DIAGEO PLC

BRUNCHTIME CALL WITH THE PRESIDENTS - AFRICA

Nick Blazquez

President, Diageo Plc, Africa and Asia

Welcome everyone and thank you for joining us. As part of our regular series of President Calls today Andy is here to talk about the business he runs - Africa. Following a few opening remarks we'll open up the line for questions.

As you saw the details of our first half performance in January we will not focus on that in our introduction today, although we will be happy to take any questions on our F15 performance when we get to the Q and A. Andy will kick off by outlining our strategic priorities, describing how we plan to accelerate our performance through building on our current position and broadening our participation, and then he'll go through a bit more detail by market.

So let's get started.

Andy Fennell

President, Diageo Plc, Africa

Great. Thanks, Nick, and good morning or good afternoon everyone.

It's great to be here today to talk to you about the opportunities for Diageo in Africa. Africa is a region with incredibly attractive fundamentals for beverage alcohol companies and I think that for three key reasons.

Firstly, the macroeconomic upside is huge. Africa was home to eight of the world's 15 fastest growing economies between 2000 and 2013 with current GDP of over $2 trillion and that's expected to grow in high single digits in the medium-term.

Secondly, the demographics are favourable. The legal drinking age population in Africa has been growing faster than any other continent and in the next 20 years Africa is expected to have the largest working age population of anywhere in the world.

And over the next 10 years, it is estimated that in Nigeria alone roughly three million consumers will be earning over $100,000 per annum.

Thirdly, and of equal interest, is the opportunity to bring consumers into formal alcohol. We estimate that as much as 50% of beverage alcohol consumption in Africa is informal. Moving consumers into the formal segment is an opportunity not just for producers but for governments as well as it is aligned with many of their public health and taxation objectives.

There is no doubt that there are short-term challenges from a macroeconomic and political perspective, but we're confident about our ability to manage them and capture the opportunities.

Diageo's strength in Africa is the scale of our business in beer and the complementarity of our spirits.

Our strategy in the region is therefore clear.

We will grow our business across a range of price points, across beer, spirits and RTD. We will do that by expanding our route to consumer, bringing Diageo's innovation capabilities to bear, tightly managing our cost base and continuing to improve our local manufacturing capabilities, particularly in spirits, and by expanding into new markets. We will continue to build on our local talent to drive this growth which we believe will return to high single digit to low double digit growth over the medium to long-term with some margin expansion over time.

Let me talk first about price points. We are leveraging the strength of Diageo's brands at the luxury and the value end of the market. At the more accessible price points, we're building on our hugely popular local spirits brands such as Kenya Kane, Uganda Waragi and Jebel Gin with flavour extensions, and at the same time innovating in the beer space with Orijin, Balozi Lager and Ruut Extra. Ruut Extra is the first beer in Ghana made predominantly from cassava, amongst others. These local brands are not commodities. Consumers at this price point still demand substance, character and quality and we have the capabilities to deliver that.

At the other end of the market, in the top price tiers, net sales of our reserve brands were up 25% in the first half. We're supporting the growth through activities like our Master Bar Academy. It's training where we've hit over 25,000 bartenders so far in 15 countries. And in the first half of this fiscal year we also launched the Reserve Club in South Africa, which provides our key customers with the right tools to deliver true luxury experiences.

Building an effective price ladder we are increasing the penetration of our beer and spirits brands.

Now, having the right product at the right price and margin allows us to build scale quickly through our route to consumer initiatives. For a number of our markets we are well into the implementation phase including Ghana, Nigeria, Tanzania, Kenya and South Africa. We are seeing results and financial payback. Our common approach, clear standards, principles and rigorous evaluation of initiatives is driving this. We are continuously leveraging our learnings across markets, allowing us to more quickly define the solution and progress to implementation faster.

Furthermore, we are bringing Diageo's innovation expertise to Africa. We can choose where and how to compete with either spirits or beer, or indeed, create new categories. I expect innovation this year will deliver in excess of £300m in net sales, a significant contribution to the top line.

Successful innovation in Africa is about delivering quality products at the right price. That means local manufacturing and locally sourced raw materials to engineer the right cost of goods.

To achieve this we've been innovative not just from a product perspective but with our supply solutions as well. Many of you will have heard of our 'cube', a portable, standalone blending and bottling facility that is low cost to construct. We have cubes currently in Ghana, Nigeria and in Mozambique and this allows us to produce affordable spirits such as Gilbey's Gin and Orijin Bitters flexibly in market.

Just because these innovations are sold at lower prices doesn't automatically mean that they are reducing our margin. In fact, if you look at our innovation launches at an Africa level, they're broadly in line with our core business margin structure.

Our strategy is underpinned by our talent agenda. Our commitment to developing talent is as strong as it has ever been and initiatives like our future leaders programme are continuing to work. In some places, notably in Nigeria, we've made some changes to our senior teams, and given the importance of these markets, we've put some of the best people we have in Diageo in key roles to effectively pursue our strategy.

And finally, our strategy is about increasing our capacity for margin expansion. Undoubtedly, Africa has become more competitive. But by continuing to take selective price increases and keeping our cost base under control we can deliver margin expansion whilst we invest for growth. In the first half of this year we chose to invest in A&P ahead of net sales because competitively we believed that that was the right thing to do. But we've made savings elsewhere.

Take procurement as an example. Our local sourcing is now about 70% which is a significant increase from just under 50% a few years ago.

Our sustainable local sourcing activities across Africa are primarily focused on supporting local economies and standards of living for thousands of farmers, reducing our dependence on the importation of agricultural raw materials from Europe and Asia - it's just not as necessary anymore as it used to be - creating flexibility and innovating in our raw material usage, and limiting our currency exposure which is increasingly important in the current climate

By pursuing local sourcing at such a scale we are pioneering models that governments can use to attract additional private sector investment in smallholder agriculture, a sector which remains a key driver for inclusive growth in Africa.

And in logistics, improvements in our planning and forecasting, along with more efficient use of our trucks and distribution are driving savings. All of this nets out to COGS savings that this year will offset inflation.

We're taking some of these savings to the bottom line, but we're using a lot of them to reinvest in our infrastructure, in our route to consumer and perhaps even more importantly in brands.

While I'm sure you're all well versed in our results at the first half by market, I would like to shift gears now to give you a little bit more colour on each of the markets.

I'll start with East Africa Breweries as it is now our largest market.

I am very pleased with the progress we're making in EABL. The past 18 months have thrown up some significant challenges with the change in excise tax on Senator. In Q2 of this financial year we started to lap the significant declines that those changes caused, and the brand now accounts for less than 10% of EABL net sales. We've also made some effective interventions on pricing on Senator. But Senator aside, the rest of the business is very strong.

In Kenya, which is 60% of the business, I think we've really got the affordability and pricing mix right across our portfolio - beer, spirits and RTD. We've achieved this through consistent investment in our existing brand portfolio, notably Guinness and Tusker, but also through innovations such as Kenya Kane, Jebel and Balozi. Developing these brands is investing in the future of that market.

In Tanzania, the top line was up high teens in the first half of this year. We've improved our distribution footprint so we're gaining share, and importantly, we're delivering profit.

Our business in Uganda is strong with Guinness up in double digits and we're improving our route to consumer there.

Exports are up over 100% to South Sudan as we've successfully found ways to trade in this volatile market.

So EABL is in a really good place, growing in double digits with strong momentum across the portfolio. Its scale is such that success here really does move the needle for Africa as a whole.

Moving to Nigeria, the consumer environment in Nigeria remains volatile. Weak oil prices, currency devaluation and security risks will have an impact on the alcohol market, but the Nigerian consumer appears to remain positive. The strong Q2 performance, with net sales up 7%, has continued into Q3 as our ability to leverage our scale in beer and our innovation capabilities have translated into growth with Orijin which has given us the headroom to drive steady improvement in Guinness. In fact, Orijin has been such a success that other players are following our lead into this space. But we have now gained share in each of the last six months and whilst the external environment is very uncertain, I am confident that our interventions in talent and route to consumer are delivering results. We now have a very senior and experienced management team on the ground and through our route to consumer work we have doubled our outlet coverage in Lagos while testing models for other parts of the country. So while Nigeria remains a challenging market I think we're on the right track.

Moving on to Africa regional markets. This is a part of our business that is really very strong. Beer in Cameroon was up 10% in the half, and in Ghana beer was up over 25%. Through our route to consumer work, we're putting more people through more doors and this is driving performance. Furthermore, the route to consumer changes we made last year in Angola have delivered results and through our new distributor, our spirits business there is firmly back on track.

The standout market in competitive terms in Africa regional markets is Ethiopia where we've seen product proliferation and increasing price pressure from the competition as capacity has expanded. But we've expanded the footprint of Meta draught, launched Zemen, our latest value offering, and sales in the last quarter have been very strong. Overall we are very optimistic about the opportunity and our footprint in Ethiopia.

So turning finally to South Africa. This is a challenging market from a macro perspective. There's no doubt about that, and this is obviously having an impact on consumer spending. But we're winning share.

Smirnoff 1818 will sell more than two million cases this year, with the strong performance of the base brand enhanced by innovation into flavours which has been hugely successful. Our performance this year has been distorted somewhat by RTDs as we've lapped the incredibly successful launch of Smirnoff Ice Double Black and

Guarana, and production of this brand has now moved into our joint venture which impacts the top line. Depletions though are relatively stable.

We're succeeding in South Africa despite the economic environment, with strong innovations and our continued focus on our route to consumer which is increasing our penetration and getting our products into the hands of more consumers in more outlets.

So bringing it all together, I'd like to leave you with a few takeaways.

Firstly, Diageo is in a unique position from a competitive perspective. There isn't another player that can combine the brand and price point breadth that we have across beer and spirits operating on this continent today. We operate locally but with the benefit of a global heavyweight behind us.

Secondly, we know how to win. It is about the variety of price points, delivered through innovation, local sourcing and local manufacturing to achieve them that will make the difference.

Thirdly, this is a business that while facing increased competition, can continue to improve profitability. We will be more competitive with our price increases, and Reserve, RTD and Guinness are offsetting the price mix impact of our success with lower priced brands. The initiatives we have in place for cost savings are working to offset inflation, keeping COGS down and that, of course, helps drive margin.

As I look to the balance of the year I'm really pleased about the trajectory that the business is on. Q2 was better than Q1 at 9% top line growth and I expect H2 growth to be more in line with Q2. These short-term trends underpin our optimism about Diageo's African business in the future.

And so with that, I'd like to open up the session for you to ask Nick and I some questions.

Q&A Session

Ian Shackleton - Nomura

Yes, good afternoon, Andy and Nick. Andy, I think you talked about growing, and I think it was revenues, high single digits to low double digits in the medium-term. I just wanted to confirm that was what you had said.

In addition, you've talked about margin enhancement. What is the realistic level of margin enhancement going forward given the fact there is some pressure there from more value offerings?

Andy Fennell

Thanks, Ian. Yes, that is what I said. So, high single digit low double digit is the trajectory that I would expect for the business. Q2 was plus 9 and that trend has continued in H2.

In terms of margin, with all of the puts and takes we think this business has capacity for margin expansion. We also need to make sure we're investing in route to consumer, brands and so on for future growth. So, I would say that we should expect modest margin expansion in the next three to five years.

Ian Shackleton

Does that mean 20, 30 bps per annum, or is modest more than that?

Andy Fennell

No, modest would be that amount.

Ian Shackleton

Okay, thank you. This is a follow-up. You talked about I think £300m of revenue from innovation this year which is quite a high number. It's about 15% of total revenue. How much of that is the Orijin brand? I just wonder how wide that is.

Andy Fennell

Orijin is less than half, but it's significant.

Ian Shackleton

And what would be some of the major factors within the £300 then?

Andy Fennell

So, Smirnoff Double Black and Guarana is big. Ruut Extra is big. Jebel Gin is big. Balozi Beer in Kenya is big. Obviously we've been launching reserve brands too, Ian, although as part of total revenue, they're quite modest right now. So, we've been innovating across all styles of alcohol and at all price points and it's the combined effect of that which is delivering that sort of £300m plus in revenue.

Orijin, you've rightly said has been the runaway success this year and we're now launching that in more countries. But the innovation story is broader than just Orijin.

Ian Shackleton

Excellent. Thanks for that, Andy.

Andy Fennell

Thanks Ian.

Chris Blaine - African Alliance

Afternoon guys. Thanks very much for your time. I wanted to find out, maybe it's a bit of a tricky question, but in terms of the imported spirits, specifically the premium spirits that your subsidiary takes such as East African Breweries, can you give an indication of what sort of margin they make on that? Would that be more like a distributor's margin, say 10%, or is it higher than that? Is it more like a partnership?

Andy Fennell

We don't share the specifics, Chris, but our business is a partnership with these businesses. As you know, we operate in many of our entities like East African Breweries with local shareholders. EABL has a broad structure and we kind of agree the way the margin is shared so that it works both for the local entity, in this case EABL, and for Diageo. But I wouldn't want to get into specifics.

Chris Blaine

Okay. Thank you.

Andy Fennell

Thanks, Chris.

Andy Gboka - Bellevue Asset Management

Good afternoon, everyone. Two or three quick questions. The first one is mainly on your African operations. A very factual one. Is it possible to get the total revenue and total CapEx for your African operations in FY14 and maybe possible in the first half of 2015?

The second question is mainly focused on Nigeria, especially Guinness Nigeria. I was wondering whether it would be possible to get CapEx guidance for FY15 for Guinness Nigeria and what would be the core focus now I mean FY15 and possibly in FY16?

And the last question still on Guinness Nigeria is about the debt level. When I look at what the company reported for the first half, including the overdraft, I calculated a debt at around $190m and I was wondering where you see the debt of Guinness Nigeria going. Do you see it going slightly up, or are you looking at paying down some of that debt? Thanks a lot.

Andy Fennell

Okay, I have to confess, Andy, I was thinking about the answer to your first question when you asked the last one, so I'll come back to you on that.

On CapEx, we're stably investing in Africa at about 9%, 10% of revenues. Revenues are 1.5b and that's been consistent over the last few years. We don't give CapEx guidance, but we've got no big things on the short-term horizon to distort the number as we look forward.

Sorry, could you just repeat the question about debt for me, Andy.

Andy Gboka

Yes, because I was looking at Guinness Nigeria and South Africa reserve and I saw that the total debt, including overdraft, increased slightly I will say by NGN2b or NGN3b. I was just wondering where you see that debt going forward. Do you see that debt going down and if possible, what would be the right level you would expect the debt to be at by the end of this fiscal year?

Andy Fennell

We might have to come back to you for some more detail, but there are no reasons why it would change fundamentally as we look forward. I'd expect a quite stable environment, but I might have to get someone who is a bit closer to it to give you a better answer, Andy.

Andy Gboka

Okay. Thanks. Thanks a lot for this.

Andy Fennell

Thanks for the questions.

Angela Ryker Gallagher, Investor Relations Director, Diageo

We have a question from the internet from Tripp Bloom. You mentioned your strength in beer and complementarity of spirits in your opening. Do you think this is the right order to think about your priorities, or should the priority be on spirits first?

Andy Fennell

A super question. I think that the magic of our portfolio in Africa is the complementarity of the two. So, beer is really important to us. We've got some fantastic beer brands which we think will grow. I can see growth in them and they give us scale in our route to consumer which is allowing us to accelerate our spirits performance, particularly as we're now building more spirits at more affordable price points. Those brands fit very nicely into the route to consumer that we use for our beer brands. So, actually, the answer is about the two coming together. Healthy beer is critical. Healthy beer gives us a platform to accelerate growth in spirits and the two work closely together.

Once you've got beer and spirits working together, of course, it allows us to conceive of products that kind of are in between the two like RTDs and so on.

Chris Pitcher - Redburn Partners

Thanks very much. A couple of questions I suppose. On the price competition you referred to in your mainstream brands, are you seeing that intensifying or is your outlook for the second half on the pricing environment you're seeing currently?

Then on the whole cube initiative, could you talk a little bit more about the decision behind building actual fixed assets in these markets, particularly as competitors are starting to look to target local spirits more aggressively as well?

Then a final question just on your margin outlook of modest growth. Can we assume therefore within that the Nigerian business has kind of rebased lower in terms of its margin, or whether you would expect to rebuild that within the context of the 20 to 30 basis points? Thanks very much.

Andy Fennell

Thanks, Chris. So, look, there are two places in Africa that have seen intense price competition in the last period - Nigeria and Ethiopia - and I would expect that to continue in Ethiopia as there is a shake out there. I think we are quite well placed. Our innovations are sticking. Our portfolio is broadening. We just launched a value vehicle Zemen which is doing really well. Meta is in nice growth. Malta Guinness which we launched is in nice growth. So, last quarter particularly in Ethiopia has been really super.

Nigeria, kind of you need a crystal ball, Chris, to work out what is going to happen there next post-election, post-new government being formed and kind of figuring out how they balance the books with the oil price where it is, the Naira where it is. But I would expect competition to continue to be quite fierce there.

Chris Pitcher

Sorry, specifically on that, you talked about strong performance in Ghana and say Cameroon. Would you say the pricing architecture there is defensive or whether there is risk there?

Andy Fennell

I'm not quite sure what you mean by defensive, Chris. Can you just clarify that for me?

Chris Pitcher

The depth of the value portfolio in that market. If we look at Nigeria which was built at a higher say price point, markets like Guinness, important markets like Cameroon and Ghana, do you have the depth of portfolio to defend off a push on value?

Andy Fennell

Yes, I think we do. I think in Ghana particularly I think with the launch of Ruut Extra we've got a strong position across the price tiers, so I feel good about the breadth of portfolio there. Actually, a lot of future growth potential in broadening and growing faster in spirits and RTD.

Cameroon I think there is quite a lot of stability there. There has been a recent tax change in Cameroon so we will see how that plays out, but I'm feeling strong. I feel our competitive position is strong there.

Just moving to the cube, actually, probably the Nigerian case study is a classic of how we would expect the cube to work. So, we put it in at reasonably low cost, a few million dollars, to be completely up and running. We filled the capacity of that cube within the first couple of months with Orijin and we're able to immediately move to a more expensive, kind of more efficient larger line which we installed last November in our Aba facility.

So, what the cube does is it allows us to kind of open up local manufacturing and then when we get the consumer response that we're looking for we can then invest in bigger facilities. It's a good way of managing our capital investment.

On Nigeria, there is a rebase. I think the difficulty about margin in Nigeria will be the Naira rate with recent devaluation. So, I am seeing significant improvement in our cost of goods. Guinness is coming back which is good for our mix. But I think the key thing to forecast for Nigeria is the rate that the Naira is at and the ability of the industry to mitigate the devaluationary impacts of that.

Chris Pitcher

Okay. Thanks very much.

Andy Fennell

Thanks, Chris.

Trevor Stirling - Sanford Bernstein

Hi Andy. You talked about your expectation of high single digit low double digit revenue growth mid-term and in the first half spirits I think was 19% organic and beer 5%. Is that likely to continue because of the split mid to high single digit beer and low teens spirits?

Andy Fennell

Yes, that's not a bad way to think about it. I think there is a bit more upside in the beer. I think spirits we've got a period where we're seeing really rapid growth as we filter new price points. Actually, I would expect our beer business to get into the mid to high and then spirits to take it up a bit further.

Trevor Stirling

Great. Thank you very much, Andy.

Andy Fennell

Thanks, Trevor.

Angela Ryker Gallagher, Investor Relations Director, Diageo

We have another question from the web. You mentioned your innovation agenda. Can you please talk about the financial implications of innovation in Africa in terms of pricing, mix and margins?

Andy Fennell

Well, I mean our strategy is to be across all types of alcohol at all of the profitable price points and, therefore, our innovation strategy reflects that. Overall, we want to manage our innovation so that it's broadly in line with our existing business margin structure. Some of the individual brands that we will launch will be at lower margins. Some will be at significantly higher margins. So, we're managing our portfolio of innovations in the same way that we've been managing existing portfolio of brands.

I have to say the innovation activity is very exciting. Increasingly, we're using local raw materials, building jobs throughout the supply chain and able to kind of hit affordable price points but still make decent margins and I think that's an important part of our future.

Andrew Powell - Citi Research

Yes, hi, gentlemen. Thanks very much for the call. Two questions from me. Firstly on Senator in Kenya. You say that's now less than 10% of sales at EABL. I'm just wondering, at some point does that become the headwind that it has been over the last 18 months or so and start to become a tailwind for the company? Where do you see Senator essentially stabilising? Can it start to grow again and just more generally, what does the value beer strategy in Kenya look like given the level of excise taxes that you see?

The second question is just on listed subsidiaries that you have with EABL and Guinness Nigeria. I'm just wondering what your strategy is with having those listed minorities and do you see at some point it being an option to increase your share in either of those minority companies?

Andy Fennell

Thanks for the questions, Andrew. Yes, so Senator is quite small now in the EABL portfolio. It is growing as we've lapped the imposition of the excise tax. It operates in a discrete channel and our strategy is to kind of grow that channel. It's one of the ways that we can kind of formalise alcohol from illicit brews. So I would like to see growth there. We've been innovating in that channel both with new Senator type drinks and with Jebel Gin which you can buy in kegs.

How much growth we can get from there, to be honest, it does depend a bit on government policy on tax and I would like to think that it would be a tailwind, but it does depend on that collaboration with government.

The good news about EABL is overall it is in double digit growth again as we've got the whole portfolio kind of working I think quite effectively.

In terms of the listed entities like Nigeria and East Africa, I don't want to comment here on any specifics but I would say that we like having local shareholdings. We think it's good to have a local Board structure with local investors. It helps make sure that we're close to the business operations. So, we would want to continue to have local listings with local shareholders.

Andrew Powell

Thanks very much.

Andy Fennell

Thanks, Andrew.

Erin Archer - Arqaam Capital

Thank you for having the call. I just have a quick question on pricing and a second on Orijin, please.

I think you mentioned in your prepared remarks that you would be able to take selective pricing. If you could give us more detail on that by market and by category.

Then on Orijin, can you give us an idea of what percentage of volumes and/or revenues Orijin currently accounts for in Nigeria. Thanks very much.

Andy Fennell

Okay, so thanks, Erin. I don't want to comment on future pricing, but what I could do is just describe what has happened in the most recent past on pricing. So, you've seen price pressure in Ethiopia and in Nigeria with some down trading in Nigeria. We've taken price in Kenya, Tanzania, Uganda, Cameroon and Ghana. That's probably a bit more selective than it would have been in the past. So, picking the right brands and picking the right times. So I do still see in the future the opportunity for us to take price, but it will be by country, by brand, by sector a bit more selective than it has been in the past where brewery companies would kind of take sweeping price.

Your second question, Erin, was on Orijin. At the full year we will give more detail on the kind of Orijin sales in Nigeria. We don't comment on that mid-year. But it's a significant part of our business there. I appreciate that's not actually answering your question, but we will at the full year I promise.

Erin Archer

Can I just ask a different question on the same idea?

Andy Fennell

Sure.

Erin Archer

Which is I think if you look at your second quarter results, just in Nigeria alone you saw roughly 12% growth out of Guinness Nigeria but at the same time you paid up for it if we just look at your EBIT margin and how much under pressure that has been over time. Can you talk about how you expect to maintain current EBIT margins, or if you expect to actually see near-term pressure through the rest of the year given elections and the Naira?

Andy Fennell

Yes, so Orijin's good margin, lower than Guinness and about the same as the portfolio at large and our cost of goods we're managing to take cost action on cost of goods beating inflation there across the portfolio, so I feel quite good about that.

The weakening Naira is undoubtedly placing pressure on margins there. It's very difficult to predict exactly how the economy will perform in Nigeria. Most people have a fairly bearish view of it, including what will happen to currency. What gives me comfort is that we've now got I would say one of the most experienced management teams anywhere in the world in Nigeria on the ground. We've made quite significant changes. We've bought in some of our best. The fact that they'll play what they see in order to make sure that we maximise our performance across the P&L, but particularly attending to margin.

Erin Archer

Great. Since you brought it up, may I just ask one final question on management?

Andy Fennell

Yes.

Erin Archer

The new MD has sat on the Board of Guinness Nigeria for several years and it was interesting I think to some investors that you chose to replace the former MD with someone on the Board as compared to bringing in Charles Ireland at EABL. Can you speak to that decision at all, taking someone who had already been at the table versus someone completely new?

Andy Fennell

Actually, the most important features of both Charles and John O'Keefe are that they are both long-term Diageo servants who have held different roles across the world, including managing emerging market countries as Managing Director. So, John had very good experience. He joined Guinness in his early 20s out of university, knows beer really well, but also ran our Russia and Eastern Europe operation through a period of intense volatility very successfully and his day job before this one was running our beer business worldwide and innovation worldwide. So, his credentials for the job were mostly around his executive responsibilities. The fact that he had sat on the Board and knew Nigeria, therefore, through that engagement was an additional benefit. But the primary driver was his credentials in executive roles over the 20 plus years that he has been at Diageo.

Erin Archer

Okay. Thank you very much.

Andy Fennell

Thanks, Erin.

Tunde Ojo - Harding Lover

Thank you very much for the presentation. Two questions from me on Guinness Nigeria. The first is what percentage of your raw materials there are imported and the rest from local sourcing?

Then with the Naira devaluation that has happened and we don't know what else is going to happen going forward, are you able to price up your products just to make up for that devaluation impact, or are you constrained by competition on that?

Andy Fennell

Thanks, Tunde. So, on raw materials, this is from the top of my head rather than from a schedule, so forgive me if I'm not exactly right. But it's about 60% of our raw materials are locally sourced in Nigeria and our strategy is to buy as locally wherever we possibly can. So, I think it's about 60%. People who know better will check and get back to you if I've got that number wrong at all.

In terms of the future, look, I can't speculate about competitive pricing action. We are prepared with a playbook for all sorts of different scenarios and they start with what will happen to the economy and then we play out what different scenarios then might be competitive. Clearly, devaluation has an impact on margins and that affects everybody. I can't really say any more than that, Tunde, at this point. So, there are macro factors. We know the impact that they will be having on us and others and price is one of the mitigating factors that people can choose to take.

Tunde Ojo

Okay. Thank you.

Andy Fennell

Thanks.

Mitchell Collett - Goldman Sachs

Hi there. Could you perhaps just update us, and apologies if you already said this, of the split of revenue between beer, locally produced spirits and imported spirits?

Then secondly, I would be interested to know whether you've taken sufficient pricing on the imported spirits to offset FX weakness in local currency or if that is something perhaps you'll have to do going forward?

Andy Fennell

Mitch, were you talking about Nigeria or broadly across?

Mitchell Collett

No, all of Africa.

Andy Fennell

All of Africa, okay. Let me answer the second question first. Yes, we largely have recovered currency impacts on our imported spirits. Mostly our imported spirits are Scotch for us in Africa. Our other categories tend to be locally produced, are almost exclusively sourced locally.

In terms of the split, I'm just looking what we quote. Yes, beer is kind of north of two-thirds of our business. We have a healthy malted drink business or Malta Guinness is at 10% and the rest is spirits.

Mitchell Collett

And the split of that rest of spirits between locally produced and imported which sounds like it is almost all Scotch, is that heavily in favour of the locally produced stuff, or is it there is a lot of Scotch there?

Andy Fennell

I don't have that number in my head, Mitch, I'm afraid.

Mitchell Collett

Okay, that's fine.

Andy Fennell

Someone is making a note to get it to you.

Mitchell Collett

Okay and just come back to the pricing side. You said you've recovered most of the price you need on imported to account for FX weakness. Does that mean that in local currency Scotch has become a lot more expensive in some of your geographies?

Andy Fennell

Yes, it has become relatively more expensive, although we do run our price ladder all the way from what we call primary whiskies at the bottom end of the price ladder all the way up to Johnnie Walker Blue and so on. It's also fair to say that price elasticity decreases the more expensive you get. So, we tend to take more price on the more expensive stuff.

Mitchell Collett

Okay. Then maybe just a follow-up on sourcing. You said 70% of sourcing overall is now local and I think you were asked about the percentage of COGS in Guinness Nigeria that is essentially in external currency. Will it be a similar proportion for Diageo Africa overall, i.e. about 60% of COGS are in some way linked to dollar or other currencies?

Andy Fennell

Sorry, no, 60% is local. It is 40% that would have a link to something somewhere else. It depends on where it is being imported from. What I track in my head anyway is the proportion which is locally sourced, not the place that it is sourced from elsewhere, and therefore, the currency that is impacting that. That's something the guys in each of the countries would have a much clearer view on.

Mitchell Collett

Okay. But 40% is not a bad number to assume for Africa overall that is not linked to local currency?

Andy Fennell

Between 30% and 40%, yes.

Mitchell Collett

Great. Thank you.

Andy Fennell

Thanks, Mitch.

Andrea Pistacchi - Citigroup

Yes, hi. I have two or three questions, please. Firstly, you've been considering bringing United Spirits brands into Africa. What is the timeframe for that, if you could update us, please?

Then a question on the competitive environment in Kenya. I believe a local player there Keroche is building capacity targeting share gains. So, how are you preparing for that and are you factoring in, given your high market share, are you factoring in a bit of share loss there in your sort of projections when you say for Africa you expect to grow high single to low double digit in the medium-term?

Then if I may, a last question on South Africa on the environment there. Leaving aside the distortion from the ready-to-drink issue, you said the consumer is under pressure there but you're gaining share. From an underlying point of view, would you say you're growing sales in South Africa?

Andy Fennell

Good, thanks, Andrea. I'm going to ask Nick to talk about USL. He sits on the Board of USL, so he can talk about that. I'll come back to you in a second, Nick on that.

On Kenya, yes, Keroche have built a brewery and expanded capacity there. We take all competitive threats very seriously in Kenya. I feel very good about the fact that despite opening up competition in the last few years we've held our share at 95% of beer and it's our intent to continue to protect our position.

Of course, part of the growth for Kenya is about all alcohol. So, it's about spirits, it's about RTD, it's about the formalisation of alcohol into branded goods and it's a combination of all of the above that gives me confidence in EABL and total Africa.

The third question was South Africa. Yes, underlying we are growing sales. Spirits in H1 - have we got the number guys, because I'm going to guess it otherwise. High single digit growth for spirits in H1 he says looking for an expert to tell him the actual number.

Nick, while they just checking that South Africa number, could you just talk to USL?

Nick Blazquez

Yes, so the USL business in Africa is primarily into Nigeria with a brand called McDowell and the USL team have been doing a good job building that brand over the last few years. So, there is no immediate rush for us to plan into Guinness Nigeria or indeed Diageo Nigeria. We have been exploring what it would take to do that both from a manufacturing point of view. That's currently under review and we've not taken any decision as to when we would, if indeed it makes sense, to bring it into

Guinness Nigeria. So, the most important thing for us to do right now from a USL perspective is to continue with that growth driving its distribution and its activation in market and a local team in USL who are based - we have about six people left in USL - are doing that and we're quite happy with their performance at the current time.

Andy Fennell

Thanks, Nick. Andrea, the South Africa spirits number was plus 11 at H1 and the RTD underlying depletes down 5, so that got me to my high single digits.

Andrea Pistacchi

Perfect. Thank you very much.

Andy Fennell

Thank you.

Angela Ryker Gallagher, Investor Relations Director, Diageo

We have another question from the internet. Can you talk a bit about your Scotch strategy in Africa? Is Scotch consumption growing? Which markets are you focused on? Is the 200ml pack still an important pack size for you and are you doing any Africa specific Scotch innovations in the same way you are in Asia? Basically, an overview on Scotch.

Andy Fennell

Yes, so Scotch has huge opportunity in Africa. Johnnie Walker H1 was up about 19% from memory and a lot of that is about increasing penetration. The 200ml pack, which is effectively four large servings at a price just above four beers, is proving a very successful formula.

Johnnie Walker is the lead of our Scotch strategy. Full of status and that's working nicely. Our overall Scotch strategy is to kind of have broad price point participation from more affordable products like Black and White and Vat 69 all the way up to Blue Label.

We don't do separate innovations for Africa. We are really excited about all the stuff that they do in Asia and in other places too and we tend to take the best of the stuff that they do. So, yes, we're excited by Scotch. Double digit growth. Johnnie Walker even faster than that and our price point participation is quite broad.

Angela Ryker Gallagher, Investor Relations Director, Diageo

One more from the internet. What is your perspective on how fast beer might be able to grow over the next few years? It has been returning to slight growth. But aside from the kind of macro environment, what is the most important thing to improving beer growth?

Andy Fennell

Okay, so I said earlier to I think it was Trevor's question that I see beer in mid-single digits, mid to high and then spirits faster. The key for us is price point participation, making sure we hit all the key price points, making sure that we've got our route to consumer, penetrating all of the right outlets. We're putting quite significant investments there. And making sure that we keep a lid on our cost of goods so that we can invest in driving growth particularly through route to consumer.

Jamie Norman - Societé Genéralé

Yes, good afternoon, gentlemen. I wonder if you could just talk to the falling oil price as a topic. I mean clearly negative for all sorts of reasons in Nigeria. But just looking at some of your other markets, to what extent has that been a positive, or has it been offset somewhat by currency or government's reducing fuel subsidies? So, a little sort of overview would be useful in that context.

Andy Fennell

Yes, thanks, Jamie. So, broadly for Diageo our business is slightly skewed to users of oil rather than producers of oil. So, that would be a kind of piece of context.

In places like Nigeria, Angola, I think it's still to be played out exactly what the impact will be. Undoubtedly, the oil price where it is versus where it was and where they expect it to be puts pressure on the public purse. The new Nigerian government will need to make some choices around kind of how they balance the books, to what degree they try and balance the books. You don't know how that will play out, but we are preparing for different scenarios.

Angola similarly. Our last review of Angola, it's just uncertain at this point how it will play out. The most important thing for us to do is to make sure that we can be agile in responding to how governments and ultimately consumers respond to the new reality that faces them.

Jamie Norman

And in the importing countries so to speak, is there a sort of net benefit as much as you can gauge it do you think coming through?

Andy Fennell

I can't see it yet. One of the things about our category is that if people have a bit more money in their pockets, one of the things they might choose to spend it on is a nice branded drink and, therefore, it's reasonable to expect that if people are saving a bit of money at the fuel pump to run their home fuel, some of that will be directed to our products. But it's a little bit early to say that that's a demonstrated dynamic yet I would say.

Okay, Jamie.

Jamie Norman

Yes, thanks.

Andy Fennell

We apparently need to make this next question the last one if that's okay.

[Iharay Wsecki] - Investec

Good day. Hi. I just wanted to ask just one more quick question regarding pricing in Nigeria. Historically I think it has been recognised that the pricing points have not necessarily been optimal. Is there an intention to change your strategy and could you see a situation whereby input costs is not directly passed onto the consumer? Thank you.

Andy Fennell

Thanks, [Iharay]. We have acknowledged that our portfolio got skewed to premium and we took too much price and that impacted our business over a couple of years, particularly last year. The fact that we've not taken any price this year is a reflection of that.

We now have a strong and growing participation in the value segment in Nigeria. Actually, our value beer is up more than 100% with Satzenbrau and Dubic. I'm feeling much better about the balance in our portfolio.

Again, a few people have asked about pricing. I don't want to comment on how we'll manage our pricing going forward in Nigeria. I don't think it would be appropriate to. But suffice to say that we've been able to broad base this portfolio across beer, RTD and spirits and we'll be looking at the opportunity to take price in the context of the macroeconomic environment we face and the competition. So, that's how I would think about the question you've asked [Iharay].

[Iharay Wisecki]

Thank you.

Andy Fennell

Thank you very much. So, thank you everybody for a great set of questions and for taking the time out of your day to join Nick and I today and we look forward to engaging with you at some point in the near future. So, thank you very much, everybody.

[End]