



We are committed to working closely with our supply chain partners in order to achieve a sustainable value chain with long-term benefits for all our stakeholders.

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## Agriculture

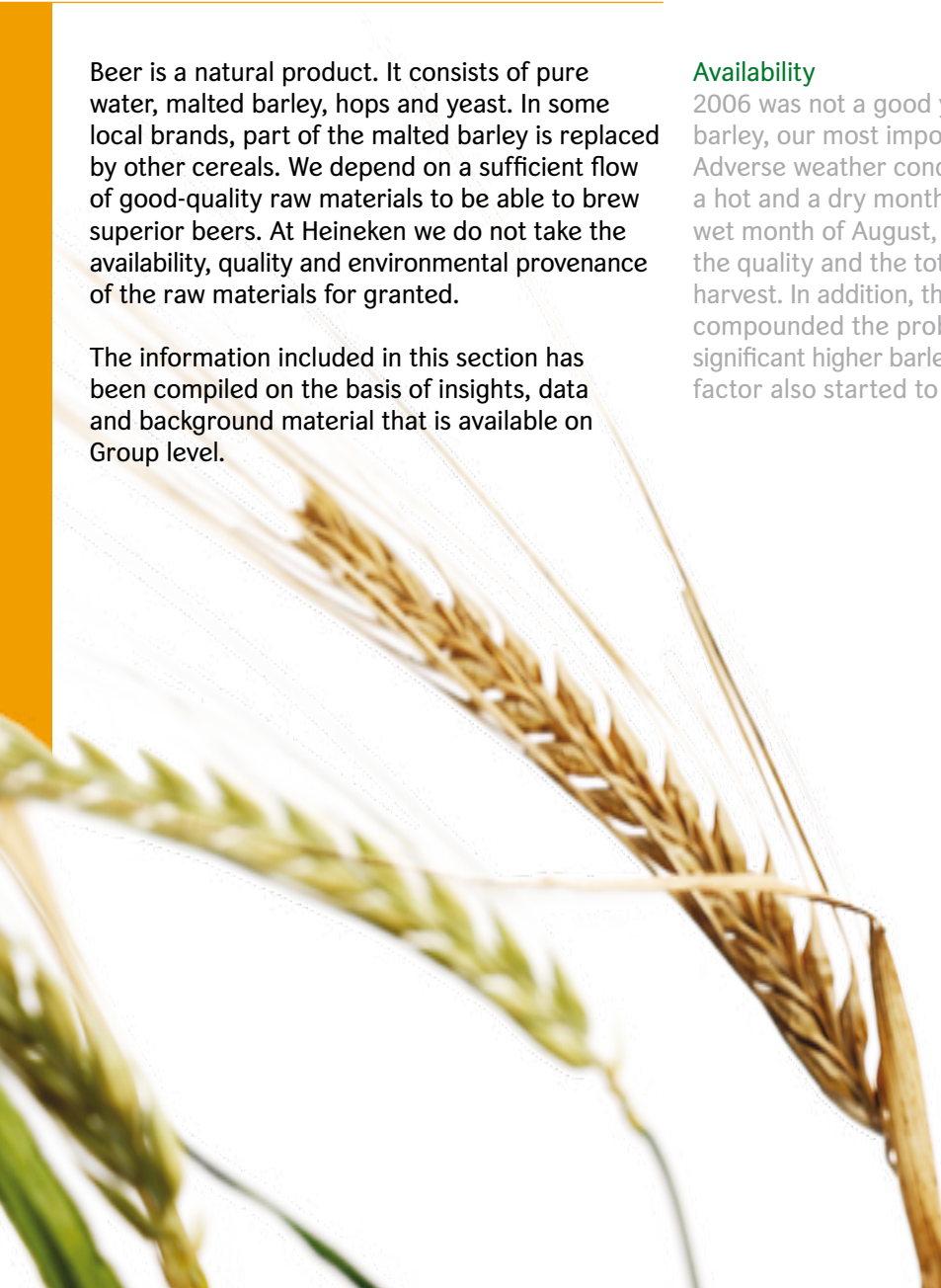
- 19 Availability
- 21 Food safety in the supply chain
- 22 GMO
- 22 Environmental aspects

Beer is a natural product. It consists of pure water, malted barley, hops and yeast. In some local brands, part of the malted barley is replaced by other cereals. We depend on a sufficient flow of good-quality raw materials to be able to brew superior beers. At Heineken we do not take the availability, quality and environmental provenance of the raw materials for granted.

The information included in this section has been compiled on the basis of insights, data and background material that is available on Group level.

### Availability

2006 was not a good year for the production of barley, our most important agricultural ingredient. Adverse weather conditions in Europe, specifically a hot and a dry month of July and an extremely wet month of August, significantly lowered both the quality and the total quantity of the barley harvest. In addition, the poor harvest in Australia compounded the problem, which resulted in significant higher barley and malt prices. Another factor also started to influence the price and





availability of barley – the growing demand for biofuels. Tax relief and government subsidies have made the cultivation of agricultural products for biofuels an interesting proposition for arable farmers. In addition, quality demands for grains grown for fuels are less stringent than when grown for human consumption, offering farmers the advantage of achieving a good price for lower grade produce.

Obviously, we share concerns about global warming, CO<sub>2</sub> emissions and fossil fuel depletion, but we are worried about these developments. The surface areas of agriculture currently in use in moderate climates continue to be reduced by urbanisation and growing infrastructure. Significant increases in demand for certain crops will increase pressure on their price.

In the longer term, we anticipate an increase in partial crop failures due to climate change along with continuing price increases due to demand for biofuels, the growth in world population and continuing economic development.

Through our own maltings and suppliers we stimulate the increase of yields in developing countries. We know that geographically there are significant differences in yield: one hectare of land in France typically delivers approximately 6.5 tonnes of barley, whereas one hectare in Russia only yields approximately 1.8 tonnes.

This means that there are significant opportunities for improvement in this area. Investing in the production of better yields outside Western Europe will better balance the risk of partial crop failures.

To reach our objectives, a professional and well-developed malting sector is of key importance: the maltster is the link between the agricultural sector and our company. In Russia and Romania, where well-developed malting sectors were originally unavailable, we have entered into discussion with our local business partners. As a result, state-of-the-art malting plants have been established to support local farmers by providing training and assistance in the selection of the right crop varieties. We have also agreed to temporarily increase financial support for local maltsters involved in these projects in order to co-finance their activities.

#### Food safety in the supply chain

Throughout its existence, Heineken has endeavoured to provide consumers with safe, premium quality beer. The safety and quality of our beers starts with the selection of our brewing ingredients. All of these are subject to periodic testing.

We maintain uniform maximum tolerance values for the contamination of raw materials by pesticides, heavy metals, mycotoxins, benzene



derivatives and other substances that are not naturally present in them. These maximum tolerance values are based on the relevant EU regulations.

Our operating companies are only allowed to purchase malted barley, hops and kieselguhr from approved suppliers, who are obliged to maintain rigid quality systems, including entry checks for their own supplies and carrying out periodic audits. In addition, all approved suppliers are subject to regular quality audits by Heineken. During 2007, this system will become mandatory for the purchase of all locally sourced ingredients by our operating companies. In breweries that have an ISO 9000 series certificate this is already the case.

We carry out checks on samples taken from all raw materials when they enter our breweries. To safeguard the integrity of our products during the brewing, fermentation, lagering and bottling phases of our production process, all our breweries are obliged to maintain a Hazard Analysis and Critical Control Points (HACCP) system.

All our beers, wherever brewed, are subject to a central, annual analysis which is based on food safety parameters. The water quality in our breweries is constantly monitored. All water used in brewing is subject to a full analysis aimed at detecting every conceivable contamination, every two years. These analyses help us to determine

trends in food safety and provide input to our audit programme by highlighting specific food safety risks in certain ingredients.

Over the past decade we have worked hard to monitor our products, from transport conditions and arrival of ingredients and other materials (such as crown corks) through to pallets carrying finished products. For barley and hops, provenance is traced right back to the fields in which crops are grown. This close monitoring helps us to act swiftly if any product batch is not in perfect order. It also helps us to understand what has gone wrong and take active steps to prevent the same problem in the future. In the countries that have recently joined the European Union, we actively stimulate suppliers to set up systems that provide improved traceability.

## GMO

Heineken's policy on the use of genetically modified organisms (GMO) prohibits the use of those GMOs. We take strict precautions to ensure that all raw materials, including maize, rice, sorghum and wheat, are GMO free. For product categories with an increased GMO risk, especially maize, strict and enhanced provisions specifying the number of quality samples that must be taken are in place. Our success in tracing the provenance of our raw materials helps us to live up to our GMO policy. Heineken will continue to monitor the public debate on GMO and agricultural trends and will consult with its stakeholders prior to eventual changes in its policy.

## Environmental aspects

In 2002, we launched the 'Veldleeuwerik' (Skylark) project, our sustainable barley programme in the Netherlands. Its aim is to improve our understanding of the parameters that play a key role in improving the sustainability of the relevant agricultural sector and thus define sustainability for the farmer and all his crops, including barley. As part of the project, we have joined forces with institutes, universities, welfare organisations and farmers. One of Skylark's unique features is that the farmer plays a key role.

Farmers participated in measuring a number of indicators, including soil fertility, nutrients, biodiversity, water consumption and crop protection. Through learning and exchange of expertise they were able to share best practices and improve their scores against the indicators. In 2006, the number of participating farmers increased from 10 to 60. In the Netherlands barley has become a rotation crop. Consequently, the project now focuses on soil depletion and crop rotation, because it has become increasingly apparent that the key to improving sustainable barley largely depends on the sustainable performance and good soil treatment by farmers.

In 2006, the success of the cooperation with several participants from different sectors in the food industry, the 'Friends in Rotation', was made explicit by an increase in the number of farmers who participate in the project to approximately 60 and the establishment of the Skylark Foundation. In its present form, the project will be concluded in 2008, but we are convinced that the unique cooperation among the relevant participants will continue even after conclusion of the project.

To date, the results of the Skylark project have been positive and we have acquired a great deal of knowledge and practical experience. We will use this experience when we define our needs and requirements towards our suppliers (maltings) and this will obviously affect our own malting activities. A review scheduled to take place in 2007 will provide a clearer insight into the feasibility of global scale, but whatever its outcome, we will maintain our commitment to play an active role in improving environmental performance across the entire agricultural supply chain.