

CHAPTER

1



> THE HEINEKEN COMPANY

1.1 Profile

Selling its products in over 170 countries, Heineken is one of the largest brewery groups in the world. Its position is the product of almost a century and a half of solid performance, measured expansion and consistent brand development. Since 1864, when Gerard Adriaan Heineken bought a brewery in Amsterdam, the company has grown under the leadership of three generations of the Heineken family into an international group with 115 breweries in 65 countries, as well as a strong export and licensing business and several maltings and soft-drink plants. Almost 110 million hectolitres of beer were brewed in 2003, over half of which was sold in Europe. Heineken employs over 60,000 people around the world. Its operating profit in 2003 was €1.2 billion, on net turnover of almost €9.3 billion.

Structure of the Heineken group

Heineken N.V. shares are listed on the Euronext Amsterdam stock exchange. A 50.005 per cent interest in Heineken N.V. is held by Heineken Holding N.V., which is also listed on Euronext Amsterdam. L'Arche Holding S.A., a Swiss company owned by the Heineken family, in turn holds a 50.005 per cent interest in Heineken Holding N.V.

Standing at the head of the Heineken group of companies, Heineken Holding N.V. is not an ordinary holding company. Since its formation in 1952, Heineken Holding N.V.'s object pursuant to its Articles of Association has been to manage or supervise the management of the group and to provide services for Heineken N.V. The function which Heineken Holding N.V. has performed for the group since 1952 has been to promote its continuity, independence and stability and create conditions for controlled, steady growth of the group's activities. This has allowed Heineken N.V. consistently to pursue a long-term policy which serves the interests of the entire group,

its shareholders, employees and other stakeholders.

Within the Heineken group of companies, the primary duties of Heineken N.V.'s Executive Board are to initiate and implement corporate strategy and to manage Heineken N.V. and its related companies. It is supervised in the performance of its tasks by Heineken N.V.'s Supervisory Board.

Goal and strategy

Heineken's goal at all times is to defend and strengthen its leading global market position and preserve its independence. Corporate strategy therefore seeks to achieve a level of sales and profitability, which makes Heineken not only one of the world's largest, but also one of the financially best-performing brewing groups. The success of this strategy requires Heineken to fulfil its corporate social responsibilities particularly with regard to alcohol policy, social policy and environmental issues.

Brands

Our company's principal international brands are Heineken and Amstel. Heineken has the widest global presence of any international beer brand and is the largest beer brand in Europe. In virtually all markets, Heineken is positioned in the premium segment.

Amstel, the third largest beer brand in Europe, is generally positioned at the upper end of the mid-priced mainstream segment, which forms a large proportion of the market. The international brands are supplemented and supported by local brands and a range of speciality beers, light beers and alcohol-free beers. The company has a very limited presence in the low-priced segment.

The objective of our brand strategy is to establish a full portfolio of beer brands in all the markets in which we operate, with Heineken as a premium brand. We aim to secure good market positions, with a balanced sales mix and an efficient cost structure,

by combining the marketing and sale of the Heineken brand with that of strong local brands.

Because we attach great value to consistency of brand perception at both trade and consumer level, especially with regard to the Heineken brand, our overall brand identity strategy and the related guidelines covering such aspects as packaging, sponsorship and advertising are formulated centrally. Local marketing expertise is developed through training programmes, regular consultation and internal workshops and conferences. The findings of regular brand perception surveys serve as input to a continuous process of refining our marketing strategy and developing new attributes. The findings of best-practice reviews of our operating companies around the world are communicated immediately to marketing personnel in other countries.

1.2 Vision of sustainability

Three core values have been central to our company since the beginning: respect, enjoyment and a passion for quality. These core values have been a key factor in Heineken's growth and will continue to underpin our growth in the future. Sustainable quality is the yardstick by which we judge both our beers and our financial results. Heineken's goal is a place among the top three companies in the brewing industry in terms of sustainability. Our breweries produce beers of high quality, which are marketed worldwide with respect for local communities and the environment. Sustainable quality is also the criterion by which we judge the working conditions provided for Heineken personnel and the contribution they make to the community.

In the community

Representing many nationalities and cultures within the organisation, Heineken has a place at the centre of the community and its performance depends directly on the continuity of that community. At Heineken, we therefore make every effort to ensure that our current activities preserve the freedom of choice of other members of the community, now and in the future. Our policy is consistent with the definition of 'sustainability' as first formulated in 1987 by

the World Commission on Environment and Development, better known as the 'Brundtland Committee'.

The three core values are applied to Heineken's current activities and to its economic, environmental and social sustainability programmes, three dimensions which are strategically important for Heineken. Our programmes are based on the Guidelines for Multinational Enterprises formulated by the Organisation for Economic Cooperation and Development (OECD). Examples of how these principles have been applied in practice within our organisation range from more efficient use of materials and resources and the establishment of a health centre at one of our breweries to the promotion of environmentally-aware practices and responsible alcohol use and compliance with human rights in the countries in which we do business.

Integral element

Striving for sustainability is an integral element in our operations, which requires us systematically to maintain a dialogue with stakeholders and to define and implement programmes and other measures in the light of that dialogue. This is the foundation on which the legitimacy and continuity of our company is built. Heineken wants these programmes and other measures to be visible and measurable, which means adopting a transparent communication policy for the various target groups: employees, consumers, shareholders, non-governmental organisations, the international media and other interested parties. This report is an expression of that policy. We take the view that transparent internal and external dialogue yields the best management information and will ultimately result in more sustainable performance, an even stronger corporate reputation and positive brand associations.

1.3 Corporate governance

While Heineken N.V. endorses the principles of the Corporate Governance Code of the Dutch Corporate Governance Committee and expects to be able to implement virtually all of its provisions in time without difficulty, the structure of the group, and in

particular the relationship between Heineken Holding N.V. and Heineken N.V., prevents Heineken N.V. complying with a small number of those provisions.

1 Independence of Supervisory Board members

Heineken N.V. endorses the principle that the Supervisory Board should be constituted such that the members are able to act objectively and independently of one another, of the Executive Board and of any particular interests. In a strictly formal sense, three members of the Supervisory Board do not meet the applicable independence criteria as set out in the Code:

- Mr. De Jong was a member of the Board of Directors of Heineken Holding N.V. in 2002, the year before his appointment to the Supervisory Board.
- Mr. Das was a partner in a firm which was appointed as a consultant to Heineken N.V. in 1994, the year before his appointment to the Supervisory Board.
- Mr. de Carvalho is married to Mrs. C.L. de Carvalho-Heineken.

Given the nature and traditions of the Heineken group of companies, the Executive Board and Supervisory Board see this as no obstacle to Messrs. De Jong, Das and de Carvalho being considered independent.

2 Delegated Supervisory Board member

A delegated Supervisory Board member is defined as a member to whom a special task is assigned. The Corporate Governance Code attaches certain special requirements to such delegation. As regulated by the Articles of Association of Heineken N.V., the post of delegated Supervisory Board member – a position currently held by Mr. Das, who is also Chairman of the Board of Directors of Heineken Holding N.V. – is consistent with those requirements, except in so far as the position is not temporary and is held for the term for which the member concerned is appointed by the general meeting of shareholders of Heineken N.V.

The Executive Board and Supervisory Board consider that, as regulated by the Articles of Association of Heineken N.V., the post of delegated Supervisory Board member, which has been in existence since 1952, is consistent with the structure of the group.

3 Term of office of Supervisory Board members

According to the Code, a member may not be appointed to the Supervisory Board for more than three terms of four years. The Executive Board and Supervisory Board take the view that, given the structure of the group, this limit should not apply to members who are related by blood or marriage to the Heineken family or who are members of the Board of Directors of Heineken Holding N.V.

HEINEKEN VALUES AND PRINCIPLES

The core values and related principles are central to Heineken's policy on corporate social responsibility.

Values

Respect for individuals, society and the environment

Heineken considers itself an integral part of the communities in which it operates. That means not only that we respect the legislation and regulations of the countries in which we have a presence, but also that we respect human dignity and the principles underlying the Universal Declaration of Human Rights. This is reflected, for example, in our respect for diversity in people and cultures. We are profoundly aware of our responsibility for our community: promotion of responsible alcohol use and protection of the environment are among the key activities through which we discharge our responsibilities.

Enjoyment: we bring pleasure to people

Heineken adds to the pleasures of life, both through its products and through its sponsorship policy and other forms of commercial support. Heineken focuses primarily on positive events which contribute to the enjoyment of the many. This core value is also reflected in the working atmosphere within our organisation.

Passion for quality

Heineken strives for quality in everything it does, not only in its products, but also for example in its social policy. Because Heineken invests in its personnel, it enjoys a good reputation as an employer.

Principles

Heineken applies the following principles in developing the policy by which it aims to achieve its goals:



4 Other provisions of the Code

We expect the study of the remuneration of Executive Board members, which was started in 2003, to be completed in 2004. Remuneration policy will be determined on the basis of the study's findings. It will not be possible until then to determine the extent to which Heineken will apply all the best-practice provisions.

The Executive Board and Supervisory Board are still considering the question of holdings of and transactions in securities other than those of the company by members of the Executive Board and Supervisory Board.

According to the Corporate Governance Code, no individual may sit on the supervisory board of more than five Dutch listed companies, with chairmanships counting double. Any departures from this provision of the Code will be disclosed and explained in the 2004 annual report. Heineken N.V.'s decision on whether to apply this provision will also be guided by the company's interests in terms of its ability to attract and retain skilled Supervisory Board members.

It is customary, as provided in Article 14, paragraph 7, of the Articles of Association, to have a notarial record made of the proceedings of the general meeting of shareholders of Heineken N.V. The Executive Board and Supervisory Board consider it desirable to continue this practice and the provisions of the Code will be applied to the extent that they are consistent with it.

1.4 Heineken values and principles

Heineken's core values – respect, enjoyment and a passion for quality – are enshrined in the nature and culture of our company and still motivate our social activities and our policy on corporate social responsibility.

Until the mid-1990s, it was left to the operating companies in the various countries in which Heineken is active to interpret these values virtually entirely in their own way. Since then, greater uniformity has been achieved. On the basis of a review of current policy, the experience of other multinational enterprises and the positions taken by governmental and non-governmental organisations, the Heineken Values and Principles were formulated which govern the activities and conduct of our company around the world. The Executive Board affirmed in 2001 that the Values and Principles were an integral part of our corporate strategy.

Local implementation

The Values and Principles are not a code of conduct which has been imposed top-down and which everyone has to follow. Local dialogue is more consistent with Heineken's management model, which is based on respect for cultural diversity and delegation of responsibilities and powers. Practical implementation is therefore decided by Heineken operating companies at local level.

General

Heineken is fully aware of the social responsibility which accompanies its presence in communities all over the world and conducts itself accordingly. To safeguard the continuity of the company, Heineken seeks to achieve superior performance in terms of financial results, environmental protection and social policy. The company sees investment in its employees, its brands and its breweries as a key element in that effort. Heineken considers itself part of the communities in which the company operates and seeks to make a worthwhile and sustainable contribution to local communities. Heineken is committed to achieving an excellent and sustainable return on the capital invested by its shareholders. Heineken values the support of all its shareholders and communicates with them openly and frequently, promptly providing reliable financial and other information.

Legislation and regulations

Heineken seeks to comply with legislation and regulations worldwide. Heineken respects local cultures and adapts to local circumstances as far as possible, without compromising the Heineken Values and Principles or infringing local legislation and regulations.

Quality

Heineken warrants that its products are manufactured in accordance with the most rigorous food safety standards. If any product fails to meet those standards in all respects, Heineken will not hesitate to take appropriate action. Only ingredients which are fit for human consumption are used in Heineken's products.

Conduct

Reliability and integrity are fundamental to Heineken's relationships with staff, customers and other interested parties. Heineken expects its employees to refrain from any action which might conflict with those requirements.

In consultation with employees and, in many cases, external stakeholders, the Values and Principles were defined in greater detail by the local management teams in 2002 and 2003. The outcome of this dialogue will be used in 2004 and 2005 to tailor the Values and Principles to local needs and translate them into procedures and activities which are consistent with local wishes, regulations and cultures.

The Heineken Values and Principles are actively applied by the operating companies. They have been communicated internally within 74 per cent of the operating companies and 40 per cent of the operating companies have developed tools based on them. Over half of the operating companies provide advice for their employees on how the Values and Principles should be applied and interpreted in practical day-to-day situations.

1.5 Dialogue with stakeholders

Good external dialogue with stakeholders in the communities in which we are active is essential to sustainable operation. Heineken will actively seek such dialogue and will be honest, accessible and transparent in its approach. Though Heineken may not always agree with them, we consider it important that we understand and respect the views of stakeholders. We will investigate whether and in what way the company can accommodate the wishes of stakeholders, but will not raise expectations which we are unable to fulfil.

Heineken's aim is to bring pleasure to its customers and consumers. Heineken markets and distributes its products responsibly. It acts in good faith in seeking to persuade consumers to choose its products and will not specifically target vulnerable groups. Heineken is committed to providing full information on the advantages and disadvantages of its products, to enable consumers to make an informed choice.

Heineken is honest in its dealings with employees, customers, consumers, public authorities, financial institutions and other interested parties. All information supplied by Heineken is accurate and transparent.

Employees

Heineken seeks to make a positive contribution to the well-being of its employees. Heineken strives constantly to improve health and safety within its facilities. Heineken operates a healthcare policy which gives employees and their families access to medical services.

Evaluation

In 2003, having been commissioned by Heineken to evaluate the way in which Heineken conducted its dialogue with stakeholders and make recommendations for improvement, Nyenrode University conducted interviews with a number of Heineken employees and representatives of interest groupings involved with Heineken. Nyenrode found Heineken's dialogue with stakeholders at group level to be proactive and wide-ranging, but recommended that closer attention be paid to the focus and structure of the dialogue, changing social needs and new issues and the actors concerned. In principle, stakeholders were satisfied with Heineken's conduct of this dialogue and considered Heineken to be more open than it was a few years ago. The picture at the operating company level was more variable, with some operating companies adopting a proactive and others a reactive policy. The operating companies also needed to place the identification of issues and stakeholders on a more structured footing, for which more direction from head office was required.

On the basis of this study, a system has been developed which enables users to identify issues and stakeholders more effectively and to assign generally accepted and measurable targets to the dialogue, thereby making the dialogue even more transparent. The new system will be implemented in 2004.

It is Heineken policy to enable employees to develop expertise and skills which are consistent with their natural talents. Appointments and career development opportunities are decided on the basis of the candidate's suitability (education and training, personality, expertise and skills, work experience) and his or her legitimate demands. Heineken bases decisions in personnel matters solely on objective criteria. Within reasonable limits, Heineken respects the personal beliefs and convictions of existing and future employees.

Heineken supports fundamental human rights, in accordance with the recognised role of corporate entities within society. Heineken safeguards the human rights of its employees within its facilities and will provide support to the best of its ability if an employee's human rights are infringed outside its facilities.

Heineken takes the view that childhood is a time for playing and learning, and does not employ child labour at its facilities. Heineken will develop programmes to persuade business partners to stop using child labour.

1.6 Our commitment

Heineken is working constantly to improve its sustainability performance. In this report, we identify the areas in which we aim to make further progress in the next two years and beyond. They are:

Economic sustainability

- Implementation of a stakeholder management system.
- Implementation and publication of our Code of Business Conduct.

Environmental sustainability

- Reduction in the number of breweries using more than our benchmark of seven hectolitres of water per hectolitre of beer.
- Reduction in the number of breweries discharging untreated waste water.
- Completion of our waste-water treatment plant building programme by 2012 at the latest.
- Improved recycling of co-products.
- Specific energy consumption 15 per cent lower by 2010 compared with 2002.
- Reduction in specific CO₂ emissions to 11.2 kg per hectolitre of beer by 2006.
- Improved reporting of CO₂ emissions.

Social sustainability

- Closer employee involvement in the company.
- Reduction in accident frequency to 2.2 per 100 FTEs by 2006.

- Reduction in accident severity to 40 working days lost per 100 FTEs by 2006.
- Worldwide implementation of our policy on beer promotion girls within the business units which operate under Heineken's direct responsibility.
- Adoption of a structural approach to supply-chain responsibility.
- Familiarisation of new operating companies with Heineken's alcohol policy.

Conflicts of interest

Heineken expects employees to avoid conflicts between business and personal interests and to refrain from giving or receiving personal gifts which might jeopardise the integrity of business decisions.

Competition

Heineken believes in the principle of fair competition. It is Heineken policy, supported by information programmes, to ensure that employees understand the competition legislation and conduct themselves accordingly.

Corruption

Heineken takes the view that corruption must be eliminated from society and operates a corruption reduction and prevention policy, supported by information programmes.

Environment

It is Heineken's policy to treat the environment with due care, paying particular attention to the consumption of raw materials, water, energy and other resources within its processes and minimising the discharge of waste materials into the environment.

Compliance

It is everyone's responsibility to interpret these principles correctly. Each Heineken company is responsible for communication, resource development, individual advice and monitoring on compliance issues. The Executive Board of Heineken N.V., managing directors, general managers, corporate directors and local management teams in the operating companies all bear a special responsibility, being required both to act as an example and to initiate and evaluate activities.

No employee will suffer adverse consequences from bringing an actual or suspected infringement of these principles to the attention of a senior manager and they are encouraged to do so.