DIAGEO PLC

BRUNCH-TIME CALL WITH THE PRESIDENTS - ASIA PACIFIC

Sam Fischer

President, Diageo Greater China and Asia

Thank you, Indy. Good morning, or good afternoon, everyone, and if you happen to be in Asia, good evening.

I am Sam Fischer hosting Diageo's brunch-time call with the Presidents today and I will be covering Asia Pacific. I will not be covering India today as it is managed by Anand Kripalu who also sits on the Diageo's Exec and, therefore, when I talk about Asia Pacific during this call, it will exclude India.

During this call I will follow the usual format. I will spend 20 minutes giving you a flavour for what we are doing in our key markets - Southeast Asia, China, Korea, and Australia - and why I believe we are best positioned to win. Doug Bagley, our Managing Director Global Travel and the Middle East, will then spend five minutes providing an update on Global Travel Asia and Middle East strategy and progress. We will then open it up for questions.

So, this region is a large and profitable business for Diageo which represents 13% of our net sales and 11% of our profits. It is a key region and it continues to be attractive to us in the long-term.

Asia Pacific, with £100b in sales is the world's largest beverage alcohol region, representing over one-third of global alcohol consumption. It has a large and fast-growing emerging middle class population which is becoming increasingly urbanised with higher disposal incomes and the number of affluent consumers is also expected to grow. Consequently, in the next three years, approximately 45% of the total volume growth in beverage alcohol across the world is expected to come from Asia Pacific.

The beverage alcohol market varies significantly across countries with different consumption preferences and occasions influenced by cultural, historical, and economic factors with the meal occasion being the predominant consumption occasion. Approximately 90% of the market comprises of beer, local spirits mainly made up of baijiu, and wine, and Diageo has selective participation in these areas.

International style spirits are 7% of beverage alcohol sales and we have a 19% share of this segment driven by scotch.

Asia Pac has had short-term challenges over the years and this year GDP growth is forecast to slow and there are political changes across the region. However, the long-term opportunity is unchanged and so we continue to deliver the strategy that I laid out in February to increase our participation. Let me recap it quickly so that we are all in the same place.

The approach is local market execution to deliver the three pillars of our strategy. Firstly, to gain share in international spirits by driving premiumisation throughout the pricing ladder. We will continue to drive reserve and shift consumers to our premium core brands, those being Johnnie Walker Black and Red Label, Guinness, Baileys, Smirnoff and Captain Morgan.

Secondly, we will participate in more price points with both new formats of our other international brands as well as through local spirits and we will leverage the scale that we already have, or that we can access through our partners to deliver this.

Thirdly, we will gain share from refreshment and food channels through our ready-to-drink, beer and local spirits offerings and very selective international spirits such as Haig Club and also Guinness beer.

To deliver this strategy I have made the following changes since February:

- I have made several structural changes in Greater China and Southeast Asia by creating a more tailored and focused approach to the sub-markets. Taiwan and Thailand will now report in to me to ensure Southeast Asia and China get the attention needed for their development. In addition, for Southeast Asia, we have decentralised the marketing organisations putting them into individual countries where they are closer to the consumer.
- As part of Diageo's global focus we have launched a sales operational excellence programme across Asia Pac that will focus on performance levels for four key standards - customer planning and performance management, outlet standards, rewards, and commercial scorecards. This programme has evolved from the success Diageo has had through identifying which changes in routes to consumer made the biggest difference to our performance. These standards are mandatory and every market is to be assessed annually against them with improvement plans being agreed with me.
- We are moving our innovation R&D lab and team from Hong Kong to Singapore and will now have an innovation centre of excellence in addition to the existing luxury-finishing centre in Singapore supported by dedicated functional teams.

- We have developed third party local manufacturing capabilities in Southeast Asia with the intent of broadening the portfolio to better compete with beer and local spirits, including a recently launched locally produced ready-to-drink Smirnoff product in Thailand.

Besides these changes, we are also embracing the next generation marketing principles with the aim of delivering marketing in a digital world that makes our brands top of mind and physically present. A good example of bringing this to life is the recent Walk with Joy campaign which I will talk more about later.

We have also undertaken a significant shift towards driving out costs to invest in growth. Driving trade efficiencies, changing our supply and measuring effectiveness of our marketing spend has helped us reinvest into the business and also drive operating margin expansion that we experienced last year. This was part of the substantial increase we delivered in F15 operating margin. That was also partly driven by one-off items which we do not expect to re-occur in F16.

As part of the Diageo-wide productivity work stream we have a pilot in Korea to identify further opportunities to drive out costs. We have a team working against each line of the P&L and my aim is to review findings of this study in early November. We will then take the learnings to other markets.

With these foundations in place we are in a strong position to grow our share in beverage alcohol, in international spirits and in particular, gaining share from beer and existing local spirits brands, something which Diageo has a strong track record of doing in many parts of the world.

Now let me talk about how our strategy is panning out in these key Asia Pacific markets. I will start with Southeast Asia. Southeast Asia is composed of 15 countries, mostly emerging markets, but in varying stages of development. 80% of beverage alcohol sales in this market are in Vietnam, Thailand, Philippines and Indonesia. Beer is the largest category representing 60% of beverage alcohol sales and Thailand and the Philippines have the most significant spirits market, most of which is driven by sales of value spirits. Diageo is the market leader in international premium spirits in Southeast Asia with a volume share of 40%.

Underlying demographics and income growth make it an attractive market despite the short-term political and economic volatility. In F15 we saw a decline in our Southeast Asia business due to the destocking in our key account business, the impact of new legislation in Indonesia banning beer and RTD in certain off-trade outlets, and also the political unrest and excise tax increase impact in Thailand.

Challenging conditions are expected to continue in Thailand and Indonesia. However, we expect our Southeast Asia business performance to continue to build momentum in F16 as we will complete the destocking of our key account business by the end of

H1 returning the business to growth. We will drive grow of the reserve and premium core brands and we will leverage innovation across the region.

In Thailand, scotch is 75% of our business and it was impacted in F15 by the effect of excise tax increases and legislative changes. The imported whisky segment declined high single digits with consumers trading down from imported to local whisky, but our Johnnie Walker trademark grew four points of share last year. F16 has now seen the introduction of new laws on labelling requirements and trade restrictions are also disrupting the business in Thailand, so we expect those conditions will remain challenging in the near term.

That said, we are focused on growing share of our core scotch business. We have recently launched our global campaign Walk with Joy in Thailand and we are utilising creative digital engagement, local influences, and disruptive experiential marketing and mentoring to connect with local consumers and reach 13 million of them. One month into the launch we have already reached 11million, which is extremely encouraging, and this will then be followed up with two more phases of activation which we will continue to recruit and re-recruit consumers by utilising above the line digital and 10 local influencers integrated with impactful point of sale activation.

This will also be supported by black on-trade experiential platforms. This will be in the modern on-trade in popup markets and will continue to drive recruitment with Johnnie Walker Red in beer occasions.

At our launch on September 17th of Walk with Joy, we had 1,800 people at a huge event in Bangkok at what we call our Black List Party.

Our reserve sales continue to grow high single digit and gain share in a declining segment through the excellent execution of our route to consumer programmes. This is expanding our premium outlet coverage and activation.

We also launched limited editions such as the Johnnie Walker Blue, Gods of Wealth, John Walker & Sons Master Blender smoke and fruit blends, and we sold these directly to high net worth individuals in the market, something that we think has got further potential.

At a different price point our goal is to create another mega brand in Smirnoff and we are rolling out new programmes in the on-trade and leveraging innovation. We have just launched a credible male ready-to-drink product called Smirnoff Midnight100 in a slim can which tested very strongly with 37,000 consumers that we sampled. This is aimed at over 50,000 outlets of distribution. It is our biggest launch programme to date in Thailand and in the first month of launch the product has already reached 23,000 distribution points.

So you can see that we have got a focus on the core business and our reserve business, but also on expanding our participation to ensure we drive scale and reach.

Now let me talk about Indonesia. In Indonesia new legislation in April 2015 banned sales of beer and RTD in mini markets and other retail outlets. Hypermarkets and supermarkets are allowed to continue to distribute, but are subject to a higher level of scrutiny than in the past. As a result, the total beer market has declined double digits with a similar impact on Guinness sales. However, we responded quickly to the legislative changes taking the following actions.

In response to the new consumer channel mechanics we have collaborated with our distributor partner to restructure the commercial team and coverage plan post-legislation to focus on the modern on-trade and traditional markets.

At the same time we have leveraged innovation to grow our business. We launched Guinness Zero, a non-alcoholic stout. The core of this project springs from a deep consumer insight. Indonesian consumers want to show up as cool, mature, and stylish in all occasions, including ones where they cannot consume alcohol. This brand is strategically important in the post-legislation world. Five months post-launch, Guinness Zero has achieved 60% awareness rates, 33% trial, and 11% past four-week consumption. This is absolutely world class in relation to the industry standards in Indonesia, a testimony to how we are recruiting new consumers into this category.

We have launched a Guinness football campaign and a Guinness local pride limited edition can celebrating how ‘Together we are more’ and we have also launched a batik special edition package which was also launched to leverage on national celebrations.

We have invested in local third party supply and production capability to expand our participation in RTD and local spirits. Our locally produced portfolio has expanded to include Smirnoff Ice in three variants, Gilbey’s Gin and Smirnoff Vodka, and also, as I mentioned, Guinness Zero.

The environment in Indonesia continues to be challenging, but we expect performance to improve as we execute the plans and further leverage innovation.

In the Philippines our RTC programme is working well. Johnnie Walker Red sales doubled in F15 and Johnnie Walker Black is in double-digit growth propelled by a targeted activation strategy. It is called Step Up Nights and it has expanded into 4,600 outlets from 2,600 outlets that we were activating in previously. Our goal this year is to add another 1000 outlets to activate this programme.

The Walk with Joy campaign has been launched in an integrated TV, digital, and out of home high media reach programme aimed to reach 13 million Philippine consumers. This is supported by our first ever local influencer called Romi Garduce featured as one of our 12 global influencers. One month into the launch we have already reached seven million consumers, which is terrific since we have only been activating for four weeks.

We continue to drive reserve delivering double-digit growth in the Philippines in F15, and we have offered our bespoke special edition Johnnie Walker Blue edition, which is driving connection with our wealthy consumers via the Johnnie Walker Trunk Show mentoring format.

We launched Smirnoff Ice Mule RTD in May 2015 to compete with the beer occupation in collaboration with our partner Emperador Distillers. We have launched events across the Philippines and additional activation and sampling events planned for the rest of the year.

We have plans to launch locally bottled scotch with the intent of broadening whisky price points to better compete with beer and local spirits. Again, core programmes on our reserve and premium core international spirits complemented by an expanded participation across various price points.

Let me now talk about China. China is the single largest beverage alcohol market in the world. Almost 60% of this is Chinese white spirit, or baijiu, and most of the rest is beer and wine. International premium spirits represents a small percentage of the sales with cognac the leading category. We are the leaders in super premium scotch with a share of over 45% and also enjoy a 30% share in premium scotch.

The short-term environment continues to be volatile with recent stock market and exchange rate movements, coupled with a slowing GDP being the contributing factors.

In F15 our mainland China business grew double digit on the back of continued momentum from our Chinese white spirits Shuijingfang, offsetting a decline in our scotch sales as the scotch category contracted due to the anti-extravagance measures.

We grew share in super deluxe scotch driven by Haig Club and malts, and also our Johnnie Walker Blue Label.

Our Chinese white spirits gives us a key competitive advantage as we are the only global spirits company to own an established super premium baijiu brand in China. Sales more than doubled in F15 as we focused on strengthening the core brand to win in the meal occasion. We leveraged the Shuijingfang Museum to target luxury gifting and collectability and we accessed and grew volume double digit in the attractive premium baijiu segment through the launch of Master Distillers No. 8.

Within international spirits we have made strong progress on our stated intention to transform our performance in super deluxe scotch, which we lead. We have been consistently investing behind proven growth drivers on Johnnie Walker Blue Label and the Johnnie Walker Houses, including mentoring at scale, switching a growing share of our brand communication to our super deluxe portfolio, and a robust innovation pipeline to drive penetration among new consumers.

In the first quarter of F16 we have mentored over 8,000 high net worth consumer on Johnnie Walker super deluxe brands through a combination of education programmes through the meal occasion and the Johnnie Walker Houses. Our Johnnie Walker House business continues to attract consumers. In the first quarter of F16 traffic was up over 60% versus the same period last year.

Haig Club, another core component of our super deluxe scotch strategy and key to participation in the highly attractive accessible luxury £40 to £45 price point has shown very strong momentum in its first year through exciting marketing and commercial programmes. We have achieved 20% awareness in key focus cities of Guangzhou and Xiamen in a very short time and have achieved 11% share within the segment in just nine months supported by very strong customer collaboration. We have exciting plans for the coming months to further drive awareness and trial.

We continue to see strong growth potential in malts and are very excited by the plans we have for The Singleton which has already developed a loyal consumer and trade support base, delivering double digit growth for the malts category and we will be up-weighting focus on The Singleton throughout F16.

Our deluxe scotch business declined in fiscal year 2015 as the overall deluxe scotch category contracted and we expect F15 performance to be soft as the category continues to contract. We have also made a conscious decision to exit from some very low margin on-trade accounts which will impact our market share in the short-term.

However, despite short-term challenges, the long-term attractiveness of this market is fantastic and we continue to enhance our route to consumer and our investment to strengthen sales effectiveness. We have completed an important first step in this transformation by creating a combined field salesforce selling both our imported spirits portfolio and Shuijingfang within the key southern battlegrounds of Guangdong and Fujian. This integrated route to market model is allowing us to directly call on more outlets and up-weight the quality of execution in outlets while delivering a positive return on investment through selling the entire portfolio.

Now let me move on to one of our developed markets, South Korea. Our goal is to continue to transform our participation in South Korea, broadening our participation beyond our traditional focus on scotch. Scotch is 80% of our Korea business and has been challenged due to the decline in traditional on-trade channel. Therefore, we will maximise the hugely profitable business we have with Windsor through the traditional on-trade, whilst at the same time continuing to drive our business in the modern on-trade, casual hangout, and modern off-trade channels with brands which address the changing consumer preferences.

To achieve this we have invested in our route to consumer by adding 23 salespeople to increase coverage and distribution of our portfolio. We have also implemented an automated customer relationship management tool. It's called In Touch, and it allows us to monitor call coverage, distribution, first drinks, visibility on table, out of stocks, and verify outlet execution on a handheld device. We are also working on a solution to access depletion in off-trade data in the on-trade and the off-trade to drive our growth of premium core brands.

We are making progress on transforming our beer participation. Guinness saw more than 50% increase in volume versus last year and has reached 5% share in the premium imported beer category as we launched the new Made of More campaign and also increased our Guinness distribution to over 4,300 casual hangout locations.

Our reserve portfolio has also had strong performance building momentum and grew double digit in F15 driven by the Haig Club launch. We gained 4 points of share in the international super deluxe whisky segment and we are now sitting at 17% share of that category.

Whisky had a challenging year with Windsor declining single digits in a declining category and a shift in consumer preferences to lower ABV, or alcohol by volume, products. In response to the low ABV product from local competitor Golden Blue, we very quickly launched our own low ABV called W Ice in response and we are seeing encouraging results as we look to compete in this new segment. Windsor Ice has grown to more than 10% of the total Windsor portfolio already.

Now let me quickly talk about Australia. In Australia, our current strategy focuses on three core pillars for growth. We will innovate, we will strengthen and accelerate our premium core brands, and we will win in reserve. Successful innovations contributed to growth in F15 with award winning launches in our Bundaberg small batch series in our reserve range.

Our Smirnoff and Captain Morgan ready-to-drink launches performed well, delivering low single digit growth in a declining category in F15 and are helping to recruit new consumers into the category.

Our premium core focus has delivered strong share growth across Smirnoff, Bundaberg Rum, and Johnnie Walker. Spiced Rum is in rapid growth and we continue to recruit consumers into the category with Captain Morgan and Bundaberg.

Our reserve portfolio is growing double digit in F16 with malts, Johnnie Walker, and Bulleit all growing share in growing categories. We have also recognised the regionalisation of our categories and have established operational fighting units for Bulleit in Western Australia and Bundaberg in Queensland to refocus and drive growth in the respective heartlands for these brands. Since implementation, we have seen share trajectory improvement and we look to expand the footprint and apply learnings to other states in the second half of F16.

I will now hand over to Doug Bagley who will talk to our Global Travel Asia and Middle East business. This business supports the delivery of our market strategy providing world-class execution in a key channel. Doug, over to you.

Doug Bagley

Managing Director, Diageo Global Travel and Middle East

Thanks, Sam. Good morning or afternoon, everyone. I am Doug Bagley, the Managing Director of Diageo Global Travel and Middle East.

Let me start by telling you a little bit about the global travel channel and our business in APAC. The global travel channel is large, growing, and attractive. There are over a billion global travellers passing through each year and that is expected to double to two billion by 2030. Recently, this channel has been referred to as the sixth continent.

We continue to see mid-single digit growth in travellers with growth driven by India and China. Growth fundamentals in this channel are attractive. We expect them to remain healthy in the mid-term. The luxury segment of super premium above spirits and wine is fast growing. The growing middle class who are travelling is untapped footfall and conversion opportunity. For example, currently, 70% of passengers do not visit the alcohol category in duty free outlets at the airports and only 12% of travellers will make an alcohol purchase, therefore, representing an enormous opportunity. Among these who purchase, gifting remains the key motivation, particularly during the festive periods and 30% of consumers are willing to trade up.

Our Middle Eastern business is more than half of the business covering both the global travel and domestic channels. In the Middle East, consumer sentiment, particularly in the domestic channel, has been dampened by the geopolitical developments and weighed on our performance. Our Global Travel Asia business grew moderately in the first quarter of F16 despite the Mers outbreak in South Korea. Notwithstanding, the short-term challenges and underlying fundamentals of our strategy are very well intact.

Our current strategy is in place in the last 18 months and we were focused on four key areas - building our advantage in our route to consumer, in two ways: a.) focusing on developing our strategic partnership with customers and b.) transforming our executional capabilities and, in particular, driving our scale of activation in the region and globally, winning in reserve and particularly the opportunity in terms of premiumisation, extending our lead in the premium core and innovating at scale.

To deliver this strategy we have been building on our innovation capabilities over the last few years. I think Haig Class is a brilliant showcase of the innovative and truly representing that innovation execution at scale. We had an inaugural global launch that took place in Singapore Changi Airport of which then we rolled out to all the other markets subsequently. We leveraged our global relationship, leveraged the bold activations with our key customers to create the biggest and most successful whisky launch we have had in the last 10 years.

We have also strengthened our regional executional capabilities. We have rolled out our global brand ambassador platform with brand ambassadors in store that help consumers navigate through the purchase process. I mentioned before about our executional capabilities. We have launched an initiative called Project Flawless. It's a robust retail audit programme that captures information on critical elements like visibility, distribution, and pricing across all our top airports. Most importantly, it enables the team to identify those in-store opportunities, optimise conversion drivers, and in particular, move with speed in terms of that execution.

Bringing this alive, I think Dubai duty free is a great example where we are focused on working with the customer and as a result, we have been able to extend our whisky market share by a further 3 points and vodka by a further 2 points in F15.

In F15 we have consistently beat the competition in our Global Travel Asia, gaining 1.5% of market share increase.

Our reserve sales grew double digit in F15. Working closely with our strategic customers, we successfully rolled out the Johnnie Walker Houses in key airports such as Mumbai, Taiwan, and Singapore. Besides the obvious strengthening of our partnership with customers, these executions in particular help build our brands, really enhance the shopping experience, engage consumers, and ultimately drive sales, particularly reserve, among a growing pool of affluent travellers. Innovation plays an integral role in the houses as we launch unique and exclusive whisky collections that are made available.

Given the initial success, we are intending to extend the Johnnie Walker House footprint. Johnnie Walker Label grew double digit behind a strong Jude law activation and successful Glimpse pack which is the bestselling Blue Label gift pack we have launched.

I am very excited about our malts opportunity. Sales grew double digit with strong growth in Talisker and the launch of Mortlach. The opportunities in malts is very exciting given we have a very large portfolio and leverage our 28 malt scotch distilleries and a very strong position in the malt stocks which we can leverage globally.

We are broadening and offering beyond Singleton and have an innovation pipeline that will extend our success by leveraging our aged liquid to have the right conversations and investment with our customers.

Premium core is a critical part of the channel, and critical part of our business. It contributes 60% of Global Travel Asia and Middle Eastern sales. Despite facing short-term challenges posed by the geopolitical developments in the Middle East we are consistently investing behind this segment. In Lebanon we ran an award winning Keep the Flame Alive campaign which drove a very impressive 4.7% increase in Johnnie Walker Black Label value share during the campaign period. We have stepped up our visibility, activation, and innovation, including limited editions. In F15 our Johnnie Walker Double Black sales grew strongly led by the success of these limited edition bottles and we have exciting plans in the coming months to further drive penetration.

Looking ahead in F16 I expect us to continue to grow and gain share in Global Travel Asia as we continue to execute our strategy. We will focus on gaining share in our Middle East business in a challenging environment.

Sam, I will now hand back to you for closing comments and then I will be very happy to answer any questions at the end.

Sam Fischer

President, Diageo Greater China and Asia

Thank you, Doug. Let me sum up before I open up to questions. This is a diverse region with different trends across its markets, but we have a clear strategy across each of the markets on how to achieve growth and gain share. The strategy has been in place for six months now and we are building momentum. We are broadening our participation across the region. Smirnoff Midnight 100 in Thailand, Guinness Zero in Indonesia, Smirnoff Ice Mule in the Philippines, Master Distillers No. 8 premium baijiu in China, and transforming our beer participation with Guinness in Korea are all examples of that.

We are doing this while we continue to grow share in scotch and reserve. We have continued to expand our outlet reach and we are improving the effectiveness of our sales organisation. We are also building muscle on how we scenario plan to respond with agility in this volatile environment.

Looking at F16 I do not expect the macroeconomic environment will get any easier. However, with these foundations in place we will be set up with a strong position from a long-term perspective to grow our share in beverage alcohol in international spirits, and in particular, in gaining share from beer and existing local spirits brands.

Lastly, as we drive participation and scale we will start to see a shift in mix that will potentially erode our current profitability. It will be important for us to drive our reserve portfolio and our productivity initiatives to deliver our goal in expanding our operating margins.

Thank you. Indy, can you now open the lines to take any questions that we might have.

Q&A Session

Olivier Nicolai - Morgan Stanley

Hi. Good evening, Sam. Just a couple of questions. First of all, in Southeast Asia, how confident are you that the destocking is now going to be completely done in H1 and what kind of impact should we expect as well for H1 2015?

And, secondly, you gave a very detailed update on China. Could you just give us a bit more colour on the trends by channels between the restaurants channel, the off-trade, and the on-trade? Thank you very much.

Sam Fischer

Sure. Thanks, Olivier. Look, in relation to the destocking, we have mentioned that we expect this to be over in H1 of this fiscal year. I am confident that we are on track to do exactly that and, as a result, I would expect to see that business to continue to build momentum. For sure in Southeast Asia we will see a turnaround and a stronger H2 than H1.

Look, in China, the anti-extravagance, some of the macroeconomic conditions I think have made generally the conditions relatively challenging. I think this is particularly pertinent for kind of the super deluxe end of the portfolio. So, whether that is XO or some of our super deluxe variants and that is predominantly because of banqueting and gifting particularly with the government.

As I look at channels, this anti-extravagance had an impact on the traditional on-trade channel. Began in Dongguan you may remember where the government started to crack down on that particular channel. I think that was the channel that was supporting international spirits and also super deluxe. We have not really seen that channel return to anything like it was before and as a result, of all of those kinds of trends, I think that we have seen the emergence of the modern on-trade and a lot of people clamouring to participate in that channel, which is growing.

I think that we have seen people adjust commercial strategies to business to ensure that through the key gifting periods and banqueting that we are now targeting our portfolios to the gifting and banqueting of business people.

So they're some of the key trends that I'm seeing. I think when I look at baijiu, we've been encouraged. We think the market has stabilised, particularly price has stabilised, and we have now got a base that we are growing off. I think we took some terrific calls in that business and we've been encouraged by the results that we've seen so far.

Olivier Nicolai

Thank you very much. Just a quick follow-up on China. You talk a lot about scotch, obviously cognac and baijiu. But do you see any upside from like vodka and rum and other categories, or do you think the market is not ready for these categories yet?

Sam Fischer

I think there are some green shoot opportunities, I call it, predominantly in our reserve portfolio and we're building a reserve organisation to activate some of those reserve brands like Ciroc, Ketel One, and the like. I think it's coming off a very small base, Olivier, and I don't see a significant shift, albeit there will be some growth.

Olivier Nicolai

Thanks a lot, Sam.

Edward Mundy - Nomura International

Hi. Good afternoon, everyone. Sam, I was hoping you might be able to just repeat your commentary on margins for the division in fiscal 2016. I think there was some puts and takes there.

Secondly, just on destocking. I think you mentioned just now that you think destocking should come to an end in the first half. I was wondering if would be able to quantify what the destocking impact might be in revenue terms in totality for the year?

Thirdly on China. You mentioned the joint distribution of product between Shuijingfang in Diageo in Southern China. Can you perhaps provide a bit more colour on how that has gone and whether there is an opportunity to widen that further across China?

Sam Fischer

So it was margin, it was destock in Southeast Asia, and the final question, Edward, sorry?

Edward Mundy

Your joint distribution in Southern China between Shuijingfang and Diageo.

Sam Fischer

Yes, okay. Look, in relation to margin, we saw some operating margin improvement in the last fiscal year. That was to do with a number of initiatives, including our cost and productivity initiatives and in some instances there were some one-offs that contributed to that. I think we will continue to focus on growing margin and in the context of expanded participation we will need to do that to continue to grow operating margin. In China, I expect when we back out that one-off and we look organically, there will be some growth, but when we look at reported numbers, we may see some decline in China because of those one-offs.

Just be clear though, across everything we're doing, particularly with productivity and efficiency, we plan to drive continued margin growth.

Look, the destock for Southeast Asia, we reported that fiscal 2015 we would get through over half of the issue and at the first half we would continue to complete it. I expect the F15 impact in Net Sales to be around about £9m and about £6m of operating profit.

In relation to Southern China and what we're doing there in building scale through our route to consumer, lots of learnings frankly as a result of this. We certainly see synergies in planning, in key account management, in e-commerce, and some of the back office functions, but we have learnt that there are differentiated wholesalers and we need to ensure that we've got the right people calling on those separately. Where there is some cross-fertilisation of brands through those wholesalers we are looking at it, but we are making sure that we preserve the integrity of those existing channels so we are not kind of forcing anything. So we are getting some synergies. I think that's allowing us to reinvest back into the route to consumer so we can expand coverage in those areas.

Once we are comfortable that we've got all of those learnings, that we've built the capability to service the entire portfolio, then yes, we will look further into expansion in China.

Edward Mundy

Thanks. Just on the margin question, there is commentary that there is going to be further efficiencies and you're aspiring for continued margin growth. Is that for Asia Pac ex-India, or is that for Asia Pac as a division?

Sam Fischer

I think it's just directionally, Edward. We're looking at expanding participation which we recognise in some instances like what has happened in Korea, for example. We may have some margin erosion as we build a stronger, broader base. There will be other markets like China where we start getting these efficiencies coming through that will supplement that. So across Asia. I'm talking excluding India here. I expect there will be some puts and takes here, but that net-net we should continue to see margin expansion.

Edward Mundy

Okay. Thanks.

Trevor Stirling - Bernstein

Hi there, Sam. A couple of questions for you. One on China. Can you tell us how the business currently splits between scotch and baijiu?

I know the comps are getting much tougher now as we go into the first quarter of fiscal 2016. Just comment on the relative trends of those two sectors.

Sam Fischer

Look, I think when we look at our scotch business and our baijiu business, they're relatively evenly split today. We will expect perhaps that might diverse, divulge if you like, as time goes on, but right now it's about 50/50.

As I look at the trends, what we've seen as we've looked at the baijiu category and super premium baijiu as I mentioned, is a real stabilisation both in price and in volume in the market. We've seen some terrific success with expanded route to consumer with some of our elite club initiatives where we've really built a database of elite customers and also innovation. We are innovating with, as I mentioned, Master Distillers No. 8 and also in the e-commerce space. So, some real momentum I would say building off a much more stabilised category.

I think scotch is a little bit two stories. We've got one story which is the deluxe category. I think deluxe scotch has been suffering as we've made some choiceful decisions around where we participate to optimise, if you like, our financial position and really invest in super deluxe where we think we've got some real momentum with Blue Label and the Johnnie Walker House and what we've been working on for several years there. I think that, as I mentioned, super deluxe is still disrupted across both categories, possibly more so cognac because of the work we're doing on super deluxe scotch, but our deluxe category we still see in low double digit decline.

Trevor Stirling

Thank you. Can I ask just one follow-up if I may about the Philippines? You mentioned Emperador is your distribution partner in the Philippines and using them to expand scotch but now they have their own scotch business in Whyte Mackay, so, is there any conflict there that you need to work through?

Sam Fischer

No, Trevor. Just to be clear, we do not have a scotch partnership with Emperador in the Philippines. We have leveraged their scale with RTD and a product called Smirnoff Ice Mule. We will not be developing our scotch business with Emperador. We will do that separately as we look to expand our own route to consumer and access more price points.

Trevor Stirling

That's very helpful. Thank you, Sam.

Chris Wickham - Whitman Howard

Thank you. Just two things. One, I was wondering if you can talk a little bit about innovation. I mean obviously Diageo is a very strong innovator in the core. Can you tell us a little bit about your relationship with innovations that are coming out of the core and how much is opt in and how much is opt out and then specifically in relation to both beer and spirits because one of them tends to be a bit more local than the other?

Then I was wondering perhaps if you could talk a bit more about that sort of low alcohol footfall you are getting in duty free, what you can do to get that up?

Sam Fischer

Chris, I will go and then, Doug, I'll pass over to you for the duty free question.

Look, I think again, a critical component of our expanded strategy, Chris, is innovation and the role that innovation needs to play in our markets as we build a broader participation and scale. We had terrific growth in innovation last year and already this year we're seeing significant growth. So we're building up a machine that sits behind that. A local machine, that's trying to gather local insights and develop local products and that's really why we've put our technical centre and our finishing centre here in Singapore so that we've got a really quick and localised response to the insights that we're seeing at a market level.

So, for example, when we saw Guinness be significantly affected in Indonesia, the time it took us to develop and implement and execute a Guinness Zero product to allow us to keep a presence in the affected channels was really due to our ability in Singapore to respond to those specific needs.

So, the opt in/opt out, I mean actually, the innovation in service of markets at a market level so the collaboration is seamless. Of course, in some instances where we have got global platforms in global launches, obviously to create that global impact we may well be strongly encouraging markets. But generally speaking, innovation is seamlessly aligned to the needs of those markets.

It's split. You heard in the commentary some of the work on Guinness. The batik, which is a national, if you like, dress, we put a batik edition out for Guinness in Indonesia and we did a similar thing in Malaysia. We did Guinness Zero and we're looking to line extend Guinness Zero. So there is lots and lots of innovation. We're focusing on beer, and, of course, there is lots that we're focusing on spirits. We continue to look in Australia at small batch and the work we're doing with Bundy on spirits.

I mentioned W Ice in Korea. Again, a really quick response to something we saw in the market that has allowed us to maintain share in Korea even though there has been a significant shift in the market dynamics. So I hope that answers your question, Chris. I'll pass it over to Doug.

Chris Wickham

Yes, thank you.

Doug Bagley

Thanks, Sam. Yes, Chris, just first starting on the innovation for duty free, we've also had a very extensive innovation programme for the duty free channel. For example, I mentioned the launch of our Johnnie Walker Houses. What's been unique about the houses is we've got a differentiated range of products in duty free that's now representing an enormous opportunity for us because it's close to 55% of our total sales are coming from those exclusive products. So, it's very clear that consumers want a differentiated product when they come to travel retail market.

We mentioned before about scotch and you mentioned low alcohol. I think certainly the opportunity whisky is very much the largest category in travel retail. Being the market leader, this is a channel that represents over 50% of the total market. Super premium is in double digit. It's the fastest growing segment within the channel. So our focus is very much on premiumisation and driving super premium and that will represent close to about 45% of the incremental growth to the channel over the next five years. So, that's where the focus is at the moment and certainly around our innovation with our premium core. We've done a lot of tailored packs, as I mentioned, both in Double Black and in Johnnie Walker Black Label which have performed exceptionally well and delivered double digit growth against a category in single digits in that particular segment.

So, innovation playing a really vital role for us in Travel Retail.

Chris Wickham

How is that specifically impacting the footfall trends that you're seeing?

Doug Bagley

Well, I think the footfall is not really a question of pace. It's more place. So, the pace of the passenger growth is relatively stable year in year out at around about 5%. What we're seeing is that we are starting to, I think, draw and improve the conversion of consumers that are moving from footfall from the airport into the travel retail environment. Obviously liquor, and therefore, we are starting to see what we assume is an increase in conversion. This will be our first year of our Johnnie Walker Houses where I will be able to validate that point. But we're certainly seeing them as incremental sales because most of the houses are adjacent to the main store. So we assume that it's both conversion and consumers trading up.

Chris Wickham

Interesting. That's great. Thank you very much.

Andrew Holland - Societe Generale

Hi. Thanks. Two questions if I may. Just to check what you said about the sales of Shuijingfang last year. I caught that you said sales doubled last year and I don't know if that's right. Can you revisit that comment and I will pause there before I ask the second?

Sam Fischer

Andrew, yes, the sales doubled.

Andrew Holland

Okay and this year, coming back to the earlier answer, you're talking about stable price and volume. Is that the here and now, or is that your expectation for the year as a whole?

Sam Fischer

So, I was talking about the category there, Andrew, and said that clearly, through the anti-extravagance we did have a period of volatility and uncertainty both at a category level for super premium baijiu, but also in price. So, the first key indicator that we've got a solid platform has been that we've seen price increases from some of our competitors and reported volume stability. So, that's the category, particularly the super premium baijiu category.

I would expect on the back of that that we would continue to see momentum building for Shuijingfang. I'm not sure that we will double the business again, but we should certainly see growth.

Andrew Holland

Okay. My second question is just a more general one on pricing which we haven't talked about so much. What is your expectation for pricing across your region for the current year?

Sam Fischer

You know, obviously, that is really dependent on markets. I think principally we have to be able to assess at a market level where we see pricing opportunities and those opportunities that support our strategy. So, if we see some markets particularly where competition is particularly intense, that it's difficult to take price and that might significantly impact our volume, then I think we will be more selective. But in other markets where we've seen opportunity, we have and will continue to take price. So it really does depend what's going on at a market, particularly, competitively and then making decisions based on that as to when and how we take price.

Andrew Holland

Which I would expect you to say and I'm just wondering whether you can give me an idea of whether that is coming through at very low single digit, low single digit, mid-single digit across the Group?

Sam Fischer

I think it's difficult for me to give guidance on this. We've already taken some price in places like Korea on specific SKUs. We've taken some price in Japan. We're looking at other markets across the patch.

In some instances though, Andrew, where there is real challenge like Thailand where there has been some legislative challenges, we may take selective decisions on reducing price to ensure that we stay competitive and continue to grow share and that's exactly what happened with Red Label post the excise tax increase in Thailand.

The underlying principle here is that we will take price where we can and we will drive positive gearing where we can, but that needs to be in the context of the market conditions.

Andrew Holland

Okay. Thank you.

Andrew Stott - BoA Merrill Lynch

Hi, Sam. Yes, thanks for the presentation. Just regarding the region overall and trying to put this into the context of the mid-term targets for the Group, are you at liberty to share an organic growth target over the medium-term for this 11% of Group profit, 13% of sales?

Then secondly, when you look at the margin of the overall region and I know you've got five or six buckets within the region, do you think that margin can get to a Group average in time?

Sam Fischer

Thanks, Andrew. Just in relation, the commentary I'm giving for the region is that we will continue to build momentum and that is my position.

In relation to margin, I think, again, in the context of broadening participation which I think is critical for this region as we look to take ourselves away from being niche and into something far more scalable. I think that we need to do that and I think we will need to offset that with productivity and offset that with our reserve business and mix.

I think that's the core here. I will continue to try and improve our operating margin and that's our commitment. The amount of time it takes and that relative to the business is difficult for me to say.

Andrew Stott

Thank you.

Eddy Hargreaves - Canaccord Genuity

Hello. Yes, just listening to your prepared remarks, you've clearly got a lot going on, on the market side with new products like Guinness Zero being introduced, lots of activation, the small batch introductions in many markets. When we look back at last year, marketing investment was down 8% primarily behind Johnnie Walker Black in China. Just wondered where you could give us some indication of what your overall marketing is likely to do this year. Is it going to be up, or is it still reducing because of the continued pressure on scotch in China?

Sam Fischer

Thanks. Look, I think for us, this will continue to be a growth region. We will continue to invest at higher than Group average rates. I think one of the key things that we've learnt here is that being very choiceful about where we invest and driving efficiency across that investment is really paying dividends and we've certainly seen that positive engineering in the China P&L. So, we will continue to invest at or similar rates that we have been, but we would look to get far more impact from that investment through real understanding of where we target, where we focus through some of the productivity work and some of the efficiency work that we do.

I think we will also make sure across various expansion programmes that they are properly funded. But we are looking at different models of funding and digital provides different return on investment scenarios and not everything requires heavy upfront A&P investment and we've seen that in different markets across Africa. So, there is a balance required here to ensure that we stay fully funded and that's being achieved through some of the productivity work that we've done and also really harnessing the digital transformation that we're seeing in markets.

Eddy Hargreaves

So, just to come back on that, it sounds like you're pretty comfortable with the level of investment that you were at last year.

Sam Fischer

Yes, which is significantly higher across the patch than obviously the Group.

Eddy Hargreaves

Thanks.

Andrea Pistacchi - Citigroup

Yes, hi. I have a couple, please. The first one is broadly on your business. Given the puts and takes and the difficult macro, are you confident that you will be able to actually deliver positive sales growth this year excluding India?

Then your plans for Malaysia please following the disposal of the stake in Guinness Anchor to Heineken.

And finally an update on the situation in Indonesia where obviously we've got the ban in the mini marts in place. My understanding was that the industry was trying to lobby, convince the government to rethink that and at the same time the government was also considering more drastic regulation measures. So, where we are in that in Indonesia, please?

Sam Fischer

Okay, thank you. Look, I think we're going to continue to see the momentum build across the region. I am confident that that will be the case. Again, when I look at where we're at, I am confident that we will deliver growth for this region excluding India.

In relation to Malaysia, obviously there has been a transaction done in Malaysia that has made no difference to our commitment to the brand Guinness in Malaysia. We are confident that we've got the right trading terms and the right relationship with Heineken to ensure that Guinness will continue to be a core brand for them and obviously a core brand for us.

In Indonesia, we continue to have quite healthy dialogue with the government. We've seen a cabinet changed. We've seen Tom Lembong who has come in as a replacement Trade Minister and I think that's given us confidence that with the right dialogue we will be able to have the ability to influence what we would consider to be sensible regulation in relation to the sale of alcohol and I think it will also allow us to have dialogue around how we can help address an issue that they are having with consumption of alcohol in particular channels. So I think that's giving me confidence that it won't get any worse and that there is the possibility in the medium-term that we may see some improvement.

Andrea Pistacchi

Great. Thank you.

Sam Fischer

Terrific. Thanks, Indy and thank you so much for everyone for attending. I hope we've been able to give you a sense of real clarity around our strategy in Asia Pacific and the progress that we've made since our last call.

Should you have any further questions, then please don't hesitate to reach out to our investor relations team and we will get back to you as fast as we can.

Thank you. Have a great day.

Doug Bagley

Thank you.

[End]