

WORLD TELEVISION

Heineken

What's Brewing Seminar - Western Europe
12th November 2014

Introduction

George Toulantas, Director Investor Relations

Good morning everyone and welcome to Heineken's What's Brewing Seminar here at the Mayfair Hotel here in London. We're very excited to showcase today our Western European region. This is our ninth seminar since we launched the series back in 2012 and whilst we haven't covered Western Europe to date I think we're making up for it today through having an extended format comprising a number of presentations from our management team in the region.

We're absolutely delighted there's such a large turnout today as well; it's one of our most attended seminars to day. We're also having the event webcast live so welcome everyone listening to today's coverage.

As you will probably know Western Europe is Heineken's largest region, it's also a very important source of profit and cash flow which has helped fuel our expansion into emerging markets the past several years you know starting with the acquisition of FEMSA Cerveza in 2010, which provided expanded exposure to the Latin America region. And more recently in 2012 where we acquired our former joint venture Asia Pacific Breweries giving full access to that exciting growth region in South East Asia.

And this transformed geographic footprint has resulted in Western Europe's share of group profit reducing from 40% in 2008 to 25% or just over 25% today. But at the same time our profitability over that same period has increased despite navigating some quite challenging macro-economic conditions.

Importantly the acquisition of Scottish and Newcastle in 2008, not only strengthened our leadership position in the region, but also gave us access to a deep talent pool as well as a strengthened and powerful brand portfolio. And we are leveraging this across both the region as well as in other markets.

Now as you probably know as it's well understood, the cost savings have been a key enabler of our profit growth in the region but today we hope to give you some insights and highlight how we have a clear strategy to also drive our top line agenda. And more specifically in today's presentations you're going to hear how we're leveraging our marketing as well as innovation capabilities to further exploit opportunities segmentation as well as premiumisation which is continuing to drive value for both Heineken and our customers.

You'll also have insights into how our stepped up investments and competitiveness is supporting both top line and share momentum. And this is through targeted commercial programmes in both the on and off trade. Of course we continue to see opportunities to extract cost and optimise our productivity and see significant opportunities ahead and you'll hear from Alberto how we're moving from more discreet cost programmes towards a more fully integrated cost management approach.

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We've got a great programme lined up today; we're also going to have an opportunity during the day for you to sample a number of latest innovations across the region both during the lunch break as well as at the end of the day. Just because there's quite a big audience we would ask you at the end of the presentations during the Q&A sessions that you do limit yourself to one question per person just to give everyone the opportunity to also ask their question.

So let me introduce our first speaker today, Alexis Nasard who joined Heineken in 2010 as our Chief Commercial Officer after spending 18 years working with Proctor and Gamble within various brand management, marketing director and general manager roles across many geographies. Some of you will probably have seen Alexis here presenting in 2012 at one of our first What's Brewing Seminars covering our marketing priorities as well as some of our global brands. And since 2013 Alexis has also taken over the leadership of the Western Europe region.

So I welcome Alexis and hope you enjoy the day, thank you.

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Heineken Not an Inch Back

Western Europe a Key Region for Heineken

Alexis Nasard, President Western Europe & Chief Marketing Officer

Thank you George, good morning ladies and gentlemen and welcome to our session. It's great to see you coming in such a large number it's very heartening for us.

We're going to have today a pretty condensed session, lots of topics will be in because it's a one day format and I brought with me some of my colleagues, they're all nice and dapper here, who I hope will give a little bit of texture and colour to the story I'm going to tell you.

Now we're going to talk today about Western Europe, a part of the world which has been the subject of a lot of doom and gloom speculation and quite a bit of scepticism. When you look at it you can look at it as a glass half empty or a glass half full, but the reality remains that it is a big glass and there is a lot to be done in it.

Now let me start by taking you through the landscape that we are operating in today as Heineken. So first of all we're going to talk about Western Europe as a key position and a key region for Heineken. Today building on what George says we have a much more balanced exposure as a company between developed and developing markets that came to a great extent thanks to the FEMSA and the APB acquisition in the past five years so we have a much more even and hedged profile in that sense.

And importantly now in all the five regions in which we operate we have as per our strategic intent positions of being the number one or number two player in the category, which is important because a decisive leadership allows us to shape the market which is strategically important for our development down the road.

When you see the number of number one and number two positions they are pretty evenly represented around the world in particular when you take Western Europe actually we are number one and number two in nine out of nine markets. And as you see from the numbers below it is a significant part of the company - of the developed markets volume and profit.

Now there is a lot of hype over the past few years on the potential of emerging markets for very obvious reasons, you have demographic explosion in many of them; you have social mobility, lots of people moving in the middle class with increased purchasing income which helps many consumer staple companies like ours develop their business. And that is great. But the one reality is that in many of these, first they're not all born equal and second in many of these places you have a sore tooth development pattern and they are very often hard to predict.

When you take Brazil in 2010 GDP was up 7.5%, when you take Brazil this year GDP growth is grinding to a near halt, with the latest prediction being 0.8% GDP growth. So these markets present a lot of potentiality but they are harder to predict and a balanced and risk hedged growth profile relies on balanced growth between developed and developing market.

And mind you developing markets whilst they have many headwinds, which we will talk about in all transparency, they do represent still a very large reservoir of consumer spending because these are very wealthy markets. And whilst it is harder to grow in these markets growth patterns are easier to predict.

So our strategy and our growth model as Heineken is to grow in a balanced way between developed and developing markets.

Western Europe is and will continue to be an important region for Heineken. Western Europe is the birth cradle of the company, it carries a lot of history, a lot of emotional attachment; but also it is quantitatively a very important business for us. It's 40% of the Group's revenue, 30% of the Group's profit and 30% of the Group's cash. We are well implemented, we have 29 factories, we have more than 140 brands so we are very well established and it is a very strong position for Heineken.

And as the leading brewer we have pretty decisive share position where we are actually the same size as our next two competitors combined and we all know the importance of scale in the brewery sector. And to give a bit more colour on the nature of our positions I'm going to share with you the respective positive in terms of market share in various markets.

As you see often times when you have a market share in a developed market above 25% you have a competitive advantage in shaping the profile of the market going forward. And I'm pleased to say that in most of these positions we have that. And interestingly and I'll share that a little bit further down in the presentation actually our market share momentum is very positive and these positions are stronger than they have ever been.

Now having also the CMO hat on I'm also pleased to add a little bit of flavour to our positions and talk a little bit more about brands. And here I'm showing in that slide the top two brands per market and they are large, they command big positions but more importantly in every single market virtually in Western Europe our brands enjoy best in class brand equity and consumer loyalty, which is a very important consideration when it gets to the sustainability of our brands in the market.

Now over time as George said earlier we have done a very, very good job in Western Europe as generating sustainable flow of profit despite the difficulty of the economic environment. And we see a CAGR of 3.2% in terms of profit growth. However, this did come at the detriment of the top line development and we collectively concluded that it would be unwise for us to endanger that source of profit growth for the group and that the right path forward is to have a balance growth profile between revenue and profit growth for our growth to be truly sustainable down the road.

Now comes the story of the glass which is half empty or half full right. It is an international sport now to do some Europe bashing so I will indulge in that a little bit, but then I will show you the second part of the glass which is half full which I hope will give you a little bit of hope.

So let's start with the empty part of the glass. So as you know in Western Europe we have an aging population and an aging population other than the demographic effect because by the way the population's still growing, it is also an effect for us because we all know that when people cross 50 years of age they drink less and that does affect our business. And also in many countries the profile of immigration is actually non-alcohol drinking, which is also another issue.

We have sustained structural unemployment in many parts of the region particularly in Spain, France and Italy. Spain is doing all the reforms they have to do, France and Italy have yet to do that and it's going to take some time. So we do have structural issue in terms of the employment profile and the labour market.

There is limited GDP growth; the European Commission last week reduced its forecast for growth in Western Europe from 1.1% in the eurozone to 0.8% for 2014 and from 1.7% to 1.2% in 2015. And then there is deflationary pressure, which is also starting to hit the UK as you well know and that is quite an issue for us because that source of deflation is mostly fuel and food and food affects us directly.

And today in the eurozone last measurement was 0.4% inflation rate in the month of October and that is significantly below the ECB guidance of an inflation rate of 1.8 to 1.9% so that is another issue. And last but not least before I totally depress you there has been some restrictions commercially happening, legal drinking age was raised probably for good reasons but still has an impact on our business in many countries.

And lastly there has been quite an increase in the rate of beer excise taxation from governments because we've now been seen for a long time as being a rather convenient way to fill in state coffers and we are very busy in changing that perception and I'm going to have a full section on that in the coming slides.

So that is the reality and what we like to think as a leadership team. My favourite definition for leadership is that leaders recognise reality and give hope. And I think there is no good in having an important strategy if we don't recognise the part of reality that is here. But there is a part of reality which is not so hyped and not so well known which is the part of the glass which is half full and I want to share that with you.

I had an interview this morning with CNBC and of course the first missile was about Europe and its prospects and all the rest of it. And I started by telling them you know Europe is 6% of the world population but it is 26% of world GDP, Europe is not about to disappear. This is the largest trading block in the world with 500 million consumers; Europe is important and will continue to be important.

Importantly Europe benefits from very high spending power, we attempted in the chart on the left to map out the number of minutes required on average to afford an average bottle of beer around the world. And here you see that affordability in Europe as exemplified by Spain is a lot higher than in any emerging markets. We do not have situations where people have to wonder whether to feed their families or buy a bottle of beer in Europe. So the challenge for us is to entice consumers to buy our brands.

In the worst of the economic recession following the financial crisis in 2009 people were lining up to buy the next iPhone, people have money in Europe and they'll continue to have money in Europe. In case you didn't know even until recently Apple sells as many iPhones in the EU as in all of Asia Pacific.

Second part is the point on urbanisation which is not talked about a lot but which is becoming increasingly a pretty central part of our strategy. Europe is very well urbanised, it's actually urbanised more than double the rate of the global average and that urbanisation is continuing and urbanisation carries a lot of benefits with it in terms of social development and economic development.

You might know, those of you who live in the UK, that London and the South East in the past three years represented 50% of the total GDP growth of the UK. London is forecast to grow its GDP by 15% for the next five years. Paris has an unemployment rate which is half of the national average. So cities are becoming nuggets which are very valuable to be focused upon and these are representing a significant part of our strategy in the future. And we'll show you a few examples around that.

It's a region with premium potential; the premium segment is over developed in Western Europe it is actually two times more developed than the rest of the world. Premium is continuing to outgrow the rest of the market and within premium you have a super premium segment which is defined as price index 150 plus which is growing even faster. And that, ladies and gentlemen, plays straight into our strengths and that is an important observation for us to make.

Innovation is continuing, five years ago we hardly had any innovation in Western Europe the innovation rate was below 1% in 2010 and that is changing which is good news. You see that the number, if we could illustrate the amount of innovation which is coming from Western Europe through a proxy which is the number of beer brands launched, you see that today in Europe 53% of all beer launched are in Europe today, which is very

good news because we all know that when a category becomes innovative, it grows, it becomes healthy.

This is what I call the quintuple win, innovation is a quintuple win it is good for consumers, it is good for customers, it is good for the economy, it is good for ourselves and it is good for the government, it is good for everybody and this is why we view this as a very, very good development. And by the way Heineken is contributing significantly above its market share in terms of contribution to revenue.

If I put it in terms of competitive comparison the value of our innovations over the past year was equal to the size of the value of innovation of our next three competitors combined with €157m. So innovation is moving and we are moving ahead of the pack.

And now point which is very close to your hearts which is it is one of the most profitable beer markets in the world, it is a huge profit pool, 2.4bn and we are overly developed, we have a disproportionate share of that profit than our market share with 35% versus 25%. And that is driven by many factors including scale, but also by the fact that we have a revenue per hectolitre which is much more developed than average in the category thanks to our premiumness and our innovation strategy.

I hope I did a decent job in showing you that the glass is not entirely empty, that it is half full and half empty, but that it is still a very large glass, a lot can be done with it and we have been doing quite a bit and we'll be sharing with you in the next presentation some of the tangible examples of the things we are doing there.

Next our strategy for growth. We have a strategy which has a very colourful name it's called Not An Inch Back because we've reflected with my colleagues for a long time whether we want to use bland language and core strategy for growth and dot, dot, dot, but we wanted a word that really depicted our strategic intent in a catchy way that everybody in the organisation can recognise and then can identify with and can memorise. That's why we came up with the notion of Not An Inch Back and you see it today at different levels of the organisation repeated to describe the most important of considerations down to the most trivial of considerations.

And that strategy is based on six pillars, one is discrimination so apologies for anybody who is from North America who might be offended by that time, but we have chosen that term deliberately because it has asperities and has encroachment power because it surely depicts what we're after. We want to discriminate in a region which is becoming difficult to extract growth from having simplistic strategy purely based on a confederation of countries and sequential growth patterns is too simplistic today this is why we have carved out this strategy and I'll describe it in a minute.

Then we have drive revenue management, nothing new in that. Then we are commercially assertive, partially new, but Ronald will be taking you through that in a bit more detail. Then we take responsibility and fight for the category, I'll talk about that, that is in the area of excise duties as well as responsible drinking.

We extract cost for revenue, cost for revenue is cost with a mission, I will touch on it and then Alberto will dwell on it. And then last but not least we'll leverage scale and simplify it, that is an important notion scale in Europe.

So discrimination, we discriminate across the playground. One of the conclusions that we have reached is that in a region where growth is difficult to generate running the business on sequential historical patterns purely based on a confederation of markets and purely assigning strategic role to markets was not enough.

I gave you the examples of cities but there are lots of ways to slice the business, we slice it by country, by city, by channel, by brand and by various combinations thereof. And we give each of those a strategic role in the BCG matrix, we didn't invent the matrix but we're using it, we give it different roles and different KPIs that follow that.

What could implications be of your classification on the strategic matrix? One of the implications is capex, another implication is marketing and selling spend, not all entities are entitled to the same amount of investments. Human resources, the kind of profiles we assign to different types of businesses and their stage of development. KPIs how do we measure people, how do we incentivise them, how is that congruent with the role of their business unit in that discrimination matrix.

Last but not least is brewery footprint and one thing that I don't mention here is risk appetite because depending on where you stand on that matrix we will have a different risk appetite behind the business and hence the way we manage our matrix in terms of investment and return expectations will differ a great deal. Now all that sounds very theoretical I'm conscious of that, but let me give you one example which is a little bit more tangible.

UK largest market in Europe, London probably one of the fastest growing cities in the world, extremely wealthy, on trade, food, urban outlets developing significantly, Heineken global brands, Heineken on trade best quality. The combination of all that becomes a sell, which is Heineken on trade extra cold draught in London. That for us is a top priority and we are in a position when we slice the business that way to over invest in it. And David Forde will share with you some of the results we are getting out of that and because the perimeter of these units is confined we can actually invest by big factors, not by 10 and 15%, three times, four times more and we can see results a lot earlier. So that is our strategy number one which is called We Discriminate Across The Playground.

Strategy number two we drive revenue management systematically. It wouldn't be a secret for you that our ability to take headline pricing in Western Europe today in the current environment is somewhat constrained for all the reasons we talk about, for deflationary pressures, retailer price wars you name it. But let's be clear we're not giving up on this and headline pricing will continue to play a role in our revenue management; but it is clearly not going to be sufficient in order to meet our revenue per unit growth targets down the road. That is why we have a pretty exhaustive framework to manage revenue in our business and that includes the six components I'm going to illustrate one under each for the sake of time.

Brand portfolio, some of you are familiar with our Building a Winning Portfolio model in which we assign brands to countries, but now we have taken that further and we've assigned brands to channels. When you have a premium retailer which is urban focussed in the north of Italy like Esselunga we make sure that we have top premium brands like Affligem which are managed as a priority in such a customer. We talked about Heineken Extra Cold in the pubs in the UK and I could come up with lots of examples like that, that is in terms of brand portfolio.

Mix management, we have different channels, different shoppers, different countries, different cities, these deserve different treatments by SKU and by the way the price sensitivity by SKU is very different when you think about that. Today a PET bottle of beer in a gas station convenient outlet is not very price sensitive versus a crate of Heineken at Albert Heijn in the Netherlands on a promotion week. And that kind of sensitivity we need to be very cognisant of and leverage that to the extent possible to drive our revenue per unit.

Number three is innovation, we talked about the quintuple advantage of innovation and innovation is a subject we are all over. FX will tell you a lot about it going down the road but we are doing very well on innovation and our progress is quite significant. And to be clear most of innovations are revenue accretive and all of our innovations are gross margin accretive. As a matter of discipline an innovation which is not gross margin accretive just doesn't get out of the funnel.

Number four is headline pricing, that will still play a role in our portfolio. Five customer management, we want to increasingly move many of our spend with our customers to productive spend as opposed to historic and legacy spend and there are lots of processes underlying that effort.

Promotional strategy and effectiveness, the role of promotions, promotions have a strategic role, we often at times take promotions as something, it's done and we have to participate in it and we have to do it the way it's always been done, not really. One of the things for example we discovered when we launched Radler which is by the way the largest beer innovation in the world by now, is clearly that more value added promotion than having a price off is giving a free sample so in a crate or in a case. That is still a value promotion for the consumer but it has a strategic value in that we get them to try superior products which are down the road gross margin accretive. So we're becoming a lot more sophisticated as we manage promotions.

This was in a nutshell the six pillars to which we manage revenue. Key implications of our revenue management programme is premiumisation, needless to say that mathematically premiumisation drives revenue per unit and that is an area where we are doing very good progress. When you look at the progress of our global brands in Western Europe which are Heineken, Desperados, Affligem, Sol, you can see that they are growing very aggressively significantly ahead of the market.

And all these come with significant premium versus the market average in beer in Western Europe and we are very determined to continue that path. This was just to illustrate one of our planks of premiumisation which is global brands, which is not the only way of driving premiumisation to be clear.

Then comes the topic of commercial assertiveness, the topic of commercial assertiveness and let me start commercial assertiveness by making a quick disclaimer. We often think about commercial assertiveness as being a zero sum game which is you gain something and the other will gain something else. That is one of the elements of it but that's not all of it, in the end commercial assertiveness is about delighting consumers and shoppers everywhere they are.

This is about delighting consumers and shoppers which ultimately will result in enlarging the pie and in that process we would hope that being in the lead we would take a disproportionate part of that growth. So it is really important that we highlight that this is not a zero sum game.

Commercial assertiveness is played under three levers, one is marketing, the other one is on trade and the third is off trade. In marketing to give you one example, I'm not going to go through all of them because Ronald will be a lot better equipped than I am to tell you about it. Under marketing take creativity, creativity is an area which is extremely important for us in Heineken and will play a very important role, I do that in my CMO hat.

Actually what you don't know is a multi-million euro campaign which has not creative costs the same as a one that is creative, the only difference is that one sells and the other one doesn't. So commercial assertiveness creativity plays a role, this is not only about promotions and pricing to be clear. Claims innovation is commercial assertiveness and so on and so forth.

A second pillar in commercial assertiveness is the on trade, the on trade is what we call our castle. Because this is where the best experiences in drinking beer and cider are made, whether these experiences are product experiences, fresh good tasting product, the right variety, nice social setting or in terms of the experience that we have in terms of our commercial platforms like the Champions League, like James Bond and so forth.

So the on trade is a really important part and in it one of the pillars that we drive relentlessly is quality, it is a fact that you will only order a second pint if your first pint was a great experience. So quality very important, one of the pillars that we drive in commercial assertiveness in the on trade.

The third pillar is the off trade, and here you have availability, pricing, visibility, innovation, joint business plans, probably notions you're reasonably familiar with, we're not the only ones to talk about it but the one thing that I wasn't to talk about here in particular is visibility. Beer is not only a destination category; beer particularly once we started innovating is also becoming an impulse category.

So visibility is becoming important so today when we launch Desperados Verde nobody, not many people will run to the next Tesco to absolutely get the next Desperados Verde, but once they finish their grocery shopping while going to the checkout aisle if there is a small display of Desperados Verde looks good, they give it a try and they take it. So visibility is one of the important plans of our commercial assertiveness in the off trade to illustrate.

Now some advertising since I'm still the CMO, so I'm going to show you an example of creativity and claims and innovation which is the Radler advertising on beer Moretti in Italy. Video please.

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Video Played

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Alexis Nasard, President Western Europe & Chief Marketing Officer

So the claim here is beer Moretti Radler with 100% Italian lemons, now for those of you who are not Italian this is very powerful because providence of ingredients in Italy is extremely important, we identified that insight, combined it with the innovation and put it in advertising which is totally consistent with the mother brand which is beer Moretti. By the way that initiative is delivering way ahead of expectations.

Another strategic pillar which is important, which is taking responsibility and fighting for the category. Let me start with leading the conversation in terms of fighting for the category. As you well know over the past few years there has been quite aggressive increases in excise duties in Western Europe because governments needed money, we were perceived to be very honest with you as being political benign in order to tax as a category, we are taxed a lot more than wine for example in many, many other countries. And this kind of taxation kept going on and going and we started observing that it started doing quite a bit of damage to the business.

I'll give you one example which is the taxation that happened in France in January 2013 where excise duty increased 160%. As a result of that the on trade beer market in France shrank by 8% and that is a point we made strongly to Francois Hollande when he came to the Netherlands and then to others. This taxation is not wise for the following reasons, one, we have no evidence that taxation reduces excess drinking, but we do have evidence that it damages consumers who actually drink moderately because they have to pay more.

Second, it damages the social fabric because the pub and the outlets are areas where society gathers, it damages our customers, it damages us, it damages employment and it damages government revenue because there is no point in taxing a pie that keeps shrinking. In reality having more moderate taxation would probably yield better returns for the governments.

So in collaboration with many of our industry partners and very often in transparency with the governments, I don't want anyone to think about this, this is us beating the government or whatever, it is us communicating to the government that it's not a wise thing to do to continue doing that. So that became a very fundamental part of our strategy and actually one of the top deliverables for our country general managers, in order to take personal responsibility on that important agenda.

And over the past two years we started scoring some successes, we haven't seen taxation in many countries start. Spain, Portugal stayed at very, very low level. In the

Netherlands a project to increase excise duties from 15.75 was brought down to 5. The duty escalator in the UK was cancelled, actually in the past three years we have two consecutive years of excise duty decline of 2% and I could go on and on and on.

Actually in totally in 2014 in 70% of the business we had no excise or increases as excise duties which wasn't done before. How do we do it, we communicate, we collaborate, we lobby and when needed we don't shy away from using our marketing know how to communicate publicly. So that is the work we do in terms of leading the conversation in the whole area of taxation.

Another important part is leading in responsible consumption, oftentimes when I talk about responsible drinking you know we often have some people looking at me with scepticism it's like, oh yeah right why would you promote responsible drinking you'll sell less beer. Actually we're not hypocritical about it we need it and why do we, other than we have a moral responsibility for the societies we operate in we actually believe by communicating responsibility through our brand we can gain brand equity and market share.

When a brand that consumers consider to be cool communicates that being drunk is actually not cool at all, it is a lot more credible than when people receive industry messages which are moralising, who likes to be moralised nobody, and young people even less than anybody else. That is why we made the choice to communicate through brands which are credible that people listen to and we've had lots of positive feedback behind that work including on brand equity.

So before you show it I ask you to please raise the volume a little bit more than last time and show the Armin van Buuren video.

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Video Played

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Alexis Nasard, President Western Europe & Chief Marketing Officer

Armin van Buuren is the number one DJ in the world and that experiment was based on social experiments where we actually measured the number of people who hit the dance floor versus amount of alcohol drank and we correlated them. And what he says when music is good people hit the dance floor, when they hit the dance floor they have more fun and they drink less.

And that really went viral, it was hugely success, we had tens of millions of clicks on this and lots of positive feedback on the Heineken brand. This is to illustrate our strategy of taking responsibility and fight for the category.

Then I'm going to talk to you about the corner stone of our growth model. Why do I call it the corner stone of our growth model, before you start grilling me on margins, which I know you will do anyway, we need to bear in mind one thing which is important is that in Western Europe we cannot afford to invest money on blank cheque not being mindful of margins. So everything we're going to need to invest needs to come from cost

management and this is why we don't have discreet programmes any more, we have an ongoing way of managing costs which is recurring.

And we have clear where to play choices in our cost management and that is clearly gross margin enhancement and support functions reductions, support functions meaning essentially reducing our back office costs. That is a deliberate and very targeted choice and we are relentless in driving that forward.

In terms of driving gross margins we are doing very good progress this year, on a year to date basis we're up 60 basis points and Alberto will share with you a bit more detail on what we're doing in terms of support functions which has allowed us on a year to date basis to increase our marketing and selling investment by 14%. This is just to illustrate how cost management and we call it costs for revenue because there is cost with a mission, it is the corner stone of our growth model going forward.

Because we can no longer afford to say, we are about revenue and not profit, and we are about profit and not revenue, we have to be about both. Because that region will only be a key pillar in the growth of the company when it can manage revenue and profit growth in a balanced way.

Then comes the topic of scale, scale is an area that in the consumer goods industry in Europe it's tackled to various extents, but I, we believe, there is a lot of potential in it. Think about it for a second, in Europe you have mostly the same regulation, the same currency if you exclude the UK, the same brands in many categories, often the same customers often the same media, including digital; and you have in 2013 one billion trips sensed in Western Europe, 85 of which were within the European Union.

So the advantages and the opportunities for scale are just huge. And we just have to be prepared to leverage them. And how can one leverage scale? We think about scale mostly in the area of cost, but there are lots of advantages in managing scale for revenue, because you have cost scale, but you also have revenue scale. And importantly there's one notion that is not often talked about, that is intellectual scale. In a sense that many times the strategic challenges we have in different markets are actually the same.

Why do I need to resolve them nine times in parallel and in silos, let's resolve them around one table and that will lead to our topic on governance a little bit later.

So we are very determined to leverage scale and drive simplification. Simplification does not mean becoming simplistic, but why not simplify what doesn't need to be complicated. But in some areas we have to be a lot more sophisticated because this is what is required to grow. When we look at our discrimination matrix in order to manage the business in such a way you have to be a lot more analytical and a lot more sophisticated and not simpler. So it is a question of reallocating our efforts on where it matters the most.

Some examples of how we're leveraging scale, one of them is procurement that Alberto will dwell on in a bit more detail a little bit later. Brewery footprint, we are cross borders completely now, we don't think in a parochial way in very Op Co any more. Media

consolidation, we used to work with 15 media agencies and when something went front as the CMO I never knew who to call. Now we have one media agency, we're saving 21% costs on a like for like basis and when something goes wrong I know who to call, which is quite handy. And last but not least increasingly have transnational agreement with many of our retail partners.

A very important part to highlight is that we had to evolve our governance in order to deal with that new strategy. We could no longer just manage a region like that which has so many common challenges, so many scale opportunities and so many head wins just as a confederation of markets.

We made the decision to bring everybody around the same table, all the market heads around the same table, all the regional function heads around the same table and on an ad hoc basis various experts, including experts on big data, experts from consultancies on a need basis, to be on the same table that meets regularly every month to tackle all these issues in a forum which is called the Strategy Cabinet.

And the Strategy Cabinet has a remit which is threefold, one is executing the strategy, execution of the strategy needs to be owned by the bosses, it cannot be delegated downwards, because a strategy by definition is a change and a change cannot happen naturally it needs to be guided. So one is execution of the strategy.

Second, is tackling strategic challenges, now what is a strategic challenge? It's a significant sustainable issue that we don't yet know how to resolve and we want the biggest brains around the biggest issues, not the more junior brains around the biggest issues, so that's the second part of the remit of the Strategy Cabinet.

And the third one is resource allocation, in an environment which is difficult and fiddly we need to be in a position to reallocate resources across the region, across the various elements of the matrix very quickly. And that forum makes instant decisions and this is why we're very pleased that - and it has shown very promising results on a year to date basis.

And in order to enable that we have increased the number of common targets amount the key various players in Europe to 40%, everybody is pleased with that, that's why I didn't have any grumbling. And we've made some significant initiatives which include integrated supply chain that Wiggert will talk about a little bit more. Governance was a crucial enabler to the execution of our strategy.

Now I want to share with you some highlights of our strategy in action. Now it would be pretentious to say that we have turned the corner and we are on the path for sustainable top and bottom line growth in Western Europe. That's not yet the case, it's too early to say that. But 18 months down the road we are actually beyond the stage of green shoots, so this is already more than green shoots. We are doing very well on innovation, as you can see from the chart, the number of markets where we are growing share is 100%, we are actually growing market share in every single market in Western Europe. We haven't seen that ever actually, frankly.

Whist we had a difficult quarter 3, we actually, even in that difficult quarter where we did not have very good weather, we grew market in every single market - we grew market share. And then revenue on a year to date basis is up 2.3%, which is very heartening for us. So we are quite encouraged by early results behind the strategy and more determined than ever to drive it through.

In summary, glass half empty or half full it's still a very big glass and there is tonnes to be done in it. Western Europe is part of the developed market profile of Heineken and for Heineken to grow sustainably we need to grow in a balanced way between developed and developing markets and within developed markets Western Europe is and will continue to be very important.

We have a growth model which relies on massive cost savings that will be ploughed back in marketing and selling expenses and we have a strategy that actually we believe is the right one to bring our business forward. We can talk a lot about clarity, because every time somebody talks about strategy, people say strategy is clear, but driving a car into the wall is also clear, but it's not very good.

So what we think is that the strategy needs to be potent, it needs to be clear, it needs to be executable, and it needs to be sustainable. So we need to have the capabilities that can drive it through day in day out.

So that was in a nutshell what I wanted to share with you on the headline picture of Western Europe. In the rest of the presentation you're going to see more detail, more colour and more texture on various aspects. Innovation will be by François Xavier Mahot, who is our Global Head of Innovation at Heineken. Then we're going to talk about commercial assertiveness, Managing Director of Portugal, Ronald den Elzen. Then we're going to have Alberto Toni, CFO of Western Europe and Wiggert Deelen Head of Supply talk to you about the cornerstone of our growth model, which is cost for revenue. Then we're going to show you an illustration of Not an Inch Back strategy in one market and that is the UK, so we can see tangibly what does that look like when it is defined in one market.

And before you start asking me questions I want to show you a small Tweet we sent to Apple after they've had all these issues with their iPhone 6. It's great did you get it? Don't worry it happens to us all the time, a cork bending. Anywhere there we are, happy to take any questions you have.

Questions and Answers

George Toulantas, Director Investor Relations

Can I just ask when you introduce yourself can you just indicate your name and the firm you're from as well. Thank you.

Alexis Nasard, President Western Europe & Chief Marketing Officer

And they can't ask a battery of five, right? So one.

Laughter

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Ed Mundy, Nomura

Can I just ask what learnings from operational role in Western Europe have you applied to your functional role as CMO?

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Alexis Nasard, President Western Europe & Chief Marketing Officer

Quite a few in both aspects I would say, I apply the few learnings from my operational role in Western Europe to my CMO role, but also vice-versa, quite a bit of my learnings as CMO that I apply to Western Europe, which is quite a handy combination in many moments because Europe depends so much on marketing and innovation down the road.

The one of the things which is interesting that I applied is that in reality when a consumer, depending on where they shop their mindset differs. So when you have the same guy or lady going to Waitrose they are in a different mindset than when they go to an Aldi. And their need and their sensitivities change. And we have to evolve our product offerings, packaging offers and even maybe sometimes our pricing management to take these things into account. And sometimes these are considerations you have to take up front in the design phase of the innovations you do as a CMO for the globe. That would be one example.

Another example is in the area of bundling innovations, I mean we know that for an organisation to be able to execute efficiently when you come with bundles of innovations it is a lot more effective with the sales force to execute it and to sell it in the marketplace. This is why we're going, increasingly to bundle them and to offer them within time spots which are more practical for the sales force.

So that is in terms of President to CMO. From CMO to President quite a bit, because many times there are dimensions which are only going to bear fruit in the medium term that oftentimes the business is not sensitive to, right. You know when we started with Radler at the beginning; we had many markets where we hit home immediately and many markets where it took a little bit of time. But then you explained to the people in charge, that hey provided your trial and you repeat rate is good eventually your volume is going to flourish. And that - that capacity of being a CMO allows me if you want to engage into that kind of debate - for people to be able to be patient enough to drive it. This is just a couple of illustrations.

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Karel Zoete, Rabobank

This year you stepped up innovation investments quite a bit, is this the level you're comfortable with going forward, or when the innovation pipeline gets fuller more is needed?

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Alexis Nasard, President Western Europe & Chief Marketing Officer

So it's a good question on a topic which is close to our heart, the quintuple win, which is innovation. We are doing - we're going very fast on innovation, I don't know if some of you were in Paris in November 2010 when we declared our global innovation strategy. At that point in time we had an innovation rate globally which is 2.6% and then we said our dream is to get to 6% by 2020 and we had lots of questions, how are you going to achieve that? it's going to be hard, I would hate my beer to change, dah-dah-dah, and actually year to date basis globally we're at 7.5% innovation rates, so we are well, well ahead of the glide path.

We still are sticking to our guidance, which is we want to have a 6% sustainable innovation rate going forward. Remember that the innovation rate, there is a natural attrition happening, so it is not cumulative, so it's not like 7.5%, so next is what 9%? Not necessarily. So in that journey you're going to have 7.5, 8, and then you're going to have a 6, 6.5, 6, 5, 5, 6.5, 7, because you have the attrition rate. The way we define innovation is any new product brands, or delivery system that was introduced in the past three years.

So just to give you an example FX is very busy now with the fact that in two years from now all of Radler will be out of the innovation rate, right. So you need quite hefty innovations to offset such a very significant source of volume. So for now we are sticking to 6%, we believe it is the sustainable right rate in the industry, but this is what we know today. Can our thinking change down the road? It's possible. But for now we're sticking to 6%.

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Sanjeet Aujla, Credit Suisse

You talk about premiumisation driving revenue per hectolitre, year to date you've had fantastic growth in your premium brands but your revenue per hectolitre has been quite weak. Can you just talk about some of the offsets and why we've seen those weak trends and what the risk is of that continuing to offset the premiumisation do you think? Thanks.

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Alexis Nasard, President Western Europe & Chief Marketing Officer

Good question in a critical area which is revenue per unit. On a year to date basis we have revenue per unit up 0.2%, which is clearly not the kind of revenue per unit growth that we would have liked to have.

Now how does that dynamic work? You have on the one hand a very significantly increased innovate rate, which is most of the time revenue accretive, you also have - global brands, which are an increasingly important part of our portfolio and most of them are actually premium brands. On the other hand you have the whole industry, which is increasingly becoming competitive, you know the pressure the conventional retailers are under, so you have an increase in promotional pressure and to be honest with you in the spirit of commercial assertiveness we're not prepared to shed away share casually.

But also we, within that context, decided to step up our promotional pressure to be more competitive and in line with our fair share. And the process started in July 2013. And that - the effect of what will start to weed out as we speak, why? Because we are not interested to escalate promotional activities beyond what is necessary in the marketplace. And you actually only look at the quarter three of this year our revenue per hectolitre in Western Europe is up 1.5%, because a lot of the impact of the increase in that commercial pressure is also in the base.

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Marco Gulpers, ING

The question I have is you communicated halfway through this year that you have the vision to improve your EBIT (beia) margin by 40 basis points at least. Could you share with us your view on how your region, Western Europe, will do relative to the Group average?

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Alexis Nasard, President Western Europe & Chief Marketing Officer

Yeah, I mean the information on what is the margin of Western Europe versus Group average is public, so I think you know it, it is below. Essentially because of a significant share of our business that wholesale represents. If you exclude wholesale actually our margin is in the range of 18 to 19%, so it is very competitive.

Going forward our strategy is to growth top and bottom line growth in a balanced way. And that means we are foreseeing margin stability in the medium terms for the next three year cycle starting with 2014, with gradual and sustainable improvements in margin at the back end of this margin.

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Jason DeRise, UBS

A lot of what you talked about in terms of - it seems very locally deciding how you want to go to market, how is your ability to get data and harness big data and what investments have you made in terms of people who are capable of doing that and convincing them they want to come to Heineken instead of say a Silicon Valley company?

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Alexis Nasard, President Western Europe & Chief Marketing Officer

Okay, good question - it's actually three questions but fine. So first off big data how is our ability to harness big data? It's not great and nobody else's is great, let's be clear on that, okay. It is a very big word, it is an umbrella concept that overs a gazillion of concepts.

The one part of big data that we are driving actually quite relentless is the whole area of information that you can get from our social media platforms. And you know we are - in terms of marketing as Heineken we are quite advanced in the whole arena of digital and social media. I don't know how many football fans there are in the room, how many, raise your hands, oh quite a bit.

Okay, so had the Share the Sofa, which was the digital platform behind the Champions League, where you have chats with the key football scores. We have scored 1.2 billion impressions with that. So we are quite advanced in that way. And now we are trying - what we are doing increasingly is through these interfaces with consumers, including 18 million fans on the Heineken fan page, we're trying to get more and more information on consumers, in full respect with privacy laws and agreements, let's be clear on that. But we are increasingly trying to get consumer understanding on future trends, insights, as well as feedback on our existing offerings in terms of products and marketing. So that is one area we are developing a lot.

The one area where we have to be a little bit more sophisticated and I'll say it in transparency is the whole area of e-commerce, where we are at the fringes of that phenomenon. As you have seen we have launched the SUB, which is our new revolutionary home draught system which you're going to get to see in the break. We do e-commerce with it, we sell the torps, which are the cartridges that we put in it online and we actually are selling online more than twice what we had foreseen. So we are starting to learn and to be on the fringes in that area.

So I would say in terms of learning we're getting a lot, in terms of e-commerce, we're starting at the fringes and obviously our preference is to do e-commerce in collaboration with our existing customers. And the area where I would say we are quite advanced is the whole area of marketing and communication; we are quite advanced in that.

It comes to the question on capability, the question on capability, I can say with pride that in Western Europe we have very seasoned and capable organisations. And in the area of marketing in particular I can assure you that Heineken does attract the best. Top marketers want to work at Heineken; because at Heineken very simply they can do cool stuff and marketers like to do that. So we have that capability and we are attracting the right talents.

I wouldn't hide from you that in the process of costs for revenue, as we are weeding out the costs from back office to invest in marketing and sales, we are also weeding out the FT from the back office to invest in front line sales force, which is something that's going to be critical to establish our commercial assertiveness strategy.

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Jonathan White, Manulife

To what degree do you think your competitive advantage and your go to market strategy in Western Europe is dependent on you having your wholesale business?

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Alexis Nasard, President Western Europe & Chief Marketing Officer

To varying degrees; wholesale is one - you know with all the passion that I have for scale wholesale is an area where there is no one size fits all because the route to market is very local. How a country's topography is, how its transportation system is, what is the fragmentation of retail outlets, what are the distances, what is the cost of intermediaries; these are very, very local considerations.

The one thing which is clear we do not have a strategy where we need to have wholesale everywhere, and we do not have a strategy to get out of wholesale everywhere. We will play in wholesale, unapologetically where it makes sense, that is the case today in France, that is the case today in Spain, that is the case today in the Netherlands, that is the case in Italy, in some places it's less of a case. So it's a local market, by market equation. And to be clear because oftentimes we get a question on wholesale, wholesale for us is a capability route to market enabler; we do not consider it a profit centre.

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Richard Withagen, Kepler Cheuvreux

Just a question - I think you had programmes in place already in the past about avoiding retailers to use beer as a traffic building category. And it seems like they're falling back to that sort of old notion of using beer as a traffic builder. So what are you doing there to avoid that?

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Alexis Nasard, President Western Europe & Chief Marketing Officer

Well, we have to be clear about the legal framework in which we operate in Europe. What retailers decide to promote and what pricing they make is their decision in the end. Our role is to work with them and to partner with them and to share information with them that demonstrates what is right and what is wrong for the business.

One thing that is clear is the need for retailers to stimulate footfall is inevitable, I mean let's face it, you know cannot with a straight face tell guys, oh to preserve my brand equity you're not going to use any lever to stimulate footfall, that is not a practical conversation. But we what we need to work with them is just to make sure that we do not use pricing as an indiscriminate tool, which can be damaging for them and can be damaging for us and for our brands. It doesn't need to be an indiscriminate tool. There are more sophisticated ways to drive footfall and the category, for example category management that we use through category captainship is one way we do that.

If the beer aisle, I mean let's face it, I mean for a long time the beer aisle was not sexy right, I mean how many outlets do you go and it looks good and it's great and it's fun to be around, it's not - it hasn't been. It's improving in some parts, in many retailers it is improving it's getting a lot better, but historically it hasn't been the case. Once it becomes interesting, appealing and inviting you will have more footfall. That is another dimension we try to play with them.

The third one is innovation, you know you often like to go to categories, where you say - so what's going on here, what's new, what's hot? Look at beauty care, I worked in beauty care for ten years before, when you go to the beauty aisle you have browsers, you have women sitting there, opening, smelling, talking on the phone, comparing, taking one from here, one from there, taking it trying it at home, because it's interesting, stuff is happening.

In beer for a long time not much was happening and thank god now that is changing. You go and you have new specialty beers, you have line extensions, you have toys, you have the new SUB, it's becoming more interesting. And what we're trying to convince

our retailers, if you make sure that your aisle is interesting, fun and entertaining and inviting that will help footfall in a much more productive way than just slashing prices. But it's a journey, yeah, it's a journey.

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Tristan van Strien, Deutsche Bank

Wearing your CMO hat can you maybe just expand how you have changed the marketing organisation to think beyond the Heineken brand, and also using Italy as an example, I mean you launched Dreher Radler years ago which didn't quite work, Moretti this looks like it's a lot better, what has changed on the ground, or how do you think about - when you interact with the markets from the centre how has that changed over the last four years?

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Alexis Nasard, President Western Europe & Chief Marketing Officer

First is - it was clear that we as a company, the competitive advantage of Heineken, the most fundamental one, let's face it, is marketing and innovation. And that is an area where we cannot compromise; we cannot be just good in marketing innovation we have to be great, we have to be great. That is absolutely an imperative in a company like Heineken.

So we needed to have a programme that was broad enough, because Heineken, mind you is doing very well and we're very pleased with the progress, I mean year to date we are up 5.6%, more than three times the beer market average and with the same recipe to be clear. So the brand is actually doing well, very rich, innovative cool marketing programme.

But that's not enough, I mean we made every sort of calculation, even if you run Heineken at a 10% CAGR it's not going to be enough for our ambition and actually it would be bad for the brand equity, so I wouldn't think that would be desirable either.

So it was clear that we needed to depend on a lot more brands. So our global footprint needs to be an enabler to drive global scale. Because one of our features versus many of our competitors, we're everywhere, Heineken is everywhere. So we have that ability to put a brand everywhere and that ability to drive that global scale. That is why we identified brands like Affligem, like Desperados, like Sol, like Strongbow now in cider which are actually showing very promising results, I tell you. I cannot tell you the specific numbers on this brand, but it is on fire globally. I showed you the numbers in Western Europe, but that brand is really hot.

So we expanded that to global brands, but importantly a bit chunk of the beer category will always be also local brands. Particularly with the phenomenon of craft, where in many aspects of craft local provenance matters, the fact that - the local provenance is not the only solution for craft, but one of the important ones. And for that you needed local capability for people who really can do nice recipes, cool designs, interesting story telling with consumers and being creative in social media and conventional media.

When you have a local brand like Grunt, who's Dutch here? Grunt is a brand we are positioning as a craft beer, I don't know if you're familiar with the new design and all that. And the early results are very, very promising. But that is something that we can't do at the centre. So we need to enable - to train and to drive the capability locally to make this happen.

And for that we have a governance, which is very clear, but has flexibility in it, right. So we do have decisions which are made at the centre, decisions which are made regionally and decisions which are made locally. And there is an ongoing consultation going on, where not dogmatic about that and it's going pretty well. I wouldn't say that it has been an issue, it was a transformation, but the need it was so obviously that frankly the organisation embraced it pretty quickly.

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George Toulantas, Director Investor Relations

In the interest of staying on track with the schedule we'll stop there. So thank you Alexis, thank you very much.

Applause

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END

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