Questions on notice - Diageo

1. How much does it cost industry to collect the 5% import duty?

- While we don't have cross-industry figures, Diageo Australia pays approx $3.5M of Import tax per annum for sales made to Duty Paid Customer

2. Provide evidence that consumers are drinking less but drinking better?

- Unfortunately we do not have any survey data specifically in this area, but the evidence that consumers are drinking less but drinking better is best demonstrated by consumption trends. While alcohol consumption per capita continues to decline and is at a record 50 year low (Australian Bureau of Stats – 2015) - and overall volume is down 0.8% in 2016 - this is offset by the premiumisation trend as value is up 0.9% across all alcohol categories
- For spirits specifically there has been growth in premium products – glass spirits grew by 4.2% in 2016 (Source: ALSA – IRI State of the Industry Report March 2017)
- Buoyed by the growing 'cocktail culture', value growth in spirits is up 3.3% up across all categories and outpacing volume. This underlines consumers' changing drinking habits towards 'choice premiumisation' as more drinkers opt for quality over quantity and a superior taste experience rather than just the lowest price
- See below which shows the downward trends over recent years of volume in the spirits category of 'value' and 'low price' products vs the increase in volume of premium, ultra-premium and prestige. Again, this is clear evidence of consumers choosing to drink better rather than more
- There are also a wider array of choices in the category – the number of products in retail liquor growing by 5% in 2016 . This broadening range in retail reflects an evolving on premise channel where bars are becoming more prominently stocked with an array of upscale international brands and local craft distilled options. This has a trickle-down effect in terms of consumers' retail expectations (Source: ALSA – IRI State of the Industry Report March 2017)
- For Diageo Australia, this is demonstrated by our 2016 Annual Results where Reserve (i.e. premium) brands were up 7% as consumers continue to premiumise, despite declines in other areas such as ready-to-drink (RTD). We expect double digit growth in our Reserve portfolio this financial year

	Volume	**Volume**	**Volume**	**Volume**	**Volume**
Quality	**2011**	**2012**	**2013**	**2014**	**2015**
Standard	63,162.7	65,069.4	64,421.5	61,645.3	59,913.1
Premium	17,550.5	17,998.8	18,423.2	18,730.3	19,300.3
Low-Price	11,870.0	11,325.0	11,830.0	11,335.0	10,770.0
Super Premium	2,600.2	2,551.6	2,737.3	2,852.0	3,066.6
Value	5,393.5	4,542.4	3,064.1	2,919.5	2,880.4
Ultra Premium	149.4	167.2	173.1	171.6	182.8
Prestige	22.6	23.7	29.1	29.1	33.6

IWSR 2017

3. Was there a decision to be made by Diageo in 2008 as to whether or not we would keep manufacturing in Australia? That is, after the RTD tax came in?

- When the RTD tax came in - which led to overnight declines of 30% in the category - as a business we were focussed on understanding the impact on the business. Over the following months we considered our options and whether these losses could be mitigated by moving our manufacturing facility. We came to the decision that, given our local distillation at Bundaberg and the fact that we bottle a lot of our Full Strength Bottled Spirits (FSBS) in Huntingwood, we would maintain our manufacturing base in Australia
- Since then we have focused on ways to mitigate the steep decline in manufacturing since the RTD tax to keep our facility efficient – for example we now co-pack for thirds parties at Huntingwood
- We are proud owners of the Bundaberg Rum distillery and of our manufacturing footprint, which we want to grow. 80% of the product we sell in Australia is manufactured here