DIAGEO

Moderator: Andrew Cowan
January 26, 2018
14:30 a.m. GMT

Operator: This is Conference # 9996008

Andrew Cowan: Thank you, (Jenny). Good afternoon, everybody. Before I start please accept my apologies for the late start of this call. We had a technical issue getting the connection. So we've had to try a few different methods. So, I do apologize and hopefully it's not been too arduous hanging on for myself and Gyuri Geiszl who joins me today for this briefing.

Thank you very much for your time and I'm going to adopt for those of you who have dialed into these activities before I'm going to drop the normal format of giving you a commercial review of our H1 performance here at East Africa Breweries. Gyuri is then going to elaborate on the P&L and the numbers and share some thoughts with you on that.

I will then summarize by sharing with you some of the things that were important to half 2 in our business and then we will hand back to (Jenny) to host a Q&A for the rest of the call. So, I hope that works for you.

Without further ado, I'll get into the presentation. The slides I'm going to be using were sent to you in the invite. And so if you're able to have those in front of you I will use those to navigate the communication. So onto page four, I want to start off at a macro level with the business and share with you what our performance ambition is and what the key drivers of that are. So, our ambition is to create the best performing, most trusted and respected consumer Products Company in Africa.

And for the purpose of today's communication we will absolutely spend a lot of time talking about best performing but at the same time I'm keen to show a few the wider contribution we play in East Africa in earning the right to consider ourselves to be most trusted respected, as well.

From a commercial perspective, we are seeking to strengthening and accelerating our core premium brands and for the purpose of this, this part of our portfolio is our flagship brands Tusker in Kenya, Serengeti in Tanzania, Bell lager in Ugandan and then across all of the key markets Guinness is a very big play for us.

Winning in Reserve as East Africans become increasingly wealthy there's a small and growing cohorts of consumers that want a premium product and Reserve is a descriptor we use for our premium spirits brands, Johnnie Walker, Ciroc to name a couple of those brands.

As I said when I've spoken to you over the last couple of times innovation is really key in this market. Particularly when you think we've a million new consumers coming into the marketplace every single year just because they're reaching at a certain legal drinking age and staying creative and innovative in bringing new products to those consumers is critically important.

And then, obviously with a business like ours with the breadth that we've got having our brands available in every customer to every consumer, every price point possible is a really important part of our route to market strategy and our sales force have been key in delivering some of the growth results that we're aiming for.

And then, as I said last year, driving our costs to invest in growth is a key mechanism with which we fund some of the ambitious growth plans we've got whether they are CAPEX investments or indeed advertising, promotion or innovation activities. Identifying and eliminating waste is a key source of the investment in order to grow our brands and our business.

And then the foundation to all of that is guaranteeing our people with the right -- the right people with the right capabilities. So, there's a focus on that that's important to us as well. One of the things we did during the course (nights actually) last year was to look at those goals through the lens of the East African consumer and size the opportunities and prioritize them.

So, on the next page you'll see a house which breaks down with the key commercial pillars for growth then the (key enable) sell briefly skip through those and allow you into our minds as to what we're thinking. So, delivering a vibrant mainstream beer business really is an acknowledgement that we need Tusker, Serengeti, Bell and Guinness in very, very good health and in strong growth.

It's the heartbeat of our business and we need to continue to modernize those brands so they engage with current and new consumers. Explode mainstream spirits is also a really important aspect of our growth strategy. In fact if you think about it whilst many, many consumers in East Africa enjoy drinking beer only one in four East Africans drink spirit.

So, there's a huge opportunity to offer a wider repertoire of products beyond just beer to our margin consumers. And mainstream spirits is a mechanism to deliver that in an affordable way. As I said on the previous page, there's a small cohort of consumers getting increasingly wealthy in Kenya and East Africa.

So, winning in premium and offering the very best premium price reserve products is an important margin accretive aspect of our growth strategy. But we also acknowledge that the vast majority of consumers in East Africa require us to have a key eye on affordability and so value recruitment, ensuring the consumers who may historically have drunk elicit product are able to have clean, safe beers and spirits is the fourth pillar of our growth strategy.

In order to enable that, I've already spoken about route to consumer which is having a sales force that can build both our beer and our spirits and trademarks but at the same time having key stakeholder relationships in good shape is an important aspect of building our brands.

Particularly in Kenya where we're the second largest contributor to the treasury based on the excise that we collect on behalf of the government. But making sure that excise is fair and balanced and predictable and consistent is a key part of our stakeholder relationships.

And in a combination of supply footprints and productivity is all about delivering high quality -- high quality premium drinks but with a cost base allows us to be profitable and continue to grow our margins. And, as I said, guaranteeing our plans through great people is all about recruiting people into EABL that are highly talented, give them the best training they could possibly dream of and then creating a culture across East Africa Breweries that allows them to do the best work they can do.

So onto the headlines of the financial performance. Now, Gyuri will expand on this but you can see our volume performance is up four for the half which we are pleased with particularly given the difficult trading environment in Kenya caused by the two general elections.

I'll elaborate on that when we talk specifically about Kenya. We've also had really good growth through innovation and also mainstream spirits. The next appearing from volumes and net sales is driven by two things. Firstly, as consumer spending was squeezed there was a a short term trend towards value.

Secondly we have a duty increase in Uganda which we chose not to pass on to the consumer because of affordability issues which meant that eroded our ability to move volume growth through to net sales growth. The operating profit of minus three is a reflection of that plus also some incremental investments.

And then the operating cash conversion continues to be very strong and Gyuri will elaborate on that. And we already went to the public domain last night but we are continuing with the consistent dividend interim payment of two shillings a share. On to the next page where I'll talk about in headlines the three large business units.

Kenya you can see declined by four percent. I'll break that down further when we talk more deeply about Kenya in a couple of slides down. Uganda, the local currency grew by four although it was flat when converted into Kenya currencies. And then the short term star of the show is Tanzania which many of you are asking about this time last year and certainly last summer how are we going to turn the Tanzanian business around.

Well that business has come back very strongly with some really impressive commercial and brand activities which I'll allude to when I talk about Tanzania. In terms of the segments again another point to question six months ago was our ability to turn our mainstream beer business into growth.

We've done that both in premium driven by Guinness and Tusker Lite in Uganda in particular. And then our mainstream business has moved back into significant growth which we're actually delighted about. You've got below (the) growing over 20 percent with the new no added sugar offer, we've got some innovation in Tanzania around Serengeti Lite which is really helped grow the overall trademark.

And, I'm really pleased to say that we've got Tusker family back in growth, as well. So, with the exception of Bell, where we're still working very hard to get that brand into where it needs to be, mainstream beer is very good. Value beer is at 10 percent -- I'll talk about more deeply when I talk about Senator in Kenya because that is almost all of the issue.

And then in RTD's the decline there is some consumers switching back into our beer brands which you see in growth. Reserve and premium we're unhappy with the declines there. They really are short end. They were doing well in the first couple of months of the fiscal and in our suspending squeeze hit in Kenya between the two elections because there was lower fall in bars and top end bars is where the majority of that spend happens.

And then the real star is mainstream spirits. I've talked to you about some investments we've put into mainstream spirits but continuing to grow at 14 percent off the back of significant double digit growth last year and it is in line with our expectations but nevertheless, impressive to see that coming through given the increased investment we've just put into new capacity in Kenya.

And onto the next page on innovation, I've talked about the dynamic contemporary Kenyan and East African consumer. Those consumers who are coming into legal drinking age, particularly the millennials are demanding a wider repertoire of creative products.

And in Kenya, 18 percent of our turnover was contributed to by innovation, in Uganda 16 and Tanzania an enormous 33 percent of our business came through our innovation pipeline. Pick a couple out, Tusker Cider in Kenya is now a megabrand in its own right. Serengeti Lite in Tanzania has been a major contributor to the 28 percent growth.

I've just headlined some flavor variations on Kenya Cane and Uganda Waragi have helped both of those brands grow even further. And then we've got brought some international brand names into the market, Captain Morgan and Black & White Whisky are helping in Kenya and Uganda as well.

And then for the first time, we've extended outside of pretty much a single beer focus on Tanzania by bringing the international trademark of Smirnoff into Tanzania in a -- but in a local fashion. So, onto the next page where I'm just going to deep dive a little bit further on Kenya, the minus four percent is almost 100 percent Senator.

There are some (but) we can't explain. But there are some pockets that have really impressive growth on Kenya. Not least the turnaround is the bottle beer business, the double digit growth of Balozi, the explosion of mainstream spirits off the back of the investment and the contribution innovation has made.

But all of that was nullified by the performance of Senator in the first half. Senator declined by 21 percent in the first half and had Senator not been in these numbers the minus four would be plus eight. So, you can see the size of the impact of Senator in Kenya.

And it's really clear on the drivers of that, there are two key things that have contributed to the minus 21 percent. The first thing was a planned shutdown in the plant which accounts for about a third of the decline. And so we've invested in some kits called Keg Lager which allows us to pack more kegs more quickly on the line (and thus) increases our capacity.

It was a planned and known piece of work and therefore that lost business, that reduced business in the short term (was planned) into our business. The other two thirds of the headwinds in Kenya and (inaudible) in Kenya are due to pretty much (happened) between the 8th of August which is the first general election and the 26th of October which was the second general election.

And during that period, as government stopped issuing funds out of the counties, what we found was that the construction industry (driver), concrete was in 40 percent decline over that period. But the impact on our consumers what the casual daily paid workers were not getting work, and therefore they have no money and this your core (senator, consumer).

People living on two or three or $5 a day who enjoy a Senator who at the end of the day were unable to afford it because they weren't getting that daily work. And -- I guess the kind light at the end of the tunnel was, firstly we've now completed the investment in the incremental capacity and we're filling it up very quickly. And after the Kenyan government issued KES77 billion out to the counties at the end of November, we've begun to see that growth come back again.

So December, on Senator was very, very good. And so we believe it's a blip, it's an unwelcome blip because (blossomed) away over (half one) performance, but never the less, we believe it was a blip and we're going to get on with -- and have to with filling (at that) capacity and accelerating the opening of our brewery which will happen sometime in F '19. So I hope that makes sense in terms of the dynamics of the Kenyan performance. I'll move onto Uganda.

Uganda was in -- converted currency was flat, in local it was (plus full). The gain has some positives and negatives. Guinness is in double digit growth which is fantastic, it's as big as the Bell brand now. Tusker Lite is in double digit growth, continued for the fourth year on the (trot) to really accelerate. But growth was hindered by, probably Bell which isn't back to where we want it to be just yet.

But we're working hard on that. And then we had a duty increase in Uganda which squeezed consumer spending and there was a move from main stream, high end price products through to value products which took (organic down effective) the top line. So we feel confident about Uganda, coming out of the Kenyan elections which Uganda obviously mirrors quite a lot of trading patterns and then fixing some of these brand issues.

And of course, capitalizing on the Guinness, the Tusker Lite and the innovation we put in on mainstream spirits. And in Tanzania, Tanzania grew by 28 percent. It was two key drivers of that which was the dramatic turnaround of the Serengeti brand and also (less so) in half one would really bite in half two with the December introduction of Smirnoff X1.

On Serengeti, there were four key drivers of Serengeti. Number one, we launched some innovation, it was called Serengeti Lite and we put a lot of (A&P) behind it. And it's really captured the imagination of consumers. Number two, we refreshed the pack, and we presented the label and bottles to consumers in a different way, in a more contemporary way.

Number three, we made some adjustments on price, so we are competitive in the marketplace, but still extremely profitable. And number four, which is probably the really important one, particularly for Tanzanians, responsive of the Tanzanian National Soccer (side).

Now that may feel like just a sponsorship asset, but actually it was surrounded by a whole load of content work around Serengeti being the national beer of Tanzania which is something that's very (ownable) given our key competitor is a South African brand themselves.

So we feel really good about the contribution Serengeti has made to that 28 percent growth. Not least because it is -- it's the flagship brand. And then the second thing we've done is introduce Smirnoff X1. Now Smirnoff is a trademark as the world's largest branded spirit. And so have that international brand and those credentials come into Tanzania is a really positive opportunity for us.

The regular Smirnoff portfolio is out of reach of affordability for local Tanzanians. And so we've produced a local virulent called Smirnoff X1 which is equally pure, equally smooth, but it's produced locally and therefore allows us to achieve a price point which Tanzanians can afford. And we've got great ambition for that particular piece of innovation. So we are not calling victory on Tanzania yet, on this call six months ago, there were a lot of questions on how we are going to get this business back into growth.

And we are viscerally determined to continue the numbers you're seeing now and we're delighted for both the EABL but also the local management team that have done a fantastic job to cause such good growth in such an unpredictable market. I talked about people being a foundation of our business, what we want in the EABL is for if you -- if you are aware of EABL, then we want people to desire to come and work for us.

And if you do work for us, we want you to enjoy being part of this company so much that you are evangelical about it out there in the marketplace. Your family and friends and associates. And so we've upgraded our approach to talent and that means getting the best people and then putting more time efforts in training and development to those people so they can reach their potential.

We've also tried to (tack) the non direct population with high potential so that our succession planning as we move people through the business is able to be done internally because we've got highly capable people ready to be promoted.

We've also made some organization effectiveness changes, we've done a couple of things now, we have -- we've reduced -- we've increased the number of reports per managers and the objective or the benefit of that is A, to have a more efficient cost base, so less managers and more people, then your cost base is more efficient. And of course, if you're in a team of seven rather than a team of four reporting to somebody then you should be liberated to use your initiative more, use your common sense more and take more ownership and accountability for the goals that you'll.

So we're very passionate about the (org) effectiveness work both in terms of a cost perspective and in terms of a cultural perspective. In terms of our leaders as well, we've implemented a new leadership standard which is designed to help people understand how to lead and be resilient in highly volatile environments, in a flexible and agile way.

And of course, in East Africa, you need to be black belt at being able to be agile in the way you manage the external environment. And in the line manager capability program is a goal so that if you work for EABL and you have a boss, you're able to say my boss is a brilliant coach and I get great training from him and I get great development from him or her.

And then the final piece is we want to make sure that the relationship (our business) and our brands have with its customers is really positive win, win one. So put in a lot of work into commercial capability designed to have customers continue to be more loyal to our brands and our business. I also talked about -- I talked about in my opening, not just best performing, but most trusted respected.

The people agenda is one aspect of that, but the other pillar is our social responsibility goals and that really is corporate speak to -- one thing to be a good a neighbor in the environments we operate in and the consumers we serve our drinks to. And so we've done a number of things to try and up our game in our social responsibility work. We've been heavily involved with the KRA summit which is designed to generate domestic value.

So domestic value creation for local Kenyans, local (and East Africans is really key for us. And the poster child for child for that piece of work would be -- the local farmers but there's much, much more behind that to help people build local wealth. The Kijani program is a Kenya Forrest partnership where we've got our staff that volunteer into working with the community forest associations.

Utado? is a vernacular for challenging millennials, what are you going to do translate which is about responsible drinking. So we really want to recruit millennials and new young adults into our products but we want them to understand how to enjoy our products in a responsible way. And Mtama ni Mali which is the Sorghum project and it's about helping, in particularly families and communities in (semi arid and arid environments to be able to farm Sorghum.

And it's a nice win, win there, we need Sorghum because we're opening a new brewery and we're expanding(in Nairobi) capacity and we want to teach and help families to become self sufficient and grow Sorghum and sell it so they can have income and provide us with critical raw material we need. And then Heshima project is a vocational training project in the AU for women support the reduction of the production and consumption of illicit brews.

And we know this is a big program for government but illicit brew is still an alcoholic drink, but it's an unsafe and harmful alcoholic drink and we don't want our East African consumers taking the sort of risk you take with your eyesight or your overall health by drinking those . We want to bring them into affordable brands such as -- such as (Senator).

So that's our social responsibility stroke being a good neighbor platform which for us is how we try to describe ourselves as being most trusted and respected. I'm going to hand over Gyuri to unpack some of the numbers. And then I will come back on and share with your half two priorities.

Gyuri Geiszl: Thank you very much, Andrew. Good afternoon, good morning everyone. So I'm currently on slide where you see the financial highlights again. And if look at -- the way I see them is that they show a solid performance and the usual resilience and state of performance that EABL used to deliver in the past.

It shows that we managed to deliver this in a tough environment, but also it shows that we are not immune from this environment. And you may say that I'm using this tough environment expression too many times. At least in the two, three occasions when I had the chance to share the numbers with you. I was referring to that. And I don't want that to sound like a complain at all.

We operate in a really positively environment and that's why underlying performance in in most areas is really promising and strong. What I mean is that as you know for us the biggest volatility that we see is the regulatory environment and especially the excise regime. I can say that in the last couple of months, last six, 12 months, that was really predictable.

I think we are absolutely used to and we wouldn't complain if there's an inflationary adjustment to excise rates which happened. I think the only sort of unpredictable or unexpected change that we saw was in Uganda in terms of the structure of the excise. I will come back to that later. In terms of weather we out of the drought that we had in the previous financial year, currencies have been stable, commodity prices have been stable.

Overall, I think it was a positive environment. However, since we have the biggest chunk of our business in Kenya and in the last couple of months, the impact of the elections on the economy was very significant and unfortunately negative through sort of two directions.

One is a negative impact on general consumer confidence and I think that in fact it -- to some extent for luckily a shorter period of time, our entire portfolio in Kenya. But most importantly the disappearance of cash and income, especially from the lower consumer segments had a big negative impact on (segmented) keg demand as you already heard that from Andrew.

So, in the next few slides let me just quickly run through some of the numbers. On slide 17, as you can see, volumes are up four percent as you heard, driven by -- primarily by the recovery of bottled beer in Kenya, a very strong innovation performance across our three markets and also strong growth in mainstream spirits.

If I look at gross sales, so the amount that our consumers spend on our product that's also a four percent, so it makes changes there and some price impact, but all-in-all in line with the volume growth.

Unfortunately because of the increase in excise, this additional spend by the consumers ended as the governments and our net sales sort of remained more or less flat. The two main drivers here are the structured excise change in Uganda that I previously referred to.

So basically excise on imported beer went up significantly and the few big brands in our premium and mainstream portfolios. So Guinness and the Tusker family in the past was produced in Kenya and imported in Uganda and that's where we suffered a significant loss.

And it is only now when we manage to localize this brand and so now all the Guinness SKUs and Tusker Lager, the biggest of the Lager -- of the Tusker family, is now produced in Uganda. So in H2, we will benefit from this, all this negative impact is set to disappear.

The other driver was the reduction in the remission on Senator keg in Kenya that went from 90 percent to 80 percent in -- from April 2017 that would be the driver behind the excise increase. So, net-net our topline net sales remain flat.

If you look at the next slide, I think that summarized our performance, topline performance very well. The chart that shows the closeness between last H1 and this year H1 net sales. First green box is Kenya bottled beer, up more than KES 600 million. I think this is the best news for us and definitely for me in the first half performance.

This is the biggest segment in our overall portfolio, this is also one of the most profitable one. We've struggled for a long time to return that to growth, actually seems to be December 2016 excise increase. And for several months now, despite the negative impact of election, we see this segment back to stable consistent mid, single digit growth.

As you also heard, Tusker family at one percent growth at the total EABL level, and five percent after a very long period time and it is driven by cider and Tusker Lite, so the new innovations of the family.

So, we need -- still have more work to do on Tusker Lite than (other) brand. But, it’s really a great achievement to see this turn around. Also, benefits back to growth three percent across the ABF, five percent in Kenya.

Kenya experienced somewhat of a disappointment, so I think very trajectory and good results in mainstream spirits. New innovations, as Andrew mentioned, some renovation of the brand.

Great potential because of the new spirits line, however, in the first half this performance was somewhat offset by worse than expected reserve and international premiums spirits sales.

Tanzania, the recovery driven by the Serengeti brand family, Serengeti Lite, the new launch also pulling Serengeti Premium Lager with itself, it's great to see Tanzania recover again.

And then, as I mentioned, mix picture, we lost approximately 250 million because of the excise increase underlying growth was reduced or offset by this amount, as I mentioned, the largest part of this excise will disappear from H2.

And finally Senator, this big red box on this chart, down KES 1.5 billion as you heard, two drivers behind the planned element of it is over 400 million which is the shutdown in July and August and the unplanned and unexpected decline because of the election related economic circumstances.

Moving onto slide 19, a few words about CoGS, so CoGS has grown by two percent behind volume. So CoGS per case is down year-on-year primarily due to the savings that we delivered in this half, more than 900 million from the usual activities that we started 18, 24 months ago.

So, moving sourcing to the local territories, operational efficiency improvements, but also procurement through retendering or reducing cost of special warehousing and logistics contributed positively to these numbers and to keep cost of (fair) under control.

Either because of the volume increase, cost of sales went up with flat net sales meaning that gross profit was down year-on-year four percent. In terms of overhead and the other cost (heightens) in (P&L) on slide 20, based on our strong confidence in the underlying opportunities in the market, we spent 18 percent more on selling and distribution, advertising, promotions but also improving capabilities and also upscaling our sales force.

Offsetting this, we continue to realize significant savings in administrative expenses on the indirect cost side zero based budgeting, but also organizational effectiveness delivered additional savings.

Administrative expenses are down 13 percent, if I look at versus two years ago, it's a 21 percent cumulative savings which I think is really impressive in the inflationary environment that we operate in.

Further down in the P&L, no major significant fully changed losses or gains. We experience stable currencies in the region, so this is the reason for that, however, I have to say that this net zero amount is the sum of profits in Q1 and some losses in Q2.

Recently the British pound and the EUR strengthened significantly despite our currencies, the local currencies, being very stable or maybe even strengthening against the dollar. So, in H2 as a result of this I expect some losses or some of our input costs go up.

In the half we also realized that KES 700 million profit on sale of a land in Mombasa as you heard that from us before, we have a very clear strategy to invest into production related set course, strategic assets and diverse from other non-strategic assets, this transaction was in line with that strategy.

Moving onto interest charge and a few things about our balance sheet, in the half we spent a lot and our capital expenditure went up significantly. However, at the same time we had a very strong cash flow that for net borrowings at the end of the period, 31st of December, went up only by four percent.

However, finance costs grew by 29 percent for two reasons. One is that if you look at average net per earnings during the half, those were up more than the closing balance because we already started to make the investment in the new brewery in Kisumu.

And the other element is that we also moved at the end of F7 premium Q4F17, our borrowings from short terms to long term to create a happier, more stable balance sheet and that also meant that interest costs went up because long-term borrowings are more expensive than short-term.

Regarding the funding of the new brewery, six months ago I told you that we decided to fund it from loans. By now, we've managed to secure this loan from the KES 15 billion total cost of the investment, we are -- we decided to fund 12.5 billion from loans.

The rest is going to be funded from the free cash that we generate during the period when the project will be completed the brewery constructed. And from this 12.5 billion, 60 percent will be in EUR and 40 percent in Kenyan KES.

At the end of the period our balance sheet showed, again, a positive net current asset position and probably this is the best time to say a few words about the SBL capital restructuring transaction, which was completed in this half and it's reflected already in our numbers.

As a reminder last year we agreed to convert the intercompany loan from EABL to SBL into equity. That transaction was completed. Our share in SBL remains unchanged, so our shareholding is still 51 percent and the B shareholders have 49 percent. However, the minority shareholders took up an obligation to pay KES 3.2 billion through ABL as their contribution to this capital restructuring and this will be paid from 50 percent of the dividend that the minority shareholders will get.

From and accounting point of view, the consequence of this transaction is that if you look at our equity, there’s a move from retained earnings to non-controlling interest of KES 5.5 billion, so they’re no (P&L) impact, but this is the accumulated impact of this transaction and also the other consequence that we have in that because on top of our 51 percent, during the period of the repayment of this KES

3.2 billion, we will be entitled to get 50 percent of the other 49 percent of the dividends. In this period, we will show our smaller non-controlling interest because we will be a beneficiary on the last 75.5 percent of SBL so that what you will see in our numbers becomes going forward.

Quickly on slide 22, from operating profit to EPS in context is more or less in line with last year and the effective tax rate and EPS decline is higher because of SBL's return to profitability and, as I just mentioned, SBL has a larger minority interest. Interim dividend was capped unchanged flat year at KES 2 per share reflecting the confidence that management and the board has in our plans to improve our performance in the second half and next year.

Andrew already highlighted the strong (catch) performance that I think I can now say we consistently deliver our (all connecting) cash conversion was 126 percent. Our target if you can recall is around 124 percent. So in this house, we clearly over delivered that and the main driver was an improvement in working capital. Our internal target is around average working capital as a percent regional net sales and we consistently, continuously deliver improvements on that and that was also visible from our 31st of December numbers.

The last topics I want to cover before handing back to Andrew is capital expenditure. On slide 24, you see that in the half we spent KES 5 billion on capital expenditure significantly up from KES 1.8 a year ago. There are four big items covered in this. The largest of these is the new brewery in Kisumu. On the next slide, you see some further pictures and some further details on these investments. Just for clarity on slide 24, the numbers reflect the actual cash spent in the half while on the further slide you see the full project costs and the differences obviously the payment that we already made in F'17 or the payments that will be late to SAT in H2.

So the Senator Keg brewery in Kisumu, 15bn investment, 1mHL capacity focusing on Senator Keg production. The construction already started, the project is underway, and a very big indirect social impact as you already heard that from Andrew.

On the next slide the new Spirits line that we went live with in November, 2.5 million equivalent to (its) capacity, this is our free capacity for several years, but also

significant efficiency improvements as well as flexibility to change from one brand to another but also localize production of some of the international brands.
And then the last slide is the new Senator Keg rackers. Project completed in focus of four new filling machines or stations and 30,000 new keg barrels that we bought to expand capacity in Senator. And the last slide then is the four DPVs that were installed in December, increasing brewing capacity, cooling capacity, but also helping us to deliver on our efficiency and quality agenda.

On slide 28, you see at the bottom, again, a list of some of the usual other investments in efficiency and quality improvements, health and safety, and into the environment those areas continue to be very important for us. And now I hand back to Andrew to finish off with his thoughts about F'18, H2 priorities.

Andrew Cowan: Thank you very much, Gyuri. And so I'm on slide number 32, so if you can turn to that. It just headed up priorities going forward, and if the first two presentations made sense then hopefully these are very logical areas that we'll be focusing on in half two.

On Senator, we're through the consumer bump on the road on the elections. We are through the disruptions to the brewery through with the increase -- the shutdown that was required for the increase in capacity, and we are in the midst of doing our very best to open the new brewery as soon as we possibly can. So Senator Volume ramp up is a really key goal for us now. We've got the capacity and we've got the long-term, strategic investments.

And we're not going to call victory on bottled beer, so we're delighted with the 8 percent growth, but we will continue to really double down our assets on making those flagship brands, Bell, Serengeti, Tusker, and Guinness continuing good growth and in root health. We want to make sure that we win premium. I talked about a cohort. Obviously a small cohort, but a cohort of wealthy East African consumers who want to buy more premium products.

At the same time, we want to lead with Scotch. Now our parent company, Diageo, is the number one scotch player globally. In fact it's the number one spirits player globally, so we've got a huge amount of assets that we can draw down from Diageo in EABL and off of those brand and products and promotions to East African consumers. So we're doing that on our (premiumization) strategy.

And we still think there's lots more we can do to eliminate waste. Having a productivity and waste elimination as something that's just a way of doing business and is cultural rather than some couple of year project is very important to the ongoing efficient running of the business to deliver great top line growth, also margin expansion and margin performance. So productivity remains important.

We've got the new capacity on mainstream sprits, so we're looking to fill that capacity of us quickly as we possibly can. And as I said earlier with a consumer community that is continually changing through new drinkers coming into the marketplace, coming into legal drinking age, innovation is going to be very key in engaging those consumers and continuing to renovate top rounds to keep them relevant and modeled.

And the talent piece is on there as a priority and it will continue to be because we can do all these things we want with the brands and the factory and the cost space, but we need great people who work in a great culture to be able to do that. So our talent goals are, for instance, down to the -- in the objectives that we sent for half two.

So then I'm going to pause there and I'm going to -- I guess I'm back to (Jenny) who is our operator who will invite you take questions and also tell which buttons to press to get yourself online. So (Jenny)?

(Sherrat Deuo): Hi. Good afternoon, Andrew and Gyuri. Thanks for your time. Again, it's great to hear the update. A few questions from me if I may. First of all, maybe just on Senator. Are you able to give any color as to how that performed in December and in the last few weeks, if you're saying it's back to normal and (election uncertainty down the way?) What sort of growth have you seen in that period if you're able to comment there? Would appreciate that.

And secondly on Uganda, I just want to clarify my understanding there because I was looking back at my notes from the last quarter and you were pretty optimistic at that time about the situation there. So was it a surprise (inaudible) increased the Kenyan and that's also effectively out of the system now. You're saying it's done and normalized. I just want to confirm that understanding there.

Thirdly, the question on the debt that you've raised for the Kisumu brewery, can you just explain the thinking around the split between euro debt and shilling debt and why you've gone for 60 percent euro? And my final question would be if you can give us any sort of margin targets medium-term for the business? How you look at where you'd expect the business to be at when? All of this volatility of the last couple of years is out of the system if you'd like? Thank you.

Andrew Cowan: Thanks, (Sherrat). Four questions, not one question, so that's great. Thank you very much, and good to hear from you. Thank you for joining the call. I will take the center for the Uganda and the margin question and I'll ask Gyuri to handle the debts conversations. I'll do the margin piece first, (Sherrat).

We don't give a medium-term guidance. What I will say to you though is that productivity is key to the way we run the finances of the business because we want to do two things. We want to invest in growth, and we've invested about 5 billion every year for the past five years and we've met 5 billion in at least six months. And so we need to fund that within our business wherever possible. And we also need to drive our margins, and so it's a theme and a subject, but we wouldn't give future medium-term guidance on this specific expansion that we're going to achieve other than to tell you it's a priority.

In terms of Senator, I'm really glad you asked the question actually because I meant to make the point about December. We are through the election, and if you look at what happened after the election, in fact, there was a -- there's been another meeting today, so the kind of deliberations and the jostling for positions is still going on. So there's uncertainty in the market.

However, the big thing that happened after October 26, about midway through November, government issued 77 billion worth of funds back out to the counties, and we saw a couple of things happen. I don't know if you used the PMI (depatchment to management index) as a regular monitoring yourselves, but for those that aren't completely familiar with it, the (depatchment to management index) is an indicator of velocity of trading, so buying and selling products in the marketplace. It's a good short-term indicator for economic activity.

During the -- and by the way, from an index of 0 to 100 and if the PMI is 50 or above, then (it can be tends) to be growing, and if it's 50 or below -- if it's below 50, the economy tends to be declining. During -- in September the PMI dropped to 34.1 in Kenya which meant that not issuing funds to the counties had dried up procurement activity.

And in particular the concrete industry was 40 percent down. That then bounced back up to 42 and then after the 77 billion shillings was issued it bounced up to 50, which meant that in the short term the economy is active again, we saw an immediate response to that so in December our Senator volumes were back where they would have been if I know better than the previous December and we haven't achieved that since the election disruptions happened.

So the answer to your question is yes we think it's coming back. Yes we think we're through it. There are still some uncertainties in Kenya so we're not calling victory or resting our laurels. But certainly December would suggest that once the spending happened and the casual wall came back in those consumers came back into the market place.

With Uganda your (fact to a) surprise, I don't want to loose the point that what we're reporting flat in local currency that business grew by four percent. So the economy was -- is so linked to Kenya but it defiantly slowed down. Where some reports of GDP slowing down sort of mid three's like 3.3, 3.5 percent in Uganda and so there was certainly a squeeze on economic activity.

But the business still did grow by four and volume grew even faster than that. The issue we had was that was driven -- but this will be four and flat is driven by FX and then the negative mix was driven by the squeeze on spending that the consumers bought Chief of products which had a negative mix impact on our business.

So when we don't think the wheels are falling off in Uganda by any stretch of the imagination but it did, it did run parallel to Kenya during the last few months. So there the three answers shot on my commercial areas on the debt Gyuri?

Gyuri Geiszl: Yes thank you. And so I think what we need to -- what we have to do with the debt is find the right balance in terms of the risk. The currency exposure debt you take, but those are the interest costs, the interest charge we pay. So as I'm sure you very well know there's a very significant difference between nominal interest rates in Europe and also in Kenyan shillings.

Which I think puts some incentive on us to pick some more risk. Obviously that has to be a calculated risk and a mitigated risk where to the extent possible we use hedging. But looking at various scenarios we've found that this a good midway being maybe too crazy and taking too much risk for not being a (giant) enough and therefore paying too much cost on these loans.

Andrew Cowan: With the Euro strengthening, Gyuri would you expect there to be a FX loss on the balance sheet at the end of the year?

Gyuri Geiszl: Yes the hedging will not eliminate all the risks so a significant Euro strengthening means that we have a risk to our P&L.

Andrew Cowan: OK thank you.

Female: (inaudible).

Andrew Cowan: Well (Jenny) the next question.

Andrew Cowan: The next question please (Jenny).

Andrew Cowan: Hi (Muhammad).

(Muhammad Amid): Hi thank you very much for taking my call, sorry my questions. A couple of questions one just to follow up on the Euro debt, so could you give us a sense of how much of that 60 percent is hedged? And then two other questions are one just on what are your general income statement FX exposures either via input generally though input costs?

So if you could give us a little sense of that. And finally could you talk a little bit about your spirits particularly reserve and premium performance and the underlying drivers there please.

Andrew Cowan: OK Gyuri will take the first two and I'll take the last one.

Gyuri Geiszl: Well I (concur) it's quite the complex structure that we try to build looking at the cultural principle repayment, interest, the underlying principal amount. Honestly I don't really want to go into details especially because it's all so dynamic hedging. So it changes as our assessment or our banks assessment of future (eight) movement changes.

But I'm sure you're aware that we are talking about five, seven years total maturity. Hedging over (debt center) would be extremely expensive so our hedging is focused on the short term. Maybe just clarifying one more thing I should have already mentioned is to (shore up). We are talking about at the end 12.5 billion shillings however we (only cued) down less than two billion so far.

Because the span is phased over a longer period over the life of the project, so our existing exposure is not the 12.5 yet. That exposure will be built up over the next I would say 12 to 18 months at the project progressive. Before the potential impact on our fully at P&L is way less than what you can calculate from 60 percent of the 12.5. In terms of overall currency exposure in the last couple of years we moved significantly toward local sourcing. Now we are above 80 percent so 80 percent of our input materials and equipment charges are locally sourced.

But unfortunately it doesn't mean that we manage to eliminate the current exposure completely. Because there are certain materials that we source locally but the price, especially over a longer period of time, is tied to currency. Fuel which we use in our brewery, is -- peaks for a year maybe for 18 months in local currency. But over that period of time we cannot disconnect that from global commodity and currency changes. And the last thing is that a certain part of our business is the distribution and sale of the Diageo portfolio here, again obviously we buy scotch from Scotland in pounds. We buy Baileys from Ireland in Euros. So, on all those imports we do have some exposure.

Andrew Cowan: OK Gyuri, I'll just cover with (Muhammad) about the spirits question, thank you for the three questions. So on the premium spirits performance, there's two things -- two dynamics that's gone on in Kenya.

So the big volume we have on premium sources in Kenya, so I'll talk about Kenya. Two things that happen during the two elections. Firstly, those who were casual workers lost their income because there was no spend.

And I talked about that with regards to some industries.. Well those two dynamics that went far to those who continue to have income. Number one, the election disruption created uncertainty, and that's how consumers saved more.

And number two, there were many demonstrations and some of them turned into violence and so that also caused security issues.

Now the vast majorities of our premium spirits are sold in bars and with people either saving or not going out they weren't getting access to our brands.

We are relating it to the election and we think when the other macros settled down those wealthier consumers will go back out to Electric Avenue in Nairobi and have a Johnny Walker and dry ginger.

(Muhammad): And as you said before Senator earlier as well, December year over year was positive then and that would apply to the spirits too?

Andrew Cowan: Spirits are slower because -- they can come back in the same way. It's a much smaller part of the business (Muhammad) so we didn't measure it as intricately as we measured the impact of Senator, but no there wasn't the same bounce back just yet. So that's a big priority bridge to set in my priorities leading with scotch.

(Muhammad): OK, thank you.

Andrew Cowan: Cool, thanks. (Jenny)?

Andrew Cowan: Hi, (Sebeele) I'm (Andrew).

(Sebeele): Hi Andrew, Gyuri, thanks for the call. I've got just a few questions here first is Gyuri I was hoping you could just help me clarify the situation with the conversion of the loan. I wasn't really clear on that. I heard you say, a part of the loan will be paid out in dividends? I wasn't sure if you meant this year.

Is that also suggesting that this company is profitable in the current year? And can't pay dividend? Just give me some clarity around that that would be very helpful. The other issue was, it's not an issue, but I just want to get clarity on, the completion of the Kisumu plant. Is that this year or next year? Thank you.

Andrew Cowan: All right (Cecilia), I'll take the Kisumu question, but let's get Gyuri to cover up the low conversion and profitability of SBL funds.

Gyuri Geiszl: Hi, so let me just clarify, we are talking about two loans. That was the inter-company loan that was in place for several years to fund SBL from the EABL. That's the one that we converted and that's the one that after the conversion basically became equity and managed to fix SBL capital position.

That already happened, and so it was just an accounting transaction. The other loan that you were referring to is a commitment from the B shareholders, to Eden Hills so this has nothing to do with the original loan. Maybe I should call it as a liability rather than a loan.

A commitment from the B shareholders over the next several years to pay 3.2 billion shillings to the EABL. By assigning 50 percent of the dividend to EABL as a repayment of this amount or at the settlement of this amount. As you pointed out it depends on the profitability and dividend payment ability of SBL. It's only six months.).

SBL because of the great performance that Andrew also explained has been in the first six months profitable but that's the whole entire market. I don't want to make any guesses on how the full year is going to look like.

Obviously we are confident, of successful delivery of our strategy there, and 3.2 billion is quite a large amount so I definitely don't expect all that to be settled from this year's performance. It depends on the future profitability of our (Tanzania) business, how long this repayment of the 3.2 billion will last.

Andrew Cowan: (Thanks, Gyuri, although) I have to say I'd be delighted if it was all (funded from this year) because that would be great anyway, (I'll just cover up) the last question on consumer timing. So, let me give you the background.

You may remember, we announced on the 28^{th} of June that we were going to build this brewery. And we then broke ground immediately afterwards, so early August we broke ground. Now typically, we look around the world at all the big brewers take about 24 months to build a brewery. We've built some capacity now in the Nairobi brewery with the (Rackers) investment that Gyuri talked about. However, we are still trying to accelerate that. So, the official day would be day one of (F20). Gyuri ri and I would like to bring that forward as much as we possibly can so we anticipate it'll open some time in (F19) if at all possible.

What I would say is, a project of this size, million hectoliter, $150 million or $15 billion shilling brewery requires us to capture massively more sorghum. So our 30,000 farmers, we need to go to recruit to another 15,000 which is great in terms of our CSR program, etcetera. But that takes time and work -- we need to train them, we need to plant the seeds, need to fund the CapEx so they can get the farm up and running. We need to open 4,000 new bars. We need to open about a dozen new distributers. And we need to build and resource the brewery.

And so the headlines on that piece of land turning in to a brewery will employ 100 inside the building. But in its entirety that will provide 100,000 jobs for Kenyans right across the country. It's an enormous project, which as you can imagine we've got very well resourced, which is why typically these things take a couple of years. But our goal and our internal working plan is to have it open sometime in '19.

Nice to hear to from (Sebeele). I mean you always ask great questions. And so, I'll hand back to (Jenny), to take another question now, thank you.

(Sebeele): Thank you very much.

(Christine Popotte): Hi. (This is) …

Andrew Cowan: Hi (Christine).

(Christine Popotte): Hi, thank you for hosting this call.

My first question is if you would comment more broadly on your target leverage ratios, by when you expect to get there, given the moving pieces, particularly around your CAPEX plan? And then secondly, if you'd also give your comment on your thoughts on excise tax risk in Kenya, particularly given the government fiscal revenue generation has been down. How do you think about (that regime) and how it (sustains moving forward)?

And lastly, if you could -- I know you don't give any specific margin guidance per se -- but if you could comment on what you view as kind of the key leverage or drivers at this stage towards improving your operating margins, that'd be helpful.

Andrew Cowan: Cool, OK. Gyuri will take the leverage question; I will take the Kenya risk question. And we could both do the margin one actually; well I'll let Gyuri do it this time, as I did the last one. Gyuri?

Gyuri Geiszl: OK, so leverage. We have a basic policy that our (method) to EBITDA should be in the range of 1 to 1.2. With the funding of the new investment, the new brewery fully from that, our expectation is that for at least one year but maybe for two years we will be slightly out of this target range. But when we looked at other options, equity funding or a combination of equity and debt funding didn't seem to be really beneficial for the business. We decided to take this temporary breach of our target ratios.

In terms of the margins, so I think there are lot of levers and also a lot of factors impacting that. I think the piece that is to a large extent under control and I think in the last 18 months, 24 months we demonstrated a very strong delivery is productivity and driving cost out.

And I think some of the initiatives that I talked about, the lever of savings across the (P&L), so in supply we were (earning various initiatives, we're using COGSzero based budgeting. Our focus on marketing efficiency and effectiveness, organizational efficiency improvements, so (COGS A&P overhead). We are targeting that and you saw last year as you can see this year, we've had quite a lot of success and achievements.

I think the other element is mixed and a conscious portfolio development, making sure that we are not only going after the upcoming consumer opportunities. But we do it in an efficient and profitable way. There are certain (core changes) consumer that are beyond our control. The down trading that we saw especially last year, in terms of margin. Also there are certain changes in the (previous) portfolio that we were consciously pushing through.

This year in Kenya, that are depending on which period we're talking about, we have a more inconsistent track record on this area I think. As Andrew answered it on an earlier question, margin is becoming more and more important for us. While I think maybe I the past we went into certain participation choices where top line was the most important driver, I think now we are fully committed to be more selective and look at both top line but also margin implications of the various choices.

Andrew Cowan: Thanks, Gyuri. (Christine) I'll just cover up the risk in Kenya question. I guess for me in a concept of Africa, in every sub-Saharan, every sub-Saharan economic outlook report you read, the big bets for economic growth are Kenya, Ethiopia, Tanzania. And so the macro medium term attractiveness of Kenya is significant. And in the context of the rest of Africa, Kenya would be one of the more stable economies.

So, my star point -- I guess in answering your question -- the question you're asking is a short-term question (which is fair) because obviously we need to navigate the short and the long-term. But I do think it's short-term. Maybe look in the most recent ease of doing business (lead table), Kenya moves significantly up (through in the ease of doing business lead table).

My chief executive (of our whole -- Diageo) allowed us to commit to a 15 billion shilling investment in the new brewery. None of that would be the case if we didn't have confidence in Kenya in the medium term. But in the short-term, I think you've got a political risk, and you've got an economic risk.

And on the political piece, this is all about our position and whether or not the incumbent government can get on with running the country for the next five years. And how militant the environment will be. And our prediction is it's a short-term thing. And it will hopefully calm down, but we're not of that environment, so we're on the receiving end of it.

But you have to believe me that it will calm down. As I said earlier, I live here. I might know Kenyans want to move on, locals just want to move on and continue to develop the country. The economic piece, so I've said some of it. The (ease of business lead) table, the stability, the sub-Saharan predictions are all good predictors for the long-term. In the short-term, (Christine) -- and this is -- this is not a robust data point -- but I'm going to just make the point anyway. I don't know if you know Kenya, but there's a really big highway into Nairobi called the Thika Highway. And I have to cross it to get from my home to work. And it's always a good indication as to whether people are spending money as to how many cars are on the road.

And during September and October, trust me, I was crossing over Thika Highway and the roads were completely empty. During January, it's taken me almost twice as much time to get to work because the roads are full again, which means people are filling up their fuel tanks with fuel and they're driving their cars. And it's almost as base as that, that there is instinctive local economic activity going on again.

And I mentioned the purchasing manager's index, (63) is not a bad number and it certainly means that there's economic activity, and there is -- which means that money's going in to people's pockets. And the final thing is, the government, even though they're still forming their cabinet, they've declared their big four pillars. And those big four pillars are good for industry and good for people that work in this country who want to go out and have a drink afterwards.

And so, I feel really good about the economic piece. I'm not in as much control of political piece, and I really hope it calms down soon. And hopefully that answers your question. We'll keep…

(Christine Popotte): … yes, I have one quick -- sorry, one quick follow-up. Another additional question, if I could sneak one in here is, can you comment for the new brewery, the Kisumu brewery, can you comment on your expected pay back period on that investment?

Andrew Cowan: Gyuri -- this is quite a sensitive…

Gyuri Geiszl: No.

Andrew Cowan: Well, we've got enough business case, but we wouldn't give the details of that. Because that's clearly very commercially sensitive for the business and so we'll say no more than that, (Christine). But thank you for having a go anyway. Always good when you (challenge so) thanks for asking the question and the other three excellent questions as well.

I'll hand back to (Jenny) to introduce the next questions.

Andrew Cowan: Hi, Andy.

Andy Divoca: Hey, good afternoon everyone. Thank you very much for the call, I have two quick questions. The first one is more clarification actually. On the (inter-company) loan, the one that you lent to SBL, would you mind clarifying a little bit because I had in mind that the combined amount was above 10 billion in June 2017. And when I take the 5.5 billion affecting the reserve plus the (obviously) earnings and the 3.2 billion, that should be (very robust). I come to something below $9 billion. Is there something that I'm missing between these two?

So that's the first question, and the second question is about the Kisumu brewery. Just out of curiosity, are you thinking about using the brewery to export more beer to other the countries around, Lake Victoria, maybe are you going (around Burundi)? Thank you.

Andrew Cowan: Cool. Thanks, Andy. (I'm also good at that as well). Gyri will take the first question; I'll answer the Kisumu question. Gyuri?

Gyuri Geiszl: Yes, so I'm not sure, Andy, I can follow your math in terms of adding up those numbers. So, let me come back to you in writing.

Andy Divoca: OK.

Gyuri Geiszl: Yes, I don't believe that the amount of the loan that we converted has a direct relationship with the packaging movement. There's quite a complex reconciliation between those two numbers because of the underlying equity position of SBL. But let's work that out separately offline.

Andy Divoca: OK, thank you.

Andrew Cowan: Thanks, (Andy). And on the Kisumu piece, so let me just answer the question broadly. Kisumu is a great location for us. It's near the lake and you need water to make beer, so that's good. We own the plant already, so it was a (inaudible) plant. And also, it's enormous. It's on 55 acres, which is a very (inaudible) piece of unit on a very big piece of land.

The business case -- and there's a rich employment based there. Obviously it's the third largest city in the country.

The business case we've written is to build a brewery that's capable of producing a million hectoliters of Senator. But when you've got an asset with that scope in that location with that employment base, clearly in the long term, we thought well beyond Senator before choosing that location.

We had many, many options of what to do to secure that capacity. And we chose Kisumu to give us flexibility in the long term. So it's a great question. The answer is, just Senator right now. But with a 55 acre site, you can imagine the potential that that brewery can give us.

So thank you very much for both of those questions. And I'll pass it back to (Jenny) for the next question.

(Kinde Ojo): Yes, thank you very much for the call. I have two questions.

Andrew Cowan: Hi, (Kinde).

(Kinde Ojo): Thank you, I have two questions. Given that your bottled beer in Kenya performed well, in my view, during the period, would you say the elections did not have an impact on bottled beer, or would you think that the performance of the bottled beer would have even been better if we didn't have that election on -- certainly during that period. I just wanted to get a sense of the impact there.

The second one for me is if you can please comment on how much expansion did you have on your brewing capacity -- just if you can give me in terms of percentage, in Kenya after installing the (DPV)? If you don't mind please, thank you.

Andrew Cowan: OK, I'll ask Gyuri the second part of the question. And I'll take the first question on bottled beer.

I mean that's the million dollar question, isn't it? If I've been working for 29 years and I'm a sales and marketing guy by background, so if I look at the quality of the marketing and the route to marketing activities on our bottled beer business in all three markets, actually, but particularly the Serengeti brand and the Tusker brand, 8 percent is the least I would expect.

So, who knows if it affected -- if it affected growth. I think that growth has been despite the election, rather than because of -- the election disruption. We e go into H2 with continued ambition for a very healthy bottle beer portfolio.

And by the way, we've still got a job to do on Bell. It's not yet where we want it to be, but we are -- we'll be introducing new content and new activities on the Bell brand in the New Year as well. It's a bit of a million dollar question, I'm afraid. I'd like to think it would be higher. We've got 8 percent. We're pleased with that. We want to do more.

Gyuri?

Gyuri Geiszl: OK. The other question; I don't know how much it is worth, but quite complex. And my supply colleagues are not here to correct me. But let me try to just explain how capacity works.

So, as in any process, if you have different phases, you can run into bottlenecks and capacity constraints in each of those phases. For us, when we produce beer, there are two major phases. One is the brewing process, the other one is the packaging.

If we talk about the Tusker brewery here in Nairobi, for us the major bottleneck was kegging capacity. So as you know, we produce bottled beer and Senator Keg. So that's the packaging end. We have enough bottling capacity, but up until recently we didn't have enough kegging capacity.

That's why we put in place the four new rackers and with that we've managed to remove that bottleneck. And if you look at packaging only, then by around 0.6, 0.8 million hectoliter, we increased the capacity.

With that, it's again brewing that became the bottleneck. However, in terms of additional Senator Volume, our decision was not to increase capacity here for a number of reasons in the Tusker brewery, but to build a new Kisumu brewery.

What we still did was investing into these four DPVs. To some extent, those were necessary to be able to fully utilize the packaging capacity. It does not, in a linear way, increase brewing capacity, but makes the whole process much more efficient, safer, we have less manual interventions required, we can run much more disciplined and organized processing. And as a result, produce good quality beer with less disruption, as a result of these additional tanking and cooling capacity.

As I said, it's not like a new brew house or brewing tank. So it does not directly increase brewing capacity. I hope I managed to clarify things and not confuse you any further.

(Kinde Ojo): You did a good job, thank you.

Andrew Cowan: Thanks, (Kinde), I appreciate the questions. (Jenny)? More questions?

Andrew Cowan: Thanks, (Sisily), you're back. You can't get enough of us. You go …

(Sisily): Yes, I'm feeling a little lucky. My question had to do with Southern Sudan. And I know it's a relatively small market for you, but I'm worried -- or just a little concerned around the risks, or the down side.

You're starting to recover volumes now, but fundamentally, I don't think that the risks have really changed, to a highly volatile situation. How are you managing the risks there? Sort of what (mechanisms) have you put in place?

Second is on Kenya; when I hear you sort of chat around the issue of excise duty in that environment, it's been one market for EABL that has been very aggressive with -- and I comment very clever with excise duty.

The sense I get from you and Gyuri talking around that issue is that it appears as a gentlemen's agreement between yourself and the government about, I'll say relatively stable excise duty over perhaps the medium term -- maybe this administration.

Is that how you feel? I mean, in which case, could that mean that just maybe shareholders, minorities can really start to get some earnings growth out of this business. Thank you.

Andrew Cowan: Thanks, (Sisily). And I'll take both of those questions. I mean, you talk about the risk in South Sudan, and you're right, you've obviously picked up on the 39 percent growth that we posted in the first half.

I would say that growth is despite the risk. So you've got a country there that is still at war, inflations' still at 300 percent, so there's actually no sensible, personable trade in local currency. And so the 39 percent growth we've got is off a low base, but the business is coming back. And the team have done a great job in being able to get beer in and money out of the country to our distributor relationships and to our arrangements with banks, et cetera.

So you're right, it's risky, but we are satisfied that our risk is managed, in terms of the framework with which we've gone to market with our brands and our distributor relationship.

With regards to Kenya and this thing about a gentlemen's agreement, I mean, no is the answer to the question. What we do know, and it's in the public domain, and every industry has a right to either believe it or not believe it, is that the Kenyan government is -- declares themselves as a business friendly government. They have been at least doing business and one of the pillars of that is predictability and sustainability.

And certainly in the meetings that I've been in with treasury and others -- with trade and industry in particular, we believe the authenticity of the Kenyan government's desire to offer businesses predictability and sustainability.

And it's off the back of that that we are back in Kenya the way we are. And (it is) a healthy tension because if there was consistent erratic behavior that impacted EABL, then none of the Unilever, or Coke, or Colgate or other multinationals is going to want to be part of Kenya.

But the general narrative on Kenya is that government is business friendly and is putting an economic and tax framework in place that allows us to do business and be here for the long term. And don't forget, we've been here for 95 years already, and we're going to be here for another 95 years. So I hope that kind of answers your question.

(Sisily): Thanks a lot.

Andrew Cowan: (Jenny), back to you for the next question?

Thanks, (Sisily).

Andrew Cowan: Hi, (Paul).

(Paul Sera): Hi, thank you, thank you very much for the call. I just wanted to ask on Tanzania; Serengeti did very well. Was that a matter of the market growing? Or were you capturing market share? Are you able to share how much market share you did get, if you did? Thank you.

Andrew Cowan: Both, is the answer to the question, (Paul). So I'll answer the question high level, rather than share our commercially sensitive information, such as market share changes.

But the market has bounced back; certainly not in 28 percent growth, which is Tanzanian business. Serengeti Breweries is in 28 percent growth. So, yes the market has been a little bit more forgiving in the last six months.

Serengeti (lite) has captured the imagination. With all of the liquid, the national brand, the content and –also number of other things, consumers are adopting Serengeti more than they were a year ago. And therefore, we're doing well in the market place as well. The market's growing, but not 28 percent.

The other thing that you need to be aware of which is -- which is a dynamic, more on the value end of the market rather than a premium brand like Serengeti, is that government ban had an extra sachet ban which many spirits were delivered in. And that happened last March. So we're almost lacking a year of that.

And the whole market place and the categories have reconfigured. As a beer in particular, has enjoyed consumers coming out of sachets into the beer category. Now those drinkers really are at the value end of the market, but nevertheless, beer is more vibrant now than it was a year ago. The market's back up but not by 28 percent. There we are. So you can conclude from that as you will.

(Paul Sera): Thank you.

Andrew Cowan: Thanks for the question. Cheers, (Paul).

(Jenny), any more? Sounds like that's it.

(Paul Sera): Yes, thank you.

Andrew Cowan: OK, so with that then, (Jenny), and other people that have spared us your time, just a big heart felt thank you from both Gyuri and myself for the interest you show in our business.

We love this business, and we've got a lot of ambition for it. And so, when people will give us a good couple of hours of their afternoon to come and ask questions and show interest and want to know what our plans are, that's -- we don't take that for granted and we're tremendously grateful for your time.

And hopefully, we'll speak to you again in six months' time. So thank you very much for your time, and Gyuri and I will dial off now. Thanks a lot, have a nice afternoon.

END