

# Operational Review

## Brand strategy

### > BUILDING A WINNING BRAND PORTFOLIO CENTRED AROUND HEINEKEN

Our brand strategy is to build a strong portfolio that combines the power of local and international brands and which has Heineken at its centre. The consistent growth of our brands requires solid creative brand management, which we coordinate centrally. By carefully balancing our brand portfolios and achieving optimal distribution and coverage, we aim to build and sustain strong positions in local markets.

For the Heineken and Amstel brands, we develop and maintain central guidelines and standards for brand style, brand value and brand development. At a central level we also support local management of the entire brand portfolios, through benchmarking programmes designed to optimise marketing, sales and distribution.

## Commercial Excellence

### > ORGANIC GROWTH IS CRITICAL FOR THE FUTURE OF OUR BUSINESS

In 2004 we launched a global strategic initiative – ‘Building Winning Portfolios!’. This long-term initiative is aimed at systematically reviewing and improving the strength of portfolios in a number of key markets and identifying those brands, that create value. Where unmet consumer needs are identified, we are accelerating the introduction of new, consumer-relevant brand propositions. In 2005 we will have completed reviews across the majority of key markets. In parallel, there is also a strong focus on building the excellence required in sales and marketing to execute the portfolio plans.

To leverage our global strength and to accelerate organic growth we made good progress in optimising operating companies’ commercial policies. We did this through sharing knowledge and experience and developing excellent brand and portfolio management skills alongside world-class channel, sales and distribution processes. Measuring and monitoring how well we are performing is critical to success. Given this, we paid special attention in 2004 to improving the effectiveness of commercial spend. The result will be reallocations of commercial spend, increased return on commercial investment and finally, performance improvement and value creation.

In addition, we introduced a global standard for measuring brand performance. This ‘Heineken Brand Dashboard’, is a new system for measuring and reporting all essential key performance indicators on sales, marketing and finance relating to the Heineken brand. This tool will make it easier to diagnose brand health issues and to have a consistent view of the most successful growth drivers for the Heineken brand across the business. Further extensions of the ‘dashboard’ to track and manage other brands in the same way are planned in 2005.

At the end of 2004, our most senior commercial managers exchanged ideas and received demonstrations of best practice at a two-day workshop – ‘Impact 2005’. These two days resulted in a common understanding of the goals and priorities as well as in concrete plans to leverage our portfolio strength in all our key markets. It is an indication of how we intend to operate and build our capability in the future.

### *Brands*

In 2004, our total beer volume was made up as follows: Heineken brand 18.7%, Amstel 9.1% and other beer brands 72.2%. In addition to Heineken and Amstel, our international brands comprise a collection of specialty beers to satisfy the consumer’s growing demand for variety. Sales of these high margin products allow us to drive improvement in the sales mix.

**Total Heineken sales** > in millions of hectolitres



**Heineken**

> **THE WORLD’S MOST VALUABLE INTERNATIONAL PREMIUM BEER BRAND**

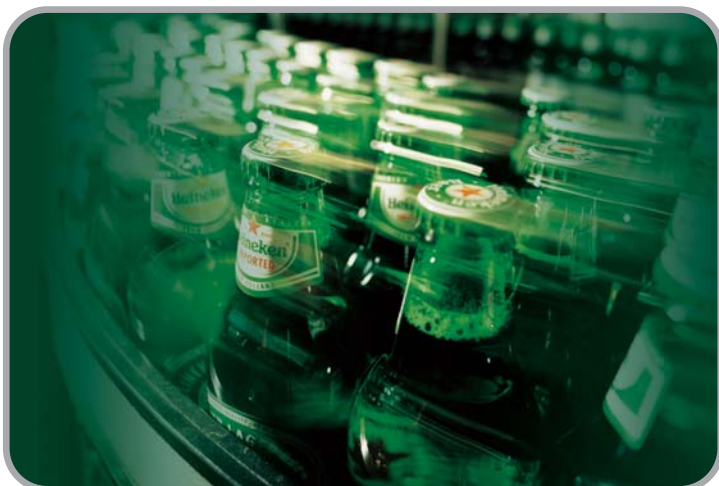
*Heineken is Europe’s leading beer brand and is the world’s most valuable international premium beer brand. In 2004, the Heineken brand once again reinforced its position in virtually all markets. Sales of Heineken beer worldwide increased 3.1% to 22.8 million hectolitres.*

The strongest growth markets in Europe for Heineken in 2004 were Russia, Poland and Spain. In the more established European markets – France, Italy, the Netherlands, Ireland and Greece – Heineken was able to maintain or strengthen its position. In the United Kingdom, where the brand was withdrawn and fully re-launched early 2003, it continues to achieve growth in volume and distribution. With new business structures and dramatically improved distribution in Central and Eastern Europe, the brand was able to make good progress across the region, including a move to production in Romania in December, a highly successful relaunch in Austria and strong growth throughout the year in Poland.

Strong growth was also achieved in several markets in the Asia Pacific region, particularly Vietnam, New Zealand and Taiwan. In China, thanks to our new local production strategy and increased focus, we saw a substantial improvement compared with 2003, which was a difficult year. In August, Heineken’s position in Australia was strengthened through a sales and marketing joint-venture with Lion Nathan, Australia’s second-largest brewer.

In South America, Heineken achieved strong volume growth in Chile and Argentina and also grew in Puerto Rico. In North America, USA and Canada, we accomplished another year of growth.

In Heineken’s main markets in Africa, the Heineken brand continued to perform well. Brandhouse, the new joint-venture with Diageo and Namibia Breweries, is supporting growth in South Africa, and will be an important platform for future growth. South Africa saw strong brand growth during the year. In Nigeria, we began local production of the Heineken brand following a long ban on imported beers.



*Increasing value through creative marketing and communication*

The premium positioning of the Heineken brand is crucial to our growth strategy. Maintaining this positioning requires a combination of the highest quality brewing process delivering the highest quality beer and creative and compelling marketing.

As the brand extends its global market share, and its positioning becomes more consistent, our marketing is becoming increasingly international. However, within the marketing mix, there will always be a requirement for locally driven campaigns and support. In 2004 we developed a new universal tagline for Heineken advertising – ‘Heineken. Meet you there.’ – and redesigned the *www.heineken.com* website. In addition, we developed a new label with a silver rim to be used internationally and made the decision at the end of 2004 to issue every Heineken bottle and can with a back label promoting responsible drinking.

Centrally, we developed a number of high-profile, quality television campaigns with universal appeal, featuring high profile, contemporary celebrities. The latest in this series features the actor Brad Pitt, in a chase with paparazzi following his purchase of a six-pack of Heineken. The advert was officially launched early 2005 during the half-time ‘Superbowl’ break in the USA. It will be made available in major Heineken countries as of the second quarter of 2005.

National advertising continues to play a prominent role in promoting our brands. In 2004, we tapped into our national advertising experience in Italy, Russia, Poland and the Netherlands to produce a number of international co-productions. Such joint ventures help to enhance and reinforce the brand’s international credentials.

*Sponsorship*

Our sponsorship strategy for the Heineken brand is to build brand equity through relevant associations with high-impact, high-profile sports and music events, films and the world of Hollywood.

*Film*

For the Heineken brand we continue also to seek association with ‘blockbuster’ movies with a relevant demographic profile. We find this particularly useful for establishing the brand position in crowded marketplaces. In 2004, we won the international Reggie award for our sponsorship of the Matrix series of films.

*Sports*

In 2004 we sponsored numerous sports events at local and regional level. The highlight was our sponsorship of the year’s most important international sports event, the 2004 Olympic Games in Athens. The sponsorship was executed over three years by Athenian Brewery and was a core

| <b>Geographical distribution of Group volume</b> | <b>2004</b>    | <b>2003</b>   | <b>Change (%)</b> |
|--|----------------|---------------|-------------------|
| > in thousands of hectolitres                    |                |               |                   |
| Western Europe                                   | 43,494         | 44,727        | - 2.8             |
| Central and Eastern Europe                       | 31,579         | 20,611        | 53.2              |
| The Americas                                     | 14,546         | 12,511        | 16.3              |
| Africa and the Middle East                       | 13,483         | 12,706        | 6.1               |
| Asia Pacific                                     | 9,526          | 8,413         | 13.2              |
| <b>Group volume*</b>                             | <b>112,628</b> | <b>98,968</b> | <b>13.8</b>       |

\* Group volume = volume sold by consolidated companies and Heineken beers brewed under licence by third parties.

component in strengthening the brand equity, re-inforcing the international, premium positioning and driving spontaneous awareness of the brand. Along the way, we were able to give thousands of Heineken partners, suppliers and employees a unique and intense Heineken brand experience.

Following the Heineken brand's highly successful sponsorship of the Rugby World Cup at the end of 2003, our continued sponsorship of the Heineken Cup across key European markets maintained our credentials in the sport and also helped support the brand's positioning, drive volume and recruit new consumers to the brand.

*Music*

The Thirst dance music programme continued to draw crowds in venues around the world and won many international awards. The programme, which brings the world's leading DJs in a travelling music show is now in its third year. Thirst is a significant part of our strategy to build presence and credibility in contemporary music – an increasingly important marketing and recruitment platform for the brand.

**Total Amstel sales** > in millions of hectolitres



**Amstel**

*The Amstel Brand is available in over 90 markets around the world and ranks as one of the top international beer brands. It is the third largest beer brand in Europe, with the Heineken brand occupying the number one position. In 2004 Amstel's volume grew to 11.1 million hectolitres, benefiting from the double-digit growth in developing markets outside of Western Europe, while its core European volume base remained under pressure due to the weakness of the mainstream segment in Europe.*

Among the key growth areas for Amstel in 2004 were Sub-Saharan Africa, North America, the Middle East, Kazakhstan, the United Kingdom and Ireland. In Spain and the Netherlands Amstel maintained its position, whereas in France, other markets around the Mediterranean and Central European markets, Amstel remained stable.



### *Marketing and sponsoring*

We continue to focus on building Amstel's brand value, on extending its product range and on extending its global reach. In 2004, we introduced Amstel to a number of markets and optimised our portfolio of line extensions to appeal to evolving consumer preferences. Embracing the trend towards lower calorie beers, we developed the new 'Amstel Lite' and introduced it in the Netherlands. In France we introduced an alcohol-free variant – 'Amstel Free' – in the on-trade. In Spain we strengthened the positioning of Amstel beer by changing the name to 'Amstel' from 'Amstel Aguila'.

In line with our portfolio approach, we are developing a revised strategy for Amstel that will provide a clear, distinctive and sustainable role for the brand within our overall portfolio.

Aligned with this will be the development of a more efficient system for tracking Amstel's performance world-wide in a systematic way. In due course we plan to develop an 'Amstel Brand Dashboard' similar to the system already developed for Heineken.

Amstel once again sponsored a number of high-profile sports events. The year 2004 marked the 10th anniversary of Amstel's sponsorship of the UEFA Champions League. Other high-profile sponsorships include the PGA of America golf tour and the Amstel Gold cycling race in the Netherlands. These sponsorships helped to boost consumer awareness and purchasing preference among millions of sports fans around the world.

## **Innovation, Research & Development**

*To a large degree, the ability of Heineken to sustain growth depends on our ability to innovate across products, packaging and drinking occasions. It is our understanding of the consumer, which shapes our innovation ideas and it is world-class Research & Development (R&D) which enables those ideas to be realised.*

Much of our R&D activity is carried out locally in our operating companies and coordinated centrally. The programme covers the entire supply chain, from the evaluation of new and improved strains of barley and hops to the development of new products and packaging.

An important focus of our R&D efforts is on developing and refining new draught beer systems, both for the on- and off-trade. In February 2004 we launched BeerTender® in the Netherlands, a returnable 4-litre keg and tap system that allows consumers to enjoy quality draught beer at home. Based on its successful launch, we now plan to introduce BeerTender® in a number of other countries. We also continue to work on improvements to the features and functionality of David, our successful draught beer system for small on-trade outlets, launched in 2002.

Packaging innovations in 2004 included the further roll-out of the Heineken 'Identity' can. Across markets, in which the can has been launched, results have confirmed success in terms of positive consumer perception, premium positioning and volume growth. Through the year, we also created new designs for secondary packaging for Heineken and Amstel.



In addition to research into product, packaging and dispense systems, we continue to explore ways of achieving greater operational efficiency and environmental improvements across production and the supply chain.

#### *The INEX Innovation Experience*

In 2004, much of our ongoing R&D work was showcased at a new one-day annual innovation event: INEX – the Heineken Innovation Experience. The event drew more than 300 participants from around the Heineken world, all of whom came to share ideas and witness innovation in action.

The event ended with a presentation to launch the 2004 Innovation Contest, aimed at fostering an innovative and competitive spirit throughout the company. Markets will present their innovation ideas at INEX 2005 in March, and a jury will select the first winner of the Heineken Innovation Award.

#### *Knowledge management: the brewery brain bank*

Over our company's 140-year history, we have built a wealth and depth of technical knowledge relating to the business of brewing and packaging beer. We value this knowledge very highly, but only in the last ten years have we made a concerted effort to document and share it throughout the company. At the end of 2004, the Heineken knowledge management system comprised a highly sophisticated digital database accessible to all technical staff worldwide. It brings together the experiences, the problems and the solutions of generations of technical staff at our breweries worldwide.

## **Investor Relations**

*Heineken takes a proactive role in maintaining an open dialogue with shareholders and bondholders, providing accurate and complete information in a timely and consistent way. We do this through presentations, webcasts, press releases, regular briefings and open days with analysts, fund managers and shareholder associations.*

In 2004, we gave several business and financial presentations and improved audience access by webcasting them live from London and New York. One of these presentations was directed solely at sustainable investment portfolio managers. In addition, Heineken took part in a number of international conferences organised by third parties and other activities for institutional investors. For retail investors, who are mainly based in the Netherlands, Heineken organised company visits and gave presentations. In 2005 we plan to increase the number of direct webcasts and presentations to analysts and fund managers.

To improve further our dialogue with financial audiences we make significant and increasing use of the website [www.heinekeninternational.com](http://www.heinekeninternational.com)

## **Sustainability**

*As a company we aim to achieve more than just superior financial results. We are committed to sustainability in the broadest sense. Our definition covers economic sustainability, the working conditions and general health, safety and well-being of our employees and the support of the local communities in which we operate. Sustainability covers everything from the quality of our products to protecting the environment. We expect to be judged on all these elements and we invest great time and resources in meeting our ever-rising standards and targets.*

#### *Sustainability reporting*

In 2004 we published the first comprehensive Sustainability Report. This publication 'Towards Sustainability' analyses the period 2002-2003, presenting a thorough and broad overview of our activities worldwide and how they score according to three dimensions of sustainability: economy, ecology and society.

The report was well received both internally and externally, winning the prestigious Dutch ACC

Award for best sustainability report by a Dutch company. In recognition of our continuous focus on Corporate Social Responsibility, our rating as measured by the SAM/Dow Jones STOXX benchmark rose by 6% in 2004. This puts Heineken in the number 4 position in the beverages sector. Our goal is to reach the top 3. During the year, Heineken's listing in the FTSE4 Good index was maintained.

In 2005, Heineken will not publish a full sustainability report, but will provide a performance update. Our intention is to publish this in the first half of 2005 and to provide periodic updates on this subject on the website at [www.heinekeninternational.com/responsibility](http://www.heinekeninternational.com/responsibility).

In addition to the full Sustainability Report, in 2004 we published the brochure 'Living our Responsibility'. This publication is intended mainly for internal use and provides case studies of our commitment to social responsibility from around the world.

#### *Business conduct*

In 2004, the Heineken Code of Business Conduct and the Heineken Code of Whistle Blowing were introduced. Both documents are available on our corporate website.

The Code of Business Conduct sets rules and guidelines on issues ranging from compliance with local rules and regulations, fraud prevention, and dealing with gifts and corruption, to conflict of interest and chain responsibility. All operating companies are expected to have translated the Heineken Code of Business Conduct into a local code before 30 June 2005. We have set up a review board to ensure consistency of the local codes with the Heineken Code.

The Heineken Code of Whistle Blowing, containing provisions for internal disclosure of serious wrongdoings and/or malpractice, will be rolled out in 2005.

#### *Environmental sustainability*

Our respect for the environment starts with strict control of what goes into and comes out of our breweries and facilities around the world. Our environmental policy addresses all links in the supply chain, from the procurement of materials and services, through brewing and packaging, distribution and consumption of our products to the processing of by-products, wastewater and waste. We adhere strictly to national rules and regulations regarding waste and wastewater disposal. Where local regulatory requirements do not exist, we apply our own Heineken standards.

In our most recent Sustainability Report we provide in-depth and extensive environmental information on aspects including the origin of primary sources such as water, fuel, indirect CO<sub>2</sub> emissions, ozone layer depletion due to the leakage of refrigerants and the destination of our by-products. Our enhanced alertness to the environmental aspects of brewing and selling beer inevitably reveals areas requiring improvements.

The efficient use of raw materials, water and energy is a simple but critical starting point for our responsibility. In this regard, we have a programme to promote energy awareness throughout the company that is now well underway. We set a target of reducing energy by 7.5% between 2002 and 2004 and met it. We continuously research new and improved ways of reducing natural resources through our 'Aware of Water' and 'Aware of Energy' programmes. The many specific actions relating to environmental improvements undertaken in 2004 include the civil works for a new wastewater treatment plant in Kaduna, Nigeria. The plant will be operational in 2005.

#### *Health and safety*

Heineken makes every effort to prevent circumstances arising at its operations that might have a negative effect on the health and safety of its employees. Heineken has a global health and safety policy that serves as a basis for individual operating companies.

The operating companies, in turn, provide statistics annually and a more extensive report every two years. We develop and apply our own Heineken standards where local regulatory requirements do not exist. That means providing health care to employees and their families where medical services are inadequate. It also means providing employees regularly with information and training to protect them from unsafe and unhealthy situations.

In the last few years we have run a programme in Africa to promote the use of personal protective

equipment among workers. As a result of this 'Getting the stars protected' initiative, many breweries have replaced old and inadequate protective equipment with new recommended materials. The programme has helped to reduce accident frequency to 3.5 per 100 employees per year in Africa, down from 5.5 per 100 in 2001. Our target is to reduce that figure to 2.2 by 2006. Absentee days have also declined, reflecting a drop in the severity of workplace accidents, to 53 per 100 full-time employees in 2003, from 79 per 100 in 2001. Based on this success, we launched this programme in both Asia and the Caribbean in 2004.

In breweries where adequate basic medical services are lacking, Heineken provides comprehensive medical care to employees and dependents. In addition, Heineken has a company AIDS programme that provides free, voluntary testing and medical care to Heineken employees and their families. The programme was extended to Asia. We were encouraged by the results and presented the outlines of our policy during the 2004 World AIDS Conference in Bangkok.

### *Alcohol and society*

As a brewing company we are acutely aware of the risk posed by alcohol, particularly when consumed irresponsibly. The basis of our Alcohol Policy is our conviction that our beers, when consumed responsibly, fit in with a positive lifestyle. We do, however, recognise that some people consume our products at the wrong time, for the wrong reasons or in the wrong quantities. We are committed to raising consumer awareness about responsible consumption and what exactly this means.

In 2004 we became the first alcohol company in the world to link a responsibility message on bottles, cans and secondary packaging with a dedicated alcohol education website. This site, [www.enjoyheinekenresponsibly.com](http://www.enjoyheinekenresponsibly.com) allows consumers to find information on the effects of alcohol, read guidelines on responsible drinking and be directed via links to other organisations with more specialised knowledge on the subject. The label bearing the website and message will appear on every Heineken bottle around the world.

We are committed to promoting our products in a responsible way to consumers above the legal drinking age. We do not want advertisements that may be seen by consumers to condone in any way the abuse of alcohol, particularly our brands. We therefore work continuously to strengthen the basis of responsible marketing and see this as a permanently ongoing process. Efforts in this area in 2004 included a new on-line training course for senior commercial management, designed to deepen their understanding of our guidelines on responsible commercial communication.

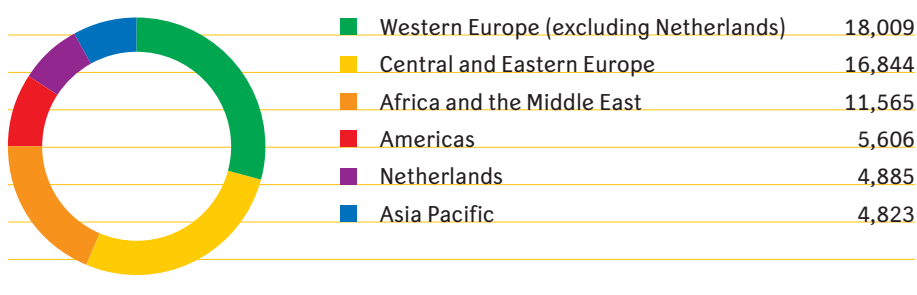
In addition, we are developing programmes that promote responsible drinking and help prevent

alcohol abuse. Through partnerships with industry organisations such as the International Center for Alcohol Policies, the Amsterdam Group of international alcohol beverage producers and the European trade association Brewers of Europe, we develop international programmes that can be tailored to the specific cultural and linguistic needs of each separate market.

In 2004 we fine-tuned our thinking on how best to convey responsible consumption messages in our brand communication. In Italy we developed an award winning 'responsibility' TV commercial called 'Pensaci' – think about it – that addresses the theme of drink-driving in an innovative and thought-provoking manner.

And of course, our Alcohol Policy also includes those within our own organization. Our Cool@Work programme, which sets out for new employees the principles of responsible consumption is a vital part of the education process. We have also developed a special training for our sales force, which recognises the special conditions under which they operate. In future, we plan to introduce the alcohol and work programme to companies that have recently joined the Heineken Group.



**Geographical distribution of personnel > in numbers****Personnel and Organisation**

*In 2004 the average number of employees employed increased from 61,271 to 61,732.*

Within Heineken, there is a clear balance between the Human Resources policies which are developed centrally and applied across the world, such as performance management, and those which are locally developed and implemented according to the individual market situation and legislation.

The global Human Resources agenda for Heineken in 2004 was driven by the need to shape our business into a high-performance organisation and develop a challenging and supportive culture, two key objectives of the 'Taking Heineken to the Next Level' programme.

*Leadership development*

We implemented a number of new initiatives in the area of leadership development in 2004. One is a new leadership competency model that defines behaviour expectations from all senior managers at Heineken. The model takes Heineken's company ambitions and values as a starting point, and translates these into the leadership behaviour required from senior managers.

These leadership competencies then serve as the basis for selecting and developing potential candidates for senior management positions throughout Heineken. In the future, selection for positions will depend as much on experience and track record as on leadership competencies.

*Management development*

We completed an extensive review of the systems for performance management, succession planning, developing and rewarding Heineken managers and we re-designed the recruitment and development process for senior managers. This review led to a set of uniform HR standards and procedures which will be launched globally in 2005 in order to improve the clarity, transparency, consistency and fairness of our career development approach.

We see these as important factors in fostering a merit-based culture within Heineken, a culture that rewards and advances employees according to tangible, measurable achievements. Under the new system, employees will receive clear feedback on their performance and on their stated personal and professional ambitions. That will give them the opportunity to take more of a lead in steering their own personal development.

*Human resources systems*

In 2004, following Heineken's common systems IT strategy, an integrated system for the main HR processes, was developed. The development was done in close cooperation with and between our operating companies. This avoids future IT development costs for HR and through standardisation of definitions and data structures, provides a much better basis for consolidation as well as for internal and external benchmarking. The first implementation took place in November 2004. Between 2005-2007 other operating companies will follow.

#### *European Works Council*

In 2004, the Executive Board provided its annual update to the European Works Council (EWC) on company strategy and the financial results for 2003. Furthermore, the EWC was informed extensively in an open dialogue about the developments in the Brau-Union region and strategic programmes. Management and the Works Council also held a comprehensive and successful stakeholders dialogue on the topic of Corporate Social Responsibility.

#### *Training and development*

In 2004 we re-committed ourselves to becoming a learning organisation and established 'passion for learning' as one of our four key ways of working. We believe embedding this philosophy is a critical part of our ability to maintain our lead within the international beer market. During the year, we expanded our on-line and off-line learning capabilities, and in particular, focused significant resource behind the Heineken University, which exists to develop and share strategic expertise within the group. It does this through the provision of programmes which supplement our regular local and international training courses.

### **The 2004 Heineken Prizes**

*The Heineken Prizes are awarded biennially by the Dr H.P. Heineken Foundation and Stichting Alfred Heineken Fondsen. They acknowledge and reward unique achievements in the four fields of biochemistry and biophysics, medicine, environmental sciences and history. A fifth Heineken Prize, the Heineken Prize for Art, is awarded every two years to an artist living and working in the Netherlands. The recipients are selected by the Royal Netherlands Academy of Arts and Sciences and the awards carry a total value of more than €650,000.*

In October 2004, His Royal Highness, the Prince of Orange of the Netherlands, presented the awards and delivered an impressive speech honouring the laureates and commemorating the late Mr A.H. Heineken.

#### *The five winners*

The Dr H.P. Heineken Prize for Biochemistry and Biophysics was awarded to Dr Andrew Z. Fire from the USA, for his discovery of RNA interference.

The Dr A.H. Heineken Prize for Medicine was awarded to professor Elizabeth H. Blackburn from the USA for identifying the structure of chromosome ends (telomeres) and discovering the enzyme telomerase.

The Dr A.H. Heineken Prize for Environmental Sciences was awarded to professor Simon A. Levin from the USA for his insights into the effects of scale on ecosystems.

The Dr A.H. Heineken Prize for History was awarded to Jacques Le Goff from France for fundamentally changing the current view of the Middle Ages.

The Dr A.H. Heineken Prize for Arts and Sciences was awarded to Daan van Golden in the Netherlands for his versatile output as an artist and his ability to place art in a new context, time and again.

For more information please visit [www.heinekenprizes.org](http://www.heinekenprizes.org)