

## **MANAGEMENT REPORT**

The management report relates to the period from January 1 to December 31, 2009.

SUN Interbrew Limited Limited (incorporated in Jersey as a public company limited by shares) is the second largest brewer in Russia and the largest brewer in Ukraine. Through its subsidiaries SUN InBev Russia (OJSC) and SUN InBev Ukraine, it holds a controlling interest in 10 breweries and 6 malt plants in Russia and 3 breweries in Ukraine, and also owns its own distribution network and, through these, manufactures, markets and distributes beer and soft drinks.

SUN Interbrew Limited's main brands (including those for which it has a license) are Stella Artois®, Beck's®, Staropramen®, Sibirskaya Korona®, Klinskoye® and Tolstiak® in Russia, and Stella Artois®, Beck's®, Chernigivske®, Rogan® and Yantar® in Ukraine.

SUN Interbrew Limited is part of the Anheuser-Busch InBev group, which is the leading global brewer and one of the world's top five consumer products group. Anheuser-Busch InBev effectively holds, directly and indirectly, more than 99.5% of SUN Interbrew Limited.

SUN Interbrew Limited is listed on the Luxembourg Stock Exchange and has also a global depositary receipts program that is listed on the Luxembourg Stock Exchange and admitted to trading on the over-the-counter markets ("Freiverkehr") of the Berlin Stock Exchange, Stuttgart Stock Exchange and Frankfurt Stock Exchange

### **MACRO ECONOMIC SITUATION - INDUSTRY AND MARKET DEVELOPMENT**

The Russian economy has been declining in 2009 due to the negative impact of the global financial crisis. The Russian economy depends on oil prices and suffered from high volatility of foreign exchange rates and oil prices that resulted in. Russia faced a 7.9% decrease in GDP and a 11.9% drop in industrial production. Purchasing power parity was down by 7.4% along with a 2pp unemployment rate increase versus the previous year. Inflation of consumer prices in 2009 was 11.7%, by 1.3pp lower than expected. For the beer industry 2009 was the first year of beer production decline since 1995. The beer market was down by 10.7% based on ACNielsen retail audit data.

The Ukrainian economy was put under pressure by the financial and economic crisis and political instability. The period from the 4<sup>th</sup> quarter of 2008 to the 1<sup>st</sup> quarter of 2009 was most difficult for Ukraine. During this period Ukraine suffered to the full extent from the negative effect of the global financial and economic crisis.

The Ukrainian economy depends on the world trade conditions and this caused aggravation of the macroeconomic indicators, sharp devaluation of the national currency, fall of the solvency of companies and population. The industrial output volume reduced by 21.9 % in 2009 (in 2008 – by 3.1 %). The real GDP fell by 14 % (2.5 % growth in 2008). The consumer price index (inflation index) was 112.3 %, as compared to 122.3 % in 2008, which was followed by the considerable economic recession and weak consumer demand. Beer overall market decline was approximately 7%. At the same time the Ukrainian market is becoming highly competitive. Consumers are demanding products that are cutting edge, innovative and of the highest quality.

## **OPERATIONAL PERFORMANCE**

In Russia despite purchasing power parity decrease, sales in 2009 were shifting towards core and premium segment, with 1.8pp shift to mix improvement versus previous year.

Excise tax in 2009 was increased by 9.5% from 2.74 rub/L to 3 rub/L and was fully translated to price in a January price increase. A further excise tax increase by 200% is planned by the Russian government as of January 2010. Focusing on delivery of results and constant cost-efficiency, our Russian business over performed its previous year achievements: NR/HL improved by 8.6%, EBITDA performance was better by +37.3%.

In Ukraine cost efficiency was a key for the business to overcome the challenge appeared in the current environment. Thanks to the stable work, efforts on management of the credit portfolio quality, further development of cost efficiency initiatives and strengthening of controls over all types of costs, the Company managed not only to meet the financial crisis consequences but even to obtain excellent target results achieving EBITDA margin increase by 9%, decrease in net working capital by 25% over the year. EBITDA increased by 65% and EBIT increased by 104%. Net income grew nearly 6 times. Market share has been stable at the level of 38% in 2009 and in 2008. Total sales increased by 15%.

## **COST MANAGEMENT**

Our Russian business is constantly focusing on cost optimization and on non-working expenses reduction with following reinvestment to Sales and Marketing.

The main focus is in the following areas:

- Cost saving due to procurement initiatives
- Efficient usage of existing resources
- Cut of non efficient activities
- Constant control over the expenses before they are incurred or committed

Sales and Marketing expenses in 2009 represented 18.1% of Net Revenue, 10% better than in 2008. Reduction was driven both by overall price decrease in the market and consumption optimization.

Our Ukrainian business continues to seek for standardized production and distribution costs by benchmarking every cost item to apply best practices and derive economies of scale. Zero based budgeting provides significant benefits to the business resulting in stronger control over costs and much efficient consumption of resources.

As a result of great efforts on cost efficiency initiatives gross profit margin has increased by 10%. Total sales, marketing and distribution costs for the full year went down by 3% compared to 2008. General and administrative costs were remaining stable on the level of 4 % for the full year.

## **CAPITAL EXPENDITURE**

Net Capital expenditure in Russian business decreased more than 3 times from 2008. In 2008 the majority of CAPEX was spent on upgrading of capacity, innovations and commercial equipment. In

2009 the investments in Production category were reduced due to volume decline as well as for commercial equipment.

Net capital expenditure in our Ukrainian business has decreased by 51% in 2009. This reduction represents a commitment to address the negative impact of the crisis and to continue to maintain high level of quality and efficiency for all facilities of the business.

## **CASH FLOW**

Our Russian business during 2009 managed due to various initiatives in all areas to improve Working Capital lines. The level of net cash generated by operating activities increased versus the previous year nearly twice. The close cooperation with our clients and update of credit policy decreased the receivables accounts significantly. Optimization of Inventory stocks resulted in reduction by 14 days of DIO mainly caused by optimization of malt stock. Similar trend is expected to continue in 2010.

Our Ukrainian business continued efforts in cost efficiency initiatives and the improvement in operations and working capital led to a 43% increase in the level of net cash generated by operating activities increase.

Due to close cooperation with distributors and strong recognition in the market the business managed to improve sales agreements in the middle of 2009 and improve cash position. This has led to a significant reduction of receivables days down to almost zero and together with favorable changes of inventory and payables days resulted in substantial improvement of working capital.

## **RESEARCH AND DEVELOPMENT**

Research and development is primarily aimed at process optimization, capacity increase, quality improvement and cost management. Newly developed processes, materials and/or equipment are documented in best practices and shared between Russia and Ukraine.

## **ACCOUNTING**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

From 1 January 2009, SUN Interbrew Limited capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Company immediately recognised all borrowing costs as an expense.

In 2009, financial, logistic and operations activities are starting to be transferred from breweries in Russia and Ukraine and from the Head office to the Business Service Center in Kharkiv.

## **LEGAL STRUCTURE**

SUN Interbrew Limited became the sole direct shareholder of the following Cyprian companies:

1. Winchfield Consultants Limited

2. Cantorne Trading Limited
3. S.B.Management Limited

The shares of aforementioned companies were transferred from SUN Breweries CIS Limited, which is the direct Jersey subsidiary of SUN Interbrew Limited.

During the year 2009 the composition of SUN Interbrew Limited Board of Directors has being changed. Mrs. Lyudmila Nakonechnaya, Mr. Denis Khrenov, Ms. Anna Gorodilova were appointed as Board members. Mrs.Marilen Kenington, Ms. Valeria Pavlyukova and Mr. Andrey Kamenskiy resigned from the Board of Directors.

S.B. Distribution Limited (the Cyprian indirect subsidiary of SUN Interbrew Limited) was wound up.

## **RISKS RELATING TO SUN INTERBREW LIMITED AND THE BEER AND BEVERAGE INDUSTRY**

Under the explicit understanding that this is not an exhaustive list, SUN Interbrew Limited's major risk factors and uncertainties are listed below. There may be additional risks which SUN Interbrew Limited is unaware of. There may also be risks SUN Interbrew Limited now believes to be immaterial, but which could turn out to have a material adverse effect. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or of the potential magnitude of their financial consequence.

SUN Interbrew Limited relies on the reputation of its brands and its success depends on its ability to maintain and enhance the image and reputation of its existing products and to develop a favorable image and reputation for new products. An event, or series of events, that materially damages the reputation of one or more of SUN Interbrew Limited's brands could have an adverse effect on the value of that brand and subsequent revenues from that brand or business. In addition, SUN Interbrew Limited may not be able to protect its current and future brands and products and defend its intellectual property rights, including trademarks, patents, domain names, trade secrets and know-how.

Certain of SUN Interbrew Limited's operations depend on independent distributors' efforts to sell SUN Interbrew Limited's products and there can be no assurance that such distributors will not give priority to other suppliers products. Further, any inability of SUN Interbrew Limited to replace unproductive or inefficient distributors could adversely impact SUN Interbrew Limited's business, results of operations and financial condition.

Changes in the availability or price of raw materials, commodities and energy could have an adverse effect on SUN Interbrew Limited's results of operations.

SUN Interbrew Limited relies on key third parties, including key suppliers for a range of raw materials for beer and soft drinks, and for packaging material. The termination of or material change to arrangements with certain key suppliers or the failure of a key supplier to meet its contractual obligations could have a material impact on SUN Interbrew Limited's production, distribution and sale of beer and have a material adverse effect on SUN Interbrew Limited's business, results of operations, cash flows or financial condition.

Competition in its various markets could cause SUN Interbrew Limited to reduce pricing, increase capital investment, marketing and other expenditure or lose market share, prevent SUN Interbrew

Limited from increasing prices to recover higher cost, any of which could have a material adverse effect on SUN Interbrew Limited's business, financial condition and results of operations.

SUN Interbrew Limited could incur significant costs as a result of compliance with, and violations or liabilities under, various regulations that govern SUN Interbrew Limited's operations. SUN Interbrew Limited's operations are subject to environmental regulations, which could expose it to significant compliance costs and litigation relating to environmental issues.

Antitrust and competition laws and changes in such laws, or in the interpretation and enforcement thereof, could have a material adverse effect on SUN Interbrew Limited's business.

Negative publicity regarding SUN Interbrew Limited's products (e.g. because of concerns over alcoholism, under age drinking or obesity) could result in sales of SUN Interbrew Limited's products decreasing materially.

Demand for SUN Interbrew Limited's products may be adversely affected by changes in consumer preferences and tastes. Consumer preferences and tastes can change in unpredictable ways. Failure by SUN Interbrew Limited to anticipate or respond adequately to changes in consumer preferences and tastes could adversely impact SUN Interbrew Limited's business, results of operations and financial condition.

The beer and beverage industry may be subject to changes in taxation, which makes up a large proportion of the cost of beer charged to consumers in many jurisdictions. Increases in taxation tend to reduce overall consumption and encourage consumers to switch to lower-taxed categories of beverages. An increase in beer excise taxes or other taxes could adversely affect the financial results of SUN Interbrew Limited.

Seasonal consumption cycles and adverse weather conditions in the markets in which SUN Interbrew Limited operates may result in fluctuations in demand for SUN Interbrew Limited's products and therefore may have an impact on SUN Interbrew Limited's operations.

Changes in legislation affecting retailers could result in reduced profitability for the beer industry as a whole and indirectly adversely affect SUN Interbrew Limited's financial results.

SUN Interbrew Limited is exposed to emerging market risks and to the risk of a global recession, to credit and capital market volatility and economic and financial crisis, which could result in a deterioration in the results of SUN Interbrew Limited's operations, as beer consumption is closely linked to general economic conditions, and could adversely affect the market price of the shares.

SUN Interbrew Limited is now, and may in the future be, a party to legal proceedings and claims, and significant damages may be asserted against it. Given the inherent uncertainty of litigation, it is possible that SUN Interbrew Limited might incur liabilities as a consequence of the proceedings and claims brought against it.

## **FINANCIAL RISK MANAGEMENT**

Please refer to note 23 to the Consolidated Financial Statements.

## **RELATED PARTIES TRANSACTIONS**

Please refer to note 27 to the Consolidated Financial Statements.

## **EVENTS AFTER THE BALANCE SHEET DATE**

### **Russia**

Effective from 1 January 2010, the excise duty on beer in Russia has been increased by three times, from 3 to 9 Rouble per hectoliter.

### **Ukraine**

Effective from 1 July 2010, the excise duty on beer in Ukraine will be increased from 60 to 74 Hryvna per hectoliter. Furthermore the water tax will be increased by 0,017 UAN/L

## **OUTLOOK**

As the year 2009 was highly impacted by the economic crisis and a tough economic environment, we expect an economic and business recovery in 2010. The main concern for the beer industry is the expected excise tax increase in both countries in 2010 which will impact consumer prices and therefore beer market development. As a consequence the volume is expected to decrease until consumers have adapted to the new price environment. At the same time the company will focus on supporting and building the main local brands such as Klinskoe and Sibirskaya Korona in Russia and Chernigivskie in Ukraine and to support further the premium beer segment. We believe in the long term potential of the Russian and Ukrainian beer markets and continue to perform activities which will strengthen our position in the Russian market and which will allow us to maintain our leadership position in Ukraine. We are confident that our results oriented culture will drive the future success of our business.