DIAGEO
INDIA

UNITED SPIRITS LIMITED

PRESS RELEASE

Unaudited financial results for the quarter ended 30 June 2017

(Standalone only)

DIAGEO INDIA

PAT increased 44% despite short term regulatory challenges

- **Reported net sales declined 13% impacted by the highway ban and the one off impact of operating model changes. Underlying net sales declined 7% excluding the one off impact.**
- **Prestige & Above segment reported net sales declined 8%.**
- **Popular segment reported net sales declined 20% impacted by the one off impact of operating model changes. Underlying net sales declined 8% excluding the one off impact. Priority states declined net sales by 7% in the segment.**
- **Gross margin of 46%, up 265bps driven by price increases, productivity initiatives and operating model changes. Underlying gross margin improvement of 116bps.**
- **EBITDA Rs. 157 Crores, declined 26%, EBITDA margin of 8.8%, down 162bps both primarily driven by decline in net sales as we continued to invest in the business. Underlying EBITDA declined 20% and EBITDA margin of 10.0%, down 153bps excluding the one off impact.**
- **Interest cost Rs. 70 Crores, lower by 32% driven by favourable rates and mix of debt.**
- **Profit after tax Rs. 63 Crores, up 44%.**

Anand Kripalu, CEO, commenting on the quarter ended 30 June 2017 said:

"Performance in the first quarter, as expected, was impacted by the highway ban which has led to lower consumption due to a reduction in the number of retail outlets. We have also witnessed destocking by customers during the first quarter.

The highway ban has significantly impacted the on premise channel and has led to a net sales decline of 8% in the Prestige and Above segment. Depsite these challenges, Signature continued to show positive momentum supported by the succesful renovation and grew net sales 14%. The re-launch of Antiquity has started towards the end of the first quarter in select states with early signs of positive consumer and trade response. Popular segment net sales declined 8% excluding the operating model changes.

Our continued focus on productivity initiatives and select price increases has led to an underlying gross margin improvement of 116bps. EBITDA margin declined 153bps negatively impacted by the decline in net sales as we continued to invest in the business.

Lower interest cost and exceptional items have resulted in an overall PAT increase of 44%.

Looking forward we expect the impact of the highway ban to continue in the second and third quarter in F18, however, to a lesser extent. With the recent Supreme Court ruling allowing states to de-notify particular stretches of highways within city limits, we are starting to see early signs of outlets opening again which is encouraging.

The implementation of GST effective 1 July has resulted in additional taxes on input materials and services which will result in stranded taxes and impact margins. We are working with state governments to seek clarity on some state specific taxes and also approaching them for appropriate price increases. Additionally, we continue to work to minimise the impact through internal measures. We expect to have better clarity on the financial implications of GST in the next few months as we navigate through the above measures.

Despite the regulatory challenges, the long term consumer opportunity remains strong for spirits. We continue to focus on our strategic priorities to capture this opportunity in this attractive market, and achieve our medium term ambition to grow top line by double digit and improve margins to mid-high teens."

DIAGEO INDIA

KEY FINANCIAL INFORMATION

For the quarter ended 30 June 2017

Summary financial information

		F18 Q1	F17 Q1	Growth %
Volume	*EUm*	**18.0**	22.2	(19)
Net sales	*Rs. Crores*	**1,782**	2,041	(13)
COGS	*Rs. Crores*	**(962)**	(1,156)	17
Gross profit	*Rs. Crores*	**820**	885	(7)
Staff cost	*Rs. Crores*	**(166)**	(180)	8
Marketing spend	*Rs. Crores*	**(163)**	(167)	3
Other Overheads	*Rs. Crores*	**(334)**	(324)	(3)
EBITDA	*Rs. Crores*	**157**	213	(26)
Other Income	*Rs. Crores*	**31**	24	29
Depreciation	*Rs. Crores*	**(32)**	(26)	(23)
EBIT	*Rs. Crores*	**156**	211	(26)
Interest	*Rs. Crores*	**(70)**	(103)	32
PBT before exceptional items	*Rs. Crores*	**86**	108	(21)
Exceptional items	*Rs. Crores*	**(1)**	(39)	98
PBT	*Rs. Crores*	**85**	69	24
Tax	*Rs. Crores*	**(22)**	(25)	(12)
PAT	*Rs. Crores*	**63**	44	44

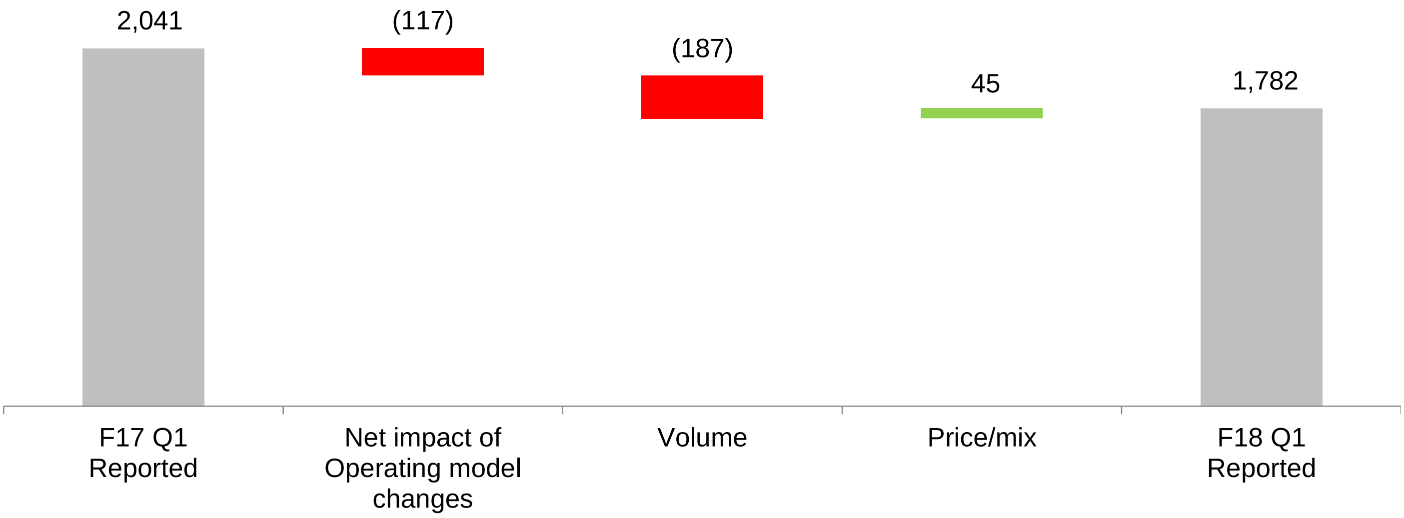
Key performance indicators as a % of net sales:

		F18 Q1	F17 Q1	Movement bps
Gross profit	*%*	**46.0**	43.4	265
Staff cost	*%*	**9.2**	8.8	(47)
Marketing spend	*%*	**9.1**	8.2	(93)
Other Overheads	*%*	**18.7**	15.9	(287)
EBITDA	*%*	**8.8**	10.5	(162)
PAT	*%*	**3.5**	2.1	139
Basic earnings per share	*rupees*	**4.4**	3.0	1.4rupees
Earnings per share before exceptional items	*rupees*	**4.4**	4.8	(0.4)rupees

The company in compliance with Schedule III of the Companies Act, 2013 has reported revenue from operations inclusive of excise duty.

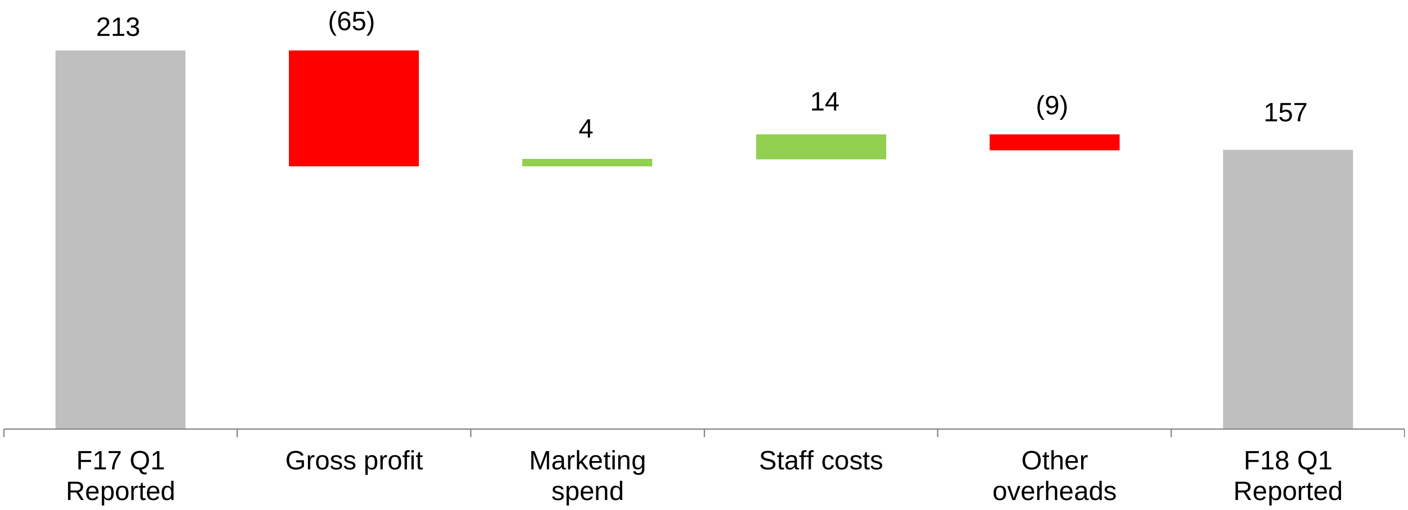
Cash flow and net debt analysis will be disclosed only in the half year and full year results.

Net sales (Rs. Crores)



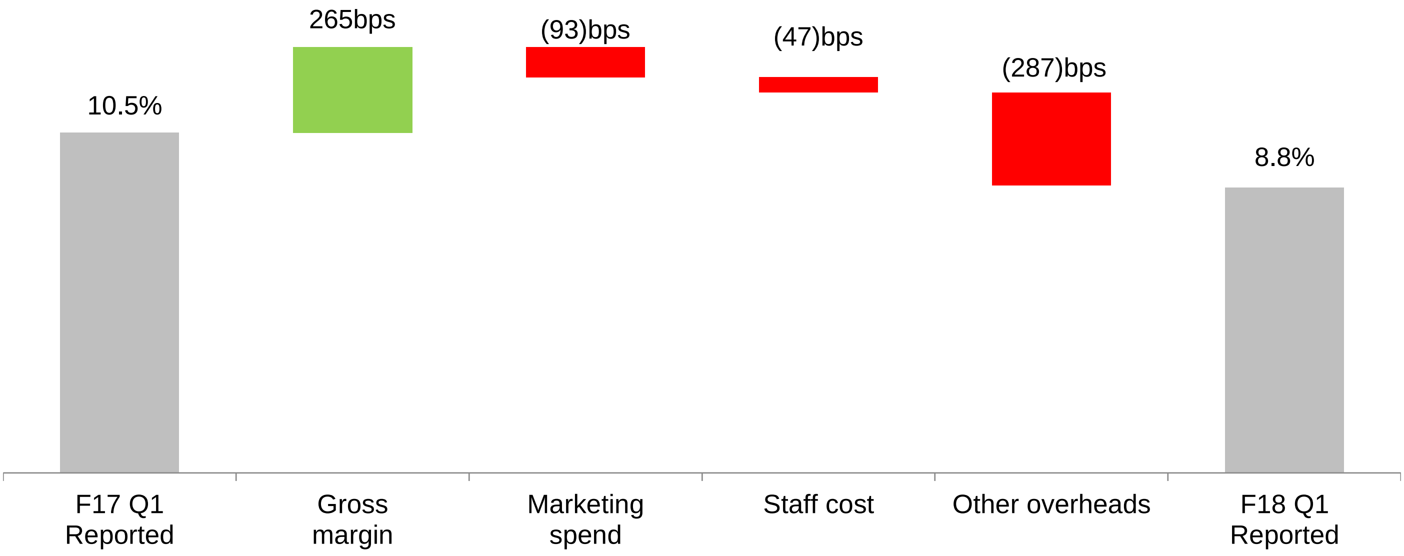
Reported net sales declined 13% as a result of the anticipated highway ban and one off impact of operating model changes. Underlying volume declined 10% excluding one off impact and has negatively impacted net sales. Positive price/mix was driven mainly by selective price increases in certain states and continued focus on premiumisation and brand renovation in the Prestige & Above segment. Excluding one off impact net sales declined 7%.

EBITDA (Rs. Crores)



EBITDA was Rs. 157 Crores, down 26%. The decline in net sales was the primary driver of the Rs. 65 Crores reduction in gross profit. Marketing investments was focused mainly behind the Prestige and Above segment and decreased 3% reflecting lower consumer demand. Staff cost was Rs. 166 Crores including one off restructuring cost of Rs. 13 Crores in the current quarter, decreased by 8% benefitting from the savings delivered by the organisational changes. Other overheads increased by 3% negatively impacted by both one off costs and inflation. One off impact in other overheads includes a provision of Rs. 7 Crores in the current quarter and lapping costs of Rs. 6 Crores relating to organisational changes. Underlying EBITDA declined 20%.

EBITDA margin (%, bps)



EBITDA margin of 8.8% decreased by 162bps primarily driven by the decline in net sales. Gross margin improvement of 265bps was driven by price increases, productivity initiatives and operating model changes. Continued marketing investments behind our brands negatively impacted margin. The increase in other overheads negatively impacted margin. Underlying EBITDA margin of 10.0% declined 153bps.

SEGMENT AND BRAND REVIEW

For the quarter ended 30 June 2017

Key segments:

	Volume F18 Q1 *EUm*	Volume F17 Q1 *EUm*	Volume movement *%*	**Net sales F18 Q1** *Rs. Crores*	Net sales F17 Q1 *Rs. Crores*	Net sales movement *%*
Prestige and above	**8.4**	9.3	(9)	**1,095**	1,192	(8)
Popular	**9.6**	12.9	(26)	**649**	815	(20)

- The **Prestige & Above segment** represents 47% of total volumes and 61% of total net sales, up 5ppts and 3ppts respectively compared to last year. Net sales declined 8% negatively impacted by the anticipated highway ban. **McDowell's No 1. whisky** variants (excluding Platinum) declined net sales 1% and Royal Challenge declined net sales 11%. Signature continued to show positive momentum supported by the succesful renovation and grew net sales 14%. The re-launch of Antiquity has started towards the end of the first quarter in select states with early signs of positive consumer and trade response. Our **scotch portfolio** in the premium and luxury segment declined net sales 24%.

- The **Popular segment** represents 53% of total volumes and 36% of total net sales, down 5ppts and 4ppts respectively compared to last year. Reported net sales declined 20% with 5ppts positive price/mix negatively impacted mainly by operating model changes. Underlying net sales declined 8% with 4ppts positive price/mix. Priority states declined net sales 7%, strong performance of Hayward's was offset by the decline in the rest of the brands.

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LIVE Q&A CONFERENCE CALL

Anand Kripalu, Managing Director and Chief Executive Officer and Sanjeev Churiwala, Executive Director and Chief Financial Officer will be hosting a Q&A conference call on Monday 24 July 2017 at 12:00 pm (IST time). If you would like to listen to the call or ask a question, please use the dial in details below. A transcript of the Q&A session will be available for download on 26 July 2017 at www.diageoindia.com.

Conference Access Information

Option 1

Connect to your call without having to wait for an operator. It's easy, It's convenient, It's effective.

The above button has been hyperlinked for this specific conference only and should not be reused for other calls.

Option 2

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