

# **Interbrew in China**

**January 16, 2004**

## Our strategic vision for China

- Large market, comparable in volume to Western Europe and the US and growing rapidly (per capita consumption: China: 19 l; Western Europe: 75 l; US: 84 l)
- Highly resilient - robust growth despite several shocks (e.g. regional crisis, SARS)
- Localized market, rapidly consolidating - 4 to 5 top players emerging
- Core segment key

**Our vision is to become an endgame player - establish #1 or #2 position in chosen provinces / municipalities through a regional consolidation strategy**

## Interbrew in China

	Volume (m hl)
Nanjing Breweries	0.7
KK Breweries	2.5
Zhujiang	8.5
Lion Group Breweries*	11
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Total**	± 21

\* Includes volumes partially accounted for under KK Breweries

\*\*Excludes Beck's volumes and Interbrew's other international brands

## Our strategic partnership with Zhujiang

- Interbrew relationship
  - Relationship since 1984
  - Investment in November 2002 at US\$24 per hl
- Interbrew's involvement in management
  - Current top management trained by Interbrew in the 1980s
  - Vice Chairman position with Interbrew
  - Close management involvement by Interbrew
- Highlights of Zhujiang
  - Zhujiang is the most profitable single Chinese brewery with market shares of 50% and 80% in Guangdong province and Guangzhou city, respectively
- Current shareholding and IPO plans
  - Current shareholding - municipality: 60%; Interbrew: 24% and other promoters (8 in total): 16%
  - Stock listing approval anticipated in 2004; exact timing of IPO subject to pace at which queue is cleared

## Strategic partnership with Lion Group

- Interbrew relationship
  - Relationship since 1996
  - First formal joint venture partnership in 2002 through KK Breweries
- Interbrew's involvement in management
  - Interbrew has full management control from closing

## Strategic rationale for the Lion transaction

### Acquisition Criteria

- ✓ **Multi-regional / local dominance through:**
  - **strong brands / volumes**
  - **scale / critical mass**

- ✓ **Potential to grow outside local / regional market**

- ✓ **Delivery of strong footprint in China**

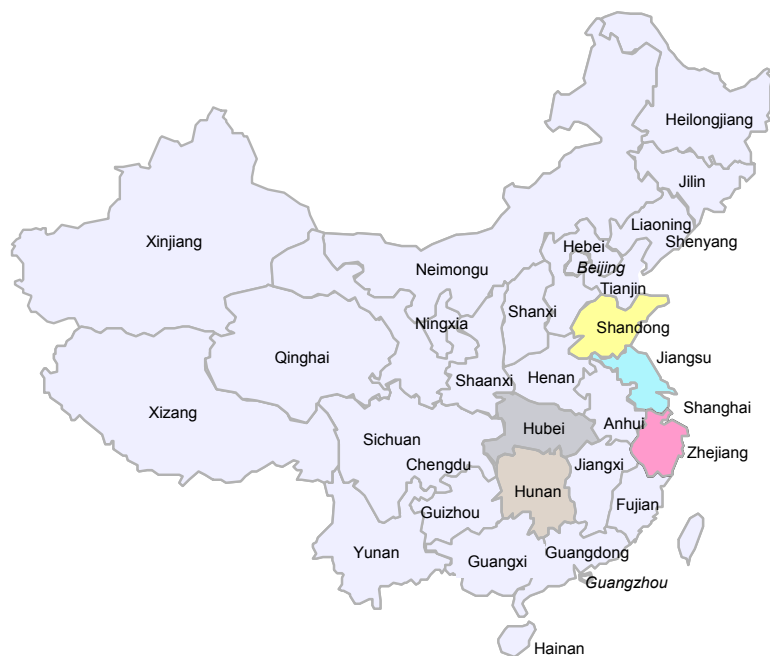
- ✓ **Focus on core lager segment**

- ✓ **Management resources**

### Lion Breweries Characteristics

- Provides a dominant #1 position in Zhejiang, strengthens position in Jiangsu and provides solid entry positions in Hubei, Hunan and Shandong combining:
  - Strong local brands - Jinlongquan and Double Deer (#1 brand in Zhejiang and Hubei province, respectively), currently have volumes of ~3.3 m hl and ~3.5 m hl respectively
  - 11 breweries and 14 m hl capacity - Critical mass to drive synergies and deliver a quantum jump in our scale
- Entrenched provincial positions with potential for expansion out of the local region
- Positions us in the top three in China
- Strong brands in the core lager segment
- Pool of highly competent management resources

# Transaction delivers control of 11 breweries in 5 key provinces



Province	Brewery	Capacity (m hl)	
Zhejiang	Lion Brewery Group Co Ltd	2.2	Existing Interbrew provinces
	Jin Hua Brewery Co Ltd	1.0	
	Zhejiang Yandangshan Lion Brewery Co Ltd	0.8	
	Ningbo Lion Brewery Co Ltd*	1.8	
	Pingyang Lion Brewery Co Ltd	0.5	
Jiangsu	Jiangsu Debier Brewery Co Ltd	1.2	New provinces for Interbrew
Hubei	Hubei Lion Brewery Co Ltd	3.6	
	Hubei Jinlongquan Brewery Co Ltd		
Hunan	Zhu Zhou Debier Brewery Co Ltd	0.5	
	Hunan Debier Brewery Co Ltd	1.3	
Shandong	Shandong Debier Brewery Co Ltd	1.4	
		<b>14.3</b>	

\*Already own stake prior to Lion transaction

## Portfolio of strong core lager brands

	Brand	Province	Market Position*	Volume 2002 (m hl)
Existing Provinces	Double Deer	Zhejiang	#1	3.5
	KK	Zhejiang	#1	1.2
	Santai	Jiangsu	Top 3	0.7
New Provinces	Jinlongquan	Hubei	#1	3.3
	Baisha	Hunan	#3	0.8
	Lulansha	Shandong	Small	0.7

\*In local area where the brand is sold

- Double Deer, Jinlongquan, KK and Santai are strong brands in their local natural markets
- Jinlongquan and Double Deer currently have volumes of ~3.3 m hl and ~3.5 m hl, respectively
- Total group sales of 11m hl

# As a result of this transaction, Interbrew achieves a strong footprint across China



**Hubei:**

Population: 60m  
 Total Beer Mkt: 11m hl  
 GDP per cap. US\$870  
 Interbrew position: Strong #1

**Hunan:**

Population: 64m  
 Total Beer Mkt: 3.5 m hl  
 GDP per cap. US\$680  
 Interbrew position: Top 3

**Shandong:**

Population: 91m  
 Total Beer Mkt: 29m hl  
 GDP per cap. US\$1,150  
 Interbrew position: Small presence

**Jiangsu:**

Population: 74m  
 Total Beer Mkt: 9m hl  
 GDP per cap. US\$1,561  
 Interbrew position: #3

**Zhejiang:**

Population: 47m  
 Total Beer Mkt: 17m hl  
 GDP per cap. US\$1,630  
 Interbrew position: Dominant #1

**Guangdong:**

Population: 78m  
 Total Beer Mkt: 19m hl  
 GDP per cap. US\$1,640  
 Interbrew position: Dominant #1

## Transaction summary

- Interbrew acquired 50% of Lion Group's interests in 11 breweries in China for US\$131.5 million
  - Sale and purchase agreement signed on September 5, 2003
  - Transaction closed on January 16, 2004
  
- Management control with Interbrew from closing
  
- Interbrew has a call option to acquire the remaining 50% for US\$131.5 million, exercisable 12 months after closing

## Key financial parameters

(US\$ million unless otherwise indicated)

- |   |                  |
|---|------------------|
| ➤ Equity Value (for 100% of Lion Group interest)                                    | US\$263m         |
| ➤ Net Debt (attributable to Lion Group interest)                                    | <u>US\$ 11m</u>  |
| ➤ Enterprise Value (EV) (for 100% of Lion Group interest)                           | US\$274m / €221m |
|   |                  |
| ➤ Total Production Volume   | 11.6 m hl        |
| ➤ Volume attributable to Lion Group interest  | 6.4 m hl         |
| ➤ EV/hectoliter (production)  | €35              |
|   |                  |
| ➤ Transaction is in line with recent transactions in the sector in China            |                  |
| ➤ Acquisition multiple comparable to what we paid for KK Breweries in November 2002 |                  |