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## **The Carlsberg Breweries A/S: A Case Study of Investment in Poland**

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# Carlsberg Breweries A/S . Case Study of Investment in Poland

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Carlsberg is a leading word company, whose primary activity is the production, sale and distribution of beer and soft drinks, as well as related activities. It is a part of Carlsberg Group, which include also among others: Royal Scandinavia A/S, Combio A/S, Ejendomsaktieselskabet Tuborg and others. Total revenues of the group reach the level of 48,603 millions of DKK. The group employs 28 466 people.

## History

The beginning of the company trace to 1847, when Jacob Christian Jacobsen started his first brewery. In 1970 Carlsberg merged with other famous Danish brewery, founded in 1873 - Tuborg, creating the group, which sales 78,6 millions hl of beer and 20,9 millions hl of soft drinks per year (2002)<sup>1</sup> Only 4,7% of beer and 14,8% of soft drink is sold in Denmark, while only 5 year ago (1997) Carlsberg sold in Denmark 11,9% of manufactured beer and 27,4% of soft drinks. This shows that company growth is achieved mostly due to the expansion on foreign markets. Carlsberg group runs 67 breweries in 40 countries and Central and Eastern Europe plays a special role in company investment and development policy, which would be analysed in a case study, focusing on investment policy in Poland. Headquarter of the company is located in Copenhagen, Denmark.

## Financial data

Carlsberg Breweries net revenues reached the amount of 35,543 millions DKK, comparing to 34,419 millions in 2001. Operating profit of Carlsberg breweries was 3585 millions DKK in 2002, comparing to 2971 in the previous year. The amount of operating profit, and also other financial statement was the result of the changes of accounting policies, introduced in result of the changes of the Danish Regulations on Financial Statement of June 7<sup>th</sup>, 2001. Operating profit, expressed in former standards was on the level of 3638 millions DKK. Consolidated profit reached 1394 millions DKK in 2002, comparing to 1779 in 2001. The total value of the balance sheet was 42 491 millions DKK comparing to 44 777, thus was reduced by 5,1%. . Return on investment was 9,2% in 2002 comparing to 7,4% in 2001.<sup>2</sup> Company improved cash flow from operating activities, from 2299 to 4824 millions DKK, which was mainly achieved due to the reduction of the working capital.

## Activities in Central and Eastern Europe

During last years Carlsberg Breweries was very active in East European market. Besides Poland, company owns 50% of shares of Baltic Beverages Holding (BBH), 40% of shares of Panonska Pivovar d.o.o., in Koprivnica, Croatia, 50% of the shares of OAO Vena in St. Petersburg, Russia, 59 % of Shumensko Pivo AD, Shumen, Bulgaria and 67% of Pirinsko Pivo AD, Blagoevgrad, Bulgaria. In January 2002 BBH acquire 70% of the shares in the Voronezh brewery (Russia). The brewery was consolidated in May 2002. Since then the stakeholding has been increased to 83%. In December 2002 the company was sold to the

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<sup>1</sup> Carlsberg Annual Report for 2002

<sup>2</sup> Carlsberg Annual Report for 2002

subsidiary Yarpivo, which is owned in 60% by BBH. In January 2003 Carlsberg breweries increased shareholding in Pirinsko Pivo to 94,5% in result of the public offer. In May 2002 Carlsberg increased its shareholding in Panonska Pivovar to 80%, purchasing the shares of Prodravka Food Industries. Transactions in Eastern Europe, purchasing of the companies and their further restructuring can be the source of income. In June 2002 Carlsberg sold its 32% of shares in Linthuanian Svyturus Utenos Alus to BBH, making ca 35 millions DKK gain. Simultaneously Carlsberg interests in Lithuanian company are protected by 50% shares in BBH. Currently (2003) Carlsberg plans to invest 50 million dollars through BBH in Kiev Brewery. Carlsberg is using Polish experience in purchasing strong local brands in other Central and Eastern European countries. Its strategy is to offer strong local brands with its global product (Carlsberg beer). Carlsberg offer access to new technologies and modernization of local breweries, to bring them to the group standards. However most of the research and development work in conducted in headquarter.

### Research and Development

R&D activities are integral part of Carlsberg group and company has a special place in history of business financed research. Carlsberg A/S runs its own Carlsberg Research Centre, composed of Carlsberg Laboratory, Carlsberg Research Laboratory and Carlsberg Biosector. The Centre itself was founded in 1976, however institutions included into the Centre have much longer history. J.C. Jacobsen, when establishing the Carlsberg breweries, also established the Carlsberg Foundation and Carlsberg laboratory in 1876. Until now the executive board of the Carlsberg Foundation is appointed by the members of the Royal Danish Academy of Sciences and Letter. Centre still conducts basic research and the results of it are available to the public.<sup>3</sup> Centre employs more than 150 scientists and technicians not only from Denmark, but also from other countries.

Carlsberg Laboratory executes basic and applied research related to malting, brewing and fermenting operations. It has two departments:

1. Department of Chemistry, which conducts research related to substances found in grain species, especially proteins and carbohydrates, and the reactions and conversion of these substances during brewing operations. Current research are focused on following areas:
  - Protein-carbohydrate interaction
  - Glycoproteins and glycopeptides
  - Proteases and glycohydrolases
  - Nuclear Magnetic Resonance (NMR) Technology
  - X-ray Crystallography

Department has two publicly funded research centres: 1/ The Centre for Solid-Phase Organic Combinatorial Chemistry, 2/Danish Instrument Centre for NMR Spectroscopy of Biological Macromolecules.

2. The Department of Physiology, focused on following areas:

- Sensing and transport of amino acids
- Sector proteins: folding and disulfide formation
- Stress Resistance in Yeast

Laboratory is financed partly by Carlsberg group and partly by external sponsors, which contributed ca 25 millions DKK for research projects

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<sup>3</sup> Research in Denmark are in over 63% financed by private firms. [www.um.dk/research](http://www.um.dk/research)

Carlsberg Research Laboratory is focused on basic and applied research. Its main task is to provide group breweries with new technology and research related to plant and yeast biochemistry and molecular biology. Laboratory is focused on studying of the barley, malt and yeast, involving such disciplines as conventional breeding, genetics, microbiology and biotechnology. Current research topics include:

- Barley and malt quality
- PA-free malting Barley
- Beer Quality
- Brewing Chemistry
- Brewing Enzymes
- Pilot Brewery
- Plant Molecular Biology

Laboratory is also involved in quality control.<sup>4</sup> Carlsberg Research Laboratory works with other units of the Carlsberg Research Centre on the comprehensive, molecular definition of beer quality by integrating contemporary biotechnology.

Carlsberg Research Centre is interested in genetic engineering, however research in this field are subject to internal regulations. Company Gene Technology Policy include following points:

- Carlsberg considers the use of gene technology to be a natural part of scientific development
- Carlsberg carries out research in gene technology to obtain scientific knowledge about the various techniques and to obtain better insight into the genetic properties of raw materials
- The prerequisites for any utilisation of gene technology in the brewing of beer and biotechnology activities are that the gene technology is approved by authorities, that it does not pose any risk to the consumer, the environment or staff, that the technology is approved by the industries and that it is generally accepted by the public at large<sup>5</sup>.

Statement make it clear currently Carlsberg has no plans to use genetically modified food in the brewing process and the research as e.g. possibilities to use genetically modified yeast and barley are focused possibilities of the use gene technology in the future. Company research policy focus also on co-operation with innovative companies, working in the area of biotechnology. Biotech start up companies in the seed stage can be located at the Carlsberg BioIncubator and use facilities of the Carlsberg Research centre.<sup>6</sup>

#### Beer market in Poland. Local environment.

Poland consumes 27, 26 million<sup>7</sup> hl of beer (2002) and it is the tenth largest beer consumer in the world. Simultaneously it is very fast growing market. Beer replaces other alcoholic beverages, especially vodka. In 1990 beer constituted only 24% of consumed alcohol, while ten years later this amount increased to 52%. Simultaneously consumption of pure alcohol in all kind of drinks decreased from 10 l to 6 l per capita per year.<sup>8</sup> These changes were related to promoted new style of life and perception of beer as a drink for young energetic people. Promotion of the new style of life was in significant part related to advertising of beer in mass media. Simultaneously advertising of stronger drinks, especially vodka was not allowed. In

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<sup>4</sup> [www.crc.dk](http://www.crc.dk)

<sup>5</sup> [www.carlsberg.com/info/](http://www.carlsberg.com/info/). Carlsberg Research Center

<sup>6</sup> [www.crc.dk/bioincubator](http://www.crc.dk/bioincubator)

<sup>7</sup> Tomasz Prusek, Piwny rynek 2003, [WWW.gazeta.pl](http://WWW.gazeta.pl) 21.01.2004

<sup>8</sup> Jacek Łakomy, Polski rynek piwa, Rynki Alkoholowe no 3/2003

1993-2001 average annual growth rate of beer consumption was over 9 percent. In 2001 the growth was scaled down to 0,5%. The reasons were related to increase of excise tax and limited access to media, due to changes in Law on bringing up in soberness, dated September 14<sup>th</sup>, 2001<sup>9</sup>. Part of these changes were repealed in 2003, and breweries obtained easier access to TV advertising, however excise tax remain still very high.<sup>10</sup> Despite mentioned problems, after stagnation in 2001, consumption of beer in Poland increased in 2002 by 8%. Although the annual growth rate was scaled down to 4,6% in 2003<sup>11</sup>, Poland still remains very attractive market. The consumption of beer per capita increased from 30 l in 1993 to 62 l. in 2001 and 68 l in 2003. 60 percent of the Polish populations declare regular drinking of beer<sup>12</sup> Poland remains 5<sup>th</sup> largest beer market in Europe, after Germany, United Kingdom, Russia and Spain.<sup>13</sup>

Beer industry in Poland was one of the first, which observed privatization process (started in 1990), however large corporate foreign investors started to be interested in the Polish market three years later, from 1994, when Heineken invested in Żywiec. A year later South African Breweries (SAB) invested in Lech Brewery in Poznań, creating new dynamic group, “Kompania Piwowarska” (Currently owned by SABMiller Group). Till 1997 the Polish beer market was relatively dispersed. The largest company had 17% market share. In 1998 Heineken started first merges and acquisition in Poland, purchasing three new breweries and increasing its market share to 38%. Later Carlsberg, after entering the Polish Market in 1996, with investment in Okocim, purchased in 2001 in three other breweries<sup>14</sup>. In 1999 a new investor, BBAG from Austria entered the Polish Market, purchasing Van Pur Brewery, and in 2000 another two companies, Kujawiak and Browary Warszawskie.

Merges and acquisitions were continued in 2003. In 2003 Kompania Piwowarska (SABMiller) acquired from Radeberger Gruppe AG, for 35 millions Euro, 98,8% of shares of Dojlidy Brewery, strengthening its position in Eastern Poland and taking the leading position in Poland with 35% market share<sup>15</sup>. Also in 2003 Heineken purchased BBAG, limiting the number of main group on Polish Beer market to three, which manufacture over 80% of beer in Poland<sup>16</sup> It is expected that Browary Warszawskie would be added to Żywiec Heineken group, returning them leading position. Two other BAAG breweries in Poland would be probably sold out. Presently (July 2003) market is distributed between three largest manufacturers, which control respectively: Kompania Piwowarska (SAB MILLER) 35% ; Żywiec Heineken -32%+6% BBAG and Carlsberg 14%. Dynamic growth of the three leading groups is presented on the following table 1.

Table 1. Market share of the three leading Beer manufactures in Poland (in%)

Group name	1998	1999	2000	2001	2003
Żywiec Heineken	38,5%	36,7%	30,9%	31,8%	37%
Kompania Piwowarska	19,9%	22,7%	29.0%	31,4%	34%

<sup>9</sup> Advertising is very important factor on Polish beer market, as market growth is achieved through the promotion of new drinking habits and changing negative image of beer drinker, very popular in communist time. Lack of advertising in TV till 11:00 p.m. had immediate effect on the market

<sup>10</sup> excise tax In Poland reach the amount of 22,5EUR per hl, comparing to eg. 9 EUR in Germany

<sup>11</sup> Tomasz Prusek, Rynek piwny 2003, [WWW.gazeta.pl](http://WWW.gazeta.pl). 21.01.2004.

<sup>12</sup> Rynek piwa w Polsce. 2002. Kompania piwowarska

<sup>13</sup> Carlsberg Okocim Annual report 2002 p.13

<sup>14</sup> This investment is the main topic of the case study

<sup>15</sup> Information of the Polish Press Agency from February 4th, 2003

<sup>16</sup> „Wprost” weekly magazine, July 27th, 2003

(SABMiller)					
Carlsberg Okocim <sup>17</sup>	17,3%	16,7%	15,8%	13,2%	14%

Elaborated on the basis of Polski Rynek Piwa 2002 "Rynki Alkoholowe no 3/2003 and T.Prusek, "Pivny Rynek 2003" gazeta, pl 21.01.2004.

Brewery Industry in Poland has necessary supply of human resources. Engineers specialized in brewery are educated by Agriculture Colleges (e.g. in Wocław, Poznań), by Polytechnic Universities(e.g. Łódź) and by Universities.(e.g. Marminsko-Mazurski University in Olsztyn). Raw materials are available, in terms of agricultural products and water of good quality. Availability of human resources and physical resources facilitated very fast development of beer brewing in Poland.

Further development of the Polish beer market can be hampered by too high duties. After integration with EU current limits for individual imports of alcoholic beverages would be increased<sup>18</sup> and Poland might face similar situation like Denmark, with excise tax for beer reaching 36,14 EUR per hl. In Denmark ca 20% of consumed beer is individually imported from Germany. Excise tax in Poland is over two times higher than in neighbouring countries, and this may limit the development of local industry<sup>19</sup>. The situation facing Polish beer market in 2004 is getting more difficult as excise tax was increased. Currently excise tax in Poland amounts to 9,3 eurocents per 0,5 bottle, while in Germany reach only 3,9 Eurocents<sup>20</sup>. Besides VAT Tax in Poland is 22% and in Germany only 16%. Currently investors do not plan to leave Poland, but they may consider allocation of the part of Manufacturing in neighbouring countries<sup>21</sup>

### Acquired firms

Carlsberg started its investment in Poland with acquiring over 30% of Okocim Brewery in 1996. Okocim had even longer tradition in beer manufacturing than Carlsberg. The first brewery in Brzesko was established in 1845 by Jan Goetz from Bayern (Wittemberg). At that time this town was a part of Austrian-Hungarian Empire (as Poland was partitioned between Russia, Germany and Austria). The mission of the company was to produce "The best of the best". In 1860 Okocim brewery produced 18 000 hl of beer, and in 1880 - over 40 thousand hl. Before the World War I, brewery was one of the largest beer manufactures in Austrian-Hungarian Empire, brewing over 400 thousand hl of beer. In 20-ties of the XX century the production drop to 100 thousand hl. Goetz family owned the brewery until 1939. Family were active in Polish political life, as the Jan Albin Goetz II became the chairmen of Polish Parliamentary Club in Austrian Parliament and after regaining of the independence in 1918 - Senator of Republic of Poland. During the Second World War, the brewery was owned by German state. After the World War II the Okocim Brewery was nationalised and the State Owned Enterprise - Okocim was created. In 1950, company manufactured 350 thousands hl

<sup>17</sup> Including Kasztelan, Bosman and Piast breweries, before they were acquired by Carlsberg

<sup>18</sup> After May 1<sup>st</sup>, Poles would be able to import individually 220 bottles of beer during each travel. It is estimated, that this individual import may bring the \$600 income per month (equal to average salary) and considering high unemployment in Poland many people in border regions may become involved in individual import of beer, hampering manufacturing beer in Poland (Gazeta Prawna 19.03.2004)

<sup>19</sup> Excise tax for 0,5 l. bottle of beer In Poland is currently 0,43 PLN, comparing to 0,18 in germany, 0,20 in Czech Republic, 0,20 in Slovakia and 0,21 in Lithuania. In Denmark it reach the amount of 0,72 PLN Akcyza Piwa w Polsce, Związek Pracodawców Przemysłu Piwowarskiego 2003

<sup>20</sup> Gazeta Prawna 19,03.2004

<sup>21</sup> Por. interview with Mr. Nico Nusmeier, president of the Żywiec-Heineken Group, Gazeta Prawna 19.03.2004

of beer, reaching hardly the level of 1911. In 1969 breweries in Jędrzejów and Kraków were merged with Okocim Enterprise.

During the transition from centrally planned to free market economy, Okocim was one of the first companies in Poland, privatised through Warsaw Stock Exchange. On October 25<sup>th</sup>, 1990, the State owned Enterprise was transferred to the joint stock Company Okocim Brewery S.A. However further privatization was postponed till 1992, due to necessary settlement with inheritors of Jan Goetz, first owner of the Okocim Brewery<sup>22</sup>. In the beginning of 1992 Shares A series were issued and on February 13<sup>th</sup>, 1992 Brewery stock was introduced to Warsaw Stock Exchange. Public offering allowed to sell 2 800 000 shares (62,96% of the stock). Management Board of Okocim, following privatization agreement purchased 16 800 shares (0,6% of distributed stock), with option for 67 thousands of shares till December 1996.<sup>23</sup>

Privatisation of Okocim was combined with investment in modern production lines. Okocim was the first Brewery in Poland which introduced in 1991 manufacturing of the beer in cans. A year later the line for manufacturing beer in steel container was purchased. In 1994 modernisation of brewing department and purchase of fermentation tanks with automatic control, made the Okocim brewery the most up to date breweries in Poland. Before acquisition by the foreign investors, Okocim was leading brand mark in Poland, with relatively modern equipment, although ISO certificate 9002 was obtained in 1996, after purchasing the brewery by Brau and Brunnen.

Brau and Brunnen GmbH from Germany purchased 25% of the Okocim shares (B) in 1994. As a part of restructuring process, the brewery in Jędrzejów was sold out and simultaneously brewery in Chociwie was purchased. Brau and Brunnen was involved in Okocim only for two years. In April 1996 new series of shares (C) was issued and 31,6% of Okocim shares was purchased by Carlsberg A/S. Simultaneously German investors withdraw from Okocim. Danish investor is significantly larger beer manufacturer<sup>24</sup>, however both companies fit in term of products.

Purchase of Okocim was the first step in developing Carlsber Group in Poland. On August 8, 2001, Carlsberg Okocim SA and Carlsberg Breweries A/S concluded contingent share-purchase agreements with Bitburger Brauerei Th. Simon GmbH and Bitburger GetraenkeVerwaltungsgesellschaft mbH, the respective owners of 99.77% and 99.39% of the initial capital of the Bosman Brewery and Kasztelan Brewery companies. As a result of the conclusion of these agreements on April 2, 2002, both breweries were incorporated into the Carlsberg Okocim Group. The purchase of two breweries cost 220 millions PLN (ca 52 millions EUR)<sup>25</sup>

Carlsberg decided to enter the Polish market relatively late, comparing to its main competitors (Heineken in 1995, SAB in 1995). At the time of Carlsberg entry it was clear, that global company can not ignore one of fastest growing market. Definitely at that time it was too late for the first mover advantages. In 1996 it was clear that drinking habits of Poles are changing toward the beer and there are expectation, that Poland may consume similar amount beer per capita like leading European consumers, including Germany, Czech Republic, UK.

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<sup>22</sup> Informacja o wynikach kontroli przekształceń własnościowych . NIK 1999

<sup>23</sup> Informacja o wynikach kontroli przekształceń własnościowych . NIK 1999

<sup>24</sup> Carlsberg A/S manufacture nearly 50 times more beer than Okocim brewery

<sup>25</sup> Polskie perły światowych koncernów. Rzeczpospolita 20.01.2003

Purchasing Okocim, Carlsberg has relatively small market share, ca 7%, comparing to 17 of Heineken. Following its main competitors, Danish investor decided to acquire strong regional breweries, owned mostly by private investors. That way it was deprived of advantages of direct participation in privatization process.

At the end of 2002, Carlsberg Breweries A/S held also a 100% interest in Dyland BV, the owner of over 98% of Browary Piast's initial capital. Previously the co-operation between Carlsberg Okocim SA and Browary Piast has been based on two agreements: a distribution agreement concluded on February 21, 2002 and a co-operation agreement of February 28, 2002. Under the distribution agreement, the co-operation between the parties consists in the purchase by Carlsberg Okocim of products manufactured by Browary Piast with a view to placing them in the trade offer of Carlsberg Okocim and reselling them as commercial goods to its customers. On the basis of the co-operation agreement, the Company provided sales services for Browary Piast consisting in the support and organisation of the sales of Browary Piast's products, product marketing services, packaging equipment maintenance and logistics.<sup>26</sup>

All acquired breweries were modernised in last years and have strong regional position. All breweries have also very long tradition of beer brewing. "Piast" was established in 1893, Bosman in 1848. Purchase of these three additional breweries in 2001 was the beginning of Carlsberg Okocim group in Poland, with 14-16% market share in Polish beer market.

Besides acquiring additional companies, Carlsberg increased successively its shares in Carlsberg Okocim to 50,1% in May 2001. According to Polish Securities Law, Carlsberg was obliged to make the public tender for all outstanding shares in Okocim, to exceed a 50% of shareholding. Carlsberg offered 16,25PLN per share, and that price represent the premium of 36,1% to average price from last 6 months, preceding the day of announcement. Carlsberg offer was approved by Security Commission on May 16<sup>th</sup>, 2001 and thus it was able to increase its share holding to over 50%. . Company strategy was to have no more that 75% of shareholding In December 2002 Carlsberg breweries A/S acquires additional 9,9% of Carlsberg Okocim SA from Bittburger, increasing its share holding to 71,47% . Simultaneously Carlsberg declared, that it has no intention of delisting Carlsberg Okocim from the Warsaw Stock Exchange until 2005. <sup>27</sup> During first half of 2003 Carlsberg shareholding in Carlsberg Okocim increased to 74,97%. In 2003, beside Carlsberg , 10% of shares is owned by Bitburger Getranke, 5,85% by Agencja Rozwoju Przemysłu (Industry Development Agency) belonging to State Treasury and 9,18 by minor share holders including Danish Investment Fund for Central and Eastern Europe. Ownership structure corresponded to voting power in General Assembly.<sup>28</sup>

During the second half of 2003 Carlsberg continued purchasing of the Okocim shares. In October Danish investor purchased from Bitburger 4% of Okocim Shares for 8,4 millions US dollars, increasing its share to 79 %. At the end of 2003 company announced the call for sale of Okocim shares at the fixed price 25, 50 PLN (ca 6 Euro) per share, and in result purchased 2 296 781 shares, increasing shareholding to 92,97%<sup>29</sup>. In March 2004 another call for sale was announced at similar price (25,50 PLN) and company declared the will to purchase remaining 2 019 975 shares. It is planned that, despite its previous declarations, in 2004

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<sup>26</sup> Carlsberg Okocim S.A. Annual Report 2002

<sup>27</sup> WWW.cws.huginonline.com/Q/111/PR2000105

<sup>28</sup> July 2003 www.gielga.onet.pl

<sup>29</sup> Carlsberg wezwał do sprzedaży Okocimia. WWW.breinwet.com.pl

Carlsberg will own 100% of Okocim and will withdraw the company from the Warsaw stock exchange<sup>30</sup>. It is clear that Carlsberg strategy in Poland was to take full control over acquired companies. Withdrawal from the Warsaw Stock exchange would allow also to reduce the number of information provided on the company to the public.

### Investment in modernization

Changes in shareholding were combined with company modernization and Carlsberg continued investment in Okocim Brewery. In 1999 Danish investor implemented High Gravity Brewing method. HGB method increased brewery efficiency and reduced energy, labour and capital costs. Although this method has also significant negative effects<sup>31</sup> it became wide spread in brewing industry during recent years. In 2001 group invested 74 millions PLN (17,6 Millions EUR) in modernization of the Okocim..<sup>32</sup>. Totally till the end of 2002 Carlsberg invested in Poland 103,5 millions US dollars<sup>33</sup> Nearly 40 millions dollars were invested in Sierpc Brewery till 2004<sup>34</sup> During last year (2003) another 20 millions of Euro was invested in modernization of Okocim brewery in Brzesko and in modernization of Bosman Brewery in Szczecin. In 2003 company obtained HACCP certificate. During 2004 Carlsberg group plan to increase the investment in environmental protection, e.g. nearly 4 millions dollars would be invested in water cleaning plant in Bosman Brewery<sup>35</sup>

In 2001, as a part of Group reorganization, the head office of Carlsberg Okocim, was moved to Warsaw, where the key organizational units are now located. These include the Management Board, the Sales Department, the Marketing Department, the Supply Chain Department, the Human Resources Management Department and the Finance Department. It is there that group-wide strategic decisions are taken. Since 2002, Carlsberg Okocim SA conducted purchasing, logistics, sales and marketing, distribution and finance activities on behalf of all of the Group's organizational units. Manufacturing functions were concentrated in three production plants (i.e. the Okocim, Bosman and Kasztelan breweries) involved in beer production for Carlsberg Okocim SA and using entrusted inputs pursuant to a so-called 'tolling' agreement.<sup>36</sup> In 2002 Carlsberg Okocim group nearly doubled its sales and reported 2,8 millions PLN profit., comparing to over 30 millions loss in 2000. April 2<sup>nd</sup> 2002 is recognized as an official date for building the Carlsberg group in Poland, the third largest beer manufacturer. In 2003 Company increased the sale from 1 014 millions PLN to 1 093 millions, but simultaneously reported loss. According to company management, it was mostly the effect of high cost of restructuring of Kasztelan and Bosman Breweries.

It should be mentioned that, privatization of Bosman, Piast and Kasztelan Breweries were conducted different way. Originally Kasztelan brewery in Sierpc was leased to employees and later was purchased by Bitburger. Piast Brewery was sold to individual German citizen, co-owner of small company "Drink-Service" and later was acquired by Dutch holding company Dyland BV. Bosman Brewery was sold to individual person, before it was acquired by Bitburger. Privatization process of these breweries rose a lot of concerns. State Controlling

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<sup>30</sup> Rzeczpospolita, 9.03.2004

<sup>31</sup> Dawn I. Reilly...Laboratory Scale Production of High – Gravity Wort Suitable for a Broad Variety of Research Applications, J.Am.Soc. Brw. Chem. 2004 p.23-28

<sup>32</sup> Polskie perły światowych koncernów Rzeczpospolita, 20.01.2003 . Ekonomia i Rynek p.1

<sup>33</sup> Information PAIZ (Polish Agency of Foreign Investment). Denmark invested in Poland till the end of 2002 over 1,8 billions of US dollars, becoming 9<sup>th</sup> largest investor.

<sup>34</sup> Parkiet, 2.02 2004

<sup>35</sup> Głos szczeciński 4.03.2004

<sup>36</sup> Carlsberg Okocim S.A. Annual Report 2002 p.7

Office reported, that during privatization process of Bosman, not all bidding companies had equal chances and final price was not optimal, comparing to other offerers. Also first private owner Piast brewery did not meet all requirement included into privatization agreement<sup>37</sup>. The position of Breweries composing currently Carlsberg group in Poland can be observed on following table:

Table 2. Market share of Carlsberg group breweries in Poland, in %

Brewery	1998	1999	2000	2001
Okocim	8,3	7,2	5,9	6,4
Kasztelan	2,5	2,5	2,6	2,5
Bosman	3,0	3,2	3,5	2,8
Piast	3,5	3,8	3,8	3,2
Total market share	17,3	16,7	15,8	14,9

Source: Prospekt Emisyjny Carlsberg-Okocim, 2002 part 1

In 2003 the market share of Carlsberg Okocim decreased to 14%<sup>38</sup>. The table shows, that Breweries included into the group lose its market position since late 90-ties. In late 80-ties it was resulted from the fast grow of Tyskie Beer, owned by Kompania Piwowarska(SAB). This beer compose 7% of the market in 1998 and 18,4% in 2000<sup>39</sup> In this year, second competitor, Żywiec observed less spectacular growth, from 9,% in 1998 to 11,8% in 2000<sup>40</sup> In these years Okocim decrease its market share from 8,3 % in 1998 to 5,9 % in 2000. Modernization of the brewery and new marketing strategy resulted in rapid growth of the brand. In 2001 Okocim was the fastest growing brand in Poland, however that did not influence the process of loosing the market share of the group. Carlsberg-Okocim is not participating at the same level in merges and acquisition in Polish beer industry like competitors.

### Employment changes

Restructuring process, modernization of the breweries and implementation of the new technologies resulted in decrease of the employment. In 2001, when the Carlsberg group was created, it employed 1429 employees.<sup>41</sup> In the beginning of 2004 employment has decreased to 1055 persons<sup>42</sup>. Decrease of employment within the group was the continuation of ongoing processes in acquired companies. Before the Carlsberg acquisition, during the 2001 Bosman Brewery decreased employment from 314 to 297 persons<sup>43</sup>. After joining the group, Kasztelan Brewery decreased employment by ca 100 persons in 2001/2002.<sup>44</sup> In 2001, prior to the creation of the Carlsberg group employment in Okocim decreased by 5%, to 864 persons Modernization and increase of efficiency resulted also in lower demand for the utilisation of supplementary breweries, with outdated technologies. In 2001 Brewery in Cracow, belonging to Okocim was closed down. Cracow Brewery was mostly used in peak season, when the demand for beer increased significantly. After the modernization sufficient manufacturing power was provided by main Okocim brewery in Brzesko and Cracow plant,

<sup>37</sup> Informacja o wynikach kontroli w przemyśle piwowarskim. Raport NIK. Wwa 1999, p.24-28

<sup>38</sup> Rynki Alkoholowe no3/2003

<sup>39</sup> Przeobrażenia Polskiego Przemysłu Piwowarskiego, „Rynki Alkoholowe no6/2001

<sup>40</sup> Przeobrażenia Polskiego Przemysłu Piwowarskiego, „Rynki Alkoholowe no6/2001

<sup>41</sup> Carlsberg report 2002

<sup>42</sup> Serwis finansowy Money pl. 30.03.2004

<sup>43</sup> Carlsberg-okocim prospekt emisyjny. 2003 rozdz.8

<sup>44</sup> “Sierpeckie Rozmaitości no 1 /2002

like plant in Chociwle was closed down. Reduction of employment was also related to outsourcing part of the services<sup>45</sup>

Reduction in employment were combined with assistance to laid off workers. Employees of Cracow brewery could participate with free of charge training provided by the group, which allowed them to gain new skills, more useful on the labour market. Also reduction of employment had significant impact on increase of salaries. E.g, in Bosman Brewery , total amount of compensation increased by 7,5% in 2001, despite reduction of employment by 5,4%<sup>46</sup> . Additional compensation was paid to laid off employees.

### Carlsberg Strategy in Poland

Carlsberg strategy in Poland is “to be the fastest growing profitable beer company fighting for leading position”. The execution of this strategy required implementation of significant changes in product portfolio, focusing on most promising brand and reducing the number of overall brands. Also totally new brands were introduced in 2002-2003. Out of purchased brands, in most cases, only two leading beers were selected and their manufacturing was continued. Investor changed some of the brands names and methods of production, focusing on improving the product and package quality. Simultaneously the group focused on methods of increasing the volume of Carlsberg beer sold in Poland.

### Restructuring of the product portfolio

During the consolidation process of the Carlsberg group in Poland, large emphases was put on reduction of numbers of local brands and replace the existing brands with the new ones. Investor decided to divide the brands in two groups: Main brands, (like Okocim Jasne Pełne, Okocim Mocne, Karmi, Carlsberg) and supporting brands, which include mostly newly acquired regional brands<sup>47</sup> Decreasing consumer interest in “Okocim Premium” beer led to the decision to withdraw it from the market and replace it with “Okocim Jasne Pełne”. Company strategy was oriented on adjustment of the new product to consumer’s preferences. New product was introduced on the basis on consumer’s survey, executed on the nation wide scale. According to company management, this way of product designing could restore Okocim's strong position in the full light beer segment.

Currently (2003) group portfolio include 4 national brands :

- Carlsberg,
- Okocim (Okocim Jasne Pełne and Okocim Mocne)
- Karmi
- Volt (Volt Original and Volt Mocne)

National brads are complemented by 5 regional brands:

- Kasztelan (Kasztelan jasne Pełne and kasztelan Mocne)
- Bosman (Bosman Full land Bosman Special)
- Piast ( Jasne Pełne and Piast Mocne)
- Książ ( Książ and Wrocławski Full)<sup>48</sup>

In March 2003 new brand was addend „Harnaś”, followed by intensive advertising campaign<sup>49</sup> .

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<sup>45</sup> Carlsberg-Okocim. Sprawozdanie z działalności remitenta, Warszawa 2002

<sup>46</sup> Prospekt emisyjny Carlsberg-Okocim 2002, rozdz.8

<sup>47</sup> Prospekt Emisyjny Carlsberg Okocim, 2002 part 1.

<sup>48</sup> Carlsberg-Okocim Annual report 2002 p. 23 and 32-45

<sup>49</sup> www.mediarun.pl

Discontinuation of the production and sale of selected brands and restructuring of the product portfolio in 2002 did not have the negative impact on the volume of sale. In 2002 the sale increased by 2%. After the restructuring process Carlsberg group was the fastest growing beer manufacturer. During the first 6 months the sales of beer in Poland increased by 4%, while Carlsberg increased its sale by 6%, comparing to 5% grow of Kompania Piwowarska and 4% grow of Heineken-Zywiec<sup>50</sup>

### New Marketing Strategy

The 2002 was the first year of operation for restructured distribution system. New sales team was build on the basis of most effective staff persons from the Okocim, Bosman, Kasztelan and Piast breweries. The number of directly serviced retail points of sales, including bars and restaurants was increased to 28 thousand. New sales strategy was focused on optimum display of Carlsberg Okocim products at points of sale through:

- increasing the visibility of products at the best locations,
- drawing attention to products, using top-quality promotional materials,
- intensifying promotional activities;
- targeting shop owners and staff to encourage higher purchases.

Group marketing efforts concentrated around two brands – Carlsberg and Okocim. At a regional level, group focused on strengthening the position of Kasztelan, Bosman and Piast in their respective home markets. In 2002 Carlsberg Okocim launched new sales strategy based on independent distributors, selling the full range of the Group's products. Special emphasis was placed on closer co-operation with distributors through improved service quality and joint market initiatives. To improve co-operation with wholesale distributors and commercial chains, a new network of distribution warehouses was established, leading to the closure of premises at Częstochowa, Kielce, Toruń and Łódź. The IT system deployed there improved document flow and centralized inventory management. To gain a better understanding of the expectations of distributors, commercial chains, shops and Hotels, Restaurants, Coffee Shops outlets, company conducted a satisfaction study. Study findings allowed to prepare new operating strategies in sale channels, more adjusted to the expectation of partners<sup>51</sup>

### Increasing the market share for Carlsberg Beer in Poland

The stress on Carlsberg brands was very visible during promotion campaign in 2002 and 2003, especially during TV campaign. Marketing efforts resulted in increase of sales of Carsberg beer in Poland by 671% in 2002. This result was achieved by means of carefully developed and consistently implemented strategies. The brand's availability was improved and its pricing strategy reviewed. Revised prices were competitive to local brands. The packaging was changed and replaced with 0.5 litre bottles in a special carton, more familiar to Polish consumers, as well as new multi-packs. Distribution channels were reviewed and brand was available in most important supermarket chains. Company introduced also special motivation measures for all Carlsberg Okocim employees involved in the project.<sup>52</sup>

### Strengthening selected national brands

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<sup>50</sup> Press release of Employers Association of Beer Industry in Poland. PAP. January 14<sup>th</sup>, 2003

<sup>51</sup> Carlsberg-Okocim Annual report 2002 p. 47-49

<sup>52</sup> PAP (Polish Press Agency) February 3<sup>rd</sup>, 2003

Carlsberg group shifted also the communication strategy for the Okocim brand, focusing on building single image for the entire brand. Before the Carlsberg group was created, local brands purchased by Carlsberg were distributed in cans or in so call Euro standards returnable bottles. These bottles were replaced with the customised 'okocimska' bottle. The new packaging, with its attractive graphic design, enhanced the brand's prestige and helped to attract new consumers as well as retain existing ones<sup>53</sup>

Intensive advertising activities accompanied the launching of the Okocim Jasne Pełne brand. The most eye-catching of them was the TV advertising campaign for which two spots were produced linking the beer brand's name to values that bring Poles together. Okocim Jasne Pełne was also advertised in magazines and the daily press, using unconventional methods. During the summer season, promotional actions were conducted at points of sale under the 'Okocim Days' scheme. Consumers who purchased two bottles of the advertised brand were offered, free of charge, a small bottle of Okocim Jasne Pełne. The purpose of these efforts was to encourage the highest possible number of potential consumers to sample the new brand. The product itself was awarded the highest score in the Polish beer ranking held by 'Gazeta Wyborcza' (largest Polish daily newspaper). This fact was also communicated via press and radio advertisements<sup>54</sup>.

In 2002 Carlsberg group focused significant part of marketing efforts on brand "Volt", inexpensive beer targeted to young generation. Company quickly managed to improve brands points of availability, raising it from 33% in January to 64 % in December. Another important step in Volt's image repositioning was a new design and packaging. The group introduced series of Volt's three types of cans, which contributed to the promotion of the brand's value. In the context of Volt's growing availability a new methods of promotion were introduced. In the spring 2002, retail points of sale featured new POS materials, which accompanied the image building promotion for consumers, targeting primarily young people. Attractive prizes, such as multimedia laptops and thousands of CDs, attracted a lot of interest from the public. Consumer promotion was used to establish Volt's presence in the media. Advertising spots were broadcast in nationwide radio stations, including RMF FM, Radio Zet. The second communication channel was through carefully selected press titles addressed to active youth, where advertisements were placed referring to the brand's value and the conducted promotion.<sup>55</sup> This was welcome by the market as was the launch of this came in response to growing consumer interest in the strong beer sector

Carlsberg group addressed effectively increasing interest of the Polish consumers in Strong Beer segment, containing ca 7% of alcohol. In 2002 competing with Zywiec-Heineken Group and Kompania Piwowarska, group decided to increase contain of the cans. Consequently, Okocim Mocne became the first beer in the Polish market to offer consumers 15% more in a taller-than-standard can. In the last two months of 2002, Okocim Mocne was also supported by a tactical TV advertising campaign, primarily displaying the product's good qualities. Due to this campaign Okocim Mocne was able to retain its market share. Simultaneously group decided to launch a new, strong brand - Volt Strong, a variation of Volt beer. Positioned similarly to Volt Original in the lower-priced sector, Volt Strong offers high quality and a characteristic sweetish flavor at a competitive price, which, combined with its very attractive

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<sup>53</sup> Carlsberg-Okocim Annual report 2002 p. 17-25

<sup>54</sup> Carlsberg-Okocim Annual report 2002 p. 27

<sup>55</sup> Carlsberg-Okocim Annual report 2002 p. 29

and dynamic packaging, generates high consumer interest. In the same segment Carlsberg offer two regional brands – “Piastr Mocne” and “Kasztelan Mocne”.<sup>56</sup>

The Carlsberg group placed special emphasis on leveraging market niches, in particular in the non-alcoholic beer category, focusing specifically on Karmi beer, whose sales grew in 2002 by 23% on the 2001 level. The resulting marketing success was the effect of a consistent and multidimensional promotional campaign, combined with a two-year program on improvement of brand manufacturing, which resulted in better quality. The increased sales of Karmi beer could be attributed to the nationwide TV advertising campaign, addressed specifically to women conducted under the ‘We know what’s good for us’ slogan. The most important of these included a promotional campaign in commercial chains - ‘Karmilanie’, beer sales with bonuses in the form of elegant gifts, and the modified graphic design enhanced the feminine brand image. Advertising materials were also prepared for retail outlets stressing the brand’s lightness and femininity. In the summer months, Karmi was sold in kegs from purpose-made Karmi sandwich-bars<sup>57</sup>.

New promotion strategy of Carlsberg Okocim brands included a lot of attention to Hotels, Restaurants, Coffee Shops outlets, where promotional activities were conducted involving pub regulars in games and competitions with prizes. The participating premises were provided with glasses and umbrellas bearing the company logo. Some were also equipped with beer garden furniture. In autumn 2002, a large-scale promotional campaign was launched under the ‘Skiers’ paradise’ slogan, a reference to Carlsberg’s sponsoring of the World Alpine Skiing Championships held in St. Moritz<sup>58</sup>

### Building the local brands

Strengthening the position of national brand, especially Carlsberg was combined with development of regional brands. Kasztelan, currently the strongest regional brand of Carlsberg Okocim recorded 5% sales growth in 2002 as comparing to previous year. The quality of the product was recognized by beer experts at the Łódź Beer Festival and during the ‘Chmielaki’ competition, where Kasztelan Jasne Pełne was awarded a gold and Kasztelan Mocne a bronze medal. The development of the new image of the Kasztelan brand and strengthening of its leading position in its local region was aided by extensive promotional activities. The press campaign entitled ‘Kasztelan. Our medal winning beer.’ stressed regional pride in order to build consumer loyalty and point to the product’s high quality. The brand’s availability was improved significantly as well as its shelf display at points-of-sale, brightened up with shiny new POS materials. Media activities were accompanied by popular image promotions held for consumers. Another key element in strengthening the brand’s position in the local market and building brand loyalty were sponsorship activities. Kasztelan hosted many outdoor events, including a series of a dozen ‘Kasztelan Feasts’ which attracted thousands of visitors on each occasion.

Within Carlsberg Okocim's overall strategy, Bosman, another of the Group's regional brands, concentrated on strengthening its position in the local market. Intensive marketing efforts targeted consumers from north-western Poland. Promotional and advertising efforts also helped strengthen the position of Bosman, one of the two leading brands in the zachodniopomorskie voivodship. They supported its marine, regional image through a strong

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<sup>56</sup> Carlsberg-Okocim Annual report 2002 p. 21-23

<sup>57</sup> Carlsberg-Okocim Annual report 2002 p. 29

<sup>58</sup> Carlsberg-Okocim Annual report 2002 p.27

presence in the local media (TV, radio, outdoor and press), at sponsored events, consumer and commercial promotions held at retail points of sale as well as Hotels Restaurants Coffee Shops outlets. The strategy adopted was effective, as is reflected in a 4% sales increase on the 2001 level, despite a substantial narrowing of the distribution area. The strength of the Bosman brand certainly constitutes one of the pillars of the increasingly stronger position of the Carlsberg Okocim Group as a whole. In April 2002, two products, Piast Jasne Pełne and Piast Mocne, were launched under the Piast brand. Both replaced existing brand varieties. The re-launch of the Piast brand involved, among other features, altered graphic design, new labeling, a corporate 'okocimska' bottle, an improved recipe, a new price structure, and a new, consistent marketing strategy. Carlsberg Okocim's portfolio also retained the Książ and Wrocławski Full brands. A gradual improvement of the Piast weighted distribution (up to 81% in December 2002) as well as growing market shares (a 9% share of the Lower Silesian market in terms of sales volume) reflect the effectiveness of the measures undertaken throughout 2002.

The Piast brand is the region's pride and the symbol of what is the best in Lower Silesia. The campaign supporting the launching of the new Piast brand was conducted under the 'Piast. Piwo Zdolnego Śląska' (Piast Beer from Talented Silesia – game of words, in Polish “from Lower” = “Talented”) slogan. In the course of the campaign, Piast was given strong support in both regional media (outdoor and press) and across all retail sale channels for which consumer and commercial promotions were developed as well as a wide range of POS materials. Cindertrack racing has become an important area of the brand's life following the sponsorship of WTS Atlas Wrocław sports club by Piast. The brand has established a strategic alliance with the club in 2002.<sup>59</sup>

### Human Resources Development

Company's main objective is to create world class team, composed of highly qualified, ambitious, motivated and open minded people, oriented on constant development. Carlsberg put strong emphasis on the development of transparent organization structure of the company, reflecting responsibilities of all staff members. Reorganization of the human resources was started from Brzesko Brewery (Okocim) and later it was continued in Bosman and Kasztelan. Following that, the process of building single organizational structure within the group was started in second half of 2001. Also in 2001 the Carlsberg implemented Management by Objectives System (MBO) for top and medium level management. At the beginning the system was implemented in Brzesko Brewery, but till 2003 was introduced in remaining group breweries<sup>60</sup> Clear description of yearly objectives and individual tasks allowed to improve the process of meeting strategic objectives of the company.

Carlsberg group in Poland facilitated also development of individual skill by the system of trainings provided to staff members. Topics of the trainings include implementation of new computer software (SAP), financial management, implementation of HACCP system, negotiations skills, time management, strategic management, presentation skills.

Strong emphasis was put also on internal and external communication. Within the framework of internal communication, the flow of information to each employee was improved. Information of implemented changes, conducted restructuring reach employees in breweries,

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<sup>59</sup> Carlsberg-Okocim Annual report 2002 p. 29-31

<sup>60</sup> WWW.carlsbergokocim.pl

which joined the group in 2001. That way the scale of possible fears, related e.g. to stability of work places, possible changes in tasks and obligations were reduced and working environment became more friendly. Internal communication is assured with corporate newsletter, e-mails from the management, Also meeting with management were organized and staff members were informed on implemented changes during specially elaborated presentations or films. Carlsberg implement also special program “You are in Okocim” for new employees, which present history, organizational culture and function of the Carlsberg-Okocim Group. The effect of implemented measures was surveyed in June 2001, with specially designed survey questionnaire on satisfaction in workplace. The survey allowed also to identify areas where additional information and improvement of communication tools is necessary. Generally, according to management implemented measures allowed to increase the quality and efficiency of the human resources

Company’s human resources development activities were focused also on improvement of the efficiency of sales department. HR Department developed the system of evaluation of competences of the sales persons assuring that whose competences build the market success. Company build the short and long terms development plans for staff members of sale and marketing departments<sup>61</sup>.

Starting from 2003, Human Resources management was included into SAP system, what allowed to introduce single system of time management, administration and compensation within the group. Company organized also the series of workshops on the corporation value system.<sup>62</sup> Development of this values with employees allows for better identification of human resources with the corporation and its objectives.

### Cost reduction

Important element of the restructuring process and improvement of the group operation was reduction of operational costs. In 2002, when the group became fully operational, the company managed to substantially lower the ratio of cost of goods sold to net revenue. Its value fell from 36,1% in 2001 to 35, 2% in 2002. Cost of sales, as compared to net revenue, dropped significantly from 50,5% in 2001 to 39,3 in 2002 Selling costs to net revenues decreased due to organizational changes within the Group, such as centralized purchasing and administrative functions and the establishment of a shared sales and distribution network The Group significantly reduced general management costs whose ratio to net revenue dropped from 18,5 % in 2001 to 13.7% in 2002. Implementation of a new IT system and introduction of consistent procedures allowed for better and more flexible management of the logistical processes within the Group. Substantial savings were generated in strategic inputs and materials purchasing. Production planning functions were integrated and systematized, and thus utilization of the production capacity by all breweries within the Carlsberg Okocim Group was more effective. The strategic, long-term approach to the issue of cost reduction also took account of investment projects.

The process of beer bottle and crate standardization was continued within the Group. In the course of the extension of the Brzesko brewery, new fermenting tanks were commissioned and the test run of the new brewing facility was begun. The consolidation involved a number of modifications in the area of the standardization of analytic methods for beer inspection, materials, inputs and process-flow standardization. Across all of the Group's breweries, the

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<sup>61</sup> Carlsberg-Okocim. Sprawozdanie z działalności emitenta, Warsaw 2002

<sup>62</sup> [www.carlsbergokocim.pl](http://www.carlsbergokocim.pl)

HACCP system was put in place and work was begun on the deployment of the ISO 14 001 system and an integrated quality system (ISO 9001-2000 + ISO 14 001 + HACCP). Following optimization, changes in technological processes and the application of new operating methods in the course of 2002, production costs were regularly reduced, whereas the integrated production planning functions allowed for flexible management of the area in question. The expansion of the Brzesko brewery, as well as the upgrading of the draught lines at the Bosman and Kasztelan breweries, all led to a more economic utilization of production capacity. In April 2002 the modernization of Okocim brewery in Brzesko was finished and the brewery was prepared to produce 2 million of hl of beer, comparing to 1,5 millions in previous years. Production related savings resulted in a significant improvement in the profitability of sales, and allowed to gain 2,8 million PLN profit<sup>63</sup>. Also the human resources management system was improved due to application of SAP system. This resulted in the establishment of a uniform payroll, administration and time management system. Efficiency of the human resources was improved due to implementation of MBO system.<sup>64</sup> Restructuring process resulted in decrease of employment<sup>65</sup>. According to Mr. Piróg, president of the Carlsberg Okocim, further investment would be focused on marketing and advertising activities. It is anticipated that spending in this area would grow by 10-20% annually. Since all group breweries were already modernized, there is not need to continue large investment in machinery and technology.<sup>66</sup>

### Sources of financing

During the years of 2000 and 2001 Carlsberg Okocim was financed with group own financial resources. Those resources, at the amount of 121 millions in 2000 and 82 millions in 2001 were used to modernize Okocim Brewery in Brzesko. Modernization of the main group brewery did not require Bank credit to finance operational costs or investment process. Acquisition of Bosman and Kasztelan Breweries developed the need for bank credit. In the first quarter of 2002 with ABN AMRO bank was concluded for the credit of 340 millions PLN (ca 80 millions EURO). Group plans to refinance this credit through selling the stock on Warsaw Stock Exchange. Group is issuing 8359 962 shares series D at nominal value of 1 PLN each<sup>67</sup>.

At present (2003), the Group relies on two external sources of financing: firstly the ABN AMRO credit line and secondly the bond issue scheme. Such financing structure allows for a lowering of the financial costs of securing capital. Taking into account renewable liabilities net of bonds and bank credits which the Company may convert into long-term liabilities, the liquidity ratios look as follows: Current ratio - 1.75 Quick-return ratio - 1.28. The Group's liabilities remain on a safe level and result primarily from the expansion of the Group's operations, the acquisition of Bosman Browar Szczecin SA and Kasztelan Browar Sierpc SA, and the repayment of liabilities originally owed by the companies purchased. The debt-to-equity ratio at the end of the reporting period stood at 82.9 %<sup>68</sup>

### Financial results of the Carlsberg Okocim Group

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<sup>63</sup> Profit in 2002 was achieved also due to successful financial operations. Carlsberg Okocim gained over 2,5 millions Euro on currency operations. PAP February 25, 2003

<sup>64</sup> see "Human Resources development

<sup>65</sup> see Employment changes

<sup>66</sup> Information of the Polish Press Agency PAP February 25th, 2003

<sup>67</sup> Prospekt Emisyjny Carlsberg Okocim 2002 part 5

<sup>68</sup> Carlsberg-Okocim Annual report 2002 p. 57

The value of the assets in 2002 reach the level of PLN 901,248,000 ( 214 582 EUR), represented a 106% increase on the 2001 figure. This increase reflects the execution of the purchase agreement whereby Carlsberg Okocim SA acquired the Bosman Browar Szczecin SA and Kasztelan Browar Sierpc SA companies. On December 31, 2002, the percentage of fixed assets with respect to total assets stood at 66.2%, 83.5% of which were tangible fixed assets. Working capital, representing 29.6% of the balance-sheet total, was primarily made up of liquid assets, i.e. cash at the bank, inventory at 26.9% and receivables which accounted for 72.3% of the working capital. The group Balance sheet looks as follows:

<b>BALANCE SHEET (in PLN 000s) 2001 2002 ) (1Euro=4,3 PLN)</b>	
<b>Fixed Assets 224 603 596 647</b>	<b>Short-term liabilities 80 572 377 369</b>
Tangible fixed assets 207 060 498 369	<b>Long-term liabilities - -</b>
Intangible fixed assets 8 850 9 794	<b>Accrued expenses 10 999 67 996</b>
Goodwill 81 549	<b>Reserves - -</b>
Long-term investment 452 453	<b>Equity 346 168 455 211</b>
Long-terms receivables 8 241 6 482	Initial capital 22 000 28 721
<b>Working Capital 190 210 266 900</b>	Supplementary capital 344 817 444 591
Inventory 31 193 71 906	Previous years' retained loss (32 997) (38 233)
Short-term receivables 76 676 192 984	Reserve capital 17 584 17 325
Cash at bank and in hand 28 313 1 867	Balance-sheet profit (loss) (5 236) 2 807
Short-term financial assets 54 028 143	<b>Minority interests - 672</b>
<b>Accrued income and prepaid expenses 22 926 37 701</b>	<b>LIABILITIES 437 739 901 248</b>
<b>ASSETS 437 739 901 248</b>	

**Source :** Carlsberg-Okocim Annual report 2002 p. 55

Despite the restructuring process and organizational changes related to building the Carlsberg Group in Poland, company succeeded to develop profit in 2002. Comparing to ca 4,20 million Euro loss in 2001, company improved efficiency, reduced cost of production and sale of 1hl of beer and gained 630 thousand Euro profit. The profit was gained despite significant increase of financial costs, related to acquisition of Kasztelan and Bosman breweries. Profit and loss statement of Carlsberg Okocim are presented below. However only 2002 was profitable for company. In 2003 Carlsberg Okocim reported loss.

<b>PROFIT AND LOSS ACCOUNT (in PLN 000s) (1Euro=4,3 PLN)</b>		
	<b>2001</b>	<b>2002</b>
Net sales revenues	463 353	1 014 358
Costs of goods and services sold	(171 715)	(467 350)
Gross profit	291 638	547 008
Selling expenses	(234 032)	(398 659)
General management costs	(85 802)	(138 981)
Other operating income (loss)	1 783	(1 784)
Operating profit (loss)	(26 377)	7 584
Revenues from financial operations	21 135	16 754
Financial costs	(3 386)	(19 548)
Extraordinary profit	124	0
Extraordinary loss	(46)	(7)
Net profit before tax	(8 550)	1 606
Corporate income tax	(3 314)	(1 298)
Minority profit (loss)	(97)	
Net profit after tax	(5 236)	2 807

**Source :** Carlsberg-Okocim Annual report 2002 p. 55

Positive financial result in 2002 showed, that process of building Carlsberg group in Poland was relatively fast and undertaken restructuring measure significantly improved efficiency of Okocim Brewery. Simultaneously Carlsberg group became the smallest large player on Polish Market, after acquisition of BBAG by Heinken. Probably merges and acquisition on Polish beer market would be continued . Large beer manufactures are currently interested in Perła Lublin and Brok Strzelec Breweries. It is not clear to what extent Carlsberg- Okocim would be able to participate in acquisition of new breweries and strengthen its market share.

## Spillover

Carlsberg investment was conducted after the first round of privatization in Poland, when prevailing part of the breweries were already privatized. However, in some cases, State Treasury had significant problems in receiving the payment, especially from individual investors. This was the case in Piast brewery<sup>69</sup>. Taking control over Piast through Dyland Netherlands terminated the dispute with individual investor. Also Local breweries included into Carlsberg group did not pass radical restructuring and were not economically viable. Cracow Brewery (part of Okocim) was located in the downtown, creating environmental threat. It was also overstaffed, as other purchased breweries. Thus Carlsberg took the responsibility for reduction of employment, simultaneously taking the responsibility for dealing with strong trade unions. Without this unpopular, but necessary steps, probably local breweries would went bankrupt and all employees would lose their jobs.

One of the side effect of the Carlsberg investment in Poland was development of the idea of the social responsibility of business. Carlsberg has strong tradition of charitable activities and also Carlsberg-Okocim was involved in supporting culture. One of the examples of company's activities in this field is Okocim support to Folklore festival in Zakopane. Karmi supported the publication of the record of young Italian singer Ingrid. Involvement of the breweries in the support of culture is relatively new in Poland.

## Conclusions

Carlsberg decided to apply mixed control mode, when deciding to become the major player on the Polish beer market. He decided to control two breweries, kasztelan Bosman, through acquisition of the 99, 77% and 99, 39% of the initial capital of respective companies from Bitburger. Simultaneously control over Piast Brewery was gained through purchase of 81 % of Dutch holding company, Dyland BV, the owner of 98% of the Piast stock. The agreement on Dyland BV acquisition was concluded on August 15<sup>th</sup>. Later, in December 2001 Carlsberg control was increased to 100% of Dyland shares. Due to his acquisition Carlsberg obtained the control over two Piast Breweries, malting plant and two distribution companies<sup>70</sup> Control over the Piast brewery was obtained due to two agreements signed between Piast and Carlsberg Okocim: distribution and cooperation agreement. Basing on these agreements Carlsberg purchase Piast product and place it his distribution network. Control over Piast gave Carlsberg direct access to Lower Silesia region, characterized by strong beer culture and relatively high consumption. Controls over Piast brewery through Dutch firm do not have significant impact on the functioning of the Carlsberg-Okocim in Poland. Piast pass through very similar restructuring process like remaining three group breweries and marketing and sale function were centralized in group headquarter. Carlsberg decided to participate in the second round privatization, avoiding complicated negotiations with public authorities and especially Labor Unions.

Like competitors, Carlsberg developed its market position through merges and acquisition. It did not have spectacular success like Tyskie beer, which nearly tripled the market share during two years, although Okocim was the fastest growing brand in Poland in 2001. This fast grow in one year was not sufficient to regain its market position from late 90-ties. The acquisition of the Bosman and Kasztelan breweries, with combined market share of 5.3 per

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<sup>69</sup> Informacja o wynikach kontroli przekształceń własnościowych . NIK 1999

<sup>70</sup> WWW.money.pl/gielder/profile/Okocim

cent and control over the Piast brewery, with the share of 3.2 per cent, combined with Okocim's share of 6,4 per cent in 2001 gave Carlsberg Okocim's total share of the Polish beer market of approx. 15% in 2001 and 14 % in 2003. The acquisitions give Carlsberg Okocim the critical mass in the Polish market thus enabling it to establish an efficient national distribution and sales force and to introduce a new branding strategy positioning Carlsberg as the international premium beer and Okocim as the national brand supplemented by strong regional brands<sup>71</sup> Strong position of Carlsberg group was build due to restructuring measures, which include reduction of management costs, achieved through centralization of marketing and sale functions, reduction of the local brands and focus on selected strong brands. Restructuring of the group breweries was conducted in three main areas:

- product portfolio
- distribution system
- compatibility of manufacturing plant and technology

Conducted restructuring and completed modernization of breweries allowed for significant cost reduction and thus to become profitable company.

Development of Carlsberg group in Poland allowed also to significantly increase the presence of Carlsberg brand in Poland. It was achieved due to new pricing strategy and price of the Carlsberg beer, significantly more expensive in previous year was brought in 2002 to the level of local brands, becoming their strong competitor. Also current advertising campaign of the group is focused on two brands, Carlsberg and Karmi. It might be anticipated that, following the increase of the sale of Carlsberg beer in Poland by 671% in 2002, also this year the brand will observe rapid growth. Definitely, through building Carlsberg group in Poland, company developed strong distribution channel for its main product.

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<sup>71</sup> <http://cwc.huginonline.com/Q/111PR>

### Carlsberg in Poland and Lithuania

	Poland		
	Okocim	Bosman, Kasztelan	Piast
1992	Privatised, 63% of equity publicly owned		
1993		Decision on Kasztelan privatization through employees buyout.	
1994	Brau & Brunnen (Germany) acquires 25%	Kasztelan Application on privatization accepted by local authorities Purchase of 51% of Bosman shares by J.A. Individual investor	
1996	Carlsberg acquired 31.6%, Brau & Brunnen exits	Kasztelan Privatization accepted by the Minister of Privatization. J.A Purchase additional 29% of Bosman Shares Bittburger purchase the shares fro J.A	Ministry of Privatization sells 55% of shares to Ryszard Variselli
1997	Beggining of Manufacturing Carlsberg beer in Poland		
1999		Bitburger (Germany) purchase 99.39% of Kasztelan shares	
2000 /2001 <sup>72</sup>			Dyland (Netherlands) purchase 98% of Browary Piast
2001	Carlsberg increased equity stake to 50.1%, followed by public offer	Carlsberg Okocim acquired ownership from Bitburger	Carlsberg acquired Dyland, and in consequence its stake in Piast
2002	Carlsberg increased equity stake to 71.4% by buying 9.9% from Bitburger (Germany)	Bosman and Kasztelan Officially join Carlsberg Group	
2003	Increase of equity stake to 75% - other owners: Bitburger 10%, State 6%, 9% others including IFU		
2004	Call for selling the shares. Plan to withdraw the Carlsberg-Okocim from Warsaw Stock Exchange		

<sup>72</sup> It was not possible to precise the year when Dyland purchased the shares from Mr. Variselli. The information is missing in official documents and media publications. Author contacted also PR departments in Carlsberg-Okocim and in Piast. They were not able to clarify the time frame.

Carlsberg Poland: Brand Names

<b>Brand</b>	<b>History</b>	<b>Positioning</b>
Carlsberg	Global Brand	Premium range
Okocim	Acquired with the acquisition of Okocim in 1996	National brand
Bosman	Acquired in 2001 from Bitburger and included into Carlsberg-Okocim Group in 2002	Regional makets
Kasztelan	Acquired in 2001 from Bitburger and included into Carlsberg-Okocim Group in 2002	Regional markets
Piast	Controlled by the Dylan Holding	Regional Market
Karmi	Newly created	women
Volt	Newly created	Youth market