. So as we go forward, I think we will continue to participate in e-commerce. Obviously, there’s some really interesting fundamentals going on. Less so in beverage alcohol, actually, at the moment; it’s still relatively under-penetrated, but we plan to lead the participation of alcohol brands in e-commerce.

Sanjeet Aujla – Credit Suisse:
Great, thanks.

Chris Pitcher – Redburn Partners:
OK, thanks very much. A couple of questions. You talked a lot about The Singleton and the success in Taiwan. Could you give us also how much Taiwan is of the brand? Because it certainly used to have
potential across the region. I’m wondering whether that still applies.

Secondly, you alluded to the pricing of Johnnie Walker in Thailand. I don’t know if you can give us a bit more detail on that, and perhaps talk about the primary Scotch opportunity in Thailand. Is Benmore still a brand for you there, or are you going to be using some of your other primary scotches? Thanks so much.

Sam Fischer:
Thanks, Chris. You mentioned The Singleton – this has been a phenomenal success for us in Taiwan, and continues to grow at very consistent levels over the last six years. To the point now which, in a very short period of time, we have assumed the number one malt position in Taiwan. So is there potential outside of Taiwan? Absolutely; I think we see The Singleton leading our malts charge in China, leveraging what we have done in Taiwan across the three geographies that I’ve mentioned in China. Why? I think this is just a quality product with a taste profile that is very attuned to Asian consumers. And I think the way that we have executed our strategy, even outside of Taiwan, has been exceptional. Huge potential for Singleton, and it will essentially lead our malt charge, starting with China, but also into South East Asia and some of the other markets.

You mentioned Johnnie Walker pricing; I think it was in 2015, we saw an excise tax hike in Thailand. And that did affect some of the affordability of our Scotch portfolio relative to the local spirits. We took a conscious decision, particularly on our Red Label, to adjust price, tipping it back into a pricing sweet spot. That pricing has been lapsed now, so I wouldn’t expect to see that show up. But it has allowed us to continue to compete in a sweet spot in relation to price in Thailand. Actually, what is going on in Thailand is a little bit different than just price. We have seen some channel shifts there, and I mentioned this food on-trade, which is an occasion where consumers go for meal and that occasion evolves into a later-night channel. So there could be live music. People aren’t necessarily going on to a more traditional on-trade outlet. So that’s meant that we’ve had to tweak the way that we execute the Johnnie Walker brand in Thailand. I mentioned the Black Label highball, these long, tall serves that allow whiskey to be consumed more easily with meal and early into the evening.

The great news is that there’s lots and lots of these food on-trade hybrid type outlets, and by expanding our Route to Consumer and executing the Johnnie Walker portfolio, I think that opens up significant opportunities. Our primary Scotch, we’ve got some primary Scotch businesses in the region. I mentioned White Horse in Japan, Vat 69 in various parts of the region, and J&B in parts of the region. I also mentioned formats and getting into flasks, which are quite hip and cool with millennials. I think what we’re doing is looking at expanding the potential of our primary Scotch range into more markets and then opening up through some of these core, hip formats, interesting price points which will, again, allow us to recruit both into some of the primary scotches and also Johnnie Walker. I’m quite excited about that. I think that, again, supports the number one priority of driving Scotch, and ensuring that we continue to recruit new consumers into the category.

Chris Pitcher – Redburn Partners:
Thank you.
Laurence Whyatt – Societe Generale:
Hi, Sam. Thank you for taking the questions. Two from me. Just wondering if you would be able to give any information on the travel retail channel. Just seeing what the effects of the slowdown in Chinese visitors has had on that one and what you plan on doing about it. And secondly with your Baijiu brand in China, wondering if there is any opportunity to cross-sell other spirits into that meal occasion, and if so, which ones would you target to cross-sell into it? Thank you.

Sam Fischer:
Thanks, Laurence. I don’t manage our travel retail channel, so I’m really not able to give you the kind of answer that you would expect on travel retail. I’ll just move straight onto Baijiu. As we look at Baijiu and the potential of Baijiu, and whether or not the access that gives us allows us to follow into the meal occasion with specific products. I think absolutely it does and we’ve had many questions around what product would be appropriate. Given the priority we have on Scotch, I still believe – and it’s the case in many parts of Asia where, with Chinese meals, Scotch is consumed; in many countries in Southeast Asia this is an established behavior. I still believe there is an opportunity for us to build our Scotch business in the meal occasion in China. We have tried with some brands already, and it isn’t easy to open up peoples’ repertoire. But we’ve been successful in some instances, with Haig Club and with Blue Label, and we are often seeing Blue Label brought into the meal occasion. So I think we will continue to leverage the meal opportunity with Scotch, particularly super-deluxe Scotch, and in instances where it makes sense, we will look to test the opportunities that our Baijiu participation offers.

Laurence Whyatt – Societe Generale:
Thank you very much.

Tristan van Strein – Deutsche Bank:
Hi, Sam. Thanks for taking my questions. I’ve got three marketing questions for you. The first one, you talk about the 100 innovations you launched last year and the 70 this year. What kind of survival rate are you seeing on those? How many of those 100 are still growing a year later, and what would be a success in your mind?

The second question; you mentioned the success of the Keep Walking Platform to drive Johnnie Walker in Thailand and in Taiwan. I’m just curious, is that the same as the Joy Will Take You Further global campaign, or is this a different campaign that you guys are implementing at the moment? And the last bit, a bit of color, what do mean with nonworking trade spend? What are some tangible examples where you are cutting the costs that the moment? Thank you.

Sam Fischer:
Tristan, I was quickly writing; what was the first question, just so I can ensure that I’ve got that?
Tristan van Strien – Deutsche Bank:
Last year, you launched 100 innovations. This year you are doing 70. So what kind of survival rate do you have? How many of those 100 are still growing a year later, and what is acceptable in that number as you look forward as well?

Sam Fischer:
In the 100 there is a significant number of limited editions that we might launch through festive periods or into specific markets, which are limited in relation to their volume. So they are not necessarily designed to be sustainable. When you look at something like Masters Distiller’s No. 8, which has been just a wonderful innovation in China. I think that sets the benchmark of what we consider to be a terrific, sustainable innovation.

That was launched in 2013. It continues to grow strong double-digit four years later, and continues to play a really significant role in the growth agenda. Generally speaking, we would look to grow the innovation in the first year and to continue that growth in years two, three, and beyond. The other thing that we have done, and I just talked quickly about this, and I’ve heard in some of the other presentations from different presidents is we’ve really got much more defined around the role that our innovation will play. We recognize that some innovations will recruit new consumers into our categories for the first time, and they’ve got a certain lifespan and a certain investment criteria. And we see this because consumers are volatile today, and they are constantly leaving brands to try others are all about re-recruiting. So we spend less on those to re-recruit consumers who already know our brand back in, and others are much more disruptive. So of the 70, we would be really clear about the role that each one of those innovations is playing on the business and the brand.

When we look at Thailand’s marketing platform, Joy was still all around progress in Keep Walking. And the evolution of what we’re doing in Thailand is talking into the creation of inspirational stories using local Thai talent. So we will continue to use that platform of Keep Walking and using inspirational stories that are developed from our Thai business.

I think the other thing that we have done on Johnnie Walker is to be very, very clear about the other pillars that we are investing in. One of the key ones in Thailand, and I talk about this a lot through the presentation, is sampling and mentoring. So really using an intimate environment to tell our Johnnie Walker story; whether that be liquid heritage, provenance, history, craft. This has been tremendously successful for us across the region, and we are really being quite prescriptive in the amount of money markets need to spend on sampling and mentoring to tell the Johnnie Walker story. We recognize, across the region that gifting is still critical. So we continue to invest in gifting. And innovation is a key pillar also. This year, we’re launching our Blenders’ Batch, which is different interpretations of Johnnie Walker from the blenders’ perspective. They are limited edition, limited in volume. But they do allow consumers to engage with the brand in a way that identifies new liquid opportunities, new tastes, new preferences, new packaging. So innovation, gifting, sampling, mentoring, and really inspirational comms attuned to Keep Walking are critical.

An example of what we are doing on trade spend. There’s quite a lot in this, you mentioned particularly working versus non-working. In some instances, over time, some of the spend that we’ve got in our trading terms is not conditional. In other words, it is not conditional on some kind of a behavior that would drive positive sales outcomes. We have identified that and we are trying to
ensure that we take that unconditional spend and put conditions around it that will allow us to continue to grow the business. I think the other thing that we’re doing in net revenue management is really trying to understand, through trade spend, what is delivering a strong return on our investment. And we are using data to do it, so we understand where we are doing particular activities, promotions, discounts, what the uplift is, and whether or not that is an activity that should be repeated. If it’s not, we put that information into our forward plans, and obviously adjust them based on what we found. So hopefully, Tristan, that has given you some insight into what we’re doing across the region on brand.

Tristan van Strien – Deutsche Bank:
That is very clear. Maybe just to come back on the Johnnie Walker campaign. When you look at your campaign locally, is it much more aligned to what the local insights are, or do you just take the global campaign and implement it? Because it sounds like you are doing a lot more stuff locally than take the stuff that is created in Park Royal. Would that be a fair comment?

Sam Fischer:
No, I think the work that we are doing on Johnnie Walker is very attuned to what we are seeing in the marketplace today with content development. So we still take some of the global content, and maybe you have seen some of the work we have done in Colombia, which, again, gives an intimacy and an interpretation on progress through the telling of inspirational stories from different parts of the world. You very much can understand the purpose of Johnnie Walker through different content. Now some of it is local. We are developing inspirational stories of progress from Thailand, but we are also interspersing that with the different stories that we’ve got from around the world, to really bring to life what Johnnie Walker stands for, how we interpret progress, and Keep Walking. So it’s a combination of content that is being released through multiple channels, digital, traditional communication platforms, to support our progress Keep Walking campaign.

Tristan van Strien – Deutsche Bank:
Thank you, Sam. Appreciate it.

Alicia Forry – Liberum Capital:
Hi, good afternoon. Just a couple questions for me. First one on China. We’ve heard a few companies now talking about talk about improved trends with the Chinese consumer. I’m wondering if you could comment on how broad-based that might be; whether across regions of China or across price points. Because it sounds like it’s pretty broad-based, but it would be great to get your perspective on that.

Secondly also on China, the whiskey bars that you mentioned popping up there. I would be interested to hear a little bit more detail about that. Are there certain types of whiskey that’s being sold there? What is the big trend there driving that growth? And finally on Australia, I think you said that 30 percent of the market there is reserve brands, but that only nine percent of your sales there are reserve brands. Apologies if I got that mixed up.

Basically, it sounds like you are underperforming, or you are less penetrated in reserve than I might
have thought there. Is there a reason why that hasn't been rolled out, why those brands haven't been rolled out faster in what is a pretty big market for you in the region? Is the consumer there are looking for reserve options and categories that you don't have a presence in, or is there some other reason for that? Thank you.

**Sam Fischer:**
Thanks, Alicia. Let me just start with Australia, because I think the information may have rolled out and given you the wrong impression. Actually, what we are seeing in Australia is a real premiumization opportunity, and we subtly included premium and reserve. I think it went from 26 percent to 31 percent of the market, but that does include premium, so it's not traditionally categorized as reserve. Now, nine percent of our business is classified as reserve, it's been growing double digit now for the last three years. We do see continued potential there, and we'll continue to leverage that. We lead the industry in relation to reserve participation; we are not behind. It's growing on the back of the malt whiskeys, Johnnie Walker, vodka, and rum. I hope that answers or clears up some of the confusion on Australia.

The interesting thing in China, you talk about this broad-based consumption rebound. I really can speak predominantly from our business, because that's what I know, but when I look at the Baijiu category, which, as mentioned, is really significant, I see slightly different growth rates through the categories. I'm expecting the standard Baijiu to be growing at about three percent into the medium-term. We think that super-premium Baijiu is going to grow at four percent to five percent. And the premium Baijiu, which is a real sweet spot for at-home consumers. B2B opportunities to be growing around seven percent. That's what we see in that segment, which still suggests that consumers are looking to trade up, and that premiumization opportunity, at least in Baijiu, still exists.

For Scotch, our focus is predominantly on super-deluxe, that's where we've seen real potential. That's where we've seen our Blue Label continue to grow share. When we look at malts, and when we look at Blue Label and the premium Johnnie Walker addition is coming from the Johnnie Walker house, all the way through anti-extravagance, we have seen continued growth opportunities and momentum. We still believe that opportunity is what is primarily going to drive Scotch category participation, and in the medium- to longer-term that may spill down the ladder, but we certainly believe that super-deluxe will be the key driver. So I think that's what I see in the markets that we participate in, Alicia.

**Alicia Forry – Liberum Capital:**
OK, that is very helpful. And, sorry, just on the whiskey bars in China; any incremental color that you can provide?

**Sam Fischer:**
If you've been into Shanghai or you've been into Guangdong, you've seen bars like Constellation, which are effectively either before or after dinner bars. There is no real meal there. And there is what I would call real discernment occasions with people sitting down in small groups, talking about whiskey, trying different whiskeys. And they are not just Scotch; there's malts, there's blends from
Scotland, there's Japanese whiskey. So, again, I think it is all arousing interest in whiskey, which is led by Scotch whiskey across the region. They are not high-energy MOT occasions; they are much lower-energy, much more discerning opportunities for people to start learning and enjoying Scotch. And these are popping up all over the place. So it is early days, but I think that is a real leading indicator as to the potential that Scotch provides.

Alicia Forry – Liberum Capital:
Thank you very much, that is very useful.

Andrea Pistacchi – Citigroup:
Yes. Hi, Sam. I have two questions, thanks. The first one is again on Baijiu in China. Shui Jing Fang, do you expect it to continue to gain share going forward, outgrowing there for the premium segment, which is I think you said you expect to grow at about 6 percent, 7 percent in China? And do you see as potential whitespace or areas of growth for Shui Jing Fang, do you expect further geographic penetration, or rather in existing territories, really like-for-like growth gaining share in existing territories? And then second question on China, please. About the distribution joint venture with Moet Hennessy. Now given the evolution of your Scotch strategy in China and the changes to some extent in the outlets you are targeting – and you mentioned these specific Scotch outlets. Is this joint venture still the most effective route to market for the Scotch?

Sam Fischer:
Let me start with Baijiu, Andrea. I mentioned the geographic focus that we have. That’s really critical. In China, the opportunity is immense, and the number of provinces and cities and districts is immense. But what has really worked for us has been to focus on specific geographies, to focus our investment; whether it is A&P, commercial spend, or Route to Consumer, on making a real impact. When we do that, when we bring all of those things together, those key drivers, we get disproportionate growth. That equals share growth. In every single one of those provinces, we have been growing our share and I fully expect that to continue. When I look at the share, it is still relatively small, just because of the sheer magnitude, so we will continue to focus on those provinces, and I expect that we will continue to grow share. So existing, yes. We will also look outside of those provinces at the next wave of geographic opportunities. And again, we need to make sure that we’ve got the ability to invest to be consistent with the model that has worked with us in the first six. So again, when we go in there, we want to make sure we’ve got appropriate investment funds for our A&P spends, for commercial spend, for Route to Consumer. We don’t want to go in there and create little or no noise and therefore no impact.

So I would call that careful geographic expansion and a continued focus on driving those existing provinces. And I expect we will continue to grow share. This is a very strong brand, very strong brand equity, and I think that we still got quite significant runway.

When we look at Moet Hennessy, this is a long-term relationship that we’ve had in China. We had changed focus, we have done that with their support, and with the portfolio that we’ve got through the Moet Hennessy joint venture, that gives us unrivaled leverage in some of the conversations we are having with key trade partners. I still think it is a terrific platform for us in China.
Andrea Pistacchi – Citigroup:

Thank you.

Sam Fischer:

So with that, I am going to close. I think I'm five minutes over time. Thank you very much for your engagement. Thanks a lot for your questions and your time. As I mentioned, this is a region with an attractive growth opportunity, and I believe we've got a clear strategy that we are executing to capture these opportunities. We do have momentum in the business. We are on track to drive growth and deliver margin expansion again for this full-year. If you do have any further questions, please don't hesitate to contact the Investor Relations team. I'm sure they will be happy to answer them. And I look forward to speaking to you all on the next conference call, if not before. Thank you very much.