Vivo Energy 2018 Full-Year Results

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Introduction and Business Update

Christian Chammas

Chief Executive Officer

Introductory Remarks

Station services today in Accra, Ghana

It is quite exciting to be here after eight months – and believe me – of hard work. Before I go into that, if we could move to the first slide. This is a very good example about what we have done since we inherited this fantastic brand from Shell. This site is in Ghana, in Accrain an upper middle-class area. This station three years ago just had fuel and a derelict shop – and believe me, it was derelict. Today it has about 11 offerings. You do not see them all there, but in the centre, you will see the 'welcome' shop – which is the orange bit; on the left you have a hairdresser; on the extreme left you have a pharmacy. Then, when you go to the other side, you have a fantastic KFC; then when you go to the other extremes, there are three ATMs – three big brands of banks there; then you have somebody selling water by the gallon or by the 20 litres; you also have somebody selling fruit and veg, and then you also have somebody valeting cars. Then, when you go to the extreme left, you have services to the car: tyres, balancing, lubricants, washing, etc.

So, these 11 or 12 extra services are there and generating revenue – and I will not tell you how much – before we even sell a litre of fuel. That is the fundamental change in the way we do business. We did not have that six years ago in Vivo; it was just peanuts. Today that is growing at 100 miles an hour everywhere across our countries, and when you think that we have today 2,100 sites, believe me, it is very exciting.

Agenda

If I can go back to serious matters now. I will start by doing an introduction and do an update on the business, plus the finance to Johan who is better qualified than I am. Then I will come back and do a summary of the morning. This should take us half an hour, and then we will be open to questions and answers.

Vivo Energy Today

Well governed

The first slide, 'Vivo Energy today.' Believe me, we have had a very busy year. We started by floating this company and putting it on the market going from private to public. It was challenging, hard work, costly, but we are there. We are there, it works, we had a Board yesterday that approved our accounts and the whole thing is well governed. Our auditors, our bankers, our partners all consider that we have done a first-class job, and we are very proud of that. Believe me, most of my grey hair comes from that.

New ERP system

In order to increase our pain, we decided to do to roll out a new ERP system, SAP 4HANA. Apparently, it is the Rolls Royce. We did not pay the price of Rolls-Royce; believe me, we paid the price of a Ford, we negotiated well like we usually do. Two countries were rolled out last year – big ones, Kenya and Uganda – and on Monday we rolled out another four. It is working, we are delivering, invoicing, we are actually even collecting money which is fantastic after three days, but the system is in four other countries. By August, everything will be done – the 15th. Then we will be able to sit down and address how we are going to bring over the eight Engen countries to this new system. They are already on SAP, so the migration will be less complicated than before.

Access to 450 million consumers

The Engen deal was three dimensional, complicated. We restructured it and brought it on board last Friday, 1st March. The eight countries that came on board – there were nine, but one was in Kenya so we are not double-counting – but eight new countries. It is fantastic because now we have a population of 450 million we can serve. We went from 300 million to 450 million. Believe me, that is 45% of the African population. That is not a bad target to go for.

A leading pan-African business

All these actions have cemented us into being one of the largest independent companies when it comes to downstream in Africa. There is only one in front of us, and it is a multinational. We are the only pan-African company, and it is a good position to have: 23 countries and a good base, a good platform to build 2019 and onwards.

Full Year 2018 Performance Highlights

Diversified business enabled success in first year as listed company

If I can move to the next slide, we promised and we delivered. It was a successful year, we worked hard at it. Believe me we had headwinds, but we also had our own resources, our own reserves, as I would say, which enabled us to counter these headwinds. You know them, we have talked about them. They came from the northern parts of Africa, some of them from the eastern part of Africa and even the western part of Africa, be it supply, pricing, be it otherwise, but we countered it. Why? Because we have a business that is diversified, that enabled us to absorb these hits and move forward.

That is what happened, and it enabled us to deliver – to deliver an adjusted EBITDA of $400 million. So, we promised, we did it. For the first year, we are quite proud. Therefore, it proves also that there is a value. We kept saying it from day one, that there is a value in this diversification of our portfolio; there is a value in the diversification of our business be it Commercial, Lubricants or Retail, and now food and otherwise.

Dividend pay-out

So, that was a successful year, and of course we have recommended a dividend pay-out of 30% of our net income as for the first eight months – we were not public for twelve months; eight months, do not forget – in line with what is our policy and also in line with what we have promised.

Delivering Against Our Commitments

Operational

As I said, delivery against our commitments: not only did we deliver the top line targets which you have just heard, but we also delivered against our targeted openings. We opened 88 new sites, we opened 119 non-fuel activities – food and otherwise. The QSR – the quick service restaurants – are fundamental to our business through joint ventures with Kentucky Fried Chicken and others. This is the way forward. We have created these JVs in order to fast track, and you have already some that are running – precisely two, and more to come.

Why? Because it enables us to occupy that space and to move fast. Our competitors are not moving as fast, and our model is better. It is moving fast when you see the number of openings. Just to give you a highlight, in Morocco last year not only did we open 14 new retail sites, but they opened 30 CR and QSRs, which is massive believe me, by any standard. I mentioned our ERP system: four countries so far this year, two last year and 15 by August.

Health and safety

Of course, we carry on focusing on health and safety, and security of our operations and of our people; it is fundamental. We tragically lost an employee in Morocco last year through an accident at a client's – something that is not under operational control but in an accident. Gas ignited, and he lost his life 15 days later. It happens, but we refocus, analyse what happened and make sure it will never happen again. That is how we go about it, and there was a lot of investigation, a lot of analysis and then we spread the experience and the knowledge from that incident.

It is easy for me to hand over to Johan, because you will speak for the next 15 minutes. Thank you very much.

Financial Performance Review

Johan Depraetere

Chief Financial Officer

2018 Divisional Performance

Retail, Commercial and Lubricants overview

Thank you, Christian, and good morning everybody. If we move on to the next slide, for people in our business, we report and we run three different segments: Retail, Commercial and Lubricants with Retail still the biggest, accounting for about 58% of margin and EBITDA.

As you can see all segments show growth last year: Retail was at 3% year on year, and Lubricants and Commercial 4%. Just to put a bit of context around the market growth, we were across Africa showing a growth just above 3%, which was clearly a bit below the previous year where we actually saw market growth of close to 7%. Basically, we maintained market share and our growth, including Retail, is in line with the market. You can see total volume of over 9 billion litres which is 4%, and our operating leverage is again at work showing an adjusted EBITDA growth of 6%, so very strong results.

Continued Earnings Growth Whilst Deleveraging Balance Sheet

Moving into some of the KPIs of our financial position, you can see that the volume growth growing at 4%, gross cost profit at 2%, as you are all familiar that we had some headwinds in Morocco which slightly reduced the unit margin by $1, and so that is the effect there. Having said that, EBITDA growing at 12% and adjusted EBITDA by 6%, the main reason being that the specials that we had in 2018 was lower than the specials in 2017. We had about $34 million of specials, which the bulk is related to the IPO and the Engen transaction.

We also talked about our tax rate at IPO, that we aim to bring it down to the mid-30s. You can see that we are currently at 36% and so on a good trajectory.

Then finally, we continue to delever, and you can see that our net debt dropped by 13% as we continued to pay down our amortising debt and actually paid back $84 million last year. So, overall we are very proud and happy to show these results to you today.

Delivered Another Year of Adjusted EBITDA Growth

Looking at the adjusted EBITDA trends, not just over the last year but also since 2015, as Christian was mentioning, very strong performance in both Lubricants and Commercial – Lubricants up 21%. This is mostly driven by the acquisition we did at the end of 2017, where we actually bought 50% of Shell Vivo Lubricants, the manufacturer and our partner in the Lubricants business, so we are actually taking a bigger share of the value chain which is reflecting in that growth rate. Commercial up 14% year on year, and Retail flat on a year-on-year basis.

Trend continues to be positive

It is also worth noting that the trend continues to be positive, and if you look from 2015 to 2018, we actually added about $160 million of adjusted EBITDA. $85 million is coming from Retail, but $75 million is coming from Commercial and Lubricants. So, that segmental diversification is fundamental for our business, and you can see it here in this slide.

Retail Remained Resilient

Cash gross unit margin

The next two slides I will highlight the Retail business and performance. The slide – on the left, you are familiar with. We show here the cash gross unit margin for Retail going back to 2014 but also for the last four quarters. As I mentioned, the Retail margin had pressure last year, and we all know the reason is the Moroccan dynamics, where we went from $78 to $75. That is a 4% decrease, but more importantly you saw us deliver strong performance in Q1 and Q2, and you can see from Q3 onwards that the pressure really built up and we ended the year at $71. Despite that, we were able to deliver growth in our earnings.

Geographical diversification

More importantly, on the lower right-hand side, you can see the dynamics of the geographical diversification where, on a total gross cash profit which was flat year on year, Morocco unfortunately contributed to a decrease of 7% of that. However, the other countries stepped up and delivered 6% as well as, to Christian's point, of the non-fuel offering which continues to grow, which added about $4 million dollars to the gross cash profit, which really shows the resilience and the quality of the earnings across Vivo Energy. We also, in the regulated markets, had five price increases or margin increases across our 12 regulated markets, which again allows us to maintain that margin in regulated markets.

Driving Opportunities to Enhance Margins

Non-fuel Retail

Just to highlight two of our main drivers to build the Retail business, one is non-fuel. There, you can see that in the last three years, we more than doubled the gross cash profit from Non-Fuel Retail going from $12 million to $25 million. It went from 5% to 6% of our total gross margin. However, if you adjust that and exclude the DODOs, where we do not have any offering, we are closer to 8%, 10% of our gross margin coming from non-fuel Retail. So we continue to invest in that.

Premium fuels

And then the second point to make here is our premium fuels. As you know, this is V-Power, both diesel and gasoline, where even in regulated markets like Kenya and now also Tunisia, this product is deregulated so we are able to price it at a premium. You can see here the year-on-year growth rates for V-Power in four key markets with Morocco, Ghana and Kenya in the 20% and Uganda in the teens. The way it works is that we now have 80% of our sites in Morocco selling V-Power, because we have to invest in the different sites to make sure they have the right tanks and the ability to fuel that so we continue to invest in that.

Strong Commercial Segment Performance

Volume growth

Moving to Commercial, again this is a similar slide that we used in the IPO. We have two segments: the Core accounting for about 73% of our volume, and then we have what we call 'Aviation and Marine,' which is more opportunistic and more volatile. You can see overall growth rate: 4% in Commercial business, mostly driven by Aviation and Marine, the reason being that we were able to win quite a few aviation tenders but also focused more on the bunkering business, where we were able to provide the right fuel at the right place at the right price, most importantly. So, that really drives the volume.

Unit margin

The margins across Commercial were very strong, both the Core Commercial and Aviation and Marine showing a margin of $47 per 1,000 litres, which resulted in the EBITDA increase of 14%. So, a very, very record year for Commercial business overall.

Lubricants Segment Impacted by Rising Input Costs

Growth in line with the market

The third segment is Lubricants showing growth in line with the market, 4%. Retail and B2C slightly higher, Commercial 3%, and then margins were overall 10% lower compared to the previous year. We talked about it both in August and in October at the Q3 results, that we still were struggling with the base oil increase. I think we have now turned that corner and see a recovery of the margins going forward.

You can also see there is a bit of you know more stickiness in the B2C channel where it is actually a bit harder to change the prices. Once we manage to do that, we will be able to reap the benefits of that, but it takes a bit longer because the car mechanics are not going to change their prices every week. However, overall a good performance. As I said, this excludes the Shell Vivo Lubricants, because that is really below the gross margin; it is an equity pickup as we own 50% of the business.

Continue to Invest in Growth

CAPEX

Moving on to CAPEX, we continue to invest in the business. Last year, we spent $147 million in CAPEX – slightly higher than the previous year – the main driver being the ERP rollout. That is really the driver behind that. I think important to note the ROACE, that we continue to spend to CAPEX wisely. We did not change our guidelines in terms of required IRR for both Commercial and Retail, and you can see that the ROACE of 23% is also in line with previous years.

Strong Adjusted Free Cash Generation

It is important to get returns but also to get cash flow. You can see the cash flow on the next page. Adjusted free cash flow was around just south of $150 million, an 8% increase. I think the working capital in the results was a bit confusing, but we were still able to generate cash flow from our working capital, about $36 million, a bit less than the previous year. The main reason being – and we mentioned that also in June – in August we had some build-up of government receivables based in two countries in Botswana and Senegal, where the government, although it's a regulated market, decided not to adjust the prices in line with the oil price movement. Basically, they imposed indirect subsidies, which was funded, or is funded by Total and people like ourselves. So, we had a $40 million increase in that receivable due to these two countries. We expect, now that the election in Senegal is done and also in Botswana, we are already recovering that money. That again is something that we expect to normalise going forward. So, overall a very strong cash flow generation, not only to invest in the business but also pay down our debt, so the cash element is still going very strong.

Strong Balance Sheet with Low Leverage

Leverage: as I said, we continue to de-lever. Net debt stood at $318 million dollars which is just around 0.8% of adjusted EBITDA, which is again in line with saying we will not go above 1.5% and continue to delever. One of the main reasons here, in case you wonder, is we do want to keep our flexibility and our balance sheet healthy in case any future acquisitions come our way that we have the ability to both use debt and equity to go after bigger deals. That is the reason why we continue to be conservative on this end. We also up-streamed $140 million of dividends from the countries, so again we do not have any trapped cash and the cash keeps flowing from the countries as shared previously.

2019 Outlook

Group level

Last but not least, guidance and outlook for 2019. Clearly, we have Engen coming on board. Engen will be part of our business for ten months. It was announced on Friday. Given also the moving parts of the business, we decided to scale back our guidance and really just give guidance at the Group level, where we look at total volume, total unit margin, CAPEX and sites.

Total volumes

As you can see, volume given specifically for Vivo Energy, we continue to be at the guidance that we said of 4% to 5% volume growth, and we will also have the Engen volumes coming on board that will be to the low to mid double-digit volume growth for this year.

Group gross cash unit margin

In terms of cash gross margins, our guidance is high $60s, which is slightly lower from the low $70s at IPO. The main reason is Morocco – a downward pressure on our margin, as well as, compared to this year, a slight lower Commercial margin going forward.

Capital expenditure

Capital expenditure for both groups, for both entities – Engen and Vivo Energy – around $150 million, which is as per previous guidance.

New Retail sites

Then, continue to invest in new sites with the aim to add 80 to 100 sites in 2019.

I will now hand it back to Christian for concluding remarks.

Concluding Remarks

Christian Chammas

Chief Executive Officer

Successful First Year as a Listed Company

Thank you, Johan. I think this slide is self-explanatory, but in summary we had a very successful year. We are very proud of what we have achieved and managed to deliver, despite some serious headwinds. We remain focused on delivering our business, both on operational efficiency and financial – that is how we do it – and we will continue doing that.

Diversification Helps to Mitigate Country-Specific Impacts

We talked about diversification, which helps to mitigate headwinds or countries with specific impacts.

Morocco

Let us talk a bit about Morocco and what we control in Morocco. In Morocco, what we control is operational. It was a strong year in all segments from Retail all the way down to Marine, Aviation, Lubricants, food and otherwise, and we saw growth and market share growth in all these segments. That was very pleasing to see, and it enabled all the other segments to bring the necessary hedge to the vulnerability of Retail, which was under attack.

On the Retail side, at the same time, we grew our footprint. We added 14 new sites and we added non-fuel. I mentioned earlier on 30 openings, which is, believe me, not a small activity – 30 new openings in non-fuel is big. We also increased our market share, and we also increased by 50% the number of sites in Morocco selling V-Power. So, the ramp up will come in 2019 because we started working on that from June of 2018, and that will now come as a full benefit in 2019 – the V-Power. We will also launch a V-Power gasoline in 2019, and that will also bring the full V-Power proposal to all our clients.

As I said earlier on, and I think Johan mentioned it again, Commercial did what it had to do in 2018. It brought what was necessary, and it brought strong volumes and strong margins in Morocco for Aviation, LPG and Marine. That was a good delivery, and it allowed us to remain strong.

The market conditions are what they are, and the industry is adapting and accepting lower margins. The lower margins do not come now from government; they come from the market, the population, social media so you have to manage that. You have to make sure you remain smart, protect your market share, protect your position and make sure that through value propositions – be it through V-Power, food, QSR, you name it – you bring the necessary value to your customers, so they continue using the Shell brand. It is the case we have very strong loyalty through also our loyalty cards. We have 600,000 members that are using our loyalty card, and that is a very strong position to have.

Six to nine months after talking about the re-regulation price capping or no price capping, no change; business as usual. We carry on growing our business, we carry on investing, we carry on doing what we have to do, but of course there has been pressure and an impact on our Retail margins. That is a fact, and we live with it, we have absorbed it and we move on.

The Competition Council, which was appointed by the King at the end of last year, did its work, came out with a ruling and said, 'Gentlemen, this is the framework, this is where we live, this is the law that was put in place by government and it cannot be changed. All of you have to learn how to live within it, be it government or you the players, and there is nobody that is a good boy or the bad boy. We cannot change it or break it, and Mr Government, you cannot go by decree trying to impose this and employ this.'

Since then, there has been a calming down of the rhetoric, and people are talking now with a more conciliatory message. I think things will calm down. They have a massive political agenda, which you all know very well, and we were not targeted; it was targeted to players who were close to this or that, but I will not comment further on that.

We also have moved on. We have Engen that has come on board and has brought additional hedge, I would say, to our business. Therefore, that diversification of the portfolio, also through the Engen business, enables us also to be more comfortable. The Engen transaction, on 1st March, became part and parcel of Vivo Energy. We are excited, there is a lot to do. Quite a few of our teams have been there since Sunday, and we are now going to, in the next month, try to decipher, understand more completely what we have seen from a distance when it comes to people, opportunities, drivers, etc., how to put in place the necessary Vivo Energy model so that we can deliver the value which we have created in Vivo a couple of years ago. We will now reproduce it or replicate it across the Engen perimeter.

Zimbabwe

Zimbabwe is a country where we have entered for the first time. It is a nice big country. We are in a challenging environment; we have to use what we can. We have the possibility to import products with a 1:1 parity versus the dollar which is good. We have been doing it, but we have today 15 days' stock so there is no panic. Every time we can, we buy dollars through letters of credit confirmed, irrevocable, and we bring in products. That is what we are going to do and replace it and replace it. We are going to make sure that we grow that business, because that country ultimately will be normalised. Is it going to take one day, or one month or one year? I have no clue, but basically we are going to use all our energy resources in order to make sure that we are ready to grab the opportunities that will come in that country when everything will be settled, so that we can you know grow our market share and our position.

2019 Brings Expanded Opportunity Through Eight New Markets

2019 brings an expanded footprint and expanded opportunity for us through these eight new countries. It will increase our addressable market share by 22%. The Engen perimeter brings us a footprint that is equal to what we sell, but it is fantastic to have. Even if we go for our normal market share which is about 23%, that is basically going for a volume that is superior to what Engen brings. It just proves that there is more to come and more to grab. We will do that, we will use the Engen brand to its maximum. It is a good brand. It is like the Shell brand was early on – a bit dusty; we will clean it up. We will make sure it delivers what it has to do, but again the business in Engen is 50/50, i.e., 50% Commercial, 50% Retail. We are more used to having more retail, so we will build the retail offering and bring what is necessary around it. We will of course continue developing the Commercial side, because in some countries they are fairly weak in mining so we will go after mining. Believe me, we are all ready to go. Basically, we will also roll out our systems, our model, are manual of authority; we will empower people. We will make sure that they are focused, we will make sure that our scorecards are in place, we will reward, recognise people, we will change people and move them around, inject new blood through Vivo Energy and move the people back into Vivo Energy. All that to create a breath of fresh air within all these companies in order to bring a new dynamic and a new movement. We believe there are significant opportunities in these countries, and we will grab them, I assure you.

This business delivered $33 million of adjusted EBITDA in 2018. We will have it for 10 months, so it would be pro-rated in our figures.

Continued Innovation to Enhance Our Business

Premium fuel rollout

Innovation: I talk about it; it's fundamental when you look at doing business. It starts by the best fuels. Premium fuel is fundamental, because that is how you differentiate. You make sure that you will have an offering that is top of the class and top of the brand. We have to focus on that and make sure that it is everywhere, so that it is your image, your quality image, your number one image. That is what we are going to do. We are going to bring down quality, efficiency, and of course at a premium; we do not put it, therefore, for the same price.

Non-fuel partnerships

Also, the non-fuel partnerships have proved that they are what people want. We use them in order to build loyalty, to decipher what clients want through the technology – we are rolling it out, so better data analytics. All that enables you to know better what your clients, your consumers want today and tomorrow, and therefore bring it to them when they walk in or when they think of coming to Vivo.

Energy efficiency

Energy efficiency is something fundamental. We started it two years ago, and basically there is no site in Vivo Energy now that is built that does not have that component, be it the walls, the glass, the lights, the equipment, the fridges, air coolers, the roofs, the solar panels. In some of our sites now, 60% of the electricity that is consumed on a site is produced by us, so that is a big game changer. The unit cost is insignificant when you take it into account from day one when you build the site. In order to add it on, it is more costly, but not when you start. When you think that we are building 80 – well, it will be about 100 a year, we will quickly have quite a few that will have that footprint.

ERP-Optima

The ERP-Optima SAP 4HANA is a game changer, because you basically are able to see before the end of the month; you can see today instead of waiting and closing. You can therefore analyse better, do a diagnosis better, therefore interpret better and therefore bring better solutions to your clients; to yourselves, efficiency and otherwise, transport optimisation. All that enables you obviously to ramp up your solutions, because you can plug in more and more solutions around this ERP. Behind, we went from having something that was a Ford Model T to something that looks like – I am not going to say a Rolls-Royce, but I am going to say a Tesla, *voilà*, it is solar-energy efficient. So, I have a Tesla that has more than 500 miles range, but that is where we are now. It is something that is a solution for tomorrow, and that can be upgraded all the time. We did not take a bespoke solution, believe me; it is a standard solution. We do not want in five years' time an upgrade that will cost us $20 million.

Loyalty

Loyalty is fundamental. We saw the success that happened in Morocco. We are now reproducing it in Kenya, Côte d'Ivoire and Ghana if I am not mistaken – and maybe I forgot a few. That is the way forward to tomorrow. By having partners around you, the reward of the loyalty is through your partners; that is fundamental.

Site Automation

Site automation enables you to go from the ERP to the client to make sure that you know what the hell is happening. It means that if your dealerships now are weak and they do not have the cash flow for a reason or another, no problem; I will put my stock, or at least I know my stock is there. I know what I sell litre by litre, and I know that I have to be paid for that litre. It enables you to take calculated risks and to have solutions that enable you not to have anything dry; 'wet, wet, wet' is our motto.

Summary

2019 focus

This is my last slide in summary. As you can see, we are still passionate. I represent the Group, but believe me there are quite a few others that are as passionate as I am.

Driving growth

We love our business, we believe it has colossal potential like the continent. We will ride with the continent, ride with our clients and make sure that we deliver, extract as much as we can, and have our fair share.

Integrating the Engen markets

Vivo Energy is in Africa, has been in Africa through the Shell brand for more than 100 years, it will remain there. We will have to integrate successfully Engen, there is no other option; it is fundamental, we will do it.

Innovating and diversifying customer offerings

Finally, we will continue innovating. We will continue diversification, because that is a natural hedge to our business. It will make us stronger and better, to be ready to face headwinds. We will always have headwinds, be it Morocco or otherwise; it comes every day. It is part and parcel of our business, and we have to be ready to fight it or to counter it.

Thank you very much, and the floor is yours for plenty of questions and answers. Thank you.

Q&A

Alexander Mees (JP Morgan): I do have plenty, but I will restrict it to three. First one, with regard to Engen, a flat performance before you got your hands on the keys in terms of profitability in 2018. Is it realistic that the integration measures that you are going to implement in 2019 can lead to any sort of growth on that $33 million in the year?

Secondly also with Engen, I wonder if there is as much opportunity to roll out convenience retail and QSR in the Engen countries as you see in the Vivo countries.

Thirdly, Commercial: I just wonder if you can help us understand why there is such volatility in the Aviation and Marine side of that business.

Christian Chammas: I will address the Commercial. I think we mentioned earlier on that 25% of our Commercial business is, I would say, volatile, so 75% is recurrent as such with big industry, mines, cement, etc., so that is recurrent; and 25% we defined as volatile. Why? Because of Aviation business, Marine business and an annual tender business. That part of the Commercial business is therefore volatile, so sometimes you are at 100% of the 25%, sometimes you are 110%, but sometimes you are 85%. That is the volatility, so that is why we are prudent and use prudence in our figures, be it through the margin or through the volume. That is the Commercial aspect.

The other point: can we introduce see CR, QSR into the Engen? Yes, of course we can. They already have good CR offerings across their sites through their own brand. I think it is not bad. It probably needs to be dusted and remarketed in an intelligent way. We are not going to go there and say everything is bad; believe me, there are some good things. We are going to try and build on the good things, because do not forget we are taking the brand and with the brand comes some contents. We will build on it and make sure that it is well merchandised, that there are the good partners behind it.

The food side to it is not that good, so we will make sure the CR convenience retailing runs better. The QSR, we will have to work to it and bring probably on board our partners, which we already have – the Kentucky Fried Chickens and the others that are now our partners through joint ventures or otherwise. There is an opportunity to do that.

Finally, Johan, I will bring the first question to you.

Johan Depraetere: It is day six, so we are really trying to get our hands around. What we will do in the next two months is really to understand what the plan for this year is, because we have a desktop plan at this point in time, and we had unfortunately limited interaction – some interaction but very limited. I think to be on the conservative side, we assume that there is probably not a lot of upside, especially on Retail. You need a pipeline of sites. They have not really built many sites in the last five years, so we will have to build that pipeline.

Then Commercial, as Christian said we will push it hard. Their results have been flat for the last few years basically. There has been a bit of movement across the countries, but there is no investment model around the Engen business historically. That is why we are so excited, because we can take it now, invest in it and then really drive it for performance, because even the governance is more like Shell used to run the business from Cape Town. We want to really empower the teams and give them the oxygen to really drive the business with clear accountability. Christian mentioned the scorecards, and we will say, 'Listen.' Having said that, it will take probably most of this year to get that all in order and to get a feel for what the business will be, and then I think from next year onwards to really see the impact of the growth of the Engen countries.

Christian Chammas: Yes, you see, what we did in the Vivo time in 2012, which was the first year when we arrived, and it was a desert when it came to the pipelines, so we had to create that pipeline. In the interim, there are other solutions. We can go through the DODOs, and that can enable us to go a bit faster where you can, but it is not always possible. However, we will try all the avenues, believe me, in order to start fast tracking that, so that the brand starts. You see, what is important is to show to the market and to the different markets that the brand is moving. If people start seeing ten sites rebranded, they do not know if it is company-owned, dealer-owned or whatever; they will see a new brand. We have to do that in order to show that we are now here and reinvesting, and we are open for business. So, that is what we are going to do and fast track it.

Commercial, we are going to go after all the tenders, believe me. Mining is big; in Zambia, for example. Also, there is one country, which I can't mention, where they have a pipeline. It is fantastic, so we are going to start with that country, and we are going to fast track – I do not know how many sites, but quite a few. The Managing Director – I do not know what happened, but he decided to have a pipeline, so he is a hero for us, and we are going to use them.

Johan Depraetere: Maybe just one other point: we call it 'operational excellence;' it is how we manage our sites, which is one of our key strengths. When we go back to when we bought the business from Shell, we actually did spend quite a bit of money in making the sites look up to date. So, we will do the same with Engen in the next 18 months to really make sure these are places you actually want to go to, that they are at the top end of the market and also then impose our operational excellence, so we can drive like for like which historically was not the case. We will give the rewards to the pump attendants to make sure the dealers have the cash flow but working capital. That is all in the works, but again it will take time to put that in place.

James Hubbard (Numis): Thinking about the margin guidance for this year versus what was delivered the second half of last year, I am wondering, was Morocco still falling throughout the second half of last year, so ended December maybe lower than it was in July? So, does the guidance for this year – the high $60s – factor in an assumption about Morocco being flat from now onwards, or from December onwards; also, related to that on the moving parts side, East Africa? Basically, what are the major moving parts in that guidance for this year? That is one question.

Then the second one, which is a bit more vague; if you like, philosophical. Your comment about the subsidy I thought was interesting. I used to cover Indian oil marketing companies many years ago, and there was always a big bunfight at the end of the year where the oil marketing companies in that country would have a fight with the government about how much of the subsidy, they had to outlay through the year, they were going to get back. I am wondering, when you talked about Senegal, is it a similar situation? There is a temporary kind of revenue mismatch, and then you have 'a big discussion' – in quotes – with the government and try claw back as much as you can? I am wondering what colour you can give on that.

Christian Chammas: The subsidy issue in Senegal is very straightforward. They obviously did not follow the rise, but some stages are mismatched, and they owe you money. Basically, every month you reconcile these figures, and you know exactly how much they owe you. So, there is no ambiguity and no discussion on the absolute amount; it is now to see how they are going to pay it. It will take three months, it could take six months, but they will pay it; they have always paid. That is not an issue.

In Botswana it is the same thing. They sat on the price and they refused to move it for electoral reasons; they will pay for it. We have never had default from government; governments do not default. They take a while to pay, but they pay – to your question. In some circumstances, they even pay interest – I am not that they will in this case. So, that is the subsidy.

Johan Depraetere: I think Moroccan margins did come down, and you can see that in the slide that I showed. I do not know if you want to bring back that slide, you can do that. We were at $71 in Q4, coming down from $79. The Q4 is, I would not call it normalised, but what we believe going forward is the margin for Retail as a whole more or less. Again, there is a bit of moving parts there, but that is the zone. If you go back to what we said at IPO – we were at $78 – we said guidance going forward for Retail was $75. Clearly that is no longer the case now because that was based on 2017 Morocco numbers, which resulted in an overall cash gross unit margin for Vivo Energy in the low $70s. Now, that low $70s has become high $60s, mostly because of Morocco.

The only other element that I referred to this year is Commercial, where again we were able to capture a bit of extra margin last year. We said clearly low $40s at IPO, but clearly that is now a bit higher and clearly not $46, $47 but somewhere in between. So, that is the other element that drives slightly lower margin compared to last year.

Christian Chammas: Also, what is positive is that, I think at IPO and subsequently, we always said that we will lobby government to make sure that the local margins, which are in local currency, are adjusted to follow inflation and all that. Well, five countries adjusted their margins. They adjusted halfway through the year, end of the year, whatever, so the full impact comes in 2019. This year we will get another five, six or seven to adjust margins. That is what we do all the time. It is one of the priorities of the local MD, to make sure that the erosion, if there is one, is recovered through a local margin increase.

Johan Depraetere: In East Africa, there is one country deregulated; it is Uganda. Again, you have a bit more volatility in that margin, but the rest is regulated. I think the supply issues that we saw in last year are now behind us because the pipeline is up and running, so supply is flowing very well in Kenya and East Africa.

Christian Chammas: In the East, there was an impact at the end of the year for a multitude of reasons: prices going down, also an overstocking of diesel. What happened is that at the end of the year, the pipeline started working, the railway was opened all the way from Mombasa, all the way to Nairobi and all the way to there. Suddenly, there is less transport. So, imports of products are not done every day. The cargoes come by period, and what you received today was planned three months or four months ago. So, with a bit of hindsight they should have ordered less. Yes, but life is not perfect, and they ended up sitting on big stocks; not only us – the market, be it Uganda or Kenya. Of course, the independents – and there are big independents in these two countries – they started dumping, because they did not what to do with the product. So, they pulled the prices down, but that is behind us. All these headwinds as we call them – meet and supply, or indirect impact on the margins – are behind us, and as we go along this is absorbed.

Simon Irwin (Credit Suisse): Thank you. Can you give us a little bit more colour on Morocco. Obviously, we are watching YouTube as much as you are, I am sure, for the latest news. What is the worst-case scenario if they do decide to regulate margins, and how much downside do you think that would give you to overall Retail margins if that were to happen?

Secondly, on Lubricants margins it looks as though you have had more success passing through margins on the Commercial side than on the Retail side. Can you talk about the kind of typical timeframe that that would take to get that through the Retail side, which is obviously a larger part of the business?

In terms of future M&A, is there any likelihood that the DRC will happen, and are there any other markets where you are looking at M&A at the moment?

Christian Chammas: Look, the latest news from Morocco is quite straightforward. The minister on Sunday, live on a TV programme was quite clear there is a law, there is a ruling by a competition board, and he said, 'I will abide by that.' Full stop. There is no longer an agenda of doing what he thought he could do or not do, so that is number one. The worst scenario – I do not know if there is a worse scenario – but we have issued guidelines now for 2019: high $60s when it comes to our Group margin. That is what we think, knowing what we know today about Morocco and others. The weighted average is what we have given as guidance, and that is what we can communicate today, because I do not know what could happen otherwise. That is number one.

Number two, the margin on Lubricants. Can you, because you have the figures there?

Johan Dupraetere: It was my point that I referred to, that we have Retail, which includes both our retail sites and the B2C segment, Business to Consumer – which is really the resellers, the distributors, which is the bulk of the Retail segment – is quite sticky in terms of pricing. That is why the lag takes a bit longer to adjust in prices. Having said that, I think we are seeing a recovery in the Lubricants margins as we speak, so that is now behind us.

Christian Chammas: I have gone around the mechanics, and believe me I visited quite a few, be it in Senegal, Morocco or otherwise in Tunisia. These small shops – and this represents a big chunk of our business – do not change their price; they do not. They have a price, the barrel goes to $100 or $200, the price is the same because the buyer buys a litre. He does not understand the change, so they keep it. So, when we go like that, you do not change your price; it stays. So, the weighted average remains nearly the same, and you just live with it in that segment. You work on the other segments, which is therefore retail sites, you work on B2B, you work on what you can. Obviously when you have massive variations there is a lag, so it took us longer than we thought. What we can say today is that January and February, we have a situation where the margins have recovered. Voilà: I cannot say more.

Finally, DRC, the loveliest topic: there, I don't think they have appointed a Prime Minister yet, so we have a head of state, the Prime Minister is not in place. When the government is in place, I would think that our partners Engen will start talking, and when they start talking, we will see; we are nowhere there yet. I do not think anybody has talked, and I cannot talk on their behalf. The day it comes, we will look at it like I said, like any opportunity. It is disconnected from what was a consideration in the past; it will be a new discussion.

Nick Coulter (Citi): Firstly, on Morocco, what has happened to your market shares in that country obviously with consumer boycotts, etc., during the year and a lot of competitor activity? Has there been any lasting impact or advantage for you?

Then secondly, philosophically when do you think you will be in a position to pursue more M&A? When do you think you would have realistically digested the Engen deal?

Christian Chammas: We have grown our market share in Morocco. I cannot go into too much detail. You remember last year, at some stage there was a boycott against some companies. It did not concern us. Yes, our market share grew and continued to grow. Although that company that was boycotted regained its market share, we continue to grow our market share and we ended up the year and even the beginning of the year with a very, very strong market share. It comes from a lot of the reasons: V-Power, opening new sites, being more dynamic, loyalty, marketing campaigns. When you add all these recipes to the offering, yes, you grab market share, and we did, and we still have it. That is number one.

M&A, as I say and I repeat it: when it comes we will look at it, analyse it, digest it or whatever, and if it is attractive we will go for it. Today there is nothing on the radar screen as is.

Johan Depraetere: Engen took more than two years from start to finish. These deals take a long time, so probably we will be busy clearly this year with Engen, but at the same time if something comes, we are ready to look into expanding.

Christian Chammas: Believe me, we will be on it.

Martin Boeris (Exane BNP Paribas): On EVO, could you give us the average Retail unit margin across the EVO countries? Is it in line with Vivo countries?

Johan Depraetere: We do not intend to share the margin separately for Engen. The next results and quarterly updates, you will see an integrated margin, because they report their numbers slightly different. So, it is as I said, we need to make sure if we give anything, we give you the right answer.

Christian Chammas: The weighted average which we gave us a guidance for 2019 includes the eight Engen countries, so the high $60s includes it. We will see as we go down the road in the year if there is a merit of changing it or not. However, for the time being it is what it is, because it takes into account all we know, be it through the markets, Morocco, EVO or Engen today, and we do not intend to change it at all.

Martin Boeris: But overall would you say it would have a positive or a negative impact on overall margin?

Johan Depraetere: I think probably you could assume no material impact. That is our assumption at this point in time.

Christian Chammas: Too small.

Johan Depraetere: Both because of the size and probably the difference is not there, but as I said, the concept of a cash unit margin that we use, they don't use. So, even today, we need to get into the weeds to really understand.

Christian Chammas: We have to roll out the way we manage the business in order to have them to be reporting in the same way so we can decipher the figures in the same way as we decipher our own, in order to start doing you know benchmarking and try to see where the efficiencies lie. Therefore, there might be efficiency through productivity and otherwise, but it is early days. Monday was the real first day where we put our hands on this business. It will take us a month in order to do to understand it a bit better. We have spent a lot of time working from a distance. Now we are 'in situ' is the word, so we will understand faster.

Question: The target tax rate I think is 35%, you said at IPO, or mid-30s is good, so we are pretty much there. Is that done, or will Engen maybe fractionally change that?

Johan Depraetere: We will have to look at that; it is – you know.

Christian Chammas: We ended at 36% if I am not mistaken. Is that what we did?

Johan Depraetere: Well, 36% today, so we still have a little bit of room, but Engen again, there might be you know a likelihood that it pops up a little bit. Then again, I think long term, yes, 35%, but with Engen it might bring a bit. We just started our purchase price allocation. We look at their tax provisions, their tax rates the way they look at the whole philosophy around that.

Christian Chammas: We will work at it in the same way as we worked on Vivo at the beginning. Believe me, it was significantly higher when we started – and I mean significantly, but then we brought it down.

Johan Depraetere: The structure is the same in terms of we have the corporate income tax, and then you have your withholding tax on dividends and corporate [inaudible] in that respect.

Christian Chammas: The rest is just being efficient.

Ladies and gentlemen, thank you very much.

Johan Depraetere: Thank you.

Christian Chammas: Thank you.

[END OF TRANSCRIPT]