

Size wise

The what

After we decided to focus on only beer, the World's Local Brewer® strategy transformed Interbrew. It took just a decade to turn us from a small regional player into one of the leading brewers in the world. The key ingredients in that strategy are now familiar. To summarise, they are: a core platform in each country of important local brands; a strong portfolio of international premium and speciality brands; a balance between mature and emerging markets; the ability to consolidate to strengthen market position; and finally (or maybe, firstly) the excellent people who make possible superior execution in implementing our vision and operating the business.

Those five points tell us what the World's Local Brewer® is. But “what” is usually less interesting than “why”. Why does this particular pattern of business give us more certainty of creating value?

The why

We can sum up the advantage Interbrew has in a phrase. Essentially our business is “size wise”. In other words, it has the footprint, the characteristics, the positioning it needs to cope with the tough demands of modern competition. We can claim to be size wise for four reasons, which have to do with brands, growth, scale and knowledge.

We must start with brands, because these are the *sine qua non* of success in our industry. Local core brands are the heart of a beer business, because they provide the volume base on which economic distribution and efficiencies in the supply chain can be built. Interbrew offers more, however, than just core brands. Our cherry on the cake is the portfolio of premium lagers and speciality beers. With channel costs already paid, these return a higher profit. It is this marriage between volume quantity and volume quality that makes us size wise.



2 Size wise

“Being the World’s Local Brewer® gives us the business options we need. That is what makes us size wise”

The growth reason comes second, because growth is the yardstick against which all companies are judged. No brewer can have it all ways. We can get stability and large volumes in mature markets, but these volumes are at best stable. We can get strong growth prospects in emerging markets, but these are volatile. To square this circle brewers must optimise their geography. Industry analysts report that Interbrew currently has an advantageous risk/growth profile*. It is this positioning that also makes us size wise.

We come now to the scale reason. Interbrew’s resources and M&A expertise have allowed us to follow up our first acquisition in a particular country or region by further transactions to reinforce market position, with the approval of the competition authorities. We did just this in Bulgaria, Germany, Korea, Romania, Russia, the UK and Ukraine. The outcome was almost invariably successful. External growth has reliably been turned into organic growth. That is another reason we can claim to be wise about size.

We come finally to the knowledge reason. It is the mix of local and international expertise that is so powerful in our business. What does the international pair of hands bring? It gives us more sophisticated management systems and controls, world class manufacturing standards, more efficient buying, cutting edge software to optimise logistics, and brand marketing models already proved.

What does the local pair of hands bring? It gives us cultural insights into what really makes a brand part of people’s lives. It gives us a network of individual breweries as training sites, and test beds for ideas. It gives us a diversity of ways of finding success, rather than the straitjacket of “we do it like this”. We know when to be international (*ie* big) and when to be local (*ie* small), and that also makes us size wise

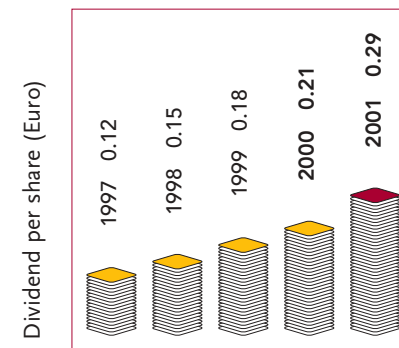
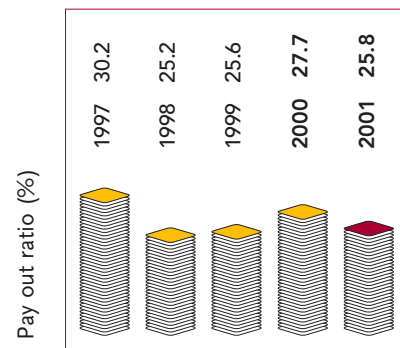
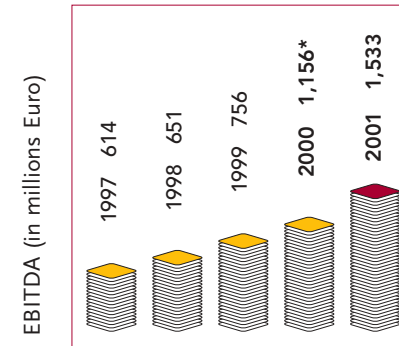
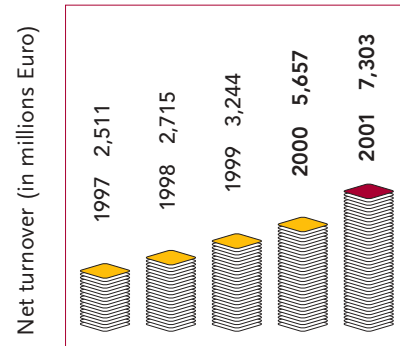
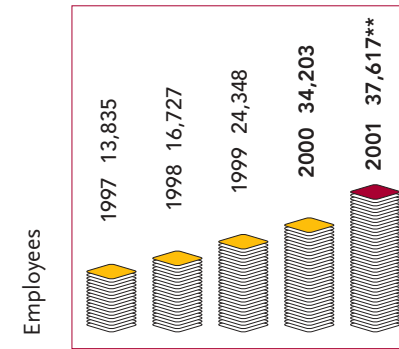
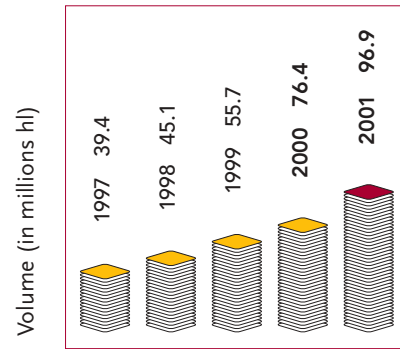
The how

The crux of our strategy is that Interbrew has options available to address the conditions in every country where we operate. If consolidation is possible, we know how to consolidate in a way that adds value. If consolidation is not possible, but segmentation is, we can draw on a superb premium and speciality portfolio. If neither applies, we can use our knowledge, and improve the business through best practice. Or any mixture of the above, as the country requires. Whatever the character of each national business, Interbrew has the opportunity to boost its potential – because of our brands, geography, scale and knowledge. Being the World’s Local Brewer® gives us the business options we need. That is what makes us size wise.

* Source Canadian, Economist Intelligence Unit, Euromonitor



4 Key figures – five year review



* 2000 IAS

** Employee number based on full-time equivalents

	2001 IAS	2000 IAS	2000	1999	1998	1997
Volume (in millions hl)	96.9	76.4	76.4	55.7	45.1	39.4
Net turnover (1) (in millions Euro)	7,303	5,657	5,657	3,244	2,715	2,511
EBITDA (2) (in millions Euro)	1,533	1,156	1,199	756	651	614
Operating profit (in millions Euro)	884	533	644	419	383	355
Net profit (share of Group) (in millions Euro)	698	-964	-910	230	190	132
Net profit (share of Group) (before extraordinary Bass goodwill impairment)	537	271	325	230	190	132
Cash flow from operations (in millions Euro)	1,053	871	715	523	438	416
Net Capex (in millions Euro)	488	425	425	231	165	149
Net financial debt	2,662	2,906	2,930	2,061	1,750	1,272
Market Capitalisation (in millions Euro)	13,257	15,865	15,865	N/A	N/A	N/A
Adjusted net profit per share (3) (4) (Euro)	1.44	1.04	1.21	0.82	0.69	0.51
Dividend per share (3) (Euro)	0.29	0.21	0.21	0.18	0.15	0.12
Pay out Ratio (%) (7)	25.8	N/A	27.7	25.6	25.2	30.2
Average Number of Shares (in millions) (6)	429	335	333	323	322	322
Fully Diluted Number of Shares (in millions) (6)	434	343	436	332	336	338
Share Price High (Euro)	37.5	38.1	38.1	N/A	N/A	N/A
Share Price Low (Euro)	25.5	34	34	N/A	N/A	N/A
Year-end Share Price (Euro)	30.75	37.12	37.12	N/A	N/A	N/A
Return on Invested Capital (%)	11.4	11.4	11.7	10.4	12.6	14.2
Cash Interest Coverage	5.4	2.8	2.7	4.1	4.8	5.6
Debt equity ratio	0.55	0.71	0.75	1.34	1.53	1.13

(1) Turnover less excise taxes

(2) Operating profit plus depreciation and amortisation and amortisation of Goodwill.

EBITDA does not reflect the impact of extraordinary income (expenses)

(3) Adjusted for stock splits

(4) Net profit (share of the group) (before extraordinary Bass goodwill impairment) plus amortisation of goodwill, divided by the average number of shares outstanding

(5) Gross dividend divided by net profit (share of the Group) excluding Bass write off

(6) Calculation adjusted for IAS

(7) Based on the net profit without the Carling contribution



Letter to Shareholders

A significant year

Is there ever a year with Interbrew that is not a significant year? Perhaps what outside observers will think about first for 2001 is Bass and Beck's. The year certainly started at a low point, when our acquisition of Bass was blocked by the UK regulators. This was a blow, but we were not pushed off course. We worked hard during the year to get a positive outcome on the UK file, while continuing to pursue our strategic agenda. The UK situation was not resolved when unexpectedly a famous international brand, Beck's, came up for sale. Rather than let the opportunity pass, we acted on our convictions about how to be successful, and made the acquisition. The Beck's deal was not completed in 2001, since it closed in February 2002, but the implications for our business, and for the way Interbrew is judged, are so fundamental that we will address this issue first.

The immediate view was that we overpaid. We can say that we remain highly positive about the prospects, having gained full information after completing the transaction. However, only the actual results of Interbrew ownership in years one and two will prove the point one way or another. In the meantime, let us share with you our thinking.

Essentially, what we got for our nearly 1.8 billion euro was four businesses and a worldwide trademark – a glass business, a Coca-Cola business, a German domestic beer business, and an international business. If you add up the fair value of each of those businesses, the difference between that and what we paid is the premium – and for that we got a trademark. A great international trademark. In the right hands this brand can be much bigger than its present volumes.

While some said we paid a full price, we also heard it argued that we overpaid by 10%, making that premium 180m euro. Can the Beck's trademark be worth that to Interbrew? As owners of Stella Artois we have a "make" or "buy" choice in front of us. Where we have a local platform but

no Stella Artois presence today, it will be a 10 to 20 year process to build the brand. We face several years of investing ahead of profitability. What is the cost of taking Stella Artois internationally to an extra 2.7m hectolitres – the international premium volumes acquired with Beck's? How many years of spending more than 100m euro a year to achieve this? In weighting these choices, we concluded that the premium we would pay for the international trademark did indeed represent fair value.

There is another factor in the balance. Beck's is a German brand, and it is understood around the world that Germany is the number one country for beer – in the same way that France is number one for wine, that pasta comes from Italy, and hi fi from Japan. At the time of the IPO we heard investors telling us that, vis-à-vis the competition, we lacked a comparable international brand. We were listening.

By buying Beck's, Interbrew reached an important position in six countries with a leading international lager. As for building the brand further, whereas Beck's rented someone else's platform to go to market, we have 22 country platforms available. Can we get from 6 to 10 countries in the next decade? It becomes much more likely if we do "buy" as well as "make". We can develop Beck's without detriment to Stella Artois, letting the stronger brand take the lead in each country (as we explain on page 42). That is how we thought about the premium, beyond the sum of the parts.

It was a great deal because we acquired a great brand. Incidentally, we could also finance this acquisition at very attractive rates. Furthermore changes to the German tax regime allowing us to amortise goodwill made this a highly tax efficient transaction. Germany is a market set to consolidate and through Beck's in combination with Diebels we have built an attractive position offering top line growth and improved profitability underpinned by synergies.

“By buying Beck's, Interbrew reached an important position in six countries with a leading international lager”

8 Letter to Shareholders

“Being wise about size
means volume quality
not just quantity”

Results in 2001

We have covered Beck's in some detail, because it is such a clear example of the Interbrew approach to value creation. In a year or two we will be able to report the actual outcome of the deal. In the meantime, let us consider the value created in 2001 (and we exclude Bass in the UK from the figures in this Letter to Shareholders). We achieved double digit growth not just on volume but on all key measures, even though 2000 was itself a record year, and hard to beat.

As a pointer to how we develop the business, the growth in net turnover (+16%) exceeded the growth in volumes (+14%). Being wise about size means volume quality not just quantity. In addition EBIT and net profit showed outstanding growth, up 46.8% and 83.8% respectively. We also recorded a solid improvement in earnings per share before goodwill, up 30.3%. This was realised despite the 28% increase in the number of our shares in 2001 following the IPO at the end of 2000. Profitability rose, with an increase of 94 basis points in return on invested capital, up from 13.0% to 14.0%.

We take particular pride in the rise in our net turnover margin, up from 78.4 to 78.8 euro per hectolitre. Despite the significant growth of volume in emerging markets at considerably lower net sales prices. This is the touchstone for value growth, achieved despite our significant presence in emerging markets. Remember that these figures do not include Bass, so you do not have to deduct anything to account for the departure of Carling Brewers. And the Bass situation has now been retrieved to an extent that seemed unlikely at the beginning of the year.



The Bass outcome

We were stunned by the blocking of the Whitbread and Bass merger, since all the legal/economic analysis pointed towards a market share that would be finally acceptable, on resolution of the disposal issue. The only appeal mechanism available to us was a draconian judicial review. We believed we had to challenge the decision, and started an uphill battle against the odds. When we won in the high court it was an unprecedented overturning of a Competition Authority decision. It is worth mentioning that the team winning on 24 May was the same team that lost on 3 January, as we saw no need to withdraw trust.

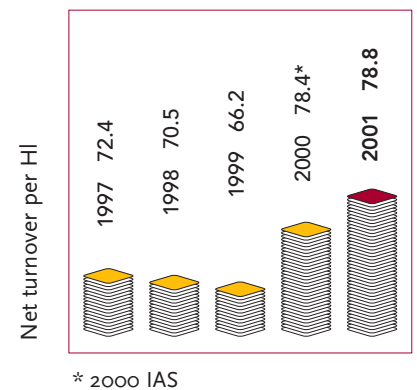
The settlement gave the UK business the tools for expansion in its own country. It was certainly more than a technical victory. We achieved a 50% increase in our UK platform, up from an 11% to a 16% share. We doubled our profit, and gained a UK business that was size wise. Synergies became available between Interbrew UK and the businesses in Scotland and Northern Ireland, and between Bass exports and the rest of Interbrew. It constituted a highly promising advance on the position at the start of the year. Scotland and Northern Ireland had the infrastructure in place but needed growth. That growth could be provided by putting two brand champions together – the leading core lager and the UK's favourite international premium, Tennent's and Stella Artois.

The UK is currently a growth business in our terms. Lager is our business, and lager, especially premium lager, has grown there for 20 years and is still only 65% of the market. We can now see a clear road to expanding our UK platform, organically and by transaction. We have the prospect of growth in both sales and EBITDA. We should also grow returns, since we started Interbrew UK from a reasonable investment base.

Meanwhile the performance of Bass under Interbrew ownership was outstanding. It was accretive for us from year one, despite the ruling out of synergies. Volumes grew strongly, bringing market share of 22% overall. Notwithstanding of additional marketing and sales expenses EBIT grew significantly, after a five-year period of no growth. This surge in performance improved the value we could achieve on exit, and gave credibility to the plans we bequeathed to the purchaser.

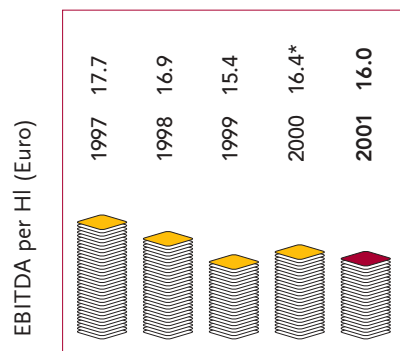
As that chapter closed, we basically ended up with a UK business that was worth what we paid for it. We sold Carling Brewers on time and for an attractive price. After raising £1.2 billion through the disposal, our net investment was approximately £1.8 billion and this for a business that generates 170m euro of EBITDA. Now that the dust has settled, we can calculate the EBITDA multiple for the UK acquisition. It amounts to 8.8, very much in line with the industry average. We see it as a reasonable price for an important position in such a huge beer market as the UK. A year of hard work ensured that we could restore shareholder value, something most commentators did not expect.

“A year of hard work ensured that we could restore shareholder value”

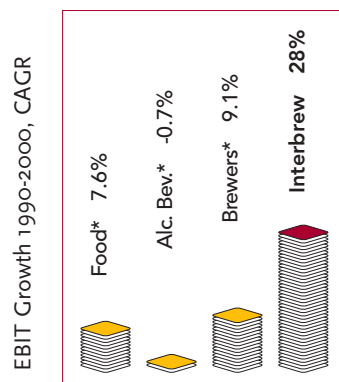


10 Letter to Shareholders

“We have recorded the best growth in the business, against the best in the business”



* 2000 IAS
Volumes Femsa excluded



* Average of industry leaders
(Source: Annual Reports)

First year as a public company

The IPO was a strategic step taken to enable us to continue to be a leading consolidator. The timing raised some eyebrows, but proved sensible in terms of consolidation opportunities and the stock market trend. Going public certainly changed the company, in terms of outside perceptions and internal development. We had to learn how to communicate differently with the outside world. Our approach seems to have served us well, and within a relatively short period of time we were viewed as a real peer of the two accepted leaders in the industry. Certainly being stock listed increased the level of professionalism in the company.

At the time of the IPO we committed to a switch in 2001 from Belgian generally accepted accounting principles to International Accounting Standards (IAS). We achieved this on time, well before the regulatory deadline as currently set at 2005 – the first major EU brewer to adopt these internationally accepted standards. Internally it makes more sense for our affiliates across the world to report in IAS rather than Belgian GAAP. More importantly, IAS makes our statements more understandable to shareholders, investors and the capital markets. As such it is an appropriate response to having outside as well as family investors participating in our business. IAS is an important, albeit technical example of our commitment to our shareholders.

Pursuing shareholder value

Shareholder value is an ill-defined concept. Surely it means more than simply growth in share price and dividends. The share price is clearly part of the value assessment, but it has a one-minute time span attached to it – of most relevance to a trader, interested in short-term movements. An investor who buys to hold, not trade, will look rather to company fundamentals. In our world we look at shareholder value in terms of brand health and growth prospects. We consider not just the vigour of our individual local brands and premium/speciality brands, but the brand mix – the fact that a high proportion of our business is exposed to the inherently attractive growth trend in the premium/speciality segment. We consider not just the vigour of our individual countries, but the mix – the fact that the growth rate expected for our particular

geographies is ahead of that of our global competitors. And that's before we do anything operationally to outpace the local market. It is of course the goal of Interbrew to use what we know as a company to outperform the best local competitor.

Our track record

Assessing shareholder value relies on both evidence and judgment – evidence of performance so far, and judgment as to how far the story of the past will continue into the future. Track record not only cumulates performance, it conditions judgment. The more consistent the track record, the more confidence in the underlying pattern. How do we measure up on this front?

Our track record is not just one year as a public company, but stretches back over a decade. We have been second to none for ten years in terms of operational performance. We have recorded the best growth in the business, against the best in the business. And that is not just a matter of volume. It covers all key metrics. Such results do not come by chance. We must be doing something right.

Before embarking on the Beck's transaction, we reviewed our acquisition history and noted that every major step met a sceptical response when first announced. This was certainly the case with Labatt in 1995, Russia in 1999, Korea in 1998, Croatia in 1994 and the UK in 2000. That pessimism is not surprising, since most mergers and acquisitions fail to deliver the proposition put forward. Yet we have done 30 acquisitions since 1990 and almost without exception have managed to create value. At the root of our success is the skill of our people in integrating the new operations. We salute their achievements and assure them that the leadership of the company will do what it can to make the future of Interbrew worthy of their commitment.

In the past decade, working together, we have turned a regional brewer into a leading international company. We are now in a better position to shape our destiny and create shareholder value for the future.

Reaffirming our targets

When we started our journey to the IPO we set out our parameters for the company, which were as follows: achieving and preserving investment grade status; and ensuring that transactions were neutral or accretive in the first full year of consolidation, in terms of earnings per share before goodwill amortisation. We are still anchored in this discipline as we approach future acquisitions.

We said that for 2001 investors could count on organic EBITDA growth of 8% and earnings per share before goodwill amortisation of 12%. As you now know, this target was achieved. We are now confirming further targets. Over the next three years we are targeting double digit growth in average annual EPS on the same definition. Results in a single year may be better or worse, but taking the three years as a whole this is what we set ourselves to achieve. And this target is irrespective of scope change. In other words, we will avoid an acquisition which would be so dilutive as to put that target out of reach. That is why the theme of this report, size wise, is so apropos. We may drive for size, but we intend to be wise.



Pierre Jean Everaert
Chairman of the Board



Hugo Powell
Chief Executive Officer



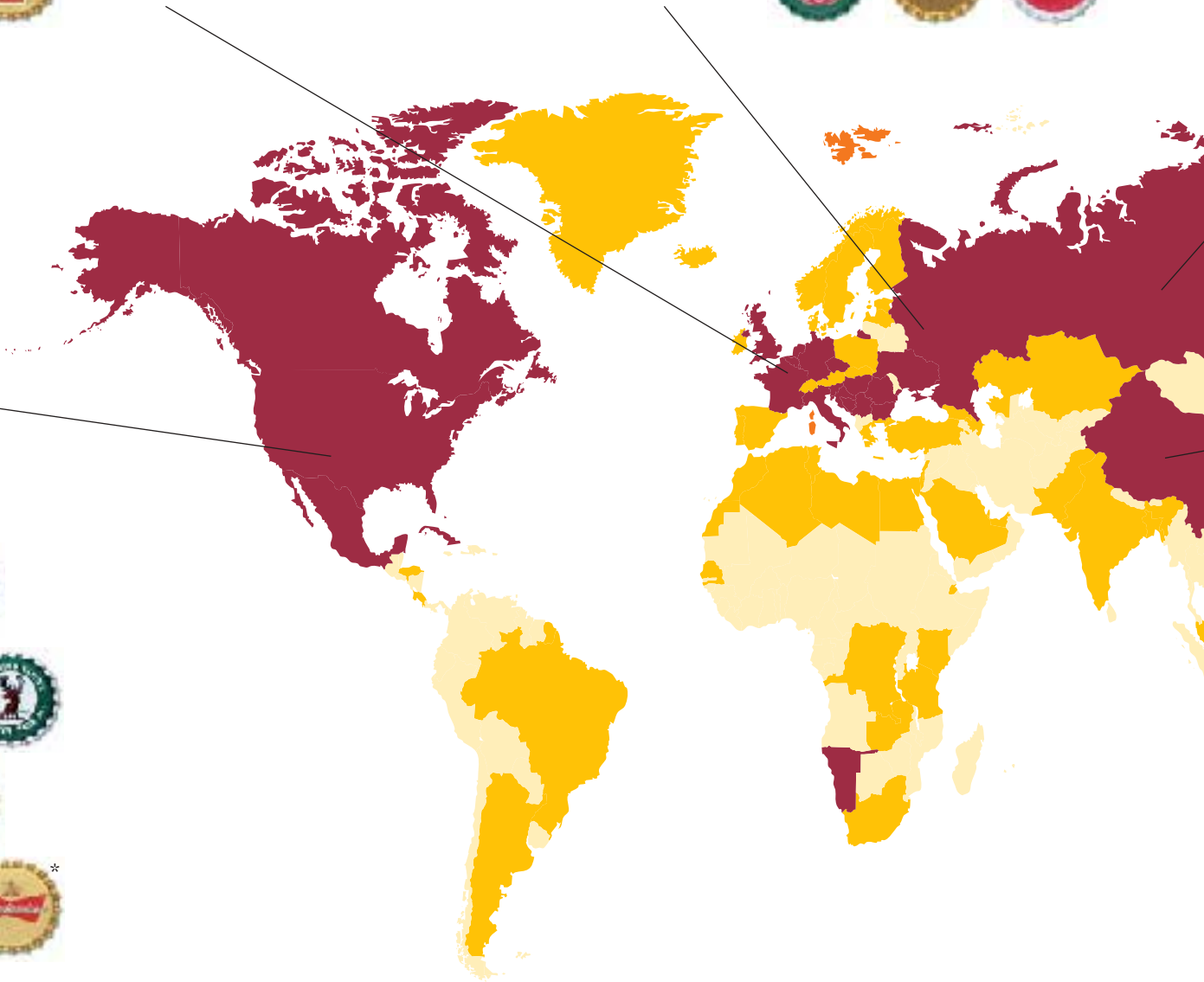


WESTERN EUROPE



CENTRAL EUROPE

THE AMERICAS





EASTERN EUROPE



ASIA PACIFIC

INTERNATIONAL PREMIUMS



Stella Artois is now the world's No.6 international premium lager



Beck's is the leading international premium lager from the country which is synonymous with beer – Germany

INTERNATIONAL SPECIALTIES



Hoegaarden inspired the Belgian white beer revival



Leffe is the world's leading
abbey beer



Bass ale now sells more in the US than in the UK

KEY

- Countries where Interbrew has a subsidiary, joint venture or minority shareholding
- Countries where Interbrew has a licence agreement
- Countries where Interbrew beers are distributed

14 A guide to our businesses

	Volumes in 2001 (hectolitres)	Market position	Market share	Number of breweries	Trading name
The Americas	21.3m				
Canada	9.1m	No. 2	43.3%	8	Labatt Brewing Company
Cuba	0.7m	No. 2	30.4%	1	Bucanero
Mexico	6.7m (1)	-	43.6%	6	FEMSA Cerveza
USA	4.8m	No. 2 (2)	14.5% (2)	1	Labatt USA
Western Europe	44.3m				
Belgium	6.4m	No. 1	56.0%	4	Interbrew Belgium
France	2.7m	No. 3	10.1%	–	Interbrew France
Luxembourg	0.3m	No. 1	43.6%	1	Brasseries de Luxembourg Mousel-Diekirch S.A.
Netherlands	2.7m (3)	No. 2	15.8%	3	Interbrew Nederland
UK	10.9m	No. 4	11.1%	3	Interbrew UK
Germany	0.5m (7)	-	1.4%	1	Brauerei Diebels Beck & Co (10)
Bass Brewers	17.1m	No. 2	22.4%	6	Bass Holdings Ltd
Export	3.4m			N/A	
Licenses	0.3m			N/A	
Emerging Markets	31.3m				
Bosnia-Herzegovina	0.1m	No. 4	8.5%	1	Uniline
Bulgaria	1.3m	No. 1	31.4%	3	Kamenitza AD
Croatia	1.7m	No. 1	42.5%	1	Zagrebacka Pivovara
Czech Republic	2.6m	No. 2	13.7%	3	Prague Breweries
Hungary	2.2m	No. 1	30.1%	1	Borsodi Sörgyar
Montenegro	0.6m	No. 1	84.0%	1	Trebjesa
Romania	1.5m	No. 2	13.2%	3	Compania de Distributie National S.A. Bianca Interbrew Bergenbier Proberco Interbrew EFES Brewery S.A.
Slovenia				1	Pivovarna Union
Russia	7.9m	No. 2	12.8%	8	SUN Interbrew
Ukraine	5.0m	No. 1	34.6%	3	SUN Interbrew
China	0.4m	-	3.0% (4)	2	Nanjing Jinling Brewery Company
South Korea	8.0m	No. 2	44.6%	3	Oriental Breweries

(1) 30% of total volumes

(2) In Domestic Specialities & Imported Beers (Off Trade channel)

(3) Includes domestic subcontracting volumes

(4) Share within own business area

(5) Interbrew has management control

(6) Economic value is 66.3%

(7) 4 months (as of 1st September, 2001)

(8) On December 31, 2001; a stake of 40.8% was attained on January 17, 2002

(9) Brewed under licence

(10) Integrated into Interbrew as of 1st February, 2002

	Interbrew voting rights	Key brands Global brands					Local brands
		Stella Artois	Beck's	Leffe	Hoegaarden	Bass	
	100%	•	•	•	•	•	Labatt Blue, Blue Light, Kokanee, Alexander Keith's, Wildcat, Boomerang, Budweiser (9)
	50%						Cristal, Bucanero
	30%						Tecate, Sol, Dos Equis, Carta Blanca, Superior, Indio, Noche Buena, Bohemia
	70%	•	•	•	•	•	Rolling Rock, Labatt Blue, Blue Light, Sol, Dos Equis, Tecate, Löwenbräu (9)
	100%	•	•	•	•	•	Hougaerdse Das, Jupiler, Belle Vue, Safir, Vieux Temps, Rolling Rock
	100%	•	•	•	•		Lutece, Loburg
	78.6%	•	•	•	•		Diekirch, Mousel, Grande Réserve
	100%		•				Dommelsch, Oranjeboom, Hertog Jan, Witte Raaf, Elfde Gebod, Hougaerdse Das, Rolling Rock
	100%	•	•	•	•		Boddington, Whitbread
	80%					•	Diebels, DIMIX
	100%		•				Haake-Beck
	100%	•		•	•	•	Tennent's, Carling, Caffrey's, Worthington
	N/A						
	N/A						
	59.2%	•					Ožujsko, Bozicno, Tomislav
	84.6%	•		•	•		Kamenitza, Astika, Burgasko, Pleven
	71.9%	•	•				Ožujsko, Bozicno, Tomislav, Belle-Vue, Rolling Rock, Labatt Blue, Labatt Ice
	96.8%	•		•	•		Staropramen, Branik, Ostravar, Velvet, Kelt, Mestan, Vratislav
	98.5%	•					Borsodi, Rolling Rock, Holsten (9), Kinizsi, Belle-Vue
	72.7%	•		•	•		Niksicko
	100%	•					Bergenbier, Noroc, Hopfen König (9)
	70.8%						
	96%						
	50%						
	25.6% (8)						Union, Fructal
	34.2% (5) (6)						Klinskoye, Tolstiak, Sibirskaya Korona, Bag Beer, Volzhanin, Premier, Bavaria, Viking, Rifey, Pikur
	34.2% (5) (6)						Chernigivskoye, Taller, Yantar, Cernyj Prints, Rogan
	60%		•				Jinling, Ice Best, Yali, Hu Pi
	50% (5)						OB Lager, Cass, Cafri, Red Rock, Budweiser (9)

16 Corporate governance

“A new bottle for Hoegaarden, which at this stage in its UK lifecycle is bigger than Stella Artois was”

The corporate governance rules established by the Interbrew board of directors support our business ambitions. They ensure that the company is effectively run and properly controlled. Without limiting vision or hampering swift action, the rules put a framework of best practice, clarity and right thinking around the company. The way powers and responsibilities are divided between the board of directors and executive management ensures that all key people give Interbrew the two kinds of leadership it needs – one based on control, and one based on advance. The essential discipline within the company provides a base on which we can build our dream of the Interbrew of tomorrow. The rules are tough in order to give us all confidence – outsiders and insiders alike – that Interbrew pursues its destiny along a proper path.

The Board of Directors

The board is the ultimate decision-making body, except for the powers reserved to the shareholders' meeting by law, or by the charter. The board decides the company's strategy, the long-range plan, and all major investments and divestments. It also controls the implementation of the decisions that result. The board appoints the chief executive officer and members of the three board committees. It also decides, taking note of the CEO's recommendations, on the structure of the group, major or long-term transactions, the appointment or dismissal of members of the executive management, the budget, and investment plans.



Board members, including at least six who are independent of shareholders exercising a decisive or significant influence on Interbrew policy, are selected by the board itself and approved by the shareholders' meeting. The chairman is appointed by the board from among its members. Directors are appointed for three years, and must retire after the shareholders' meeting following their 70th birthday. Current members are:

Directors	Term expires
Pierre Jean Everaert* – Chairman	2003
Charles Adriaenssen	2003
Count Christophe d'Ansembourg (2)	2002
Allan Chapin* (1)	2002
Jean-Luc Dehaene*	2004
Harald Einsmann* (2)	2002
Bernard Hanon* (2)	2002
Remmert Laan	2004
Baron Frédéric de Mevius	2003
Count Arnoud de Pret Roose de Calesberg (1)	2002
Viscount Philippe de Spoelberch	2004
Alexandre Van Damme	2004
Kees J. Storm* (3)	2005
Peter Harf* (3)	2005
Chief Executive Officer	
Hugo Powell	
Corporate Secretary	
Patrice J. Thys	

* Independent director – (1) Mandate renewable on 30 April, 2002
(2) Mandate ending on 30 April, 2002 – (3) Starting as of 30 April, 2002



18 Corporate governance

Pierre Jean Everaert (62) has served as a Director of Interbrew since 1997. He serves on the boards of KPNQwest, Banque Parisbas PA Group (US), Baan Company and other companies. **Charles Adriaenssen** (45) has been an Interbrew Board Member since 2000. He is Managing Director of the CA&P Group (Belgium).

Count Christophe d'Ansembourg (38) has been a Director of Interbrew since 1996. He is a Managing Director of Optimol Tribotechnik S.A. (Belgium).

Allan Chapin (60) has been a Director of our company since 1994. He is a Managing Director of the bank Lazard in New York.

Jean-Luc Dehaene (62) former Prime Minister of Belgium, from 1992 to 1999, has served on our board since 2001. He is also a board member of Umicore, Telindus, Domo and Corona Lotus.

Harald Einsmann (67) has been a Director of Interbrew since 1999. He is also Director of EMI Music Group, Tesco, BAT and other companies.

Bernard Hanon (67) has been a director of Interbrew since 1990. He is General Manager of Hanon Associates in Paris since 1986.

Remmert Laan (59) has been a Director of Interbrew since 1998. He is a Managing Director of the bank Lazard in Paris.

Baron Frédéric de Mevius (42) joined the Board of Directors of Interbrew in 1991. He is the Managing Director of Verlinvest S.A./N.V. (Belgium), a private holding company.

Count Arnoud de Pret Roose de Calesberg (56) has been a member of our board since 1981. He holds several mandates within the Union Minière Group.

Viscount Philippe de Spoelberch (60) has served on our board since 1977. He is Member of the Board of Mosane, Floridienne and other Belgian private holding companies.

Alexandre Van Damme (40) has been a member of our Board of Directors since 1992. He is Director of Patri SA (Luxembourg).

The board meets regularly and as frequently as required by the company's interests. In 2001 the board held 10 ordinary and 6 special meetings. These are often held in countries where Interbrew has subsidiaries, to allow directors to learn more of the local situation, issues and activities.

The board is a collegial body. Decisions are made by a simple majority of the votes cast. In the event of a tie, the vote of the chairman is decisive. Any Director with a conflicting financial interest must bring this to the notice of both the statutory auditors and fellow directors, and take no part in related deliberations.



Directors have access to all the corporate information they need to fulfil their fiduciary duties. Administrative assistance is provided by the corporate secretary, who organises and attends the meetings of the board. In addition, a formal procedure allows directors to obtain advice from independent experts. On occasion a director may be granted a special mandate, after the board has determined its duration and objectives. Mandated directors report regularly to the board. Certain directors also serve on the three board committees – the Strategy and Business Development Committee, the Audit and Finance Committee, and the Human Resources and Nominating Committee.

Chief Executive Officer and Executive Management

The Chief Executive Officer (CEO) is in charge of Interbrew's day-to-day management, and has direct operational responsibility for the entire company. He chairs the Corporate Committee (CC), which is responsible for the centralisation and implementation of the strategic development of the company. The Chief Operating Officer (COO), is a member of the Corporate Committee and chairs the Operating Committee (OC), which aligns operations and developments in the different regions.

The CEO makes recommendations on members appointed to the two committees, who together form the executive management of the company. The Corporate Committee makes decisions on all major issues affecting the company which are not reserved to the board. Among these are major short-term financial transactions, short-term fund management, capital contributions, and property transactions. In addition the corporate committee examines all the issues on which the CEO puts recommendations to the board, and makes all executive appointments below executive management level. Both corporate and operating committees meet at least once a month. Normally executives retire at the end of the year following their 65th birthday. Details of interbrew's corporate committee are given on page 24.





Corporate governance

Board committees

The board of directors is assisted by three formal committees.

The Strategy and Business Development Committee (SBDC) advises the board on strategy, partnerships, acquisitions and divestments. The SBDC has four board members (two independent and two from the controlling shareholders) and four executive members from the corporate committee, including the CEO.

The Human Resources and Nominating Committee advises the board on the management of human resources, particularly in relation to performance monitoring, management succession planning and remuneration.

In its audit function, the Audit and Finance Committee assists the board in its responsibility for control of the company, particularly in relation to the roles of statutory auditors and internal auditors, and the way they work together. The CEO, some members of the executive management and Interbrew's statutory auditors attend its meetings when necessary, but the committee meets in their absence at the request of the statutory auditors or corporate audit director or if any of its members so requests.

The Audit and Finance Committee operates on lines laid down in a charter, which was most recently amended by the board of directors on 12 March 2002. Responsibilities are clearly defined.

Within the framework of financial statements, Interbrew's management prepares, presents and ensures the integrity of the company's financial statements. It is also responsible for the principles which govern the company's accounting and financial reporting, as well as for internal controls and procedures designed to assure compliance with accounting standards, the law and regulations. The statutory auditors are responsible for auditing the company's financial statements, and expressing an opinion as to their conformity with IAS (International Accounting Standard).

In its audit function, the Audit and Finance Committee oversees management as it carries out these responsibilities. Accordingly it considers the audited financial statements, and discusses them with management and the statutory auditors. The committee also evaluates the statutory auditors' independence by discussing with them their written statement delineating all relationships with the company.

The board selects members of the three board committees from among the directors, while certain top executives sit *ex officio*. Current membership is as follows:

Audit & Finance Committee

Allan Chapin*	Baron Frédéric de Mevius
Pierre Jean Everaert*	Count Arnoud de Pret Roose de Calesberg

Human Resources and Nominating Committee

Charles Adriaenssen	Hugo Powell**
Pierre Jean Everaert*	Viscount Philippe de Spoelberch

Strategy and Business Development Committee

Stéfan Descheemaeker**	Luc Missorten**
Pierre Jean Everaert*	Viscount Philippe de Spoelberch
Hugo Powell**	Alexandre Van Damme
Patrice J Thys**	Bernard Hanon*

* Independent Director

** Corporate Committee member

Other issues

REMUNERATION In 2001 we paid total compensation, including bonuses, of 18.2m euro to board directors and executive management. Of that sum, 0.8m euro was paid to members of the board, and 17.4m euro to the CEO and other executives.

LONG TERM INCENTIVES We adopted a long-term incentive plan in 1999, under which the board may on occasion issue non-transferable registered subscription rights to directors, executive officers and managers. That issue must satisfy the conditions for limitation or cancellation of shareholders’ preferential rights. Each subscription right entitles the holder to subscribe for one share, paying the average share price during the 30 days before the subscription right was issued.

REMUNERATION OF AUDITORS The general meeting of shareholders determines the remuneration of the auditors for their services in connection with the audit of our financial statements. Their annual fee for these services is currently 7,379,000 euro excluding value-added tax. Our statutory auditor is KPMG, represented by Erik Helsen.

EMPLOYEE SHARE PURCHASE PLAN (ESPP) In 2000 and 2001 we put in place an ESPP under which most employees worldwide had the opportunity to purchase Interbrew shares at a 20% discount to the average price over the previous 30 days. As a result of such payments, the employees today own 0.15% of the capital of the company.

INTERESTS IN TRANSACTIONS Our directors, executives and auditors have had no interests in any Interbrew transaction with unusual terms during the past three fiscal years.

DIVIDEND POLICY We intend to retain the majority of our earnings to finance future growth. The sum available to pay dividends is between 25% and 33% of our net after tax earnings.

ENVIRONMENT, HEALTH AND SAFETY POLICY We are committed to conducting our business in a socially responsible way, in order to protect our employees, stakeholders, customers and the environment. In 2001 a new environment, health and safety (EHS) policy was drawn up, setting out the principles we want to act on all over the world. It provides guidance to all our personnel, especially our management people and EHS professionals. Key issues covered are the continuous improvement of our EHS performance, compliance with legal requirements, consultation with employees and the authorities, the definition of concrete objectives and clear targets, and the clarification of employee and management responsibilities.

Shareholding structure

The most recent notification of major shareholdings, made under Belgian law on 31 December 2001, indicates that three organisations acting in concert hold 283,484,940 ordinary shares of the company as in the table below:

	Number of shares (on 31 December 2001)	% of voting rights attached to shares issued by the company
1. Stichting Interbrew	275,620,142	63.93%
2. Fonds Interbrew- Baillet Latour	3,370,800	0.78%
3. Fonds Verhelst	4,494,000	1.04%
Total of 1, 2 and 3	283,484,940	65.75%

Shareholders' arrangements

Our controlling shareholder is Stichting Interbrew, a foundation organised under the laws of the Netherlands. The holders of certificates issued by Stichting Interbrew relating to specific shares are not entitled to require the exchange of their certificate for shares in our company before 30 June 2004. After that 12 months' notice is required.

Stichting Interbrew could only be dissolved if it no longer held any certified shares, or if an 85% majority of the holders of certificates decided for dissolution at a general meeting, following a proposal by the Stichting Interbrew board of directors.

Stichting Interbrew has entered into voting agreements with Fonds Interbrew-Baillet Latour and Fonds Verhelst. These agreements provide for consultations between the three bodies before any shareholders' meeting to decide how they will exercise the voting rights attached to the shares they hold.

Honorary chairmen

Interbrew has three honorary chairmen:

Raymond Boon-Falleur

Jacques Thierry

Baron Paul De Keersmaeker



Corporate Committee

Hugo Powell

CHIEF EXECUTIVE OFFICER

Mr. Powell (57) has been the Chief Executive Officer of Interbrew S.A. since 1999. Prior to that he held various operational positions within John Labatt Ltd. and Interbrew since 1984, including Chief Executive Officer of Interbrew Americas since 1995.

Prior to 1984 he was President of Jacobs Suchard Germany, and prior to that President of Nabob Foods Canada.

He started his career with Unilever Companies Inc. in the United Kingdom in 1963 and joined Warner Lambert in U.K. in 1968 before transferring to Canada in 1971. He then served as President of Lowney's Ltd. beginning in 1977. Mr. Powell graduated from Charterhouse, England.

Stéfan Descheemaeker

CHIEF STRATEGY & BUSINESS DEVELOPMENT OFFICER

Born 1960; Commercial Engineer Solvay, University of Brussels (ULB), 1983; started career as consultant, departmental staff of the Minister of Finance, Brussels, 1984; joined Interbrew as director, corporate strategy, 1996.

Jerry Fowden

CHIEF OPERATING OFFICER

Born 1956; BSC Honours in Food Science and Management Studies from the University of London. He held several positions with Mars, PepsiCo, Hero and the Rank Group and was COO of Bass Brewers from 1992 to 1996. He joined Interbrew as CEO Bass Brewers in 2001.

Luc Missorten

CHIEF FINANCIAL OFFICER

Born 1955; law degree from University of Leuven (KUL); Certificate de Hautes Etudes Européennes, College of Europe, Brugge; master of laws from University of California at Berkeley; joined Citibank N.A., 1981; began career at Interbrew as Corporate Finance Director, 1990.

Patrice J Thys

ADVISOR TO THE CHAIRMAN

CHIEF LEGAL & CORPORATE AFFAIRS OFFICER (REGIONAL PRESIDENT, CHINA)

Born 1955; law degree, University of Louvain (UCL), Certificates in International and European Law, University of Leiden, Netherlands, Master Degree, University of Chicago, started career with F.N. Manufacturing Inc. (South Carolina/USA), 1980; joined Interbrew as general counsel, 1989.

Chris Verougstraete

CHIEF HUMAN RESOURCES OFFICER

Born 1950; law degrees from the University of Ghent and of Brussels; MBA at Vlerick Institute of Management; started career at Sabena in 1976; also worked with Alcatel Bell, then Alcatel telecom Paris as director of human resources; joined Interbrew as Executive Vice President for Human Resources, June 2000.

Operating Committee

Dieter Ammer

REGIONAL PRESIDENT

GERMANY, SOUTHERN EUROPE & EXPORT

Born 1950; Degree of Economics University of Freiburg (Germany). He joined Brauerei Beck & Co in 1997 as member of the Management Board and became President and Chief Executive Officer of the company in early 2001.

Alain Beyens

REGIONAL PRESIDENT, BENEFRALUX

Born 1961; Commercial Engineer from the Solvay School (Brussels). He started with Interbrew Belgium in 1987 in distribution.

Steve Cahillane

REGIONAL PRESIDENT, USA

Born 1965; BA at Northwest University and MBA at Harvard. He joined Labatt USA as a National Account Operations Manager.

Jaak De Witte

REGIONAL PRESIDENT, CENTRAL EUROPE

Born 1957; Masters in Applied Economics, University of Antwerp and Master in Marketing, University of Ghent. He started with Interbrew as European Marketing Director specialties & premium beers in 1991.

Bruce Elliot

REGIONAL PRESIDENT, CANADA & CUBA

Born 1955; Bachelor Physical Education NB, 1977; joined Labatt in 1977 in New Brunswick as Sales Representative.

Stewart Gilliland

REGIONAL PRESIDENT, UK & EIRE

Born 1957; Graduate in Business Studies; joined Whitbread in 1984 as Regional Account Manager.

Larry J Macauley

CHIEF TECHNICAL OFFICER

Born 1950; Bachelor of Science, University of Waterloo (Canada), 1973; joined Labatt as a production trainee in the London, Ontario brewery, 1973.

Phillip Vandervoort

CHIEF INFORMATION OFFICER

Born 1961; Degree in Engineering, University of Leuven (KUL) and Business Administration, University of Louvain (UCL); started in 2000 with Interbrew as CIO.

Jo Van Biesbroeck

CHIEF PLANNING & PERFORMANCE OFFICER

Born 1956; economy, University of Leuven (KUL), began career with Interbrew in marketing and logistics 1978.

Ignace Van Doorselaere

CHIEF MARKETING OFFICER

Born 1959; Conference Interpreter, Ghent, MBA, The Wharton School of the University of Pennsylvania, USA; joined Interbrew in business development, 1990.

André Weckx

REGIONAL PRESIDENT, RUSSIA-UKRAINE

Born 1953; Engineer in chemistry and agricultural industries, University of Leuven (KUL); joined Interbrew as plant manager, Diamond Breweries, Nigeria, 1982.



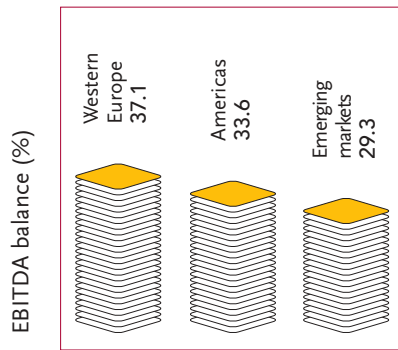


Lesse®

THE GROWTH REASON

MATURE PLUS EMERGING MARKETS

28 The growth reason



Introduction on risk/growth strategy

Being size wise is about giving ourselves as good a chance as possible to deal with market conditions. These are never going to be easy. What was the consequence of putting local brands at the leading edge of expansion? They allowed us to enter emerging markets which were not yet ready for an imported international brand. The stability of our mature market cash flows gave us the security to invest in these riskier markets offering growth. Thus we were able to position our businesses around the world where beer had the best future. The brand strategy led straight into the growth strategy.

Our aim has been to create an intelligent geography, balancing growth against risk. The spread achieved today means that Interbrew is hedged in terms of countries, regions and currencies. The positioning means we are also advantaged, since our volumes as a whole are sited well by comparison with the competition. Balancing the mature and emerging markets is an ongoing process, but we currently have a fundamental equilibrium in the business. Western Europe, North America, and emerging markets each produce roughly a third of Interbrew's EBITDA. And cash flow, or its proxy EBITDA, is what counts in this business. Within the emerging markets themselves, EBITDA is well balanced by region – Central Europe accounts for 31%, Eastern Europe for 28.5%, and Australasia for 40.5%.

North America

CANADA Brand health is the cornerstone of the year's performance, with volumes up 1.7%. A highlight was the success of the Oland Specialty Beer Company, which projects the richness and heritage of our premium and speciality brands. Volumes grew by 30%, on top of a 30% rise in 2000, with Alexander Keith's powering further ahead. In the mainstream market we took advantage of the growth in the light segment to achieve volume increases touching 20% for both Blue Light and Bud Lite.

The organisation was strengthened to exploit the national power of one commercial strategy. We focused on building a stronger creative culture by putting innovation on the agenda of all employees. The motto for some years in Canada has been superior execution, producing a significant compound annual growth rate in EBITDA between 1996 and 2000.

UNITED STATES We continued to grow ahead of the average increase in the import and speciality segment. Rolling Rock, which gives us our local platform, competes in the difficult domestic speciality segment, and was groomed for 2002. Our three pillars of growth in this business – the Canadian brands, the Mexican brands and the Belgian speciality brands – all produced a healthy performance and remained in good shape for the future. The Canadian brands were up over 10%, the Mexican brands around 6%. The arrival of Beck & Co after the year end made our portfolio even stronger. Adding its 1.1m hectolitres to our existing 4.8m hectolitres turned Labatt USA into the number one import speciality beer company, with three of the top five import brands. Whatever the market impact of the events in New York, we expect to continue to grow faster than the import segment. Our strategy is one of focused effort, with the top 150 wholesalers in the top 20 states as key priorities.

ELSEWHERE IN THE REGION Our 50/50 joint venture in Cuba had a good year, with 22% growth for Cristal in the hard currency market, in spite of the economy, hurricane conditions and the tourist airline bankruptcy. We continued to invest in distribution and brewery infrastructure. In 2002, however, it will be difficult to match previous growth. In Mexico there was a slight loss of share on the year, but the industry and local demographics remained strong.

Western Europe

Continued innovation contributed to good EBIT growth overall, up 7% despite tougher competition. Belgium, the UK and the Netherlands gained market share, while share was stable in France. Interestingly, all four countries gained share in the off-trade market, a compliment to our brand portfolio. Our first full year with the ex-Whitbread business brought the highest ever market share and double digit profit growth. Our first full year with the Bass business was the best for a decade, notwithstanding the difficult environment of a business in transition.

Across the region almost all our brands improved their position. Three highlights were the fifth year in a row of double digit growth for Stella Artois in the UK, Leffe increasing share everywhere, and the double digit growth of both Hertog Jan and Dommelsch in Holland. Hoegaarden suffered from the drop in the white beer segment, but remained the clear leader. As part of a substantial development programme in the region we launched Dommelsch Ice and a beer mix brand, Conquistor.





The growth reason

Emerging markets

CENTRAL EUROPE Beer markets were more or less stable in all countries, apart from slight decreases in the depressed markets of Montenegro and Bosnia-Herzegovina. In Romania and Bulgaria purchasing power remained low and consumers continued the drift to the price and value segments, which now represent around 60% of the total market. Whatever the difficulties, we increased our total sales and market share in all countries.

Highlights were the success of Borsodi Sör, which gave us market leadership in Hungary, and the continued excellent performance in Croatia with Ožujsko, where we increased share from 40.6% to 42.5%. We recorded strong net turnover growth in Croatia, the Czech Republic and Hungary. The year saw the operational and financial turnaround of Prague Breweries following the acquisition in August 2000: we gained two points of market share and saw a strong EBITDA increase.

EASTERN EUROPE Russia once again produced strong growth in net turnover, and delivered a healthy improvement in gross margin and EBITDA. The strategic target of 70% of sales in the core segment was achieved, driving a further improvement in net turnover per hectolitre. Beervolumes grew by 2%, but the emphasis on sales value over sales volume, and our absence from certain brand and packaging segments of the market, led to a drop in market share. This will be addressed in 2002.

The business continued to evolve at a very fast pace. Major developments were the reorganisation of the company into four go-to-market business units, and the evolution of the brand strategy to enable us to compete in all segments on a national basis. Our portfolio was shaped to provide a full offering, as follows: Stella Artois, launched in the international premium segment; Sibirskaya Korona, relaunched in October as a local premium; Klinskoye, launched in May in the upper core; and Tostiak in the lower core; with a value brand being identified. In 2001 we implemented EFAS, an enterprise resource planning application, in the remaining six breweries and eight distribution centres, began the reorganisation of our distribution, and carried out a major exercise to redesign our supply chain.

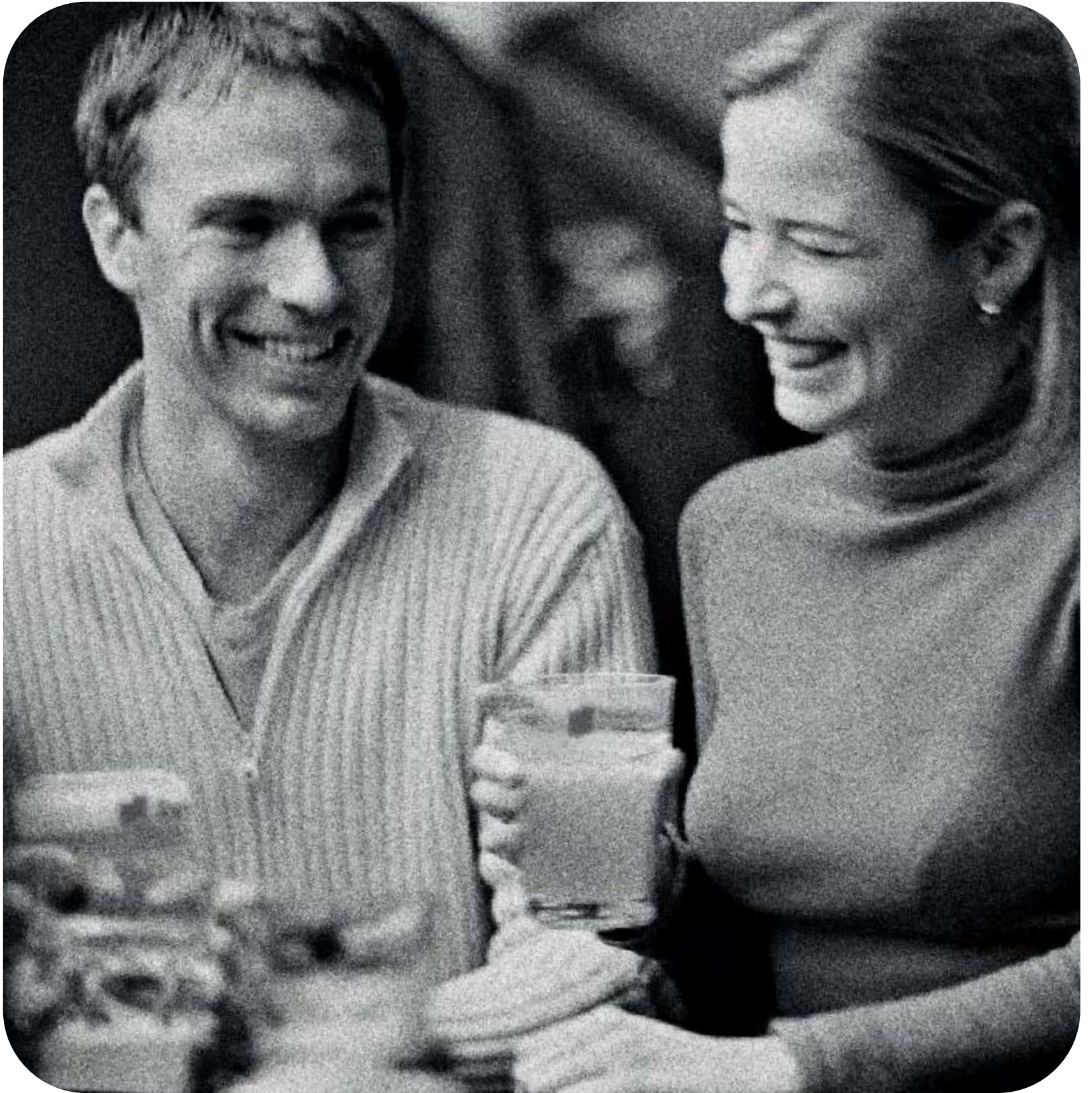
Ukraine made exceptional progress, producing strong growth in net turnover, and moving into profit at the EBIT level ahead of schedule. Volumes grew by 16% and market share attained almost 35%. The realigned brand portfolio made an impressive start with the successful launch of Stella Artois, brewed in Desna for both Russia and Ukraine, the outstanding growth of Chernigivski as an upper core brand, and the convincing repositioning of our Rogan brand from the value segment into the lower core. Other highlights were the sale of Krym and rapid integration of the Rogan business.

AUSTRALASIA Korea saw market growth of 8.4%, helped by an excise reduction that kept consumer prices stable. We increased our volumes by 4.2%, leading to a loss of share. The first stages of a repositioning of OB lager were completed, producing the sort of early returns we hoped to see. The considerable growth of Cass in the core segment, and of Cafri and Bud in the premium segment, helped build the powerful portfolio we need. The fundamental position of the company improved as we recorded extremely strong EBIT growth, and achieved a positive net profit after tax for the first time. The integration of Cass was completed with the legal merger of the two companies. We also secured options to purchase the remainder of the Korean business in the future.

In China, meanwhile, our business in the Nanjing city area experienced the beginning of a revival. The decline in volumes was halted and the evidence of an upturn came through – proof of the strong equity of our local brand, Jinling, which remains the leader of that particular market.

“The position of the company improved as we recorded extremely strong EBIT growth”







Hoegaarden[®]
witbier-bière blanche

THE SCALE REASON

ORGANIC PLUS EXTERNAL GROWTH

The scale reason

“Our thinking on consolidation is to be wise about size, because only the post-deal story matters”

Introduction on the scale reason

The next decade promises much. McKinsey projects EBITDA in the beer business to grow by 11.1% in real terms between 2000 and 2010. Of that value, 4.3% is expected to be achieved through national, regional and global consolidation. Interbrew intends to remain one of the leading consolidators in the business, alert to the opportunities opening up. For example, we note Germany's atomised structure with 1,270 breweries, of which only 2% brew more than one million hectolitres a year. That national industry is now ripe for change as market decline accelerates and overcapacities increase.

However, we do not see the consolidation process as a once-only opportunity. Consolidation is not a simple process where smaller bits gradually form a new cluster and that's the end of the story. Because of the nature of the commercial dynamic, some of those clusters are not going to be sensible – and the pieces in the kaleidoscope will shift again.

Our thinking on consolidation is to be wise about size, because only the post-deal story matters. Acquisition is less about scale (how big it is), more about scope (how big it can be). In other words, bigness is the end point, not the beginning point. We reach that end point by getting behind the local management, and helping them grow their operations, adding our skills to theirs. Ours is an organic growth ambition.

This obsession with earnings growth in our acquired businesses conditions our compensation structure. The top 200 managers in the company are rewarded only for superior like-for-like performance. If they achieve organic EBIT growth, the variable component in their pay goes up. If it goes down, the bonus is cut. The same applies to the return on invested capital they deliver, since we are careful of capital use.



Our path to virtuous scale has seen organic and external growth go hand in hand. Year by year, what we do with what we've got explains a higher percentage of our performance. In the future we can expect organic growth of three kinds: a certain amount of inherent growth because of our market mix; plus some market share growth, consistent with what has been achieved in the past; plus some purchasing synergies. That is the reality behind the targets we set, and our optimism about the future. Acquisitions have given us the right platform – an intelligent disposition of our operations around the world. As some beer markets grow and others contract, we expect our footprint to be favoured.

Report on organic growth

In 16 of the countries where we run operations there were no scope changes in 2000 or 2001, making any growth last year entirely organic. And those 16 countries all grew either volume or market share, or both – except for Bulgaria, our minor businesses in China and Luxembourg, and France which remained stable. It is the same story when we look at the organic growth of our operations as a whole. Interbrew volumes, excluding Mexico, increased by 2.9%.

Of course, volume growth needs to go hand in hand with value growth. That is the real test of being better than the best local competitor. Once again last year we achieved a higher increase in net turnover than in volume, pushing up net turnover value by 8.9%. That made for a pleasing earnings result. We regard organic EBITDA growth as the key to creating value for our shareholders. We achieved a strong increase of 13.4% overall, as a result of a 18.1% increase in Western Europe, 8.6% in North America, and 27.1% in emerging markets. EBIT is a key focus for us, since it reflects how wisely we use capital in our business. The story for EBIT in 2001 was even better, up 49.4% across the world. It was particularly satisfying to see return on invested capital in the emerging markets continue to increase.





The scale reason

Report on scope changes

ACQUIRING BECK'S With Beck's, we gained one of the world's top brands. This was probably the last truly international beer brand which would become available, the only one left in private hands. The deal was signed in August 2001 and closed in February 2002. In Germany, Beck & Co is the number eight brewer with domestic volumes of 2.7m hectolitres. The German market overall is in decline, but the premium/speciality segment where Beck's plays has been growing in recent years. Beck & Co is also the only German brewer with a real export business, selling more volume internationally than domestically, a total of 2.9m hectolitres in 120 countries.

Its main market is the US, where Beck's is a 900,000 hectolitre brand and the number four import. In the US, Beck's' strength maps well with ours. Beck's has 80% of wholesalers in common with Labatt USA, but the Labatt business is growing much faster. Bringing Beck's into our call to the wholesaler will give the brand more focus and power, and allow it to realise its potential. Beck's in the UK has volumes of 700,000m hectolitres and is distributed by Scottish and Newcastle. The other major export market for Beck's is Italy where it is the leading import brand, having achieved a 14.2% compound annual growth rate over the past six years, building off German proximity and German reputation. Once again, the fit is advantageous. Interbrew recently gained a chunk of business in Italy as part of the Bass settlement when we retained Bass ale and the Tennent's brand worldwide.

ENTERING GERMANY We entered the German market in July with the acquisition of Diebels for 6.5 times EBITDA. Diebels is a classic German brand, the leader in the Alt Bier segment, with volumes of 1.5m hectolitres and a total market share of 1.4%. The business includes the new beer/cola brand DIMIX, which took off on its launch in December 2000 and reached over 100,000 hectolitres at the end of its first year.

EXPANDING FROM ENGLAND INTO THE UK As part of the Bass resolution, Interbrew was allowed to keep the Bass and Tennent's brands, which represent around 5% of the UK market. We gained leading positions in Scotland and Northern Ireland, plus a small business in Eire. These are strong businesses with high margins and good volumes. Our share is 29% in Northern Ireland and 39% in Scotland. We now have the right vehicle in all three territories to launch Stella Artois. How we handle it will be a microcosm of the Interbrew strategy – get a strong platform, then add things to it. Incidentally the Bass settlement brought us similar benefits beyond the UK. The strength of Tennent's in Italy and Bass ale in the US means that both businesses reinforce the local platform we already have.

ENTERING SLOVENIA We acquired a 40.8% stake in the number two brewer, Union Breweries – a typical example of how we use a bolt-on acquisition to reinforce our position in a region, in this case former Yugoslavia. Union has beer volumes of 1.1m hectolitres and state of the art facilities. It also produces the Fructal fruit juices (1.2m hectolitres) as well as soft drinks and mineral water (0.5m hectolitres). The transaction included licence agreements for Interbrew relating to the Union brand in Croatia, Serbia, Albania, Montenegro and Kosovo, and a contract for Union Breweries to produce Interbrew products. Our initial stake (24.6%) was increased to 40.8% during a public tender offer (which closed after the year end), and Interbrew became the biggest single shareholder.



“We gained leading positions in Scotland and Northern Ireland – strong businesses with high margins and good volumes”





THE BRAND REASON

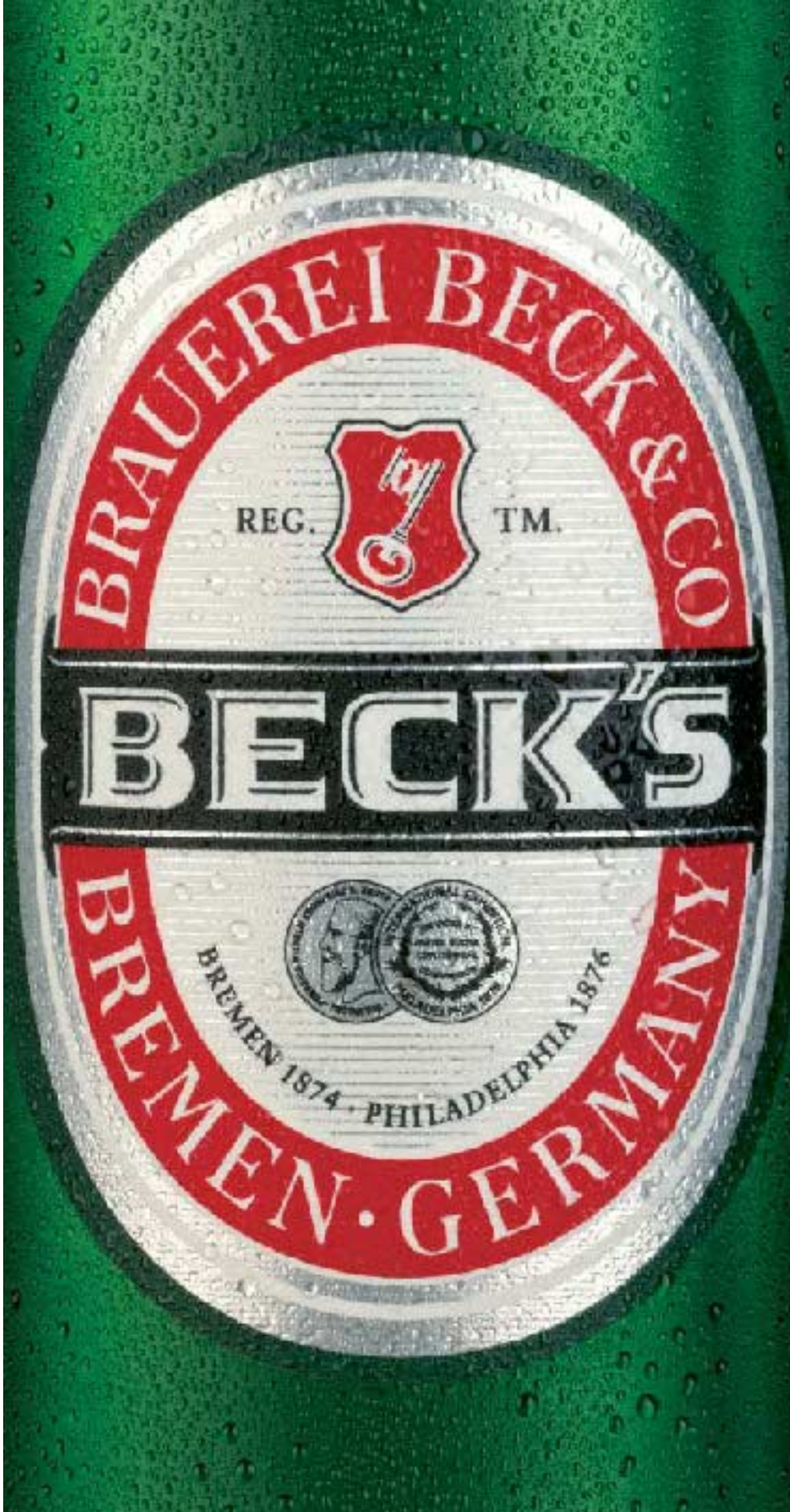
THE MAINSTREAM PLUS THE PREMIUMS

The brand reason

Introduction on the brand reason

Beer is a rewarding business to be in, grounded in human choice, individual liking and social pleasure. There is simply no alternative to pleasing the consumer. If we were in the mobile phone or computer business, our contact with the consumer would be dramatically reduced. One sale could last several years. It is not like that with beer. People do not buy from us once every two or three years, but twice in one evening. Nor is there any vagueness about the outcome, with purchasers not being quite sure what they're going to get: 99.9% know exactly what they're going to get. Virtually every sale is an endorsement, a vote of confidence. That is why we are so close to people.

To be a profitable brewer you need to be part of people's lives. It's good if you are part of their lives day by day. It's even better if you are part of their lives when they splash out. But the day-by-day is 90% of the market, and the splash-out is only 10%. The day-by-day is the most important part of being the World's Local Brewer®. But we are the splash-out brewer as well, as we take our world famous brands and add them to our local base. We make available the next thing people want, as wealth in a country grows or choice becomes more sophisticated. Our portfolio is a brand tower, which people can ascend.



Advance in the international speciality/premium market

The purchase of Beck's and entry into Germany gave us a much stronger position in the premium/speciality market. The market for premium lagers and the international ale family is a good place to be. It accounts for 12% of global volume but 23% of global profit. Whereas the global beer industry is forecast to grow at 2 to 3%, the speciality/premium market is expected to grow at 4.5% – double the rate. It is interesting to examine the geography of this segment. Half the volume is in three countries** – the US, the UK and Germany – and Interbrew is now active in all of them. Fast growth is expected in a further three countries – Mexico, Russia and Canada – in all of which we have operations.

Currently 20% of our volume is in the premium/speciality category. Beck's strengthens our existing international brand portfolio of Stella Artois, Hoegaarden, Leffe, and Bass ale. Ours is a well-spaced portfolio. All the specialties compete in different segments, and our two premium lagers have differentiated positions. With Beck's added in, we exceed 10m hectolitres sold at premium price, which places us in the second position in the premium segment worldwide.

** Source: Canadean, Interbrew data, annual reports, McKinsey analysis



The brand reason

“Stella Artois achieved one of the fastest growth rates in the international premium lager segment”

How Beck's and Stella Artois will fit together

Let us look at it country by country. In each market one of our premium lagers is significantly bigger and will lead. In Germany, Beck's is obviously the one. In the US Beck's is a 900,000 hectolitre brand, while Stella Artois is still on the early rungs of its ascent. There is no conflict in Italy, where Beck's is strong and Stella Artois is licensed to Heineken, or in the UK, where Stella Artois is strong and Beck's is distributed by Scottish and Newcastle. In a country where there is no obvious leader, we will focus on Beck's. It is undoubtedly the case that Beck's gives us opportunities in some markets that would be harder to enter with Stella Artois.

Growth of Stella Artois

The news is good. Stella Artois achieved a double digit volume increase, with growth in just about every market. The brand achieved one of the fastest growth rates in the top ten international premium lagers, and moved up the rankings in that category from seventh to sixth. Its second home is the UK, where it continued to power ahead. Greater availability – it is now the most widely distributed lager in the country – and the underlining of its premium qualities, pushed volumes up a further 20%. As a result Stella Artois became the third largest grocery brand in the UK.

Elsewhere we recorded particularly strong results in Australia, New Zealand, Canada and the US. The story in Central Europe was again encouraging: Stella Artois is a brand people like to afford. Volumes in the region were up 15%, with a good performance in Hungary (a rise of 7%) and in Romania (up 23% to reach 210,000 hectolitres). Looking ahead, the events of last year strengthened the possibilities of the brand. Interbrew UK gained the opportunity to spread Stella Artois' success from England to Scotland and Northern Ireland, while in other countries where Beck's will lead we now have the time to nourish that “reassuringly expensive” theme.

Performance of our international specialties in segmented markets

These are super premium brands that need a patient period of investment to get them seeded and developed. However, after that initial phase, the profit importance of a brand like this can be expected to be twice or three times its volume importance. The leader in our pack last year was Leffe, which raised its volumes worldwide by 11%. The brand continued to be built for the future in Central Europe, in the cities with higher purchasing power. Hoegaarden continued its steady growth, up 2% overall. In the UK it surged, up 15%, with the result that at this stage is its UK life cycle, Hoegaarden is bigger than Stella Artois was. The Belgian brands as a whole increased their standing in North America.





The brand reason

Report on our million hectolitre local brands

THE BIG THREE The Labatt Blue franchise in Canada is soft because of the erosion of older customers. But this is a brand which is strong with young adults – the best indication of future health. The Blue family as a whole grew in Canada and continued to gain ground in the US, with volume increases for Labatt Blue of 11% and for Blue Light of 33%.

In Korea, the relaunch of our biggest brand gave grounds for optimism. OB lager was in long term decline when we bought it in 1998. Figures for the first six months after relaunch were what we would hope to see, but we need to wait a year for more evidence that the tide has finally turned. Alongside OB lager, Cass showed signs that it could be just as formidable a brand. It added a further 20% to its volumes and passed the three million hectolitre mark, within striking distance of OB lager.

Meanwhile our first three million hectolitre brand, Jupiler in Belgium, proved it is arguably still the best. Volumes continued to grow, reaching 3.5m hectolitres last year. Its share in the mainstream lager off-trade segment is now close to 50% – a major achievement.

TOP PERFORMERS IN CENTRAL EUROPE Ožujsko in Croatia produced another outstanding performance. It had a market share of around 26% when it came into the Interbrew family in 1994, and last year reached 39%, after volume growth around 10%. Our first developing market brand, Borsodi Sör, added lustre to our 10-year celebrations in Hungary with continuing strong growth. Meanwhile our latest developing market brand, Staropramen, showed its underlying potential by responding to a repositioning with double digit growth.

THE SURGE CONTINUED IN EASTERN EUROPE The two brands setting the pace last year were Klinskoye in Russia and Chernigivski in Ukraine. Klinskoye was relaunched in May as our Russian national brand in the upper core, and achieved a 35% increase in volume to reach 2.5m hectolitres. Chernigivski was positioned as our Ukrainian upper core brand, and surged ahead to reach its highest ever market share on volumes up 59%, making it the fastest grower in our worldwide portfolio. Our Russian local premium, Sibirskaia Korona, was not relaunched until October, but immediate results made for optimism, while the volumes over the year grew by 8%. Tolstiak grew by 17% to reach 1.9m hectolitres. Another brand bidding for two million hectolitre status is Rogan in Ukraine, which maintained its growth despite a significant repositioning from the value segment into the core.

Wooing consumers with our brands

Personality is the key to a brand, and across the world we are winning awards for how that personality is portrayed. In Korea Cass picked up the Excellence Award of the Advertising Congress. In Russia Klinskoye was named Brand of the Year in the consumer marketing awards, and also received the International Effie Award for advertising effectiveness. Perhaps our most applauded brand is Stella Artois. The long-running UK campaign surpassed itself last year with the latest commercial accounted the best TV advertising in the world for any alcoholic drink, winning Gold at the Cannes Festival. Our marketing spend shows the depth of our commitment to our brands. Last year, as every year, we spent some 20% of net turnover on marketing and sales activities. We put our money where our mouth is when we say that brands are the lifeblood of our business.



“Chernigivski surged ahead to reach its highest ever market share on volumes up 59%”





BECK'S

THE KNOWLEDGE REASON

THE INTERNATIONAL PAIR OF HANDS PLUS THE LOCAL PAIR OF HANDS

“Year by year we are going deeper into skill transfer and knowledge sharing”

Introduction on the knowledge reason

We cannot be the World's Local Brewer® unless we are good at being local. What does this mean exactly? After all, locals are good at being local. Yet we expect to take a local business and improve it, even transform it. That is because we have a local-plus approach. Local insight plus. Local cultural sensitivity plus. Local relationships plus. The plus is what makes the difference. Our worldwide expertise is the plus.

When a brewery joins the Interbrew family it is no longer alone, there are all these extra pairs of hands. We have shown we are good at making an immediate impact, setting the brewery on a higher growth path. Year by year we are going deeper into skill transfer and knowledge sharing. This is the work of many thousands of individual acts. Each in itself may seem a small matter, but this is a story about cumulation.

One year we institute workshops, and colleagues from different countries meet properly for the first time. A year and several workshops later, there is recognition and familiarity. Come the next year, there is real friendship and ease in the relationship, and it is automatic to lift the phone. That is when knowledge transfer really works, when colleagues across the world are effortlessly in touch.

Knowledge management

Knowledge management allows us to potentially deliver best practice without increasing the corporate overhead. It is the best tool we have as we work towards our goal of outperforming the strongest local competitor. We have some way to go, and do not underestimate the difficulty of matching up to the best, wherever we find it. But if another brewer's team can reach that standard of excellence, so can ours.

We continued to build our network of workshops permeating the organisation, on subjects from engineering to energy. International meetings were driven deeper into the organisation. Central Europe made teamwork the subject for its second senior management convention, and regular gatherings were initiated for the top 230 technical people around the world. We see knowledge management as a moving target, since our knowledge constantly grows. Year by year, innovation adds to the bank of resources available throughout the group.

Skill transfer

The profit potential of pushing up the efficiencies of developing market breweries to the mature-market average is enormous. This is not a matter of one major project, but a multitude of small projects. One theme in this work is the application of world class manufacturing techniques to optimise capacity without significant capital expenditure. Some of the results in 2001 were substantial. Capacity in Klin near Moscow was increased by 20%, saving 3.5m euro. In Zagreb capacity was increased from 165,000 to 200,000 hectolitres a month. Additional fermenting capacity of 1.7m hectolitres was generated in Canada, which allowed an investment of 30m euro to be deferred. In Russia process optimisation deferred 15m euro of capital expenditure, while in Ukraine ongoing work will raise capacity by 500,000 hectolitres.



Other projects focused on SAP, utilities usage, recipe optimisation, environmental management and interactive training. We carried out six projects to raise production line efficiency, following the success of the four we completed in 2000. Those 10 projects had an average hit rate in terms of productivity improvement of around 30%. Estimated recurrent savings on direct labour and energy totalled 0.9m euro. The extra capacity gained via the productivity route was 1.3m hectolitres, equivalent to 15m euro of capital expenditure on bottling lines. Our targets go beyond operational efficiency and cost savings. They seek to extend the life of our assets, thus improving return. Accordingly a maintenance excellence programme, involving both predictive and preventative techniques, was initiated in Croatia and North America.

Ways of using our global resources

Last year we set up a global procurement department, to systematise and increase our purchasing resources. Immediate results include savings of 15m euro in materials costs. Indirect spends, such as travel, capital investment, IT equipment, and third party services, are now being addressed. A brands and sponsorship initiative brought together the Interbrew people with insights into the links between beer and sport. As with other aspects of marketing, first we code what we know, then we make it available to other countries. The switch we made to international accounting standards required extensive training for hundreds of our accountants. Alongside outside experts, those more familiar with IAS passed on their knowledge to those less familiar, to spread expertise through the whole organisation.

It is not easy to multiply the value of a good idea. We all know the feelings of ownership that prevent people taking up another colleague's brainwave or invention. So all credit to those who cut through the ego barrier. Last year Holland and France adopted the Belgian programme which mobilised the energy of people through performance ethics, while Belgium adopted the sales training programme pioneered in the UK.



50 The knowledge reason

“We commissioned an independent survey of the top 400 to help us focus on the right things”

People development

Talent moved up our agenda. A raft of changes, large and small, was introduced. A new system of organisational and people reviews was put in place to integrate succession planning for the top 50 management positions. At the next level, we instituted a common system of performance management for the top 350 employees. Across the board minimum standards were established for how all our people are appointed, developed, recognised and rewarded. We drew on the experiences and knowhow of a team from Canada, Hungary, Korea, the UK, Russia and Belgium to identify and make plain to everybody the competencies that really matter to the company.

What do employees think of all this? We want to improve employee satisfaction, so we commissioned an independent survey of the top 400 to help us focus on the right things. It ought to be no surprise, in view of the excellent results Interbrew achieves which can come from no other source but our employees, that we found a high level of commitment, and an above average intention to stay with the company. Not everything was rosy. Where action was needed, plans were agreed.

Like our brewery staff, and everybody else in the company, our human resources people are charged with achieving continuous improvement in the way they operate. Initiatives last year included links to MBA programmes in Europe and the US, a new HR intranet site and corporate jobsite, a new stream of the global leadership programme for young people of high potential, and the circulation of monthly HR reports from each country, to spread news of who's doing what, and encourage good ideas to ripple across the company.

Looking ahead

How much further can we go, in improving the way we operate? We do not have the problem that athletes have. They operate so close to the limits of human performance than breaking any sports record is dogged by injury. By comparison, the beer industry is still on the lower slopes of attainment. The expertise of Interbrew is formidable, but we certainly don't know everything. Even in the mature markets of Western Europe, we have found that Leuven can learn from the UK, and the UK can learn from Leuven. Businesses considered highly efficient are nowhere near the top of their potential. And for many breweries in emerging markets, the limits are out of sight. Just to get all our breweries up to the average standard would bring enormous benefits. As best practice transfer makes local sites technically self-sufficient, all kinds of opportunities will bubble to the surface. As marketing knowhow seeps into every nook and cranny of Interbrew, we will hold more compelling conversations with consumers. We have everything to go for, in pulling together the wonderful expertise that exists within the Interbrew family. If we manage to do it, the company can soar.

The outlook is certainly positive. We expect to continue growing our volumes. Price/mix improvements will also be realised in most of our markets. As a result, we reiterate our financial objectives, which were first stated on the publication of our half year results for 2001. Irrespective of scope changes and acquisition activity, our growth target for earnings per share before goodwill amortisation is an increase which reaches an annual average over the period 2001 to 2004 in double digits.



FINANCIAL REPORT



Leffe



Financial report

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