NIGERIAN BREWERIES Plc

FINANCIAL MARKETS FORUM 2015

SUMMARY OF THE Q & A SESSION

19TH NOVEMBER, 2015

QUESTION: Looking at the Ready – to – drink (RTD) category, what is the percentage of growth in terms of volume when compared to Lager, Stout and Malt (LSM) category?

ANSWER: Growth of RTDs is in mid-single digits at most when compared to the size of LSM. A year ago it was higher, but as is seen especially with the biggest RTDs, there has be an increased decline. However, Nigerian Breweries Plc (NB) was able to take a good position in the market with Ace Roots. It has a good composition of low sugar and is well priced and it is expected to grow further. Also, Ace Passion, the RTD with the apple flavor and the recently introduced Ace Rhythm with vodka flavor are doing well.

Last year, NB was not a player in the RTD market but now we are and so far we are pleased with the results it has given. We'll keep building it further and hope to get a higher market share in a very short while.

QUESTION: What are the prospects of a price increase on your products in this inflationary environment?

ANSWER: We had selective price increases (during the first half of the year) in two stock keeping units (SKUs) to address the increase in general prices. As has been shown in the presentation, there is a lot of pressure on purchasing power and that would be a big factor in evaluating whether a price increase across all our products is applicable going forward.

QUESTION: Comment overall on your capacity utilization?

ANSWER: In 2011, NB acquired two companies (Sona Systems Associates Business Management Limited and Life Breweries Company Limited), gained three breweries and was able to integrate the capacity that came along with the breweries. Also, merging with Consolidated Breweries Plc gave us another three breweries and the resulting capacity. At this stage, I can say our capacity is sufficient; I won't say exactly how high the capacity utilization is but it is on the high side.

The merger was not only about integrating the capacity, portfolio and innovation agenda of the two companies, it also allowed growth from 8 to 11 breweries in different locations thereby bringing us closer to the customers. It allowed us to get the synergies in the route to market and thereby saving costs.

QUESTION: Are you concerned about brand cannibalization especially with the extensions around Star and your RTD products. Was there any impact on your volumes for Star and other lager brands?

ANSWER: The innovations target a new set of consumers and consumption occasions that we cannot serve with the existing portfolio.

QUESTION: Is it possible to get comments on what raw materials are sourced locally and how do you plan to increase local sourcing? Also, how does the dollar rate affect sourcing from abroad?

ANSWER: The sourcing plan of Heineken for Africa is that by 2020, 60% of raw materials will be sourced locally. NB will reach that target earlier, very likely in the course of 2016. Currently, raw materials like local sugar, local sorghum, malted sorghum and cassava, which is part of our latest project are locally sourced.

Sorghum in its malted form is the largest part of our raw materials and as seen in the presentation, we have two malting plants, one in Kaduna and another in Aba with the latter being the largest malting plant in Africa. Increased sourcing of local sugar is dependent on how quickly investments in sugar plantations in Nigeria take off.

Our cassava project which is undertaken in conjunction with Psaltry International Company Ltd and 2SCALE, a representative of the Dutch government has seen over 5,000 farmers lifted out of subsistence farming to more mechanized farming and we plan to upgrade these going forward.

Other raw materials such as labels, crowns, especially returnable bottles, cans, PET are all locally sourced. However, if we talk about cans, there is a direct relationship to the worldwide aluminum price and dollar exchange rate.

QUESTION – Is the sourcing of raw materials dependent on dollar or euro exchange rate?

ANSWER: The sourcing of raw materials; cassava, sorghum, malted sorghum and also sugar is independent from changes in dollar and euro rates.

QUESTION: What is your loan mix between local and foreign currencies and what are your CAPEX targets for next years?

ANSWER: All our loans are in Naira and this has clearly protected us in the last twelve months and will helps us also going forward. On CAPEX, we currently have a high utilization at the moment but no further guidance will be given regarding 2016 for competitive reasons.

QUESTION: You mentioned that prices of two SKUs were increased, how has this affected your sales volume?

ANSWER: The business increased prices on some selected SKUs, but factors like specific price points and relatively strong brands with opportunity to grow make it difficult to measure accurately if this led to a decline in sales. Also, considering the slow market and the dynamics within it, where value for money is just out-growing the mainstream and premium as seen in the lager and stout segments, it is hard to isolate that effect of the price increase. Overall, the performance of the brands and improvement in margin on those brands make the price increase worthwhile.

QUESTION: What is your outlook for interest rates in Nigeria, and how will that guide or impact your finance cost?

ANSWER: In general, we don't give guidance on future interest rates. What is important is that with the commercial paper programme, there is an opportunity to basically fund at a lower interest rate than others. There will always be a differential between going to the banks and going directly to the capital market. Therefore, whatever happens with the interest rates, we will be able to get a differential with our commercial paper programme and make sure that we are relatively getting lower interest rates.

QUESTION: What is the cost of your marketing and promotional efforts specifically in relation to sales?

ANSWER: For competitive reasons, no ratio will be given but I can give you some direction. Up to Q3, our investment behind the brands, innovation and what we call above the line (media, out of home, television, and cinema) and below the line (activation in outlets) was kept at a very high level. It is slightly higher than the year before because we believe in innovations and investment in innovations. We also believe in building brands over a long period; this we started with Star in 1949, Gulder and Maltina in the 70's. We've been consistently building those brands and will continue to do so.

QUESTION: Can you explain the drivers behind the upsurge in your OPEX IN Q3 and is this the normalized level of OPEX going forward?

ANSWER: Different elements in the first nine months such as the higher inflation which has increased monthly and foreign exchange led to the increase in OPEX. We however had synergies come in quarter by quarter which provided a good base for profitability.

QUESTION: How are your various brands doing in terms of growth rate or contraction, particularly the major ones such as Star and Heineken?

ANSWER: Due to pressure on purchasing power, there is a sort of down trading by consumers into the value for money segment. This is especially noticeable with lager which I will start with.

Over the last three to four years, a large number of brands in the value for money segment that were previously dormant such as Goldberg and Life became active. Before then, 33 Export was the major player. As consumer preferences changed, the lager segment experienced increased growth due to rapid expansion of these value for money brands. The downside of growth of the value for money segment is the pressure put on the mainstream segment which is comprised of Star, Gulder, and a few other brands.

However, the dynamics of the market are such that Star is the largest brand in the lager segment. We are also currently the market leader in the value for money segment with

Goldberg as the biggest brand and 33 as the number two. There are two fast growing brands, Life, in the East and More in the Middle East area of Makurdi also competing in this segment.

With Heineken as the international premium, Star and Gulder as number one and two respectively in the mainstream, and the other four brands operating in for value for money, we as a company are well positioned for continued growth in lager.

We have done really well over the last few years in stout especially with Legend, which is a mainstream brand. The merger with Consolidated Breweries Plc positioned the Company in the value for money segment with Williams and Turbo King.

The malts are slightly different in terms of down-trading to the value for money segment. There has been no major shift as malts are relatively well priced. Amstel Malta and Maltina are the top brands with Amstel Malta as the best performer at moment, delivering growth. Hi-Malt and Malta Gold are also performing well.

QUESTION: In relation to capacity utilization and with the drop in margins across all your products, how long do you plan to continue contract brewing?

ANSWER: We have high utilization at the moment of our capacity and there are no plans at the moment to change our current position on contract brewing.

QUESTION: You gained a good market share with Ace Roots, but it would appear that the volumes from your competitor which started out as a major boom has seen a pretty dramatic decline in the last quarter. Is this an indication of the waning of the category as whole?

ANSWER: Overall, the category is on a decline. The biggest growth in this category was in the last quarter of 2014 and from then onward there has been a decline.

QUESTION: In the stout market, there seems to be an intention to launch a more mid-market brand by your competitor, what impact do you think that will have on your positioning?

ANSWER: Our very strong portfolio in lager, stout and malt supported by innovations should allow us grow further.

QUESTION: Do you plan to introduce more beer types, flavours as we have in other parts of the world? If not, why?

ANSWER: There is more segmentation possible as the Nigerian consumer is ready to experiment and try out new tastes which includes more flavours in beer and we are looking into these new opportunities. There is also room to innovate and not necessarily just lager, stout and malt but all sorts of beverages such as lower alcohol beverages, more female oriented beverages, etc. As I mentioned earlier, we have an exciting innovation program ready for 2016.

QUESTION: Can you provide some guidance on gross margins with the change in product mix?

ANSWER: Predicting margin going forward is very difficult and the biggest drivers will still be volumes and market growth. On the positive side, we have our cost leadership, innovation and a strong portfolio. On the negative side, we see a potential further currency devaluation and increase in inflation (although this month, inflation was slightly below the month before). We are also expecting a continued negative mix development from the value segment.

QUESTION: How has the ongoing crisis in the North affected the domestic sourcing of sorghum as it is largely grown there?

ANSWER: We get our sorghum from the North-West area which is less affected by the crisis. Nigeria is the number one sorghum producer in the world and the output in terms of sorghum is so big on an annual scale that we haven't seen any impact in terms of consistent supply.

QUESTION: You highlighted quite a lot of the innovations are more in the mainstream segment and but given the growth is at the moment in the value for money segment, won't it be more fruitful to focus innovation there?

ANSWER: We have pure innovations like Strongbow, Triple X, Radler, and Star Lite; strong line extensions with potentials to grow and address new needs of consumers.

Innovations in the value for money still address tradition consumer needs. Consumers look for a good tasting lager, with good packaging for a better price. Three years ago, we did not have Goldberg, Life, More and 33. Today, we are market leaders in value for money with these brands. In terms of traditional taste profiles, those four brands can address really well the value for money and consumer needs. We are growing very fast with these brands that were not part of the portfolio four years ago or even a year ago.

Again, we have a very strong position with Heineken, Star and Gulder.

QUESTION: Would it be possible to get a bit more insight on synergies in terms of cost of goods sold versus selling and general administration expenses (SGNA) because it looks like your SGNA control was extremely good for the three months (year on year) but it didn't look like it was quite as good over the course of the last nine months?

ANSWER: As mentioned earlier, we are expecting ₦5billion this year, with an incremental of ₦1.5 billion next year. This means that quarter on quarter, synergies are paying off more but at the same time we have the opposite effect in the cost basically because of the naira - dollar devaluation which is getting stronger if you compare with the beginning of the year when we had the first devaluation. The two things are happening at the same time; synergies, with its impact improving quarter by quarter, and the devaluation impact going in opposite direction.

QUESTION: What impact does the fast rate of growth of the value beer over the main stream and the premium segment have on your price per hectolitre? Also given that Consolidated Breweries Plc had more value beer, how does that price mix affect you?

ANSWER: We see important growth in the value segment and this will also continue into the future, therefore putting pressure on our revenue per hectolitre. We will however not quantify it.

QUESTION: What percentage of product distribution is done internally and what percentage of your distribution is done by a third party?

ANSWER: Over ninety five percent of the volume is distributed by secondary parties and a very limited part is directly distributed by NB. Also, the twenty six depots from the merger with Consolidated Breweries Plc form only a small percent of the total volume being shipped out by third parties.

QUESTION: If you look back three to four years where volume was slow, return on capital was fifty five percent, margins was thirty percent plus and arguably there was a pricing umbrella created which allowed some competitors to come underneath the value for money segment, SABMiller for example. How much has the structure of the market changed because it now has three plus players and what part is cyclical with the volume down turn and difficult macro-economic conditions?

ANSWER: It is very difficult to estimate this; a large part is cyclical because over the last few years our margins had come down but there is certainly the impact from stiffer competition. The competition is here to stay and the shift from mainstream into value for money is not something that will dramatically change if suddenly the purchasing power increases. On the structural part, I do believe that when purchasing power improves, it will relatively benefit, the premium and mainstream brands more than the value for money brands. At the same time, what is also structural is that a lot of cost has been taken out of NB. With the Sona acquisition and merger with Consolidated Breweries Plc, we got a lot of synergies, and the cost structure as a company, in terms of how lean we are, has structurally changed. This means that for us, operating in value for money, driving growth there, and being a market leader in that segment is really interesting business.

QUESTION: Are there other markets around the world or even around Africa, where companies have been able to form very profitable local premium segments as there wasn't any local premium on the grid which you showed? Is that a gap which should be filled or don't you see a place for local premiums in Nigeria?

ANSWER: There could be.