Nigerian Breweries Plc

2019 Financial Market Forum

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Nigerian Breweries Plc

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Introduction

Sade Morgan, Corporate Affairs Director
Good morning. Good morning, ladies and gentleman. My name is Sade Morgan, Corporate Affairs Director. It is my pleasure to welcome you all including our webcast participants to the 2019 Financial Markets Forum for Nigerian Breweries Plc.

Now, as the first and mandatory point of order, I will take you through our safety guidance. So there are no safety drills planned for today and if an alarm does sounds, then it isn't a false alarm. So you are kindly requested not to panic but to move briskly through the doors on the left and the right hand side of this room, and then through that out of the building through the three exit points to the muster point opposite this building.

Can I at this point also request that we all place our phones on silent mode? Thank you very much for your attention.

I will now outline the structure of our session this morning. It is divided into two parts and it will start with a presentation on our business and financial performance for 2019. This presentation will be made by the Managing Director, Mr Jordi Borrut Bel, seated on my right here, on your right and also the Finance Director of Nigerian Breweries Plc, Mr Rob Kleinjan. Unfortunately, due to unforeseen circumstances he has been delayed. However, he is on the way and we expect him to be here very shortly.

Now to the second part, as ever we are keen to hear from our shareholders and stakeholders. And this business update would be followed by a Q&A session. We will then close for lunch which will be followed by a trade visit to which you are all invited for a first-hand view of our product innovation and our route to market.

So once again, I bid you all welcome to what promises to be a value adding forum and I would like to call on our Managing Director, Mr Jordi Borrut Bel, to share with us the business update on Nigerian Breweries Plc. Thank you.

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Business and Financial Update

Jordi Borrut Bel, Managing Director/CEO
Thank you, Sade.

Welcome everybody again. Without further introduction let me just go through this. Before I start, I would like to draw your attention to this disclaimer. You've probably read it before, but I would like all of you to take a moment just to go through it and take of it.

Let me start by explaining the agenda for today. Basically we will go on to discuss Nigerian Breweries Plc's history and our footprint and then the market overview, our strategy to win and our financial performance.

So there are four chapters between Rob and myself. Rob is about to join us and we will do it in a way that there's time enough for questions and answers. I think there's two hours for the session, so I think the presentation will take about 45 minutes.

So let me start with Nigerian Breweries. This is a slide you've probably seen before on many occasions if you've been to these presentations. And although it talks about the past and the history, I think it's an important message because what it depicts is that Nigerian Breweries has been in this market for over 70 years.

And this is something that brings to the Company a wealth of experience throughout many periods. There's been periods of growth, periods of crisis but Nigerian Breweries has been able to sustain its leadership, its position throughout all these periods and has learned a lot from it.

And I think it's a big message for us today that yes, there will be different times, but this is a company that's been very resilient and has built the relations with its consumers and suppliers, with its stakeholders during all these years.

Now, next to that, next to its experience it's also a company that refreshes itself. And I think you can see that by looking at the management team. And I would like to just point, because at the end of the day the success of a company is also very much led by the success and the quality of its people. I'm proud to say that I have a super team, a very strong team.

You probably, if you were here last year, saw all these faces except Sade Morgan, who introduced herself. But let me go one by one. You have at the left bottom, Emmanuel Oriakhi, our Marketing Director, a Nigerian, he's also sitting here. You probably talked to him this morning, otherwise he will be presenting to you in the session we've prepared for after lunch about our innovations, our brands, so you will have occasion to listen to him.

Emmanuel has been many years in Nigerian Breweries then left to Amsterdam where he was leading the expansion of the Heineken brand for the whole Africa continent. And he's been back for the last 18 months I believe with a lot of energy and driving the growth of our brands.

Next to him is Rob Kleinjan. Rob has been many years with us at the Heineken Group. And he's led the financial organisation in many countries in Western Europe and recently also joined, so he has a wealth of experience in many, many markets, Finland, Poland, the Netherlands across the Heineken Group.

Next to him is Sade. Sade joined us recently and she's been also with a big track record of experience at a Coco-Cola Bottling where she was working before. And previous to that, British American Tobacco in Nigeria. So also comes with a lot of experience.

Uche Unigwe, our Sales Director. Nigerian as well. And Uche was previously to his role in Nigeria, in Eastern Africa in Tanzania, Uganda and Kenya leading the markets there. He's also been in the United Kingdom in responsibilities for the Heineken Group.

You have Uaboi, who's our Company Secretary also being long here. He is rooted to the Nigerian history and reminds the management team about the do's and don'ts in Nigeria and in the business.

Martin Kochl, you will also have time to speak with him, our Supply Chain Director, has been in many markets and before (Nigeria) here he was in Ethiopia. He managed the whole expansion of Ethiopia. He's been in Vietnam and the UK.

Grace Omo-Lamai, our HR Director, also with a vast experience in Coca-Cola Bottling before that, joining recently myself and Sade; and Chidum Ayeni who's our Digital and Business Transformation Manager, someone who was a talent in the Company for many years in the IT function. She's obtained a degree from the Massachusetts Institute of Technology, and she now leading the Transformation and Digital Agenda of Nigerian Breweries.

And myself, Spanish. Started as a sales rep and also with a lot of track record of commercial experience across many, many countries in the Heineken world.

With that let me move to the national - to our Footprint. This is one of our biggest assets. We believe it's a key competitive advantage. We have nine breweries, two malting plant facilities and two warehousing facilities. The good thing about our footprint is that it provides us access to the different markets in a close way.

So what you see is in the different zones we've coloured: the North zone, the West and East zone. We are close to these markets and this is important especially in the vast Nigeria country.

One of the things we've been doing this year and also last year is we've been investing a lot in infrastructure in order to build more flexibility for these breweries to provide more SKUs, more brands, closer to the market. So if before some breweries were doing some brands, we've tried to expand that in order to be closer and to serve the market in a closer way. And that leads to more complexity sometimes, but also efficiencies and cost reductions and closeness to consumers and to customers.

Now, our Brand Portfolio. We have 16 brands. They are very strong brands and we tap into the different categories, lager, stout and malt. We've looked at the Brand Portfolio and some of the brands you saw last year are not anymore in the Brand Portfolio. For instance you don't see any More Lager, Maltex (one of our malt brands). We had five malt brands, now we have four. Two mainstream premium and two in the economy segment. But Maltex for instance is not there anymore. Stella was also introduced and delisted or stopped last year and so on. Strongbow also is a brand that we've tried and for the time being is being arrested.

Just to say that yes, we're looking at our brands but we're continuously looking at the performance of this and the other brands and making sure that we keep them focused and that we keep them strong.

The newest baby is Tiger. I guess you will have some comments, but I will also explain a little bit more about Tiger, our newest introduction in the Nigerian market.

Now, let me go to the Market Overview, and for that I will pass on the word to Rob. Welcome, Rob.

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Rob Kleinjan, Finance Director
Thank you, Jordi. As you can see, I'm a little bit handicapped so I cannot exactly see what's behind me. If I press too many buttons let me know otherwise it gets confusing.

So, Jordi already introduced me. If I can start with the macro trends in the economy. In this picture that you see you can see that they are stabilising. If you look at inflation, inflation has been since Quarter 1, 2018 in the bandwidth of 11% to 12%.

Exchange rates and currency availability as due to the continuous effort of the Central Bank of Nigeria has been available and also the dollar naira exchange rate has stabilised for the last two years, which really helps us in our business.

GDP growth has been for Quarter 1, 2% - 2.1%. We expect that for full year 2019 it will end around 3%. But the good news is that in the last quarters the non-oil sector has contributed to that and we see that that is growing as well.

If we move to the next slide, we also see that the Nigerian economy has been diversifying. If you look back at the Nigerian economy, it has been changing in the last decades. So if you go back to early 2000 roughly one third of the GDP was contributed by the oil category.

If you now look at recent years that has diminished to roughly 10% and it is very encouraging that other categories have overtaken that. And the good thing about that is that Nigeria is less dependent on oil and that the impact of the growth will trickle down faster to the consumers in the market.

The same applies for government revenues. They are also less dependent on oil and they can by that sustain investment better and are less vulnerable for commodity fluctuations.

So if you now look at Nigerian population the country is the largest economy in Africa, in the region and it shows clear growth potential. It is the seventh most populous country in the world with roughly 200 million inhabitants and by 2050 it is expected to be the third populous country in the world after India and China.

It is very young, and the population is growing very fast. Three out of four people are under 35 years and there's a continuous trend of urbanisation. There are now already seven cities in Nigeria with more than 1 million inhabitants of which the largest is Lagos with more than 20 million inhabitants.

The average age of the Nigerian population is 18 years. We expect that consumer spending also based on this trend will continue to grow. And in our business, we understand that the youthfulness of the Nigerian population and the prevailing economic conditions require that we pay close attention to the portion that is economically active and that is the population in the bandwidth 20 to 55 years.

What you can also see that there's a very dynamic change in consumer profiles. If we will take a few steps back and we look at the demographic cohorts that make up the Nigerian adults, so bandwidth 20 to 55, there have been quite some variations over the last 20 years. And what is very important is that what's happening in the person's formative years has a huge impact on their elder behaviour, so that is their purchasing and their consumption habits.

If we take a look at the demographic makeup of the Nigerian population, we see that every medium term the makeup has evolved significantly. This means that a keen and in depth consumer understanding is no longer nice to have but imperative for us to remain relevant in the market today and for the future.

Generation Z have used the internet since a young age and are very comfortable with technology and social media unlike their older generations. Some people refer to them as the Digital Natives. And digitalisation we believe will continue playing a very important role in the Nigerian economy transformation.

Nigeria is the largest mobile and business tool consumer e-commerce market. According to McKinsey it will grow by 2025 to US $75bn. Nigeria is ranked number seven globally in internet usage. Smartphones are becoming more affordable with the emergence of let's say the cheaper or accessible brands, which creates a huge opportunity in social media interaction.

Now moving to the beer market and specifically the beer volume. We see that the Nigerian beer market has been growing continuously and consistently with mid-single digits over the last 10/15 years.

I have just explained quite some relevant fundamentals that's in place, such as population growth, the young population, urbanisation, headroom for beer consumption per capita and digitalisation. This is from a volume perspective looking very promising. However, from a short-term profit pool perspective, it gives a different picture.

The Nigerian beer market profit pool has experienced a significant contraction in the last years. It is driven by consumer down trading, currency devaluation and material cost inflation. The inability to pass on price increases to consumers has significantly contributed to the erosion of the profit pool.

As we always mention, Nigerian Breweries is in the market for the long term. We will do everything in our range to protect the profitability of the market.

From 2013 to 2018 the accumulated inflation has been above 70%. However, the market does not reflect this picture. In 2013, the bulk of the beer market was in the 200 naira category. If you now look at 2019, it still is. There is a slightly different Brand Portfolio in that category or in that bandwidth and as a change from value brands to more mainstream brands.

If you look at the malt category there has been an evolution to the bracket of 150 naira. However, we see recently a trend due to promotions and regional activities that is moving back to the 120 naira category.

Based on this, players in the market have to play with pack types and with pack sizes to target specifically these specific price points in the market. And an example of that is our Tiger brand with the 45cl pack in the 200 naira segment.

Despite the profit pool contraction, this market is very attractive and as you have seen in the last years it has become more and more competitive. In the time the consumers' income continues to be under pressure and the industry has been impacted by the excise duty increases, Nigerian Breweries continues to be the undisputed profit and volume share leader in the market.

In the past few years we have seen a market loss trend, which we have now managed to stop this trend. From full year 2018 to 2019 we have not lost Market share anymore based on our internal estimations. This is a true indication that the strategy which we have put in place has strengthened our position.

We talk a bit more about strategy on the next slides, to be presented by Jordi.

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Jordi Borrut Bel, Managing Director/CEO

Let me explain our strategy and as you will see it will repeat the same structure as we did last year, which is also a message of continuity in our belief that this is the right strategy.

To address some of the challenges that Rob mentioned, of course the challenge of market and market share, but also the challenge of premiumisation adding value to the market and to our brands to be able to reverse the revenue decline that we've suffered these last years.

So our strategy is based on three pillars. The first one is the expansion of premium: accelerating premium growth. This is led by Heineken, and now with the new introduction also of Tiger. We need to and we wanted and we are now protecting our core business, because at the end of the day premiumisation is very important but protecting our core business making sure that we were stable or even growing our core business was also fundamental and it's what we are seeing now. And those are the lager brands and stout, and then drive malt growth in the profitability side, which innovation and with more dynamism in the market category, which was a little bit dormant. And you will see a little bit more of that.

And then there are some enablers which are fundamental, because what you see is the brands or the prices, but below that there are a lot of things that make that share or that pricing possible. And that's about the Route-to-Market. Our strategy, Route-to-Market I will talk also about that. Our execution in the Point of Sales, which is very important. The End2End productivity that reflects about costs, and we've been very good at that, but we continue to focus into that.

On sustainability, because as Rob says, we are here to stay, this is a company of 70 years, so for us having a sustainable agenda is fundamental. It's part of the core values of Heineken but also Nigerian Breweries. We believe there's the only growth opportunity as a company is to be sustainable and that's going to be part of my presentation.

And then people - I talked about my team and how proud I am about the team. But I will also show you a little bit of the evolution, I would say, that Nigerian Breweries is making in its culture, its people, the way we manage the people, the talent. Also the frontline obsession, I would say, that we're driving to the company more and more.

Okay, so these are basically the pillars. Let me go one by one. One, accelerate premium growth. That of course is true for all the players in the beer sector. It's true for us. We are doing that, and we are leading that with Heineken. With Heineken we have a very strong brand equity. We wanted to see that brand equity transformed into numerical distribution, penetration and also growth in the volumes.

What you see on the right side is we have been seeing the growth in the previous years, but now since 2018 we see double-digit growth, which we are very happy to see. And in 2019 in the first half we also see double-digit growth on top of already a double-digit growth of the previous year.

And that's sustained on all the programmes we do with Heineken. It's about the UEFA Champions League, we leverage all the platforms. Emmanuel will talk more about that in the coming day. We leverage the UEFA Champions League, we activate a lot the Formula 1 programs, we're close to the outlets, we're refreshing our merchandising or image visibility and our campaigns.

We've had the 'Heineken Chairman campaign' which was very successful. And also innovations, if I can show you, this is the new unique cool Heineken Sleek Can. Maybe you've seen some of the advertising of this beauty and it's a super cool can that we produce. We are the only ones today that can produce beer in a Sleek Can, which is sold today at the recommended price of 180 naira. But if you made the mathematics it's a real revenue growth and margin growth for us and at the same time it drives that kind of premiumness which Nigerians are looking for, so we are really happy about it. This is an example of the kind of things we do with Heineken.

The next one, last year I explained about Tiger and I got some questions about it. And I said - well it's too soon, we just launched the brand. And it was at the end of the year we launched the brand. And we said and I said - well we are excited about it, actually we see there's a good trend. Consumers are accepting it, the liquid is nice, the bottle shape, which was different from the market standard, a 60cl bottle was normal in the market, so we said - well let's go for a 45cl bottle. And as you've seen with Rob's presentation - it touches a nice price point, yet it brings premiumness because you have an affordable proposition that looks premium.

We've worked a lot this year on the visibility: we've launched an outdoor campaign of visibility in the outlet. Also we've developed that with specific outlets now being branded with Tiger. And again, also it's in a premium Sleek Can, which is also looking super nice.

We've just launched it, I think, two weeks ago, so I don't know what you think when you see a brand like this, but for me it's a really nice product. And again it's that mindset of tapping into the right price point and offering consumers a proposition that is driving premiumness, still at an affordable price.

We're talking price points which are very affordable, and it's working well. So we're also happy with the way it's doing. Again, it's still the second year. I would say the first year because last year we launched it at the end of the year so, it's a promise still. It's still a baby that needs to grow and we are very careful about it.

Now core lager for us was very important and this is an area where we had lost some ground in the last years and we really wanted that to change. And I have to say that we've put a lot of focus from the brand perspective into that in changing the teams, in changing some of the focus and we see the results already coming. And the results tell us that yes; we're back to growth in many of the brands which had seen some decline over the last years.

An example is Star, it's our iconic brand yet it had been suffering declines for many years. Now we see it back to a very solid growth. The reason is simple. We are reinvigorating the brand. We've associated it with Burna Boy. I don't know if the non-Nigerians might not know, but he's a really iconic singer in Nigeria and the brand is associated with Burna Boy.

Radler is associated with Tiwa Savage, which is also a very iconic artist, so and we are really doing a lot with the brand. Also the brand has its 45cl Star bottle, which we are using to package the Star Radler brand. But not only Star, we also see Goldberg Life refreshing those brands. Goldberg, back to growth as well.

We've just relaunched the Goldberg brand with a smoother taste and new label. We've refreshed the packaging, launched the 50cl packaging, refreshed all with western cues in the bottle and in the cans, as you see them, gong gongs. So it really looks like a more premium offer yet still at a very affordable price. But it was work that was worth spending, we've done it and we see very positive results of that.

With Gulder we've done the 'Own Your Journey' campaign, a very impressive campaign as well. 33 Export is a silent brand continues to work, to do very well. We're very happy with this brand, it's doing well. We don't put that much attention on this brand but yet we see it growing and growing.

Also in 2019 this year, the 33 Export brand has and has celebrated 40 years in Nigeria. And sometimes when you think about that brands, you know, people love them and they know them, but it takes time and this is a brand that's been 40 years here, so there's a connection with many consumers for a long time.

It's not a new brand, yet it refreshed itself to become better. I can talk about Life as well, which is our iconic, actually the biggest brand that we have. And you know, in our equity trackers today tracks as number one equity brand in Nigeria, not just for us. And that's according to our own sources of equity, and that's the Life brand for instance in these.

In malt we've also been very active. This is a category where we had lost some traction in the last years. It became a very competitive category with a lot of driving promotions, price and new entries at lower prices. And this year we continue to focus on our two premium brands, Maltina and Amstel. We've seen for the half year growth in both brands for Maltina and for Amstel and we've also seen growth for Hi-Malt, the economy brand which we've also managed in packs of 25cl. So there we've even gone a little bit smaller to 25cl to offer a good value proposition.

But we also worked a lot on the dynamism of the brands. We are brand builders at Nigerian Breweries, so as much as we believe that we need to fight into the competitive arena and be there, we are really brand builders. And what you see with Maltina or Amstel is that we continue to invest in the brand, we have done fabulous campaigns. We've supported the Super Falcons with Amstel, and with Maltina we do things like the Maltina Teacher of the Year, with a lot of children in the NICKFEST event, so they are really very active brands that we're driving.

And then with stout:- In malts and in lager we are the leaders but in stout we are the challengers. And so what we do with stout is we provide an affordable proposition at good quality. We have three brands, Legend, Williams and Turbo King and we find some of them are very regional. So you might think that's a lot of brands, but some of them are really strong regionally, so that is the reason why we keep them. Because they have a sense, there is a reason why these brands are necessary because in those regions they really have a very strong position. So that's why we keep them like that.

And we have a more tactical approach, more price, we just launched the 45cl Legend, which is also a proposition that fits well to consumer needs. By the way this is the same bottle as Tiger, it doesn't look so, but it's the same bottle. And that's also our approach to say, well we can use the same bottle and if you look at the two brands they look totally different, they are totally different, totally different liquids, but they use the same bottle.

And that drives efficiency also for our breweries and for our brands, so we can expand like we've done, our SKU reach, using the same kind of bottle.

So these are the kinds of things we've been doing with the brands.

If I look at the route to market, this is a map where we have positioned our outlets, the Nigerian outlets, based on census. The sub distributors in red and then distributors in blue. What you see from the map already is that there are some spots where we can have opportunities. And we are looking more and more because we still believe there are opportunities to expand our distribution and reach areas, yellow areas for instance where there is no closeness of distributors, or sub distributors, so we're actively looking at that.

We are also looking more at the proximity to consumers. And for those who understand the language we've for instance introduced the Picture of Success to our sales executives. So now our sales executives, when they go to the outlets they are not only measured by the volume they sell, but they are measured by the execution they drive in the point of sale.

So they have certain parameters in the outlet that they need to execute. That's about availability or visibility or the price compliance to the recommended price. And based on that they get rewarded, they get measured; we drive the execution of our brands in a consistent manner. Because at the end, the output is the sales, the volume, but the input is the activity that you drive. So managing the people through your activity helps you drive the right output.

In the same way remember that last year I mentioned that we've changed our incentive system last year from buying from distributors to selling. And that was a big bet last year. And we are happy to do so, because it aligns the message to our distributors in saying what we are looking at is of course we want you to buy, that's where we get the money directly, but we want you to sell and help you sell. And that is where you get your incentive, it's about selling.

And that change of incentive aligns the distributors and that's what I call about partnership with our own execution, because distributors are also interested in growing the rotation in the depletion as we call it.

Now, very important, and as Rob has shown, in these times where revenue increase seems to difficult right, is keeping the cost in a very tight way. And we have done that with the Every Naira Counts Programme; it is a very disciplined approach that Nigerian Breweries has been doing for many years and we continue to do that. Because that is something in the genes of Nigerian Breweries, it's very much about looking at cost.

So we do that in three pillars, revenue management, today it is more important than many years ago, looking at how we spend the money to support the brands. It's increasingly important because there is more money spent today in promoting, in driving the brands for the top line growth, so we need to be much better in allocating those promotions. The discounts, the brand mix, how do we manage the right SKUs to increase revenue and to make sure that we drive the right SKUs that add revenue and gross profit?

So that is a big part of it and we have professionalised ourselves in revenue management.

In consumer value engineering, that is about how we optimise our packaging, our recipes, even our merchandising without affecting consumers. So we don't want consumers to be affected in any way, but there are always ways that we can reduce cost. We can put another layer sometimes in our trucks and get more efficiency from the trucks for instance, something that consumers don't see but we can see the efficiency in the way we drive another layer of cases in our pallet. That is an example.

And then cost optimisation, it's what I mentioned, it's the brewery footprint, how do we allocate the right SKUs with the right breweries, because at the end of the day Nigeria is a massive market and driving beer from one area to another might cost a lot of money. Now having a brewery that's closer to the market it takes a little bit of complexity, but from a cost perspective, it can help you save quite a lot of money.

And then the financial funding strategy, which Rob will talk about, and then the ICT infrastructure, a lot has been done in the last two years about infrastructure digitally. We needed more information and the access to that information to make those decisions. I will talk about an example of that later.

I mentioned this, the sustainability and this is really core in our company. And it's based on six pillars, it's part of what the Heineken Group does and we are also very active.

I will give you some numbers there which I think will surprise you. The first part is the safety: promoting health and safety for employees. In these times for instance, I'll give you an example, we have introduced telematics in more than 2,500 vehicles. So all our sales executives, all the transporters, all the trucks that you see driving from our transporters, external transporters, all the external sales force that we have, they all have telematics in their vehicles now. All of them, we've installed that this year. So we can track speed and we can manage it, and they get a weekly alert about their speed. If there is over speed they get a message every week. And that is the kind of obsession we have with safety, we really mean it.

Every truck driver that leaves a brewery breathes into a breathalyser to make sure that there is no alcohol consumption. And if there is, we stop him and if there is not they get rewarded, they get a Maltina and a small food. And that is the kind of consciousness we drive on safety, we really, really mean it, it's not just for the slides, it's real.

Every Drop is about protecting water, that is also very important to us. And we do that driving consumption reduction. So it's about how many litres of water we use for every litre of beer. But also how do we compensate that, so in Abeokuta we're looking at reforestation.

In Ibadan there's a dam that's sedimenting and we're working in this case with other partners like the Coca-Cola bottlers to see how can we help to grow again the dam because that water is necessary, not just for us, but for all the industry and for the population. So these are the kinds of actions we do.

In Drop the C, in reducing CO_2 emissions it is also fundamental and it is about using green fridges - we are the first brewer in Nigeria to start solar. I mean solar sounds very sexy always, but we're doing it now. And in Ibadan we're establishing a solar plant for our Ibadan Brewery: the first ones to do that.

So again it's not just a PowerPoint, it's about acting on it and these are the kinds of things we are doing in these times for sustainability.

On local sourcing, we are a big, big believer in local sourcing. It helps the company, but it helps the people that at the end of the day benefit and will buy back our products. So local sourcing today represents close to 57%. It's not there yet and it's a challenging target to reach 60%, it might seem easy, it's not that easy. But we are really driving it with sorghum, and with other crops that we're looking at.

We have been very active in developing specific crops. You might not know, but Nigerian Breweries has developed crops, sorghum crops that are registered, that were developed by us for the Nigerian agriculture.

And responsible consumption, here I am also even proud that we've taken a step which is looking from a beer sector. We are doing a lot of activities and we do that from a Federal Road Safety Corps partnership. But with the rest of the brewers, I have to say we have associated ourselves and now it's not just Nigerian Breweries, or Diageo, or ABI, we together are partnering to drive responsible consumption. And I think that is the maturity that we have, the three companies to compete aggressively, yet to combine our efforts to talk about ‘don't drink and drive’ and other initiatives that we're driving together.

And then growing with communities, an example is the Maltina Teacher of the Year, I mean, we are the company that rewards teachers every year. There are 1,300 teachers that have submitted themselves this year to become the Maltina Teacher of the Year. And they get really big rewards and it sends a message to the community to say teachers are important and with Maltina, we want to support them.

So that's again another example. And I won't dwell more on that, but I think you can get the message that this is really something that's at the heart of our company.

Now about people because this is also critical for us. I mentioned to some of you we are also becoming a more decentralised organisation in the way that we are empowering the regions more and more to take decisions. And we say freedom within a framework because yes it's important to empower, but it's also important to control. So there we are doing that well and we are seeing more agility from our teams, especially in the frontline to take decisions, to execute and to be able to react to the environment which is much more dynamic and doesn't leave you time to ask too many questions to the centre. You need to take decisions in the market.

We are recognising and I think that's - today we are more demanding to our people and that is coming up with pressure, but also we send a message that we want this for good because we want to identify who are the right people, and let them copy. For instance, this is an example - every month we have our regional stars and national stars that are celebrated.

So our three best sales executives every month they come to the head office, I call it the support office because we support the frontline, and we get everybody standing and applauding to them. And that is the kind of culture that we're building as well. And it's a silent transformation, but it is really driving the people to understand what's important. And then you get the frontline people walking through the head office and getting applauded because they are the best three in the month.

And finally grow capabilities and talents. The company went through a big restructuring last year and it was a painful exercise and I have to say it really hurt emotionally the organisation. But we have come out very strong this year and we see a lot of young people that are coming up. Thanks also to those decisions we took to let go of some people who were there, but were probably not performing at the right level. And then the young people are coming up now and we are really excited to see these young people.

I'll give you data: we are measuring climate engagement scores and two years ago we were at 76, last year we were at 72, which is really low and this year in our midyear Pulse check we do we are at 84. And that is 2,900 answering anonymously. So it's nothing that we can drive it is their feedback on how they feel, the direction of the company, their empowerment, their bosses, etc. And it has jumped tremendously, so we are excited to see that positive trend also driven by young people.

And with that I'll pass back to Rob to give us more insight on the half year performance.

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Rob Kleinjan, Finance Director
Thank you Jordi.

So starting with the key financials in our income statement, our net revenue has declined by 1.4%, however, our gross revenue has grown since last year similar period, while our excise expenses have increased by 50% as a result of the new excise duty regime introduced in June 2018, which was done in two steps. The first step in 2018 in June and the second step in July 2019.

The increase in gross revenue is mainly driven by good mix, with a strong growth of the Heineken brand and mainstream brands.

Our cost of goods sold increased driven by volume growth, leading to a gross profit of 71.7bn naira which is 4.7bn naira below last year. The 2% increase shows our strong cost leadership agenda as we offset the impact of inflation and currency devaluation.

Our operating profit is 24.5bn naira. As mentioned, the biggest impact is the excise duty increase, which impacted our result by over 5bn naira.

Our net finance expenses has increased, as part of our strategy of reducing the foreign denominated payables - it started in 2018. We will talk about that a little more also on the following slides.

If we now move to the key balance sheet items, the key changes I would like to highlight first is 2018 are the accounts receivables, where our strong credit management allows us to keep the trade receivables at a stable level, despite the competitive environment.

The other point I would like to point out is the borrowings, the increase in borrowings which is linked to our strategy to drive down the foreign denominated payables has helped to reduce that significantly, which was built up in the prior years.

This also helps us decrease our forex exposure and the impact of debt on our net profit.

In summary we remain with a strong balance sheet, also demonstrated in our free operating cash flow on the next slide.

Our cash flow from operations is mainly driven by the operating profit development. Events which are mainly related to timing differences versus last year, last year we had a very strong June, which was caused by the excise duty increase and our price increase that we had announced. And they year has moved back to normal levels.

Our accounts receivable is relatively stable versus last year. Last year in March we did a change in our rewards schemes with our distributors and we had this high volume in June, so that also explains that movement. If you look at our accounts payable, the reduction is linked to timing because in December we are at a normalised level and also to the reduction of our foreign denominated payables.

Moving down to capital expenditures, our capital expenditures are relatively stable. The increase comes mainly from RPM, which is linked to the growth of our volumes. And there is also some timing impact there. The remaining elements of our capital expenditure are driven by maintaining our operational efficiency in the breweries and in our operations, which is continuously subject to inflation and currency devaluation.

With that closing remark I would like to give back to Jordi, for the highlights.

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Jordi Borrut Bel, Managing Director/CEO
So basically that's the part of the presentation. Let me end with the key messages which is - and we always say that we believe this is a very exciting and high potential market. It has everything to grow, it has the demographics, it has the youth, it has the per capita - low per capita consumption, so we really believe in this market. We are here for 70 years and we are here to stay for the long run.

We have started seeing an improvement of the trends. It is true that the GDP growth, as you see, is still low, it's 2%, compared with a population growth of nearly 3%, it still doesn't show the kind of growth that we would like to see that drives consumption. But we have seen some positive trends in the macroeconomic - in the diversification of the economy, but also in the beer sector itself in the premiumisation. We start seeing the yes, consumers are willing to pay a little bit more and that's really encouraging for us.

As we say we remain committed to long term value creation for shareholders and to have the right, and we think we have the right strategy to achieve this.

And finally we think we have the right footprint, the right history, the right people portfolio to capture the growth that we expect to come from this market. So with that I would like to close and get back to Sade for opening the next session. Thank you.

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Questions and Answers

Sade Morgan, Corporate Affairs Director
Thank you very much Jordi and Rob. So now that we've heard from our MD/CEO and the CFO, we are now going to open the floor for questions and answers. I will be taking questions from the floor, this room, as well as from our participants on the webcast and on the online call.

However, for both categories of virtual participants I would request that you type in your questions and I would also ask for both groups that when you're going to ask your question please state your name, your organisation and if you can who your question is addressed to.

We will also take the questions in batches of three or four so that we can take a maximum number of questions. And with that I will proceed to invite questions from the room. So do we have a mic? We do, so we have a lady there, so do we have any questions from the floor, I already have a question from the webcast participants.

Okay, well let's take the first question from the webcast, from **Carlos De Leon**, of Lombard. He's asked …

Please comment on the competitive landscape, competitive intensity and the market share trends in the Nigerian beer market.

I'd also add another question from the same individual, from **Carlos**.

To what extent does the company have an edge in route to market versus competitors, i.e. to what extent are there exclusive relationships with distributors?

So having taken two questions from the webcast are there any questions from the room here?

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Luís Colaço, EFG
I have a couple of questions if I may? My first question is regarding your marketing and distribution expenses in the second quarter as a percentage of sales it came up significantly, was this an investment ahead of the curve and we can see some slowdown in the coming quarters, or this is a trend that is here to stay?

And my second question is regarding the size of your bottles, we are seeing many companies reducing the size of their packages in order to remain competitive and in order to make the product more affordable. Is this is a trend also to continue and how much in terms of investment, in terms of your bottling line does this trend imply? Thank you very much.

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Sade Morgan, Corporate Affairs Director
Okay, Jordi.

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Jordi Borrut Bel, Managing Director/CEO
So maybe if I take the first one from Carlos on the competitive intensity and market share trends.

It is obvious to everybody in this room and on the webcast the competitiveness of this market has increased tremendously in that last two years. And the reasons are clear. So yes we've seen a very big increase and we have adapted our strategy and our company to be able to react and to adapt to that. So I think that's one of the key messages, is we've evolved to be able to respond to that aggressiveness.

In terms of market share as you see in the graph in the long term we lost some market share in the last years. And what we decided is to - we didn't want to let that happen any more and we have stopped that trend.

Our internal estimate shows that since the quarter, the last quarter of last year we have stabilised, even gone back a little bit on that trend if you look at the revenue share that you can calculate yourself. Take that number and try to make the trend since quarter 4 and you will see a positive trend for Nigerian Breweries okay, and it's not the same revenue share and market, but you can get a good picture.

On the edge on route to market and exclusive relationships. Well there are no exclusive relationships and actually let me remind you that the new Competition Law formally prohibits any type of exclusive relationships. So that's not happening and it didn't happen and it doesn't happen.

But in the edge, I would say our edge is based on the - we have a strong relationship with our distributors; we have a strong footprint and presence of our team on the ground. Our focus has moved from push to more pull from sell in to sell out. And I think that is where we want to build a competitive edge.

And yes we are partnering with distributors to make sure that they are partners to us, that they understand what we want and that we help them grow more than the other competitors. So our edge is to offer distributors a value proposition for Nigerian Breweries that interests them and that makes them focus more on our brands than on other brands. That is where we are working.

I'll let Rob take the marketing and distribution expenses and I'll just finish with the size of the bottles.

Yes there is a movement and I think that happens in other markets, we've seen it also in Nigeria by other players. I think there is a limit to that, you cannot change fundamentally the shape of the market in terms of bottle, the amount of capex you would need for that would be just phenomenal and also the impact that it would have in your capacity it would also be significant, because lines run at the same speed whether the bottle is this big or this big.

So it is something that needs to be managed carefully and it can be, let's say, interesting for some brands and some positions. Like with Tiger we're happy, we think we've tapped into a good position, price proposition, can that transform the whole market? I don't think so. I think that would be just you know not possible given the size of the Nigerian market, the brewery footprint and the current capex investment, I don’t think that would be even desirable also.

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Rob Kleinjan, Finance Director
I should take the question about marketing and distribution expenses. So if you look at it there are three major elements in there, that is marketing, selling and distribution. The distribution and the selling part are also volume linked, so that ultimately means that if you are - what I already said, if your volumes goes up they are impacted as well.

If you look at the trend versus last year it has increased by roughly - for the same period by a little bit more than one billion, which is also reflecting the volume trend. And there are always timing effects there. You also have to take into account because I think that's what you did is you compared the 2% of revenue, our seasonality starts in November to go really up, December is the top month of the year. But then also until April, somewhere May, we are still in the high season. After that it drops. So that automatically has an impact on your percentage of revenue as well.

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Luís Colaço, EFG
So can we expect marketing distribution over the next two quarters to come down slightly or as a percentage of revenues, or what kind of number can we assume in our models?

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Rob Kleinjan, Finance Director
That's a good question.

As I said there are several elements that play effectively. So one of them is that so we are now, let's say, growing volume and that we maintain or even growing our market share, if you take that into account that has an impact on the number. There are also activities that we have planned in the future which we are still, let's say, making operational on which we cannot disclose exactly what that is.

So from the perspective of what you need or want to use in your model I am afraid I'll leave that up to you to determine on these inputs.

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Sade Morgan, Corporate Affairs Director
Thank you Rob. Can we have more questions from the floor?

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Luca Del Conte, ICBC Standard
Good morning, I have to follow on Luis's question because I don't know if we touched on it, but is this crisis here to stay, are we at the beginning, or are we in the middle of a ten year crisis and this could just be for volumes and demand. What we're trying to say here, naturally you've been here for 70 years, you'll be here for another 100 years, so we understand the long term, but we are in the middle of a long term crisis where for the next ten years we should get used to this new normal? That is my first point, I know you touched on it, but if you could give a little bit more colour it would be important.

I understand the competitive question before we all about why is ABI coming now at the bottom of the market, but maybe it is a good time to do it and wait to see what happens in the next ten years. But I'd like to see how you're looking at it from your point of view?

The second question was in relevance to the demographic, I perfectly agree with all the numbers, about 450 million Nigerians in 2060, but internally are you running a little bit more of an accurate analysis in terms of how many Nigerians can afford your product and has that view changed in the last five years?

And then the last point was on digitisation - we understand it's very important for route to market to understand much better, tracking distributors. I was wondering if that's more also the long term, where I know it's important to discuss it now, but actually in terms of cost effectiveness in markets like Nigeria and other frontier markets, it's good to track a truck, but the truck is still stuck for two weeks because of bad weather and there is nothing that digitisation can do for that. So it is more of - it's good to know but the real effect will maybe take another ten years? Thank you.

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Sade Morgan, Corporate Affairs Director
Thank you Luca, I think you've counted for three people almost. But I will take one more question from the floor.

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Babatunde Ogunleye, Stanbic IBTC Pensions
So my first question is in terms of price increase, so it has been in the news around price increase that Nigerian Breweries intends to increase price. So I don't know when the company tends to trigger the price increase, if there is still going to be any price increase for next year?

So the next question is on market share, so you said that the market share has been growing, that you've done something to tip at the market share over the years. So can you just give a sense in terms of the lager space, the stout space and the malt space, what percentage of the market share do you control in this space?

And for the third one can you just give an insight into your capex spend, in terms of your maintenance and expansion capex? Thank you.

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Sade Morgan, Corporate Affairs Director
Can you repeat that?

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Jordi Borrut Bel, Managing Director/CEO
Can you repeat the last one?

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Babatunde Ogunleye, Stanbic IBTC Pensions
Capex spend, in terms of maintenance and expansion capex, are you thinking of growing more volumes?

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Sade Morgan, Corporate Affairs Director
Maintenance, did you get that Rob. Okay so we'll take those two sets of questions from the floor, Jordi?

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Jordi Borrut Bel, Managing Director/CEO
Okay, maybe Luca can you comment what you mean by crisis, can you qualify it more?

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Luca Del Conte, ICBC Standard
[Inaudible - no microphone] Since 2015 the market hasn't quite moved, are we will the middle of a decade where we have to just accept that we are not going to move away from that right now, which is fine when you….. Not grow substantially, in the coming years. In other words we accept the return on equity will be at this level …..

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Jordi Borrut Bel, Managing Director/CEO
Okay, so thanks for that. I think it links to the question on price increase. What I do think is that indeed the situation of the market today is, I agree with you, it's not sustainable in the sense that if we don't increase prices we cannot expect by any means of any other actions even on the cost side to compensate and to get returns on sales and on equity to the growth side. So I think that becomes for us a clear priority.

Now I'm not going to explain what our plans or our strategy are because it's difficult. What I would say is part of what you've seen in our strategy is trying also to compensate that by the premiumisation, by the pack size architecture, the cost optimisation.

Now purely on price increase this is something that we're really looking at because indeed it is not a sustainable situation. But I won't give you my view on when or how and in which manner. But I agree with you with the analysis of the concept of there is a need for a price increase, it's obvious, it is really obvious.

On the demographics, how many people can afford our products, I think the good news of this situation, I would not call it crisis, but this situation, is that it has become more and more affordable. If you think about that today a beer at 200 naira is really affordable compared to four years ago or five years ago.

And what you have seen also, Rob has shown over the last year, is that despite the recession the beer market has continued to grow and I think that is a positive message that we see that the market is growing. And what we have seen in Nigeria over the past some years ago is that the market can then grow very rapidly. So the trend of growth is still moderate, but suddenly the market can also take off and really grow rapidly. And we have seen that not so long, a year ago.

So those are the trends which are very difficult to predict, if you can come with a prediction for that you will get very, very rich. But we are confident that this trend of growth will continue to be there. And I also think that that is why everybody here and everybody is coming because the demographics and obviously the market has a huge potential.

So the answer is yes more and more people can afford and we need to make that happen even more.

On digitalisation, yes it is a trend that requires some investment and I would say the investment is not just so much on capex sometimes, but on the people and the culture. And the returns on that might sometimes not be immediate. But I think they are important and there is a trend that will go.

And you have seen the data from Rob on how Nigeria is digitalising. You see also in the GDP how the technology and information GDP is growing. So I think we are - obviously all the company is looking at it and investing in it.

And for your example of the trucks, I would say it really drives immediate returns. We are now able to control if that truck is stopped two days in a warehouse, or a week and we can call the company and the truck driver. And believe me, thanks to that we are really seeing savings, because for us now it's not any more a question of whether the truck is - we know where it is.

So I can tell you we have now a team, if you would see it, it's very impressive with all the screens looking at where the trucks are and making sure that we have and we measure the time that it takes for us to reach every point of sale.

And if it stays too long in a distributor, we make a call and say this is more than 12 hours, what's happening? So it's driving sometimes immediate cost savings like in this example, okay.

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Rob Kleinjan, Finance Director
Maybe to add to that because you took an example of trucks, but there of course much more potential at the consumer side in digitalisation. Because the way that let's say the reachability of consumers is expanding, it's a huge opportunity for us as a company to jump also in that.

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Jordi Borrut Bel, Managing Director/CEO
And maybe on the market share trend, well, I don't disclose - we don't disclose market share per category for competitive reasons. But what I said is we have been losing market share for many years and what we see now is a stabilisation of that share. And that is something we were looking after, because we said we want to keep a size that is important for a company.

But we don't disclose details on market share, you have to estimate yourself what the different market share are. We are leading lager, we are a leader in malt and we are a challenger in stout, that's as much as I can share with you.

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Sade Morgan, Corporate Affairs Director
Babatunde also had a question on the market segmentation, lager, what the sizes were by category?

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Jordi Borrut Bel, Managing Director/CEO
So the biggest size is the lager category by size and it remains the bigger size. And what we've seen is it's a dynamic and it's expanding as well. Also the competition coming into lager has helped the lager segment to develop and to grow.

The malt segment is also very dynamic now with a lot of competition. It is a different nature of competition, it's very price sensitive in some aspects. There is a lot of promotional activity in the malt segment, but it also helps it drive. It has a price disadvantage versus soft drinks. What you see with the malt segment is that it is still quite a premium proposition versus the soft drinks. So there is a gap there that sometimes can trigger some substitution. And the stout segment is less dynamic and we are challenging. So we are the second in that segment.

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Sade Morgan, Corporate Affairs Director
Thank you.

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Rob Kleinjan, Finance Director
Then the last question and my understanding is if the question is about if our current capacity is able to follow the volume growth, is that a correct interpretation? So if you look at our last few years as I showed on the slide we have had some volume losses in the previous years. This year we have turned that around and we are now growing with the market or slightly above that, or at that level.

Taking that into account it should automatically imply that for the short term that our capacity that we have available is sufficient to follow the volume growth.

You are also sitting next to the Supply Chair Director, so maybe in the next break you can grill him on this.

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Sade Morgan, Corporate Affairs Director
Thank you Rob. I will just give you also a couple of questions that have come in on the webcast and I'm going to bunch these together, they are from **Donatos** and **Carlos**.

What is the chance of further excise increases and the company's abilities to pass it on?

And related to this is what are your expectations for excise tax increases in 2020 and beyond?

There is a question on VAT from **Carlos** as well, is the company budgeting for an increase in VAT tax in 2020 to 2021?

Can I also take one or two questions from the floor?

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Abiola Gbemisola, Chapel Hill Denham
Thank you very much. So I have a question on your debt mix, I'd like you to give a guidance on what you think it would be let's say by the end of the year or into 2020. I understand that you've done two commercial paper issuances this year, so what do you think going forward into 2020, will there be more CPs and what do you think your guidance on debt mix is going to be?

And the second question is on sustainability - now you said that you have a target for 60% sourcing of local materials. So I'd like to get from a cost perspective, is it cheaper to source locally or as against importing these raw materials for your production?

And then I have a third question on what you intend to do with this digitalisation, it was not really clearly when you asked that question when Carlos asked? Thank you.

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Sade Morgan, Corporate Affairs Director
Sorry, could you be a bit more specific on the digitisation?

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Abiola Gbemisola, Chapel Hill Denham
So to give a bit more perspective on this, if you look on at the social media space in Nigeria just like you mentioned in the presentation it seems like there's a growing space within that - a growing demand and a growing publicity that you can get from that space. So how do you intend to transform this to growing your market share for example in Nigeria?

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Sade Morgan, Corporate Affairs Director
Okay, thank you Abiola. We take a question from one more person on the floor?

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Toritse David, ValuAlliance
Please what is the regional split in terms of demand, in terms of demand for your product, what's the regional split, do you have that - which regions of Nigeria demand more of your products?

And then also how much push back have you gotten from local brands, that's local brands that are not named basically?

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Sade Morgan, Corporate Affairs Director
That are not named, informal?

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Prisca David, ……land
Informal more of informal, yes more of informal, so aside the brands we all know we know that there is some form of local production of alcohol around Nigeria and how much push back - if you have that, regionally as well.

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Jordi Borrut Bel, Managing Director/CEO
Let me, the first question was about excise increase expectations and the ability to pass it on. Our expectation for 2020 there should not be any excise increase, because let's say from the government it was announced the excise for the planned period of '18 to '20 if I remember well and it was changing the model from ad valorem to a specific, but in 2020 it will remain at 3,500 naira per hectolitre. So that stability will be there.

What will happen in 2021 we don't know. What we would hope is that after two excise increases as Rob said, we would really hope for stability in the excise, because as we've seen it has not been possible for the sector to pass it on.

Now, as a principle I would say we always will intend to pass on the increase on excise, or VAT to the consumer, because that's the reason for that - also from the government to be passed on. And last year we did pass it on. Unfortunately we were not followed and we had to roll it back, but our intention will always be to pass it on, because otherwise the impact that it has as we have explained today in our P&L is significant and the sustainability of that it not there.

So on the VAT I'll give it to Rob with that comment.

But let me get back to some of the questions on the digitalisation and the perspective for digitalisation. I think digitalisation as we see it affect all the different parts of the value chain, it affects the breweries, the way we work in the breweries and the way the breweries connect with each other and we can copy from each other. So that is something we're looking at.

It works in the way we relate with our first line customers, which are the distributors, how do we relate and we are looking at opportunities to improve through digitalisation the ease of doing business with our distributors for instance. So that is another example which we are active on.

And then from the distributors to the outlets, it's also that chain and from our own side to the outlets. And then internally into the company, the way we communicate ourselves, the way we relate.

So what you can see from that is that digitalisation affects the whole company. And that is what we are active on. In some areas we are more active than in other areas, but we are looking at digitalisation in the whole organisation, in the whole different part of the value chain.

So today we look with drones at the crops and we have estimation for the development of the crops and the yield and we can anticipate the seasons and the yields of the different agriculture. We do that with the farmers to help them understand when to farm - so it even goes to the level of helping farmers to become better and to improving yields thanks to digitalisation.

So this is the kind of world that we are entering into, so there is no way we can forget that.

And on the regional split I would not give exact figures, but if you look at the per capita consumption, clearly the Eastern part of Nigeria is where the highest penetration of beer and per capita is. So in terms of consumer, let's say penetration, the percentage of people who drink beer versus non-drinkers, the biggest is in the East part of Nigeria. And then the second one is the West. And for obvious regions the North is less, although the North is much more active in Malt drinks, in non-alcoholic drinks. So our share follows that same logic where the East is really prominent and then the West and then the North. I won't give exact numbers for competitive reasons.

From a local brand perspective, yes we see that there are local products in many different forms. We think that that's part of our competition of course, because you can see the elasticity curve. And beyond a certain price point consumers switch to these local products.

That's why I sometimes say it is important that we are not over taxed, because what you can get with excise increase etcetera, is that there is more and more a gap between ourselves and these locals. And actually the government might get less taxes because simply the elasticity curve will move consumers to the local brews.

What today we see from a market growth is that the market is growing and that the benefit of the affordability of this market, that fact that prices are not going up is that we are capturing more of those consumers, because they can afford time to time a beer on an occasional basis. So in that sense it's positive because it brings the informal sector to the more formal sector. And that is a trend that will continue in the coming years.

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Rob Kleinjan, Finance Director
So coming back to your question about are we budgeting for a VAT increase in our plan 2020, at this moment we are in the middle of the budgeting process, to be very precise on that one. It is clear that when this proposal is moved into law and it's really approved then it is something that we have to take into account, which we will.

The clear intention as Jordi said is that VAT increases, excise duty increases should be passed on to the consumer, so it should not stay with us. So our intention is to pass it on to the consumers.

The second question was about commercial papers and the guidance on the financing rate. If you look at our financing …

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Abiola Gbemisola, Chapel Hill Denham
[Inaudible - no microphone] foreign currency debt and local currency debt, your guidance on the mix of both of them?

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Rob Kleinjan, Finance Director
That is a very logical question, it's very difficult to answer because it also depends on timing under the year, because there are moments that we have a bigger, let's say element of debt that is driven by, let's say foreign currency. In principle everything that we do is naira denominated because every currency that you need goes via the central bank.

If you look at the split of our financing side in itself we have a very healthy split between commercial papers that we have been renewing recently, the Bank of Industry loan with good conditions, overdrafts. And in the total mix I think we have a good view on where we are and where we are going.

The trend that you see in the market is that interest is coming down slightly. So the average financing costs are coming down a little bit and we are also using that to look at further opportunities that we see to improve our mix of financing instruments.

The other question that was there was about is it cheaper to source locally. The answer is that if you look at local sourcing, if we source locally it has a much bigger impact than simply looking at our own financials. If you look at local sourcing it also contributes to the total economy of Nigeria, which indirectly also helps us back again. So there is a different element that you have to take into account.

The other element is that local sourcing gives us more flexibility, because the chain of delivering that which we want to source locally from Nigeria is more efficient than bringing it from another continent. And if you take a ship for example it takes three to four weeks. So that is also an element to take into account.

So sometimes there are parts that are, let's say, services and goods that we need to source from abroad, because they have the quality that is required is only available there. But the principle that we really fight for is to source as much as possibly locally because we believe that it helps us but it also helps Nigeria.

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Sade Morgan, Corporate Affairs Director
Thank you Rob. So I will just go through one question from the webcast from John from Vergent Asset Management and John is asking, International Breweries have today announced a rights offering in order to deliver their balance sheet. Do you believe this signals a shift in the basis of competition away from discounting?

Can we take a couple more questions from the floor? We have about 15 minutes, I am being warned, so we'd like to take your questions briskly, as many as possible now, 7 minutes. Please go ahead.

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Nick Cowley, Janus Henderson
I had three questions, one - firstly just on the restructuring Jordi that you've kind of gone through in the last year and a bit, your team as well on the slide you showed is all very new as well to the company. Could you maybe talk to us a little bit about the key changes that you brought in, what was wrong with the company if you like that had, you know, required a lot of this restructuring?

The second question on sustainability, the Group - the Heineken Group itself obviously has some key targets for the next few years, how realistic are some of those for a more developing economy - or developing country such as Nigeria, things like water treatment and carbon emissions, how realistic really is it for you to deliver on some of those Group targets?

And finally, I guess the more tricky question, just on the newspaper article that came out a couple of weeks ago. I appreciate you can't really comment, there was nothing proven so you can't really necessarily comment on that. But can you talk a bit about how the company ensures the integrity of all its workforce and all their dealings that they do?

And I know there was an internal investigation, you commented in your press release, maybe you could just say has anything changed in terms of tightening internal controls in the company since that investigation? Thank you.

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Rob Kleinjan, Finance Director

So the first question was on the rights issue and our view on that or that we think it will move competition away from, let's say very heavy discounting and promotional activities. It is a good question, we are also looking at that internally. However we are not in a position to comment on any decisions from any of our competitors. And I would like to leave it at that.

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Jordi Borrut Bel, Managing Director/CEO
Thanks Nick for your questions. Let me start with the first question about what was wrong. I would like to be clear, there was nothing wrong. This has been a tremendously successful company and known by the Heineken Group, by many of its qualities like the discipline in cost or the efficiencies.

I think that times have changed, so needed to do the company. So there is no wrong or right, it's just the evolution and the different times in which we were and in those times there was a need for some kinds of capability types of people and focus areas and in the new times with this more intensity in competition, with these market dynamics they require different trends. So that's the kind of change we've done.

Last year we had to look at our cost base because these times also require that we really look intensively at our cost base, so there was one need for efficiency. We looked at efficiency, especially in the, let's say in the central part of the company, not so much in the frontline. And that is also part of our focus which is much more frontline. And typically you could easily decide to reduce frontline to reduce costs. But this time we were really much more focused on the central part of the company, the support areas. So that is the kind of focus that this time happened.

And that has forced for instance for this decentralisation, that's one of the trends that you see in the new organisation. So I would say that the organisation today is very united in the way we work. We have a single minded strategy, we are focused. There are no silos within the company.

It is a company that is refreshed in terms of people, there is a good balance of experience. I have been 21 years at Heineken, so it's not like experience doesn't count, we think it counts a lot, but a good balance of that experience with youthfulness and with also different views on the company. And a frontline obsession as I call it, which means that today either you work for sales or you support sales. That is our view.

So there are two kinds of jobs in the company now as we call them, either you are in the frontline or everybody else supports that frontline. And that also drives a kind of mindset in the organisation which I think is necessary and it's driving the right behaviour and the right results.

Yes you are right, targets for sustainability are challenging and sometimes very challenging. In some cases they are not - like there may be a spend we put on advertising, we are very compliant, 10%, in water balancing it's a real challenging target for us. So we have very strong water scarce areas, especially in the West. So we are fighting to meet those challenges. Heineken is very driven by that and we are not going to take any excuse.

So let me be clear, it's not because we are in any type of market that we will excuse ourselves. Our investment this year in water plants, recovery plants in the breweries have been sustained, so we are fully compliant with those targets that we are having from the Heineken Group, okay.

And on the workforce. Sade, maybe you can comment on that? On the workforce and the internal investigation.

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Sade Morgan, Corporate Affairs Director
Yes, okay. So thank you for your question, yes you asked what is our system and how robust are we in ensuring our standards regarding the article that came out.

Now regarding any allegation of corruption we take a very strong position. We have a very strong and robust code of business conduct which all of our employees are taken through. And this has even more recently been refreshed.

In the case under discussion we actually carried out investigations and based on the investigations which were found to be largely unfounded we then took appropriate actions.

But please rest assured that our code of business conduct remains robust and all of our employees are taken through this in a series of trainings across all of our business units and across Heineken generally.

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Nick Cowley, Janus Henderson
So has there been a step up in kind of educating the workforce since - in the last couple of years in general in that area?

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Sade Morgan, Corporate Affairs Director
Actually it's a bit of reinforcement, so you always have to ensure that you continue to reinforce your values and reinforce your code of business conduct, which we have done. Thank you.

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Nick Cowley, Janus Henderson
Thank you.

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Sade Morgan, Corporate Affairs Director
We have a couple of questions, quite a number of questions from the webcast, I will just give you these Rob and Jordi and then we will also take the last set of questions from the floor.

So the first question which is from **Donatos** again, is do you expect further industry consolidation or new entrants?

We also have another question I would take, what is the revenue breakdown by value, mainstream and premium brands?

And finally, can the company provide any colour on where management expects ROI in the coming years?

Can we also take a couple of questions from the floor?

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Damilola Olupona, ARM Securities
I would just like to ask a few questions. One, regarding your strategy I understand that you want to pursue growth in your premium product and I understand that competition as well is also looking towards this direction. We have seen the introduction of Budweiser just recently we saw the launch of Guinness Gold as well.

So I would just like to hear from you what sort of - I mean how do you feel about this and do you think in any way this will affect the performance of Heineken - your Heineken brand which has been growing double digit over the years?

Secondly, in terms of increasing local sourcing as well. I don't know if you can be more specific, so are you looking to increase probably local sourcing from packaging materials, or maybe using more local foods to brew your beer?

And lastly as well I notice from the presentation the account receivable increased, so could it be the case that you've increased your credit terms with distributors in order to grow volumes, which is also in line with your strategy to grow volume share, or can you just provide some colour regarding that? Thank you.

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Sade Morgan, Corporate Affairs Director
Thank you Damilola. We will take one more person from the floor.

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Yinka Ademuwagun, United Capital Plc.
My question borders around the macro environment, here we have highlighted VAT increase, potential VAT increase, actually there was the news around custom duties also increasing the exchange rate, so I would like to know if that has in any way impacted costs of imports for you?

And then there was the news around the police fund levy that would also be added to the education fund, corporate income tax that you'd be paying, then for you there is a fear around devaluation of the naira from probably 2020, 2021, what is your expectation around that?

So basically my question borders around the macro environments, what are your expectations and how are you preparing for all of these eventualities? Thank you.

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Sade Morgan, Corporate Affairs Director
Thank you Yinka. I'll pass it back to you.

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Jordi Borrut Bel, Managing Director/CEO
On industry consolidation I do not expect so. Just bear in mind that today with the new Competition Law there is also a very strong focus on that from the regulator that would look on any consolidation in any industry. So that would be very unlikely. In terms of new entrants, could well be. I think Nigeria has become a very tough market. If you look at our revenue per hectolitre it's one of the lowest now in Africa.

So it is a place where if you want to come you need to really have the scale and the willingness to look for the long term because as it is now it is difficult as an entry point to commit the investments for doing so. But it is also a market that has such potential that as I said, yeah it attracts people who want - or companies that look at the future.

I won't give the insights on value or mainstream, but the core of the business is still mainstream, so of course the core of the business is still mainstream and it will remain mainstream, yet premiumisation what it does is that it remains a part of the volume. But its impact on revenue and gross profit is exponential.

So as much as the volume, which is very necessary to absorb the cost is driven by mainstream, the premium is really key in driving the revenue and the gross profit growth.

And I link that to the question on the launch of Guinness Gold and Budweiser, which I think it's very exciting because that's the kind of development that this market helps develop the premiumness in the market. So we don't see that as a bad thing. We think that it's much better to compete in that segment than to compete in the value segment, because there we are really adding little value to the bottom line. So as much as that provides new consumer experiences, innovation that's exciting.

And as you see we have benefitted from that. So the Heineken growth double digit is not for the long term, it's been in the last two years. So it's been accelerated since those entry players have come. So there is also an influence on that that we've really benefited from.

Okay let me go back to Rob.

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Rob Kleinjan, Finance Director
The first question was on the expectation on the development of the ROI in the coming years. You have to look at a lot of elements here, so this is about that in our position is that what we need to do as Nigerian Breweries is to protect the profitability in the market and by that the profitability of our company. By doing that what we have to look at is how can we do that.

It is clear also from what we presented that let's say the unique price positions that have a certain grip on the market is around 200 naira. Based on that it is also clear and Jordi stated that this market needs a price increase. That needs to come in the future, which will help improve also the ROI of the company.

Making more specific predictions about that it is in the total balance of all the factors that impact this that the future will tell us how good we will do that. But our intention is to protect our ROI and grow it. So that is question one.

The second question was the question about more flavour on local sourcing, packaging or raw materials?

If you look at our sourcing basically almost all, not all, but almost all packaging materials are sourced locally. However, if you then look at the value - or let's say the chain behind it the base material for PET is resin which is imported, the base material for cans which is I think aluminium is also imported. So really looking at what is the source of the packaging material goes to other parts of the world.

We buy in principle packaging materials locally. If you look at the raw materials, if you look at what we put in our products and one of the main ingredients that we source locally is sorghum, which is a significant part of our raw materials, which is also sourced locally.

So from there there was a question about more flavour about the accounts receivable and the increase that is there at our half year results?

Yes there is an increase of about 10%, about 2 to 3 billion on the accounts receivable itself. We have a very active system in managing credit limits, so they are adapted also around situations in the market. At the half year results we found it not the right moment to reduce them because the seasonality factor that we saw was still pretty good. So that helps the turnaround time.

We are now in low season and our let's say accounts receivable are in line with our expectations and in line with last year.

So then the last question was a mix of stamp duty …

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Sade Morgan, Corporate Affairs Director
Customs duty and the police levy …

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Rob Kleinjan, Finance Director
Customs duty, policy funds and so on, look it is clear that if we get increases that the intention is that we pass them on to the market.

Stamp duty is already for some time there are rumours about that, we don't know what the future will bring, we don't think it is beneficial for the market, it is also not beneficial for the business. Because if you look at the revenue per hectolitre of beer in Nigeria it is almost the lowest in the world, which means that it is not a big risk with stamp duty. If it is stamp duty - if it should come it is purely driven by cash collection from the government, because it is not needed from a market, let's say, functioning perspective.

The police fund in the end the impact of that on our bottom line, because it is a small percentage of net profit is really marginal, so that will not have any impact on our bottom line.

And the last question that I noted down is the rumours and the potential impact of devaluation of the naira in the future? So if you look at the strategy of the Central Bank of Nigeria is that there should be enough let's say dollars, euros available and the other one is to try to keep the naira stable versus the dollar.

For the last two years the bank has succeeded in doing that. if you look at the price development of oil, which is one of the major drivers of having dollars available, that is let's say favourable, it is about $50 or $60 so at this moment it looks good. The reserves of the government are also, let's say, relatively stable. So in the short term we do not expect a devaluation of the naira.

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Sade Morgan, Corporate Affairs Director
Thank you very much Rob, thank you Jordi. This brings us to the close of our question and answer session. Thank you very much everyone for all your questions.

At this point I would now like to invite our Company Secretary and Legal Director Mr Uaboi Agbebaku to give us a vote of thanks. Thank you very much.

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Uaboi Agbebaku, Company Secretary / Legal Director
Thank you everybody. I have no doubt that it's been another informative session. You have met with the management team, you've asked questions and we've also told you - given you an update about the business and some of the things we are planning to do.

The good thing is there is an opportunity to continue even after lunch, because after lunch we are going to the Heineken House, where Emmanuel is going to take you through our commercial initiatives and innovations and so many things. So you have the opportunity to ask more questions.

So for the time being I want to say on behalf of the Management Team, led by Jordi, thank you very much, thank you for coming, thank you for participating via the web. It has been a cold rainy day, but it's a full house, so again it shows that you support us and you continue to have interest in this business in this company.

As Jordi has said we have been here 70 years and counting and we intend to be here for another 70 years plus, somebody even said 100 years and more. So we're here for the long term and be rest assured that we'll continue to do things that would give value to our shareholders and especially to you the agents of the shareholders, let them know that we are here for them.

The next thing is we will be doing for lunch, just the next building across the road. And after that the Heineken House. So to go to the Heineken House and to make it a bit more organised we have buses available and we want to recommend that we go in those buses so that it's a bit more organised. And then you can ask your drivers to drive along or just go ahead and meet us there. And if you are coming back to this part of town you may as well leave your vehicle behind because the buses will come back.

For now I say enjoy the lunch. Thank you very much.

Applause

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