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 Bulgaria — A. **Seemüller**
- General Manager Romania — Mihai **Albu**
- General Manager Croatia — Renato **Juric**
- General Manager Trebjesa — Aleksandar **Tomic**
- General Manager Czech Republic — Vincent **Lefère**
- General Manager Apatin — Rade **Svilar**
- General Manager BiH — Jean **Stevenart**
- VP Supply — Chris **Lemire**
- VP Demand — Erik **Frimout**
- VP Control, IS & IT — Kris **Hoornaert**
- VP Human Res. — J.. **Macejovsky**

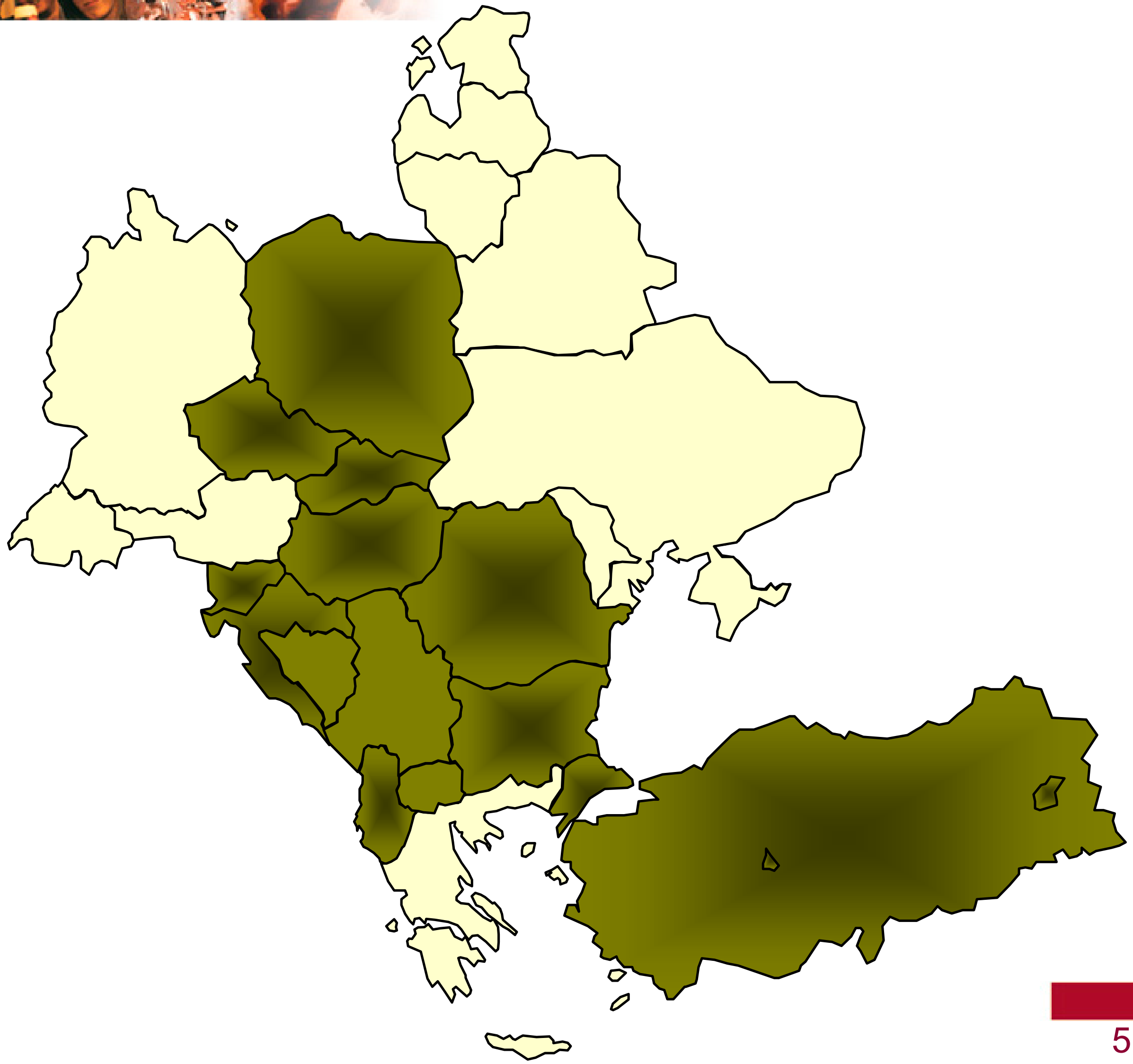
Interbrew

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



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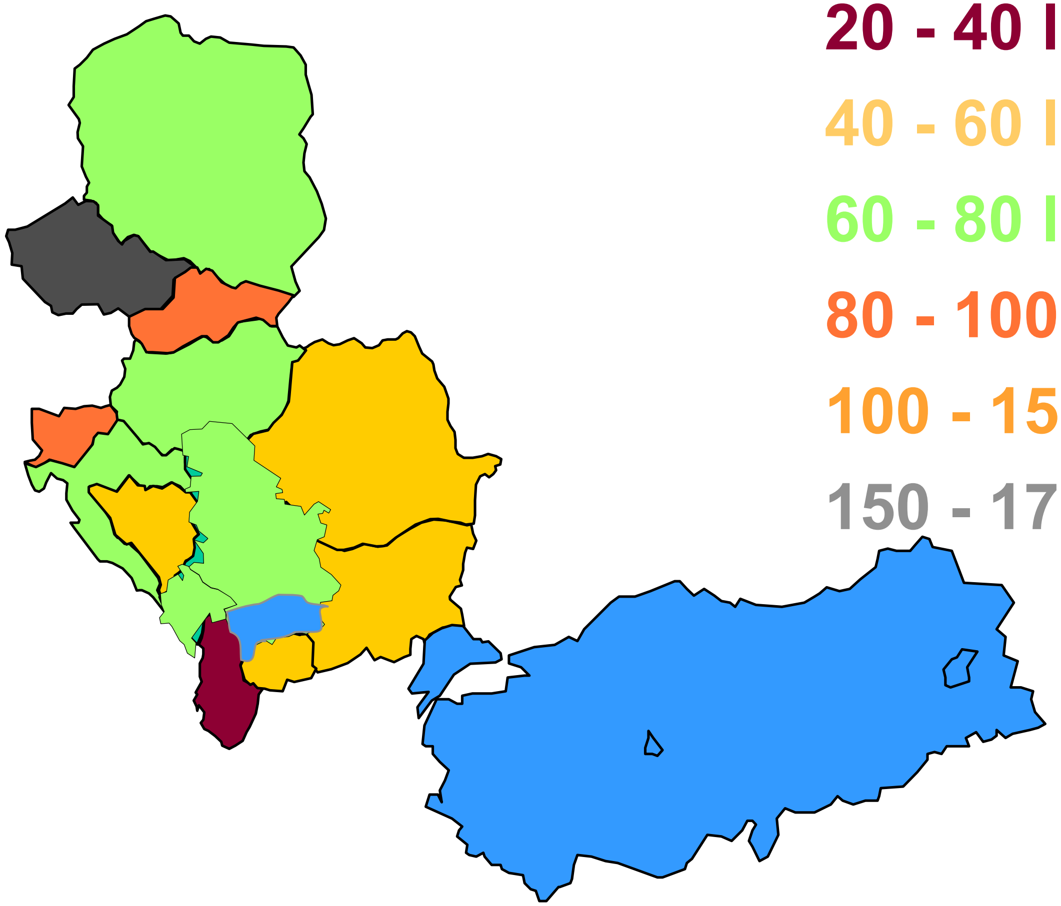
Big differences in liter/capita consumption



<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

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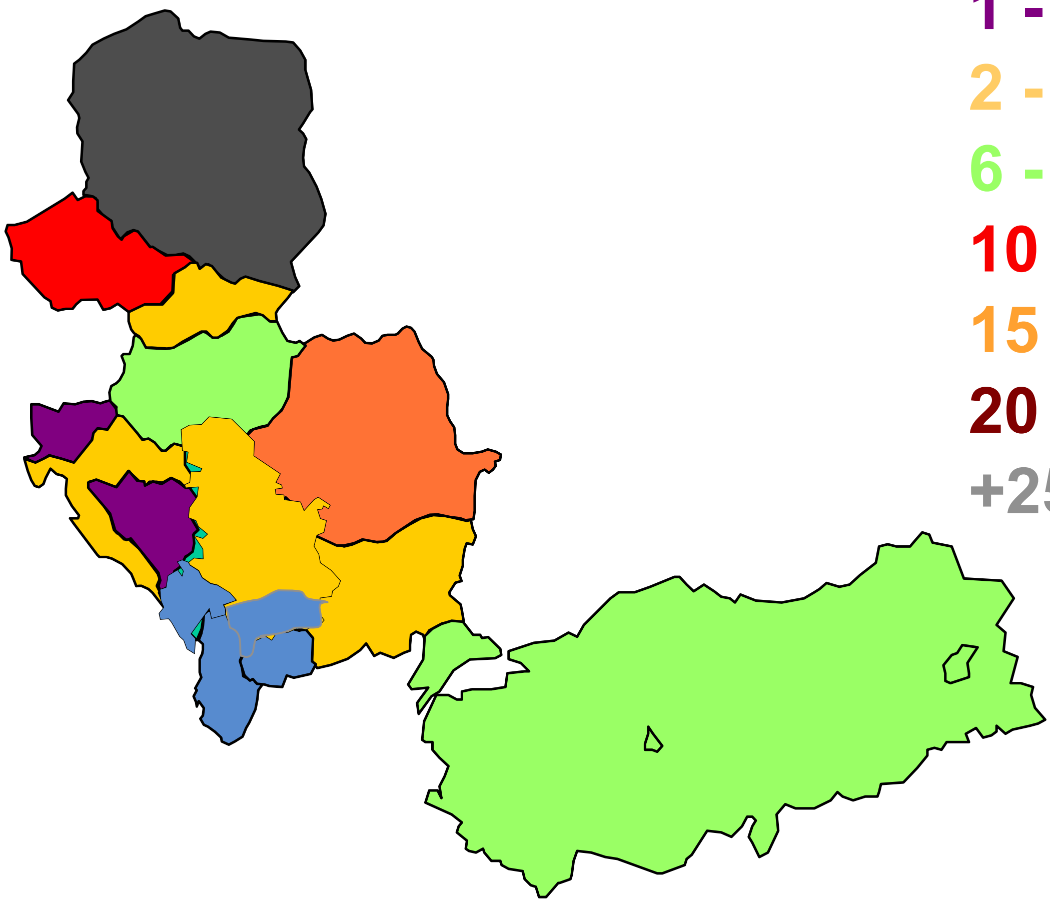
Big differences in size of the markets



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

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Beer market evolution Central European countries

	Volume (absolute)			Capita consumption (l)			% growth
	1999	LE2002	2003	1999	LE2002	2003	2003 - 2002
Poland (*)	23.080	25.320	25.800	60	65	67	+1.8%
Czech Rep	16.500	16.100	15.900	160	156	154	-1.2%
Hungary	6.947	7.160	7.175	70	70	70	-
Slovakia (*)	4.570	4.850	4.900	85	90	91	+1.0%
Romania	11.120	11.281	11.500	50	50	51	+1.9%
Bulgaria	3.814	4.000	4.000	46	51	51	-
Slovenia	1.940	1.780	1.770	98	90	89	-
Croatia	3.531	3.735	3.854	78	89	89	+3.1%
BiH	1.727	1.618	1.600	43	40	40	-1.2%
Serbia	5.830	4.450	4.075	70	40	38	
Montenegro	517	485	485	79	77	77	-
Kosovo (*)	430	400	430	20	20	20	-
Macedonia (*)	660	680	700	33	34	34	-
Former Yugo	14.635	13.148	12.914	60	55	54	
Albania (*)	970	600	600	31	18	18	-
Turkey (*)	6.790	7400	7650	10	11	11	-
Total CE	88.426	89.859	90.439				

Source: Canadean/JDWT

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Two clusters of development

Cluster 1: **Mature CE markets EC-members (2004)**	Cluster 2: **Emerging markets EC-members (2008 / 2010)**

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

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

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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

	1997	2000	2003
Sales / volume	2027	2015	2299
Share	27.6%	29.1%	30.8%
Competition			
▪ SAB	36.9%	29.1%	32.0%
▪ Brau AG	21.5%	34,4 {26.7%	32.0 {25.8%
▪ Heineken	7%	{ 7.7%	{ 6.2%
▪ Pecz	7%	7.7%	5.3%

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Croatia, a success story

- Partnership in 1994
  - Zagreb

	1997	2000	2003
Sales / volume	1137	1550	1736
Share	32%	41%	44.9%
Competition			
▪ Karlovacko / Heineken	25%	20%	18.3%
▪ Tuborg / Pan	11%	11%	9.7%

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Romania, from green field to number 2 position

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

	1997	2000	2003
Sales / volume	569	1460	1974
Share	7.7%	12.1%	15.4%
Competition			
▪ BBAG / Heineken	36%	36%	32.2%
▪ SAB + Timisoara	13%	14%	15.3%
▪ Tuborg	-	4%	6.9%

Bulgaria: Kamenitza, a winning proposal

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

	1999	2000	2003
Sales / volume	853	1354	1148
Share	27%	34%	27%
Competition			
▪ Heineken(Zagorka)	27%	25%	31%
▪ Carlsberg		16%	14%
▪ Bulbrew		12%	14%
▪ Boliarka		8%	10%

Serbia-Montenegro, a difficult start resulting in a strong position

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

	1997	2000	2003
Sales / volume	413	598	2865
Share		29%	45%
Competition			
▪ Celarevo (Carlsberg)		12%	9.6%
▪ Zajecar		11%	7.1%
▪ BIP		10%	11.4%

(*) 5 months strike

Bosnia-Herzegovina, a start via a brown-field

- Partnership in 1999
  - Grude (1999)
  - Apatin (2003)

	1997	2000	2003
Sales / volume		123	349
Share		7%	18.3%
Competition			
▪ Banja Luka		28%	31%
▪ Sarajevo		14%	17%

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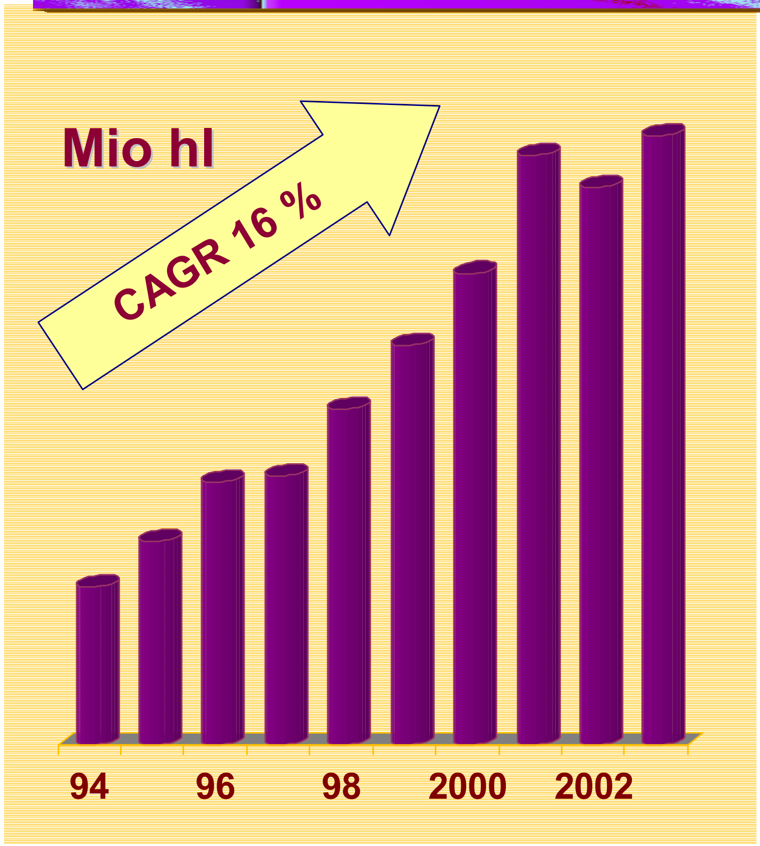
Czech Republic, a challenging turn-around

- Partnership in 2000
  - Prague (2)
  - Ostravar

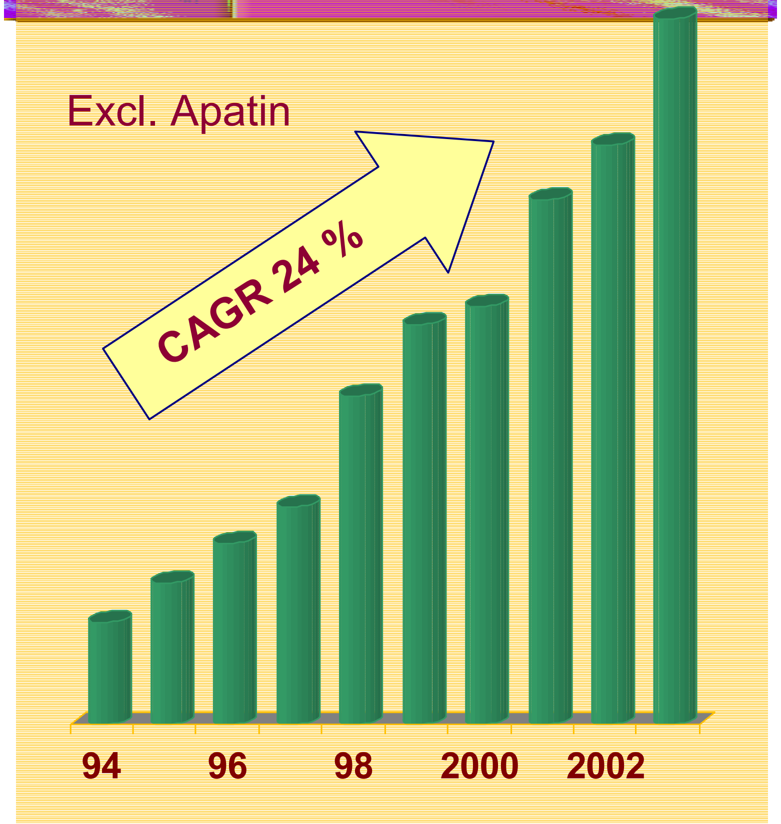
	1999	2000	2002
Sales / volume (* domestic)		2068	2359
Share		12.5%	14.2%
Competition			
▪ SAB		44%	48.3%
▪ Budvar		5%	3.8%

Superior, Consistent Growth

Volume



EBITDA



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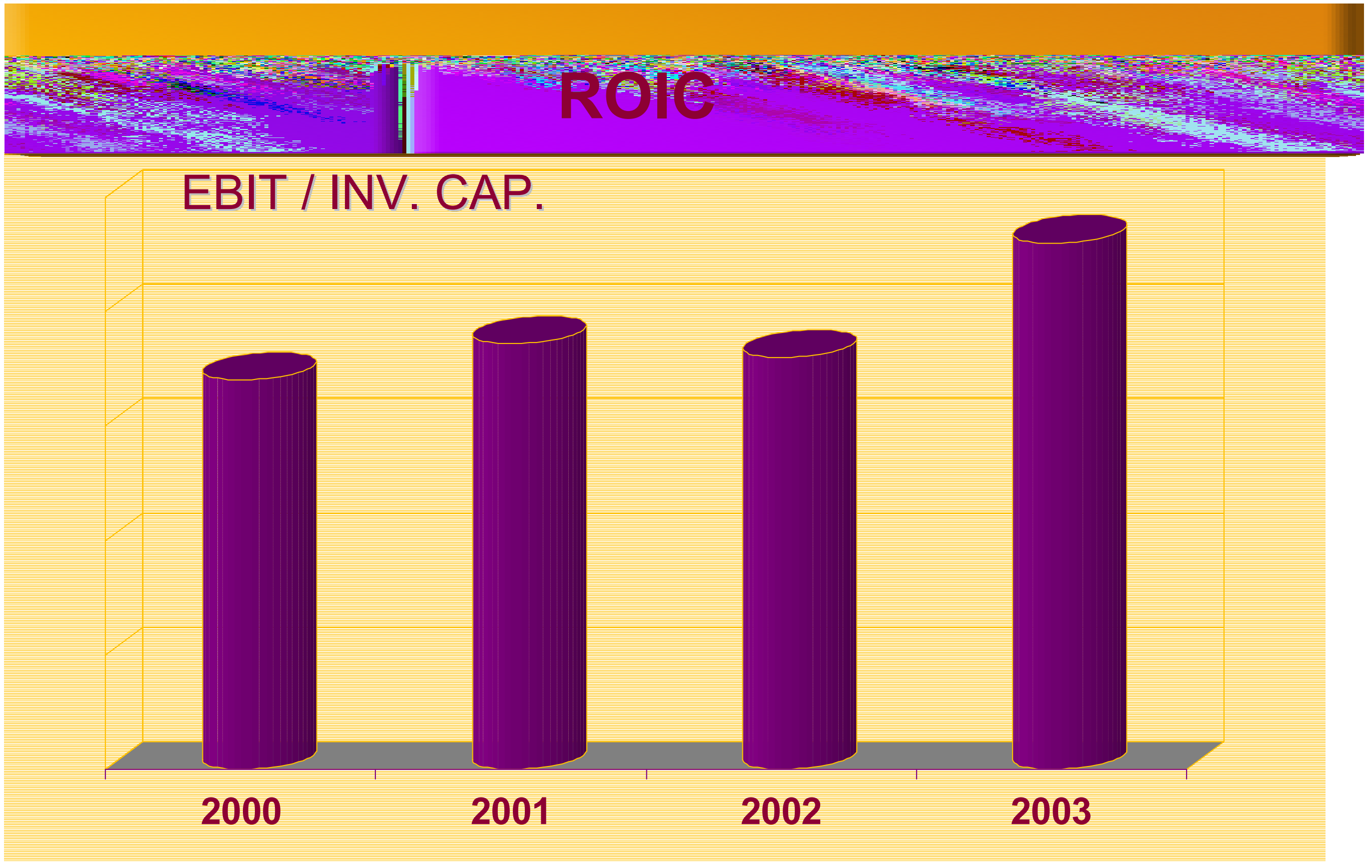
Superior, Consistent Growth



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

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

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THE WORLD'S LOCAL BREWER©

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

PROFESSIONALISE ROUTE TO CUSTOMER

- Aligned tradeterms 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

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

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

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Strategy for organic value / growth creation in CE

BEST &
LOWEST COST
PRODUCER & DELIVERER

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

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THE WORLD'S LOCAL BREWER©

Strategy for organic value / growth creation in CE

CONSTANT UP-GRADE & PROFESS. 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

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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**

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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

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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

		2002	2004	2007	% NNS 2007
Bosnia		10,2	10,2	10,2	15,5%
Bulgaria	€/hl	5,6	5,6	8,7	16,8%
Croatia	Kn/hl	200	200	200	**37,2%**
Czech Rep	Cz/hl	240	240	240	16,6%
Hungary	Huf/hl	3833	4410	4941	**34,0%**
Romania	€/hl	6	6,8	7,9	22,4%
Serbia	Dn/hl	718	807	943	**35,1%**
Montenegro	€/hl	3,4	7,7	11,5	22,8%
Germany			8,3		10,5%

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
    - re-inforce 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