Introduction

Interbrew has a long heritage in brewing, and has become one of the great beer companies of the world. The essence of Interbrew is its commitment to creating value — by increasing the profits from its existing capital base and investing in new projects which generate returns greater than the cost of capital employed. The story of the past few years is a story of expansion. In 1990 we were in just a few countries. Now we are in 21 countries, across three continents — Europe, the Americas and Asia. From being simply a Belgian beer company, we have become a player on the global stage.

In this expansion we created value by bringing funds, knowhow and respect for local brands to new territories. Interbrew bought established national brands with potential, then built their position. Our growth is based on knowing how to run the acquisition after the transaction. A deal is interesting only if we can grow the business more profitably afterwards.

Alongside this rapid external growth, our businesses in mature markets have also strengthened their position. We focused on performance, and managed to increase profits in mature markets as well as emerging markets. Results this year continued this unbroken improvement.

Interbrew's strength lies in its credible past record and potential for future growth. We have shifted the axis of the business, lessening our dependence on mature markets and opening up opportunities in markets set to expand. In 1998 the story of value creation advanced once more. We seeded new businesses to produce tomorrow's cash flows. This report reviews current performance and the steps taken to build Interbrew for the long term.

Contents

PERFORMANCE HIGHLIGHTS

As of 1996 financial results are reported on the basis of the 12 month calendar year.
The 1994-1995 financial results cover a period of 15 months which include 5 months of Labatt results. Therefore these results are not directly comparable.

	93-94	94-95	1996	1997	1998	▲ 98/97
Total sales (000HL) (1)	17,599	28,854	32,857	34,721	38,570	+ 11,1 %
Personnel (number)	8,143	13,237	13,735	13,835	16,727	+ 20,9 %
CAD/BEF exchange rate at closing date	23,73	21,61	23,36	25,76	22,33	- 13,3 %

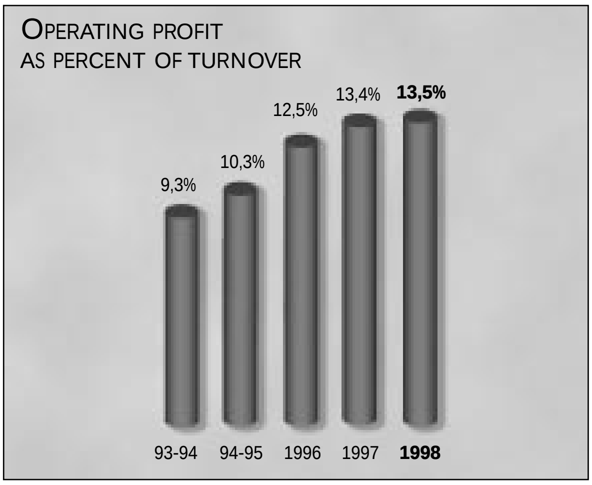
Results in BEF (mio)	93-94	94-95	1996	1997	1998	▲ 98/97
Turnover (2)	48,683	81,395	96,596	106,644	114,406	+ 7,3 %
Cash flow (3)	10,083	14,161	15,268	18,302	19,308	+ 5,5 %
Net profit	2,684	3,462	4,068	5,336	7,668	+ 43,7 %
Capital and reserves (4)	33,602	38,823	42,425	49,209	52,431	+ 6,5 %
Investments (5)	5,187	7,103	6,045	6,745	7,150	+ 6,0 %

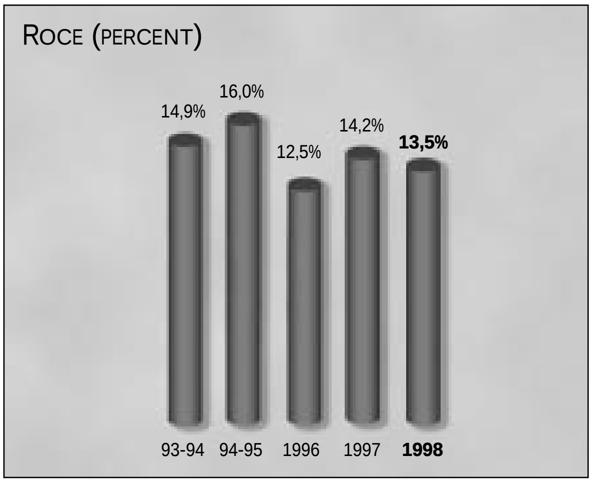
Results in EUR (mio)	93-94	94-95	1996	1997	1998	▲ 98/97
Turnover (2)	1,207	2,018	2,395	2,644	2,836	+ 7,3 %
Cash flow (3)	250	351	378	454	479	+ 5,5 %
Net profit	66	86	101	132	190	+ 43,7 %
Capital and reserves (4)	833	962	1,052	1,220	1,300	+ 6,5 %
Investments (5)	129	176	150	167	177	+ 6,0 %

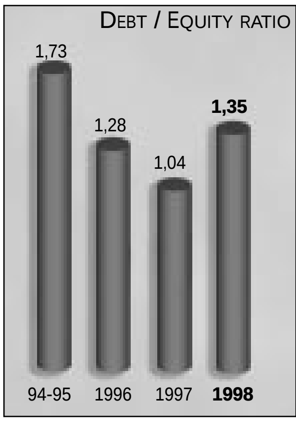
Results in CAD (mio)	93-94	94-95	1996	1997	1998	▲ 98/97
Turnover (2)	2,052	3,767	4,135	4,139	5,122	+ 23,7 %
Cash flow (3)	425	655	654	710	864	+ 21,7 %
Net profit	113	160	174	207	343	+ 65,7 %
Capital and reserves (4)	1,416	1,797	1,816	1,910	2,347	+ 22,9 %
Investments (5)	219	329	259	262	320	+ 22,1 %

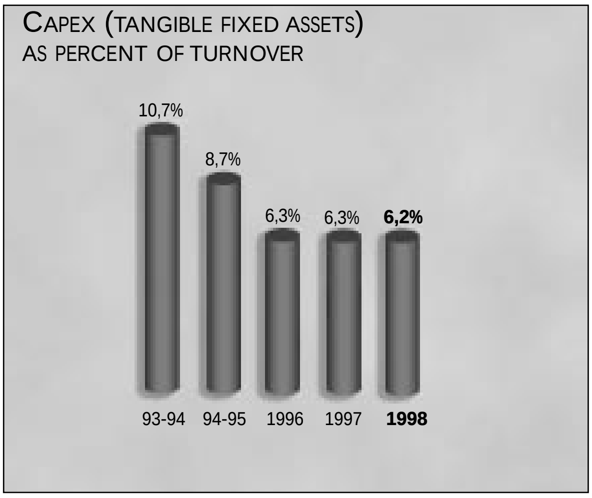
(1) Volumes do not include minority participations.
(2) The turnover was calculated after deduction of excise duties.
(3) Cash flow includes net profit of the consolidated companies after deduction of undistributed earnings of companies accounted for under the equity method, increased by the addition (+) and substraction (-) of depreciations, write offs and provisions for liabilities and charges, as well as deferred taxes; reduced by capital subsidies taken into the profit and loss account but without the exceptional capital gains during the respective fiscal years.
(4) Minority interests included.
(5) Tangible fixed assets.

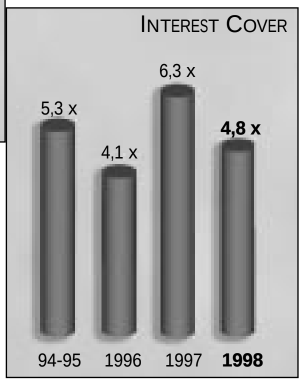
Performance Highlights

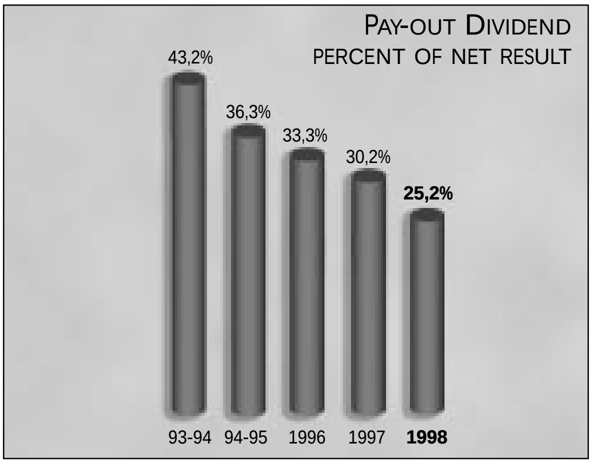


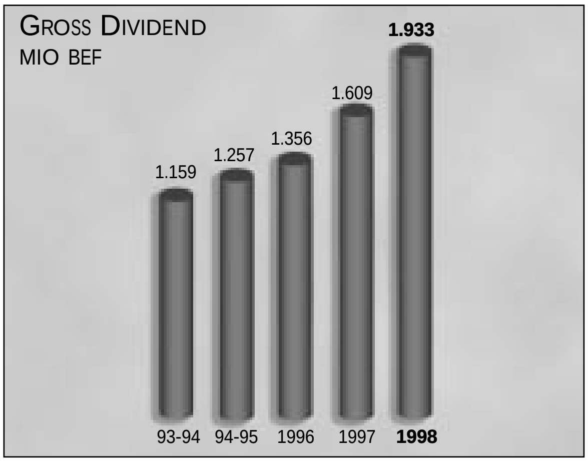








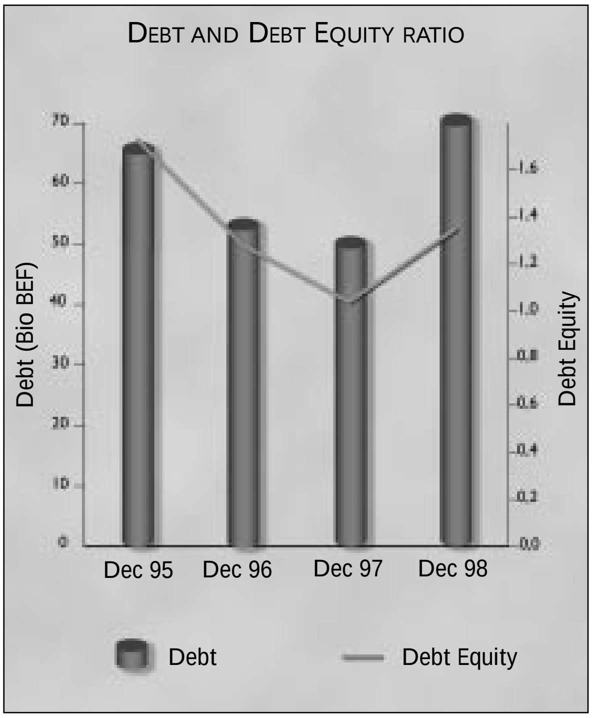




Performance

1998 was characterised by a big step forward in external growth. We made our largest investment since Labatt when we entered Korea, Asia's third largest beer market. We also moved into Russia, purchasing the country's fourth largest brewer. We exercised an option to increase our Mexican investment in Femsa Cerveza from 22% to 30%. In their scale and ambition, these steps represent a significant confirmation of our global strategy. We are now represented in the key markets we need to do well in the long term. Our agenda will shift to completing our existing positions in Europe, Asia and the Americas, as we continue our efforts to build our business globally.

1998 was characterised by a big step forward in external growth.



1998 was also a good year for most of our existing businesses — in mature markets as well as growth markets. We want to highlight the good performance of Labatt USA, Eastern Europe, the Stella Artois licence in the UK, and exports — particularly duty free. Sales volumes increased by 11.1% to reach 38.6m hectolitres. Most of our international and local brands maintained or gained market share. Particular mention must be made of Stella Artois, which grew in total by 19.7%.

The year saw significant progress in key financial areas. Net profit was up 43.7% from 5.3bn to 7.7bn Belgian francs (BEF). These figures were favourably influenced by the changed accounting treatment of Femsa Cerveza in our accounts. Operating profit also rose — up 7.9% from 14.3bn to 15.4bn BEF. Our debt-equity ratio increased from 1.04 to 1.35, due to the Korean, Russian and Mexican investments. Our overall performance allows us to propose a 20% increase in the gross dividend, up from 1.609 mio to 1.933 mio BEF.

This performance is not the achievement of a single year. We are reaping the benefits today

We are reaping the benefits today of work done over a period of years

of work done over a period of years — in particular, the significant acquisition of Labatt Breweries of Canada and important investments in Eastern parts of Europe. We have set up the basis for further benefits in the future with our move into Korea and Russia. This year's results could not have been achieved without the determined efforts of managers and staff — not only those working to get the most out of their home markets, but also the pioneering managers who took their skills into new territories and extended Interbrew's success. Our sincere thanks to everyone. I believe we all share a feeling of pleasure and pride in being part of such a dynamic company.

TRENDS

Recent financial and economic turmoil

Crisis erupted in Asia, and Russia. The situation brought us new opportunities as well as risks. Breweries previously inaccessible started to look for partners, and we capitalised on this by entering Korea and Russia. In these countries we have taken measures to deal with the immediate situation, and believe that growth will resume within one or two years. Globally the crisis has as yet made no discernible impact on our volumes. Given the way we have structured our current business portfolio, even if general consumer confidence is affected and consumption is reduced, we believe we will still be able to show growth.

Consolidation in the industry

The beer industry is undoubtedly consolidating, though the process is far from complete. We see this as an important trend. Our expansion is an example of what is possible by exploiting its potential. We will watch developments carefully in order to spot opportunities to strengthen our position in existing markets, and find new potential for the future.

The euro

The launch of the euro in 1999 is a major event, one of the landmarks of the century. It will accelerate the development of the single European market, and should reinforce the

economic position of Europe in the world. Exchange risks will diminish, and a new dynamism will be promoted in Europe. There will, of course, be unknowns, and these we will monitor. We are addressing the issue and measuring its impact — in particular, looking at euro pricing and information systems, to prepare ourselves to operate in a market where borders will have less and less to say.

In all our decisions, plans and actions, the fundamental criterion and objective is the creation of value.

Creating value

In all our decisions, plans and actions, the fundamental criterion and objective is the creation of value. Even though past performance is not predictive of future performance, it is sometimes useful to reflect on recent events, to identify what we have done well, and where we need to improve in the future.

From left to right: Johnny Thijs, *CEO Interbrew Europe - Asia/Pacific - Africa*, Baron Paul De Keersmaeker, *Chairman of the Board*, Hugo Powell, *CEO Interbrew Americas*

Over the past ten years Interbrew has grown rapidly, and in logical steps — restructuring the Belgian business, expanding into Eastern parts of Europe, and broadening our stable and profitable base by entering North America. We certainly created value. Laying down our strategy has been fundamental, as has been our capacity to adapt our plans when unexpected opportunities arose.

We made these important decisions only after intense debate. Interbrew's expansion has not been inhibited by being a private company. In fact the role of the shareholders has been remarkable. We should pay tribute to their personal engagement, and their intellectual and professional capacity.

So where do we stand now? We are in the top league in terms of operating performance and financial results. Our investments in the Americas and Eastern parts of Europe have added to the company's value. We further established our global credentials with the entry into China, Korea and Russia. We can expect to consolidate our position in both mature markets and growth markets — when we see an opportunity, we are nimble, decisive and connected. At each step we learn more, and fine tune our strategy and approach.

Baron Paul De Keersmaeker
Chairman of the Board of Directors

The Board of Directors

Chairman
Baron Paul De Keersmaeker

Directors
Allan M. Chapin (1)
Count Arthur Cornet de Ways Ruart
Count Christophe d'Ansembourg (1)
Baron Paul De Meester (2)
Harald Einsmann (3)
Baron Frédéric de Mevius
Count Arnoud de Pret Roose de Calesberg (1)
Viscount Philippe de Spoelberch
Pierre Jean Everaert
Bernard Hanon (1)
Remmert Laan
Alexandre Van Damme

Secretary
Patrice J. Thys

Honorary Presidents
Raymond Boon-Falleur
Jacques Thierry

(1) Mandates renewable on April 27, 1999
(2) Mandate ending on April 27, 1999
(3) Mandates starting on April 27, 1999

Board Committees

Office of the Chairman
Baron Paul De Keersmaeker
Hugo Powell
Johnny Thijs

Audit Committee
Baron Paul De Keersmaeker
Baron Frédéric de Mevius
Count Arnould de Pret Roose de Calesberg
Remmert Laan
Hugo Powell
Johnny Thijs
Jo Van Biesbroeck
Luc Missorten
Michel Janssens

Strategic Committee
Baron Paul De Keersmaeker
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Bernard Hanon
Alexandre Van Damme
Johnny Thijs
Hugo Powell
Stefan Descheemaeker

Compensation Committee
Baron Paul De Keersmaeker
Count Arthur Cornet de Ways-Ruart
Baron Paul De Meester
Viscount Philippe De Spoelberch
Johnny Thijs
Hugo Powell
Luc Luyten

Executive Committees

Interbrew Europe - Asia/Pacific - Africa

Chief Executive Officer
Johnny Thijs

Executive Vice-Presidents

Marcel Boisvert
Western Europe & International

Axel Cogels
Corporate Affairs

Jaak De Witte
General Manager Belgium

Luc Luyten
Human Resources

Michel Naquet Radiguet
Central and Eastern Europe

Patrice J. Thys
Senior General Counsel
Asia Operations

Jo Van Biesbroeck
Chief Financial Officer
Responsible for Group Consolidation

André Weckx
Chief Technical Officer

Interbrew Americas

Chief Executive Officer
Hugo G.L. Powell

Executive Vice-Presidents

Paul N. Cooke
President, Labatt USA

Stefan Descheemaeker
Business Development

J. Michael Hill
President,
Caribbean and Latin American Region

Larry J. Innanen
Legal and General Counsel
Corporate Secretary

Donald R. Kitchen
President,
Labatt Breweries of Canada

Larry J. Macauley
Chief Technical Officer

Luc Missorten
Chief Financial Officer

Sharon Paul
Public Affairs

Delivering value

1998's good results confirmed our recent investment decisions, and continued the success of the past three years, when we outperformed all our major competitors in terms of growth.

COMPARATIVE PERFORMANCE

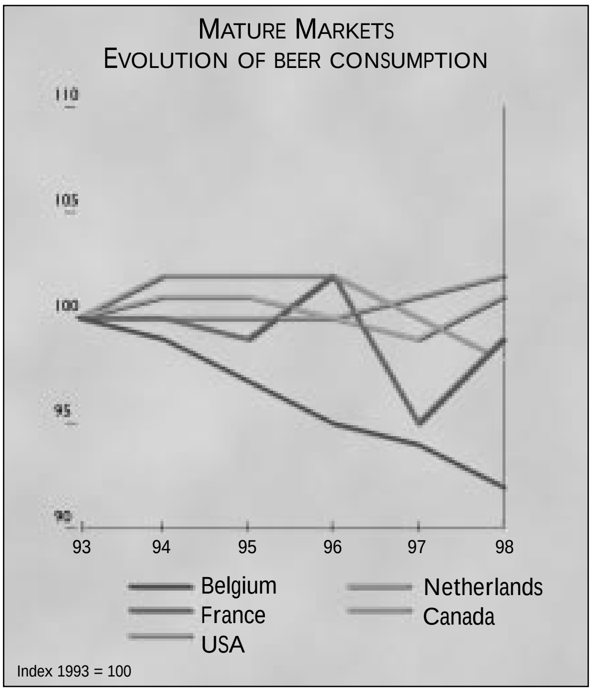
There are several ways of measuring corporate performance, each with its own strengths and weaknesses. In the following analysis, we selected certain key measures of financial performance — net sales (gross sales minus excise and discounts), ebitda margin (earnings before interest, taxation, depreciation and amortisation) and ebit margin (earnings before interest and taxes). We compared our performance from 1994 to 1997 with that of ten major international competitors.

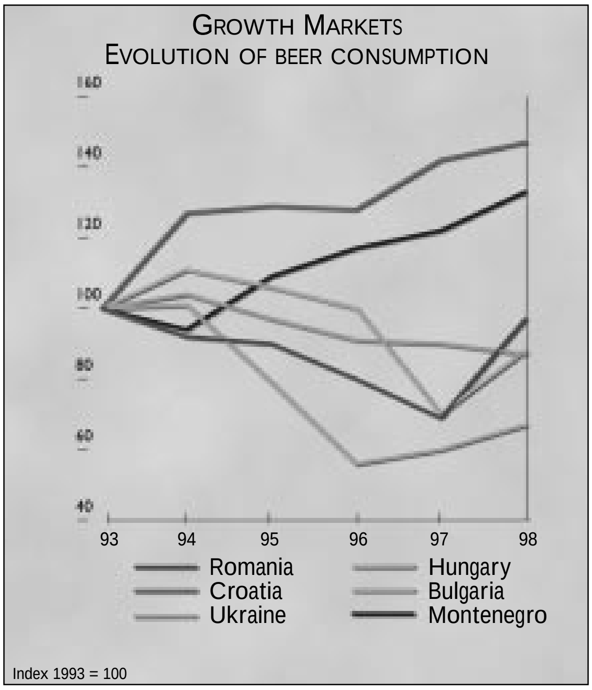
In terms of compounded annual growth rate (CAGR), Interbrew outperformed by a wide margin all its major competitors during that period. Where Interbrew's net net sales were up 29.3%, the best performing competitor achieved a rise of 16.0%. Interbrew's ebitda margin was up 37.0%, against the best performing competitor's 23.3%. Interbrew's ebit margin was up 58.1%, compared with the best performing competitor's 17.0%.

In absolute terms, though, we are not yet fully there. There is room for further improvement. In ebitda we moved from 6th position to 4th out of 11. In ebit we moved from 11th to 5th. None the less we made progress during this period. And in 1998 we had another good year.

1998 RESULTS

Results were highly satisfactory. Overall sales volumes were up 11.1%, an additional 3.8m hectolitres. Of these increased sales, 2.6m hectolitres related to new affiliates — in China, Montenegro and Korea. All the rest, 1.2m hectolitres, represented organic growth. That success really matters to us. Being a growth company means





more than making acquisitions. The big benefits come from combining the knowledge of what to buy with the ability to grow the business bought. In that sense, the really satisfying story of 1998 was the confirmation of our decisions to enter Eastern Europe, and to invest in the United States. Considerable volume increases were achieved in Romania, 72% up, in Bulgaria, 28% up, in Croatia, 13% up, and in the US, 16% up.

Meanwhile volumes in Western Europe were flat. However, duty free sales grew strongly, and the UK licence once again produced outstanding results. In the Americas, a strong Canadian performance was fuelled by a 2% increase in domestic consumption.

The notable brand success was Stella Artois. Global sales volumes were up 19.7%. That growth came from sales generated by Whitbread in the UK, from exports, and from Eastern Europe — where Stella Artois took off. Other brand success stories were the specialty Leffe, with a 7.5% volume increase, and local brands in Eastern Europe, where Ozujsko in Croatia, Bergenbier in Romania and Kamenitza in Bulgaria did particularly well. In the Americas we should mention the successful relaunch of our American beer Rolling Rock, the strong progress made by our Canadian and Mexican brands in the US, and the continued rapid growth of Budweiser in Canada, sold under licence from Anheuser Busch.

Market volumes

In our mature markets, total beer volumes declined in Belgium and Holland, and grew slightly in France and Canada. In our growth markets, the US specialty segment grew strongly and all the markets in Eastern Europe except Hungary were up. This is the first time that almost all these countries saw their beer markets grow.

Market share

Whether the market is up or down, our job is to grow our share — to measure up to, or outperform, our competitors. In 1998 we held or gained share in all markets except Hungary, Korea and Ukraine. Our share in Belgium and Canada was stable. We achieved growth in France, Holland, Montenegro, Bulgaria, Croatia, Romania and the US. Growth was particularly impressive in the US specialty segment and in Croatia and Romania.

Pricing

Pricing is an important value driver. In 1998 competitive pressures inhibited real price increases in Western Europe. However, we were able to increase prices in North America and raise levels in Eastern Europe at least in line with inflation. The only exception was Hungary, where price wars continued.

It is worth noting that the strong growth of Stella Artois in the premium lager segment since its Eastern European launch in 1997

improved our product mix. In the Europe, Asia Pacific and Africa zone as a whole, the premium and specialty beers which generate a bigger margin increased as a proportion of sales — up from 31% to 33% of our total beer volume.

COSTS

We look at costs in two ways. We aim to reduce them as we strive to become a low-cost producer. And we expect to increase them as we invest in our brands. This year the first kind of costs were satisfactorily down, and the second kind were healthily up — we made significant increases in commercial and marketing spend across both zones (Europe, Asia Pacific and the Americas).

In terms of cost efficiency, we made progress on three fronts. Fixed technical costs were reduced by 7.5% and fixed administrative costs by 1.2%, while variable costs remained stable. This represented a saving of almost 1.0 bn BEF. Both zones contributed to these good results.

OPERATING PROFIT

Results were affected by the drop in value of the Canadian dollar. Even so, we achieved an overall increase in operating profit of 7.9%. Operating profit in the Americas was up 4.9% — a figure which represents an 8.8% increase in Canadian dollars. Operating profit in the EAA zone was up 8.5%.

FINANCING

Debt levels increased as a result of the Mexican, Russian and Korean investments. Interest payments rose accordingly. The Mexican debt was in the figures for seven months, the Korean debt for four months. However, interest rates dropped in Europe. Our debt policy is not to fix rates for long periods, so we benefited from low short-term interest rates. Some interest payments were positively affected by the loss in value of the Canadian dollar.

PROFIT AFTER TAX

Profit after tax was up by 43.7%, from 5.3bn to 7.7bn BEF, and was positively influenced by a change in the accounting treatment of the 30% investment in Femsa Cerveza. Of the profit increase of 2.4bn BEF, 1bn is attributable to the consolidation of the Femsa Cerveza results. The remaining 1.4bn, an increase of 24.9%, represents results from current activities.

This double digit increase was achieved even though profit after tax was impacted negatively by the Korean stake, which delivered a loss as expected. Restructuring in Korea was well underway by the end of 1998. We now need to drive up our market share. We expect a positive net after tax within two to three years, as the Korean beer market recovers.

Results overall continue to be more than satisfactory. We achieved once again a striking growth in net after tax. This is the sixth consecutive year of strong net after tax growth.

Building our international presence

We moved ahead decisively, with investments in China, Korea, Russia and Mexico, to create the medium term and long term cash flow drive for the company.

INTERBREW TOMORROW

Creating value means more than producing good returns in a single year. We also need to invest to create the medium term and long term cash flow drive for the company. Being a growth company means focusing on the future. If we are not planning boldly and budgeting conservatively, then our actions are misaligned with our ambitions. Boldness certainly characterised the major steps we took in 1998. We underlined our global position with new initiatives in China, Russia, Mexico and Korea.

CHINA

At the beginning of the year we completed the acquisition of the second brewery in Nanjing, in which we have an 80% stake. This added the Yali brand to our portfolio which, together with Jingling, made us the leader in Nanjing. Plans were drawn up to exploit the potential synergies of the two breweries.

KOREA

We entered into a 50/50 joint venture with the Doosan conglomerate (Chaebol) to operate the Oriental Brewery, taking the number two position in the Korean beer market with a 36% share and sales of 5.1m hectolitres. OB has breweries in Ichon and Kwangju producing the pils brands OB Lager and Cafri. This is our biggest investment since the acquisition of Labatt.

The growth potential is also significant. Korean beer consumption enjoyed phenomenal growth from 1975 to 1997, up from 5 to 35 litres per capita, making beer the country's leading alcoholic drink. During the crisis in 1998 it dropped back to 30 litres per capita, but we are confident growth will resume in a few years, with the potential of reaching the Japanese level of more than 55 litres per capita. To help the market grow we are putting the case for reduced taxation on beer, which is at penalising levels, favouring the traditional Korean drink soju.

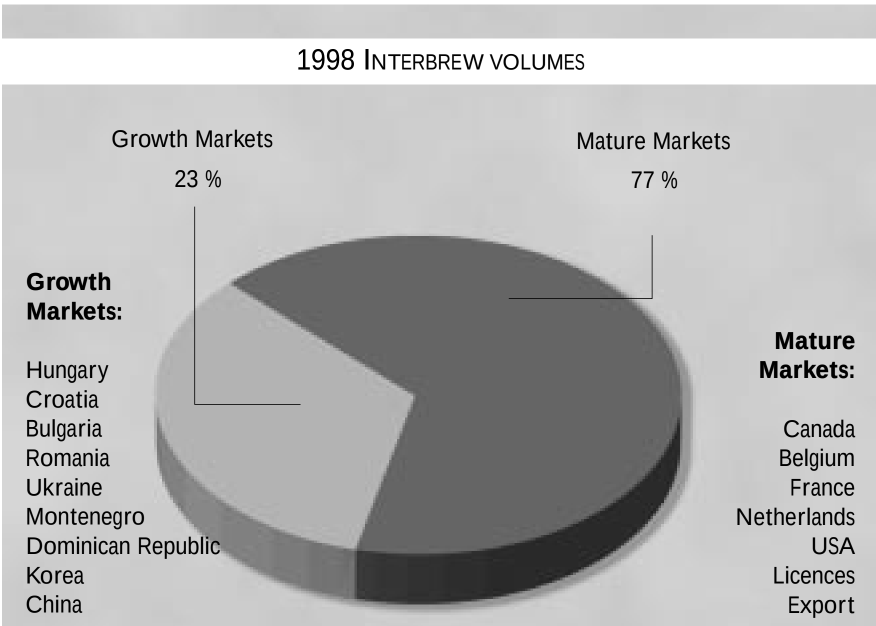
We expect the worst of the immediate crisis to be over by late 1999. Meanwhile no time was lost. Even before the deal was secured, action was taken by Doosan to adapt capacity to the declining market and sales. A new marketing and sales programme was introduced focusing on the key brand OB Lager, with the ambition of increasing market share. At the same time action was taken to reduce costs and working capital.

Our investment ensured that OB was well capitalised. All Korean brewers were weakened by the crisis, and our entry has strengthened the financial position of our partner relative to the others. We were also able to reduce the interest rate payable on the outstanding debt. All these factors suggest that, together with our Korean partners, we can turn OB into a strong, growing and profitable business in the medium term.

RUSSIA

Interbrew expanded its presence in Eastern Europe by taking a majority stake in the Rosar Brewery in Omsk, the leading brewer in Siberia with a 25% regional market share, and the fourth in Russia. Rosar has the reputation of being one of the best managed and most profitable brewers in the country. Our new brands are BAG Bier and Sibirskaya Korona. The rouble underwent a massive devaluation after we bought the shares, but we view Russia as a long-term opportunity.

West Siberia is a good market, where prices are relatively high compared with other countries in Eastern Europe. Before 1989 per capita consumption in Russia in general was around 32 litres, for a total of 48m hectolitres. Now per capita consumption has stabilised at 27 litres — an indication of the growth we can expect when economic conditions improve. Share purchase represented only one third of the investment, the rest is for capital increase. We plan to increase capacity from 800,000 to more than 2m hectolitres, and foresee important increases in volume and market share, which we will be able to finance with the increase of capital subscribed by Interbrew.



MEXICO

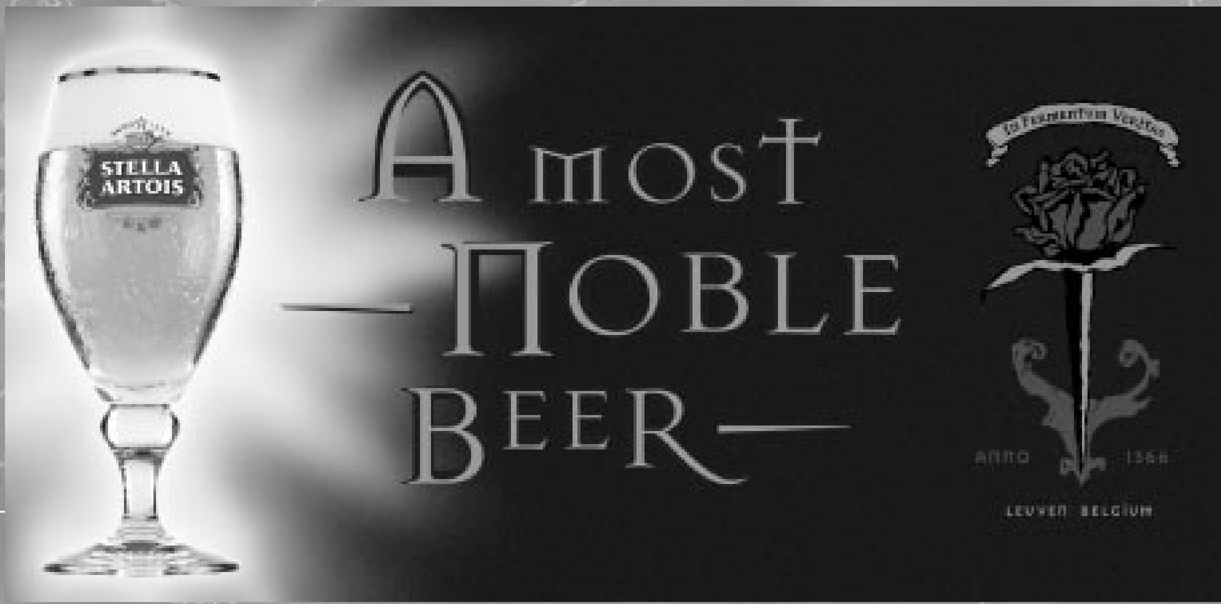
During the year we exercised our option to increase our investment in Femsa Cerveza from 22% to 30%. Even though the economic contagion rolled through Latin America, and Mexico suffered to some extent, we judged it right to confirm our commitment to the country, the company and our partners. Fundamentally it has been a story of tremendous progress. Since Labatt took the initial stake in 1994, we have worked very successfully together. Market share stabilised after 20 years of decline. Profitability more than doubled as a percentage of net sales, and the company realised a significant increase in ebitda and net earnings. More effective use of capacity allowed the company to reduce its projected capital investment — a substantial contribution to shareholder value. The net result is that the value of the business doubled.

VENEZUELA

We can be prudent if need be. We had announced our intention to create a joint venture with the Cisneros Group in Venezuela. The project was exciting, but after thorough due diligence we arrived at the conclusion that the risk outweighed the potential benefits, and we parted on friendly terms.

LOOKING AHEAD

The eye is always caught by the big events of the year. These are achievements of which we are naturally proud. We know how to do transactions. But we also know how to run a business. That is when we create the real value. Organic growth is the implicit outcome of external growth — its justification and true goal.



Getting more out of our brands

We are our brands - and they did well. Stella Artois took off in Eastern Europe. Our USA imports beat the growth rate in a buoyant sector. And we found new ways to exploit the heritage of our specialty beers.

GETTING MORE OUT OF OUR BRANDS

HOW BEER BRANDS ARE DEVELOPING

The markets for certain fast moving consumer goods are characterised by global brands. One or two famous names dominate sales. In the beer business, the segment for such a global brand is still very small. Today, as before, the bulk of the market is in local brands — and the bulk of the market is important because that is where brewers develop economies of scale, and cover the huge fixed costs, both industrial and commercial, which are typical of the beer business. None the less, the segment of international brands is expected to grow, as consumers are increasingly attracted by the sophistication of premium and super premium beers.

STELLA ARTOIS AS AN INTERNATIONAL FLAGSHIP BRAND

Stella Artois is doing well in all the new markets it has entered. It is the number one premium lager in the UK, where strong growth continues. It has made rapid progress in Eastern Europe, following its launch in 1997 in Hungary, Croatia and Romania. The volumes achieved show that a relatively luxurious proposition like Stella Artois has great potential even in countries which do not yet have a strong economy. This is clearly an international brand which has much more to bring to shareholders.

That is why Stella Artois has been selected as Interbrew's global flagship brand. The expansion of Interbrew over the past few years has given us a much stronger industrial and commercial platform to support the brand around the world.

We are now looking at brand building programmes for Stella Artois in more countries than ever before. The brand is being introduced progressively in Canada and the United States by Interbrew. A new unique international brand positioning and advertising concept was developed in 1998, and introduced towards the end of the year in Hungary, Croatia and Romania. Other countries should follow in the near future.

INVESTMENT IN LABATT USA

Our objective is to become the leading US specialty beer company. This segment of

the market is growing fast — 11% a year by volume — and our business is growing even faster. This year Labatt USA was up 16%. What makes us distinctive is the breadth of our brands — both imports and domestic specialties — which attract consumers by their craft, authenticity, heritage and roots. The specialty import segment grew a full share point to 13% of total US volume in 1998. The other continuing development was the growth of the light segment, now over 40% of the total category. Blue Light was up 43% against this opportunity. Labatt Blue became the number three imported beer in the US, with volumes up 18%. Rolling Rock grew for the first time in four years, up 5%. Our Mexican brands — Dos Equis, Tecate and Sol — were up in total by 19%.

BUILDING OUR SPECIALTY BEERS

Hoegaarden and Leffe became more firmly established outside the home market. Both made significant progress in the UK. They also achieved a leading position as the number one white beer and abbey beer in France and Holland. Our Loburg premium pils brand also strengthened its position when it was relaunched in France. We invented a new type of brand café during the year, to speed the acceptance of our specialty beers around the world. The Belgian Beer Café, a franchise with independent operators, creates an authentic Belgian atmosphere where customers can sample our Belgian specialty beers and absorb their culture. The first six cafés are now open.

In Canada we created a dedicated organisation for specialties in what is a growing segment of the market. In its first year of operation, the brands transferred into the Oland Specialty Beer Company increased their volumes by over 40%. In particular, sales of Alexander Keith's doubled, and the negative trend of John Labatt Classic was reversed. As we invest in Oland, and promote established brands from the leading beer cultures of the world, we are projecting the richness, mystique

and heritage of beer. Through the Oland Specialty Beer Company, Labatt can be seen as not only the mainstream expert, but also an exponent of the beer culture, able to respond to shifts in consumer taste.

LABATT AGREEMENT WITH ANHEUSER BUSCH

Labatt once more achieved strong growth for Budweiser. It is now the third largest brand in Canada, outselling all other US beers combined. Labatt has handled Budweiser for 18 years. This year it gained the Canadian rights to the brand in perpetuity. The benefits of past, present and future investment are now secured to Labatt.

NEW BRAND INITIATIVES

The richness of the Interbrew beer culture favours the development of new products. This year we launched two new brands — Taller in the Ukraine, a national premium brand, and Boomerang in Canada, a malt-based refreshing drink that appeals to women. Both did well. Jupiler sales were boosted in Belgium with the introduction of a one-litre can, which capitalised on the growth in cans.

LOOKING AHEAD

We are becoming more proactive in the way we develop our brands internationally. Our very rich portfolio gives us flexibility. It allows us to optimise what we do in each market. At the same time, we will pursue more systematically the worldwide synergy of a global brand.

Improving the way we operate

The cross fertilization of best practices in every field is driving down costs. Improved strategic sourcing and capacity optimalization are important value drivers.

IMPROVING THE WAY WE OPERATE

DOING THE RIGHT THINGS

In mature markets where volumes are not growing, and price rises may not be possible, we need to get costs down steadily year after year in order to grow profit. We concentrate on three aspects of cost. The first relates to attitude. We constantly look at every cost reduction possibility. However much we improve efficiency one year, we know people can always find new creative answers the next. Practically, we have identified two areas of major opportunity, capacity utilisation and strategic sourcing.

CAPACITY UTILISATION

Brewing is a capital intensive industry, therefore capacity utilisation has a major influence on profitability. In mature markets, declining consumption generates excess capacity. To remedy this situation in Western Europe it is our intention to close both the old brewery at Leuven in 2001 and kegging at Armentières in France in 2004. Negotiations with unions are underway. In growth markets such as Romania, Bulgaria, Croatia and Montenegro, we face the reverse problem — pressure on capacity. Using existing facilities more efficiently gives us a breathing space while we adapt capacity.

STRATEGIC SOURCING

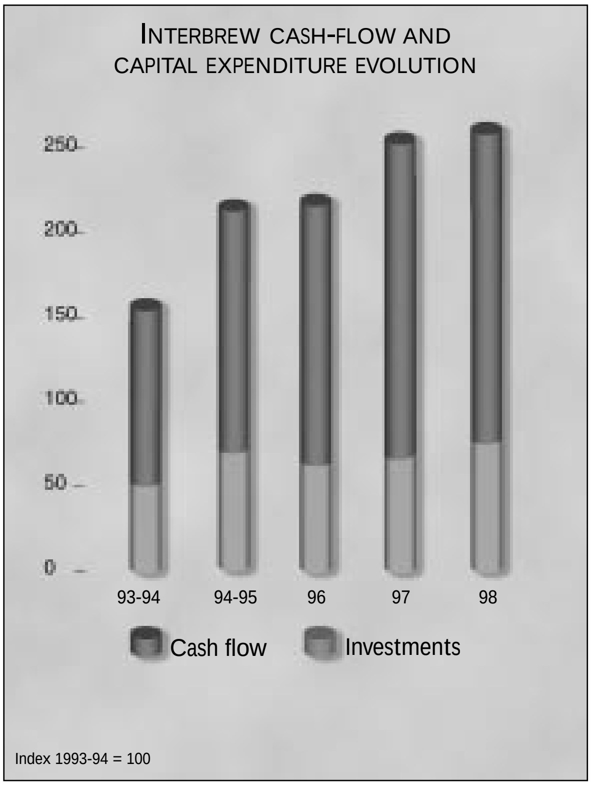
We continued the process of aligning suppliers and the company in what we think of as a one-business game. We work with fewer, selected suppliers and go much deeper with them — so they have open books for us in terms of their production process, and we have open books for them on how their product behaves in our facilities. This openness prompts innovative changes which save both parties considerable sums every year, a win-win situation.

Strategic sourcing is now a big profit driver in our mature markets. The approach was extended to additional commodities in Western Europe this year, including labels and crowns, and major contracts were renewed in Canada. Across most of the major commodities, we have now moved to a single supplier situation. The financial advantages of setting up non-adversarial relationships are proving greater than expected. As we grow worldwide, this philosophy can be applied to all our operations.

BEST PRACTICES

The cross fertilisation of best practices between sites is an important value driver. If we find a way to cut our energy costs in Alberta, everyone in Canada, Belgium and the rest of Europe hears about it. A lot of small changes add up to a big chunk of money. In our two main markets, Belgium and Canada, each brewery monitors its performance on ten different dimensions against its peers. Over the past five years the gap between the best and the worst has narrowed decisively.

As part of the world class manufacturing programme in Western Europe, employees continuously put forward propositions to improve processes. In Jupille alone, projects related to maintenance, safety, manufacturing, quality assurance, logistics and the environment.
This year the programme was extended to Hungary, where the first target will be energy costs. The programme has brought significantly lower costs, and it has taught us that most improvements have more to do with motivation than pure technical performance. Meanwhile a strategic maintenance programme was launched in Western Europe. Maintenance is not only a cost factor, it has a role in ensuring that breweries run at a better pace, so capacity is used more efficiently. In Canada, Labatt is reviewing the whole supply chain, to improve efficency and reduce costs. We expect benefits to come through in 1999.



PREPARING FOR A MORE INTERNATIONAL MARKETPLACE

The introduction of the euro accelerates the integration of the single market. Interbrew took steps to adapt to the new situation. We were an active partner in an Efficient Customer Response programme

with major retailers in Belgium, the Netherlands and France. We also launched the Interbrew 21 programme to achieve the harmonisation of basic business processes in Belgium, the Netherlands and France in order to serve our customers better, faster and at lower cost. The project encompasses four major processes — customer service, production planning, purchasing and financial control — which will be supported by common data management and a change programme. A similar project was started in Canada.

THE NEXT STEPS

Our approach will not change. Every aspect of costs will still be continuously addressed. Re-engineering projects and incremental improvements can both bring substantial results. Certainly re-engineering on its own is not enough. We need to have a particular mentality within the company, so that awareness of cost is a reflex. Each action in itself may seem a small matter — whether it relates to fermentation cycles, negotiating techniques, operational audit, recycling systems, packaging materials, production planning, machine layout, inventory systems or purchasing specs — but the alert attitude behind those improvements, and the cumulative effect, brings us a considerable increase in value.

Making better use of our people

International expansion puts the spotlight on our management resources. Our people policies set out to maximise the expertise that exists throughout the company.

THE PACE OF CHANGE

Interbrew started making big changes at the beginning of the decade, evolving from a European company into an international player. In an operational sense, that transition was made in a few leaps. In terms of the psychology of the company, change happened more gradually. The core of our work in human resources is adjusting today's *modus operandi* to the different kind of company we've become.

We are aligning our human resources strategy more closely with our business strategy. Ensuring that the right human resources are available in the right way at the right time is always a difficult task, and it becomes more complex the more rapidly a company grows. Our projected expansion makes it clear that our people policies are crucially important.

DEMANDS ON OUR MANAGERS

Expatriates are invariably needed for our new acquisitions, as a key element in what we bring to the deal. In return for what the local partners provide — market access, cultural knowledge, sales and distribution expertise, good government relations and their own local brand — Interbrew contributes not only finance and effective management processes, but also marketing and brewing experts, and global skills and experience. So it is increasingly the case that managers with a proven track record take their business experience to other countries in the group. This year Interbrew raised the profile and clarified the implications of executive mobility.

MANAGEMENT RESOURCES FOR TOMORROW

More time is being spent, by top management as well as human resources people, earmarking managers with high potential early in their careers. Career opportunities are being identified which will maximise the use of their talents, and allow them to grow in experience. The human resources team is also preparing a more comprehensive management succession plan.

COMPETENCY MANAGEMENT

As Interbrew grows and technology evolves, we will require people with rather different sets of skills. This needs to be planned for. We are now in the process of analysing exactly what the company needs, identifying the resources it has, and spotlighting what it lacks, so we can act on the implications in terms of training and recruitment.

The Learning Company

International expansion puts the spotlight on our management resources. Our people policies, though, attempt to maximise the expertise that exists throughout the company. How do we make the most of what people know, and learn from each other? We introduced some new initiatives during the year. In Europe we set up several self-regulated work teams, which give employees more autonomy, allied to accountability. We also initiated greater exchange across the two zones for particular disciplines — engineers, marketing people, human resources managers. These are classic ways to bring together individual contribution and shared learning.

Being a learning company also means learning from employees. Labatt found that staff had a clear idea of how managers motivate them, and is now measuring its effectiveness in doing this through the Best Brewery Employee Index — which will be used by regions, functions and departments to track progress and set goals for improvement. These experiences will be transferred progressively to other countries.

Promoting an International Mindset

Interbrew people are beginning to think in an international way. Corporate publications now project a more global message. Many executives are encouraged to broaden their international exposure, working on global projects with colleagues from another zone, or spending a few years abroad. This kind of initiative generates respect and understanding for what is happening in other continents.

People and Value

Creating value is closely linked to how we treat our people. For a company to thrive, it must create an environment which generates motivation. It is part of the Interbrew culture to value individual wellbeing and support ambition — giving people the scope to develop their careers. *Their* push helps *us* go forward — and achieve the sort of results reported this year.