DIAGEO

Diageo Preliminary Results Presentation Script

25 August 2011

Slide 1

- Title slide – No script.

Paul Walsh, CEO

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- Good morning and thank you for your time today.

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- As our results this morning show, Diageo achieved a number of important goals in F11.
- Increased investment in marketing provided us with the platform to achieve better price/mix, as the performance of our super premium brands in North America strengthened and we saw price and mix improvement in International.
- This positive price/mix led to higher gross margins.
- We increased our presence in the fastest growing markets of the world delivering net sales growth of 13% in aggregate. We have expanded our sales teams, invested more behind our brands, with spend up 22%, and started capex projects, especially in Africa, to meet further demand.
- In addition, we have already completed and reached agreement on a number of acquisitions, which will see us invest £1.6 billion in fast growing markets.
- We gained share across Asia, and in most markets in Latin America and Africa. In the US we knew we would cede some share as we reduced the level of discounting.
- So, a good year!
- However, there were areas where we didn't achieve all our goals. In 18 of our 21 key markets we achieved positive price/mix but in 3 markets we didn't.
- And in a number of markets we didn't deliver gross margin improvement in line with our ambitions.
- So, we have made progress against our goals and strengthened our positions in many key markets but there is more to do.

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- In May this year we announced a review of our operating model which is now complete. We have identified ways in which we can:
  - Better align our resources with those markets where there is the greatest potential for growth.
  - Decentralise and move resources close to our markets to increase the speed at which we make commercial decisions.
  - And create a more cost effective organisation.

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- The result is our increased confidence in what this business can achieve.
- We have finished the year stronger and we have started to implement changes to drive further top line growth and deliver sustained operating margin improvement.
- I am going to return to these points later but first I am going to hand over to Deirdre.
- Deirdre.

Deirdre Mahlan, CFO

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- Thank you Paul.
- Good morning everybody.
- I am now going to cover the key drivers of our fiscal 11 performance and show how the operating model changes we have made will focus resources behind the biggest opportunities in both emerging and developed markets while also delivering operating margin improvement.

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- Fiscal 11 was a year of improved performance but more importantly each of the measures shown here highlights the steps we took to build our platform for the future.
- The stronger price/mix we delivered in the second half highlights faster growth of super premium brands and the increasing importance of the emerging markets to our business. Together with supply efficiencies, it drove gross margin improvement of 70 bpts.
- We are investing strongly behind our brands to fuel their growth in the emerging markets and to drive further price/mix improvements.

- And despite a double digit increase in our investment in infrastructure costs in the fastest growing markets of the world, we maintained our operating margin which was 29% for the year.
- Our financial strength was enhanced with free cash flow of £1.7 billion. Return on capital increased again, up 110 basis points to 15.9%.
- I am now going to dive further into the fiscal 11 performance to show how we can build for the future.

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- I'll start with the drivers of net sales growth.
- Weakness of the Venezuelan bolivar was the key driver of the negative FX impact and there was a net positive movement of £38 million on other currencies.
- Strong growth of scotch in emerging markets, especially Johnnie Walker, growth of Cîroc in North America and our beer brands throughout Africa were the biggest contributors to volume upside. There was little change to underlying volume trends in the year and volume growth was consistent in the first and second half of the year.
- In contrast, price/mix improved in the second half especially in North America and Asia. For the full year the US drove over half our overall price/mix and the emerging markets delivered the balance. Strong price/mix in Korea offset negative price/mix in Europe. By category, the faster growth of our premium and super premium scotch and vodka brands, along with price increases on beer in key markets drove price/mix.
- Diageo's successful innovation agenda played a key role in delivering this price/mix as many of the year's successful launches, such as Crown Royal Black and White Horse 1900 sold at a more premium price point than the base brand.
- Our restructuring in wine in the US improved returns but led to a reduction in net sales. We had a part year benefit from the acquisition of our controlling stake in Serengeti Breweries.

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- Over 70% of net sales growth was driven by the premium and super premium segments. This is partly the category dynamics of emerging market growth and partly increased consumer confidence at higher income levels in developed markets.
- The growth of scotch in emerging markets and Cîroc in North America drove the growth of the super premium segment which was the fastest growing segment in each of our four regions. The reserve brands portfolio delivered over 20% net sales growth in both developed and emerging markets.
- The premium segment also grew well, mainly due to Johnnie Walker Black Label in the emerging markets and Crown Royal and Buchanan's in North America. Baileys in emerging markets also performed strongly with net sales up 21%.

- The standard segment was driven by beer in Africa and Scotch and Smirnoff in emerging markets partially offset by the decline of Smirnoff in Europe, and ready to drink, mainly in North America.
- Standard scotch growth was hampered somewhat by declines on J&B Rare and Johnnie Walker Red Label in Spain and Greece as the declines in the on trade in those countries impacted net sales. This was offset, however, by the growth of Johnnie Walker Red Label in Latin America and White Horse in Russia.
- The value segment comprises just 3% of our sales but it grew net sales 7% with strong price/mix from lower discounting in the US and price increases in Africa.

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- Moving now to marketing.
- Our reinvestment rate increased by 50 basis points to 15.5%. Marketing spend increased by 8% with over three quarters of the increase in the emerging markets.
- As you would expect, over half of the incremental spend in emerging markets was focused behind scotch, principally Johnnie Walker. Investment behind the brand increased across all our key emerging markets as we drove recruitment and premiumisation. Investment was down in developed markets, as we reduced spend in the challenging scotch markets of Southern Europe.
- Marketing spend behind the vodka category increased in both the developed and the emerging markets. In emerging markets we up-weighted support behind the 'Smirnoff Nightlife Exchange Project'. In developed markets increased investment in North America was driven by Cîroc, Cîroc innovations and Smirnoff and Ketel One.
- Changes in spend in the rum category reflect the weakness of the category in Spain where we reduced spend on Cacique. This was offset by increased spend on the launch of Captain Morgan outside the US.
- In beer, increased investment behind Guinness across Africa and in Malaysia offset a reduction in spend behind the brand in Europe given the economic environment and the consequent weakness in the beer category. Similarly, spend on other beer brands in Ireland was reduced, offset by higher spend on local brands in Africa and Asia and in total, category spend was flat.

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- Gross margin improved on an organic basis, up 70 basis points. We are not immune to raw material price inflation and overall our manufacturing and logistics costs increased about 2 to 3%. However, the savings from our 2009 restructuring programme, which delivered £9 million of cost saving in the year, partially mitigated these increases.
- By region, the biggest driver of gross margin improvement was North America where we achieved a reduction in cost of goods, as a result of the 2009 restructuring programme, and we delivered improved mix. In Europe, gross margin decline was driven by the growth of the lower margin wine business and

the continued shift to the off trade in Great Britain and the weakness of scotch in Iberia and Greece.

- In International, price increases on beer and the faster growth of premium and super premium scotch delivered gross margin improvement. In Asia Pacific, gross margin was broadly flat, as the strong growth of scotch in markets such as Korea and Southeast Asia offset pricing pressure in China and Australia.
- As you saw in the previous slide, we continued to invest behind our brands, focused by region and category and targeted those opportunities that will drive the greatest future growth.
- Overheads were up about £20 million in total reflecting reductions in North America where overheads were down 8%, flat overheads in Europe and substantial increases in International, up 10%. The remaining movement of about £60 million is the change in the impact of currency transaction hedging which is controlled centrally and was a charge of £40 million last year and a gain of £20 million this year.
- In summary, we have increased our gross margin and invested in the long term growth of the business which resulted in flat operating margin.

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- The result of our strong price/mix, continued volume growth, gross margin expansion and further investments in brands and markets was operating profit growth of 5%.
- This improved performance was repeated across the income statement.
- Associate income increased by £34 million, mainly reflecting the strength of the performance from Moët Hennessy.
- Net finance charges fell by £65 million.
- The net interest charge was £6 million lower. Core interest was down £20 million as the effective interest rate was 4.9%, up around 10 basis points from fiscal 2010 while average net debt fell £700 million to £7.2 billion. This was offset by a £18 million increase in the IAS 39 impact.
- Net other finance charges were £59 million lower than last year with the main driver being the reduction in the IAS 19 charge for post employment plans.
- I would expect our interest charge in F12 to be about 5% given current forecasts of floating rate interest rises. This includes the expected impact of any debt issuance to fund the acquisition of Mey İçki.
- Our tax rate fell from 21.6% last year to 17.4% this year. During the year, the value of our deferred tax assets increased and this reduced our tax charge.
- As you know, there are a number of changes to tax legislation taking place in many countries. However, I believe that our future tax rate will be below our previous guidance of 22%. I also expect that for F12 and beyond our effective tax rate will be more in line with our average cash tax rate. I will update you as soon as we have agreements in place with the fiscal authorities and can predict the on-going rate with more certainty.

- Profit for the year at over £2 billion was up 16% as was eps pre-exceptionals. 8% eps growth came from growth, 6% as a result of the lower tax rate and 2% from lower IAS 19 charges.

  Erratum: The script in the last bullet point has been amended to reflect the impact of changes in the tax rate. In the presentation, we describe the impact of the change in the tax charge year on year.

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- Moving now to exceptional items. In the year we settled a number of regulatory issues and continued to drive efficiency through restructuring.
- As a consequence of our strategy to expand our position in emerging markets, in F11 we focused on reaching settlement on a number of outstanding issues in these markets, primarily regulatory and customs issues in Turkey and Thailand. In addition, we reached a settlement with the SEC in respect of investigations in India, Thailand and Korea. The total cost was £139 million.
- The economic situation in Europe impacted the performance of Ursus in Greece and as a result we made a further £39 million impairment charge for the brand.
- As you know, we initiated a programme in 2009 in Supply operations to reflect changes in the business and to drive efficiency.
- In 2011, there was a further charge of £34 million related to the completion of the 2009 Supply restructuring programmes and the brewing in Ireland programme. These supply programmes delivered £9 million of cost savings this year contributing to gross margin improvement. For example, in Ireland we were able to reduce year on year costs across both brewing and packaging operations as headcount reduced. I expect a further reduction in costs of £20 million in F12 and £25 million in F13.
- We continue to review opportunities for further cost reduction programmes, particularly in European supply.
- In addition, our work on the operating model review has identified new ways of working and cost savings. Let me spend a few minutes on this now given its importance to our performance going forward.

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- Paul is going to talk to you about how our operating model review has sharpened our focus.
- I want to talk about how we can expand our margins at the same time as we invest in growth.
- Over the last year, I have spoken to many of you about operating margin improvement. I think you rightly concluded that I am very focused on driving this change.
- The operating model changes will deliver £80 million of cost savings per annum. The first £40 million of cost savings will come in F12. Of this total, 70% will be in

Europe and in Corporate. In F13, there will be further savings mainly in Corporate and in Supply.

- The operating model review not only reduces our cost base it shifts resources to the fastest growing markets. For this reason, while overheads will be down in North America, in Western Europe and in Corporate functions, I expect them to be up 20% in the emerging markets and 70% of our incremental marketing spend will be in the emerging markets.

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- From the new financial year, our financial reporting will change to reflect the new organisation.
- The main changes are that Latin America and Caribbean and Africa will be reported separately.
- Global travel will be reported as part of each region and Middle East will be reported as part of Asia Pacific.
- The numbers I am showing you today are indicative. We will now carry out the detailed work necessary to provide you with a full restatement, however, I do not think that there will be material changes to these numbers.

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- In summary, Diageo is building momentum. As Paul said, a strong business, getting stronger.
- Price/mix improved in the second half and the return to positive price/mix is an encouraging sign.
- This mix improvement and the efficiency programmes in our supply business to reduce cost of goods per case, led to a further gross margin increase.
- We continued to invest in those brands and markets that we believe will drive growth. Primarily this has been in emerging markets and behind growing categories in North America and Europe.
- Diageo's robust financial base is a source of competitive strength. We generated free cash flow of £1.7 billion.
- This improved performance and the investments we have made give us the confidence to recommend a 6% increase in the final dividend.
- And now I will hand back to Paul.

<u>Paul Walsh, CEO</u>

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- Thank you Deirdre.
- As I said earlier, this is a strong business and its strengths are clear.

- We have leading brands and broad category positions; we have global reach and superior routes to market.
- Our skills lie in marketing, innovation and customer relations and the role we play in the communities we are part of.
- These strengths are underpinned by our financial strength, our industry leading margins, our return on invested capital of nearly 16% and our strong balance sheet which we have improved again this year.

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- However, I now want to talk about the future and how we will make this business even stronger.
- There are two key drivers to making that happen.
- We will increase our investment in the new faster growing markets still further and we will sharpen our focus. We are going to deploy our resources even closer to the market, execute even more effectively and drive further cost savings.

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- Let me start with our increased penetration in the faster growing markets of the world.
- The global economic balance continues to move to Latin America, Africa, Asia and in Europe to Russia and Turkey.
- Wealth creation in each of these regions is being driven by different factors but in each country there is huge growth in the number of middle class consumers. In addition, there has been a rapid expansion in access to information; a move from traditional behaviours and the rise of new consumer groups adopting new products and services.
- As a global, branded company this opens up exciting opportunities for Diageo.
- For several years now we have made significant investments to target this growing number of middle class consumers but F11 saw an acceleration in the pace and the value of those investments.
- We increased our M and A activity. In China, further investment in the Chinese white spirit category will give us effective control of Shui Jing Fang.
- In February, we agreed the purchase of Mey İçki in Turkey and since then we have successfully completed our investments in Serengeti Breweries in Tanzania and increased our investment in Halico in Vietnam.
- These acquisitions give us access to the emerging middle class consumer through fast growing local brand categories. As we go forward we can grow in two ways, premiumise these local categories and use the enhanced routes to market which these acquisitions have given us to attract consumers to our international spirits brands.

- As well as accelerating M and A activity we have shifted the centre of gravity to the faster growing markets in a number of other ways.
- We have increased our marketing investment in these markets. In F11, it was up 22% and in F12 we will again increase the proportion of our marketing spend which is focused on these markets and consumers.
- At our Asia conference in May, we articulated our aspiration to be a pre-eminent luxury goods company in the region and as part of this we have relocated our Reserve Brand Group to Singapore as Asia will be a key driver of growth for our super premium brands.
- We have also invested in our routes to market, increasing our sales teams on the ground to build the presence and visibility of our brands. In Brazil for example, we hired new salesmen to expand our reach into on trade accounts and in South Africa over the past 18 months we increased our sales force by 500 as we expanded spirits distribution.

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- And secondly, we have sharpened our focus.
- In 2009, I told you how we would protect our business platform through the downturn and deliver a stronger business at the end of it.
- As these results show, we achieved that. But the global downturn accelerated the trends we had already seen in many markets.
- We now operate in a polarised world with different economic growth across markets and a very broad range of consumer confidence across the world.
- This is the background against which we are now sharpening our focus and we are doing it in three ways.
- Firstly, our organisation by market now reflects the different growth drivers of each market and in addition, decisions as to where to invest behind our brands and in our routes to market will now be made in market.
- Secondly, we aim to be the benchmark for performance in this industry. Our focus is on brilliant execution across each of the growth drivers - efficiency in procurement, manufacturing and distribution; breakthrough marketing; winning relationships with our strategic customers and sustainable, scalable innovation.
- Thirdly, we have a high margin, high return business, but it can improve. We can be more efficient and expand our margins over the medium term while investing in growth.

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- As I have already described, our fast growing markets will have the resources to deliver even faster growth. They will be the sales growth engine of the business, and will deliver increased margin and profitability. As we have previously described, within four years or less they will account for 50% of our business.

- Today our developed markets represent over 60% of Diageo's business. Here, we are focused on category growth opportunities, on superior customer execution, on sustainable margin expansion and on cost efficiency. As a result, most of these markets will deliver top and bottom line growth and margin improvement in F12.
- To support this sharpened focus, we have changed our incentive schemes to shift a higher proportion of total compensation to be based on individual market performance.
- Let me spend a few minutes on the changes we have made in the US and in Western Europe.

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- The US spirits market presents a significant opportunity for Diageo.
- This is a highly profitable market and a growth market. Long term demographic trends are driving multicultural diversity and an increase of 1 million LPA adults each year. Together with social change this is leading to an increase in the number of young adults who choose spirits over beer and wine.
- Diageo is the clear leader, with 28% share and with 10 of the top 25 spirits brands in the market.
- We have already built a superior route to market with dedicated sales teams operating at scale.
- But we can enhance these strengths even further.
- In June, we announced changes to our route to market. Aimed at increasing the resources, capabilities and efficiency of our dedicated sales teams it can drive improved performance. Alongside this, three of our most experienced senior leaders have moved from Diageo North America to head up sales teams in our three major distributors.
- In addition, we have formed a separate organisation internally to manage and accelerate the growth of high potential, currently low volume brands, such as George Dickel, Myer's Rum and Moon Mountain vodka. Our aim is to make this a $0.5 billion net sales value business in 3 years.
- In North America, we have a proven track record as leaders of innovation in our industry and this year we launched a third of the top 15 spirit launches in the US.
- Innovation also supports our leading brands in core categories. For example RÖKK, Godiva Chocolate vodka, and Moon Mountain vodka support Smirnoff, Cîroc and Ketel One, helping to deliver increased profitability in the category this year.
- And we can leverage our scale even further to drive margin improvement. As you know, we have already made the investment which will reduce COGS in rum with our new USVI facility and we have announced changes in local production which will create further opportunity for gross margin improvement.

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- Our recent performance in Europe has been robust, impacted as it has been by the economic headwinds there. But we haven't delivered on all our strengths in Europe. The changes we have made create a combined organisation for the whole of Western Europe which we believe will enable us to grow sales, operating profit and margin and gain share in strategic battlegrounds.
- Within Western Europe, we will be totally focused on our customers and consumers and will line up our entire business – commercial, marketing and supply chain behind this ambition. We have created an organisation that enables faster decision making and faster roll-out of our growth drivers. We will optimise what we can at a Western Europe level and create country organisations that are fully focused on the commercial agenda and we will be world class in managing and serving customers.
- This has wide implications, removing our European hub layer and refocusing on our individual country structures.
- Country directors are solely responsible for their commercial agenda and wholly accountable for the delivery of net sales and gross margin improvement in their country. They are focused on execution and delivery for the customer, the consumer and the shopper with the Western Europe marketing and innovation functions supporting market agendas.
- Marketing and innovation will be owned and developed at a Western Europe level. This will drive quicker decision making on a category basis, drive faster rollout of more focused brand investment and drive innovations. Back office functions have also been consolidated, leveraging our existing shared services and common systems' platforms.
- In addition this new model builds on the category approach already adopted by Diageo, so that we are better placed to target opportunities such as the growth in super premium with our reserve brands and the growth of golden rum with Captain Morgan.
- In combination this simpler and more consistent approach will reduce operating costs as Deirdre outlined.

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- Sharper focus is also about executing the key growth drivers flawlessly.
- Internally we are all aligned behind our commitment to "Brilliant Execution".
- For a branded consumer goods company, the key drivers are marketing, customer relationships and innovation.
- Let me spend a few minutes on each.

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- The growth of new consumer groups in the rapidly growing markets and changes in technology, media and entertainment are changing how consumers interact

with brands. This offers us the opportunity to build even stronger consumer engagement with our brands.

- Let me give you some examples:
- In China, there has been rapid growth of blogs. Johnnie Walker partnered with Han Han one of the Top 10 bloggers in China with 400 million followers and Jia Zhang Ke, China's leading independent film director to make twelve documentary style short films and start a conversation online which makes the connection with Johnnie Walker inspiring personal progress. More than 20 million people have actively engaged with this campaign. Johnnie Walker is now the most talked about whisky brand in China and has continued to gain share with brand awareness increasing on lower spend than the brands it is taking share from.
- Secondly, consumers are changing their view of entertainment.
- Smirnoff already has the successful Nightlife Exchange programme and last week we announced the first element of a multi-faceted partnership between Madonna, Live Nation Entertainment and Smirnoff.
- Madonna will be part of both the Smirnoff Nightlife Exchange and the Johnnie Walker Keep Walking Project. Smirnoff consumers can experience the best nightlife from markets around the world and add the opportunity to see Madonna as she searches our Nightlife events for the world's best dancer to accompany her on her next tour.
- My third example is about how we stay at the leading edge of these marketing changes.
- Our business partnership with Facebook was established last year.
- Since then, joint Diageo Facebook boot-camps have trained over 950 Diageo marketing employees on how to effectively market our brands on Facebook. The communities of consumers following Diageo brands on Facebook increased from 3.5 million to over 10 million and over the coming year our partnership will see us develop further marketing innovation and consumer intelligence to support our brands. The most innovative of these campaigns will also have a financial contribution from Facebook.

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- Moving now to our customer agenda which you know has been a focus for us over the last few years and has delivered a significant uplift in our interactions with our key customers. Again this year we have seen sales to our key global customers grow faster than our total sales, up 7%.
- We have built these stronger relationships with our strategic customers in two ways. We have put some of our top sales talent on their business with regular high level meetings and joint development of our sales programmes. We have improved our customer service through cross functional teams driving growth for example through better store layouts and value through reducing inventory days.
- These enhanced relationships enable us to work closely with our customers to grow the overall category. For example, with one of our global customers, we are

the category advisor across 80% of its markets, four times the number of markets versus three years ago.

- At a store level, we are delivering category growth through our Ease of Shop programme which is all about leveraging shopper insights to improve store layout. Ease of Shop was introduced in May 2009 and by the end of F10 we had rolled this out to 25,000 outlets. Our aim in F11 was to implement it in 60,000 outlets which represent 40% of our net sales value in those markets and by June this year, we had implemented it in nearly 64,000 outlets.
- In addition to extending Ease of Shop to new stores we have also revisited the existing 25,000 outlets, leveraging our shopper insights to further improve layout and in store space.
- The result is that Ease of Shop has helped our customers to grow the category by a minimum of 5%.

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- Over the last few years, we have built a significant innovation function capable of delivering a strong and balanced pipeline of opportunities. As a result, we had another strong year with sales from new launches up 30% in F11. The four elements of our strategy have not changed.
- Innovation can premiumise our offerings to consumers with success this year from Johnnie Walker Double Black and Buchanan's Master. These are fantastic liquids. They have beautiful packaging and are priced at a 20% premium to the main deluxe variant. It is still early days but sales of both variants are ahead of our expectations and they will be launched into new markets this year. Importantly, they are also positively impacting the brand equities of Johnnie Walker and Buchanan's.
- Innovation also makes our brands accessible to new consumers. In Africa, 20cl spirits offerings and beer in cans have done just that. In these fast moving markets, innovation is about spotting an opportunity and acting quickly. In Venezuela, for example we launched Moneda de Oro, a locally produced rum at an accessible price point, at a time when imported products have risen in price.
- In developed markets, innovation drives sales in less dynamic consumer environments. Flavour innovation across our vodka brands in North America and Europe is a great example of this strategy. Another is the work we are doing in Australia and Great Britain to build the ready to serve segment, taking share from wine and getting our brands into more homes.
- And finally, the reason our innovation programme has consistently driven growth is because we remain focused on supporting and investing behind innovations beyond the year of launch. For example, 8 years on, Cîroc is now well over one million cases and is still expanding rapidly.

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- Deirdre took you through the reorganisation costs and benefits but as I said earlier as well as making these structural changes we have to build a culture of continuous improvement.
- We have a very efficient supply function so tasking them with further improvements is tough, but we have.

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- As a result of the operating model review, supply and procurement teams now report at a market level with end to end accountability to give increased customer focus.
- As you know, we began our plant rationalisation programme in 2009 with changes across our global operations. However, the way in which we have implemented these plant rationalisations varies by market.
- For example, in the US most of our production is for the US market in standardised formats and we can consolidate bottling in a small number of plants. Complex bottle formats have been consolidated in one plant so we can benefit from scale and shared expertise.
- In contrast in Scotland where we produce for a number of markets, we have a number of packaging formats and therefore a level of underlying complexity. To be efficient in Scotland we have to take out indirect cost but more importantly we have to get better at forecasting demand so we can plan our production runs in the most efficient way.
- We have engaged all our supply employees in our efficiency programmes. As a result, our utility usage has reduced and water usage, which is a focus for Diageo, was reduced by 3% and energy usage reduced by 8%.
- In addition, we have targeted 7% per annum improvement in OEE in packaging. We have achieved this target for 3 years now and expect to achieve it again next year.
- We will continue to utilise our scale in order to reduce cost. For example, we partnered with Logoplaste in the US who built a new PET line at our Plainfield facility. This eliminated transport costs. They paid for the investment and we received a lower unit cost.
- This approach is equally valid in our faster growth markets, for example in Africa, while inflation is high we held cost per unit flat by optimising our ingredients, for example we used more locally grown sorghum instead of imported raw materials.

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- Secondly, we have decentralised our global functions and moved resources from the centre to the markets. This has delivered our objective to deploy our resources closer to our customers and consumers and it has reduced costs.

- In sales for example, we will continue to have designated global account managers for our largest customers. They will be based in the market in which the head office of the customer is based. This means they are connected to the market but we retain the benefits of a global lens, e.g. our Walmart account director will be based in the US with Ivan as the new global sponsor for our Walmart relationship.
- The focus of the global functions will now be to provide expert governance on controls, compliance and to support the markets.

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- Before I am joined by my colleagues to take your questions let me sum up.
- Our F11 performance highlights the strength of our business and the way in which it has become stronger through the year.
- And you have seen the steps we have taken to expand our presence in the emerging markets and to sharpen our focus.
- We have confidence in what Diageo, its brands, its route to market and its people can achieve, although we are very well aware of the challenges we will face in these volatile economic times.
- This morning, we articulated our aims. 6% top line growth, operating margin improvement, with the first 200 basis points in 3 years, and double digit eps growth to underpin faster dividend growth. These are not annual goals. It is a description of the progress we aim to deliver over the medium term.
- We have a sharper focus on growth and improving margin. It isn't a new focus. It is simply sharper. It doesn't compromise on returns and it will continue to drive very strong free cash flow.
- And now I am going to be joined by Deirdre, the market presidents and Andy Fennell our Chief Marketing Officer to take your questions.
- Operator over to you.

  - End