

F15 Interim Results

DIAGEO

Ivan Menezes

Chief Executive, Diageo Plc

Hello, everyone and thanks for joining the call. Deirdre and I are here along with Catherine in London. I assume you've had a chance to go through the press release and listen to the webcast, so why don't we go right to questions and open up the conversation.

Question and Answer Session

Ian Shackleton - Nomura International

Free cash flow looks pretty good in the half and I think Deirdre, in the presentation talked about cash conversion improving for the full year. I just want to know if you're able to give us a little bit more granularity what that might mean, particularly where working capital might go for the year. I think last year you produced free cash flow about GBP1.2 bn. Can you give us a bit more granularity of where it might be this year?

Deirdre Mahlan

I can say that we have been focused on improving working capital. You will see that we've had a good performance in the first half and there is still good opportunity for us in the second half. We're aiming to get our cash conversion to 100% and working capital will play, obviously, a piece of that. I wouldn't comment on the specific elements of working capital because it does depend on where the various growth elements are and, to some degree, the saving of shipments toward the end of the year. But, it will still remain our goal to improve our cash conversion and we expect to make consistent improvements in working capital through that period.

Ian Shackleton

Perhaps just as a follow-up, and it touches on this topic. When we think about the investment in scotch whisky and I think in this first half the maturing stocks went up GBP170m still, should we still expect you to be laying down stocks in the same way you have been given the weakness we've got in some of the key scotch brands?

Deirdre Mahlan

We look at our Scotch whisky production over the long-term and we make adjustments as and when appropriate. You should expect that we will continue to lay down stock. I won't comment specifically on the precise areas from the first half, but I wouldn't expect there to be material short-term changes in our maturation cost piece.

Chris Pitcher - Redburn Partners

One of the statistics you've put in the presentation that struck me was the fact that half of your business has improved its forecasting accuracy and the result of that is you've found you've got a lot more stock perhaps than you may otherwise have wanted. Could you give us a bit more detail what was actually required to improve the forecasting accuracy? What were the failings beforehand and does this mean there is still half of the business where we could see further improvements?

And a follow-on from that is just to give us a feel for the scale of the stock issue when you took over as CEO and can you be confident that it should find a base by the end of this financial year? I know you mentioned you expected some more in the second half, but are you comfortable you'll get your business clean by the end of the year?

Ivan Menezes

On the first point on forecasting, as you know, we've put tremendous focus behind our route to consumer Must Do initiative and within that, as an opening process, discipline is something that the General Managers and Deirdre and the supply teams are leading very strongly. So, this is just us fundamentally putting a lot more focus on stronger execution and getting the basics right. We are demanding this of our markets and General Managers. We're measuring this with a lot more rigour and you can see the improvements begin to come through. I feel we're still in relatively early stages of this journey, but they're not letting up and so this will be one of the sources of improving working capital and cash conversion over the next couple of years.

On your broader point of stock reduction, when will it end by this fiscal, let me just first characterise it. There are two things that determine that. One is the level of depletions that are happening in markets and clearly, the second is what we ship in. The picture is a little varied. I would say overall I expect to make a significant dent into it this year, but there will be places, and I point to Southeast Asia where I don't think it will be true because the depletions are still weak in the free trade zones in Asia. So, we will have some amount of this continuing into next year.

But, you know what? This is all good stuff and we're doing the right thing for Diageo to drop the visibility back to the right place. Likewise, I cannot quite predict when we will see the acceleration in depletions. Sales are flat right now. It's somewhere stable, but at some point we would expect to see improvements come through, but it hasn't happened yet.

So, that's a bit of how I view the world. We've made a significant dent into it this year. There will be some pockets which will continue into next year, but we will manage that in the profile of the total business growth momentum as we go into fiscal '16.

Chris Pitcher

And if I may while we're on the topic, in terms of finding a base in F15 specific to the India business, the sales momentum for United Spirits seems to have improved in the last couple of quarters. Do you feel that with their original efforts and your subsequent efforts that by the time you close this financial year that the shape of portfolio will be much more where you want it to be and we could expect growth off that base?

Ivan Menezes

We are in the middle of the integration and transformation in United Spirits. As you probably know, in the second half we will be integrating with Diageo brands similarly into the United Spirits platform. That's a complex process which will take us through the second half of the year.

I must say overall on India, and on United Spirits and Diageo, I feel very good about where we are. We've got the new management team in place. We've put in place our governance and compliance practices and have delivered this performance while we have made all those changes. So, the momentum is good. You can see it in the Premium and Prestige brands continue to do well. Our portfolio strategy is clear which brands we're going to support. We're bringing the Diageo scale into India on revitalising the brands, the portfolio, our innovative skills. So, I'm confident that India should deliver good growth both for the balance of this year and then into fiscal '16. Fundamentally, all the elements are on track.

Nik Oliver - BoA Merrill Lynch

Good morning. Thanks for the question. Just coming back to the comments on the dividend. I just wanted to clarify that we will see growth in absolute full year dividend. It's just that the rate of growth may be slower than the 9% seen in the first half.

And, secondly, just given how strong cash flows are in the business, could we see a situation where dividend cover did dip below the lower end of the 1.8 to 2.2 range in the short-term? Thanks.

Deirdre Mahlan

You're absolutely correct. Our policy is for a progressive dividend, and we are looking to vary the rate of growth of the dividend. So, absolutely.

To your second question, yes, I mean the policy of 1.8 to 2.2, we don't apply that policy mathematically. But obviously when we get to the lower end of the range or the higher end of the range it will cause us to think carefully about what the dividend will be going forward. So, it is possible and has in the past actually been outside of that range for brief periods.

Jason DeRise - UBS

I wanted to ask about the US business. Obviously you're flagging the good growth out of Bulleit, but it's still quite small. So I wanted to get a sense of how you're balancing the need to keep it

crafty but also some of the urgency to make it larger because that part of the market is growing so fast.

Then the second part of that is there are other brands that you have in the whisk(e)y space that are not performing as well. So, Crown Royal. Johnnie Walker is a bit mixed. Could you talk about the strategies there to be able to better participate with where the US market is growing.

Ivan Menezes

First let me say our whisk(e)y position in total in North America, across North American whiskey and scotch is a very strong one and well positioned for where the market is going.

On the specifics, Bulleit, you are absolutely right. I want to make sure Bulleit stays with the hipsters of Williamsburg and does not become a mass brand. But it has got tremendous scale. This is growing at 57%. You talk about Bulleit being small, but 20% of the bourbon and rye growth in the US is Bulleit, so it is having a material impact on the category.

Our approach is we're not going to do large scale TV advertising and kind of what you do with big brands. We're going to keep building it through advocacy with bartenders. There is a lot of word of mouth. There is a lot of experiential stuff. We're going to be very focused on the on-premise. The brand is really hot in the on-premise and let the consumers come to the brand. Retaining its craft credentials is crucial. It helps that we have Tom Bulleit and the family behind the brand. Tom is very active in the leading edge elements of opinion forming in the whiskey community. So, those are the things we are doing.

We are also looking at building it globally. Again, to your point, I'm not going to just go chase volume. I want to build this brand the right way everywhere in the world and it's going to be part of our reserve portfolio.

On your point on our other whisk(e)y brands and why they are struggling or underperforming, Crown Royal has had a weaker 18 months. We are doing a number of things on Crown Royal which gives me confidence we will see improving momentum. One is the whole approach to the brand is going to come back very much to talk about the craft and the quality of the whisky. It's a sensational liquid. We've got 50 various crafted liquids that go into Crown Royal. We are doing a barrel programme with Special Crown Royal. We have several line extensions. There is one in place right now which is early days, but are very encouraging which is the Crown Royal Regal Apple which has been in the market a couple of months. It's hitting the IRI and NABCA top innovation lists. We're seeing the base Crown Royal brand improve. So, I'm cautiously confident you will see improved momentum on Crown Royal.

The rest of our portfolio, actually, we've got a lot going on. We've got Orphan Barrel which is the high-end craft bourbons doing well. We are putting more energy behind George Dickel. Dickel is getting quite a cult following as well in the places in the US where whiskey trends are getting flat.

We've got a couple of new ideas. We are bringing in IW Harper back in. We are introducing Blade and Bow which will be a new entry also in the bourbon segment.

So, our North American position broadly has underperformed in the last 18 months largely because we didn't ride the flavour drive. Most of the North American whiskey boom has happened out of flavours. I'm very clear that a brand like Bulleit we're not going to chase flavours. Bulleit is such a beautiful brand in bourbon and rye. We're going to stick to our knitting, build it the right way. But with Crown Royal I do see that momentum come back.

So, overall, North American whiskey I'm cautiously confident you can expect to see us perform better while continuing the momentum on a brand like Bulleit.

Jason DeRise

The other side of the portfolio in the US, the white spirits and I guess most of the focus will be on Smirnoff. How do you think you can turn around the share loss in the vodka category? Obviously there are a couple of brands that are growing rapidly that explain the growth in the vodka category, but what's your view on when Smirnoff can turn around?

Ivan Menezes

As we talked about for the last 12-18 months we are in the midst of the revitalisation programme on Smirnoff. And then you've got another dynamic which is flavoured vodka is clearly challenged and 25% of the Smirnoff business is flavoured vodka. There we are still seeing continued challenges.

On base Smirnoff, we actually are finally seeing market share improvement. Small, but in the last few months Smirnoff Red, the base vodka, has actually grown market share. As we go into the new calendar year I would hope we will see that momentum continue.

Overall, our North American business, as we close this quarter and go into the next quarter both in NABCA, particularly in NABCA, we're seeing a little more improving momentum on our premium core brands, including Smirnoff.

Simon Hales - Barclays Capital

I just wanted to follow up on Chris's question really just around stock levels if I can again, Ivan. I appreciate that clearly depletion trends sort of play an important part with how quickly the destocking takes place. But, when you look at something like the destock in South East Asia, I think if we go back to the full year numbers you were expecting that to perhaps be a GBP70m hit over the course of this year to your sales. Is the absolute size of that destock, even if it flows into 2016 fiscal year, still at that sort of level, or are you finding further pockets within those different markets where inventory needs to be reduced?

Maybe following on from that, back to Deirdre's comments around the forecasting accuracy that's improved in half of your 21 markets, is the other half of those markets, are those improvements still to come through, or those other half markets already put those improvements in place and, therefore, we shouldn't be expecting to find six months from now that you've found another big lump of stock in one of these new markets that you've applied those improvements to?

Ivan Menezes

First on South East Asia, it is still GBP70m, but it will take a bit longer is what we're saying.

On the other markets, twice a year we have all our General Managers in and just last week Deirdre and I were with them. There is sharp focus on improvement in all markets. So, it's not like the other half are where there isn't room for improvement. So, you will see that discipline continue.

And on the broader point on this and on stocks, one of the encouraging aspects of our performance in our first half is our depletions are running ahead of our shipments. As I mentioned in the last call, we now track performance at the depletion level. It's all about sell out. Don't tell me what you are selling in. I want to know what's really selling out and that's what we're measuring and holding our markets accountable for.

So, all these changes, the SMO process, the sell out orientation in all our metrics, that's part of what is going to make us get far better visibility of underlying trends and make us more agile in terms of responding to marketplace movements. So, it's all more to play for. It's well underway and every market has scope for improvement.

Deirdre Mahlan

In fact, I would just add to that. Going forward, as the capabilities in the market improve in that area, because of the focus on sell out we should have less. This is the intent. We will not have the circumstances where the inventory builds because we have greater transparency into what's happening on the sell out basis in terms of distribution and rate of sale and, therefore, we can certainly manage better what's happening to our in-market inventory level.

Simon Hales

Okay, thanks. Can I just sort of follow up on a separate issue and just ask you about China as we head into the second half of the year and looking to Chinese New Year? I see Deirdre you made some comments earlier on the newswires around thoughts around Chinese New Year. I'm just wondering if you could maybe sort of expand on that a little bit, particularly around your premium scotch business as we begin to lap obviously some of the restrictions into the on-premise that went in earlier in calendar 2014. How are you feeling about the scotch business looking forward?

Ivan Menezes

I would say the scotch business for the balance of this fiscal year will still be tough. I mean, they're going through a big adjustment. The traditional on-trade has really shrunk. The modern on-trade has got very competitive where a lot of scotch is being contracted. We are being very disciplined. We are not chasing volume to buy it. So, I would expect us to have continued decline.

As we go forward though, we are confident that we will get the scotch category back into growth and see our business grow. Our focus is really on Johnnie Walker Blue and the Super Deluxe end of scotch where we continue to remain confident.

To your point in Chinese New Year, it's early, but I would say we are seeing encouraging early trends, but it should be modestly better this year versus last year. But it's early to call this.

Trevor Stirling - Sanford Bernstein

Yes, a couple of questions from my side. Coming back to US sales, maybe one for Deirdre. When I look at the contribution from USL coming into the accounts, Deirdre, it's implying about a 5% operating margin but looks to be quite a lot lower than what USL are reporting on their accounts. Is that because of translation from Indian into IFRS, or is there some acquisition charges that are depressing margins as reported in your accounts?

Deirdre Mahlan

I would expect that there certainly are some adjustments from the Indian statutory accounts into the Diageo accounts, as well as purchase of price adjustments. So, there would be some combination of the above that will be driving that.

Trevor Stirling

I know you've got ambitions to improve the margins at USL over time. Any broad guidance in terms of how long you think it will take to get USL to a place where you can start to see margins rise again?

Deirdre Mahlan

Well, we've said in this first period where we've been talking about the integration that we've been going through that it is on track and we do expect when you get past this fiscal year, on the trends that we're on, you should expect to see some improvement.

Now, some of that maybe reinvested behind the brands as the brands and the market evolve. But we can start to see some of the pressure that you would have seen, for example, in that 5% come through after we get through the first year when there are a lot of integration costs and accounting adjustments flowing through the account.

In terms of underlying performance, it was our expectation that after we got through the first full year we should start to see some positive trend. I wouldn't expect it to be an abrupt steep curve, but gradually year-on-year you should start to see improvement.

Trevor Stirling

Okay. Second question, moving onto Ivan. As I read through the detail of North America Ivan I note that a lot of the brands had tough comps from sort of pipeline filling in the prior year whether it be Captain Morgan White or the premium qualities on Johnnie Walker. If you eliminated that pipeline filling, what do you think will be the benefit to top line growth in North America?

Ivan Menezes

Trevor, let me just characterise the underlying business. Not the shipments, but the underlying depletion value trend in North America in spirits. We're running about 2.5% growth against an industry or market that's 3%, 3.5%. So, we're underperforming it slightly.

When you look at the source of underperformance and why, there are a few things going on. One is we did take a lot of price in the last couple of years which has really hurt us on those premium core brands. If you look at the last three years, we expanded operating margins in North America 450 basis points. A brand like Captain Morgan is now sitting at a 25% premium to the leading rum brand. A brand like Smirnoff had moved on price increases in prior years when vodka was heading the other way. So, we're making adjustments for that.

The second thing is a couple of the category dynamics have gone against us. We did not participate in the North American whisky flavour explosion. We will be correcting that. Flavoured vodka took a big hit which hurt Smirnoff disproportionately since we are by far the biggest market leader in flavoured vodka.

Now, on the other hand, our reserve brands are very strong. As you know, Bulleit, Dickel, Classic Malts, Don Julio, Zacapa, Cîroc, all of those are performing very well.

So, as you look at it going forward, we need to get that underlying depletion improved from where it is. I'm not calling that a fast recovery. It will take us time as we go through the course of this calendar year. As I referred to earlier, we are seeing improving trends on those core brands come through and, as we go through the second half of the year, I would expect those to continue.

To your point, there was a lot of innovation in the pipeline. When we closed last year we expected a stronger holiday season. So, we're adjusting some inventory levels as well as we go through this. If we get upside from a consumer standpoint in the course of the second half, I would say we would adjust it through our shipments. We would want to just get our shipments more in line. 400,000 cases of lower shipments is worth about 2% of growth in the half.

Nicolas Ceron - Societe Generale

Would you be able to talk about the associate net profit which were down sharply this half? Were there any exceptionals in it, or shall we expect the same kind of decline in H2?

And also maybe a more general question on the US. A number of companies in staples are talking about a better consumer environment recently. Is that something you've seen? Have you seen any pickup in demand in December and January, or have you seen a better on-trade recently? Thank you.

Deirdre Mahlan

I want to answer the question on associates. As you know, the associate income is a function of the entities which we're holding a minority share and it is entirely dependent on the performance of those entities. So, in the second half we'll see what happens to the performance and then that will come through in our accounts.

Ivan Menezes

On the US, if we look at the last couple of months, as I think Larry Schwartz said on his call, Thanksgiving was relatively subdued. We didn't see a big increase. As we closed out Christmas and the New Year, things strengthened a bit. It got a little stronger as we got through December. January feels good. The thing we want to be cautious about because we know in the last two years the US recovery we've been waiting to see when it will translate into a bit more consumer exuberance. I think you still see people in America fundamentally taking a lot of their gains with the lower gas prices etc., there is deleveraging going on and that cycle is still playing out. I would say our signs are cautious. We continue to see a bit of gradual improvement in underlying consumer demand.

The on-premise has picked up a bit and that's a good indicator and usually an early sign. But, we're not going to call it until we see it and I would say our stance on this is we're prepared to ride it when it comes, but we are cautious in kind of calling it until we see a sustained trend.

Martin Deboo - Jefferies International

Morning everyone. I'm obsessed with inventories as Chris and Simon were, so let me just ask a couple of incrementals to what you already said to them.

What was the influence of inventory reduction, if any, on the decline in Walker which I think was down 9% in volume in H1?

Ivan, you also mentioned something on the webcast. I think you quantified the inventory headwind as 1.5 percentage points, but it wasn't clear to me if that was a headwind on the group or within a more restricted part of the group. The context of it wasn't totally clear to me. If we just get clarity on those two, that would be good.

Ivan Menezes

Sure. Johnnie Walker, all of it, is inventory. So, underlying Johnnie Walker is healthy. The 1.5 is on the group.

Andrea Pistacchi - Citigroup

Yes, good morning. I have two questions, please, both on the US. The first one, you've talked about the adjustment on your core brands Smirnoff and Captain Morgan, some rebasing of price to some extent. Now, of course, it depends a lot on what competitors do, but what is your best expectation on how long it will take to fully stabilise these brands?

The second. Again, on the US you've had two big launches with Cîroc, Crown Royal. Cîroc was up strongly, more than 20%. Was there a pipeline fill element in that? Are both brands showing strong depletion trends, and how confident are you that in H2 these brands will have strong underlying momentum?

Ivan Menezes

On the first question, Andrea, on Smirnoff and Captain Morgan, the premium core, this is going to take time. I would say I would hope to see sequential improvements gradually, slowly, as we go through the course of this calendar year. It's another four quarters of consistency where I would be at a point. I don't want to call it before we get to the end of the calendar year. But we've got these brands in South Europe showing top line share performance.

On the two big innovations, clearly, there is an element of pipeline fill because we were launching them in the last couple of months. However, what's really encouraging is the consumer uptake has been extraordinary. You can see that in Nielsen and NABCA. Cîroc Pineapple is off to a tremendous start and it is really pulling through and we will need to see as we go through the course of the second half those trends continue.

Crown Royal Regal Apple actually is also pulling through. In fact, we are out of stock in many markets. We've got to make green bags for that product, so we're running out of bags right now. What's interesting with Crown Royal Regal Apple is it is showing up. It's cutting across demographics. It is showing up in non-core Crown Royal markets like in the North East. You will find it in New York and Brooklyn now where Crown Royal didn't have much of a franchise. So, it's early days. I don't want to get too excited, but the team are scrambling to keep up demand. I do believe we will have a strong H2 on that brand as well.

Andrea Pistacchi

Is there a technical reason why I see Crown Royal was I think down 1% in NSV in the half yet you would have had a bit of a pipeline fill element? Is there a reason why the brand wasn't growing more despite the pipeline?

Ivan Menezes

We were comping another innovation launch in the previous half Crown Royal XR. So, that was it. And Maple Finished was a big innovation in the first half of F14.

Eddy Hargreaves - Canaccord Genuity

Good morning. I know a couple of people have touched on components of this, but looking at your overall volume performance down 2, within that, obviously your global giants, those six brands, have underperformed that. You've mentioned some things that we know about going on in the US - destocking, pricing, etc., etc. But if we look at volume and indeed organic net sales performance of these top six brands, the global giants, it's clearly quite a tough dynamic to deal with at the group level. When would you think that, as a whole, this group of brands could move back to growth? Do you think fiscal 2017/2018 is too pessimistic?

And then more generally, should we expect these giants to be growing faster than the total portfolio or slower on an ongoing basis medium - longer term?

And if I could just pop in with one completely different one. Could you perhaps give us your thinking on dropping the quarterly IMS's going forward?

Ivan Menezes

I'll have Deirdre address the IMS.

On the global giant brands, clearly what you are seeing right now is what we've talked about, Eddy, some of the corrections that are happening in stock levels and market disruption. So, you've got some of the brands impacted. Johnnie Walker is what's happening in South East Asia and West LAC, but also what you are seeing in Russia where we see a kind of a one-off slowdown.

I would expect these brands, as we go through this adjustment, really come back into growth. Into decent growth as we get into F16, but then really build from there as we get into F17 and F18. These are our priority brands. These and the reserve brands really are the engine of the company and so our focus is going to be very much on getting the trajectory of improved growth coming through on these.

What I would say is if you look at underlying consumption, consumer offtake, I get encouraged about the health of the brands and the underlying consumer offtake that is taking place. Scotch whisky in Latin America, it's the question I always ask and if you go into Mexico and Colombia, and Brazil, it is very strong, thriving, the aspirational and status values are intact. So, the category and our brands, Johnnie Walker and Buchanan's, and Old Parr are in good shape and that's what we look at very carefully and that's what gives me the confidence that we will see improving trends come through.

IMS?

Deirdre Mahlan

Okay, on the IMS, we will publish an IMS for the nine months ended March 2014. When we come into our next fiscal year we will not publish IMS's for either the first or the third quarter. We made that decision after some consultation with some of our largest investors who are supportive of that and so that's going to be our position going forward.

Eddy Hargreaves

I'm, sorry, the reasoning is?

Deirdre Mahlan

I think the reasoning is, consistent with the reason why the regulation was changed, is that we think we're focused on the long-term performance of the business. We're very clear in our half-year accounts on what we're doing to drive performance in the business and we believe that that provides good information to the investment community in order to base their decision.

Obviously, if there is something that needs to be reported, we'll report it. But in terms of just regular quarterly statements, we intend to discontinue them.

Anthony Bucalo - Santander

Morning, everyone. The question is for Deirdre. Simon asked a question about inventory and the response was that you're moving towards a culture that is much more focused on a sort of a depletion culture rather than a shipment culture. Can you sort of talk about that in detail? Do you need better ways to measure your depletions? Do you need to work more closely with your distributors? Do you need to work more closely with the retailers? What is the practical impact of moving from a shipment to a depletion driven culture?

Deirdre Mahlan

I could talk about this for a long time, Tony, but for the sake of everybody I'll try to. I think it's some of all the above. It depends on the nature of the market. So, in some markets where we sell direct to retail and there is good published data it's quite easy to see in AC Nielsen, for example, what's happening.

In other parts of our business like where there are wholesale channels and there are two or three tiers before you get to the consumer, it can be more difficult to really be able to see that and that will then involve our working closely with the first line distributor and then trying to triangulate that with in-market information so that we have the best available information about what's happening in the market.

So, it does vary. I can say, as I was talking about in the presentation in the improvements in sales forecast accuracy, we are finding that the focus that we now have on our executional imperatives around the premium, core, distribution points, rate of sale, what's happening on reserve brands, planning for innovation, commercial planning, that level of detailed attention is giving us a much better insight not only into sales forecast accuracy, but then obviously, as you look further out, what our inventory requirements are going to be. But, what is required to do that will vary a bit depending on the market structure.

In most cases it doesn't involve a significant investment. In most cases it just involves actually going to track the detail and making sure you are confident in the quality of the underlying detail. There may be some local in-market tools that are put in place to facilitate it, but the most part is just getting really down and clear on what's happening at the ground level.

Anthony Bucalo

Okay. So, your local operators, are you going to encourage them to spend them time a little bit differently in terms of collecting that information or triangulating that information? Where will that burden fall, generally?

Deirdre Mahlan

Absolutely it will be at the local level because it is the people who are in the local market, those teams on the ground that have the best information. In some cases the information was there before. But when you have a sell-in kind of structure, they are much more focused on order taking from the first line customer and then they kind of assume the next order will come. The reason why

the forecast accuracy improved so much is now we know what the take-off is on the backend. So your relationship with that first line customer is much more informed and you can actually have an opportunity to improve their working capital position as well as our supply chain.

Jason DeRise

On the cost savings that came through in the first half, just my simple math is that would have been a 2.6% benefit to EBIT, the GBP53m. Obviously your organic EBIT was less than that at 0.7. How should we think about, going forward, that flow-through? What would need to happen to achieve maybe a better flow-through in the second half of the year?

Deirdre Mahlan

Well, some of those savings that came through was because of the timing of the initiatives. We do expect a bigger savings in the second half than in the first half as they start to come through. When the changes take effect, it depends on when those changes come into us. If some of them were not effective in the first quarter, then you only get a piece of it in the first quarter, you'll get all of the benefit of that savings plus more in the second half. So, I would expect the amounts to improve about GBP57m additional in the second half.

Jason DeRise

Okay. That's the run rate at the end of the half is the GBP53m? That's the way to attribute that, not how much contributed?

Deirdre Mahlan

Exactly.

Jason DeRise

Okay. Any comments about which regions that broke out into?

Deirdre Mahlan

It is spread in a number of different places. Remember, there were a few different things. There was our global operating model programme, the global efficiency programme, and then there were some supply excellence programmes. It is in a number of different regions. So, there is some savings in every region and through supply as well as in corporate. So, I don't have in front of me a breakdown of what it is by region, but it is spread throughout the business. It's not just featuring in one place.

Andrea Pistacchi

It's on emerging markets. Now, you've had a much better performance in some emerging markets. Others like China and Nigeria were clearly less bad, more or less stable. To what extent are these

sales trends sustainable, or were there technical aspects besides, obviously the easy comps which may have helped the performance like rolling out, I don't know, Origin or Haig into China and Nigeria? Should we expect these sort of trends going forward?

Ivan Menezes

We look at it market by market. But just to the two you picked, in Nigeria we are seeing sequential improvement. Clearly, Origin has been a big piece of that. However, if you look at the underlying executional changes, we've got a new management team in Nigeria. We are making rapid strengthening of our route to consumer. We are investing behind our brands, including Guinness which is pretty challenged in Nigeria. But we can see some of the equity measures move and we're gaining market share in the last few months. Just a little bit. So, I would expect that to continue.

Now, clearly, the external environment in Nigeria is pretty volatile. We still haven't seen the full impact of the oil price reduction play through in the consumer market yet. We've got elections coming up. We've got the currency clearly depreciating. So, we need to work through that. I feel confident you will see our relative performance, or share performance continue to get strong in Nigeria and our spirits business as well will continue to perform.

In China, the baijiu business is now in a position where I would expect to see good growth clearly from the rebased start.

On our international brands, Scotch whisky, Johnnie Walker has taken significant declines this year due to all the channel disruption. So we would see that continue and the second half will be tough, but as we get into fiscal '16 I would expect us to do better.

So, in general, when we step back, Andrea, the way I look at the world is we still have a fair amount of volatility and we're not assuming a better improving economic environment. However, we do expect our performance in each market from a competitive sense to improve and that's really where we're putting all our focus and our energy.

Ivan Menezes

Well, thanks everyone. It's good to have you on the call. Thanks for your questions. Deirdre and I look forward to meeting some of you over the next few weeks. Appreciate your support and interest in Diageo and have a good day. Thank you.

[End]