

# Executive Board

> as at 21 February 2005

## Thony (A.) Ruys (1947)

Dutch nationality; male

1993 Member of the Executive Board

1996 Vice-Chairman

2002 Chairman

Joined Heineken in 1993 after a career with Unilever N.V. in the Netherlands and abroad.

### *Areas of responsibility*

- Corporate Human Resources & Organisation Development
- Corporate Communication
- Corporate Affairs
- Corporate Legal & Business Affairs
- Group Internal Audit
- Corporate Secretariat
- Proseco
- Asia Pacific

### *Supervisory directorships*

- Gtech Holdings Corporation, USA
- Sara Lee/DE International B.V., Netherlands

## Marc (M.J.) Bolland (1959)

Dutch nationality; male

2001 Member of the Executive Board

Joined Heineken in 1986 and has held various positions in the Netherlands and abroad.

### *Areas of responsibility*

- Corporate Brands
- Corporate Commercial Excellence
- Latin & Central America
- Caribbean
- Heineken USA (incl. Canada)
- Heineken España
- Heineken France
- Heineken Italia
- Beer Systems

### *Supervisory directorships*

- Manpower Inc., USA (as per July 2004)

## Jean-François (J.F.M.L.) van Boxmeer (1961)

Belgian nationality; male

2001 Member of the Executive Board

Joined Heineken in 1984 and has held various positions in the Netherlands and abroad.

### *Areas of responsibility*

- Corporate Production, Policy & Control
- Heineken Technical Services
- North-West Europe
- Sub-Saharan Africa
- Middle East & North Africa
- Heineken Brouwerijen
- Heineken Nederland Supply
- Heineken Nederlands Beheer
- Vrumona
- Heineken Brewery Russia
- Athenian Brewery
- CIS Countries and Kazakhstan

### René (D.R.) Hooft Graafland (1955)

Dutch nationality; male

2002 Member of the Executive Board

Joined Heineken in 1981 and has held various positions in the Netherlands and abroad.

#### *Areas of responsibility*

- Corporate Finance
- Corporate Control & Accounting
- Corporate Information Technology
- Corporate Business Development
- Corporate Internal Services

#### *Supervisory directorships*

- McGregor Fashion Group N.V., Netherlands

### Karl (K.) Büche (1946)

Austrian nationality; male

2004 Member of the Executive Board

Joined Heineken in 2004

Since 1972 he has held various positions in Brau Union A.G.

#### *Areas of responsibility*

- Brau Union A.G.
  - Brau Union, Austria
  - Żywiec, Poland
  - Other Central European Countries

#### *Supervisory directorships*

- Allgemeine Sparkasse Oberösterreich Bank AG, Austria (Deputy Chairman)
- ÖIAG Industrieholding AG, Austria

## Chairman's Message

# Building the future today



From left to right > Jean François van Boxmeer > Karl Büche > Thony Ruys > Marc Bolland > René Hooft Graafland

**€1,248** Operating profit  
million, +2.1%

**€537** Net profit  
million, -32.7%

**€791** Net profit  
(excl. exceptional items and amortisation of goodwill)  
million, -1.9%

**€10** Net turnover  
billion, +8.1%

**121.8** Total beer sales  
million hectolitres, +11.8%

**22.8** Heineken beer sales  
million hectolitres, +3.1%

IN 2004, WE AGAIN DEMONSTRATED HOW HEINEKEN HAS BEEN ABLE TO REMAIN ONE OF THE WORLD'S LEADING CONSUMER AND CORPORATE BRANDS FOR MORE THAN 130 YEARS. IT WAS A YEAR IN WHICH WE NOT ONLY CONFRONTED DIRECTLY THE CHALLENGES IN MANY OF OUR MARKETS TO DELIVER ORGANIC PROFIT GROWTH, BUT ALSO CONTINUED TO FOCUS ON BUILDING THE LONG-TERM FUTURE OF OUR BRANDS AND BUSINESS.

This approach has been both a philosophy and a differentiator versus our competitors since Heineken was founded in 1864. It has enabled us to provide our shareholders with above average returns for the sector over the long-term, and has built Heineken into the world's most valuable international beer brand.

Against this background our 2004 results showed progress, particularly the organic growth in net profit of 8.1%, in turnover of 1.4% and in volumes of 1.5%. There were, though, a number of factors that adversely affected the development of our profit, most notably the write-down in the value of our 20% stake in Kaiser, a negative exchange rate effect and the non-recurrence of large exceptional items occurring in 2003. There were pressures too on margins due to shifts in drinking occasions (less on-premise), shifts in packaging (less draft) and the increasing strength of our retail customers.

The consolidation of the industry in 2004 was also a notable feature and will continue to be so in the future. We will, as we have always done, continue to play our part in this process.

Western Europe remained probably our most challenging trading environment. During the year, markets were under pressure due to a combination of declining consumption, increased competition and poor weather. In this context we focused on increasing our share of the markets through strong, creative marketing and on ensuring that we maximised our efficiency across all of our operations.

In 2004, our cultural and structural change programme, 'Taking Heineken to the Next Level' has given us greater clarity on how and where we should focus our energies to build the platforms on which future growth will be built.

## Driving performance

- > DRIVING THE GROWTH OF OUR BRANDS  
AND IMPROVING OUR FINANCIAL PERFORMANCE

**Innovation** is a core part of our brands' growth strategy. It is fuelled by the needs of the consumer and is an important driver of growth. In 2005, we will again introduce a number of innovations across liquid, packaging and format that will serve to further endorse our leadership credentials.

**Building 'next generation' sales and marketing excellence** will be critical for delivering future organic growth. We are gaining a better insight into the needs of the consumer and into which brands will deliver the greatest value for consumers, trade partners and shareholders. In 2004, we saw positive progress with portfolio reviews conducted in several key markets and we will continue this approach in the coming year.

**Growing the Heineken brand**, the 'jewel in our crown', will always be one of our highest strategic priorities and we are committed to extending the brand's clear leadership of the international premium segment. Driving marketing efficiency and effectiveness and finding new, high-profile ways to engage consumers has been a key focus in 2004. It will again be highly evident in 2005 as we aim to put even greater distance between the Heineken brand and others trying to establish their international credentials.

**Rigorous cash flow management** has delivered more than €500 million of additional cash over the last 18 months. Next to strict working capital management, we will continue to boost our cash flow through specific focus on reducing capital invested in areas including commercial fixed assets, on-premise loans and technical investments.

**Cost reduction** was again high on our agenda in 2004. During the year we took the tough, but necessary decisions to close 6 breweries. Alongside this, we increased the focus on the reduction of other areas of our cost base. This is a continuing driver of our ability to remain globally competitive.

## Shaping the business

> ENSURING THAT ACQUISITIONS, PARTNERSHIPS  
AND DISTRIBUTION STRATEGIES CREATE VALUE

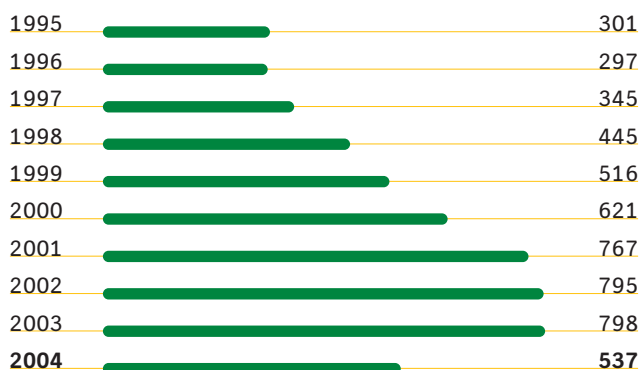
**Acquisitions** will be as much a feature of our future as they have been of our past.

In 2004, we were again active. As a strategic move we strengthened our positions in fast growing markets such as China and Russia in particular and we also increased our share in several existing operations. Moving forward, where the right opportunities to create value exist, we will continue to build our business in the world's high growth beer markets.

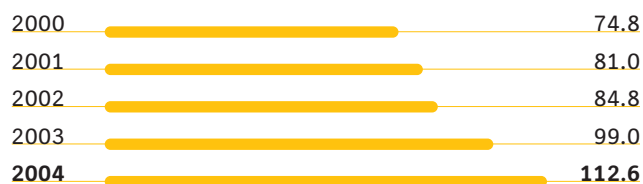
**Partnerships** too have long been a feature of the way that we do business and 2004 was no exception. In the USA we concluded an agreement with FEMSA in Mexico, to distribute their strongly growing brands. In South Africa, we launched Brandhouse, a joint venture business with Diageo and Namibia Breweries; in Australia, we entered into a joint venture with Lion Nathan. Each of these partnerships will help to build and strengthen our position in these important markets.

**Integration of Brau Union** into the business is on track in terms of both timing and the delivery of the savings and synergies we said we would generate. This has been a significant achievement that lays the foundation for future success. We believe the Central and Eastern European beer markets will be a strong source of growth and the measures we are putting in place now across that part of the Heineken organisation will secure both our leadership position in many markets and our longer-term profit growth.

**Net profit** > in millions of euros



**Group volume** > in millions of hectolitres



## Building a challenging and supportive culture

### > RELEASING THE POTENTIAL OF OUR EMPLOYEES AND BUILDING A TRUE PERFORMANCE BASED CULTURE

**Performance management and leadership development** go hand in hand. Last year we began to truly unlock the value in developing strong leadership capability within the business through a global performance management system amongst our most senior executives. As we move into 2005, we will have a consistent way of setting, measuring and ultimately achieving personal and professional development objectives.

**Becoming a learning organisation** was a commitment we made in 2004. We established 'passion for learning' as one of our four ways of working. We believe embedding this philosophy will help us maintain our edge and encourage us to attempt new and different approaches to long-standing issues and challenges.

### **Responsibility and sustainability**

The year 2004 ended with a tragedy in Asia on a massive human and geographic scale. We take great pride in the way in which our people have responded, raising money in a variety of ways. Alongside this, we as an organisation have made a significant donation, our Indonesian operation has provided vitamin-enriched soft drinks to the disaster areas and we have identified how best to focus our efforts in order to play a part in the long-term task of re-constructing communities and, ultimately, lives.

Elsewhere in the business, during 2004, we demonstrated our approach to responsibility and sustainability in other ways. We extended our pioneering AIDS programme, which offers free voluntary testing and medical care for employees and their families, to Asia; we published an award winning sustainability report covering the years 2002 and 2003; we developed and launched a Code of Business Conduct, and we revised our already stringent approach to responsible marketing.

All of these initiatives are critical components of both our business and our culture and underpin everything we do.

### **Global initiatives, local delivery**

As you read through the rest of this report We hope you will recognise how some of the platforms for growth have taken shape and how we have managed the balance between providing returns now and securing growth in the future.

We have the people, the talent and the desire to continue this growth and we are proud of, and grateful for what each and every one of our employees has contributed to our performance this year.

Together, we are passionately committed to ensuring that Heineken remains, as now, one of the world's great consumer and corporate brands.

Amsterdam, 21 February 2005

**Thony Ruys**



Chairman of the Executive Board

## Outlook 2005



### Profit forecast

For the year 2005 we expect a further organic growth in net profit. Worldwide, the premium segment of the beer market will continue to capture an increasing share of the market, benefiting sales volume of the Heineken brand in particular, and contributing to an improvement in sales mix and results across the business.

Heineken expects further organic growth in net profit for the year 2005. Taking into account the impact of the increase in marketing and innovation spend, the full benefits of which will be realised in the medium-term, this growth will not exceed mid-single digits.

Heineken's long-term profit forecast is positive, as a result of the strength of its brand portfolio, its consistent and intensified spend on innovation and in the Heineken brand, its strong distribution structure and the focus on efficiency improvements.

However, as we stated in February and September 2004, the continued currency impact, particularly of the US dollar, is expected to outweigh predicted organic profit growth and contributions from new acquisitions. This may result in a decrease in net profit for the full year before exceptional items and brand and goodwill amortisation.

Heineken will apply IFRS in full in 2005 and restate its 2004 financial statements accordingly. The profit outlook for the full year 2005 has been prepared, based on the assumed IFRS impact.

In 2004, and over the last few years, Heineken has consistently built the platforms for future profit growth. We have expanded our position in developing beer markets, we have increased our presence through acquisitions and partnerships in the premium segment of a number of important beer markets, we have strengthened our brands and brand portfolios and we have lowered our cost base. We will increase our marketing investments, particularly in the USA and Western Europe, and we will work on further expanding our business in 2005.

We are positive on the long-term growth in sales and profit of our company. However, the adverse impact of currency movements on net profit, in particular of the US dollar, will exceed the organic profit growth and the positive contribution of newly acquired businesses.

With the expected slow improvement in the economic situation, and hopefully better weather

in Europe, a continuing modest growth of the imported beer segment in the United States and a further increase of beer consumption in emerging markets, we expect again to increase our sales volume in 2005.

The most challenging trading environment in 2004 was Western Europe. In 2005 we believe the gradual improvement in the economy will have a positive effect on the traffic in the on-trade and result in a lessening of the promotion pressure in the off-trade. Our sales volume in emerging markets will be positively affected by the increase of purchasing power of the local populations as well as by shifts away from traditional drinks towards beer. In the USA the addition of the brands of the Mexican brewer FEMSA to our existing portfolio will add to our sales volume and profitability. Heineken has in the recent past expanded its presence in growing beer markets such as Central Europe, Russia, China and parts of Africa.

Uncertainty remains in the field of government actions in the form of excise duty increases, advertising limitations and smoking bans in the on-trade. In the short-term, government intervention can have a disruptive effect on the beer market and our sales volume.

Worldwide, the premium segment of the beer market is expected to develop well and to capture an increasing part of the market. Our flagship brand Heineken will benefit from this development and will contribute to the improvement in our sales mix and operating result, although part of this effect will be undone by a shift of beer sales from the on-trade to the lower margin off-trade sales channel. The efforts of our operating companies in their markets to strengthen their portfolio of local and international brands will also have a beneficial effect on the product mix. Innovation and new marketing initiatives will fuel the further growth of our key brands.

We will continue to reduce cost and increase efficiency at our breweries, in our distribution network and in other areas of the business. The unlocking of the identified synergies at Brau Union, in Central Europe, and at the newly acquired companies will also contribute to our profitability. Increasing competition, also from premium spirits and wine, and the introduction of our new home draft beer systems and other packaging innovations, will require higher marketing investments. The cost of raw material and packaging materials are expected to increase in line with inflation.

## Investments

Investments in tangible fixed assets in 2005 are expected to total around €850 million. Most of the investments are related to replacement of equipment. In 2005, the start of building the new brewery in Seville accounts for a capital expenditure in 2005 of €102 million.

These investments will in principle be financed from cash flow, supplemented where necessary with available credit facilities.

In 2005 we will invest an additional €100 million in sales, marketing and innovation initiatives. Our acquisition of a participating interest in Würzburger Hofbräu A.G. announced in early 2005 involves a net cash outflow of €17 million, which will be financed from existing cash reserves.

Heineken will continue to seek continuous improvements and efficiency gains. In Central Europe the streamlining of our operations will continue, while in Western Europe a number of larger reorganisations are in progress. Therefore we expect that, on a like-for-like basis, the downward trend in the number of employees will continue.