

Diageo plc

Lunchtime Call with the Presidents

Randy Millian

President, Latin America and Caribbean

Thank you, Caroline. Good morning for those of you that are in the United States and good afternoon for those I think are in Europe and, maybe evening, if there are some people in Asia. First, thanks for joining me on the call today.

It is a pleasure to have you here and talk about our business and the opportunity in Latin America and Caribbean. A significant part of my career has been in this region. I have been leading Diageo's business in Latin America and the Caribbean, which we call LAC, for nearly 12 years and have lived and worked in Argentina, Brazil, Costa Rica, Mexico and Venezuela. This is an exciting part of the world with enormous growth prospects and it gives me great pleasure to describe this to you today. I will start this morning with a brief overview on the business in Latin America and the Caribbean before opening the lines for your questions.

Today, Diageo's Latin American and Caribbean business covers 43 countries and a population of 590m people. Economic power and roughly 90% of the region's GDP are concentrated in Mexico, Brazil, Colombia, Argentina, Venezuela, Chile and Peru. Latin America's history is one of transition from military government to democracy over the last 30 years. The region has matured through volatility and financial turbulence. Diageo has similarly developed, managing the volatility, developing local talent and consistently building premium brands by ensuring its brands remain aspirational.

Since the financial 2008 crisis we have continued to invest appropriately, enabling us to recruit new consumers, gain share, strengthen our route to market, whilst building capabilities in the team. Our growth has been exceptional as a result of building share in our large scotch markets of Brazil, Venezuela, Mexico and Colombia. Currently eight out of 12 of the standard and higher-quality whiskies that are consumed in Latin America and the Caribbean are Diageo brands. In Brazil's standard segment alone, nine out of 10 servings of Scotch are one of our brands.

We see equally impressive figures in Mexico, where we have increased sales seven-fold in eight years. Scotch, which used to be the fourth category in the market, is now number two, as a result of sustained category growth by Diageo brands. In the Andean region - Venezuela and Colombia - our share position is again quite strong. Half of the scotch served in Venezuela is a Diageo product. In Colombia three out of four scotch servings are our products. Our marketing and sales organisation serves the specific needs of our diverse markets. We have dedicated distributor management resources in every market and we are committed to develop their capability.

For example, best practice on top to top meetings with customers, joint planning and business performance monitoring has been rolled out across the region. Early this year we ran a consumer satisfaction with AC Nielsen across 48 channels to measure against our target of becoming number one in the on-trade and a top three off-trade consumer packaged goods supplier for our customers.

The survey showed Diageo achieving its goal in 38 out of 48 channels surveyed and we still have significant opportunity to grow distribution.

At the same time we have invested in our people. Diageo LAC has a reputation for building outstandingly leaders. We have focused heavily on building the leadership capabilities of our management. We are among the top 10 companies voted best place to work in Argentina, Venezuela and Mexico. People investment has been particularly important within the context of how quickly we have grown our teams. In some of our key markets we have doubled or tripled the size of our team in the past five years.

We have also been leaders in sustainability and responsibility in the region, with the promotion of responsible enjoyment of alcohol and encouraging stronger law enforcement to eliminate impunity, an enriching economic and social life through our Learning for Life job skills training programme for the underprivileged.

Consumer dynamics in our region are among the most attractive globally. The total population of the region has been growing at an annual rate of just over 1%. The legal drinking age, however, has been growing faster than this. And the emerging market is growing quickly as well. There are 50m households able to afford our brands. That number is steadily rising. In addition, the increase in household income and higher levels of affluence are causing fundamental shifts in demographics.

As this trend continues we anticipate 10m to 15m new consumers entering the middle class in Latin America every year. In Brazil alone household income for middle-class families between 2003 and 2009 increased by 40%. This is a significant and exciting opportunity for us, as the number of consumers able to afford premium brands such as ours grows.

We see the same trends across the region. Over half of the population in Mexico, Argentina, Brazil, Uruguay and Costa Rica are now middle class. This is a significant difference between other emerging markets such as China and India, where the middle income group represents a much smaller portion of the population. It means a much faster and grounded shift in consumer dynamics and a much greater financial stability. This domestic consumption is now a key economic driver in markets previously dependent on exports.

On the upper end of the economic scale the millionaires and multi-millionaires in our region are also increasing, making Latin America a high potential market for reserve brands. Forbes magazine published an article at the end of November mentioning that Brazil's booming economy is creating 19 new millionaires every day, and has been since 2007.

How does the development in the economies of the region define the total Beverage Alcohol market? The structure of the Beverage Alcohol market is a direct reflection of income distribution. The value segment represents over 40m equivalent units - roughly 75% of the volume and 66% of the value for total Beverage Alcohol. The standard and premium sectors, on the other hand, represent 25% of the volume, translating to over 34% of sales value.

In Latin America and the Caribbean Imported Spirits category -- in the Imported Spirits category Scotch has the lead. Imported Spirits represents about 6% of the Beverage Alcohol market by volume and 11% on value. Whisky accounts for 55% of Imported Spirits in volume and 65% of Imported Spirits in value. This segment - Imported Spirits - is growing the fastest. As consumers

are becoming more affluent they are looking to trade up from the value segment. They are doing so simultaneously from beer and local spirits, and scotch is their choice, because it is aspirational and a choice that reflects their own progress for them.

Our privileged market position and attractive consumer dynamics in the region position us very effectively for continued growth in Latin America and the Caribbean. We have created strong leadership positions in scotch in the region. Our brand range allows a strong category management. We have the brands to deliver recruitment into the category, notably, J&B in Mexico, Johnnie Walker Red Label in Brazil and Venezuela. And we are focused on premiumisation, trading consumers up to deluxe and building a strong super-premium business. Our share numbers show the significant success we've had to date and our momentum is growing.

Our sales growth in F '11 was plus 17%, both on the top and bottom line. In the first quarter of F '12 we had delivered sales growth of plus 30%. This includes a low base in Venezuela - last year the difficult trading conditions. However, excluding this impact in Q1 growth the growth was 25%, nonetheless, very strong. We have scale in our region. We sell approximately 15m cases per year. Our scotch platform has enabled us to grow into other categories, namely, vodka, ready to serve, rum, liqueurs, beer and wines. This has been achieved as a result of great consumer marketing and sales execution.

It is due to the fact we have continued to invest appropriately during the crisis. As things got better we further upgraded this investment after the region had largely exited the crisis, maintaining the distance between ourselves and the competition. As you know, operating margin is a critical focus area for Diageo in Latin America and the Caribbean. In our region we continue to invest significantly. Our margins historically are higher than Diageo's overall average due to the product mix weighted towards scotch. Therefore, while our investment levels remain high we expect to see improvement in regional operating margin as we keep gaining scale.

We are also capturing new opportunities through innovation and through the introduction of additional Diageo brands. In vodka we successfully launched Ciroc, Ketel One and our Smirnoff Flavours in our key markets. As recently as October we also launched Rokk Vodka in Mexico, a new-to-world vodka originally launched in the US. In the rum category, Captain Morgan and Zacapa have also delivered excellent results, opening a number of new markets and significant growth for the category.

In Brazil, Jun Daiti, Diageo's local sake brand is unlocking an emerging consumer trend in the national Caipé drink that historically use cachaca in caipirinha or vodka in caipiroskas, resulting in a wine product at spirits margins. Nuvo, a new-to-world sparkling vodka liquor, is recruiting female consumers at champagne price points at a record pace. In whisky we leveraged Johnnie Walker Double Black from other parts of the world, enhancing scale on Diageo's most valuable trademark while expanding the opportunity for premium non-aged product.

We are also driving value through local brands and capturing trends to open new occasions. In Whisky Buchanan's Master is exceeding expectations in Mexico, Andean and North LAC. Old Parr Superior and Haig Supreme, both selling at significant price premium versus Old Parr Deluxe and Haig Gold Label, are delivering whisky with pedigree to attract new consumers. Overall we are leveraging our platform in four ways; continue to grow scotch because there is still significant

potential ahead; continue to diversify our portfolio; continue to innovate; and, finally, we will continue to enhance our route to market across the region.

To summarise before we open the line for questions, we are confident in our performance. Our privileged market positions are a result of sustained investment and managing through volatility. Consumer dynamics are extremely attractive and among the strongest globally. We are uniquely positioned with our brands, route to market, consumer understanding to capture the growth in the region. We are enhancing our geographic reach and capturing trends to open new occasions. We see a very bright future.

Now I would like to hand the call over to you for questions. Caroline, could you please open the line?

Q&A Session

Operator

Thank you. (Operator Instructions). We'll now take our first question from Ian Shackleton from Nomura. Please go ahead.

Ian Shackleton - Nomura

Yes, good afternoon, Randy. A question really about Mexico. I think historically Pernod was always the bigger player in Mexico, but I know a number of things are changing. For example, I think Beam is now looking to do its own distribution or go to a third party. How do you see your position in Mexico going forward? And particularly what do you see the scope, perhaps, for getting closer to the Cuervo operation in Mexico itself?

Randy Millian

Ok. Firstly, Ian, thanks for the question. I think there are two parts to it. First, to our business, I think if you look at the Pernod operation in volume terms, yes, they would be the leaders. And until they lost Beam they probably would have been the value leaders, but we consider ourselves number two in value with much less volume, and growing a lot quicker.

As far as to the question with getting closer to the Cuervos, I think there's no doubt we really value the asset, we value the family. We don't make comments on any conversations. You know the contract in the United States is coming up in 2013. And Paul has stated we're looking to improve our position versus that. But other than that I can make no comment. It's a great brand. We would love to not just get a distributor margin, but get a full margin to develop it around the world, but that's about all I can say right now, Ian.

Ian Shackleton

Ok, just a follow up really, just looking across the markets. Could you just give us some idea of the relative size of the key ones - Venezuela, Brazil, Mexico - how they benchmark against each other?

Randy Millian

Sure. Obviously, it's a little different between NSV and operating profit. To this day still the number-one market is Venezuela, followed very closely by Brazil and then Mexico and Colombia are a close third.

Ian Shackleton

And if you look at it on an NSV basis Brazil probably would be larger than Venezuela, would it?

Randy Millian

In NSV basis Brazil would be larger than Venezuela, correct. And the reason is because there is more Scotch in Venezuela. As a function of that the brand is bigger in Brazil. And also the new Sake that we had, Daiti.

Ian Shackleton

Excellent. Thanks very much indeed for that, Randy.

Randy Millian

Thank you very much, Ian.

Operator

We will now take our next question from Chris Pitcher from Redburn. Please go ahead.

Chris Pitcher - Redburn Partners

Good morning. Good afternoon, Randy. Thanks very much for the call. In terms of a follow-up question, you mention, obviously, that the region is higher margin due to the higher percentage share of scotch, but obviously one of the drivers across the region would be diversifying out the portfolio. How much of a margin drag do you think category mix will be within your portfolio?

And then a follow-up question. Could you give us some degree of colour on how strong you see the Smirnoff and your vodka portfolio up against, obviously, Absolut, which is a key driver for Pernod?

Then one final question. Could you give us some hard numbers in terms of the number of sales people in some of your key markets and how that's increased over time? Just give some hard examples of visible investment that's gone into reinforcing your share position. Thanks.

Randy Millian

Ok, great. I'll take all three, Chris, great. The first is -- can you repeat the first part of it again, Chris, for me?

Chris Pitcher

Yes. You made the observation, obviously, that Latin America has a higher margin because of the higher share of (multiple speakers).

Randy Millian

Ok, sure. The margin. Great, ok.

On the margin first of all, yes, we do think we have a higher margin. The net/net is we think we can improve our margin gradually over the next years while continuing to invest, because I think we have two significant positives. One is we will continue to grow margin in the scotch business. Two, because we're more at scale -- you mentioned about the sales people we're putting in place and we're going to get some of the scale benefits of that. So those are two positives.

Yes, we will go into other areas, but at first there may be a drag on that, but then those margins will begin to increase because we'll build efficiencies. But net/net, because so much of our business will remain as it exists today, we actually see that we can keep our margins and improve them slightly. So that's on the first one.

Chris Pitcher

Do you see the mix of business changing significantly? In other words, do you think scotch will still be a similar share of the business and it will grow alongside the new categories?

Randy Millian

I think scotch is going to grow, yes. I do think it will stay roughly the same - it may decrease a little bit. But what you're seeing is so many people wanting to get into scotch, so the emerging middle classes wanting to get into that. I can see it decreasing maybe two or three percentage points, but I see the other areas growing as well. But they're going to have to grow quickly to keep up with scotch.

Now on -- about Smirnoff versus Absolut, look, there's no doubt that Absolut's a great brand, ok. And they're doing some great jobs in marketing. So I think what we do have, though, is we have a portfolio of Vodka. We have Ketel One, we have Ciroc and we have Smirnoff. As you know, Smirnoff is a phenomenally strong brand in Brazil, selling over a million cases just at the Smirnoff 21. And if you put all the other variants in it's about a million and a half. And probably when you look from an image point of view, probably the most important brand from a consumer brand image point of view in Brazil.

What we're doing successfully now is taking Ketel One and Ciroc and building into the premium Vodka category. So I do think we have the weapons and the brands to compete against Absolut, in no way taking away that it's a very good brand.

Now the number of sales people. As we go on in total Latin America we probably have about 600 right now. We've increased from 500 last year, which is an increase of about 100. Basically, there's an increase of about 20 in Mexico, about 25 in Brazil, about 20 in Andean and about another 40 in our West LAC area, which is the rest of Latin America. But we did have a big increase in F '11 as well - I don't know that number. I'll ask somebody to get that to you.

Any more questions on the Smirnoff or Absolut, Chris?

Chris Pitcher

No, that's it. I just wanted to get a feel for where your scale was in terms of your route to market. Smirnoff will be able to leverage off your existing route to market and sales people against a very strong brand. So I just wanted to get the kind of thinking.

Randy Millian

Yes. But I think the key thing there is also using the rest of our other portfolio, which is Ketel One and Ciroc.

Chris Pitcher

Great, thank you.

Randy Millian

Great.

Operator

We will now take our next question from Jean-Marc Chow from Bernstein. Please go ahead.

Jean-Marc Chow - Sandford C Bernstein

Good afternoon, Randy. Two sets of questions, please. The first one is around current trends. I'd like to know if you are seeing any sign of slowdown and if the growth is more premium currently, i.e., Johnnie Walker Black or standard, i.e., Johnnie Walker Red. And do you see life beyond scotch and vodka in the region?

And the second question is more around would there be any upside from corporation acquisition of the beer business, for example?

Randy Millian

Wow! Ok, thanks, Jean. A comprehensive question. Let me go through the current trends. As a backdrop, since we've basically been an AB class play with this huge emerging class we have a huge penetration opportunity to go after, so we have now seen that. Somebody if they had -- more penetrated to all society in either Brazil or Venezuela may be seeing some of that if there is a hiccup, ok, but we're not seeing any of that so far.

I think one of the key things is -- what you want to look at is, first of all, on Brazil, and everybody looks on Brazil. Yes, it has slowed down. But what some people may not realise is there's a 7% real-term minimum salary increase coming in January, so people are pretty excited about that. So I don't see any slowdown in our growth. Yes, there is a great increase in the premium segment, but there's an increase in all of it. And indications are that Christmas is coming and very good.

As far as life beyond scotch, yes, I think what you -- and beyond vodka, we're big into rum. We're looking at Captain Morgan around our region. We've launched in a number of markets. We have Cacique and Pampero in Venezuela. We have Baileys as something we're investing in; Zacapa; we've looked at Jun Daiti, which is our sake in Brazil; and we're constantly looking at innovation. So we realise we can't live just on scotch. It's a phenomenal strength to have, but we have to develop out of that.

As far as beer we're constantly looking at all (beverage alcohol) acquisitions. Beer would have to add to us in a way that it wasn't bigger than us, because I think what we really have is a great focused organisation that can develop the route to market. We'll look at a beer play, but it's going to have to fit into what we're doing. So far we haven't found one that does that. I don't know if that answers your questions, Jean.

Jean-Marc Chow

Absolutely, thank you very much.

Randy Millian

Ok.

Operator

We will now take our next question from Gerard Rijk from ING. Please go ahead.

Gerard Rijk - ING

Yes, good afternoon. On the diversification of sales in this region, can you give us an indication of the split between spirits, ready to drinks, wine and beer, and also a division in -- between your standard brands and your premium-end brands?

Randy Millian

Sure. When you ask the questions on spirits you mean ours, or for the category?

Gerard Rijk

No, for your sales.

Randy Millian

Ok, good.

Gerard Rijk

The division of your sales, yes.

Randy Millian

Sure. Our ready to drinks is roughly, in value terms, about -- Ready to serve about 6%, beer is about 6% and wine is about 3%, so all the rest would be wpirits.

Gerard Rijk

And what's the split in those Spirits? That is for in the major part, Whisky. Is that 90% Whisky?

Randy Millian

Well, of the total -- I don't have it of the spirits. Of the total, whisky would be about 67%.

Gerard Rijk

Ok.

Randy Millian

Ok. And then, in your questions on standards versus premiums, I'll do it from a volume point of view and this is -- I don't have this broken out in this way. But roughly speaking it's about 50/50, ok. And what drives that is because the premium sector in Venezuela is much more deluxe and premium than the rest of it and we have a lot of volume. So it would about 50/50 of the scotch.

Gerard Rijk

Of the scotch, yes. And this is for your business. And when you look to Latin America and Caribbean overall the division is that -- how is, then, the division for the total market in between value, standard and premium? [Western style] premium I mean.

Randy Millian

Ok. No, that would not be the case. As far as the -- the standards would be roughly, I want to think, seven times what the premium is, ok. Obviously, when do market data we're not as market data-rich as the United States or Europe, so we make estimates. But I would say the standard would be seven times as big and the standard's probably about 20% of the total beverage alcohol and about 28% in value. So you divide by seven and I guess it's 3% to 4% would be the premium. And we obviously have more on the premium.

But once they get into the standard and we play on that standard we've proven that we can start trading people up. Obviously, we've got Johnnie Walker in the standards, we've got J&B in the standards and once we get them tasting our products, over time, as they become more affluent, we get them to trade up into premium, so I see the premium growing and us continuing to playing the standard.

Gerard Rijk

Ok. Ok, very helpful. Thank you very much.

Randy Millian

Thank you.

Operator

We'll now take our next question from James Edwardes Jones from RBS. Please go ahead.

James Edwardes Jones - RBS

Yes, good morning. How has the group's decision to give margin targets affected the way that you run the business in your region, Randy?

And, in addition, there've been, obviously, acquisitions of local businesses in Asia and in Europe. Is that an option for Latin America, or are you everywhere you want to be already?

Randy Millian

Ok, both good questions, James. As far as margin targets, I think it's been very helpful because it's very clear where the efficiency line has got to come through. And how do you increase operating margin? Obviously, when you're in a growth area like we are, getting the balance right of investing for the future and making money efficiently is always good, so I personally have found it very helpful. And from what I understand a lot of people on this call and analysts have found it helpful. So I think it's good and it's very clear. We obviously have NSV targets, we have trading profits and we have cash, and we have an operating margin target on how we are evaluated in our performance, so the clarity is very good and that's what we're in business to do.

And the second on the -- yes, we're always looking at local acquisitions, but it's got to have a certain amount of criteria. The first is we're not going to buy a big local business that's growing slower than we're growing, ok. We do want to have a business that can grow at our speed, benefit our route to market and is in the premium part of the sector in which they're operating. And, yes, there are some out there. If they become available at the price that we think they're worth we would do an acquisition, but other than that I have no comment on that on the acquisitions at this point.

James Edwardes Jones

Alright, thank you.

Operator

We'll now take our next question from Andrea Pistacchi from Citigroup. Please go ahead.

Andrew Pistacchi - Citigroup

Yes, thank you. My question is on currencies. Some of the key currencies in the region - the Mexico peso, the real - have weakened in the past few months by quite a bit. I was wondering how you're dealing with that in scotch to protect your margins. Has it got to the point where you'll need to take price increases more substantial than usual ahead of inflation? And would you expect this to have an impact on your volumes, because I think it did in '08, '09?

Randy Millian

Good question. Yes, the peso has devalued a little bit and the real -- I would say that at least in the real's case it's probably getting back to what its true value is. And let's go to Brazil first. No, let me take a step back.

I don't see any of these as huge issues. Because the great part about what we have now in Latin America is we have a floating exchange rate. The trouble was before when it wasn't and it was fixed and we didn't know how to set our prices. So people pretty much know that if the price -- the price is going to change if the exchange rate changes in a big way. It hasn't changed enough. Our Brazil pricing, frankly, has been at BRL1.90 to the dollar and, as you know, is getting up to BRL1.80, so BRL1.90 to BRL2.00. So we won't have to take a price increase yet. In Mexico we may, but we will do that. And one of the good things about it is, yes, we may have a short-term hit for a couple of months, but at these exchange rate differences, that are I think less than 2008, I don't see a big impact in the business.

Andrew Pistacchi

Thank you.

Randy Millian

Thank you.

Operator

We'll now take our next question from Pablo Zuanic from Liberum Capital. Please go ahead.

Pablo Zuanic -Liberum Capital

Yes, hello, Randy. Look, I have first a question on brown spirits and then I'll follow up, but if you can answer my first one first.

Randy Millian

Sure.

Pablo Zuanic

When we think of scotch as a percentage of total brown spirits, as a percentage of all whiskies, is that flat, is that growing, or declining? I'm just wondering about the growth in Latin America of Irish whisky, or bourbon. Just give us a sense of what's the penetration of Scotch as a percentage of total -- what I would call total whisky and how that's trending?

Related to that, you talked about your market shares in scotch in a number of markets have very high shares in most of them, except Venezuela - I think it's at 50%. What's been the trend there? Are you gaining? Is it stable?

And the last one on the same subject. A lot of these markets are traditionally white spirits markets - Cachaca in Brazil, tequila Mexico, and pisco in Chile. How does that affect the growth potential of brown spirits, if in any way? Thanks.

Randy Millian

Ok, great. Well, first, let's take the brown -- thanks, Pablo. On the brown spirits the lion's share of the business is scotch in brown spirits. I have seen some growth in Irish whisky, not a lot, some American whisky. You can see some growth in Jack Daniels in Mexico, but it's still not significant. It's something I want to look at. I want to think -- and I don't have the numbers in front of me, but it's still roughly a 95% brown spirits would be scotch.

Coming back to Venezuela, Venezuela, when you look at the deluxe categories those 50% would be a lot higher. When we're talking total scotch, because you have a significant standard category, which we do have about a 44% share in, that brings our total share down. But when you get into deluxes and super premium we're up in the 60s, which is what our major concern is.

As far as white spirits, like I mentioned, I think we've had such great growth rates in all our categories that it's -- Scotch will continue to grow. White spirits will take its place. And I don't see any conflict with that. And one of the major concerns would be if we sat back and did not get into the white spirits trend, so that's why we're in it.

Probably more important than this, though, is, as we continue to build the categories in white spirits and in brown spirits it's building the international brands, and as they capture more from local

spirits that's where we win. So I don't think it's a white versus brown. It's more international versus local.

Pablo Zuanic

Understood, that's helpful. And just a follow up. When we think of Heineken, obviously, you have distribution agreements with other regions. Is there an opportunity to work together in Mexico or Brazil where they have significant Beer operations?

And also, related to that, how relevant in the case of Brazil -- I know you touched on M&A, but not having a large cachaca presence in liquor, how does that affect your distribution capabilities? Is that an issue? Is that an impediment not being big in cachaca? I understand it's more a standard and not premium, but is there an impediment in terms of distribution? Thanks.

Randy Millian

Well, ok, both very good questions. On Heineken, look, in theory you could look if we worked together we could do more things together, but Heineken's got enough to worry about digesting the Femsa deal, which they're still in the process of doing. And I think we got some phenomenal growth rates. Since we do have partnerships we do get together periodically to see if there's anything we can do, but until now we haven't seen anything.

As far as an impediment, no, I don't think we have an impediment, ok. But if we don't have a cachaca brand for the route to market I think we can build it without it. But do I think the cachaca category is an interesting category and a lot of volume in it? We do have our Nega Fula and I think we're personally looking at ways to see how we can play in that answer to your question.

Pablo Zuanic

Alright, thanks.

Randy Millian

Thank you, Pablo.

Operator

We'll now take our next question from Olivier Delahousse from Natixis. Please go ahead.

Olivier Delahousse - Natixis

Hi, Randy, a question about Venezuela. You mentioned it's still your top market in terms of profit. And I was wondering if you could provide us an update regarding the currency situation there. If I remember well there were some issues around getting dollars to pay for the imported products.

And also I was wondering if owning Cacique and exporting from Venezuela to other markets, such as [Beer], for instance, was in any way helpful regarding the currency situation as a netting thing. Thanks.

Randy Millian

Yes. First, Olivier, great question. One of the things that -- just to put in context on Venezuela that people may forget before I get into answering your questions, is the strength of the business in Venezuela and why it's so important to us. A typical Venezuelan would not consider himself Venezuelan unless he had four cases of whisky in his cupboard, ok, for Christmas in case anybody came over. The Nielsen way to track price inflation has Whisky in its food basket, ok, so it's a big part of Venezuelan society. We sell more Whisky in Venezuela than rum, which is the local -- as you know, the local spirit. And I'll get into Cacique in a moment. That would be like us selling more whisky than cachaca in Brazil, just to put it in context.

As far as the currency, no, we are now getting dollars - we're importing. One of the reasons we've had improvement in the sales, as you notice, the 20 -- the difference between being up 25 and 30 in the first quarter was all due to Venezuela, so we are getting that. And you're very right. The fact that after oil our exports -- we're the second exporter as an industry in Rum for both Cacique and Pampero, so that does give us entry into the Venezuela government. Does it give us an iron-class solution? No, but it does give us an entry. I don't know if that answers your question, Olivier.

Olivier Delahousse

Yes, it does very much.

Randy Millian

Thank you.

Operator

We'll now take our next question from Thomas Russo from Gardner Russo Gardner. Please go ahead.

Thomas Russo - Gardner Russo Gardner

Hi, Randy.

Randy Millian

Hi, Thomas.

Thomas Russo

Good morning, a couple of quick questions. When you mentioned looking for beer brands that fit in, what was your posture on Schincariol and the Brazilian acquisition? Was that something that would have possibly fitted, the price being more appropriate for you? First question.

Second question is just to give an update on the strength of travel retail in your market in general, than possibly the posturing of Johnnie Walker Double Black in that channel in your region.

And then the last one is just to see what you're doing to prevent parallel trading between, say, Brazil and Mexico, when you talked about the fact that in one market you may raise prices soon and in the other you may hold back. How do you -- what steps do you have in place to prevent parallel?

Randy Millian

Ok, great. Well, thanks, Tom. First, on the beer in Schincariol, yes, we did look at it, as we mentioned. We did think we would get knocked out on price and it was a pricey acquisition, so that was one. The other one was it was going to take a lot of resources from our part to turn a brand around, with the exception of the north east. And was that something that we wanted to do at this stage in our development? Did it give us an increased route to market? Maybe in the north east, yes, but when you looked at some of the other stuff, for us, it didn't seem to make sense. I just want to make sure, Tom, I got you on that one before I go on to the next question.

Thomas Russo

Absolutely!

Randy Millian

Ok. On travel retail, travel retail's doing really well. Part of that is because of all the brand building we've done throughout Latin America and the Caribbean. I'd say it's doing roughly similar to what we're doing, the overall numbers you're seeing. Johnnie Walker Double Black I think is a home run. We're able to position something in the Johnnie Walker family that's new, that's different, that's exciting and is doing very well. It's frankly on my Christmas lists and I think I'm going to be getting more thank you notes this year than other years because of that, ok.

And then, on parallels, we're all over parallels. The last thing we're going to do is create a parallel situation with pricing. And when you look at the differentials that we talked about in Mexico, first of all, it takes a lot to get out of a country into another and we're cognisant of that. But when you're talking about a 5% or 7% difference, which is all that it could be, you'll see that won't create stuff.

Also what you see right now in Brazil, you have some of the highest prices in the world. Johnnie Walker Red Label litre bottle sells for about BRL55 a bottle, which is almost \$30, which is a huge increase for Johnnie Walker Red, which is the price that sometimes you pay for Johnnie Walker Black in other parts of the world. So to answer your question, we're over it, and I don't foresee any issues because of we are having to take differential price increases between Mexico and Brazil.

Thomas Russo

Great, thank you.

Randy Millian

Thank you, Tom.

Operator

We'll now take our next question from Andrew Holland from Societe Generale. Please go ahead.

Andrew Holland - Societe Generale

Yes, thank you. Hi, just referring back to the earlier question regarding any sign of a slowdown. Obviously, we're very close to the end of the second quarter. When you say that there's no sign of a slowdown are you making that comment in relation to the 17% sales growth last year, or the 30% reported in Q1, or the 25% ex Venezuela, or any other number, please?

Randy Millian

Ok, a very specific question, Andrew, and I can get it. I'm making it in relation to the comment that we feel confident that we can get strong double-digit, so I guess what I can't do is give you out what that number's going to be for the quarter.

Andrew Holland

Ok, but I guess you're tending to think sequentially quarter on quarter. Would that be a fair assessment?

Randy Millian

Yes, we have to look quarter on quarter. Basically, what I was saying is we haven't -- I don't see much of a slowdown. We continue being confident of double digit -- strong double-digit growth. And we do look at the business on a quarter-by-quarter basis much more now than we did in the past.

Andrew Holland

Ok, thank you.

Operator

We'll now take our next question from Nico Lambrechts from Bank of America. Please go ahead.

Nico Lambrechts - Bank of America

Hello, Randy, it's Nico Lambrechts. Thanks for taking the question - there's clearly a lot of interest in your call.

Randy Millian

Thank you.

Nico Lambrechts

Is it possible to give us a little more granularity on the sales split between Brazil, Venezuela and Mexico and Colombia? Is it fair to assume that Brazil/Venezuela are both around 25% each, or is that too high?

Randy Millian

Ok. Brazil would be higher than that, ok, slightly. And Venezuela would be less than that.

Nico Lambrechts

Ok, fair enough. And then Mexico/Colombia, which you said are both a similar size, are they around 15%? Is that fair?

Randy Millian

That's a good guess.

Nico Lambrechts

Ok, fair enough. So that gives around 50 -- so these four countries form close to 80% of the sales in the region, if I do the quick maths?

Randy Millian

No, it would be less than that.

Nico Lambrechts

Ok, then there's something wrong with top. But, fair enough, that gives me a fair idea.

And then just a more specific question on Brazil. Is it possible to give us some idea of where you are? First of all, do you have a -- are there numbers available of the growth in sales of the overall Alcoholic Beverage market over the last two years? And is it possible to give us an indication where are you gaining your share? Are you gaining share from mainstream beer, i.e., the three major brands that Imbev has? Or are you growing -- gaining share from local Spirits?

And then could you maybe comment what the impact is of the launch of the premium brands? I think Heineken has aggressively launched Heineken in Brazil and there's also Imbert has launched Budweiser. Is that playing in your premium end and field?

And then, with respect to the increase in minimum wage next year of 7%, do you think that will actually accelerate the very high growth rate that you achieved in fiscal '11, where it was 27% in Brazil? Yes, that's a number of questions, but hopefully you can address the broad concepts.

Randy Millian

Ok, no, I can. Thanks, Nico. The first, on category growth, no, I think if I remember the growth for the category was roughly -- we saw the total Brazil category growing about 12%.

Nico Lambrechts

Is that total alcohol?

Randy Millian

Total alcohol in the categories in which we compete, about 12% to 14%, ok. Now, what is that, because we don't track everybody all the time? That's scotch, that's vodka and that's liqueur, ok. I suspect the total category with beer, total beverage alcohol, was not that, ok, from what I've read from the numbers. It's much more like, in a volume basis, about 4% or 5%. So we are in the fastest growing categories.

Where are we getting the business from? We're getting the business from some beer and local spirits, ok, as people are trading up. People are not walking away from beer. They're not walking away from local spirits. They're just drinking us more and more in different occasions. So they will still have beer, they will still have local Spirits, but we're able to get into some of those occasions.

Nico Lambrechts

So you are actually developing a new market rather than taking share from existing occasions?

Randy Millian

Well, I think it's both, ok. What we're finding is in a beer occasion somebody may be home and they may have a couple of beers and when they go out they'll have a scotch, where in the past they used to have a beer, ok. And what really gives it to us is when we're out at the on-trade and that's why we spend so much time in the on-trade. We've spent so much money and we're so focused on the aspirationality of our brands that you go down -- I've done focus groups out there and you see people making BRL500 in Brazil, BRL500 a month, ok, and they're talking about how they want to have Johnnie Walker Red Label on their bottle when they go to their table, because that's a badging of success.

The other thing that's helping us -- and I'm going on a little bit. For the first time, at least in Brazil that I've seen it, I don't think you need to have two brands, one for the lower income group and one for the upper income group. It used to be the Unilevers and the others of the world would have a brand name C class and a brand for D and E. Because there's one Brazil today you can have one brand for everybody. So the rich aren't going to be upset if somebody in a lower class in their mind is having Johnnie Walker Red Label, which is a huge opportunity for us.

As far as the premium beer impact, look, the premium beer -- it's obvious that Brazil is underdeveloped in premium beer. I think Heineken's going to do a good job. Hopefully, Anheuser-Busch with Budweiser, they've tried it in the past. They were the distributor, I think, in the past. We did it for Miller with Bud and they didn't develop it. Hopefully, this time they will. I finally think that's helpful because they'll help build the premium category in general and we'll get a bigger share of it. I also don't think what we've taken to them is that big yet. We are relatively small compared to them in a volume basis, which is where the opportunity comes for us.

As far as the wage impact on the 7%, I think that's why it's roughly staying the same. We got the -- the GDP has slowed down a little bit. It may pick up a little bit with the 7% impact. So I think just steady as we go with the trends that we have would be the way I would look at Brazil right now.

Nico Lambrechts

So you don't actually think that -- because the 7% increase in minimum wage will impact around 40m people that get the minimum wage. But as I understand it is also a multiplier effect through the economy and the wages for other segments of the economy. Is that correct?

Randy Millian

Yes, I think there is. But I think one of the things -- when you look at -- if I was running a different business than our business, yes, I think it would have more of an impact. I think since we're in a penetration increase game, ok, and we've come off -- the year that you mention was the year where Brazil had given money to the IMF, which they were very proud of and had almost come of age, had just got through the crisis and just hit a bump, but they were feeling pretty good about themselves.

So for our business we'll get an impact. I think we're going to continue that impact, because we're going to increase our penetration and have the benefit of that 7% for our business. For other businesses, maybe they came down a little and they're going to come up for those that have a bigger penetration in Brazil than we do.

Nico Lambrechts

So what I understand is you're saying a big portion of your growth was penetration, so as that slows down that might offset the wage benefit. But if you're already fairly deeply penetrated, like mainstream Beer, that could potentially benefit more from the minimum wage growth next year.

Randy Millian

Yes, because of the base that they're come off of.

Nico Lambrechts

Ok, great. So we shouldn't budget Brazil 40% growth next year from your 27% fiscal '11?

Randy Millian

I think I've been consistent on the call - high double digits.

Nico Lambrechts

Ok, perfect.

Randy Millian

Thank you, Nico.

Nico Lambrechts

Thanks for those answers.

Randy Millian

No, thank you.

Operator

We will now take our final question today from Jamie Norman from Societe Generale. Please go ahead.

Jamie Norman - Societe Generale

Thank you very much for taking my question. Randy, it's about excise duties and tariffs. Could you kindly remind us of any significant increases that you've had to absorb in the last year? And, related to that, anything that we should be aware of on the pipeline that might be threatening?

And, conversely, any regions where the playing field has been tilted against Imported Spirits where you might expect some improvement, fairer treatment? Thank you.

Randy Millian

Ok. Well, first, I think in general there hasn't been any significant change in Latin America as far as excise. I think we have opportunities and I'll get into maybe some of the concerns in a minute.

When you back and look at the fact that many countries now have free trade agreements with the United States and pending with Europe, we're in much better shape than we were two, three years ago.

If I go through it; Mexico's got a free trade agreement; Central America's got a free trade agreement; Panama passed; Colombia passed the US Congress; Peru's got a free trade agreement; Chile's got a free trade agreement; and a lot of the Caribbean. That's a much better situation than we ever were before. And obviously in each of those legal frameworks -- and when you get the American one you tend to get the European right down the road. Then you have a tenure of bringing down of tariffs and getting the excise tax in the right way. So, frankly, I feel pretty good about that.

Now -- and, to be honest, Venezuela from a regulatory point of view seems better this year. So I don't see any major concerns. That doesn't mean we don't have to be very vigilant, ok. I think there is a growing -- at least in Latin America there is a growing recognition that if I increase taxes on spirits my revenue is probably going to go down. And there's a curve that they have to understand. We've been -- and what's that? People will illicit alcohol, they'll do other things, they'll substitute and there's a growing understanding in governments that that's the case. That doesn't mean every politician understands that, but there's a growing understanding. Jamie, I don't know if I answered your question.

Jamie Norman

Yes, sounds very reassuring. Thanks very much.

Randy Millian

Ok. Thank you. And thanks to everybody on the call. I think that's the last question, Caroline.

Operator

Yes, that's the final question.

Randy Millian

Ok. Well, thanks to everybody for calling in. And I appreciate the opportunity to talk about a business that, obviously, I care a lot about and the people who work for me do as well, so, thank you.

[End]