Strategy and Position in Central Europe

Jaak De Witte
Central Europe: organization chart

Regional President
Central Europe
Jaak De Witte

General Manager
Hungary
Gyula Bognar

General Manager
Romania
Mihai Albu

General Manager
Trebjesa
Aleksandar Tomic

General Manager
Apatin
Rade Svilar

General Manager
Bulgaria
A. Seemüller

General Manager
Croatia
Renato Juric

General Manager
Czech Republic
Vincent Lefèvre

General Manager
BiH
Jean Stevenart

VP Supply
Chris Lemire

VP Demand
Erik Frimout

VP Control, IS & IT
Kris Hoornaert

VP Human Res.
J. Macejovsky
Agenda

1. Central Europe – macroeconomics – total beer market
2. Interbrew in Central Europe
3. Interbrew’s way of operating in Central Europe
4. Key challenges in Central Europe
5. Personal conclusion for successful management in Central Europe
1. Central Europe
   macroeconomics – total beer market
Central Europe: beer market of 90 Mio hl
Big differences in liter/capita consumption

- <20 l / capita
- 20 - 40 l / capita
- 40 - 60 l / capita
- 60 - 80 l / capita
- 80 - 100 l / capita
- 100 - 150 l / capita
- 150 - 170 l / capita
Big differences in size of the markets

- 0 - 1 Mio hl
- 1 - 2 Mio hl
- 2 - 6 Mio hl
- 6 - 10 Mio hl
- 10 - 15 Mio hl
- 15 - 20 Mio hl
- 20 - 25 Mio hl
- +25 Mio hl
## Beer market evolution Central European countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Volume (absolute)</th>
<th>Capita consumption (l)</th>
<th>% growth 2003 - 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland (*)</td>
<td>23.080</td>
<td>25.320</td>
<td>25.800</td>
</tr>
<tr>
<td>Czech Rep</td>
<td>16.500</td>
<td>16.100</td>
<td>15.900</td>
</tr>
<tr>
<td>Hungary</td>
<td>6.947</td>
<td>7.160</td>
<td>7.175</td>
</tr>
<tr>
<td>Slovakia (*)</td>
<td>4.570</td>
<td>4.850</td>
<td>4.900</td>
</tr>
<tr>
<td>Romania</td>
<td>11.120</td>
<td>11.281</td>
<td>11.500</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>3.814</td>
<td>4.000</td>
<td>4.000</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1.940</td>
<td>1.780</td>
<td>1.770</td>
</tr>
<tr>
<td>Croatia</td>
<td>3.531</td>
<td>3.735</td>
<td>3.854</td>
</tr>
<tr>
<td>BiH</td>
<td>1.727</td>
<td>1.618</td>
<td>1.600</td>
</tr>
<tr>
<td>Serbia</td>
<td>5.830</td>
<td>4.450</td>
<td>4.075</td>
</tr>
<tr>
<td>Montenegro</td>
<td>517</td>
<td>485</td>
<td>485</td>
</tr>
<tr>
<td>Kosovo (*)</td>
<td>430</td>
<td>400</td>
<td>430</td>
</tr>
<tr>
<td>Macedonia (*)</td>
<td>660</td>
<td>680</td>
<td>700</td>
</tr>
<tr>
<td>Former Yugo</td>
<td>14.635</td>
<td>13.148</td>
<td>12.914</td>
</tr>
<tr>
<td>Albania (*)</td>
<td>970</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>Turkey (*)</td>
<td>6.790</td>
<td>7400</td>
<td>7650</td>
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</table>

Total CE 88.426 89.859 90.439

Source: Canadean / JDWT
Two clusters of development

Cluster 1: Mature CE markets
EC-members (2004)
Poland - Czech Republic – Hungary – Slovakia - Slovenia (Croatia)

Key characteristics
• GDP range 2005: 6000€ - 12000€
• Extremely competitive markets
• Aggressive pricing - squeeze margins
• Dominance modern retail
• DOBs well developed

Cluster 2: Emerging markets
EC-members (2008 / 2010)
Romania – Bulgaria - Turkey (Croatia) - BiH –Serbia- Montenegro – Kosovo – Macedonia

Key characteristics
• GDP range 2005: 1000€- 3000€
• Slow & gradual business growth
• Competitive pressure will intensify (capitals)
• Volatile macroeconomics
• Economy starts to recover, but from a low base
• Traditional sales till 2005
• Low or no credit facilities
2. Interbrew in Central Europe
Interbrew in Central Europe

1. Hungary
2. Croatia
3. Romania
4. Bulgaria
5. Serbia-Montenegro
6. Bosnia-Herzegovina
7. Czech Republic
**Hungary, the start of international expansion**

- **Partnership in 1991**
- **Böcs - Miskolc**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales / volume</th>
<th>Share</th>
<th>Competition</th>
<th>Sales / volume</th>
<th>Share</th>
<th>Competition</th>
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</thead>
<tbody>
<tr>
<td>1997</td>
<td>2027</td>
<td>27.6%</td>
<td>SAB: 36.9%</td>
<td>36.9%</td>
<td>21.5%</td>
<td>Heineken: 7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Brau AG: 21.5%</td>
<td></td>
<td></td>
<td>Pecz: 7%</td>
</tr>
<tr>
<td>2000</td>
<td>2015</td>
<td>29.1%</td>
<td>SAB: 29.1%</td>
<td>34.4</td>
<td>26.7%</td>
<td>Böcs: 7.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Brau AG: 32.0%</td>
<td>29.1%</td>
<td>7.7%</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>2299</td>
<td>30.8%</td>
<td>SAB: 32.0%</td>
<td>2299</td>
<td>6.2%</td>
<td>Pecz: 5.3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Brau AG: 32.0%</td>
<td>3299</td>
<td></td>
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Croatia, a success story

- Partnership in 1994
- Zagreb

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2000</th>
<th>2003</th>
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</thead>
<tbody>
<tr>
<td>Sales / volume</td>
<td>1137</td>
<td>1550</td>
<td>1736</td>
</tr>
<tr>
<td>Share</td>
<td>32%</td>
<td>41%</td>
<td>44.9%</td>
</tr>
<tr>
<td>Competition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Karlovacko / Heineken</td>
<td>25%</td>
<td>20%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Tuborg / Pan</td>
<td>11%</td>
<td>11%</td>
<td>9.7%</td>
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Romania, from green field to number 2 position

### Partnership
- Baia Mare in 1994
- Blaj in 1995
- Ploiesti in 1999

<table>
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<tr>
<th></th>
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<th>2000</th>
<th>2003</th>
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<tbody>
<tr>
<td>Sales / volume</td>
<td>569</td>
<td>1460</td>
<td>1974</td>
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<tr>
<td>Share</td>
<td>7.7%</td>
<td>12.1%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Competition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBAG / Heineken</td>
<td>36%</td>
<td>36%</td>
<td>32.2%</td>
</tr>
<tr>
<td>SAB + Timisoara</td>
<td>13%</td>
<td>14%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Tuborg</td>
<td>-</td>
<td>4%</td>
<td>6.9%</td>
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Bulgaria: Kamenitza, a winning proposal

- Partnership
  - Plovdiv in 1995
  - Haskovo in 1995
  - Burgas in 1995
  - Pleven in 1998

<table>
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<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2003</th>
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<tbody>
<tr>
<td>Sales / volume</td>
<td>853</td>
<td>1354</td>
<td>1148</td>
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<tr>
<td>Share</td>
<td>27%</td>
<td>34%</td>
<td>27%</td>
</tr>
<tr>
<td>Competition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heineken(Zagorka)</td>
<td>27%</td>
<td>25%</td>
<td>31%</td>
</tr>
<tr>
<td>Carlsberg</td>
<td></td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Bulburew</td>
<td></td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Boliarka</td>
<td></td>
<td>8%</td>
<td></td>
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Serbia-Montenegro, a difficult start resulting in a strong position

- **Partnership**
  - **Niksic (1998)**
  - **Apatin (October 2003)**

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2000</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales / volume</strong></td>
<td>413</td>
<td>598</td>
<td>2865</td>
</tr>
<tr>
<td><strong>Share</strong></td>
<td>29%</td>
<td>29%</td>
<td>45%</td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Celarevo (Carlsberg)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zajecar</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>BIP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12%</td>
<td>12%</td>
<td>9.6%</td>
</tr>
<tr>
<td></td>
<td>11%</td>
<td>11%</td>
<td>7.1%</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>10%</td>
<td>11.4%</td>
</tr>
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</table>

(*) 5 months strike
Bosnia-Herzegovina, a start via a brown-field

- Partnership in 1999
  - Grude (1999)

<table>
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<tr>
<th></th>
<th>1997</th>
<th>2000</th>
<th>2003</th>
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<tbody>
<tr>
<td>Sales / volume</td>
<td></td>
<td>123</td>
<td>349</td>
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<tr>
<td>Share</td>
<td></td>
<td>7%</td>
<td>18.3%</td>
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<tr>
<td>Competition</td>
<td></td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>- Banja Luka</td>
<td></td>
<td>14%</td>
<td>17%</td>
</tr>
<tr>
<td>- Sarajevo</td>
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Czech Republic, a challenging turn-around

- Partnership in 2000
  - Prague (2)
  - Ostravar

<table>
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<tr>
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<th>2000</th>
<th></th>
<th>2002</th>
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</thead>
<tbody>
<tr>
<td>Sales / volume</td>
<td></td>
<td></td>
<td>2068</td>
<td></td>
<td>2359</td>
<td></td>
</tr>
<tr>
<td>Share</td>
<td></td>
<td></td>
<td>12.5%</td>
<td></td>
<td>14.2%</td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td></td>
<td></td>
<td>44%</td>
<td></td>
<td>48.3%</td>
<td></td>
</tr>
<tr>
<td>SAB</td>
<td></td>
<td></td>
<td>5%</td>
<td></td>
<td>3.8%</td>
<td></td>
</tr>
<tr>
<td>Budvar</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Superior, Consistent Growth

Volume

Mio hl

CAGR 16 %

94 96 98 2000 2002

EBITDA

Excl. Apatin

CAGR 24 %

94 96 98 2000 2002
Superior, Consistent Growth

EBIT / INV. CAP.

2000 2001 2002 2003
3. Interbrew’s way of operating in Central Europe
Interbrew’s way of operating in Central Europe
Strategy for value / growth creation

GROWTH
VALUE CREATION

ORGANIC GROWTH

TRANSACTIONAL GROWTH

00 Czech Rep
03 Apatin

Interbrew

THE WORLD’S LOCAL BREWER®
Strategy for organic value / growth creation in CE

Happy consumers … happy customers …
Happy employees … happy shareholders

WINNING & FOCUSED BRAND PORTFOLIO
PROFESSIONALISE ROUTE TO CUSTOMER
WINNING AT POINT OF CONNECTION
BEST & LOWEST COST PRODUCER / DELIVERER
CONSTANT UPGRADE & PROFESSIONALISE PEOPLE / SYSTEMS

LEADERSHIP IN INNOVATION

Happy consumers … happy customers …
Happy employees … happy shareholders
Strategy for organic value / growth creation in CE

WINNING & FOCUSED BRAND PORTFOLIO

- Develop sustainable core domestic brands
- Drive global premium & specialty brands
- Tactical presence in value segments
- Get systematic ‘consumption’ insights
- Right & smart pricing
Strategy for organic value / growth creation in CE

3 Different routes to customer

Type 1: Direct delivery model with strong & growing organised retail (+30%)
-> Czech Republic

Type 2: Indirect delivery model with strong & growing organised retail (+30%)
-> Hungary
-> Slovakia
-> Croatia
-> Slovenia

Type 3: Indirect delivery model with weak organised retail (<5%)
-> Bulgaria
-> Romania
-> Serbia & Montenegro
-> Bosnia-Herzegovina

PROFESSIONALISE ROUTE TO CUSTOMER
• Aligned tradetermins over all countries (CETA) (focus: pay for business development)
• Partnership programs with wholesaler
• Professional & integrated customer service
• Aligned profitability principles & data management
• CE account management training academies
• Yearly customer satisfaction studies
Strategy for organic value / growth creation in CE

WINNING AT POINT OF CONNECTION

- Increase sales coverage & effectiveness in on- & off-trade
- Develop integrated telesales / telemarketing
- More seen … more cold … more sold
  - cold/warm display
  - better merchandising standards
- Permanent upgrade of field sales competencies
  - FSA
  - Horeca Academy
- Get ‘purchasing’ behaviour insights
Strategy for organic value / growth creation in CE

- Rationalise footprint – warehouses
- Gradually go for world class operating productivity
- Procurement saving programs – value engineering
- Sharing best practices + permanent benchmarking on all key processes

BEST & LOWEST COST PRODUCER & DELIVERER
Strategy for organic value / growth creation in CE

CONSTANT UP-GRADE & PROFESSIONAL PEOPLE / SYSTEMS

- Aligned (business) processes over all 7 CE-countries
- One common ‘SAP’ / ERP / IT strategy / implementation for all CE-countries
- Standard ‘organisation’ & people reviews with performance appraisal & MBO
- Employee satisfaction survey
- Training & development (all levels / all skills) + functional workshops
Strategy for organic value / growth creation in CE

LEADERSHIP IN INNOVATION

- New liquids
- New target groups
- New packaging
- New moments
- New occasions
- New processes
- New systems

Interbrew

THE WORLD’S LOCAL BREWER®
Strategy for organic value / growth creation in CE

Happy consumers … happy customers …
Happy employees … happy shareholders

WINNING & FOCUSED BRAND PORTFOLIO

PROFESSIONALISE ROUTE TO CUSTOMER

WINNING AT POINT OF CONNECTION

BEST & LOWEST COST PRODUCER / DELIVERER

CONSTANT UPGRADE & PROFESSIONALISE PEOPLE / SYSTEMS

LEADERSHIP IN INNOVATION

Interbrew

THE WORLD’S LOCAL BREWER®
4. Key challenges in Central Europe
Key challenges in Central Europe:

- Very high excise tax levels that are still growing
- Governments take bigger piece out of value chain

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bosnia</td>
<td>10,2</td>
<td>10,2</td>
<td>10,2</td>
<td>15,5%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>5,6</td>
<td>5,6</td>
<td>8,7</td>
<td>16,8%</td>
</tr>
<tr>
<td>Croatia</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>37,2%</td>
</tr>
<tr>
<td>Czech Rep</td>
<td>240</td>
<td>240</td>
<td>240</td>
<td>16,6%</td>
</tr>
<tr>
<td>Hungary</td>
<td>3833</td>
<td>4410</td>
<td>4941</td>
<td>34,0%</td>
</tr>
<tr>
<td>Romania</td>
<td>6</td>
<td>6,8</td>
<td>7,9</td>
<td>22,4%</td>
</tr>
<tr>
<td>Serbia</td>
<td>718</td>
<td>807</td>
<td>943</td>
<td>35,1%</td>
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<tr>
<td>Montenegro</td>
<td>3,4</td>
<td>7,7</td>
<td>11,5</td>
<td>22,8%</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td>8,3</td>
<td></td>
<td>10,5%</td>
</tr>
</tbody>
</table>
Key challenges in Central Europe

- EU accession of new & future potential member states
  - protection of free market competition – counter grey economy
  - production of creditors / property rights & fulfilment of contracts
  - reinforce legal system
  - stability in economical policy
  - environmental obligations (taxes / costs)

- Macroeconomics (inflation / devaluation) slow down value creation in euro in most of CE-countries

- Modern retail expansion – fight for market share – shake up of traditional retail

- Constant need / drive for change of all stakeholders
5. Personal conclusion for successful management in Central Europe
Personal conclusion for successful management in Central Europe

- Constantly listen to “local consumers” and “local customers” / understand their “changing” needs

- Constant use of “benchmarking” in all processes
Personal conclusion for successful management in Central Europe

- Share best practices at the right moment
- Shared thinking with colleagues:
  - Avoid “re-invented” wheels
  - Be the best and the first “locally”
Personal conclusion for successful management in Central Europe

- Evolution (not revolution) to Western professional standards

- Build a strong local management team
  - Individual - team development plans
  - Constant coaching/support in all departments by Interbrew specialists
Personal conclusion for successful management in Central Europe

- Keep “consumers - customers” constantly happy