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1. Executive summary

In this paper we analyze the worldwide known brewer InBev, and compare its financial statements with two other giants of the beer sector i.e. SABMiller, number one and Heineken, number two in terms of sales.

The group InBev was created in 2004 through the merger of Belgian Interbrew and Brazilian Ambev. This merger is illustrative of the industry trends in general. North American and European brewers have, in recent years, gone through active merger and acquisition programs to increase volume, expand markets geographically and leverage higher than average growth in emerging countries. Another trend in the beer industry is the search for higher organic growth and efficiency through the implementation of cost cutting and operational excellence programs.

InBev, SABMiller and Heineken have all gone through mergers and acquisitions in recent year. In 2004 each of them partnered or acquired a market leader in an emerging country: Interbrew merged with Brazilian Ambev in 2004, SABMiller acquired Columbian Bavaria, and Heineken acquired Russia's Central European Brewing.

All three have, in some way or another adopted, initiatives to increase operational excellence and cut costs; Interbrew has launched ZZB (zero based budgeting) and Voyager Plant Optimization (VPO), Heineken has adopted a Total productive management program called Fight 2 and SABMiller is recognized in the industry for being the operational leader.

Despite these similarities, the financial statements of those three brewers differ significantly.

The ratio analysis shows a relative stability of InBev's financial results in comparison to Heineken and SABMiller. This can be explained by a combination of balanced portfolio of brands, balanced geographical presence, cost-cutting policies and best practice sharing initiative.

SABMiller shows a high peak in most of its ratios in 2004. This peak is a result of several years of acquisition started in 1999 and capitalized over the years thanks to operational excellence programs.

Heineken for its part shows systematically higher ratios than the other two. This is mainly due to differences in accounting practices. Indeed under Dutch GAAP Heineken was able to subtract the value of its acquisitions from the equity whereas companies that are under IFRS system, the acquisition value is put under "goodwill" in the assets.

The brewers have different geographical presence; InBev and SABMiller are more present in emerging markets than Heineken. Another difference lies the portfolio and in the value of brands.

2. Industry analysis

2.1 General observations

With the top 40 breweries in the world now accounting for over 85% of global beer output and with the top 10 alone accounting some 926 million hectolitres or 58 %¹ of world beer production, the beer sector appears as a relatively consolidated sector. The table below shows that the three brewers we have decided to focus on (InBev, SABMiller and Heineken) account for 34,5% of worldwide production.

Rank	Brewery	Country	Production volume 2005 in million hl	Percentage of world beer production
1*	InBev	Belgium	202.1	12.6%
2	SABMiller	United Kingdom	176.0	11.0%
3	Anheuser-Busch	USA	173.5	10.9%
4	Heineken	Netherlands	118.6	7.4%
5	Carlsberg	Denmark	48.3	3.0%
5	Molson-Coors	USA/Canada	48.3	3.0%
7	Modelo	Mexico	45.5	2.9%
8	Baltik Beverage Holding (BBH)	Russia	41.5	2.6%
9	Tsingtao	China	40.9	2.6%
10	Yan Jing	China	31.2	2.0%
11	Scottish & Newcastle	United Kingdom	29.1	1.8%
12	Femsa (Cuauhtemoc)	Mexico	27.0	1.7%
13	Asahi	Japan	24.6	1.5%
14	Kirin	Japan	22.6	1.4%
15	Efes	Turkey	18.0	1.1%
16	San Miguel	Philippines	17.0	1.1%
17	Polar	Venezuela	16.5	1.0%
18	Gold Star	China	15.8	1.0%
19	Schincariol	Brazil	15.5	1.0%
20	Radeberger	Germany	15.0	0.9%
21	Chong Qing	China	14.4	0.9%
22	BGl/Castel	France	13.9	0.9%
23	Diageo (Guinness)	Ireland	13.0	0.8%
24	Mahou – San Miguel	Spain	11.2	0.7%
25	Hite	South Korea	9.7	0.6%
26	Foster's	Australia	9.2	0.6%
27	Beer Thai (Chang)	Thailand	9.1	0.6%
28	Sapporo	Japan	9.0	0.6%
29	Xue Jin	China	8.4	0.5%
30	Bitburger	Germany	8.2	0.5%
31	Lion Nathan	New Zealand	8.0	0.5%
32	Kaiser	Brazil	7.4	0.5%
33	Oettinger	Germany	7.0	0.4%
34	Singha	Thailand	6.8	0.4%
35	Suntory	Japan	6.6	0.4%
36	Damm	Spain	6.5	0.4%
37	CCU Cerv. Unidas	Chile	6.4	0.4%
38	San de Li	China	5.6	0.4%
39	Krombacher	Germany	5.3	0.3%
40	Shenzhen Jinwei	China	5.2	0.3%
Total			1,297.9	81.2%
World beer production 2005			1,598.1	100.0%

* The InBev group is composed of InBev Belgium (186.2m hectolitres) und Quilmes Argentina (15.9m hectolitres).

¹ The top ten accounted for 55, 7 % in 2004.

In the beer sector, volume grows at 2% on average. In 2004, world beer consumption reached 1.552 billions hectolitres. It further rose to 1.598 billion in 2005².

Price increases on average at 1 and 2 % per year.

Average growth of the sector is between 3- 4% and 7 % in a normal context. Currently, emerging markets such as Russia, India and China, which have high population levels and which have rising PIB/habitant present higher growth prospects than established markets such as North American and Europe for brewers. As a result we have observed that multinational brewers such as InBev, SABMiller, Heineken, Anheuser-Busch and Carlsberg have all gone through several acquisitions in recent years.

While looking for external growth, multinational breweries are also actively looking for organic growth. Through cost cutting programmes and initiatives, international brewers are steadily improving their operational margins.

These costs cuttings are especially important as we have seen the prices of raw material such as barley rising over the years. Prices of barley have increased at an annual rate of 13% in the last two decades³. Another threat to the beer industry lies in the substitute products like wines, spirits but also non-alcoholic beverages which have significantly increased their market share in Europe and the United States due to customer behaviour changes and a higher health consciousness.

The top three players in terms of sales in the beer industry are SABMiller, InBev and Heineken.

	Company Name	Sales USD m	Employees	Market Cap USD m	Net Income USD m	Net Profit Margin
1	SABMiller plc	18,620.00	53,772	36,902.40	1,649.00	10.11%
2	InBev NV	17,995.70	38,224	48,215.56	1,908.02	15.97%
3	Heineken N.V.	16,401.99	65,648	28,116.60	1,627.03	11.01%
4	Heineken Hold	15,721.27	65,648	12,062.99	805.40	11.37%
5	Diageo plc	14,367.99	21,972	55,952.02	3,776.05	27.06%
6	Doosan Co., Lt	14,068.43	4,472	2,449.68	12.70	1.14%
7	Kirin Brewery C	13,912.45	23,332	14,752.38	446.92	3.64%
8	Asahi Brewerie	12,103.13	15,28	7,567.87	374.71	3.17%
9	Companhia de	8,732.60	28,567	43,311.04	1,487.70	16.98%
10	Scottish & New	6,572.92	13,652	11,485.07	598.44	5.70%

In the section below we shortly describe SABMiller and Heineken. A separate section is dedicated to the description of InBev.

² <http://www.barthhaasgroup.com/cmsdk/content/bhg/news/report2/keydata.pdf>

³ Factiva , InBev company report 2006.

2.2 SABMiller

SABMiller originated in South Africa. SAB is an acronym for South Africa brewery. In 2002 SAB acquired Miller, America's second largest brewer. SABMiller owns 134 breweries over 5 continents. It is recognized in the industry for generating strong operating cash flows; these rose from \$638 million in 2002 to \$2,101 million in 2006. As it can be seen from the table below, SABMiller' most important market is North America; it accounted for 32 % of the total revenues in 2005 and for 26% in 2006. In 2005, the company acquired the Columbian brewer Bavaria. This gave SABMiller a strong foothold in South America as Bavaria is the second largest brewery in South America. Bavaria's market leadership in the Andean region has been of significant importance for SABMiller as the brewer's US home market has been faced with sluggish growth. The impact of the slower demand in the US on SABMiller can be seen in the second table where operating margin in the US has been steadily decreasing in 2005 and 2006 and represented less than 50% of the other geographic segments' operating income. South Africa, Africa and Asia, on the other hand, have shown very high operating margins.

SABMiller is more focused on emerging markets than InBev: Russia, central Europe, South Africa. As such SABMiller is more dependent on world economic situation.

Table SABMiller 1. (Source: Reuters)

SABMiller - Geographic segmentation of Total Revenue in %		31/12/2006	31/12/2005	31/12/2004	31/12/2003
Latin America		23%	14%		
Europe		22%	21%	20%	19%
North America		26%	32%	34%	38%
Africa and Asia		8%	8%	13%	12%
South Africa		21%	25%	29%	26%
Central America				4%	4%
Rest of Africa Eastern Europe and Asia					

Table SABMiller 2. (Source: Reuters)

SABMiller - Geographic segmentation of Operating margin in %		31/12/2006	31/12/2005	31/12/2004	31/12/2003
Latin America		17%	17%	--	--
Europe		17%	17%	15%	10%
North America		7%	9%	12%	4%
Africa and Asia		19%	21%	18%	19%
South Africa		27%	27%	21%	23%
Central America		--	--	17%	6%
Rest of Africa Eastern Europe and Asia		--	--	--	--

2.3 Heineken

Heineken is a Dutch brewer whose beer portfolio comprises of 120 brands. The group's most famous brands 'Heineken' and 'Amstel' account for 30% of the company's total volume. Heineken owns 115 breweries and distributors in 65 countries.

As presented in table 1, Heineken's home market, i.e. Western Europe, represented 46% of total revenues in 2005 and 43% in 2006. Like North America, Europe has presented brewers such as Heineken with sluggish growth. In 2005, Heineken's revenues in Western Europe grew at only 0,7%. Like SABMiller the relatively weak performance of the company in its home market has encouraged the group to look for growth in emerging markets. In 2004, Heineken acquired Central European Brewing to become Russia's third largest brewer. Through a joint venture, Heineken has also acquired brewers in India where it enjoys an annual growth rate of 7%.

Table 2 shows the relatively weak operating margins of Heineken in Europe from 2003 and 2005. The poor operating margins generated by central and Eastern Europe highlight the failure of Heineken to integrate its Russian acquisitions. For Western Europe, a significant improvement is shown in 2006. The latter can partly be explained by the implementation in 2005 of a 'Total productive management' (TPM) to reduce production errors and losses and thereby increase operating margin.

Table Heineken 1. (Source: Reuters)

Heineken - Geographic segmentation of Total Revenue in %	31/12/2006	31/12/2005	31/12/2004	31/12/2003
Western Europe	43%	46%	50%	62%
Netherlands				
Central/Eastern Europe	27%	25%	23%	11%
Rest Of Europe				
Americas	16%	15%	14%	15%
Africa/Middle East	10%	9%	8%	8%
Asia/Pacific	5%	4%	4%	4%

Table Heineken 2. (Source: Reuters)

Heineken - Geographic segmentation of Operating margin in %	31/12/2006	31/12/2005	31/12/2004	31/12/2003
Western Europe	17%	10%	11%	9%
Netherlands	--	--	--	--
Central/Eastern Europe	10%	11%	10%	7%
Rest Of Europe	--	--	--	--
Americas	13%	14%	19%	24%
Africa/Middle East	20%	19%	21%	18%
Asia/Pacific	15%	13%	13%	10%

3. Company presentation: InBev

3.1 History

InBev's roots can be traced back to Den Horen in Leuven, which began making beer in 1366. In 1987 the two largest breweries in Belgium merged: Artois, located in Leuven, and Piedboeuf, located in Jupille signalling the formation of the single company which was to become InBev.

After the merger in 1987, InBev acquired a number of local breweries in Belgium. By 1991, a second phase of targeted external growth began outside of Belgium's borders. The first transaction in this phase took place in Hungary, followed in 1995 by the acquisition of Labatt, in Canada, and then in 1999 by a joint venture with Sun in Russia.

In 2000, InBev acquired Bass and Whitbread in the U.K., and in 2001 the company established itself in Germany, with the acquisition of Diebels. This was followed by the acquisition of Beck's & Co., the Gilde Group and Spaten. InBev operated as a family-owned business and 100% Belgian until December 2000.

Until then shareholders had chosen between the two options sell or grow the business the second one. Decision was taken to grow the business by acquisition. By 1999 had acquired too many businesses and at this point it organized an Initial Public Offering in 2000, becoming a publicly owned company trading on the Euronext stock exchange (Brussels, Belgium).

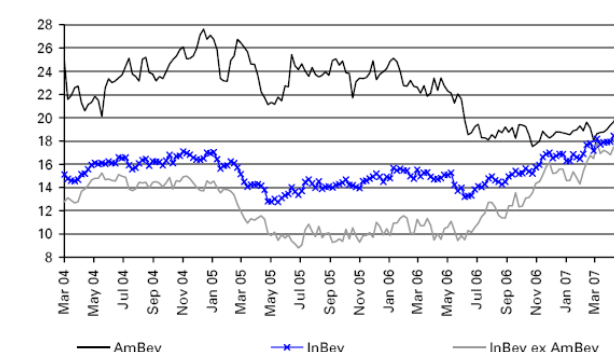
In 2002, InBev strengthened its position in China, by acquiring stakes in the K.K. Brewery and the Zhujiang Brewery.

2004 marked the most significant event in the company's recent history: the combination of Interbrew and AmBev to create InBev.

There was much interest for both companies to combine their destinies as they are on complementary markets, have both strong global brands and a big number of local brands as a result of previous takeovers.

We can observe on figure 2 that the P/E ratio of InBev excluding Ambev is much lower than Ambev's. This can be

Figure 2: InBev and AmBev P/Es



Source : Deutsche bank

Shows rolling one-year forward EPS. AmBev uses ADR preference share quote
Source: Datastream, Company data, Deutsche Bank

explained by the fact that InBev business excluding Ambev is concentrated on Western Europe where growth is merely existent. 0.7% revenue growth in 2005, 2.4% in 2006 that is far below the 7.9% revenue growth for the group. This graph illustrates the combination of both saturated and emerging markets.

Also in 2004, InBev acquired the China brewery activities of the Lion Group and added Fujian Sedrin in 2006, making InBev the No. 2 brewer in China - the world's largest beer market. Most recently, InBev increased its shareholding in Quinsa, strengthening the company's foothold in Argentina, Bolivia, Chile, Paraguay and Uruguay.

3.2 Current situation

InBev is today the world's leading brewer, realizing 13.3 billion Euro in 2006. The company has a strong, balanced portfolio, holding the number one or number two position in over 20 key markets – more than any other brewer.

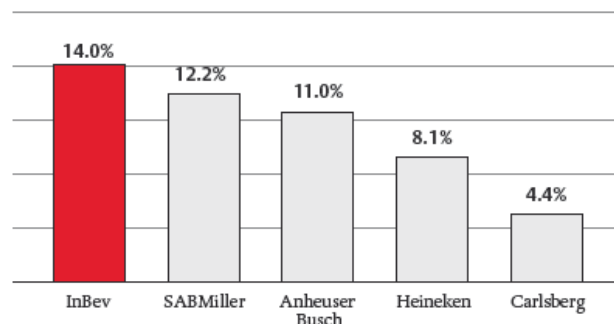
It has a key presence in both developed and developing markets, active in seven out of the ten fastest growing markets worldwide.

Headquartered in Leuven, Belgium, InBev employs more than 86,000 people worldwide. With sales in over 130 countries, the company works through six operational zones: North America, Western Europe, Central and Eastern Europe, Asia Pacific, Latin America North, and Latin America South.

With operations and license agreements around the globe, InBev is a true global brewer.

3.3 Market share & brands

In terms of market share, in 2005, InBev held 14% of the world's market.



IMPACT Databank 2004 numbers, adjusted for 2005 M&A events and latest estimate of "organic growth 2005" as sourced from Investment Bankers' Reports.

Top 5 Global Brewers
— Market Share, 2005

InBev has four global brands, Stella Artois®, Beck's®, Leffe® and Brahma®, and as a top-tier performer in the global brewing industry, InBev has the potential to generate one of the highest organic EBITDA growths of any major brewer.



In addition, InBev has a portfolio of more than 200 local brands including in Latin America: Skol®, the third largest beer brand in the world. In Western Europe: Jupiler®, the number 1 selling beer in Belgium. In Central and Eastern Europe: Siberian Crown®, a leading premium brand sold throughout Russia. In Asia Pacific: Cass® from South Korea, and Sedrin®, a 10 million hectolitre brand in China.

3.4 Key figures

Source : Deutsche bank

Company	Code	FX	Price			P/E		FCF Yield		EV/EBITDA		Dividend Yield	
			Price	Target	Rating	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E
InBev	INTB.BR	Euro	59.91	60	Hold	20.3	18.4	5.5%	6.3%	11.7	10.8	1.3%	1.5%

InBev's shares have been the strongest performers amongst the European beer companies since the start of the year, and are now trading at a premium to peers on P/E and EV/EBITDA metrics. InBev's run has been mirrored by the performance of AmBev. Although a large part of InBev's re-rating over the last year has been driven by an implied expansion of the multiple applied to InBev's operations excluding AmBev, since the start of this year the P/E on AmBev's shares has also picked-up, and the stock is back to trading at a moderate premium to its parent. Deutsche Bank's forecasts suggest that for 2007 AmBev will account for 44% of InBev's earnings, and that it currently comprises 49% of InBev's market capitalisation.

InBev has made a strong start to 2007, generating Q1 organic volume, revenue and EBITDA growth of 6.7%, 8.9% and 17.8%, respectively. The major revenue drivers were Latin America and Central & Eastern Europe, and the ZBB cost savings plan also made a significant contribution to EBITDA growth.

Figures according to regions

As the table below demonstrates it, Western Europe has accounted for about 32% of InBev's revenues in 2005 and 28 % in 2006. Revenues in Central and South America have risen through the Interbrew –Ambev merger. In 2005, Latin America accounted for 77% of InBev's organic EBITDA growth and 59% in 2006.

Table INBEV 1

Inbev - Geographic segmentation of Total revenue in %	31/12/2006	31/12/2005	31/12/2004	31/12/2003
North America	14%	15%	22%	27%
Western Europe	28%	32%	41%	51%
Central and Eastern Europe	14%	13%	15%	15%
Asia/Pacific	7%	6%	8%	7%
Central and South America	38%	34%	14%	

As we have seen it for Heineken, InBev has suffered from poor demand for beer in Western Europe. Although they are slightly rising, operating margins in Western Europe are at least three times lower than in South America.

Table INBEV 2

Inbev - Geographic segmentation of Operating margin in %	31/12/2006	31/12/2005	31/12/2004	31/12/2003
North America	25%	20%	34%	15%
Western Europe	10%	8%	7%	9%
Central and Eastern Europe	11%	9%	7%	11%
Asia/Pacific	16%	16%	7%	15%
Central and South America	38%	33%	31%	--

3.5 Business Strategy

InBev's key focus points

Over the last couple of years there have been three major drivers of InBev's earnings growth:

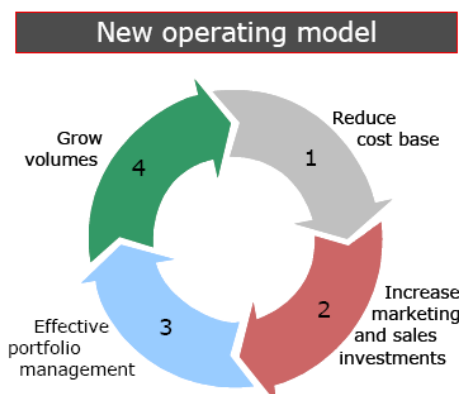
- 1) Organic growth in the Latin American division (chiefly from Brazil)
- 2) Strength in the Brazilian real
- 3) Cost savings, in particular driven by the zero-based budgeting ('ZBB') programme

Further, the large incremental benefits of ZBB are likely to finish in 2008.

Today, InBev's **key focus points** are : cost leadership (ZBB, VPO), growth, sale of non-core assets and move from biggest to best (EBITDA margin).

⇒ They have a vision **to move 'from Biggest to Best'**.

Their goal is to achieve an organic volume growth of two times the industry growth, and an organic revenue growth of 1% above the organic volume growth.



Cost leadership

3.5.1.1 Zero based budgeting (ZBB)

This vast cost saving plan has enabled InBev to have 118 million euros in annual savings in Western Europe. The kick off of Zero-Based Budgeting was done in the key North American zone in mid 2005, in Western European Zones in 2006 and Russia is next in 2007.

Figure 6: Estimated impact of ZBB programmes

	Incremental ZBB Savings EURm	Region	% of Previous Year's EBIT
2005E	50		
2006E	150	Western Europe, North America	6.2%
2007E	170	Western Europe, C&E Europe, Asia Pacific	5.3%
2008E	60	C&E Europe, Asia Pacific	1.6%

Source: Company data, Deutsche Bank estimates

InBev says that the introduction of zero-based budgeting typically cuts fixed costs (mostly SG&A rather than COGS) by around 15% in its first year and by a further 10% in the second and around 5% in the third. Thereafter the process is used to keep growth in volume-adjusted fixed costs at a rate below that of inflation.

The Canadian operations have now experienced two years of ZBB, so major incremental cost savings from this market should be at an end. ZBB is in its second year of implementation in Western Europe, having produced €118m of benefits in 2006 (larger than 100% of the region's organic EBITDA growth of €100m last year). And in 2007 ZBB is being rolled-out for the first time to Central & Eastern Europe and the Korean business – though the combined cost base in these countries are lower than that of Western Europe, so the opportunities will be smaller.

That means that the large incremental benefits of ZBB are likely to finish in 2008, but just because the momentum of this project will slow doesn't mean that InBev won't remain very cost-focused. We get the impression that there is still work to do on the procurement side, and the Voyager Plant Optimisation programme is also helping to keep COGS under control.

Nonetheless, it seems clear that ZBB will not be the driver of EBITDA growth beyond 2008 that it should have been in the three prior years.

3.5.1.2 VPO

The objective of Voyager Plant Optimization (VPO)—a long-term, evolutionary program that encourages crosspollination between cultures and countries—is to establish a

standard 'InBev Way' to operate breweries, continuously improving performance and rapidly sharing best practices.⁴

Growth

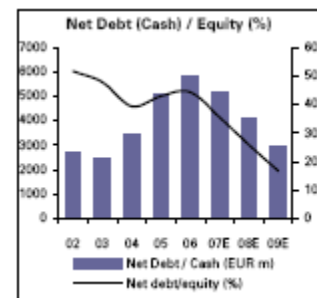
InBev's strategy is to continue to strengthen its significant positions in the world's major beer markets through organic growth, world-class efficiency, targeted acquisitions, and by increasing or reinforcing consumption (branding)⁵.

In the past InBev could rely on the currency effect to grow. The fact that the average real / euro rate improved 16% in 2005, and a further 10% in 2006 has had a positive impact on the company's growth.⁶ Without support from currency, and with cost savings benefits slowing, InBev's future growth is going to be more dependent on its organic growth performance – or on acquisitions.

Over the last couple of years InBev's organic EBITDA growth outside its Latin America and North America regions has been steady, but not spectacular, once the impact of ZBB is taken into account. We think the mid-term EBITDA growth rate of InBev ex AmBev is likely to be in the region of 5-6%, with slower growth in mature Western European markets offset by faster growth in Central & Eastern Europe and Asia.

Up to now Latin America and ZBB seem to have grabbed most of the headlines as far as InBev's performance is concerned, and we're now entering a phase when the group's efforts to generate top-line growth in its other businesses are likely to get more attention.

Their target in terms of **net debt** is 1.8 x EBITDA. It goes up to 2.8 after an acquisition. Today InBev is below its target so we expect them to make some acquisitions to attain the 1.8 x EBITDA = net debt. See graph on the right.



So now growth means investment in existing or new breweries and acquisition in emerging markets and increasing consumption by branding expenses.

Acquisition allows :

- increase of sales volumes
- increase of revenues

⁴ Annual Report

⁵ www.metastorm.com

⁶ Deutsche Bank – Global market research – InBev – 10 May 2007

- cost reduction
- efficiency increase and exchange of best practises
- cash usage

Branding is an efficient way of encouraging consumption. Whatever they achieve to gain through administration and distribution diminishing of costs is reinvested into branding. For example, if we divide sales by volume = average selling price per hectolitre it improves over time. This is observed in all the regions.

We have compared it with Heineken and SABMiller in the section 3.6.

New brand-tracking tools and methodologies, occasion based insights across the entire spectrum of the beverage industry, and the roll-out of the World Class Commercial Program (WCCP) all combined to drive per capita consumption. The WCCP uses a sales diagnostic tool that uncovers existing capabilities, focusing on specific top markets. To create this home grown program, they reached out for best practices from all of their markets, and also developed new ones.

Sales of non core assets

InBev frees up cash by selling non-core assets. A first example is the sale in September 2005 of its 62.4% interest in Bremer Erfrischungsgetränke GmbH to Coca-Cola Erfrischungsgetränke AG, based on an enterprise value of 137 million euro (for 100%). This divestiture is consistent with InBev's commitment to free-up capital invested from a non-core asset.

The sale of InBev's minority stake in Damm is another example of their increased discipline in capital allocation, and is in line with InBev's objective of freeing up capital to focus resources on critical strategic initiatives.

From biggest to best : EBITDA margin

There are many ways, of course, for a company to measure 'best'. In terms of profitability, reaching our goal of a 30 % EBITDA margin by the end of 2007 is a simple and straightforward way of tracking it.

The objective was set to 30% EBITDA margin in 2008. This is pretty high considering that in 2002, average EBITDA in Europe among players like Heineken and Interbrew was around 20%. However, before the acquisition Ambev's EBITDA margin was at higher levels of 40%.

In 2006, InBev has already reached the target as it has an EBITDA margin of 31.9%.

In terms of normalized EBITDA, it grew 15 % organically and the normalized EBITDA margin grew from 26.1 % to 28.6 %.

Much more important in the long run is what is really behind InBev's vision : the best brands, the best practices, the best people and the best execution when it comes to connecting with consumers.

3.6 Differences and similarities among InBev, Heineken and SABMiller

Similarities among player

InBev, SABMiller and Heineken have all gone through mergers and acquisitions in recent year. In 2004 each of them partnered or acquired a market leader in an emerging country: Interbrew merged with Brazilian Ambev in 2004, SABMiller acquired Columbian Bavaria, and Heineken acquired Russia's Central European Brewing.

All three have, in some way or another adopted, initiatives to increase operational excellence and cut costs; Interbrew has launched ZZB (zero based budgeting) and Voyager Plant Optimization (VPO), Heineken has adopted a Total productive management program called Fight 2 and SABMiller is recognized in the industry for being the operational leader.

Differences among players

Despite these similarities, the financial statements of those three brewers differ significantly for a variety of reasons.

The brewers have different geographical presence; InBev and SABMiller are more present in emerging markets than Heineken.

SABMiller



InBev



Heineken



InBev has more than 200 brands, SABMiller counts 150 brand and Heineken 120. Brand consulting practice Millward Brown has developed a ranking of the world's most powerful brands. Within the beer category, Heineken shows a competitive advantage over InBev and SABMiller. Its brands 'Heineken' and 'Amstel' are rated top 3 and 9 and valued together at 4,5 millions USD. InBev, thanks to its brands ' Stella Artois' and 'Skol' comes in second with a value 3,2 millions USD. Unlike InBev and Heineken who both have 2 of their brands recognized in the top 10 most powerful brands, SABMiller only has 1 internationally recognized beer brand, i.e. 'Miller lie' valued at 1,9 millions USD. This difference can be explained by the fact that SABMiller has focused on developing brand that meet local consumer needs on a range of different occasions and which appeal to their specific tastes while Heineken has focused on promoting international brands like 'Heineken' across the globe. InBev presents a mix of international and local brands.

TOP 10 Beer brands - Ranking elaborated by Millward Brown, Brand consulting practice			
Ranking	Brand	Value (\$m)	
1	Budweiser	Anheuser-Busch Companies, Inc.	6.767,00
2	Bud Light	Anheuser-Busch Companies, Inc.	4.957,00
3	Heineken	Heineken N.V.	3.372,00
4	Guinness	Diageo plc	294,00
5	Corona	Grupo Modelo S.A. de C.V.	2.565,00
6	Stella Artois	InBev	2.235,00
7	Miller Lite	SABMiller plc	1.951,00
8	Skol	InBev	1.059,00
9	Amstel	Heineken N.V.	978,00
10	Kronenbourg 1664	Scottish and Newcastle plc	920,00
Brand value - total		Heineken	4.350,00
		Inbev	3.294,00
		SABMiller	1.951,00

InBev's organic volume growth reached 5,9 % in 2006. SABMiller reached 5 % in 2006 and Heineken presented a 6% organic growth rate of its volume in 2006. All three players are thus able to generate similar levels of organic volume increase. The difference in the performance between those 3 players could then be better explained through external growth opportunities. The mergers the company went through and the level of synergy they were able to create is thus of primary importance to explain differences among the top players.

In 2005 Ambev and Interbrew achieved merger synergy benefits of €13 million, and reduced costs by over €25 million.

Branding : we have compared the yearly average price change of the three industry leaders in the graph below. What we have done is divide sales revenue by the volume

Avg Price change	2005 to 2006	2004 to 2005
InBev	1%	2%
SABMiller	1%	-2%
Heineken	0%	2%

and this per region for the three competitors. Then we weighted it for each competitor.

We can see that InBev is doing better than its competitors. In other words, it is relying on its branding expenses and efforts to increase its price and therefore increase its revenues.

4. Accounting analysis

4.1 Statement of Compliance

The consolidated financial statements of InBev have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the European Union up to 31 December 2006. InBev did not apply any European carve-outs from IFRS meaning that InBev financials fully comply with IFRS. With the exception of IFRS 7 and the complementary amendment to IAS 1, InBev has not applied early any new IFRS requirements that are not yet effective in 2006. Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

4.2 Goodwill

Goodwill arises as the difference between the cost of the acquisition and the fair value of identifiable assets, liabilities and contingent liabilities acquired. Purchased goodwill is capitalised as an intangible asset under IFRS rules.

IFRS Requirements

Under IFRS, the amortisation of goodwill and intangible assets with indefinite useful lives is prohibited. Instead they must be tested for impairment annually or more frequently if events or changes in circumstances indicate a possible impairment. As a result, income statements would not be charged, unless goodwill is determined to be impaired.

Local GAAP vs. IFRS

The main objective of the IASB was to eliminate remaining differences between International and national standards on business combinations.

Prior to the IFRS application, the rules related to goodwill were different in Belgium and in the Netherlands.

In Belgium, goodwill had to be capitalised and amortised while, in the Netherlands, it was charged to shareholder equity in some cases. As for the first-time adoption of IFRS as the primary accounting basis does not require full retrospective application of all IFRS's effective at the reporting date for an entity's first IFRS financial statements for the items related to business combinations, the picture given by the balance sheets of

some brewers is quite different. This can be easily demonstrated with a comparison of the InBev and Heineken balance sheets:

INBEV		HEINEKEN	
	2006		2006
<u>Assets</u>		<u>Assets</u>	
Net Working Capital	- 1.752,00	Net Working Capital	- 242,00
Long Term Assets	9.177,00	Long Term Assets	6.565,00
Goodwill	12.305,00	Goodwill	2.195,00
<i>Total</i>	<i>19.730,00</i>	<i>Total</i>	<i>8.518,00</i>
<u>Liabilities</u>		<u>Liabilities</u>	
Long Term Liabilities	6.588,00	Long Term Liabilities	2.998,00
Shareholders Equity + Minority interest	13.142,00	Shareholders Equity + Minority interest	5.520,00
<i>Total</i>	<i>19.730,00</i>	<i>Total</i>	<i>8.518,00</i>

The fact that the goodwill was always capitalised by InBev but not by Heineken will have an impact on the financial ratios we will derive from their financial statements.

4.3 InBev Significant Accounting Policies

Principles of Consolidation

Subsidiaries are those companies in which InBev, directly or indirectly, has an interest of more than half of the voting rights or otherwise has control, directly or indirectly, over the operations so as to obtain benefits from the companies' activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Jointly controlled entities are consolidated using the proportionate method of consolidation.

Associates are undertakings in which InBev has significant influence over the financial and operating policies, but which it does not control. This is generally evidenced by ownership of between 20 % and 50 % of the voting rights. Associates are accounted for by the equity method of accounting, from the date that significant influence commences until the date that significant influence ceases. When InBev's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that InBev has incurred obligations in respect of the associate.

The financial statements of InBev subsidiaries, jointly controlled entities and associates are prepared for the same reporting year as the parent company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains and losses on transactions between group companies have been eliminated.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of InBev's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Foreign Currencies

Foreign currency transactions are accounted for at exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date rate. Gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at foreign exchange rates ruling at the dates the fair value was determined.

Assets and liabilities of foreign operations are translated to Euro at foreign exchange rates prevailing at the balance sheet date. Income statements of foreign operations, excluding foreign entities in hyperinflationary economies, are translated to Euro at exchange rates for the year approximating the foreign exchange rates prevailing at the dates of the transactions. The components of shareholders' equity are translated at historical rates. Exchange differences arising from the translation of shareholders' equity to Euro at year-end exchange rates are taken to Equity (translation reserves).

In hyperinflationary economies, re-measurement of the local currency denominated non-monetary assets, liabilities, income statement accounts as well as equity accounts is made by applying a general price index. These re-measured accounts are used for conversion into Euro at the closing exchange rate. For subsidiaries and associated companies in countries with hyperinflation where a general price index method is not yet stabilized and does not provide reliable results, the balance sheet and income statement are re-measured into Euro as if it was the operation's functional currency. In 2006 and 2005, InBev had no operations in hyperinflationary economies. The following exchange rates have been used in preparing the financial statements:

1 Euro equals	Closing rate		Average rate	
	2006	2005	2006	2005
Argentinean peso	4,042527	3,571543	3,842754	3,656615

Brazilian real	2,815751	2,761317	2,736308	3,027725
Bulgarian lev	1,955799	1,956300	1,955818	1,955833
Canadian dollar	1,528101	1,372501	1,415953	1,516470
Chinese yuan	10,279288	9,520455	10,058035	10,249997
Croatian kuna	7,345056	7,375610	7,301935	7,416637
Hungarian forint	251,762336	252,844501	265,463233	247,954376
Pound sterling	0,671500	0,685300	0,682320	0,684589
Russian ruble	34,696922	34,184528	34,094783	35,410765
Serbian dinar	79,001422	85,499316	84,530854	82,583203
South Korean won	1 225,490196	1 184,834123	1 199,040767	1 282,051282
Ukrainian hryvnia	6,650838	5,971611	6,328954	6,415027
US dollar	1,317001	1,179700	1,254287	1,250607

Intangibles Assets

4.3.1.1 Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible, future economic benefits are probable and the company has sufficient resources to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortisation and impairment losses.

4.3.1.2 Supply and distribution rights

A supply right is the right for InBev to supply a customer and the commitment by the customer to purchase from InBev. A distribution right is the right to sell specified products in a certain territory.

Acquired customer relationships in a business combination are initially recognized at fair value as supply rights to the extent that they arise from contractual rights. If the IFRS recognition criteria are not met, these relationships are subsumed under goodwill.

Acquired distribution rights are measured initially at cost or fair value when obtained through a business combination.

4.3.1.3 Brands

If part of the consideration paid in a business combination relates to trademarks, trade names, formulas, recipes or technological expertise these intangible assets are considered as a group of complementary assets that is referred to as a brand for which one fair value is determined. Expenditure on internally generated brands is expensed as incurred.

4.3.1.4 Other intangible assets

Other intangible assets, acquired by the company, are stated at cost less accumulated amortisation and impairment losses

4.3.1.5 Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

4.3.1.6 Amortisation

Intangible assets with a finite life are amortised using the straight-line method over their estimated useful lives. Licenses, brewing, supply and distribution rights are amortised over the period in which the rights exist. Brands are considered to have an indefinite life unless plans exist to discontinue the brand. Discontinuance of a brand can be either through sale or termination of marketing support. When InBev buys back distribution rights for its own products the life of these rights is considered indefinite, unless the company has a plan to discontinue the related brand or distribution.

Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (e.g. non refundable tax, transport and the costs of dismantling and removing the items and restoring the site on which they are located, if applicable). The cost of a self-constructed asset is determined using the same principles as for an acquired asset.

4.3.1.7 Subsequent expenditure

The company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the company and the cost of the item can be measured reliably. All other costs are expensed as incurred.

4.3.1.8 Depreciation

The depreciable amount is the cost of an asset less its residual value. Residual values, if not insignificant, are reassessed annually. Depreciation is calculated from the date the asset is available for use, using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives are as follows:

Estimated useful lives	
Industrial buildings	20 years
Other real estate properties	33 years
Production plant and equipment:	
Production equipment	15 years
Storage and packaging equipment	7 years
Duo tanks	7 years
Handling and other equipment	5 years
Returnable packaging:	
Kegs	10 years
Crates	10 years
Bottles	5 years
Point of sale furniture and equipment	5 years
Vehicles	5 years
Information processing equipment	3 or 5 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Land is not depreciated as it is deemed to have an infinite life.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing

location and condition. The weighted average method is used in assigning the cost of inventories.

The cost of finished products and work in progress comprises raw materials, other production materials, direct labour, other direct cost and an allocation of fixed and variable overhead based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated completion and selling costs.

Impairment

The carrying amounts of financial assets, property, plant and equipment, goodwill and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. In addition, goodwill, intangible assets that are not yet available for use and intangibles with an indefinite life are tested for impairment annually. An impairment loss is recognised whenever the carrying amount of an asset or the related cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

4.3.1.9 Calculation of recoverable amount

The recoverable amount of the company's investments in unquoted debt securities is calculated as the present value of expected future cash flows, discounted at the debt securities' original effective interest rate. For equity and quoted debt securities the recoverable amount is their fair value.

The recoverable amount of other assets is determined as the higher of their fair value less costs to sell and value in use. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Impairment testing of intangible assets with an indefinite useful life is primarily based on a fair value approach applying multiples that reflect current market transactions to indicators that drive the profitability of the asset or the royalty stream that could be

obtained from licensing the intangible asset to another party in an arm's length transaction.

For goodwill, the recoverable amount of the cash generating units to which the goodwill belongs is based on a fair value approach. More specifically, a discounted free cash flow approach, based on current acquisition valuation models, is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. As regards the level of goodwill impairment testing, InBev's overall approach is to test goodwill for impairment at the business unit level (i.e. one level below the segments).

4.3.1.10 Reversal of impairment losses

An impairment loss in respect of goodwill or investments in equity securities is not reversed. Impairment losses on other assets are reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

5. Ratio analysis

As we have already mentioned it earlier, in Belgium, goodwill had to be capitalised and amortised while, in the Netherlands, it was charged to shareholder equity in some case. The fact that the goodwill was always capitalised by InBev but not by Heineken will have an impact on the financial ratios we will derive from their financial statements.

5.1 Profitability analysis

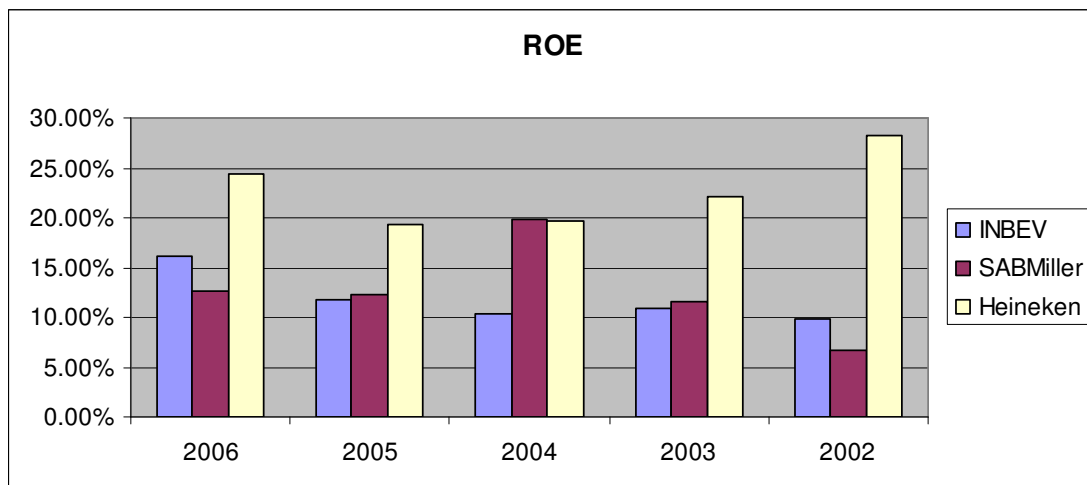
Return on Equity (ROE)

ROE= Net profit/ Shareholder's equity

ROE offers a useful signal of financial success since it might indicate whether the company is growing profits without pouring new equity capital into the business. A steadily increase in ROE is a hint that management is giving shareholders more for their money, which is represented by shareholders' equity. Simply put, ROE indicates how well management is employing the investor's capital investment in the Company.

InBev, over the past 5 years has seen a steady increase in the ROE from 2002 to 2005: 9.75% to 11.83% and a stronger increase over the last financial year from 11.83% to 16.18%, as seen in figure 1 below.

		2006	2005	2004	2003	2002
ROE	INBEV	16.18%	11.83%	10.33%	10.88%	9.75%
	SABMiller	12.55%	12.32%	19.75%	11.63%	6.63%
	Heineken	24.37%	19.25%	19.64%	22.16%	28.28%



SABMiller had a strong ROE increase over the years 2002 until 2004 from 6.63% to 19.65% and its ROE decreased afterwards from 2004 to 2005, to stabilize in 2006. SABMiller reaped the benefits of its acquisitions during 1999-2002 (acquisition of Pilsner Urquell, acquisition in India 2000, acquisition in Miller in 2002 and more general, acquisitions in all continents). Moreover, the excellent operating performance combined with favourable currency rates resulted in adjusted earnings increase, which translates into adjusted earnings per share of 33% in 2005. The effect of the favourable currency rates is of particular importance taken into account that the operating income generated by South Africa amounted 38% to of SABMiller's total operating income in 2004.

Heineken had a steady ROE decline until 2005, to increase in 2006.

In order to analyze this further we will decompose ROE.

$$\text{ROE} = \text{Net income}/\text{total revenue} \times \text{total revenue}/\text{assets} \times \text{assets}/\text{shareholders' equity} \text{ (financial leverage)}$$

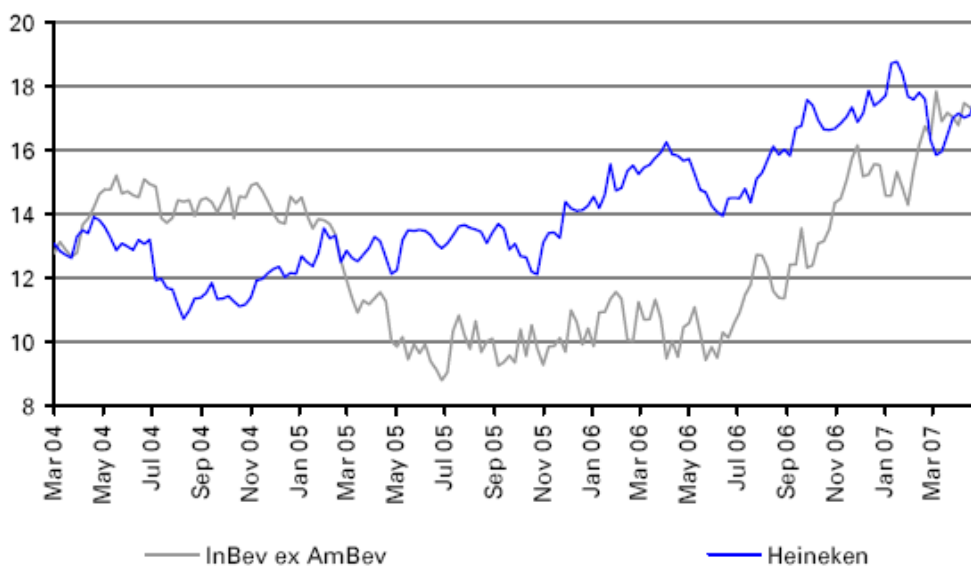
Ratios InBev	2006	2005	2004	2003	2002
Net profit margin	15.98%	12.03%	10.48%	7.92%	7.19%
Gross profit margin	23.51%	18.86%	15.34%	11.91%	10.41%
Asset turnover	67.45%	64.40%	68.25%	89.50%	96.90%
ROA	10.78%	7.75%	7.15%	7.09%	6.97%
Financial leverage	150.13%	152.73%	144.42%	153.41%	139.93%
ROE	16.18%	11.83%	10.33%	10.88%	9.75%

Ratios SABMiller	2006	2005	2004	2003	2002
Net profit margin	10.11%	10.94%	13.40%	7.14%	5.10%
Gross profit margin	16.26%	16.82%	19.74%	11.64%	9.72%
Asset turnover	84.00%	73.55%	105.23%	104.76%	102.25%
ROA	8.49%	8.04%	14.10%	7.48%	5.21%
Financial leverage	147.77%	153.21%	140.03%	155.36%	127.24%
ROE	12.55%	12.32%	19.75%	11.63%	6.63%

InBev's business excluding AmBev, which for most of the last couple of years has traded at a discount to Heineken (Buy, EUR 39.76), has now moved to virtual P/E parity on Deutsche Bank's numbers (see Figure 3).

Ratios	2006	2005	2004	2003	2002
Heineken					
Net profit margin	11.37%	8.05%	7.28%	9.34%	10.10%
Gross profit margin	15.26%	11.62%	13.40%	13.20%	15.11%
Asset turnover	138.87%	140.50%	136.92%	115.88%	162.30%
ROA	15.79%	11.31%	9.97%	10.82%	16.40%
Financial leverage	154.31%	170.23%	196.87%	204.85%	172.48%
ROE	24.37%	19.25%	19.64%	22.16%	28.28%

Figure 3: InBev ex AmBev P/E versus Heineken



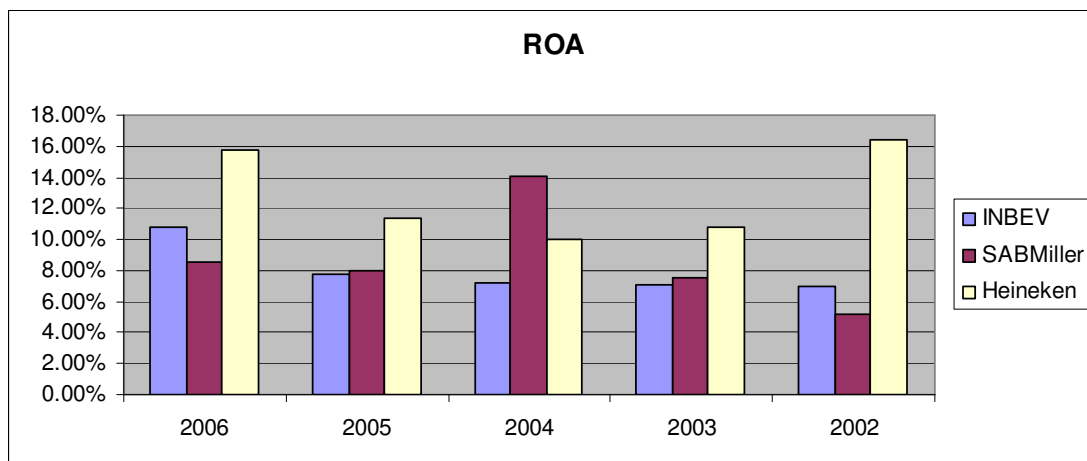
Shows rolling one-year forward EPS. AmBev uses ADR preference share quote
Source: Datastream, Company data, Deutsche Bank

Return on assets (ROA)

ROA gives an indication of what earnings were generated from invested capital (assets) (“sweat the assets”). ROA for listed companies can vary substantially depending on the industry they are in. In this case, InBev’s asset turnover decreased until 2005, to increase in 2006. On the other hand, the ROA experienced a steady increase over the years 2002 until 2005, to increase in an important way in 2006. This proves that InBev’s cost saving strategy is efficient. Next, their sale of non core assets

strategy described above reduced the denominator of the equation and thus these factors result in a higher profit margin.

		2006	2005	2004	2003	2002
ROA	INBEV	10.78%	7.75%	7.15%	7.09%	6.97%
	SABMiller	8.49%	8.04%	14.10%	7.48%	5.21%
	Heineken	15.79%	11.31%	9.97%	10.82%	16.40%



SABMiller's ROA experienced a strong ROA increase over the years 2002 until 2004, to decrease significantly in 2005 to stabilize in 2006.

Heineken's ROA decreased a lot over the years 2002 until 2004 to increase over 2005, 2006.

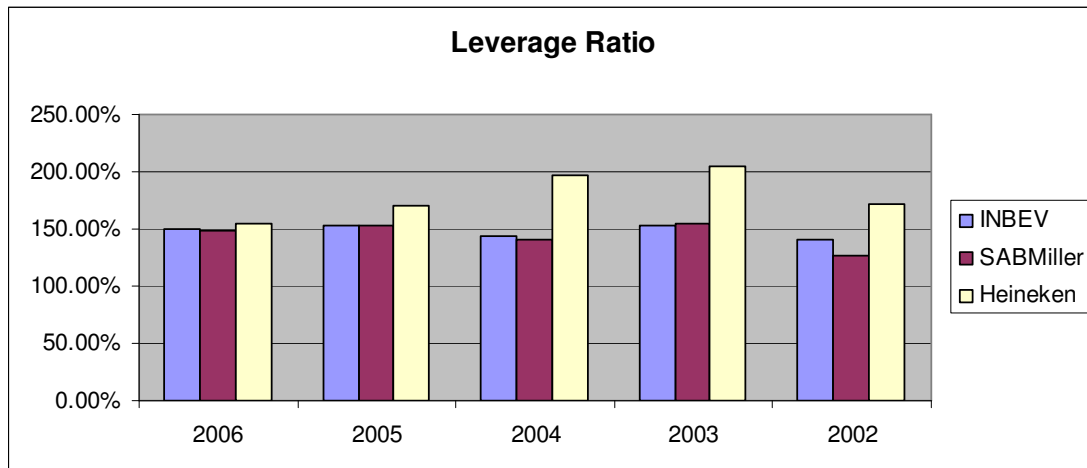
5.2 Financial leverage

Financial leverage shows a firm's capital structure as a relationship between its assets base and its equity. InBev's leverage is quite stable over the years 2002-2006, with a slight increase of the leverage in the years 2003 and 2005, presumably caused by the financing of some acquisitions. Both shareholders' equity and total assets (nominator and denominator) have increased in a similar proportion.

SABMiller's financial leverage is pretty similar to InBev's. Nevertheless, Heineken's financial leverage fluctuates more and the level of financial leverage is higher.

Leverage ratio

	2006	2005	2004	2003	2002
INBEV	150.13%	152.73%	144.42%	153.41%	139.93%
SABMiller	147.77%	153.21%	140.03%	155.36%	127.24%
Heineken	154.31%	170.23%	196.87%	204.85%	172.48%



5.3 Operation Management analysis

Net profit margin

In general, profit margins reflect the firm's ability to produce a product at a low cost or at a high price. InBev focuses clearly on cost saving, through its zero-based budgeting strategy. Petercam's financial analysis report states: *"the main take away from the results is the excellent progress achieved in the implementation of ZBB (zero based budgeting) in Western Europe, sending EBITDA margin to 31.9% vs 28.6% in 05."*

Even though the commodity price increased, InBev's cost saving policy was still effective.

Asset turnover

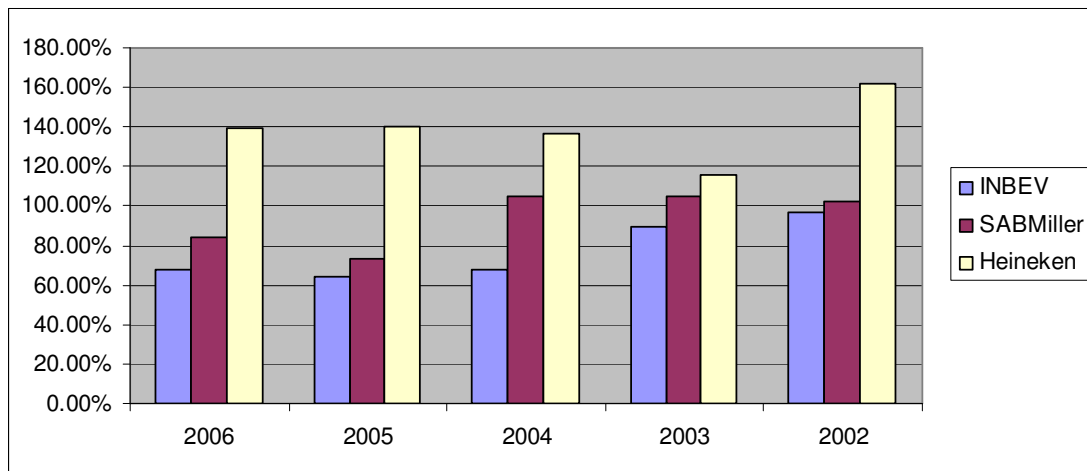
Asset turnover is the amount of sales generated for every euro worth of assets. It is calculated by dividing sales by assets. This measures the firm's efficiency at using assets. Companies with low profit margins tend to have high asset turnover, those with high margins tend to have low asset turnover. Indeed, InBev's asset turnover is relatively low compared to its competitors. We assume that the relatively low asset turnover is caused by InBev's acquisition strategy. Through the acquisitions, the number of production centers and thus the number of assets increased. Moreover, InBev's profit margins are increasing (see above).

InBev has a large number of breweries, in order to be close to their final consumers. This increases of course the number of fixed assets. Heineken, on the contrary, works through a large distribution network, instead of having local breweries. Consequently, the number of assets is lower. Also, the goodwill in the Dutch GAAP is not capitalized.

Consequently, the amount of assets is much lower and it impacted on the Asset Turnover.

2005 SABMiller got rid of its non-core activities such as the sale of its participation in Edgars. 2005 was for SABMiller not a year of headline grabbing acquisitions - more a case of incrementally building the business and reinforcing our position as one of the world leading breweries.

Asset turnover	2006	2005	2004	2003	2002
InBev	67.45%	64.40%	68.25%	89.50%	96.90%
SABMiller	84.00%	73.55%	105.23%	104.76%	102.25%
Heineken	138.87%	140.50%	136.92%	115.88%	162.30%



Return on invested capital (ROIC)

The ROIC is a financial measure that quantifies how well a company generates cash flow relative to the capital it has invested in its business. InBev's ROIC increased steadily over the years 2002 -2006.

$$\text{ROIC} = \text{operating income (EBIT)} \times (1 - \text{tax rate}) / \text{total assets}$$

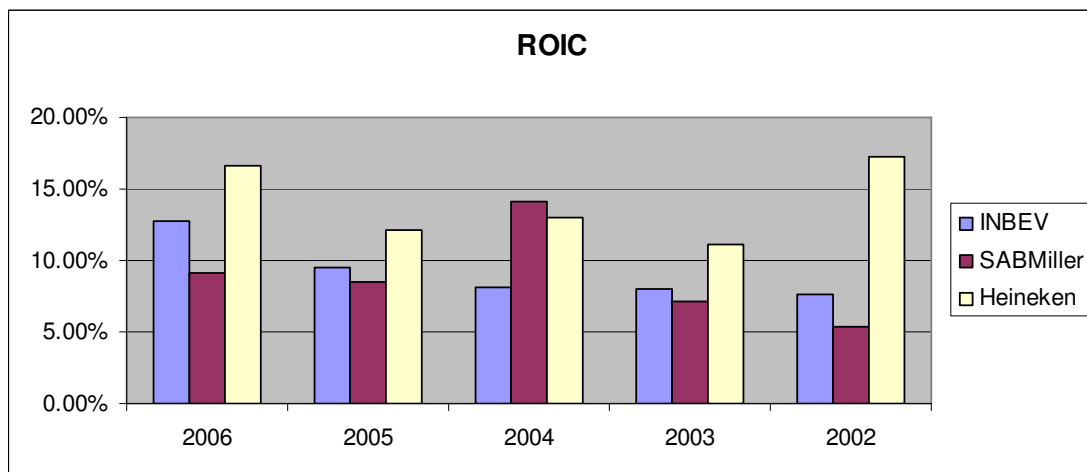
Taking into account that InBev's total assets and its earnings increased and that its tax rate decreased because of the lower tax rate in emerging countries, the ROIC increases.

SABMiller's and Heineken's ROIC are quite unstable. Heineken's ROIC is however a lot higher than the one of SABMiller and InBev. This is to be explained by the total assets of Heineken which is lower because the goodwill has not be capitalized.

Furthermore, Heineken works with distribution network and have fewer breweries across the world.

ROIC

	2006	2005	2004	2003	2002
INBEV	12.69%	9.50%	8.07%	8.01%	7.63%
SABMiller	9.17%	8.44%	14.08%	7.12%	5.43%
Heineken	16.67%	12.13%	12.94%	11.17%	17.22%



5.4 Financial management analysis

Liquidity ratios

	2006	2005	2004	2003	2002
Current ratio	73.11%	78.03%	64.55%	78.57%	59.92%
Quick ratio	57.50%	61.03%	50.65%	63.80%	48.63%
Operating cash flow ratio	50.45%	44.02%	22.72%	36.97%	26.59%

These ratios give an indication on a company's ability to repay its current liabilities. The current ratio looks at current assets over current liabilities. If the value is more than one it is believed that the firm will be able to meet its obligations. However, in some circumstances it could be useful to also evaluate its ability to repay current liabilities by taking only liquid assets into consideration (quick ratio) or even only consider cash flow from operations as the means for repayment. All these ratios together give us a useful tool to evaluate the financial management of the company.

According to us, InBev's bargaining power towards suppliers and clients is high. Consequently, the accounts payables are high, compared to the accounts receivables, which are low. In other words, InBev requires quick payment from its clients, while it will

demand for long payment terms from its suppliers. Consequently is partly financed by its suppliers.

Debt ratios

5.4.1.1 Debt/Equity ratio (D/E)

The ideal capital structure for a firm depends on its business risk. The business risk is measured by the predictability of the future cash flows. Highly predictable cash flows represent low risk and thus such firms can have more debt financing. Debt financing is interesting for companies because it is normally cheaper than equity financing. The interest payments are tax deductible (this advantage is however decreased thanks to the mechanism of notional interest deduction), but it increases fixed costs and therefore forces discipline onto management. Lastly, it is often easier to raise debt than equity because communication efforts only need to go towards a select number of private lenders rather than to public capital markets.

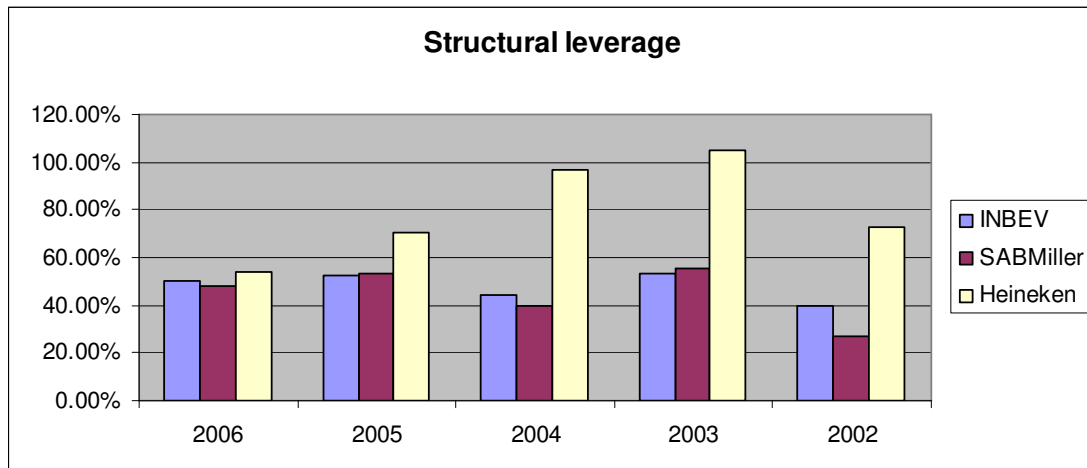
As far as the D/E ratio is concerned, we can see that InBev has a one to two ratio, which means that the company holds on average twice as much equity than debt. As mentioned above, this reflects its inherent industry and company risk.

InBev's D/E ratio is pretty similar to SABMiller's D/E ratio. However, the D/E ratio for Heineken is much higher and thus its indebtedness is higher than the one for InBev and SABMiller.

The equity of Heineken is much lower than the two others. This can be explained by the fact that until they adopted the IFRS accounting system, they subtracted the amount of the acquisitions made from the equity. This means that the denominator was relatively lower than the competitors resulting in a higher D/E ratio.

Debt/ Equity ratio

	2006	2005	2004	2003	2002
InBev	50.13%	52.73%	44.42%	53.41%	39.93%
SABMiller	47.77%	53.21%	40.03%	55.36%	27.24%
Heineken	54.31%	70.23%	96.87%	104.85%	72.48%



5.4.1.2 Interest ratio

Interest coverage ratios measure how easily a company is able to pay its interest obligations and indicates the degree of risk related to its choice of capital structure and debt policy. The lower the ratio, the easier it is for the company to meet its interest obligations.

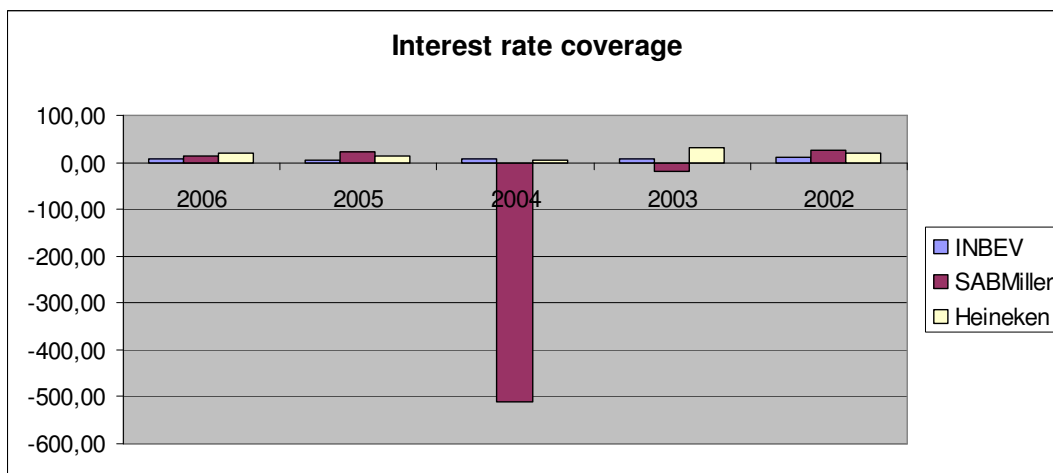
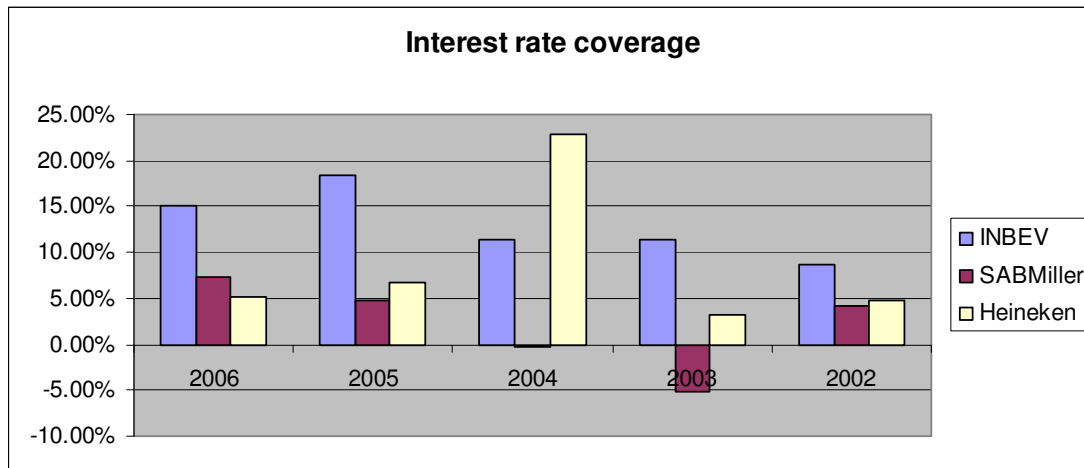
InBev's interest rate coverage decreases in a more significant way in 2005 probably due to the financing of the merger with Ambev, which bears interests. The interest rate coverage then slightly increases in 2006.

Compared to the other 2 companies, InBev's interest coverage ratio is rather low.

Interest rate Coverage

	2006	2005	2004	2003	2002
InBev	15.08%	18.43%	11.34%	11.44%	8.65%
SABMiller	7.37%	4.74%	-0.20%	-5.14%	4.11%
Heineken	5.26%	6.78%	22.92%	3.19%	4.76%

Interest rate Coverage		2006	2005	2004	2003	2002
	INBEV	6,63	5,43	8,82	8,74	11,56
	SABMiller	13,57	21,11	-509,40	-19,46	24,33
	Heineken	19,00	14,75	4,36	31,33	21,02



5.5 Sustainable growth rate

$$\text{Sustainable growth rate} = \frac{\text{Net margin} \times (1 - \text{payout ratio}) \times (1 + D/E)}{\text{Total assets/sales} - (\text{net margin} \times (1 - \text{payout ratio}) \times (1 + D/E))}$$

The sustainable growth rate defines the growth rate that the company could have without having to change its profitability and financial policies. Sustainable growth is often used by banks and other analyst to assess a company's credit worthiness. If actual growth consistently exceeds sustainable growth management's problem will be where to get the cash to finance growth. Conversely if sustainable growth consistently exceeds actual growth, the banker had best be prepared to talk about investment products because management's problem will be what to do with all the cash that keeps piling up in the till.

Taken into account that growth in this sector is mainly achieved through mergers and acquisitions and through cost saving policies, achieving a sustainable growth rate of 12.97% over the last financial year is quite good, certainly taken into account that in 2002 the sustainable growth reached only 7.53%.

The actual growth rate amounts to 14% in 2006 compared to a sustainable growth rate of 12.97%. It means that InBev will need moderate external financing to sustain its growth.

Heineken's sustainable growth rate is very high (23.52%) compared to its actual growth rate which is 9.6%. Consequently, Heineken has the financial means to develop an investment strategy.

Sustainable growth of InBev

Total assets to sale ratio (T)	148.26%	155.27%	146.52%	111.73%	103.20%
Net profit margin on sales (p)	15.98%	12.03%	10.48%	7.92%	7.19%
Payout Ratio (d)	29.02%	40.51%	25.50%	30.11%	28.23%
Retention Ratio	70.98%	59.49%	74.50%	69.89%	71.77%
Debt-equity Ratio (L)	50.13%	52.73%	44.42%	53.41%	39.93%
Sustainable growth	12.97%	7.57%	8.34%	8.23%	7.53%

Sustainable growth of
SABMiller

Total assets to sale ratio (T)	119.05%	135.97%	95.03%	95.46%	97.80%
Net profit margin on sales (p)	10.11%	10.94%	13.40%	7.14%	5.10%
Payout Ratio (d)	44.72%	41.04%	33.78%	38.05%	48.22%
Retention Ratio	55.28%	68.96%	66.22%	61.95%	51.88%
Debt-equity Ratio (L)	47.77%	53.21%	40.03%	55.36%	27.24%
Sustainable growth	7.46%	7.83%	15.05%	7.76%	3.56%

Sustainable growth of
Heineken

Total assets to sale ratio (T)	72.01%	71.17%	73.04%	86.30%	61.61%
Net profit margin on sales (p)	11.37%	8.05%	7.28%	9.34%	10.10%
Payout Ratio (d)	21.86%	31.19%	33.15%	28.13%	28.35%
Retention Ratio	78.14%	68.81%	66.85%	71.87%	71.65%
Debt-equity Ratio (L)	54.31%	70.23%	96.87%	104.85%	72.48%
Sustainable growth	23.52%	15.27%	15.11%	18.94%	25.41%

5.6 Cash flow analysis

The cash flow analysis presented in figure XX below shows InBev had an operating cash flow of EUR 3,287,000,000 in 2006, a substantial improvement from EUR 2,405,000,000 in 2005.

This is the result of their strategy; being a combination of the following elements:

- ZBB and VOP (cost saving strategy)
- Sale of non core assets
- Increase in prices in mature markets
- Increase in sales volumes in emerging markets
- InBev has a large number of breweries, in order to be close to their final consumers. This increases of course the number of fixed assets, but on the other hand, reduces staff, transportation and other costs.

InBev generates a very high operating cash flow, as from 2002 until 2006, its cash flow has more than tripled.

SABMiller's operating cash flow merely tripled, while Heineken's operating cash flow almost doubled.

INBEV CASH FLOW STATEMENT

Period End Date	31-Dec-06	31-Dec-05	31-Dec-04	31-Dec-03	31-Dec-02
Update Type/Date	Normal	Reclassified	Reclassified	Normal	Normal
Auditor/Accountant	KPMG LLP	KPMG LLP	KPMG LLP	KPMG LLP	KPMG LLP
Annual Cash Flow Statement: (EUR In millions)					
Net Income	2,126.00	1,402.00	898.00	505.00	467.00
Accumulated Depreciation and Depletion	934.00	829.00	621.00	504.00	504.00
Amortization	78.00	59.00	265.00	157.00	137.00
Non-Cash Items	562.00	586.00	- 416.00	312.00	269.00
Changes in Working Capital	- 413.00	- 471.00	16.00	- 327.00	- 332.00
Cash from Operating Activities	3,287.00	2,405.00	1,384.00	1,151.00	1,045.00
Capital Expenditures	- 1,380.00	- 1,181.00	- 860.00	- 681.00	- 607.00
Other Investing Cash Flow Items Total	- 2,101.00	- 1,403.00	283.00	- 258.00	- 359.00
Cash from Investing Activities	- 3,481.00	- 2,584.00	- 577.00	- 939.00	- 966.00
Financing Cash Flow Items	- 75.00	- 81.00	- 6.00	--	--
Cash Dividends Paid	- 617.00	- 568.00	- 229.00	- 168.00	- 142.00
Issuance (Retirement) of Stock Net	23.00	- 53.00	29.00	7.00	3.00
Issuance (Retirement) of Debt Net	877.00	518.00	- 81.00	234.00	- 191.00
Cash from Financing Activities	208.00	- 184.00	- 287.00	73.00	- 330.00
Foreign Exchange Effects	- 30.00	39.00	- 4.00	- 18.00	- 5.00
Net Change in Cash	- 16.00	- 324.00	516.00	267.00	- 256.00

Operating cash flow ratio: cash flow from operations/ current liabilities

Cash from Operating Activities	3,287.00	2,405.00	1,384.00	1,151.00	1,045.00
current	6,516.00	5,463.00	6,091.00	3,113.00	3,930.00
	50.45%	44.02%	22.72%	36.97%	26.59%

SABMILLER CASH FLOW

Period End Date	31-Mar-07	31-Mar-06	31-Mar-05	31-Mar-04	31-Mar-03
Update Type/Date	Normal	Normal	Restated	Normal	Reclassified
Auditor/Accountant		PWC LLP		PWC LLP	PWC LLP
Annual Cash Flow Statement: (USD In millions)					
Net Income	1,883.00	1,674.00	1,729.00	1,323.00	803.00
Accumulated Depreciation and Depletion	737.00	555.00	478.00	387.00	289.00
Amortization	162.00	105.00	33.00	416.00	320.00
Non-Cash Items	328.00	235.00	28.00	84.00	98.00
Changes in Working Capital	- 381.00	- 468.00	- 237.00	- 660.00	- 466.00
Cash from Operating Activities	2,729.00	2,101.00	2,031.00	1,550.00	1,044.00
Capital Expenditures	- 1,461.00	- 1,032.00	- 768.00	- 576.00	- 445.00
Other Investing Cash Flow Items Total	- 218.00	- 2,525.00	- 354.00	- 715.00	-
Cash from Investing Activities	- 1,679.00	- 3,557.00	- 1,122.00	- 1,291.00	- 445.00
Financing Cash Flow Items	242.00	- 196.00	--	--	--
Cash Dividends Paid	- 842.00	- 687.00	- 584.00	- 309.00	- 203.00
Issuance (Retirement) of Stock Net	8.00	22.00	18.00	4.00	- 8.00
Issuance (Retirement) of Debt Net	- 544.00	2,074.00	- 117.00	8.00	- 140.00
Cash from Financing Activities	- 1,136.00	1,213.00	- 683.00	- 297.00	- 351.00
Foreign Exchange Effects	- 18.00	11.00	- 56.00	--	--
Net Change in Cash	- 104.00	- 232.00	170.00	- 38.00	248.00

HEINEKEN CASH FLOW

Period End Date	31-Dec-06	31-Dec-05	31-Dec-04	31-Dec-03	31-Dec-02
Update Type/Date	Normal	Reclassified	Restated	Normal	Normal
Auditor/Accountant	KPMG LLP	KPMG LLP	KPMG LLP	KPMG LLP	KPMG LLP
Annual Cash Flow Statement: (EUR In millions)					
Net Income	1,345.00	869.00	321.00	1,222.00	1,282.00
Accumulated Depreciation and Depletion	786.00	768.00	682.00	644.00	529.00
Amortization					
Non-Cash Items	167.00	225.00	724.00	125.00	40.00
Changes in Working Capital	- 449.00	10.00	- 116.00	- 595.00	- 854.00
Cash from Operating Activities	1,849.00	1,872.00	1,611.00	1,396.00	997.00
Capital Expenditures	- 877.00	- 874.00	- 737.00	- 611.00	- 696.00
Other Investing Cash Flow Items Total	78.00	- 320.00	- 1,058.00	- 1,469.00	- 1,277.00
Cash from Investing Activities	- 799.00	- 1,194.00	- 1,795.00	- 2,080.00	- 1,973.00
Financing Cash Flow Items	- 25.00	16.00	--	--	--
Cash Dividends Paid	- 294.00	- 271.00	- 243.00	--	--
Issuance (Retirement) of Stock Net	- 14.00	-	--	3.00	- 1.00
Issuance (Retirement) of Debt Net	- 316.00	- 337.00	- 123.00	1,230.00	428.00
Cash from Financing Activities	- 649.00	- 592.00	- 366.00	1,233.00	427.00
Foreign Exchange Effects	- 8.00	- 13.00	1.00	--	--
Net Change in Cash	393.00	73.00	- 549.00	549.00	- 549.00

Annex

Overview of Accounting Requirements under IFRS

Conceptual Framework

Financial information must possess certain characteristics for it to be useful. The IFRS Framework requires that financial information must be understandable, relevant, reliable and comparable.

The IFRS Framework presents five reporting elements: assets, liabilities, equity, income (includes revenues and gains) and expenses (includes losses).

- Assets are resources controlled from a past event. Liabilities are present obligations arising from a past event. Assets and liabilities are recognised on the balance sheet when it is 'probable' that economic benefits will flow in to or out from the entity, and those benefits must be able to be measured reliably.
- Equity is the residual interest in the assets after deducting the entity's liabilities.
- Income is increases in economic benefits that result in increases in equity other than those relating to contributions from equity participants. Expenses are decreases in economic benefits that result in decreases in equity other than those relating to distributions to equity participants.

Historical cost is the main accounting convention. However, IFRS permits the revaluation of intangible assets, property, plant and equipment (PPE) and investment property. IFRS also requires fair valuation of certain categories of financial instruments and certain biological assets.

Entities may depart from a standard in extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS or an Interpretation of a Standard would be so misleading that it would conflict with the objective of financial statements set out in the Framework for the Preparation and Presentation of Financial Statements. IFRS requires disclosure of the nature of and the reason for the departure and the financial impact of the departure. The override does not apply where there is a conflict between local company law and IFRS; in such a situation, the IFRS requirements must be applied.

First-time adoption of IFRS as the primary accounting basis requires full retrospective application of all IFRS's effective at the reporting date for an entity's first IFRS financial statements, with optional exemptions primarily for PPE and other assets, business combinations and pension plan accounting and limited mandatory exceptions. Comparative information must be prepared and presented on the basis of IFRS. Almost all adjustments arising from the first-time application of IFRS must be adjusted against opening retained earnings of the first period presented on an IFRS basis. Some adjustments are made against goodwill or against other classes of equity.

General Requirements

Entities must disclose that financial statements comply with IFRS. Compliance with IFRS should not be disclosed unless the financial statements comply with all the requirements of each applicable standard and each applicable interpretation.

A set of financial statements under IFRS comprises the following components:

- balance sheet;
- income statement;
- statement of recognised gains and losses;
- statement of changes in shareholders' equity;
- cash flow statement;
- accounting policies; and
- notes to financial statements.

IFRS requires one year of comparatives for all numerical information in the financial statements, with small exceptions.

Balance Sheet

IFRS does not prescribe a particular balance sheet format, except that IFRS requires separate presentation of total assets and total liabilities. Management may use judgement regarding the form of presentation in many areas. Entities present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of their balance sheet except when a liquidity presentation provides more relevant and reliable information. In such cases, all assets and liabilities should be presented broadly in order of liquidity. However, as a minimum, IFRS requires presentation of the following items on the face of the balance sheet:

- Assets: PPE, investment property, intangible assets, financial assets, investments accounted for using the equity method, biological assets, inventories, trade and other receivables, tax assets and cash and cash equivalents; and
- Equity and liabilities: issued share capital and other components of parent shareholders' equity, financial liabilities, provisions, tax liabilities and trade and other payables, and minority interests (presented within equity).

The current/non-current distinction is not optional (except when a liquidity presentation is used). Where the distinction is made, assets must be classified as current assets where they are held for sale or consumption in the normal course of the operating cycle. Both assets and liabilities are classified as current where they are held for trading or expected to be realised within 12 months of the balance sheet date. Interest-bearing liabilities are classified as current when they are due to be settled within 12 months of the balance sheet date, even if the original term was for a period of more than 12 months; and when an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.

Assets and liabilities must not be offset, except where specifically permitted by a standard. Financial assets and financial liabilities may be offset where an entity has a legally enforceable right to offset the recognised amounts and intends to settle transactions on a net basis.

Income Statement

IFRS does not prescribe a standard format for the income statement. The entity must analyse its expenditure by function or nature. As a minimum, IFRS requires presentation of the following items on the face of the income statement:

- revenue;
- finance costs;
- share of after-tax results of associates and joint ventures accounted for using the equity method;
- tax expense;
- post-tax gain or loss attributable to the results and re-measurement of discontinued operations; and
- net profit or loss for the period.

The portion of the net income attributable to the minority interest should be disclosed separately in the income statement.

IFRS does not use the term exceptional items but requires the separate disclosure of items of income and expense that are of such size, nature or incidence that their separate disclosure is necessary to explain the performance of the entity for the period. Disclosure may be on the face of the income statement or in the notes. Extraordinary items are prohibited under IFRS.

Statement of Recognised Gains and Losses

The total of gains and losses recognised in the period comprises net income and the following gains and losses recognised directly in equity:

- fair value gains/(losses) on land and buildings, intangible assets, available-for-sale investments and certain financial instruments;
- foreign exchange translation differences;
- the cumulative effect of changes in accounting policy; and
- changes in fair values on certain financial instruments if designated as cash flow hedges, net of tax, and cash flow hedges reclassified to income and/or the relevant hedged asset/liability.

Statement of Changes in Equity

The statement must be presented as a primary statement. It should show capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity.

Cash Flow Statement

IFRS requires the cash flow statement to report inflows and outflows of 'cash and cash equivalents'. The cash flow statement may be prepared using either the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net income for transactions of a non-cash nature such as depreciation). The latter is more common in practice.

Cash includes overdrafts repayable on demand but not short-term bank borrowings, which are considered to be financing flows. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a maturity of three months or less from its acquisition date.

Changes in Accounting Policy and other changes

Changes in accounting policy should be accounted for retrospectively, with comparative information restated and the amount of the adjustment relating to prior periods adjusted against the opening balance of retained earnings of the earliest year presented. An exemption applies when it is impracticable to change comparative information.

Policy changes made on the adoption of a new standard must be accounted for in accordance with that standard's transition provisions. If transition provisions are not specified, the method described above must be used.

For correction of errors, IFRS requires the same method as for policy changes. An entity must restate comparatives.

Changes in accounting estimates are accounted for in the income statement when identified. Changes in depreciation method and revised asset life are treated as a change in accounting estimate.

Business Combination

A business combination involves the bringing together of separate entities or businesses into one reporting entity. Three types of business combination occur in practice. An acquisition is where one of the combining entities obtains control over the other, enabling an acquirer to be identified; this is the most common type of combination. A uniting of interests (pooling) occurs where the shareholders of the combining entities join in substantially equal arrangements to share control. A group reorganisation can arise from transactions among entities that operate under common control. Business combinations are always accounted for as acquisitions. IFRS requires the purchase method of accounting to be used to portray the financial effect of an acquisition. The specific IFRS guidance about business combinations excludes from its scope transactions among entities under common control.

Goodwill

This section is entirely dedicated to goodwill as this balance sheet item is very important in the brewery industry.

Practitioners and IASB led many discussions around the concept of goodwill amortisation. The following arguments are often put forward in support of amortising goodwill:

- Amortisation is a method of allocating the cost of goodwill over the periods it is consumed, and is consistent with the approach taken to other intangible and tangible fixed assets that do not have indefinite useful lives.
- Acquired goodwill is an asset that is consumed over time and replaced with internally generated goodwill. Amortisation therefore ensures that the acquired goodwill is written off and no internally generated goodwill is recognised in its place. This is consistent with the general prohibition on recognising goodwill generated internally by an entity.
- The useful life of acquired goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which that goodwill is consumed be known. Therefore, amortisation over an arbitrary period of time is the only practical solution to an intractable problem.

However, the useful life of acquired goodwill and the pattern in which it diminishes generally are not possible to predict, yet its amortisation depends on such predictions. As a result, the amount amortised in any given period can at best be described as an arbitrary estimate of the consumption of acquired goodwill during that period. In addition, both anecdotal and research evidence supports the view that the amortisation charge for goodwill has little, if any, information value for most users of financial statements, and that an impairment-only model provides users with more useful information.

Analysts frequently face the problem of how to consider goodwill amortisation in their financial analysis. For many years, financial statement preparers and users have criticised the accounting requirements to amortise purchased goodwill against revenues over a period not to exceed 40 years. Critics have argued that goodwill may not decline in value and that, even if it does, the arbitrary amounts recorded periodically as goodwill amortisation are unlikely to reflect that decline. In this view, goodwill amortisation simply adds noise to earnings, thereby reducing their usefulness to investors. Accounting standard setters, in contrast, have until recently maintained that goodwill is likely to be a wasting asset in most circumstances and that recording goodwill amortisation makes reported earnings more useful to investors by reflecting its decline in value. We provide empirical evidence as to which of these views is more consistent with the way in which investors price securities.

Taking into account all these considerations, the IASB came to the following conclusions:

- (a) to require goodwill to be tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible impairment;
- (b) to prohibit reversals of impairment losses for goodwill;
- (c) to require an intangible asset to be treated as having an indefinite useful life when, based on an analysis of all relevant factors, there is no foreseeable limit on the period over which the asset is expected to generate net cash inflows for the entity. An intangible asset with an indefinite useful life must not be amortised, but must instead be tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible impairment;
- (d) to require disclosure of a range of information for each cash generating unit that includes within its carrying amount a significant amount of goodwill or intangible assets with indefinite useful lives. That information is concerned primarily with the key assumptions used to measure the recoverable amounts of the units. The non-amortisation of goodwill and intangible assets with indefinite useful lives increases the reliance that must be placed on their impairment tests. However, the nature of impairment tests means that the carrying amount of a non-amortised asset, and the related assertion that the asset is not impaired, would often be supported only by managements' projections. The IASB has therefore included these disclosure requirements to improve the transparency and reliability of impairment tests for goodwill and intangible assets with indefinite useful lives.