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Heineken

What's Brewing Seminar
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Heineken

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Introduction

George Toulantas, Director Investor Relations
Welcome everybody to this wonderful setting here at the Brewers' Hall in London. I'd like to also welcome everyone who's listening to this seminar today on the webcast for Heineken's What's Brewing Seminar covering the Central and Eastern European region.

I'm joined today by Jan Derck van Karnebeek; Regional President of Central and Eastern Europe, Robin Hoytema, Executive Director of Global Tax & Financial Markets and Dimitar Alexiev, General Manager of Russia since 2008 and from the 1st of April will be taking on an expanded role of Managing Director of Central Europe.

It's my pleasure now to introduce Jan Derck. Jan Derck joined Heineken as a management trainee in 1991. He held brand management roles at head office, China and Slovakia. He was also responsible for beer draught innovation. And since 2006 has been General Manager of Bulgaria and Romania and he took up the role of Regional President of Central and Eastern Europe in 2011; so with that - Jan Derck over to you.

Presentation

Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Thank you George, good afternoon everybody. I'm at risk of getting a bit enthusiastic about my subject, I owe my career to Central and Eastern Europe, so I have a passion for it. So I hope you bear with me this afternoon as I try to share with you a little bit of that passion.

Now, these disclaimers I think you've seen a few times, so I'll give you a moment to read through them, but you've seen them before and I won't spend a lot of time on it.

The story I want to give you this afternoon is a bit of a four part story. The first point I'd like to make is that the region we'll be talking about is big, it matters, Central and Eastern Europe is very, very big for beer. The second point is that for Heineken we have a big footprint in this region, we're well spread, it's for us also a very important region. Third, I'm going to try to explain to you how we are going to use the spread we have in Central and Eastern Europe into driving the future of the Central and Eastern European business. And last we'll do a bit of a deep dive in three of the markets in the region.

So let's start with scope, what are we talking today? When Heineken talks of Central and Eastern Europe what we talk of is this geography. So it starts east of Holland with Germany, moving down to Austria, the former Yugoslavia, Greece and everything east of there. Everything in green are countries where we have big established positions with local brand portfolios and brewery networks. The non-green are markets where we do not have established breweries or broad leadership networks.

An important point to make here is if you look at the size of this geography in absolutely volume terms, in total volume it's as big as North America, bigger than Latin America actually. So in terms of total beer volume this matters.

Now it's a diverse region, as I just showed you it's a geography which comprises some developed markets, like Germany, Austria, but it also comprises quite a few developing markets still in terms of beer consumption. So you see very different beer consumption per capita. At the high end, the markets which show up here at above 100 litres per person per year, these would also be probably the markets with the highest per capita consumption in the world even. They are in Central and Eastern Europe which may be a bit counterintuitive, historically it was a region of vodka and wine, but beer is big in this part of the world; an important thing to keep in mind for the rest of the presentation.

We also see to the right a few markets where the per capita consumption is still considerably lower, so it's a very mixed picture. The average of 82 makes it, in terms of per capita consumption, the region in the world with the highest per capita consumption by some distance. Bigger than Western Europe which is in the 50s, so this is considerably up from there. Big beer region in which also in the culture of society beer matters, beer it central to people and consumer behaviour, central to what they find at the dinner table, you find it in the bars and the restaurants, beer matters.

Now an important thing to keep in mind if we look at Central and Eastern Europe it is an area where for the longer term there is still significant upside in income per capita. If you take a longer term view of it and take a bit of a view beyond the crisis which currently Central Europe is feeling the knock on effects of, the upside in terms of per capita income and disposable income is still sizeable. If we look at the numbers on the page here, this is double the Western European rates. So an important thing to keep in the background if we look at the large volume pools of Central and Eastern Europe.

The next stage we're going to go into is a stage of increasing per capita income and disposable income.

Now, this is a bit of a split of how volume and profitability for the total industry break up across the geography I just shared with you. So this is Heineken's Central and Eastern Europe, but it's the volume and the profitability of the total industry. And I think there are a few things worth noting on this slide, first and foremost that Central and Eastern Europe is much more than Russia alone. Two thirds of the volume is outside of Russia and 75% of the profit is outside of Russia. This is also something which does not always, in my view, get highlighted sufficiently. It's a big, big beer region with a lot of different geographies, with both volume and profit spread across a larger region.

Now that gives you a bit of a take on the total region. So a big region in terms of total volume, with a big upside in terms of disposable income, spending power over the longer run.

Next I'm going to take you through what this means for Heineken, what is Central and Eastern Europe for Heineken.

Now I think this chart is a chart that you may be familiar with, it shows what Central and Eastern Europe is for Heineken in terms of part of volume, part of revenue, part of our total Heineken brand volume and profitability as well. And what you see here, the region is close to a quarter of our total Group volume, but it's a smaller share of revenues, which I think points to the direction of where we need to take this industry next, relatively large volumes with relatively low prices. But that I think also indicates where the upside is over time on price.

What is also interesting is if you look at the share of the Heineken volume worldwide that we sell in Central and Eastern Europe, relatively underweight, and we'll get into more detail of that later on. And lastly that together translates obviously in a smaller share of total profits, driven primarily by the fact that prices are relatively much lower than they are in the rest of the Heineken world.

Now, who are we in Central and Eastern Europe? We have quite, I would think that that's an understatement; we have a leading position in the region in terms of the number of markets we operate in, which in total is 14. And these are just the markets where we have brewery footprints and broad portfolio footprints. They don't even include all the markets we're in with export operations.

Now interesting, what you see in those 40 markets, in 10 out of those we have number one or number two positions. And that makes us, by this measure a leading brewer in the region and also a brewer with the position and the possibility to start shaping this industry in the direction which we think it should be taken.

Here put into a picture, into a map, you see the countries of Central and Eastern Europe, you see our number one and two positions, you see in light green those markets where we operate through joint ventures, Bulgaria, Macedonia, also Germany, we operate through BHI which is a joint venture, but next to the BHI joint venture we also have a separate operation there to drive the Heineken and Desperados brand, that's a fully owned operation.

The orange markets are those markets where we operate through what we call an export platform, which means we have no breweries on the ground. We export to these markets, but still even with that export operation that sometimes amounts to a number two position as well. So it gives you a very good picture of a very broad footprint across the whole geography of Central and Eastern Europe.

Now we move from the total industry to the Heineken numbers, what you saw earlier were the total industry numbers, these are the Heineken numbers. In the Heineken numbers what you will note, both in terms of volume, but also in terms of EBIT, quite a spread, we are not dependent on a single market.

I think there are a few things worth highlighting, in the grey the 26% is Germany. In Germany we do show, as part of Group volume, the total volume also of our joint ventures in Germany, this is more than ten million hectolitres. But in the EBIT we only show the contribution to net profit, which for Paulaner for example, where we have only a 25% economic stake, means that the share of profit is obviously quite a bit lower than the share of volume. So I think that explains the number in the grey.

In the green we see Russia, which indeed in terms of volume for us does matter, and it's underweight in terms of profitability, which I will get into later on and it also is for us obviously a big opportunity.

What you see in terms of profitability is that we have a good spread with Poland, Romania, Austria, all contributing a very hefty part of total profit for us in the region.

Now this picture is meant to give a message and to show to you what a spread we also have in terms of brand portfolio. On the sheet we have not even all our markets and we certainly do not have all our brands. In the region we have more than a hundred brands, but the point of the slide is in every market we play in we have a very rich portfolio of brands stretching from all the way at the top to the local premium, to the mainstream brands, all the way to the bottom of the market.

So we have a portfolio in every geography which allows us to play in every segment of the market, in every channel and allows us also to shape these markets. And this is indeed, you talk about the tip of the iceberg, but it's no more than half the iceberg.

This is a very short overview of our commercial performance in the region in the last few years. You see here the total volume we've sold and you see our market share in the region. Now first to comment on the volume a bit, you see the decline of total volume is a function of the total market being under pressure because of the crisis at the time, but also frankly speaking our own market share performance in Russia in 2010, where we took pricing in order to compensate for the excise duty increase, but competition chose not to follow to pass this price increase - the cost increase onto our consumer.

You see after that both the recovery of the total market in volume terms, but also very clearly in our share. The share improvement is not just a function of Russia alone; this is share gains across multiple markets in the region. And I think it makes the point that we are able to win in this market and we're able to outcompete our competitors and we're doing so quite consistently.

So taken together the slides I just showed you are meant to make the following point: We are quite well spread in the region, operating in all the geographies with a very strong portfolio per geography and we have an ability to win in this geography.

Now the question next is where do we take this? Where do we take this ability to shape the market? What is the future direction we must drive this in order to contribute to Heineken's overall results? And that's indeed the next part of the story. We're strong, we're quite big, where do we take this next? What is the strategic direction for the region?

Well it says it already in the little heading, it says here - a drive for profit growth, it does not say volume growth, right. So I think this next slide shows a bit where we need to take the region. As I explained to you it is a region where we have high per capita consumption, that's a very strong base to operate from. But relatively speaking beer in the region is very, very cheap. If you look at average beer prices they are lower than they are in Latin America or Africa with higher disposable income.

So fundamentally that means that beer is too cheap, it's as simple as that and I think our job, being a leading brewer in the region is to work now on value, on making sure that we add value, economic value to the large volume base we have. And the way our industry works, if you can take a large volume base and start to add value to that the economics are very simple, it very, very quickly contributes to profitability. So in the last ten years we've seen the volume game, the game going forward from here will be much more of a value game.

Now that's nicely said, but the question is how are we going to do that? It presupposes as I've already told you that we are in a position to really shape this market and I've showed you the footprint we have, it presupposes that you have the commercial acumen to actually drive the business.

Now what is this commercial acumen I speak of? For us it's a four pillar thing, first and foremost leveraging our global brand portfolio. Secondly it's very much about mix management and innovation. Thirdly it's about leveraging in these geographies the very strong local portfolios we have and building these local brands. And lastly, very importantly it's about driving it home with excellent quality execution in the point of sale. That together is the mix you need in order to deliver value on the volume we already have.

Now I will take you through each of these four pillars in turn with some examples on them. First of all the Heineken brand, as you may remember from the earlier slide the Heineken brand is underweight in our region.

Frankly there's no good reason why that should be so. If you look at consumers in Central and Eastern Europe there's a high degree of interest in international aspirational brands. Young Russians, young Romanians are outward looking, they want to become men of the world, for them the Heineken brand is a perfect brand to badge themselves with and to show that they are successful.

So the upside for Heineken is there and you're beginning to see it show in the numbers. If we take Greece out which is the light green bit, Greece very much affected by basically a slowdown in the total economy and the contraction of the total beer market. Outside of Greece we see very good growth and on a percentage base it's now I think 20% accumulated over the last two years.

This we believe is something we can continue for quite a while because the upside, as you can see here on the right is still big, Central and Eastern Europe - Heineken is only 5% of the total volume we sell, where the Group average is closer to, I think, 13%.

First and foremost creating value in the region will be about driving the Heineken brand. Now how do we do that? I think you'll be familiar with most of this, for Heineken the game very much is to leverage the global platforms we have and whether it is the Champions League, the James Bond movies, we have a fantastic global marketing franchise and the point is to leverage it for the region.

What does leverage in the region mean? First of all to work on availability, we'll get into the numbers later on, but in Central and Eastern Europe you still have about half a million outlets we visit, the point is to make sure you have availability guaranteed everywhere and drive that home, be available and be visible.

Then it's about making sure that we have pack types in place which create affordable price points. So what we're doing is introducing 25 cl. 40 cl bottles, which versus their reference SKUs of 33 cl and 50 cl creates a perception of affordability, important.

This is Heineken and as you know at Heineken we always do movies, so now a movie as well, movie please.

Video played

Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Well, I can assure you that if you can sell Heineken successfully in München which is the heart of Weizenbier in Bavaria, you'll sell it anywhere.

I think a few more words on Heineken. What we have seen is that the appeal of Heineken cuts across the whole geography of Central and Eastern Europe. You take the more southern rim, the Balkans, the social expressiveness, going out, sitting on terraces, badging yourself with Heineken is terribly attractive.

You go east into Russia, to be able to show your emerging middleclass success, that five minutes of luxury you have when you hold a Heineken in your hand is something which has huge drive and potential. And also in the current economic circumstances, what we see happening is that consumers may spend a bit less on their big ticket items, but that means they still do have cash in their pockets. And it tends to be brands like Heineken, which give that five minutes of luxury, which actually profit from the fact that people are a bit more careful on the big ticket items - they'll still have a Heineken on the terrace. So we see even in difficult economic circumstances, big upside for the premium brands.

Heineken is not the only one we do. Look at Desperados, our tequila flavoured beer, also on a very good trend in the region. It's a brand we sell at 200% price index compared to mainstream, Heineken is sold between 160 and 180. So, like Heineken, it very directly contributes to our ability to now start to get value out of the large volume base we have.

So good premium, a good growth trend, the growth trend is not only a function of Poland, but it's also increasingly coming out of other markets. And you see also here in the numbers, in the 19 markets we've rolled this into our ability to move these sorts of brands across our geography rapidly, very rapidly.

This is of course the leading edge, but of a broader portfolio, which also comprises Strongbow, Sol, which I don't get into here. But it is using what we've learnt on the Heineken brand to more quickly roll out other international premium brands which create value and deliver value on this big volume base; the first pillar - important.

The second pillar; innovation, now beer is a traditional category but it doesn't mean that you cannot innovate in beer, in fact we innovate quite successfully. In the total region the innovation volume, as we define it, is now a total that this more than seven million of the total base, that's big, if you remember that the total base if 55 million, the fact that our innovation volume of that is more than seven million says a lot. It's also double the Heineken NV average.

So it is a region in which you can successfully innovate, I think we need to see this in the context that in fact it is a young region for beer, so people are more quickly able to digest new offerings and are willing and able to change their behaviour if they find something which appeals to them and is attractive. And innovation, very importantly, is a way to improve revenue per hectolitre again, because all of these innovation products we manage to sell at a premium over the mainstream offerings.

Let me give you a bit more detail on one area which has proved particularly successful for us in 2012 and these are the Radlers. Now Radling means literally in German cycling and this is not a new concept, Radlers have been around for a hundred years. What are they, it's beer with natural lemon juice, you drink it after an afternoon of cycling in the Austrian mountains, that's also where it started in Austria.

But from that we got a consumer insight that this combination of beer and natural lemon juice gives a refreshment and a naturalness which people really connect to. So the first thing we did is we moved it to two neighbouring countries, first Hungary and then Slovakia/Croatia. We saw the leverage it was getting and the consumer connect it was having and we very quickly rolled it out to our other markets in the region.

Well the numbers I think speak for themselves, 1.2 million hectolitres - what is it 1.4 million hectolitres at a significant price premium. Again, very clearly another illustration of how you turn volume into value. It is also an illustration of our ability to move successful concepts across our markets at speed. And the key insight here is not copy paste special, but copy paste. If something works in one geography apply the same thing somewhere else and do it fast and do it well. And you see that getting results and that's moving the need in terms of, again, creating value on this large volume base.

I think this is just a highlight of the number of Radlers we have. I think one point to make on this slide is what you see us doing here, we take our existing strong local brands, like Warka, like Ciuc, Zlatopramen and we take these local brand and we bolt on to that this innovation concept. Now that creates leverage and momentum because you have a strong existing brand which people know and trust and you come with something new. It immediately gives you scale and impact. And this is how we use local portfolios in combination with innovation to change the game.

So a bit of a commercial to explain to you what Radler is about, video please.

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Video played

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
A few points to make here, what you see is very simple advertising right, take beer, natural beer, take natural lemon juice and combine. But we've learnt from the

consumer insight is it's exactly this simplicity that appeals. Now if you look at what this does to our average revenue per hectolitre it moves it up by about 20% overnight.

Also interesting is to see that this concept appeals across all kinds of beer cultures. Now Poland and Romania are very different countries. But these sorts of concepts, if executed well, appeal across a broad range of geographies.

Now, all of that is done in the understanding that in every market we operate in we need to have a very full portfolio in order to shape the markets in the way that I'm outlining now. You cannot do this by just playing in one segment. You only do this if you have a presence in all segments and channels that matter. And here I give you the example of Poland. Where starting at the bottom we have Tatra and then moving up every level with Warka at mainstream, Zywiec at what we call national premium and then the international premium brands at the top.

Having this total portfolio is key, because it is this total portfolio which allows us to connect at every price level in the market, and over time move pricing and value up. You can't do that if you only play in the top of the market. You need to have a strong presence at every price level in order to move total value up. This is exactly what we do across all the markets we operate in. This is Poland by illustration, but the same story can be told of all the other markets. So our portfolio management is key.

Maybe one more point on that, as I explained to you earlier we operate more than a hundred brands in the region, part of the art therefore of course is also to pick your winners. We do not invest behind all these hundred brands, we make sure we pick per price segment, one winner where we put our money and in that way drive the total market up.

So I think in this picture what is funded and in focus - Tatra is, Warka is, Zywiec is and Heineken and Desperados are. A broad portfolio with a clear winner per price level and that's how we move the total market.

Again, not to go into this very deeply but below portfolio you should have brand management. I think the two key messages on brand management, first of all in beer consistency matters big time. Settle on one brand message, Gösser is about treating you to Austria's best. That is the brand message. Now to the point of distraction stick to that message, be consistent. Do today what you did yesterday and do it again tomorrow. And make sure you're equally consistent in how you apply that across all elements of the marketing mix.

Our consumers don't of course see these models; this is the marketers' art. But we use the same model across all of our markets and we build brands in the same way in every single market. Crucially important, because in this way you can start to learn and build upon your successes.

We'll give you a little slice of Austria, which again is a very different beer market, but it just shows some of the diversity in the region, video.

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Video played

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
A very different atmosphere right, this is Austria for you. And this is part of our art, it is to make sure that we're local everywhere we operate. So understanding this local context and what works in Austria and does not work in Romania is terribly important. You have to do this together with building the international brands we just looked at, with Heineken we're very consistent, we do the same thing in every geography we operate in, the same for Desperados, these are global brands, one positioning, one approach everywhere. And on the other side you balance that with local insight to drive the local portfolios. This is the game.

Ah, a subject I get a bit passionate about, execution. What we just talked about was global brands, innovation, portfolios, brand building, crucial. But all of that only works if you drive it home with good point of sale execution. If you cannot make it come off the PowerPoint onto the shop floor it's not going to happen. We have to understand this in the context that in Central and Eastern Europe it's still very much a fragmented trade world. The great bulk of our volume, but even more of our profit is make in Mama Papa stores, little kiosks, little bars, little restaurants, half a million of them across the region and these are just the ones we visit.

If you think about what happens in these kiosks, and I think we did the number, yeah - about 30 million times per day we win one of these execution battles, you know, 30 million times per day people are making this trade off, is it Heineken, or is it Carlsberg? Is it Warka or is it Lech? Winning each one, every one of these battles is what it's about. And this is crucial; in our business it's crucial to understand that. And we do that through - I think the numbers are here as well, more than half a million fridges and draught beer installations and for more than 5,000 sales people.

In beer this is key; it is an incremental game, consisting of many, many small successes which add up to a bigger picture of success. And being able to do this well is crucial for winning in our industry. It is that execution that gives your innovation strategy, your global brand strategy the actual leverage and traction that makes you succeed; terribly important. And it is also the thing which allows us to actually drive this market for value in a very simple way. If you get your execution right and you have your premium brand displayed just that much more attractively than the local mainstream brand by impulse somebody is going to give left and take your premium brand. It's execution which gives you the base to develop and shape the market.

Now that's not just passion there's also a system behind this. Execution is like a Swiss clock, to get execution to run well it's about tuning each and every little element in your system. And whether it's the bonus system of the sales rep, the routing, the information systems you have, all of that needs to be tuned to deliver excellent execution.

So we have a system for that whereby we audit our operating companies, spot the gaps, give them time to repair those gaps and then move to the next stage. Very simple, very mechanical, but you drive that month after month, year after year and by that step by step you get the quality of execution up across this massive system; simple, but not easy - and important.

Now what does all of that translate into? As I started the story it is very much about turning this large volume base into value. And value, less euphemistically speaking is about increasing prices. Here you see a picture of what we have done in the first quarter of this year. And what you see is a very concerted, not only effort, but also action to improve pricing across the region.

We can do this and we believe we can sustain this because of what I've just told you, a stronger stable of premium brands, strong innovation, portfolio management, strong local brand building and executing it right in the point of sale. That allows us to take that leadership position we have in the region and to start translating that into value. This we are doing and we believe we can continue to do whilst still gaining share as well.

It's not about doing anything dramatic, if you look at the increases here they're also anywhere from low to high single digit, so we don't go faster than the market can bear. But we do believe we can shape the market and move it more towards value.

Russia, I think interesting is that this is actually the combination of three increases we've taken already; November of last year, December again, February again, all in anticipation of the excise increase so we're moving on pricing in the region as fast as consumers can bear and as fast as our value is developing. You always have to keep that balance.

So that was it on the value side of the equation, now I'll click back to the previous slide, four main messages; global brands, innovation and mix, strong portfolio and local brand management and lastly the execution to drive it home. And all of that translates into an acceleration in value.

Cost as part of the equation, Central and Eastern Europe is a very competitive region already for us in terms of cost management. We're good, we're strong, but we do believe we can take it every time a bit further. You see here our cost development versus blended inflation and you see that we've done better than blended inflation consistently over time.

Where does this come from? A mix of many things; huge efficiency improvements in our breweries, we've doubled the productivity per FTE in the last few years, but also looking into every which corner to get further cost savings. We do that by making our operations simpler, more straightforward, taking out management layers. We do it by looking at our route to market cost, are we not paying more than strictly required to get the product there on time.

We take a hard look at the support functions, fundamentally our business is about having people on the shop floor, in the outlet like I explained to you - that's where the focus should be and be very, very careful with what you have in support, personnel costs, other fixed costs, the whole lot. We are competitive in this area but we think we should continue to push this envelope.

People - beer is very much a people business. I told you earlier about execution, all this execution gets done by people. So having engaged people, motivated people, is key. One of the things I'm particularly proud of is that we're increasingly beginning to localise our management and to develop very local careers of people in the region, Eastern Europeans making steps up to management team and managing director level.

We move Russians from the Volga region as sales directors into Bulgaria and we appoint the Bulgarian sales director as the managing director. Why do we do this? Because they're good, because these people are the best we have in our system and they're now coming at an age where they can start to take senior management responsibility.

The performance culture in Central and Eastern Europe is an area in which people actually like to have clear metrics, clear performance schemes in which they're rewarded for getting things right and therefore having good systems behind that is important.

And I think an important point is good alignment, again think of the mass of these organisations, 5,000 sales reps, 17,000 people in the region in total, that's big. If you want big organisations like that to move it is extremely important that there is very strong alignment right from top management, my level, to managing director, to the sales director, to the regional sales area manager, to the sales rep; very strong alignment and clarity on what the exact goals are. But also horizontal alignment, that our distributors and our sales organisation are looking in the same direction, terribly important.

Engagement, people will do this stuff fundamentally because they want - because they're engaged and they're committed to the company they work for. So one of the things we watch closely is how engaged are our employees, how committed are they to delivering the success - it starts on the left of this little graph up here with direction and alignment, is there absolute clarity on what has to be achieved, first and foremost. And then on the right is there the drive and the enthusiasm to actually deliver on it?

Another important element is to make sure that we capture the best of what we invent locally. I gave you the little story about Radler which was invented in Austria and is now rolled out across the region. That's just one story, there are many more stories like that in which we find out something in its specific geography and we quickly move that across our system in order to benefit in every operation from this.

It is true on the commercial side of the business; it's also true on the supply side of our business. And with our big footprint in the region this is an advantage we have, we have more places to learn than any other brewer and if we can move that learning very quickly across different markets basically we can out compete our competitors. So there's a lot of work and emphasis put to make sure that we learn just a bit quicker than the next guy. That we take that learning and move it from one market to the next.

Now a bit more of a deep dive into three markets, there's 14 of them in total but we've chosen three. To start with Austria, they're also chosen a bit for their diversity on purpose. Austria is a market in which as you remember from one of the previous slides, per capita consumption is already high and pricing levels are also already high. So

Austria is very much about sustaining success and sustaining a profit pool which is already quite attractive.

And we do so with what we call a broad leadership position. So again this is one of these markets where we have brands and you can see them here from left to right in this case, Heineken is the shining star at the time and here we have another Radler, this is the original Radler actually Gösser, a strong national premium brand, all the way to the bottom where we also have value for money offerings. So again here we play the total portfolio, but again it's playing the total portfolio which allows us to shape the market as a whole.

How do we shape Austria? Austria is very much about beer culture, giving people lots of diversity in product tastes, in brewery tradition and background, which creates a culture, that culture translates again into value and higher prices because people appreciate all the diversity. That's also one of the reasons why in Austria we still have quite a number of breweries, because every brewery is linked to a brand, Gösser is brewed in Göss, Zipfer is brewed in Zipf, and for the Austrians this tradition matters. And they're willing to pay money for that we will of course gladly accommodate that by making sure we create that local culture.

Innovation, it may be surprising for you for Austria but Austria is actually quite an innovative market. It is the market where Radler was born; it does a great job on for example non-alcoholic white beer, which has a fantastic taste. So we very often look to Austria to spot the next trends. It may be counterintuitive, but there's a lot to learn in the Austrian market.

Steady as she goes on prices, very gradual but march it up step by step. And a steady increase in market share.

Russia, Russia is a different beast. Russia is a market where the average revenue per hectolitre is still low and certainly after all the excise increases the key issue is here beer is very, very cheap compared to other markets in the region and compared to the underlying cost structure.

Now we are in a number four position, so unlike Austria we're not in a position to lead or shape this market completely. But we strongly do believe we can do our part in it. In Russia I think we see over 2011, '12 a nice performance in our market share evolution and we see also a doubling of the profitability. How do we do this? First and foremost by making sure that we focus, Russia is a continent, it's not a market it's huge. So the key thing in Russia is to pick your battles, to make sure that per geography where you choose to compete that you are configured to win.

I'll give you the example - what we should we do, St Petersburg, or I could take the Volga region - not let's take St Pete - St Pete we have for example Stepan Razin as the volume base at the bottom of our portfolio. And then we have Oxota above that at a somewhat higher price, those two brands together give us the scale and the leverage to on top of that then build Amstel as a premium brand and on top of that again Heineken.

So that's the model, make sure you have the size and the leverage to develop your portfolio, do it in those places where you're strong enough to really develop your portfolio and then focus very much about building the premium element of the portfolio and do so with brands that are positioned to win. And specifically in Russia if we look at the success of both Amstel and Heineken it is very fertile territory for international brands. Russians are good looking, status oriented and then brands like Amstel and Heineken give them what they're looking for.

And that also reflects now in quickly improving profitability as well. We should see that also against the backdrop that we have a good network of breweries now at a good level of capacity utilisation so that means that a good strategy focused on premiumisation very quickly translates into profit upside as well.

On pricing, we’re not the market leader here so we’re not in a position to lead the market but we make sure that we increase prices as fast as we can in the conditions that the market permits. And we’re doing so successfully and we’re increasing these prices as we gain share as well.

Romania, a market with which I'm quite familiar. Romania is a market, again different from the other two, here we are clearly the leader and the number one player in this market but it’s a market with low revenue per hectolitre. So a different beast again.

What do we do in Romania? Again we play the full portfolio so here we have everything from Heineken at the top of the portfolio to Bucegi, big brand, all the way at the bottom value for money. But it's playing this full portfolio which allows us, as you will see in the next slide, first of all to gain significant share here over time but also in this low revenue environment to more than double our profitability in the last few years. And that's been done using the same model I just explained to you. Take this broad portfolio, step by step march up pricing, extract value by growing Heineken and by driving the innovations and here you see how the model works.

Yeah that is more or less the Romanian story. That brings me to the summary of the presentation bit. So what are the key messages? First key message is that Central and Eastern Europe by volume is massive, as big as North America, bigger than Latin America, this is a big, big beer region.

The good thing is we think there's upside because disposable income will rise over time. Middle classes are growing. Spent a few days in Ekaterinburg a month ago, amazing to see the level of prosperity already emerging and it’s this prosperity we have to latch onto and that is what will provide the growth engine in the region.

Now our job in this is considering the large number of markets we play in is to shape this market to move it in the right direction. We strongly believe that the way it needs to be shaped is towards value rather than volume. The volume is already there, it’s a value game.

Now how do we think we can do that? First and foremost the global brands, Heineken, Desperados, Amstel, Sol. Secondly to continue to drive innovation at the speed we’re driving it now, learning quickly one geography, reapplying it to the next and doing that at speed. In the understanding that every market we play in it's a portfolio game. You need to be present from the bottom to the top and move the whole thing up in long step over time. All of that's all very nice, that's just PowerPoint. It at the end of the day boils down to our ability to really get it executed in the market and that's why market execution is so important because it's what makes the PowerPoint come off the PowerPoint into the market and gets traction, strong focus and execution.

That together allows us to take a bit of a lead on pricing without taking too much of a risk, because if you've got strong brands, if you innovate well, execute well, you can afford to lead on pricing without losing share, in fact while still gaining a bit of share at the same time. All of that still cognisant to the fact that it is a low revenue environment so cost leadership and winning on cost as well remains crucial. So we have to balance a few things but we're capable of doing that.

This brings me to the end of the presentation and I'd love to open the floor for questions. We have a mobile microphone so if somebody could walk around with the mic. Let's start up here.

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Questions and Answers

Sanjeet Aujla, Credit Suisse
Can you just give us a bit of colour of how much marketing spend is as a percentage of sales and to what extent that needs to go up further to sort of justify some of your incremental focus on taking price in the region?

And also more specifically on Russia, can you just disclose what your margins are and whether we're at peak? Thanks.

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
First question I think was on marketing spend and what it is as a percentage of revenue. It's a bit above the Heineken NV average which is also logical if you look at the strategy, well it's logical from two points of view. If revenue is low by definition a good investment in your brands leads to a higher percentage of spend, right. It's also in line with strategy, if you want to create value you have to spend a bit more on marketing sales. We're already there, we're spending that today, I don't foresee any major trend changes in that.

And again it's not just about how much you spend, it's how well you spend and whether you execute it well in market that gives it its traction.

The second question I think was on Russia specifically yeah?

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Sanjeet Aujla, Credit Suisse
Sorry just what are your margins today in Russia and where were they at peak?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Well we don't on a country basis talk about margins; I think you're aware of that. If you look at I think your underlying question do we see an upside there, yes most obviously we do. I think we do need to see Russia in the context of the current excise challenge we're going through. I think as you're well aware this is a three to four year challenge in which excises are increasing very drastically so we have to take that as the total context. But in the short term it's a challenge to profitability, even not that much if you look at our improvement in profit in 2012, we've obviously managed to improve profit in spite of the strong excise hike.

Now we need to be realistic on that, that excuse is challenge is there. This to what end? At some point I think we'll come to an equilibrium, last big increases planned for next year. If you then look at the underlying fundamentals of Russia, this extreme brand consciousness, the willing to pay for premium and the strong growing middle class, in our view the upside in Russia is very, very big. The important thing is to make sure that you're positioned to profit from this upside, to make sure that you have the local portfolio, the systems in place and the leverage in place in order to profit from that. And we believe there with our specific focus per region per market we're well positioned to expand margins significantly over the longer term.

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Mitch Collet, Goldman Sachs
Maybe if I can ask the Russia question slightly differently. You showed how profits evolved 2012 and 2011. Maybe if you could tell us how that compares to 2010 and maybe even 2009 which I guess would have been the peak year.

Secondly we obviously have a big potential pricing opportunity which you spelled out across the region. To what extent do you think it's possible to move per capita consumption up at the same time as achieving expansion in I guess the revenue per hectolitre?

And then finally on the Heineken brand specifically, I think on the Poland side you had it at 130 versus mainstream beer, I think I caught you saying 160 to 180 in some other regions. And how does that compare with the other regions for Heineken globally where you have a much higher penetration of Heineken as a percentage of your overall volumes? Thanks.

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
So three questions, hopefully three answers as well. First of all one now to Russia. I do understand the interest in Russia, this is clear, but as I have tried to make clear Central and Eastern Europe is about a lot more than Russia alone. This is true in the total volume and it's true in the profit pool. It's only 25% of the profit pool in the region we compete in. So Russia is important yes but it is not the whole story of Central and Eastern Europe.

And I can get to the answer of your question, if you look at it the combination of what we discussed before, namely the excise increases, and the fact that Heineken chose to lead on that in pricing in 2010 of course gave us a bit of a hit in our profitability in 2010 as you're well aware, right. I think the good thing about us as a company is we do learn, so from that we've learned that over time this excise challenge needs to be addressed by gradually moving prices up, by expanding our premium portfolio going forward which we will continue to do. And we therefore believe that the margin expansion as was asked earlier in Russia is there to be captured and that Russia for the longer term remains an important profit pool to contribute in. I won't spend too much time re-discussing history.

Your second question was on whether if you increase your prices in the region you can still assume big growth in per capita consumption, right. Two remarks. First of all I don't think we are assuming that there will be big increases in per capita consumption. We also don't think that's necessary. At 82 litres per capita it is already quite leading in per capita consumption so the core of my message is that the profit growth will come out of getting more value into that large volume.

That's not just a matter of increasing prices; it is a matter of improving your mix, moving more towards premium brands, of innovating and in that way step by step getting more value out of this market, on the back of increases in disposable incomes and in growing middle class. So we don't see this as a dilemma or a trade off. And in practise we already see that we are able to create this value without declines in per capita consumption. And importantly without declines in market share. Because fundamentally the model is about ensuring that we continue to also grow a bit in our market share. It's not value at the expense of market share, it's both. We believe we can do that and we're doing that as we speak today, that's the second question.

The third question was on Heineken pricing. You're very good with your numbers, you're right. If you look at Poland is indeed at 130. Most of the bigger Heineken markets, i.e. markets where Heineken is a bigger percent of our total portfolio, tend to operate in this range. A lot of the markets in Central and Eastern Europe we're still a bit higher than that, 180, sometimes a bit above there. So we will always keep Heineken premium but it needs to be an accessible premium. And in our learning, again this is learning across markets, the sweet spot for the region seems to be somewhere between 160 and 180. We also have to see this again in the context in low average pricing. So a bit more of a premium now is fine, over time I think you will see the market will grow a bit more into the Heineken positioning. So a sweet spot 160, 180 does not need to be 130. Step by step we move there over time.

That I think was your third question right?

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Mitch Collet, Goldman Sachs
Yeah that was it thank you.

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
You're most welcome.

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Eddy Hargreaves, Cannacord Genuity
Just wonder whether you could delve a bit deeper on Germany please. Obviously it's been something of a graveyard so far as profitability goes in the industry over a number of decades now. You've got a sort of dual approach in the market. Could you expand on your pricing strategy, your market share progression etc.?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Yeah happy to do so. I think Germany, you have to realise first of all it's a very, very big beer market by volume again right. It's also a market in which we believe that the profitability is very much in specialty beers, Paulaner Weissbier for example or Desperados for example or Heineken, maybe counter intuitively but young, modern Germans are outward looking and are not necessarily married to daddy's beer, they will go international.

Now what do Paulaner, Desperados and Heineken have in common? They're not part of the extremely competitive half litre battle between Krombacher, Bernsteiner, etc. They move differently from these brands and in pricing they're not connected to these brands so you can improve pricing on Paulaner, you can improve pricing on Desperados and Heineken, where for more mainstream lagers it's terribly difficult to do this.

So our take on Germany is that in this big beer market again it is not so much about the volume, it's about where do the profit pools sit and are you able to access those. And the model we have now through our BHI joint venture focusing on the licenced beer segment and through our Heineken owned operation to very much focus on Desperados and the high end of the market with Heineken, for us is a good model. We're not drawn into crudely put the very competitive mainstream lager market, but we're focused on where profit is to be had and this is in speciality and premium.

That answer the question?

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Eddy Hargreaves, Cannacord Genuity
And the market share question?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Well if you look at Heineken and Desperados and Paulaner, these are small offerings still by the size of the total beer market so rather than talk about market share I can give you about our volume progression and that's very, very substantial, this is high double digit movement so we are very happy with the progress we're making.

Ian Shackleton, Nomura
Had a few questions around Poland. Firstly you don't own 100% of Poland, is that a good thing or a bad thing, is there an advantage in only being at 62%? Secondly you talked about some quite good pricing you put through in Poland. How does that fit with modern retail continuing to grow? Can you get prices to stick there and are we seeing more of a stabilisation of pricing really across the country now?

Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Yes Poland we have a minority partner in, quite a sizeable one. Is that a good thing or a bad thing? We actually think it's a good thing because it allows for also a rich dialogue with our partner shareholders to make sure that we arrive at a strategy which not only from our Heineken perspective makes sense but also from their financial investor perspective makes sense. So we're quite happy to have a partner in there.

Your next question was on how the Polish profit pool develops in the context of the shift to modern trade right? I think for that yes I would concur that that presents of course a challenge because margins to maintain with Biedronka, a big Polish discount of course is a bit more challenging than maintaining those margins with mama papa store, no doubt. The recipe I would argue is exactly the same still. Especially in a very competitive modern trade environment whether you have global brands that really stand out and make the difference, whether you're able to come with innovations for which consumers are willing to pay that premium, matters big time. And also, maybe surprisingly, execution on the shop floor also in Biedronka is not a given. If you get it right just a bit better than your competitor, also in this environment you can compete and you can improve value as we go.

Poland as you may know we're a strong number two position. As you've seen from the slide we've been able to take quite a bit of pricing in Poland and it's sticking, it's working. So yes Poland is competitive, yes modern trade is developing but we see no reason why we cannot play the same game in Poland as we are playing in these other markets. Does that answer the question Ian?

Ian Shackleton, Nomura
Yes. Perhaps just a follow up, I mean I think Poland and also across the region, I mean what percentage of your sales now is in modern trade?

Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Good question. It varies. If you look at it, and that's interesting as well, Austria is a market where have in retail so take home, what you drink at home, comprises of two customers, Spar and Gabler. Austria as you've seen by the profitability is an exceedingly profitable market for us so we're facing very big retailers and still we're able to grow profit handsomely. To get back to the same story have a broad portfolio, have a lot of

choice, make sure you're professional in your account management, so that's the one end yeah, that's Austria. Two customers comprising 100% of the business.

On the other side of the business are markets like Romania where modern trade is just 20% of the business and I think the average in the region is closer to 30. So as we develop our business we need to keep a clear focus on the fact that for the next ten years traditional trade will continue to be the great bulk of both volume and profit and need to execute well there. On the other side we need in the modern trade to have the portfolio management, the account management in place to also make sure that we develop future Austria's where even in the modern trade environment we make good money. And we have everything between Austria and Romania as well.

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Chris Pitcher, Redburn
There was a chart you put up, I forget which page it was on, which showed how you evaluated across the business, one of which was reward and recognition, and I noted that the only area of your business that didn't improve from your employees was reward and recognition. And you've put up a slide showing how you've kept fixed cost inflation very low, I'd wonder how you balance people's wanting to be paid more versus your attempt to keep fixed cost low.

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Good question. I think for those people familiar with climates surveys reward and recognition always rates lowest because for people to answer that they're entirely happy with their package would mean that they're perfect fools, right. So people I think by habit rate this element lowest.

But to get to your point yes this is something we need to watch and we do watch. We have to realise that in the current economic environment the answer to this question is also a reflection by people of the fact that total economic wellbeing and growth is slowing down a bit. They had five, six years a very good run, and the last few years it's just a bit tougher. That's generally true in society; you also see that back in our climate survey results.

Now what do we do in Heineken? Our policy is to pay at the average of the market and we benchmark that using external Hay data etc. So we're not exceptional in that sense. What we try to be exceptional in is in the clarity we provide to our people in what they should be achieving and the degree to which they're committed to the company and engaged with its success. And I think there our turnover numbers speak for themselves. People who join us tend to stick with us and they tend to enjoy the ride as well, and that's true across Central and Eastern Europe.

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Chris Pitcher, Redburn

Managing that fixed cost base would it be fair to assume that the localisation of management that you talk about is a saving on a per capita basis and you would also be looking to continue to reduce the number of employees to keep that number down?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Yeah that's entirely fair. I think the localisation has two sides to it. It first and foremost is a story of talents and I'm happy to say so, so we're getting really, really good people. Because in these geographies to work for a multinational like Heineken is something of aspiration. It's a career people really want so we get the best of the locals. And you see now in these operations where we've been there more than ten years, these people are feeding up into senior management, not only because they're a bit more affordable, because they're just very good.

If in the same process that also reduces the average cost of staffing in our operations, good thing, and yes that's the case. So in localising it's also in simplifying, making sure that we have minimum number of layers and minimum number of managers. That answer the question?

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James Edwardes Jones, RBC
Carrying on on the cost theme, I was slightly surprised how little emphasis you gave costs given what an important part of the group investment case it is. Could you expand a bit more on what you're doing in fixed costs and particularly how does the trajectory differ from the original TCM programme which was kind of more about offsetting margin declines? Is this TCM2, is it actually going to be a contributor to margin growth?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
I think the core of my storyline is that the region is very much about making sure that we get more value into a big volume pool. This is what drives the economic engine. At 55 million hectolitres in the region with average pricing of some markets no higher than €44, €45 per hectolitre it is fundamentally about this. So if I chose not emphasise costs it's because I think the bigger story is about value and about the average revenue per hectolitre.

Now the fact that I chose not to emphasise it doesn't mean we don't manage it. If I look at our cost competitiveness in the region, I can take many different measures whether it is the productivity improvement per employee which I said has doubled in the last four to five years or whether it is how we localise our management, we look at every single element in the cost base. And in a low revenue environment you have to and we will continue to do so but this is not by its nature a TCM presentation, it's much more of a presentation to give you a feel for what this region is about. So that's why it got a bit less emphasis.

Now what was specifically your point on TCM?

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James Edwardes Jones, RBC
Just your original TCM programme was kind of offsetting margin decline. So is TCM2 more about enhancing margin growth?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Yeah most of the margin growth again has to come out of the top line, out of the revenue. If you look at the TCM, way we've structured it we have to realise that we're still in a growth region and we've sold a million hectolitres more last year than we did the year before. So you have increasing volumes which is nice because we're moving closer and closer to full capacity utilisation which by itself drives the economic engine. And in that we are fully delivering on the TCM cost saving target were set as a region. We believe there's further upside in it and we continue to strive at it but again in total margin expansion that is smaller than what we believe can be delivered by focusing on revenue management and the revenue side of the equation.

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Question
Jan Derck you've talked a lot about the pressures of channel mix on the modern trade. What pressures on packed mix because in some of these countries the volume growth is coming from big, large bottles of PET at inherently lower margins?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Well maybe counter intuitively a brand which I know very well, Bucegi in Romania, it's a big brand, and it's what we'd call a big PET brand so it's sold in two and a half litres of plastic with a screw cap, well for anybody living here in the UK that sounds sacrilegious. Peculiarly and interestingly it delivers also a margin which is above the regional average so it does not by definition mean that these lower priced beers don't contribute to our margins. They do but you need to have the economic model in place to squeeze the profit out of it. So that means you look at every single cost element in such a pack, if you can do one label on it rather than two you do one label. You make sure you run a line with only three operators on the line. And if you ship it you ship it in 24 pallet trucks straight from the brewery straight to the customer. So that's all about efficiency.

Means that pack mix by itself also too PET is not necessarily a bad thing. There's other elements of pack mix. What we see is a lot of growth in cans in the region which is helpful as well. We see a shift towards one way glass bottles. You may say well that has a higher packaging cost, can't be useful but pricing is also much better. So there were I think as Ian correctly pointed out the channel shift is a challenge. Pack mix I think largely works in our favour.

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Question

So you can have a SKU that's lower revenue per hectolitre but higher EBIT per hectolitre …

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Exactly because the underlying cost structure of that PET business is also very different. Where on a normal glass line you would have nine, ten operators, on a PET line you also only have two and it produces three times the output. You don't have returnable circuits where you have to bring the empty crates back to the brewery. So next time you see a plastic bottle doesn't mean by definition it's a profit diluter.

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Question
And then can I ask a final follow up. When you were talking about your pricing, the pricing you expected, then you look at the combined impact of channel mix and pack mix, would you expect that to be net neutral, to be net negative, to be net positive versus the price you're putting through?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Sorry your question is whether if you take it net of …

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Question
Net of channel and pack mix would you expect it to be …?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
So I think as we said I think channel mix is maybe sometimes challenging. Pack mix on the whole is favourable and let us not forget brand mix as well, what I spent a significant part of my story trying to outline the key art is to move people up the pricing ladder.

Now are we able in all those shifts over time to actually win, translating that into average higher revenue per hectolitre? Yes I'm fairly confident that we can because we do today. So that I think is something we understand and we play well.

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Question
Thank you very much.

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Adam Spielman, Citigroup

I've got two questions. One just a direct follow up from Trevor's question. If you start shipping lots of two and half litre PET in very basic looking packs doesn't it rather commoditise the whole beer image? So that's one question.

The other question is you showed a shot, I think it was page 29, with lots of nice little triangles which were sort of orange colour if they were missing or digit price increases, and green if they were high single. Had you shown it to us in Q1 '12 how would it have looked and Q1 '11? I'm just trying to get a sense of whether the prices are accelerating or stably increasing or what? Thank you.

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
First on the potential commoditisation effect of PET, I wouldn't want to accuse you of cultural bias or slant at all but interestingly of PET it's a sharing pack type. And I spent six years of my career working in big PET markets. What does PET do? It's a one and a half or two litre bottle which you put on the dinner table, you share it with family and friends, so it creates in a way a sharing culture, a beer culture, in which people socialise and it's a different type of beer culture from maybe in the UK. But it's still beer culture and it's still an environment in which you can build brands and value. And you also see it if you look at the profit development in for example big PET markets like Bulgaria, Romania, which were not hit by this excise story, very robust development of profit pools and you generally don't see robust profit pool development if you are in a commoditising category. Hopefully that's the answer to the first question.

Second question, on the price increases your question was whether the picture we see for Q1 2013 is very different from the picture of Q1 2012 - and '11. I'm not going to delve too far back in history. What I can say is the emphasis we place on value and on price which we see clearly in this meeting is coming for us from the insight that crudely put the volume is there and we need to roll up our sleeves going forward to drive value. So yes it's getting more emphasis and yes it should considering where the industry is, considering the fact that we're moving closer to full capacity utilisation, considering also that the M&A game in the region is now more or less settled. The time has come to focus on value as the volume gain; I wouldn't say it's completely done, but close to.

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Adam Spielman, Citigroup
And really quickly just a follow up. And people have followed in a way that you think is satisfactory in the last quarter?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Should make it a good habit not to comment too much on my competitors so I won't. But we're not unsatisfied no. We think we have the commercial acumen and robustness that we can afford to lead on this and if competitors should take one to two months or three months to follow we can handle this because I think we have that abilities outlined in the presentation to lead on price.

I have quite a strong conviction that at the end of the day everybody is looking at the same economic equation and coming to the same conclusions.

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Question
Three questions. Again coming back on page number 29. I missed the price development of Greece. How does that look?

You have done quite a good job on the network of breweries in Romania but if you look at the network across Eastern Europe do you think there is an opportunity as well?

And if you can give us a little bit of an indication, you tried to emphasise on price and value versus volume. If you say five years out what do you think the opportunity set is on the price? I mean how much potential is there? Thanks.

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Okay in turn, Greece. Indeed in Greece we did not take pricing and I don't think we will be taking pricing anytime in the near future. You have to understand our Greek position, we're by far a market leader in this market and it is also a market in which revenues per hectolitre are robust, high. And in the current economic context what we should be focusing on in Greece is to make sure we offer Greeks in this crisis solutions which means beer they can afford and they can drink with their friends. So Greece indeed is a bit atypical, you're absolutely right. We're not going to be taking pricing, we don't need to take pricing, it's already high and we need to be I think aware and sensitive to the current Greek economic context where price increase is basically the last thing on the Greeks mind. And we don't need it either.

The second on the brewery network. Interestingly in many, many of our markets our logistic costs, so our cost of bringing the product to market, is nowadays bigger than the fixed production cost of making the beer. This is an interesting and an important insight because it means that by definition closing breweries doesn't necessarily feed your profit engine because transport costs could go up quicker than the fixed cost saving you're making in the brewery. One element of the answer.

The other element of the answer is that you have to look carefully brewery by brewery. You mention the example of Romania right. In Romania we have a brand called Ciuc. It is brewed in Ciuc, made from pure mountain water of Ciuc. Now if you say that for ten years you'd be a fool to close the brewery right. Because you'd probably be wrecking your marketing at the same time.

The brewery I closed when I was there was a brewery in the town of Hateg which didn't exactly have an aspiring brand to deal with it. So you always have to look at what it does to your cost base but what does it do to your brands as well? I think we're quite good at that and I don't think that for the first reason I mentioned, the increasing importance of transport costs, that brewery closures by definition going into the future are a huge profit engine.

And then your third question is what is the long term upside if we go on this revenue development path, if we go for value, where could it end? Now I tried to give you some approximations for this by stating that the market in Central and Eastern Europe by itself is bigger than the Latin American market, right. It's a massive market. Well I think you're all aware of the size of the Latin American profit pools right.

Now I'm not going to pretend we're going to get there overnight because there is a different industry structure behind that right, but we think just on the sheer math of the large volume base there is a very, very strong upside potential there for years to come. And again we have to match this with disposable income in the region. And by that measure beer in the region is fairly cheap, not fairly cheap, cheap, and that's where we think the opportunity is. So you hear me not mentioning specific numbers. Why? Because I'm not a seer but I do realise where the upside is and it's there.

George Toulantas, Director Investor Relations
Time for two last questions.

Question
Typically from at the Group level we hear about brand Heineken as the sort of global tip of the spear in terms of brands but your presentation has been much more focused on local brands and the portfolio selling. And how do you balance the need for the group to really push the agenda forward on brand Heineken versus your sort of local needs at the portfolio or local brand level?

Jan Derck van Karnebeek, Regional President Central and Eastern Europe
I will not do that. I wanted to refer back to the slide of Poland because I hope I did not create the impression that it's all about the local brands, it's not. What I tried to get across is that if we look at improving average revenue per hectolitre in the region Heineken as a brand is a core piece of that right. So I don't see this as a trade off and again refer to the portfolio in Poland. What you see there, Heineken is as you call it the spear point at the top pricing wise, but why can we grow Heineken? We can grow Heineken because we have the broad footprint in a market like that to then drive distribution and rotation of Heineken.

Make it very simple. Think of a fridge. In many of these outlets there's a fridge right, to open door, close, people buy their beer from a fridge. This fridge thing works if at the bottom of the fridge you have Tatra priced cheaply, shelf above it Warka, shelf above that Zywiec and above that Heineken. Now what we do we do in very simple terms? We have the volume in that outlet to serve at two times per week because we sell these cheaper brands. We place Heineken just a bit nicer than the other brands at eye level and then slowly you actually drive the market towards Heineken but you do so because you have this broader portfolio beneath.

So this is definitely not an or, or sort of thing, these things are highly complementary. A good Heineken position can be developed based on the strong footprint of local brands. And the art is to be able to manage both well and to execute both well. Certainly not an or, or, it's and, and. Does that answer the question?

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Question
Yes just it's typically - I mean in terms of where your priorities are from a selling organisation and distribution.

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
Don't get me going on that but I will for a second. Sales reps can deal with about four to five things in their heads, no more than that. You put one thing more on on the left and something drops off on the right. It's very simply but this is how it works.

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Question
That's more than what I can do.

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
It's more or less how my brain works as well. So what do we do? Be choiceful in what you focus on. So I chose the Polish example on purpose. There were ten brands on that slide but only five of them I actually focus. So we pick our battles and we choose very simply to prioritise per month, per channel, what's in scope and what's not. So this is a skill you need to have when you operate in broad leadership markets and we believe we have it. And it is, like you say, very much about focus. Absolutely right.

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Andrew Holland, Société Générale
Couple of questions. Firstly going back to your slide 29 on pricing that you've taken recently, how do those price increases compare with inflation market by market? Would you say you're pricing in line with inflation? And if you're beating inflation where are you beating it?

And secondly we saw last week some fairly detailed forecasts for the Russian market put out by Efes. Notably market down 5% this year and down more than 20% in the first quarter. I just wondered what your view would be on that.

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
On pricing, if you look to inflation are we able to outgrow our input cost inflation? And this is the combination of our variable input costs, raw materials, packaging materials but also labour price increases net of our productivity improvements. Yes we strongly

believe we can stay ahead of our input cost inflation quite significantly. And this is true for every geography we operate in with maybe the exception of well let's say Greece. Yes we don't increase prices but in Greece also the cost of doing business is coming down. So I think this holds everywhere.

Now second on Russia and what Efes says about Russia I will leave to Efes. This is entirely up to them. As I said I think that the fact that their industry has held up actually quite well in this whole excise duty increase and we've actually been able to double our profit last year means that we're fairly bullish on Russia. It is predicated on the fact that we're winning share and that we're winning share where it matters, namely in premium beer. So the dire forecast on Russia we take with a bit of a grain of salt. Yes it's going to be tough still this year with that last round of excise increase but we're a bit more bullish on it than the numbers of our colleagues would like.

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Andrew Holland, Société Générale
That's you and that's fine you can gain share, but for the market overall would you expect that to be down mid single digit?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
I think it's very dangerous to on a single quarter in a market that's currently adjusting to this kiosk closure and to the excise increase. So to base conclusions on a few months sales early 2013 I think is a silly thing to do. We have to see how this settles, and as in Russia always this too will settle. And people will find their way to where the beer is now being sold. So I don't believe that these quarterly numbers you just quoted by Efes I think is not something we would see as the guiding light for the development of the Russian market.

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Andrew Holland, Société Générale
And sorry just coming back to the inflation question, how would you say your pricing compares with food and beverage inflation rather than with input cost inflation?

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Jan Derck van Karnebeek, Regional President Central and Eastern Europe
I don't have I think enough of a good category oversight for other categories to give you that top of mind. Also not primarily what we look at, we look at affordability per market also vis-à-vis competitors and our ability to outpace that. So I can't answer that versus bread or olive oil for example.

What I suggest we do is I think after this we have some time for a beer at the bar have we? On offer will be Radlers and everything else we have in the region. So feel free to join us at the bar. I will be there, Dimitar Alexiev our Managing Director Russia, future Managing Director for the CEE markets will be there. Any questions I didn't answer well feel free to address it at the bar. Thank you very much.

Applause

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