

Introduction

The story of size wise

Let us take up the story where we left it last time. We told you that size wise was about a journey we had been on for the past ten years. It was deliberately designed to change three things. First, the scale of the company, to put us among the world leaders in the industry. Second, the geographic footprint, to give us organic growth potential with acceptable risk. And third the brand portfolio, to achieve an overweighing in the real growth and profit segment of the future – the international premiums and specialities.

Now, as the journey continues, we are taking the notion of size wise and developing it. The essence of size wise is the combination of organic growth and external growth. In the past few years our external growth has been given impetus by the increasing consolidation of the beer industry. We went early into the game, and were active and quick. We made sure that we were one of the few players driving the process. Without this effort, we would have remained a regional brewer without scale. In the coming phase, a more consolidated environment may offer fewer opportunities. But the opportunities for organic growth are undiminished.

The virtuous circle

A simple sketch sums up our view of organic and external growth – the Interbrew virtuous circle. One feeds the other, in a continuous loop. Existing operational strengths drive the pattern of our external expansion, as opportunities to enter a new country arise. Such acquisitions give us extra starting points for organic growth.

The nature of that growth may then prompt supplementary or complementary acquisition. Although the two go hand in hand, organic growth and external growth are chalk and cheese. External growth is a discrete event: organic growth is a continuing process. External growth represents a brief moment of expansion compared with the steady years of organically building the business.

Organic growth is an attractive theme, because it brings employees to the fore. To do more with what you have is, above all, an inclusive idea. That is another reason why we have chosen an organic focus for this annual report. The company is still in the consolidation arena, interested in fewer, more strategic deals which reinforce existing positions. But organic growth is the heart of what we do.

Key figures – five year review

Volume (million hectolitres) ⁽¹⁾

45	56	76	97	102
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Employees

16,727	24,348	34,203	37,617 ⁽²⁾	35,044 ⁽²⁾
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Net turnover (million euro)

2,715	3,244	5,657	7,303	6,992
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EBITDA (million euro)

651	756	1,156	1,533	1,394
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Pay out ratio (%)

25.2	25.6	33.1	25.8	26.2
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Dividend per share (euro)

0.15	0.18	0.21	0.29	0.33
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⁽¹⁾ Including pro rata volumes of minority stakes (full year) and including 2002 volumes of Gilde Brauerei (full year)

⁽²⁾ Employee number based on full-time equivalents

Million euro, unless stated otherwise	2002	2001	2000	Non IAS 1999	Non IAS 1998
Net turnover ⁽¹⁾	6,992	7,303	5,657	3,244	2,715
EBITDA ⁽²⁾	1,394	1,533	1,156	756	651
Profit from operations, pre restructuring charges	836	884	533	419	383
Profit from operations	728	884	533	419	383
Net profit from ordinary activities	467	537	271	230	190
Net profit	467	698	(964)	230	190
Earnings per share before goodwill and restructuring ⁽³⁾⁽⁴⁾ (euro)	1.51	1.44	1.04	0.82	0.69
Dividend per share ⁽³⁾ (euro)	0.33	0.29	0.21	0.18	0.15
Pay out ratio (%)	26.2 ⁽⁵⁾	25.8 ⁽⁶⁾	33.1 ⁽⁷⁾	25.6	25.2
Weighted average number of ordinary shares (million shares)	431	429	335	323	322
Fully diluted weighted average number of ordinary shares (million shares)	435	434	343	332	336
Share price high (euro)	34.5	37.5	38.1	N/A	N/A
Share price low (euro)	19.1	25.5	34.0	N/A	N/A
Year-end share price (euro)	22.5	30.75	37.12	N/A	N/A
Market capitalisation	9,712	13,257	15,865	N/A	N/A
Return on invested capital (%), pre restructuring	10.7	11.4	11.4	10.4	12.6
Return on invested capital (%)	9.4	11.4	11.4	10.4	12.6
Net capex	510	488	425	231	165
Cash flow from operations	1,045	1,053	871	523	438
Cash interest coverage	6.8	5.4	2.8	4.1	4.8
Net financial debt	2,583	2,662	2,906	2,061	1,750
Debt equity ratio	0.55	0.55	0.71	1.34	1.53

⁽¹⁾ Turnover less excise taxes

⁽²⁾ Profit from operations plus depreciation and amortisation

⁽³⁾ Adjusted for stock splits

⁽⁴⁾ Net profit from ordinary activities excluding restructuring charges plus amortisation of goodwill, divided by the weighted average number of ordinary shares

⁽⁵⁾ Based on net profit from ordinary activities (467m euro), excluding the net after tax impact of restructuring charges (78m euro), bringing the pay out basis to 545m euro

⁽⁶⁾ Based on net profit from ordinary activities, excluding the Carling contribution

⁽⁷⁾ The previously published 27.7% was calculated on the non IAS net profit excluding Bass write-off

Letter to shareholders

The Interbrew of today

Each year is a new phase in the Interbrew story. You know of our rapid external growth over the past ten years – the way we have created, step by step, a company with bigger scale, better geographic balance, and richer brands. We have pride in that achievement, but make it no secret that there are areas where we can still improve. In running the business in the past few years, we have been affected by a series of major external events – the flow of transactions, the IPO and competition issues in the UK. Operationally, we must now further improve performance. Although we have a strong record of organic EBITDA growth, we know we can do better. Organic growth has now become an increased area of focus.

Our starting point

Where does the company stand today? We report a strong performance. The business is running well in all developed markets and most emerging markets. As people will know, we suffered two weaknesses in our 2002 operations – Russia and Bulgaria. These events are small in overall terms, but big in terms of awareness. We will explain these situations, and tell you what we are doing about them.

Let us take Bulgaria first. In a volatile market, a 30% price gap opened up below our core brands, as the value segment grew and PET plastic bottles took off. Our market share was hit hard. However, we launched the “back to core” plan for Kamenitza in December, and introduced both Kamenitza in PET and a new premium brand Kamenitza Extra. Latest news is, we are gradually getting back on track.

We also made good progress after a difficult summer in Russia. In that country we took over in 1999 a business with different breweries and different brands. We had to improve the quality of the liquid, create a coherent portfolio of core brands across price segments, and make these nationally available by cross-brewing to an identical quality in each geography. It became crucial to rectify the absence of some packaging forms, since the market was moving fast in terms of segment change, as well as distribution evolution and consumer appetite for the new.

The evolution of our market share in 2002 was held back by the price positioning of some products, and the lack until July of the fastest growing pack formats of PET and cans. Hence we missed some of the industry upside in the summer.

The progress made since then is reflected in our volume performance in the final quarter, when our national market share rose to 12.4% compared with 11.3% during the same period in 2001. We carried out a major programme of quality and PET/can investment in 2002, and are now in a much better position to take advantage of market growth. But we don't underestimate the challenges of such a volatile market. In going back to basics, getting distribution, building trial, and working with our brands, we regained vital share. None the less it will be a long, steady and patient journey.

During the year litigation delayed the integration of Beck's into Labatt USA. This had no impact on the overall valuation we placed on the business, though it certainly affected investor sentiment. So far as 2002 is concerned, the lack of US synergies was more than offset by expectations being exceeded in other results of the Beck's acquisition – in Beck's home market, from the disposal of the glass business, and through new licence income. Meanwhile Beck North America continued as a stand-alone platform in the US.

As we go to press, the US court has not yet delivered its ruling on the integration. However, we have created options to cover every outcome. It may well be that the issue has been settled by the time this report appears, ending the uncertainty.

Building for the future

How do we sustain growth in the future? Certainly not by ducking hard issues. And the company had several to tackle last year. We faced the reorganisation of both our logistics in the UK and our industrial platform in Western Europe, as well as a lock-out in our largest brewery in Canada and a strike in Montenegro. If we had not dealt with these issues, it would certainly cost us in the coming years. But dealing with them immediately cost us *today*. The bill for achieving a more flexible labour agreement in Canada and resisting illegal strike action in Montenegro was, of course, a normal part of doing business. The two restructuring issues in Western Europe involved one-off costs – 64m euro to outsource secondary distribution in the UK, and 44m euro to scale down the Boddington's Brewery and close Breda. The payback on all these decisions is compelling.

We resisted the temptation to take the short-term view, even though it meant a one-off charge to our accounts in 2002. Clearly, the costs in the short term are justified by the long-term gains. This was a size-wise decision, treating the loss of immediate profit as an investment bringing good returns.

Letter to shareholders

Our performance in 2002

Our reported results are affected by the sale of Carling. Net turnover was down by 4.3%, while controlled volumes declined by 3.7%. Our EBITDA fell by 9.1%, and EBIT by 17.6%. Reported net profit from ordinary activities dropped by 70m euro to 467m euro.

These reported figures include the restructuring charges related to the outsourcing of our secondary distribution in the UK and the review of our industrial footprint in Western Europe. If these are taken out of the calculation, our net profit from ordinary activities increases, as it rises to 545m euro before restructurings. This leads to earnings per share before goodwill and restructuring of 1.51 euro.

Our reported figures were also affected by other scope changes. It was in February 2002 that we sold Carling Brewers, and during the year we made some major acquisitions. Underlying the figures is a strong organic performance. This has been a hallmark of the company over the past few years, and 2002 was no exception. Our net turnover grew organically by 3.3%, compared with a volume increase of 2.1%. EBITDA rose by 9.0%, and EBIT by 11.5%. While these figures do not take into account the restructuring charges, they do include the costs of the lock-out in Canada.

Interbrew is delivering organic growth year after year. Yet our share price at year end was down 32% from the IPO level. But since the IPO in December 2000, we have grown the net profit from ordinary activities by 72%. So we believe we are doing our side of it well. We are gaining strong returns from a beer business of high potential.

The year's other achievements

BRANDS Our beers come first with us, and we have some excellent initiatives to report. As part of the negotiated conclusion to the Bass story, we reached agreement to take over the management of Bass ale in the US as from July 2003. The brand will strengthen the value of our portfolio in the on-premise environment. This addition makes us the number two US import beer business, with four of the top ten import brands. We also found a solution for our mainstream brand issue in the UK, with a new licence for Castlemaine XXXX as from January 2003, replacing Heineken at the end of its contract in March 2003.

EXTERNAL EXPANSION Our growth around the world continued in the country with the highest consolidation potential, Germany, as well as in the market promising the greatest expansion, China. In Germany, the largest beer market in Europe, we acquired a controlling stake of 85.4% of Gilde Brauerei in Hannover in December for a historic EBITDA multiple of 8.6. The deal brought us Hasseröder, a strong core brand with potential to expand, and a good portfolio fit with our existing operations. In China, a market promising average per capita consumption increases of 6 to 8% a year over the next five years, we took two steps forward. We signed an agreement to acquire a 70% stake in the brewing operations of the KK Group, and took a 24% stake in Zhujiang, China's fifth largest brewer which leads the market in Guangdong. The acquisitions were part of a realistic strategy of focusing on a defined geographic area of high economic activity, the coastal area of China where GDP per capita is three times that of the interior.

OUTSTANDING ISSUES Quiet and patient work behind the scenes allowed us to collect a payment of 92m euro from the Brascan Group, in a settlement of the dispute dating from the Labatt acquisition in 1995. Similarly, we are working hard to negotiate a satisfactory outcome in Slovenia, where the number one brewer Pivovarna Lasko holds a 24% stake in Pivovarna Union, the number two, in which we have a stake of 41.2%.

Update on Beck's

It was one of the year's achievements that we were able to integrate Beck & Co in Germany in a record time of 78 days. Rather than impose Interbrew solutions, we set up 21 joint teams to resolve integration issues large and small, and gained a high level of commitment and alignment with the choices made. As for the wider story, we now give you the full update on Beck's promised a year ago.

“The Beck’s story within Interbrew is just beginning.
This is a brand with the world at its feet.”

Letter to shareholders

We didn't buy Beck's for the cost synergies, but for the superb brand opportunity. Let's start in Germany. Beck's was originally an export brand. In fact it was not available in its home market until 1949. Yet it now has such a following in Germany that loyal consumers expressed initial doubts about the impact of foreign ownership. As it turned out, concerns were allayed and the brand did better than before, with volumes up by 7.8% compared with 2001. It helped that we made the philosophical choice to run the business with local management.

In Beck's top three export markets, progress in the US was put on hold by the business uncertainty, while growth continued in Italy and the UK. Elsewhere, new opportunities were opened up by the link with Interbrew. These are discussed in detail on page 25, where you will see that there has been positive advance in existing Interbrew markets and with an existing Interbrew partner.

In financial terms, the acquisition of Beck & Co exceeded its business plan, and is fulfilling our expectations. We were able to deal quickly with the sale of the Nienburger glass business (October), and the Rostocker brewery in the north east of Germany which did not fit within our portfolio (November). From the start these were assets held for sale, and accordingly we did not consolidate the results of these operations in our figures.

Conclusion

As we look back over the past few years, we pay tribute to the leadership of Hugo Powell, first in North America and then as chief executive officer since 1999. He retired at the end of 2002 after steering Interbrew through a crucial period in its expansion and evolution. Under his leadership, the company built an impressive track record in the consolidation of the world brewing industry, and outperformed its peers in

both sales and earnings growth. His tenure marked a turning point in the emergence of Interbrew on the global stage, as we defined and implemented our vision as The World's Local Brewer®.

John F. Brock assumed his position as chief executive officer on 3 February 2003, bringing to Interbrew extensive experience in international business and the world of beverages in particular. He has successfully developed global brands, and led acquisitions in the Americas, Asia and Europe, which has prepared him for the leadership role in Interbrew.

Looking ahead, as we build on what has been achieved, we are more focused than ever on operational performance. In the past few years our underlying organic growth has to some extent been obscured by the sheer scale of our geographic expansion. In this annual report it is centre stage. During 2002 we have become more organised in our value creation processes. We have put in place new building blocks of organic growth, and look forward to reporting on the difference this makes in 2003.

Pierre Jean Everaert
Chairman of the Board

John F. Brock
Chief Executive Officer

A guide to the brands

GLOBAL POWERHOUSE BRANDS

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

GLOBAL STRATEGIC SPECIALITY BRANDS

Hoegaarden inspired the Belgian white beer revival

Leffe is the world's leading abbey beer

MULTI-COUNTRY TARGETED BRANDS

Bass ale is a beer whose pedigree goes back to the early ages of branding

Staropramen, the pride of Prague, has emerged as a brand with cross-national potential

KEY



Countries where Interbrew has a subsidiary or minority stake



Countries where Interbrew has a licence agreement



Countries where Interbrew beers are distributed

THE AMERICAS

ASIA PACIFIC

WESTERN EUROPE

CENTRAL EUROPE

EASTERN EUROPE

* Brewed under licence
** Registered brands
owned by our partners
(see inside cover)

A guide to the business

	Volumes all products (million Hl)	Market position	Market share	Number of breweries	Trading names	Participating interest
The Americas	23.4m					
Canada	9.5m	No. 2	43.0%	8	Labatt Brewing Company	100%
Cuba	0.7m	No. 2	31.7%	1	Bucanero	50%
USA	6.6m	No. 2 ⁽¹⁾	16.9% ⁽²⁾	1	Labatt USA Beck's North America	70% 100%
Mexico	6.6m ⁽³⁾				Femsa Cerveza ⁽¹⁰⁾	30%
Western Europe	40.5m					
Belgium	6.4m	No. 1	56.1%	4	Interbrew Belgium	100%
France	2.7m	No. 3	9.8%	0	Interbrew France	100%
Luxemburg	0.2m	No. 1	40.6%	1	Brasseries de Luxembourg Mousel-Diekirch	92.9%
Netherlands	2.7m	No. 2	14.7% ⁽⁴⁾	3	Interbrew Nederland	100%
UK	14.0m ⁽⁵⁾	No. 3	16.6%	5	Interbrew UK	100%
Germany	10.2m ⁽⁶⁾	No. 3	7.0%	5	Interbrew Deutschland Gilde Brauerei	100% 85.4%
Spain	0.6m ⁽³⁾				Damm ⁽¹⁰⁾	12.6%
Italy	1.1m	No. 4	6.5%	0	Beck's Italia	100%
Export / Licences as handled by W-European affiliates	2.6m ⁽⁶⁾					N/A
Emerging Markets	34.5m					
Bosnia-Herzegovina	0.1m	No. 4	8.3%	1	Uniline	59.2%
Bulgaria	0.9m	No. 2	22.6%	3	Kamenitza	84.7%
Croatia	1.7m	No. 1	45.9%	1	Zagrebacka Pivovara	71.9%
Czech Republic	2.6m	No. 2	13.8%	3	Prague Breweries	99.6%
Hungary	2.3m	No. 1	30.4%	1	Borsodi Sörgyar	98.5%
Montenegro	0.3m	No. 1	60.0%	1	Trebjesa	72.7%
Romania	1.5m	No. 3	12.5%	3	Compania de Distributie National Interbrew EFES Brewery	96.2% 50%
Slovenia	0.4m ⁽³⁾				Union ⁽¹⁰⁾	41.2%
Serbia	0.2m ⁽³⁾				Apatin ⁽¹⁰⁾	9.3%
Russia	8.2m	No. 2	12.1%	8	SUN Interbrew	68%
Ukraine	5.5m	No. 1	32.2%	3	SUN Interbrew	66.3%
China	0.6m 1.8m ⁽³⁾		42.0% ⁽⁷⁾	2	Nanjing Jinling Brewery Zhujiang Brewery ⁽¹⁰⁾	60% 24%
South Korea	7.9m	No. 2	42.6%	3	Oriental Breweries	50%
Namibia	0.5m ⁽³⁾				Namibia Breweries ⁽¹⁰⁾	28.9%
Global Exports / Licences ⁽⁸⁾	2.3m					

⁽¹⁾ Within segment "Imports"

⁽²⁾ Within segment "Imports and Domestic Specialities"

⁽³⁾ Pro rata volumes full year

⁽⁴⁾ Excludes domestic subcontracting

⁽⁵⁾ Excludes Beck's UK volumes; includes Tennent's/Bass as integrated in the own affiliate; excludes 5 weeks of the Carling Brewers business (1.1m)

Global brands	Main local brands
Stella Artois, Beck's, Leffe, Hoegaarden, Bass	Labatt Blue, Blue Light, Kokanee, Alexander Keith's, Wildcat, Boomerang, Budweiser ⁽⁹⁾ Cristal, Bucanero ⁽¹¹⁾
Stella Artois, Beck's, Leffe, Hoegaarden, Staropramen, Bass	Rolling Rock, Labatt Blue, Blue Light, Sol ⁽¹¹⁾ , Dos Equis ⁽¹¹⁾ Carta Blanca ⁽¹¹⁾ , Dos Equis ⁽¹¹⁾ , Noche Buena ⁽¹¹⁾ , Sol ⁽¹¹⁾ , Superior ⁽¹¹⁾ , Tecate ⁽¹¹⁾
Stella Artois, Beck's, Leffe, Hoegaarden, Bass	Jupiler, Belle Vue
Stella Artois, Beck's, Leffe, Hoegaarden, Bass	Loburg
Stella Artois, Leffe, Hoegaarden	Diekirch, Mousel
Stella Artois, Beck's, Leffe, Hoegaarden	Dommelsch, Oranjeboom, Hertog Jan
Stella Artois, Beck's, Leffe, Hoegaarden, Staropramen, Bass	Tennent's, Boddington, Whitbread
Beck's, Staropramen	Diebels, Dimix, Haake-Beck Hasseröder, Gilde
Stella Artois, Beck's, Leffe, Hoegaarden, Staropramen, Bass	Damm Estrella ⁽¹¹⁾ , Damm Xibeca ⁽¹¹⁾ , Damm Sin ⁽¹¹⁾ Tennent's
Stella Artois, Beck's	Ozujsko
Stella Artois, Beck's, Leffe, Hoegaarden, Staropramen	Kamenitza, Astika, Burgasko, Pleven
Stella Artois, Beck's, Leffe, Hoegaarden	Ozujsko, Izzy
Stella Artois, Leffe, Hoegaarden, Staropramen	Branik, Ostravar, Velvet, Kelt, Mestan
Stella Artois, Beck's, Leffe, Hoegaarden, Staropramen	Borsodi Sör, Holsten ⁽⁹⁾
Stella Artois, Beck's, Staropramen	Niksicko
Stella Artois, Leffe, Hoegaarden	Bergenbier, Noroc, Hopfenkönig
	Union, Fructal ⁽¹¹⁾
	Jelen ⁽¹¹⁾
Stella Artois, Beck's, Staropramen	Klinskoye, Tolstiak, Sibirskaya Korona, Bag Beer, Volzhanin
Stella Artois, Beck's	Chernigivskoye, Taller, Yantar, Rogan
Beck's	Jinling, Yali Zhujiang ⁽¹¹⁾ , Supra ⁽¹¹⁾ , Zhujiang Fresh ⁽¹¹⁾
Beck's, Leffe	OB Lager, Cass, Cafri, Budweiser ⁽⁹⁾
Beck's	Windhoek Export Lager ⁽¹¹⁾ , Windhoek Special ⁽¹¹⁾
Stella Artois, Beck's, Leffe, Hoegaarden, Staropramen, Bass	

⁽⁶⁾ Including volumes of Gilde Brauerei acquired in Dec. 2002 (4.2m in Germany - 0.6m export - full year)

⁽⁷⁾ Share within own business area

⁽⁸⁾ Sales under responsibility of the central International departement; including Beck's UK

⁽⁹⁾ Brewed under license

⁽¹⁰⁾ Minority stake

⁽¹¹⁾ Registered brands owned by our partners (see inside cover)

Corporate governance

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 POWERS AND RESPONSIBILITIES

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.

Directors	Term expires
Pierre Jean Everaert* – chairman ⁽¹⁾	2006
Charles Adriaenssen ⁽¹⁾	2006
Allan Chapin*	2005
Jean-Luc Dehaene*	2004
Bernard Hanon* ⁽¹⁾	2004
Peter Harf*	2005
Remmert Laan	2004
Baron Frédéric de Mevius ⁽¹⁾	2006
Count Arnoud de Pret Roose de Calesberg	2005
Viscount Philippe de Spoelberch	2004
Kees J. Storm*	2005
Alexandre Van Damme	2004

Chief Executive Officer

John F. Brock

Corporate Secretary

Patrice J. Thys

*independent director

(1) mandate renewable on 29 April 2003

STRUCTURE Board members are selected by the board itself and appointed 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. A minimum of six directors shall be independent of shareholders exercising a decisive or significant influence on Interbrew's policy. They shall be specifically chosen for their particular professional expertise. Current members are shown above.

Pierre Jean Everaert (63, American)

has served as a director of Interbrew since 1997. He serves on the boards of Banque Paribas PAI Group (France), T.I.A.S. (Netherlands), and Eagle Pitcher (US).

Charles Adriaenssen (46, Belgian)

has been an Interbrew board member since 2000. He is managing director of the CA&P Group (Belgium).

Allan Chapin (61, American) has been a director of our company since 1994. He is managing director of the Compass Investment Bank in New York.

Jean-Luc Dehaene (63, Belgian), eminent Belgian politician and current vice chairman of the European Convention, has served on our board since 2001. He is also a board member of Umicore, Telindus, Domo and Corona Lotus (Belgium).

Bernard Hanon (68, French), a director of Interbrew since 1990, has been general manager of Hanon Associates in Paris since 1986.

Peter Harf (56, German) joined the Interbrew board in 2002. He is chairman and CEO of J.A. Benckiser, deputy chairman of Reckitt Benckiser in London, chairman of Coty in New York, and a director of Brunswick (US).

Remmert Laan (60, Dutch) has been a director of Interbrew since 1998. He is a senior advisor to Lazard, and vice chairman of the supervisory board of Vedior (Netherlands).

Baron Frédéric de Mevius (43, Belgian) joined the Interbrew board in 1991. He is the managing director of Verlinvest (Belgium), a private holding company.

Count Arnoud de Pret Roose de Calesberg (57, Belgian) has been a member of Interbrew's board since 1981. He holds several mandates within the Umicore Group and Delhaize (Belgium).

Viscount Philippe de Spoelberch (61, Belgian) has served on Interbrew's board since 1977. He is a member of the board of Floridiene (Belgium) and other private holding companies.

Kees J. Storm (60, Dutch) a director of Interbrew since 2002, is a member of the supervisory board of Koninklijke Wessanen, Laurus, KLM, Aegon, and Pon Holdings (Netherlands).

Alexandre Van Damme (41, Belgian) has been a director since 1992. He is a director of Patri (Luxemburg).

FUNCTIONING The board meets regularly and as frequently as required by the company's interests. If an urgent issue arises between meetings, it can be dealt with immediately by a conference call. In 2002 the board held 10 ordinary and 7 special meetings. These were held several times 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. It can only deliberate if a majority of its members are present or represented. Each director can appoint another member of the board to represent him and vote in his name. A director can represent only one other director. The average attendance rate at board meetings in 2002 was 90% for the ordinary meetings and 70% for the special meetings. 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 organizes 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 the mandate's duration and objectives. Mandated directors report regularly to the board. Certain directors also serve on the three board committees – the Strategy & Business Development Committee, the Audit & Finance Committee, and the Human Resources & Nominating Committee.

Corporate governance

Chief executive officer and corporate committee

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, which decides among other things on 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.

The chief operating officer is a member of the corporate committee and chairs the operating committee, which aligns operations and organic developments in the different countries. Both the corporate committee and the operating committee meet at least once a month.

The CEO makes recommendations to the board on members to be appointed to the two committees, who together form the executive management of the company. Normally executives retire at the end of the year following their 65th birthday. Details of Interbrew's corporate committee are given on page 21.

Board committees

The board of directors is assisted by three formal committees.

The Strategy & Business Development Committee advises the board on strategy, partnerships, acquisitions and divestments. The committee has five board members and four executive members from the corporate committee, including the CEO. It met 9 times in 2002.

The Human Resources & Nominating Committee advises the board on the management of human resources, particularly in relation to performance monitoring, management succession planning and remuneration. Details of the role this committee plays with respect to the compensation of the board and the executive management are given in the section on remuneration on page 18 and 19. It met 6 times in 2002.

The Audit & 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 committee operates on lines laid down in a charter, which was most recently amended by the board of directors in December 2002. Responsibilities are clearly defined.

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 the International Financial Reporting Standards (formerly named IAS).

The Audit & 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 before it submits them to the board. The committee also evaluates the statutory auditors' independence by discussing with them their written statement delineating all relationships with the company. The committee met 7 times in 2002.

“Bass ale's red triangle was painted by Manet in ‘Un bar aux Folies-Bergères’ in 1882 and gave the brand its spine of authenticity.”

Corporate governance

Members of the three board committees are selected by the board from among the directors, while certain top executives sit *ex officio*. Current membership is as shown on the right.

Remuneration

Our philosophy on remuneration is to fix rewards competitively and equitably to motivate and develop our people, and support the growth of our worldwide business. We ask for performance in terms of superior profit, continued personal growth and respect for those we serve. Rewards are differentiated over time, based on results and competencies achieved. Our compensation and reward programmes are overseen by the Human Resources & Nominating Committee (HR&NC).

The level of rewards is attuned to the markets in which Interbrew operates. Total compensation (including base pay and variable pay) links performance to the current practice of comparable companies for similar positions – with median performance matched to the market average, and superior results matched to the top quartile. Benefits, including pension programmes as well as health and welfare schemes, are benchmarked against comparable positions and markets.

Audit & Finance Committee

Pierre Jean Everaert (chairman)*
Allan Chapin*
Baron Frédéric de Mevius

Count Arnoud de Pret Roose de Calesberg
Kees J. Storm*

Human Resources & Nominating Committee

Pierre Jean Everaert (chairman)*
Charles Adriaenssen
John F. Brock**

Allan Chapin*
Viscount Philippe de Spoelberch

Strategy & Business Development Committee

Pierre Jean Everaert (chairman)*
John F. Brock**
Stéfan Descheemaeker**
Viscount Philippe de Spoelberch
Bernard Hanon*

Peter Harf*
Luc Missorten**
Patrice J. Thys**
Alexandre Van Damme

* Independent director

** Corporate committee member

BOARD REMUNERATION The HR&NC benchmarks directors' compensation against peer companies to ensure that it is competitive. Compensation is linked to the time committed to the board and its various committees. A fixed annual fee is based on ten board meetings and the normal number of committee meetings a year. The fee is supplemented for each additional meeting, or reduced each time a meeting is not attended. The chairman's fee is double that of other directors. In addition board members are granted a number of stock options under the long-term incentive plan.

EXECUTIVE REMUNERATION

The HR&NC oversees executive remuneration. It submits to the board for approval recommendations on the compensation of the chief executive officer, and on the company's long-term incentive plan. It approves the recommendations of the chief executive officer on compensation for members of the corporate and operating committees, and on the individual level of participation in the long-term incentive plan.

Once a year the HR&NC receives independent information from industry experts on current remuneration levels in relevant industries and geographies, in order to ensure that executive compensation is in line with Interbrew's philosophy on competitive rewards. The base pay component of compensation to executive management is reviewed annually. It is primarily an individual incentive, targeted to the median for comparable positions and companies. The variable pay component includes short-term and long-term incentives – an annual bonus and stock options. It is primarily a team incentive based on growth, designed to pay an average reward for average results, and superior rewards for superior results.

An annual bonus plan is approved each year by the HR&NC. Payment levels are linked to the audited consolidated earnings before interest and taxes, and to year over year changes, both positive and negative, in return on cash capital employed and/or market share. This incentive is designed to equalise the challenge to all members of Interbrew's executive management across the world.

The long-term incentive plan was adopted in June 1999. The General Shareholders' Meeting authorised the board to issue registered subscription rights principally to executive officers and managers and secondarily to certain directors. Such issue must satisfy conditions relating to limitation or cancellation of shareholders' preferential rights. Each subscription right entitles the holder to subscribe for one share, paying the average price over the 30 trading days before it was offered. Subscription rights have a term of ten years, and become exercisable over a three-year period.

	No. of subscription rights offered	Offer date	Exercise price (euro)
Directors	48,600	13 June 02	32.70
	77,112	10 December 02	21.83
Corporate committee	35,000	13 June 02	32.70
	600,000	10 December 02	21.83
Managers & others	52,760	14 March 02	28.87
	149,025	13 June 02	32.70
	<u>2,010,815</u>	10 December 02	21.83
	2,973,312		

The total number of subscription rights outstanding under the long-term incentive plan is 9,535,637.

	No. of subscription rights outstanding	Voting power attached to the subscription rights
Directors	264,912	0.06%
Corporate committee	1,201,604	0.28%
Managers & others	<u>8,069,121</u>	1.87%
	9,535,637	

REMUNERATION IN 2002 In 2002 the total fees earned by board members amounted to 1 million euro. The fixed salary earned by members of the corporate committee was 8 million euro, while they also earned a bonus of 7 million euro. In 2002 the board of directors offered 2,973,312 subscription rights under the long-term incentive plan.

REMUNERATION OF AUDITORS

The general meeting of shareholders determines the remuneration of auditors for their services in connection with the audit of our financial statements. Their 2002 fee for these services was 3.7 million euro (2001: 3.0 million euro), excluding value-added tax. Our statutory auditor is KPMG, represented by Erik Helsen. Information on the auditor's other assignments and related fees is given in note 34 to the consolidated financial statements.

Corporate governance

	Number of shares (31 December 2002)	% of voting rights attached to shares
1. Stichting Interbrew	275,056,026	63.72%
2. Fonds Interbrew Baillet-Latour	3,370,800	0.78%
3. Fonds Verhelst	4,494,000	1.04%
	282,920,826	65.54%

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 acquired 0.15% of the capital of the company. The plan was not renewed in 2002.

Other items

INTERESTS IN TRANSACTIONS

Our directors, executives and auditors have had no interests in any Interbrew transaction with unusual terms. A report on conflicts of interest (according to the Belgian law) is given in note 34 to the consolidated financial statements. Transactions with directors and corporate committee members are outlined in note 31.

DIVIDENDS Our policy is to retain the majority of our earnings to finance future growth. We intend to use between 25% and 33% of our net profit from ordinary activities to pay dividends.

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, consumers 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 as per 31 December 2002, indicates that three organisations acting in concert hold 282,920,826 ordinary shares of the company as shown above.

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 certificates for shares in our company before 30 June 2004. After that 12 months' notice is required. However, holders of each class (A, B or C) of certificates may at any time (subject to any applicable lock-up restrictions) freely exchange certificates for shares, provided,

inter alia, that the number of outstanding certificates of each class does not fall below 84 million (or 252 million for the three classes taken together).

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

Raymond Boon-Falleur

Jacques Thierry

Baron Paul De Keersmaecker

Who's who: the corporate committee

John F. Brock

CHIEF EXECUTIVE OFFICER

John F. Brock (54) joined Interbrew as Chief Executive Officer in February 2003, bringing to the company 20 years' experience in the global beverages industry. An American citizen, he built up a broad base of business expertise over 11 years in Procter & Gamble, before joining Cadbury Schweppes North America in 1983. He held a number of senior positions in various geographies which culminated in his joining the board and being appointed managing director of the group's global beverages business in 1996. On the back of his success in this role, he was asked to take responsibility for Cadbury Schweppes' confectionery operations as well, and became Chief Operating Officer in 2000. The respect he commanded among his peers led the US beverage industry to name him "Executive of the Year" in 2000.

His track record includes significant achievements in both internal and external growth. He led the development of excellent growth in the company's core confectionery markets of UK, Ireland and Australia, and was instrumental in Cadbury Schweppes' acquisition of Dr Pepper/Seven Up and Snapple in the US, and Orangina and Hollywood Chewing Gum in France.

John F. Brock has lived in Europe for the past seven years. He is a non-executive director of Reed Elsevier plc and a director of the Georgia Institute of Technology President's Advisory Board.

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 Europeennes, 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

CHIEF LEGAL & CORPORATE AFFAIRS OFFICER AND 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.

Peter Vrijssen

CHIEF HUMAN RESOURCES OFFICER

Born 1954; Master degree of Organisation Development (University of Tilburg). Held several international HR positions with General Electric, Royal Packaging Van Leer and Metro/MAKRO. Joined Interbrew as Chief Human Resources Officer in 2003.

Focus on consumers and customers

The 40 billion moments
of enjoyment

“A beer in a million, glowing with heritage,
Stella Artois is making its way to the hearts
of consumers around the globe.”

The brand story

Introduction

Annual reports are usually about the actions a company initiates. But the really important actions are the ones that individual consumers initiate. Our success can have only one starting point – people deciding that they want to buy our beer. In that sense, consumers drive our business. Our job is to stimulate them to choose us, because they know the pleasure lying ahead. Our business is essentially about the 40 billion or so moments of enjoyment, as each individual drinks our brands, and feels the physical satisfaction and emotional well-being they associate with our beers.

The millions of hectolitres we produce each year are a total large enough for every person in the world to have six glasses of beer. But behind the big numbers are only individuals. We see each brand as a brand of one person, not a brand of a million. Each consumer chooses for him or herself, and our energy is poured into making a bond with that individual. We have love for our brands, and try to share it with the world. In this section we report on how that love story is going.

Introduction on our global brands

During 2002 we stratified our global brands with more precision. To clarify their role within Interbrew, and the different kinds of support they require, we divided them into three groups. First are the global powerhouse brands, Beck's and Stella Artois. These are our immediate priority, the brands which are making a strong impact today and which will be given full market support and focus as they increase their presence month by month. Next come the global strategic speciality brands, Hoegaarden and Leffe. The priority here is to build an enduring reputation for these brands, as their exceptional qualities are successively discovered in countries across the world. These brands require a patient time scale, and subtly articulated marketing support. Finally, we have our multi-country targeted brands, a grouping which currently includes Bass ale and Staropramen, but which could be expanded as our business develops. These brands will be selectively marketed in countries where their qualities are likely to attract a strong following.

The global powerhouse brands

BECK'S This is a brand with the world at its feet. The Beck's story within Interbrew is just beginning. As a domestic premium beer in its home market, in the same skilled hands as before, it jumped in growth. In its main export market, the US, the uncertainties concerning the integration of the brand into Labatt USA made for an unsettling year. None the less, the rejuvenation of the brand got underway, as we built on strong awareness and a long heritage. In Italy and Spain, Beck's was merged with the Interbrew operation, and volumes across those markets grew steadily.

For the rest of the world, the Interbrew platforms were waiting, and preparatory steps were taken. In Canada, for example, the sales, marketing and distribution rights to Beck's were acquired. As from the beginning of June, Beck's was integrated into the Oland Speciality Beer Company, where it made a promising start. In our other markets, Beck's is a gleam in the eye for 2003. As our world grows, so do the possibilities for the brand.

As well as providing existing platforms, Interbrew could offer Beck's the potential of existing partners. The earliest results of such links came in Turkey. Efes, our partner in Romania, is Turkey's number one brewer, with a 78% market share. In April we signed with them a licence agreement for the production of Beck's in Turkey and Northern Cyprus. Efes has excellent distribution in both the on trade and off trade, and initial sales were strong.

Beck's is the international brand which combines unbeatable origins with huge awareness and unrealised potential. Our first months of ownership only serve to increase our appetite for the task ahead.

STELLA ARTOIS Stella Artois is a beer in a million, glowing with heritage, oozing class, and pinnacled with specialness. It is only four years since we selected Stella Artois as a flagship international brand, and offered it to the world. In the parts of the world it has reached, volumes rose by a further 10.7% last year. Typical of that success was the reaction in the US. Stella Artois has come from nowhere to be the most exciting beer brand in New York. With no broadening of distribution, it doubled volumes last year to reach over 80,000 hectolitres, and is the fastest growing of the top 50 imported brands in the country.

Stella Artois in the UK is a phenomenon. Once again we achieved double-digit volume growth in England and Wales. The impeccable pedigree of the brand is emphasised every time someone goes into one of the 16,000 outlets where the quality programme has been implemented, and the perfect pint is poured. The reason the new one-litre heavily embossed bottle sold well, and at a price premium, is that it has the compelling presence on the table of a good bottle of wine.

Looking ahead, we see much potential for the brand in Scotland. The resolution of the Bass deal, which allowed us to keep Tennent's in Scotland, brought us the distribution network Stella Artois had lacked. We put the two together, and results exceeded expectations. The brand is now in over a thousand outlets in Scotland, as well as 200 in Northern Ireland and around Dublin. The impressive result in all these areas contributed to another milestone for Stella Artois, as UK volumes topped 5m hectolitres for the first time.

In Central Europe Stella Artois was the first international premium beer brand, and it is still the starriest. It is early days for the brand in Eastern Europe, but it surged ahead in both Russia and Ukraine, more than doubling its volumes to approach the level currently reached in the US. Finally, our licensees in both Australia and New Zealand did well, and strong growth increased volumes by 40%.

The brand story

The global strategic speciality brands

History teaches us that speciality brands have slowly developing life cycles. The promising brands of today may be among the top brands in ten years' time. And the interesting discoveries of today may be among the promising brands in their turn. With our two global strategic speciality brands Hoegaarden and Leffe, we take the long view of brand growth. We believe in seeding them the right way, allowing discovery to take place, not forcing it on the consumer. Where the brand does not exist today, we seed it pub by pub, store by store, case by case, consumer by consumer. Word of mouth, whether the recommendation of a friend, or the local buzz, is the most authentic persuader. That is the way to grow a meaningful franchise, something that is sustainable.

The success of Stella Artois in its new markets, like the US, opens the door to Hoegaarden and Leffe. These authentic beers can be seen by the discerning consumer as the new gems to try, from the same brewing family. It is like searching for other books by a new author you have just discovered. We notice, too, that retailers both on and off premise recognise a reason for going ahead with the brands, having seen the Stella Artois success. The absolute numbers are still comparatively small, but both Hoegaarden and Leffe grew strongly in North America, with volumes up 32%.

Our strength in mature and emerging markets is to make available the next thing people want. As wealth in a country grows, or choice becomes more sophisticated, our portfolio is a brand tower that people can ascend. Even so, the seeding process takes a long time. Therefore we decided to start immediately in countries these brands have not yet reached, even if it is in only 20 bars or pubs.

In the UK seeding is well underway, with Hoegaarden continuing its double-digit growth in its seventh year of launch. Leffe is in its first year in the hands of Interbrew UK, and was able to set a new retail price point, as well as moving significantly ahead of where Hoegaarden was in its first year. Since Hoegaarden is still ahead of where Stella Artois was in its seventh year, both augur well for the future. In Western Europe overall, Hoegaarden consolidated its leadership of the white beer segment and Leffe continued to grow in a landmark year. The brand underlined its remarkable pedigree when it celebrated the 850th anniversary of the Abbaye de Leffe (city of Dinant, Belgium).

The Belgian heritage gives us an enticing environment in which to tell the stories of the specialities. This is brought to life in the 45 Belgian Beer Cafés in major cities around the world – a showcase for the brands and a place of discovery.

New Belgian Beer Cafés were opened in six countries last year, including the Czech Republic, Hungary and Romania. New Zealand endorsed the success of the concept by opening its fourth, fifth and sixth outlets in 2002. Of all the thousand upon thousand of bars and pubs in Australia, which one took the award for pub of the year in 2002? It was our Belgian Beer Café in Adelaide.

Multi-country targeted brands

Staropramen reveals every year more of its potential. Since its turnaround in the Czech Republic in 2001, it has shown no signs of faltering. Last year the brand grew by 3.6%, pushing its volumes well clear of the one million hectolitre mark. In the coming years, its potential as a cross-national brand will be exploited more systematically.

Bass ale is a beer whose pedigree goes back to the earliest days of branding. The famous red triangle was painted by Manet in "*Un bar aux Folies-Bergères*" in 1882 and that spine of authenticity has supported the brand ever since. Its currency in the US is such that it sells more volume there than in the UK – the spiritual home of ales. We are confident of its future in North America. The brand made a strong start within the Oland Speciality Beer Company in Canada, and will come back into our hands in the US from July.

“Word of mouth, the recommendation of a friend,
is the most authentic persuader as we grow
a meaningful franchise for Hoegaarden.”

The brand story

Our one million hectolitre local brands

Our global/speciality model can only develop successfully if it continues to be underpinned by local brands. Interbrew now has 18 one million hectolitre local brands, not counting those in which we have a minority stake. These are the backbone of our business. They provide a broad distribution platform and economies of scale. Above all, they are the local brands for local people.

How do we keep our connection with local consumers? How does a global company relate to men in shirtsleeves, working mothers, care providers, retired couples, or young professionals? We have managed it so far because we had one big idea – to be The World's Local Brewer®. That phrase has a meaning which resonates with people, since most people still live fairly close to where they were born. People like to live local lives, and by working with them rather than imposing on them, we can make our brands grow.

STAR PERFORMERS Jupiler is almost the model of the perfect local brand. It has an enormous constituency in Belgium, and is a beer so heavily favoured that it seems inconceivable that it manages each year to add to its following – in a country where wide sampling of a variety of beers is embedded in the culture. Last year it broke yet another barrier, adding the 1.3% increase that took it beyond the 3.5m hectolitre mark.

In Central Europe the Croatian brand Ožujsko produced another attractive performance, with volumes up 2.1%. The strength of its franchise allowed us to introduce a non-alcoholic version, Ožujsko Cool. Another totemic brand in the region is Borsodi Sör, which confirmed in 2002 its leading position as *the* core lager in Hungary. Consistent growth in Budapest, and the successful launch of the “big brother” one-litre returnable bottle in September, helped increase its share even further in the branded beer sector. Finally, Eastern Europe's star performer was Chernigivski in Ukraine. This had already established itself as Interbrew's fastest growing brand in 2001. Last year it surged some more. Even from such a large base, it managed a volume increase of 54%.

THE POWER OF THE PORTFOLIO

Interbrew is essentially a portfolio specialist, and the power of the portfolio can be seen in some of the other 2002 successes. The Labatt USA business grew its import brands in line with the import segment, and outperformed in the domestic speciality segment. Among the highlights were the turnaround of Rolling Rock, the Blue family appeal, and the momentum behind Tecate.

Our portfolio in Scotland was immeasurably strengthened by the arrival of Stella Artois. Side by side with it, Tennent's continued to be a strong market leader in the lager segment, with share growth of 2.7%.

Cass was the star of our Korean portfolio. It added a further 2.2 share points to reach 20% of the market. By comparison, we continued to experience decline in OB Lager's overall share, to some extent counterbalanced by the growth of Cafri and Budweiser, the two brands that complete our South Korean portfolio.

The market in Canada shifted in favour of our premium/import brands. These brands, which include Stella Artois, Beck's and Alexander Keith's, achieved double-digit growth. In particular Alexander Keith's confirmed its wider popularity with a 19% surge in volumes. The shift of the Canadian industry to premiums was, however, at the expense of the mainstream segment. As a result Labatt Blue, a main stay of that segment, declined. The brand, though, grew in Quebec, and was groomed for relaunch in 2003.

The service story

The dialogue with the consumer

BRAND PERSONALITY A brand is like a celebrity – a public personality, with fame and with fans. How do we define, design, bring into life and sustain that personality? We have pulled together the best knowledge within the company, coded it, and made it available to all our countries. A powerful vehicle to transmit that knowledge is the brand identity workshop. Ten were held last year – two-day events for the dozen or so key people who are the guardians of the brand. Using a structured model, the discussions were directed to finding the bond with the consumer. An early workshop candidate was Rolling Rock, a brand which lost 9.7% of its volume in 2001. The insights gained resulted in redesigned packaging, new commercials given national TV coverage, and a dramatic improvement in test scores. For the first time in ten years the brand grew in its core geography in the north east, as well as in expanded distribution. Volume loss in 2001 turned to volume growth of 5.3% in 2002, on an accelerating trend.

ADVERTISING APPEAL Personality is the key to a brand, and across the world we are winning awards for how that personality is portrayed. The EFFIE Awards founded by the American Marketing Association are the most renowned international awards in the marketing world. In the first EFFIE Awards in Hungary, Borsodi took the second prize for drinks advertising, while in the Czech Republic Staropramen's latest campaign gained the EFFIE palm as the country's most successful domestic ad campaign. Stella Artois has won many accolades over the years. In 2002 it picked up its first award in New Zealand, and continued a long winning streak in the UK. The Stella Artois *Good Doctor* commercial swept the board in a record year for this famous advertising campaign. Among top prizes in four competitions, it took the Gold Lion for alcohol advertising at the Cannes Festival, and won the Grand Prix in the British TV advertising awards.

MEDIA SPEND EFFECTIVENESS Last year we introduced stricter disciplines in allocating expenditure – challenging initial assumptions, and testing each and every output, in order to drive the business where it has the most potential to be driven. The territory allocation model used to divide up the budget, based on what would resonate most with the customer, achieved such improved effectiveness in the US that industry tracking consistently overestimated the total marketing spend.

More choice for consumers

Innovation is bringing more variety, choice and convenience for consumers. In packaging convenience we made a major advance in large size, multiserve PET. The format was introduced in Russia, Bulgaria and Romania, as the first step in an expansion programme driven by technical advance. Meanwhile the new decorating technologies developed under our research and development programme will increase differentiation for our brands, whether in glass, PET or cans.

As part of our increased focus on organic growth, finding new ways to please consumers has moved even higher up our agenda. Innovation councils have been established in every country. Central Europe is a good example of the pace of change, with each country introducing three or four innovations a year – in the liquid, the process, the packaging, or the route to market. The success of one-litre bottles in Hungary showed the appetite for bigger sizes. We also added to the options available to consumers with multipacks, new bottle formats, embossed cans and twist-off closures. The region has an increasing appetite for new beverages. Our brand tower is still being built as consumers grow in prosperity and sophistication. In 2002 we acted when we saw that consumers were ready for amber beers in Romania, and also identified a wider opportunity to sell non-alcoholic brands. The NA version of Stella Artois was welcomed in Hungary and Romania, and we introduced a non-alcoholic core brand in Bosnia-Herzegovina, Croatia and Romania, having tested the idea with Borsodi Sör in Hungary in 2001.

Route to market

Interbrew is adopting a common approach throughout the world to our sales and route-to-market methodologies, to help us achieve a preferred supplier relationship with customers wherever we trade. The disciplines of category management have achieved excellent results in Central Europe and Western Europe, and are now being rolled out in Korea. An expanded vision for channel penetration led to several initiatives, and our brands found new outlets in Western Europe in petrol stations, video stores and night shops.

In improving our service to on-trade customers and retailers, the link between the international and the local is being tightened. Global best practice added to on-the-spot insight brought advances across the board – whether in internet ordering, business support, specialist software, joint promotions or traffic building ideation. A strengthening of the leadership team responsible for sales and marketing marks this area of the business as one set for accelerated development.

Focus on financial performance

The millions that increase
society's prosperity

“Discovering Leffe is like the delight of finding
another book by your favourite author.”

Results from around the world in 2002

The Americas

CANADA A sound business within an attractive market structure recorded a strong profit performance. The market growth in the import/premium segment improved our mix and, along with tactical price increases in most provinces, fuelled EBITDA growth. The shift from mainstream affected Labatt Blue, but powered the continued strong growth of the Oland Speciality Beer Company. Alexander Keith's and Stella Artois made excellent progress, and Beck's made a strong start in its first few months, after we acquired management control of the brand.

Adding Beck's strengthened a portfolio that was also extended to take advantage of market opportunity. A licence agreement for the Anheuser-Busch brand, Busch, gave us an increased presence in the value segment from November, and we launched a new brand, Pur Source, in the flavoured alcoholic beverage segment in June.

The business increasingly realised the potential of cost savings, and renegotiated important labour agreements. A lock-out at our London Ontario brewery was required, and it gave us more flexible working conditions, a better cost structure for the future, and a firmer base for negotiations ahead. Even though the London brewery produces a considerable part of our volume, significant advanced planning meant we ran the entire network and never shorted a case to a customer.

USA Volume growth has accelerated year in year out in the US import segment. The growth rate is only slowing now because the base is so much bigger. Last year we achieved a strong performance in the core Labatt USA business, with a good increase in profitability. Our volumes rose by 6.3%, in line with the growth in the import segment, and all three pillars of our business did well. Our Canadian brands were up 3.6%, the Mexican brands were up 8.1%, and our European brands were up 48.6%. Highlights were the double-digit growth of Tecate, the turnaround of Rolling Rock which converted a 9.7% decline in 2001 to 5.3% growth last year, the doubling of Stella Artois volumes, and the continued popularity of the Blue family. Blue Light managed a further 19.7% growth off a considerable base.

Our debut with Beck's was a story of gradual improvement from a first half year drop in volume. That upward trend testifies to wholesalers' strengthening confidence in the attractiveness of Beck's to the American consumer. As for Bass, we negotiated the rights to take control of the brand in the US from July 2003. Our portfolio now includes the number two import from Mexico, and the number one imports from Canada, Germany, Belgium and the UK.

CUBA 2002 was a difficult year for the local economy, with tourism affected by the September 11 tragedy and severe hurricanes. None the less, our Bucanero business managed a healthy performance, with increased volumes and distribution gains for our leading brand Cristal. In February we were granted an extended joint venture agreement for a new 30-year term, which will allow us to continue to grow our business. The agreement authorises us to build a 1.5m hectolitre brewery outside Havana, as well as a national beer distribution network for Cuba.

Western Europe

BENEFRALUX We recorded a good performance in Belgium, Holland and France, and made progress in Luxemburg. In France, the good performance of Hoegaarden and Leffe, and upward pricing of Stella Artois, brought us revenue improvement. Higher market share and improved pricing was a feature of the year in the Netherlands, where we successfully launched Dommelsch Ice. Belgium had a good year, with notable progress on costs and distribution. We again improved market position as Jupiler and Leffe continued to grow their share.

UK The overall beer market was marginally up, but lager volumes grew by 3.5% and the take-home segment by 8.5%. Interbrew has the largest percentage of any major brewer in both lager (77% of our volumes) and take home (45% of our volumes). 2002 was a year of good growth for us in terms of both profit and market share. We held our share in the declining on trade, and upped it in the growing take-home sector.

In order to deliver our brands to customers in the most efficient way, we restructured logistics by outsourcing secondary distribution. Around 1,500 staff were transferred to Tradeteam, part of the Excel group, a truly focused international logistics business. The new arrangements allow us to access more customers, and give good service to them at a more competitive price. We also prepared for the future by signing a licence agreement with Lion Nathan to take over Castlemaine XXXX in January 2003,

as the contract with Heineken approached its end. We also signed a contract to brew, market and distribute Murphy's Irish Stout.

GERMANY Our performance was extremely encouraging, with improved pricing and volume growth in a market that declines. Beck's moved strongly ahead, with volumes up 7.8% overall. Diebels Alt lost volume, as the leader taking a 62% share of the aging Altbier category, but Dimix progressed well and almost doubled volumes in its second year. The integration of Beck's and Diebels into Interbrew was accomplished in record time. The task of redesigning roles, structuring the organisation, and selecting people went well. Everyone could see it was an objective process done in a transparent way, a case study for future integration work.

Results from around the world in 2002

ELSEWHERE In Italy the organisation of Beck's and Bass ale was combined, creating a business of over one million hectolitres. The market grew, especially in the premium segment where we operate, and Beck's continued its long story of growth. The integration of our businesses gave us a stronger platform in a country where we now have a real opportunity for our brands. Our position was further strengthened when we gained back Stella Artois, previously brewed under licence, effective from March 2003. Finally, our export businesses produced satisfactory volume growth, and an improved mix between advance in markets we specifically target, and spot business where we respond to one-off orders. These decentralised units were reorganised into a single unit based in Germany as from 2003, with one face to the customer, one sales team and much improved distribution and logistics.

Emerging markets

CENTRAL EUROPE In a region which encompasses a wide range of markets, we divide our countries into three groups. First are the more developed countries – the Czech Republic and Hungary.

Croatia is on the borderline with the next group, the emerging markets of Bulgaria and Romania. The third group are both emerging and politically unstable – Bosnia-Herzegovina and Montenegro. We did well in the more developed countries, achieved acceptable performances in some of the more difficult environments, and recognised an opportunity to do better in two countries – Bulgaria, discussed in the Letter to Shareholders, and Montenegro where we started well but suffered a long strike in the summer even though our workers receive four times the average salary.

Innovation was a characteristic of the year's advance. It was crucial in Romania, where the macro-economics are difficult and pricing correction was required. Innovation helped us gain three points of market share in Croatia, which climbed to 45.9%. Share also increased in the Czech Republic. The business produced a strong performance, despite the floods which slowed operations for a period. Finally, in Hungary we achieved excellent results, with a growth in share to 30.4% and strong increase in profit.

EASTERN EUROPE We set out in the Letter to Shareholders the challenge we experienced in Russia during the summer. With a realigned management team under a new country general manager, performance in the final quarter was stronger, demonstrating double-digit volume growth and over 1% share growth compared with the final quarter of 2001. Over the year as a whole, however, our volumes grew by 3.6%, but share declined from 12.8% to 12.1%. We experienced some problems in the Moscow region, but sales volumes in other regions were satisfactory to strong. In addition the importance of regional brands was clearly recognised and good progress was made.

The Russian market showed signs of slowing, with only an estimated 1.3% overall market growth in the last quarter of the year, even though this was when we performed well. Thus we entered 2003 with the business in much better competitive trim. We have the benefits of new canning lines, reduced costs, adjusted pricing, Tolstiy already in PET, Klinskoye and

Sibirskaya Korona going into PET, and a proprietary bottle for some of our brands replacing the basic euro bottle shape. In addition, our portfolio was enriched by taking over the licence for local production of Staropramen from January 2003.

In Ukraine, SUN Interbrew had a good year, with strong topline performance. The substantial volume growth in our core brand Chernigivski propelled satisfactory share growth in the business overall.

In terms of continuing business (and thus excluding the volumes of Krym which we sold in 2001), our share rose to 32.2% on volume up 18.7%. Rogan was established as a national brand in the lower core and grew volume by 5.3%. In a market which is 20% PET, we completed the installation of a further three PET lines. The final success was in a trio of product launches: Stella Artois Non Alcoholic; a domestic premium, Taller Ice, which boosted the brand's overall market share; and an unfiltered wheat beer, Chernigivski Bile, which achieved promising sales in its first six months.

ASIA PACIFIC In Korea, industry growth slowed to 2.8%. In that context Cass's volume increase of 15.2% was a notable success. As the brand passed the 3.5m hectolitre mark, it was the only individual mainstream brand growing in Korea. In the premium segment Cafri and Bud pulled off another year of double-digit growth. Overall, the success of these three brands was offset by the continuing decline of OB Lager, which in March 2003 began the first phase of its planned rejuvenation. The business position in Korea overall will benefit from the industry-wide price increase of around 6% in January 2003. Regulatory change allowed us to launch the Korean Speciality Beer Company, on the model of the Oland Speciality Beer Company in Canada. It took over from our importers the management of Interbrew's Belgian brands, with Beck's added in January 2003. Consequently we are the only brewer in the country able to exploit a full portfolio – covering the mainstream, domestic premiums and import brands.

Meanwhile in China the business in Nanjing was turned around, enabling us to resume our external growth agenda. Volume was up 58%, and we reclaimed our position. We reestablished Jinling's share in Nanjing city, up from 32% to 42%, and tapped the rural market with a local brand, Yali.

Three licences were signed in the region last year. In Australia and New Zealand, we signed further 10-year agreements for Stella Artois with the Foster's group and Lion

Breweries respectively, which have both capitalised on the growth in premium beer which accounts for almost all the expansion in these developed markets. In Thailand, Boon Rawd became responsible from January 2003 for the production, distribution and marketing of Kloster, a Beck's brand with a premium positioning heritage in the country since 1975.

Focus on financial performance

Steps taken in 2002 to improve our future

Six building blocks of organic growth

INTRODUCTION Our future well-being depends on how well we combine solid organic performance with the addition of new engines of growth. We are focusing in this report on the organic part of the mix – what we do with what we’ve got. We have embarked on a way of life for the future, and the changes we are making are practical, not theoretical. We are checking exactly where we stand in each country, measuring our strengths and weaknesses. Then we set specific targets that are tough, but achievable. A dozen areas can influence behavioural change and performance, but you need to have at least a handful of them in your change plan to be successful. We have six building blocks.

1 SKILL AT INTEGRATING ACQUISITIONS

Organic growth begins immediately after an acquisition is complete. Last year we institutionalised what we have learnt over the past decade. An integration “road book” sets out the process for acquiring businesses, overlapping with the operators, then at the right time standing back. In finding the global/local balance, our touchstone is “reasonable accommodation”. That way we ensure ownership, alignment and commitment to the inherited programme. We did over 20 acquisitions in the past five years, and almost every one immediately ran better than the day we bought it. The result is that 35% of today’s operating profit is derived from the past five years’ acquisition programme.

Our track record in this area is strong, as can be seen from the multiples achieved in past deals: Labatt, 5.9 times EBITDA; 20 emerging market deals, 6.0 times EBITDA; two UK acquisitions (plus the Carling disposal), 8.8 times EBITDA. It helps that we were among the first movers, spotting opportunities faster than others and doing transactions in excellent conditions. Today there are more interested buyers at every sale, and top companies cannot be picked up at such a good price. Hence it is even more important to integrate those companies successfully, and create value by transferring best practice, achieving economies of scale and leveraging brands.

2 PERFORMANCE MANAGEMENT

New analytical techniques are being used in our business cycle as we generate budgets and the long-range plan. The focus is on specific actions against each of the value drivers we have identified. Budget reviews will be as much about *how* targets can be reached, as about the actual targets themselves. And the operating reviews will incorporate more detailed challenges of the business plan to get us there.

The first stage is diagnostics, working on the key value drivers, and scrutinising where we stand on each. Thinking will be given rigour by a diagnostic framework, of the kind used by mergers and acquisitions teams in assessing potential transactions. In finding the best way forward, countries will be assisted by a compilation of best practice on value creation. At the heart of our performance management system is a belief that performance only really starts if you grow ahead of both the industry and inflation.

Steps taken in 2002 to improve our future

3 STRUCTURE OF REMUNERATION

Our policy hitherto was to reward managers for achieving growth in EBIT and return on invested capital. While our profit performance has been outstanding, it is clear that our topline growth could have been faster. We therefore recalibrated the compensation for the regional business units. From 2003 the bonus for operators will initially be determined by organic EBIT growth, then subject to an adjustment up or down based on market share performance, both overall and against specific strategic targets. Reweighting the calculation will help achieve a better balance in how our operators compete in their markets.

4 MULTIPLYING EXPERTISE

Toughening the performance regime gives a sharper focus to how people think about growth. When we are really challenged, we are more likely to look outside our normal solutions, and draw on good ideas tested elsewhere in the company. Knowledge management is about culture and systems.

The systems are constantly being developed – workshops, seminars, innovation groups, roadshows, conferences, training. The way expertise multiplies as it moves around our world can be seen most clearly in our technical programme.

Last year we extended to a further six plants the world class manufacturing programme which maximises packaging line efficiencies, and thus increases capacity without significant capital expenditure. Productivity improvements averaging 30% were achieved across projects in the Czech Republic, Russia, Montenegro and Romania.

Our maintenance excellence programme uses predictive and preventative techniques to reduce brewery maintenance costs, increase throughput, and extend asset life. The programme started last year in nine plants in Croatia, Hungary, Canada, the UK and Germany.

Implementation respects the philosophy of The World's Local Brewer®, in that it is the individual plants which identify the best practice most suited to their circumstances.

Interbrew's process optimisation programme continued in a number of breweries across the world. The rollout is complete in North America and in two breweries in Central Europe, and continues across Central, Eastern and Western Europe. Last year the process improvements allowed us to save or defer investments of 30m euro.

Our specialist global procurement team had a good year. Better buying not only of packaging and raw materials, but also capital items, information systems, engineering spare parts, merchandise and marketing services, brought cost savings at a level double that in 2001. New supply arrangements significantly improved our competitive position, including contracts for beverage cans in Europe and glass bottles in North America, as well as long-term agreements linked to the closure of malting in Belgium and the sale of the German glass and Ukrainian malting businesses.

5 INNOVATION Knowledge management is a moving target, since our knowledge constantly grows. Year by year, innovation adds to the bank of resources available throughout the group. While technical innovation improves efficiency and costs, and reduces capital expenditure, consumer innovation drives top line turnover, market share and volume.

On the technical side, our countries are reaping the benefits of what we have sown for many years in research and development. Unfortunately we cannot disclose the projects we are working on, but they span brewing development and brewing chemistry, fermentation and microbiology, packaging and product development.

On the consumer side, the pace of innovation has quickened. A restructuring of the process in 2002 is helping to deliver results. First we identify opportunities by mapping consumer needs and drinking habits against beverage categories.

These opportunities are checked against strategic parameters, with a number being selected for in-depth investigation and development by a special team. We have identified four platforms for consumer innovation, and work is well advanced.

Our first platform is drinks for consumers above the legal drinking age who have yet to get a taste for beer. We are developing a number of low-bitterness, less challenging, more fruity beverages to tempt the palate. Our first new product already introduced was Izzy, launched in Croatia in December, and many more will follow.

Steps taken in 2002 to improve our future

Our second platform is improved packaging. Within that wider ambit, we are preparing to launch packaging that is more convenient for the customer, including an advanced form of PET which brings greater product quality and longer shelf life.

Our third platform is the draught experience and draught quality. Take-home consumers in most developed markets have expressed a need for draught quality beer in the home. Hence, one theme in this area is home dispense – small kegs with a long shelf life. We have already tested in the UK a 5-litre keg designed for one-way packaging markets. It keeps beer fresh for 28 days in the fridge, and combines quality with all the simple pleasures of beer on tap. Retailing at a premium, it produced a rate of sale ahead of expectations and will be rolled out during 2003. Our final platform is that of well-being, with several new beverages in development or under test.

6 TALENT We come to people now, the *sine qua non* of future advance. We report first on the way we ensure strong leadership of the company – through succession planning, performance appraisal, development plans and consequence management. Last year we put in place new programmes to build our leadership strengths through the various management levels.

First, the Global Leadership Programme was designed for people already in leadership positions as country managers or vice presidents of big corporate functions. Each group of 20 to 25 senior people comes together once every six months for two years for intensive action learning sessions lasting a week. They work on a current business issue, and get to see the wider Interbrew. Based on provocation and debate, the process is highly interactive. As managers tussle with ideas and search for solutions, the sharing of best practice invariably comes to the fore.

Focus on financial performance

Steps taken in 2002 to improve our future

Second, the Insead/Wharton programme was created for the leaders of the future, the young potentials. Candidates from all over the world attend a two-week tailor made programme at Insead in Fontainebleau, followed six months later by a further two weeks at the Wharton Business School in Philadelphia. The first programme in 2002 brought together 34 people from 14 countries, covering all our functions. The customised programmes aim to give development in two key areas – leadership skill and strategic insight. We expect this exposure to hot talent among peers to be a powerful tool in terms of retention, motivation and learning, as well as future leadership.

Adding to the business we have EXPANSION IN GERMANY In 2002 we cleared the way for the new Interbrew Deutschland by disposing of non-core assets. As part of the Beck & Co deal, we acquired a glass business and the Rostocker brewery in the north east whose brands did not fit within our portfolio. Both were sold before the end of 2002 – with positive results for Interbrew in terms of the disposal price and guaranteed long-term glass supplies, and for brands and brewery workers in terms of the opportunity to thrive.

The next step forward came in December. We acquired a controlling stake of 85.4% of Gilde Brauerei in Lower Saxony. The jewel in Gilde's crown is the core lager Hasseröder.

From its leadership position in former East Germany it has been extending its boundaries, and has the potential to become a very significant German brand. The brewery also brews strong local brands like Gilde, and the whole creates the right fit for our portfolio. With 4.2m hectolitres added to our volumes, Interbrew has the number three position in the largest beer market in Europe. But we did not buy for the size. The wise side of the deal is the brands.

BUILDING OUR POSITION IN CHINA

China is set to become the largest beer market in the world, with annual growth of 6 to 8% foreseen in the medium term. Already we are seeing the emergence of big players, and today's top ten take the lion's share of industry profits. In 2002 Interbrew successfully turned round its operations in Nanjing, and signed an agreement in November to acquire a 70% stake in the brewing operations of the KK Group, located in Ningbo city in the Yangtze Delta. KK has an 80% market share in the city of Ningbo with its core lager KK and premium lager Zizhulin.

Steps taken in 2002 to improve our future

In December we acquired a 24% stake in Zhujiang, China's fifth largest brewer with a 50% share in Guangdong through its brands Zhujiang, Zhujiang Fresh and Supra Beer. The relationship with Zhujiang dates back to the construction of its brewery in 1984, when we provided technical expertise, transferred know-how, and trained young top Chinese managers. The company is the most profitable in China per hectolitre sold. Interbrew is the second largest shareholder in Zhujiang, after the municipality, and one of our representatives has been nominated vice chairman of the company. We will act as one of the promoters bringing Zhujiang to its IPO, scheduled for 2004. Through our various stakes we ended the year with interests close to 10m hectolitres in China, making Interbrew number four in the country.

ELSEWHERE Early in 2002 Interbrew entered the Spanish market with a 12.6% stake in the country's number three brewer Damm, which leads the Catalonian market and holds a 15% national share. We also made a complementary acquisition to reinforce our position in the former Yugoslavia by acquiring a minority position in Apatin, the number one brewer in Serbia.

Full circle

This annual report has come full circle. It started with the individual, the consumer and the customer. Then it moved to the overall picture – the overview of our business in 2002 and its promise for the coming years. But it has to come back to the individual again – the talent within our business. Just as the individual consumer choosing our brand is the starting point of our business, what happens next is down to the individual employees. The year saw external growth which gave strength to existing businesses, and organic growth which mined the riches we have created. There are no invisible hands achieving all this. All employees played a part. They are all leaders, in the sense that they influence those around them, and thus how well their part of the business operates. The company's advance depends on their impetus.

“Staropramen, pride of Prague, reveals more of its potential every single year.”