HEINEKEN

Annual Report 2017

In this year's report

Further information online at:
theHEINEKENcompany.com

– Download the Annual Report
– Find out about HEINEKEN's history
– Explore our countries and brands
– Read more about our sustainability journey

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We are HEINEKEN

We build true human connections and break down barriers, because we believe great moments of shared experiences are the best in life.

We are inspired by consumers to brew the best beers and extend that same passion to all of our brands, products and activities.

We are proud of our family history and Dutch heritage and derive from them our entrepreneurial spirit that takes us to every corner of the world.

We are brand builders. The Heineken® brand defines and unites us while our many local, regional and global brands make our portfolio diverse and unique.

People are at the heart of our company. We see our strength in trust, diversity and progress.

We stand by our values: passion for quality, enjoyment of life, respect for people and for the planet.

We always advocate responsible consumption. We are committed to our communities and strive to consistently improve the impact we make on the planet.

We work with our customers and partners to grow together and seek to win with integrity and fairness.

And we are convinced that by staying true to these commitments, we create value for our shareholders.

We are HEINEKEN.

Chief Executive's Statement

HEINEKEN delivered a strong performance in 2017, in spite of continued challenges in the external environment, including geopolitical instability and volatile currencies. All of our regions contributed to organic volume, revenue and profit growth.

We have a broad, balanced geographic footprint which provides stability from mature markets paired with faster growth from emerging economies.

During 2017, we significantly expanded our operations in Ethiopia, Mexico, Cambodia, Vietnam and Haiti, and we opened our first brewery in Ivory Coast.

The acquisition of Brasil Kirin makes us the second largest beer company in Brazil and better equips us to capture future profitable growth in this exciting beer market. Another key investment during 2017 was our acquisition of approximately 1,900 pubs from Punch Taverns, making us the owners of the third largest pubs business in the UK.

The Heineken® brand continued to benefit from its position as a progressive and innovative leader in the premium segment, delivering its strongest performance in recent years. As the premium segment continues to outpace the overall beer market, the brand power of Heineken® is more important than ever. The launch of our latest innovation, Heineken® 0.0, has been very promising, in tune with an increasing emphasis on health and wellbeing that is driving changes in consumer behaviour worldwide.

Our international brands portfolio volume growth, outperformed our total beer portfolio growth for the third consecutive year. Our local brands are more relevant than ever as local identity and provenance increasingly matters in many markets. These brands also provide scale and route-to-market power to build our premium portfolio and new categories.

The craft & variety segment continues to be very dynamic and is a priority area for future growth. In May 2017, we acquired the remaining stake in Lagunitas (having entered a 50/50 partnership in 2015), allowing us to accelerate the roll-out of the brand to many more markets around the world. Our other international craft brands, Affligem and Mort Subite, are performing strongly; and we are successful with our crafty line extensions for brands such as Birra Moretti, Brand and Żywiec.

Heineken® 0.0, as well as our other low- and no-alcohol offerings, represent an opportunity to access our existing base of loyal consumers who would prefer an alcohol-free drink at times, as well as new consumers who wouldn't otherwise drink an alcoholic beer. In 2017 we sold almost 13 million hectolitres of our low- and no-alcohol products and we see growth opportunities in this category.

We continue to make inroads in the cider category, which allows us to reach new consumer groups. One in four alcohol drinkers does not drink beer. Cider can provide a great alternative. From our position as the world's leading cider producer, we have a unique ability to help consumers in new markets to develop an understanding of cider – what it is, when to drink it and the heritage and authenticity that the category represents. The potential of this global opportunity is highlighted by the double digit volume growth of our cider portfolio delivered outside the UK during 2017.

During the year, HEINEKEN launched new e-commerce initiatives, both Business-to-Business and Business-to-Consumer platforms, such as Beerwulf, which is our new craft & variety online business channel for consumers. We also continued to introduce innovations. In 2017, for instance, we launched The Blade, a countertop draught system with 8 litre kegs that can be ordered online by the trade.

We have a clear strategy which is aligned with our commitment to long-term value creation, with four priorities for action: deliver top line growth, drive end2end performance, Brew a Better World, and engage and develop our people. You can read more about each of these priorities in more detail later in the report.

We are making good progress with our 2020 Brew a Better World commitments. Climate change is a major societal and environmental threat. We have the responsibility to reduce our usage of fossil fuels and to reduce our CO_2 emissions, playing our part in the commitments set by the COP21 Paris Agreement. We are setting a new ambition for 2030 to reduce our carbon emissions through a programme called 'Drop the C'. Our new commitments will cover not just production, logistics and cooling, but also for the first time packaging as an important component of our carbon footprint. Our aim is to drive an authentic transformation to renewable energy, deliberately excluding the possibility to achieve targets through purchasing unbundled certificates. The name 'Drop the C' is inspired by the idea that taking the C out of CO_2 leaves Oxygen. The play on words is also about ensuring sea levels do not continue to rise.

We strongly believe that by fully integrating sustainability into the way we do business, we are best placed to make a meaningful impact on the world around us. As with last year, for that very reason, this is a joint financial and sustainability report.

Looking ahead to 2018, we are committed to long-term value creation and will continue to strive for superior top line growth whilst working on improving our operating profit margin. For 2018, excluding major unforeseen macro economic and political developments, we expect to deliver an operating profit margin expansion of around 25bps. This includes a residual dilutive effect on margins from the acquisition of Brasil Kirin and excludes the one-time benefit of IFRS 15 implementation.

With a rigorous focus on our strategic priorities, and with the engagement and energy of all of us working at HEINEKEN, I am looking forward to 2018 being another year of progress for our business.

Jean-François van Boxmeer
Chairman of the Executive Board/CEO

Amsterdam, 9 February 2018

Strong performance and progress

We delivered strong top-line and bottom-line performance in 2017 reflecting volume, revenue and profit organic growth across all regions.

Financial and operational highlights

Further information on our financial performance:
Pages 26–30

Consolidated beer volume
(in millions of hectolitres)

218.0mhl

Heineken® volume[1]
(in millions of hectolitres)

36.0mhl

Revenue (beia)
(in millions of €)

€21,908m

Operating profit (beia)
(in millions of €)

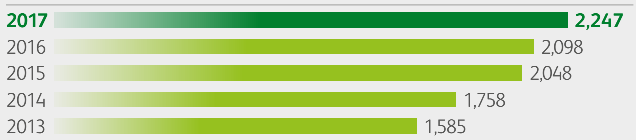
€3,759m

Operating profit (beia) margin
(in percentages)

17.2%

Net profit (beia)
(in millions of €)

€2,247m



[1] Heineken® volume is now total volume including the Netherlands.

Sustainability highlights

Further information on our sustainability performance:
Pages 133–154

Water consumption

29%

Decrease in water consumption (hl/hl) in our breweries since 2008

Carbon emissions

41%

Decrease in carbon emissions (kg CO_2-eq/hl) from production since 2008

Sourcing locally

42%

of our agricultural raw materials used in Africa and the Middle East sourced locally

Responsible consumption

10%

of total Heineken® media spend was dedicated to responsible consumption campaigns, in 71%[1] of operating companies in scope

[1] Estimate.

Key figures[1]

Consolidated results

In millions of €	2017	2016	Change in %
Revenue	**21,888**	20,792	5.3%
Revenue (beia)	**21,908**	20,792	5.4%
Operating profit	**3,352**	2,755	21.7%
Operating profit (beia)	**3,759**	3,540	6.2%
Net profit	**1,935**	1,540	25.6%
Net profit (beia)	**2,247**	2,098	7.1%
EBITDA	**4,949**	4,722	4.8%
EBITDA (beia)	**5,115**	4,901	4.4%
Dividend (proposed)	**838**	763	9.8%
Free operating cash flow	**2,031**	1,773	14.6%

Balance sheet

In millions of €			
Total assets	**41,034**	39,321	4.4%
Equity attributable to equity holders of the Company	**13,321**	13,238	0.6%
Net debt position	**12,879**	11,293	14.0%
Market capitalisation	**49,607**	40,645	22.0%

Per share

Weighted average number of shares – basic	**570,074,335**	569,737,210	0.1%
Net profit	**3.39**	2.70	25.6%
Net profit (beia)	**3.94**	3.68	7.1%
Dividend (proposed)	**1.47**	1.34	9.7%
Free operating cash flow	**3.56**	3.11	14.5%
Equity attributable to equity holders of the Company	**23.37**	23.24	0.6%
Share price	**86.93**	71.26	22.0%
Weighted average number of shares – diluted	**570,652,111**	570,370,392	–%
Net profit (beia) – diluted	**3.94**	3.68	7.0%

Employees

Average number of employees (FTE)	**80,425**	73,525	9.4%

Ratios

Operating profit (beia) as a % of revenue	**17.2%**	17.0%	14 bps
Net profit as % of average equity attributable to equity holders of the Company	**14.6%**	11.5%	27.0%
Net debt/EBITDA (beia)	**2.5**	2.3	9.6%
Dividend % payout	**37.3%**	36.4%	2.4%
Cash conversion rate	**81.1%**	75.0%	8.0%

[1] (beia) is before exceptional items and amortisation of acquisition-related intangible assets. Please refer to the Glossary section for an explanation of non-GAAP measures and other terms used throughout this report.

Our impact on society: From Barley to Bar

Our ambition is to Brew a Better World across the entire value chain, from Barley to Bar. This shapes our contribution to delivering the UN Sustainable Development Goals which aim to end global poverty, protect the planet and ensure prosperity.

1 Employees

Our journey begins and ends with over 80,000 employees[1] in more than 70 countries.

With 64 nationalities represented among our senior management, cultural diversity is HEINEKEN's strong point. We aim to provide equal opportunities for all and are focused on increasing female representation at senior levels, which grew by 2 percentage points to 19%. Our Code of Business Conduct guides our employees both inside the Company and in their interactions with external stakeholders. By end of 2017, more than 75,000 employees had completed our Code of Business Conduct training and anti-bribery training modules were completed almost 19,350 times. The response rate of our 2017 HEINEKEN Climate survey was 91%. Both participation and employee engagement scores grew again, reflecting consistently higher scores than the external benchmark[2].

In this way, we support **SDG**
5 8 16

2 Agriculture

Our beer and cider are made from natural ingredients, which we source with care.

More of our raw materials – such as barley, hops and bitter sweet apples – now come from sustainable sources, and we aim to reach 50% by 2020. We work with farmers and partners to improve crop yields and quality. In Africa, in addition to barley, we source other locally[3] grown ingredients including sorghum and rice for use in our beer. This empowers communities and improves livelihoods for over 150,000 smallholder farmers. Our Supplier Code sets clear standards of responsibility for our suppliers.

In this way, we support **SDG**
2 6 8 12

3 Brewing

Brewing beer and making cider is a craft. We operate more than 170 breweries, malteries, cider plants and other production facilities around the world.

We focus on increasing energy and water efficiency in our production processes, and switching to renewable energy sources. In absolute terms, we have reduced CO_2 emissions by 7% since 2008, despite having grown our business volumes by 57%. For production we have set new targets for 2030: growing our share of renewable energy from 14% in 2017 to 70% by 2030. We want to enable the transition to the circular economy. By-products such as spent grains are used for cattle feed, and packaging waste is recycled into new products. We aim for zero waste to landfill and 97 of our production facilities are already there.

In this way, we support **SDG**
6 7 12 13

4 Packaging

HEINEKEN drinks come in bottles, cans and kegs, all of which have an impact on the environment.

We have a strong focus on packaging because it is an area where we still have a lot to get done: optimising production, changing design and increasing our recycling and re-use rates. We are in conversation with our packaging suppliers to reduce the amount of energy used in producing our packaging materials.

In this way, we support **SDG**
12 13

[1] Full-time equivalent (FTE).
[2] IBM external norm.
[3] More than 80% of local raw materials are sourced domestically, with the remainder coming from other markets within the region.

UN Sustainable Development Goals

5 Distribution

The majority of our products are produced in the countries where they are consumed, which limits the environmental impacts of transport.

But we continue to carefully manage our movement of supplies and products. We are on track to reduce our emissions from distribution in Europe and the Americas. The safety of our employees and contractors is, and always will be, a key priority.

In this way, we support **SDG**
8 13

6 Communities

From the farmers we source from to the people living around our breweries, we depend on stable local communities and we help them prosper.

Our biggest influence is through our core business: in 2017, HEINEKEN contributed almost €11 billion in taxes[4] and provided over 80,000 direct jobs. The HEINEKEN Africa Foundation supports projects that improve health for people living in communities near the breweries. Since it was established, the Foundation has committed €9.2 million to 104 projects, of which 41 projects were still running in 2017. Around the world our operating companies donated €24 million to community projects addressing areas like ecosystem conservation, culture and education.

In this way, we support **SDG**
3 4 6 8 15

7 Customers

Our brands are purchased and consumed in bars, restaurants and via retailers around the world. Because our products are best served cooled, reducing emissions from refrigeration is a high priority.

In 2017, we invested in almost 138,000 green fridges to help customers reduce emissions. Our draught system innovations are reducing water, energy and waste when our drinks are sold. We believe our products should only be sold to consumers of legal drinking age and we encourage our customers to promote responsible consumption and reduce harmful drinking.

In this way, we support **SDG**
3 13

8 Consumers

Every day, millions of consumers choose to enjoy one of our more than 300 brands.

We provide choice through our premium portfolio approach. Innovations, especially in the low- and no-alcohol categories, are meeting evolving consumer tastes. We used our global partnership with Formula 1® to launch a major new campaign, 'When You Drive, Never Drink'. The majority of our operating companies invested more than 10% of their media spend for Heineken® in activities related to responsible drinking campaigns and our target is for all markets around the world. 44 of our operating companies have local partnerships in place to address alcohol-related harm.

In this way, we support **SDG**
3 17

[4] Including excise.

Executive Team

The Executive Team consists of the two members of the Executive Board, the four regional presidents and four Chief Officers. Its members are accountable for the global agendas of their functions, working closely with our operating companies.

1
Jean-François van Boxmeer
Chairman Executive Board and CEO

2
Laurence Debroux
Member Executive Board and CFO

3
Marc Busain
President Americas

4
Frans Eusman
President Asia Pacific

5
Stefan Orlowski
President Europe

6
Jan Derck van Karnebeek
Chief Commercial Officer

7
Roland Pirmez
President Africa Middle East and Eastern Europe

8
Marc Gross
Chief Supply Chain Officer

9
Chris Van Steenbergen
Chief Human Resources Officer

10
Blanca Juti
Chief Corporate Affairs Officer

Further information online at:
theHEINEKENcompany.com

Executive Board and Executive Team member | Executive team member

Committed to long-term value creation

The HEINEKEN strategy is built around four business priorities for action. They are designed to enable the Company to win in the marketplace, focus on the long-term sustainability of our business and continue to delivering growth and shareholder value.

Our business priorities (continued)

Deliver top line growth

In 2017, we made good progress in building and leading the premium segment, led by Heineken® and supported by our portfolio of international and local brands, alongside our focus on craft & variety, low- and no-alcohol and cider category growth.

Our strategy is to lead the premium segment in beer and cider across the world and leverage the brand power of Heineken®, supported by a strong portfolio of international premium and local brands. As beer remains a local business, our goal is to be the number one, or a strong number two, in the markets where we compete with a full brand portfolio. We will also continue our focus on growing and leading the craft & variety, low- and no-alcohol and cider categories, which is becoming more important as we drive additional customer penetration and target more households.

In 2017, Heineken® volumes grew 4.5% showing one of its strongest performances in recent years.

Our international brands portfolio continued to be a strong driver of volume and premium revenue growth. The portfolio represents all corners of the globe and includes Amstel (which is now available in over 100 markets), Desperados, Sol, Tiger, Tecate, Red Stripe, Krušovice and Birra Moretti.

The rise of the craft & variety segment continues to gain momentum as more people want to explore the taste of beer. Craft & variety is an important emerging category within HEINEKEN that complements the growing international premium beer segment.

We continue to innovate with products including non-alcoholic beer, low-alcoholic beer, Radlers, nourishing dark malts and refreshing light malts. We launched Heineken® 0.0 during the Formula 1® Grand Prix in Barcelona and it is now available in 16 markets – a clear sign of commitment to the category. Our low- and no-alcohol portfolio showed consistent double digit volume growth in Europe.

We are capturing the cider opportunity and growing the category. Our cider brand portfolio expanded to over 50 markets. Consumer trends play well to the strength of cider, with its unisex appeal, naturalness, authenticity, range of different flavours and sweeter taste. We continued to shape the cider portfolio led by Strongbow Apple Ciders, as well as Orchard Thieves, Blind Pig, Old Mout, Stassen and Bulmers. Consolidated cider volume increased low single digit to reach 4.9 million hectolitres (2016: 4.8 million hectolitres).

E-commerce and innovations continued to be important for us. In 2017, we launched Beerwulf which is our new craft & variety online business channel for consumers. We also introduced The Blade, a countertop draught system with 8 litre kegs that can be ordered online for bars or smaller restaurants that traditionally only sell bottles.

▲ Heineken®
With a presence in more than 190 markets, Heineken® is the world's most international beer brand.

▼ International brands
Our international brands portfolio strengthens our presence in the premium segment by tapping into consumer appetite for diversity, unique stories, purpose, and new brand experiences. In 2017, for instance we created the world's first electronic orchestra in hot air balloons with Desperados SkyFest.

► Craft & variety
Consumers around the world are seeking more choice and taste variety, and it is important we have the right brands available as consumers navigate through a greater assortment of beer styles. We have an attractive portfolio of local craft line extensions such as Brand IPA and Birra Moretti Regionale, international craft brands that can travel – Lagunitas, Affligem and Mort Subite and selectively acquired local craft breweries, for example HIBU in Italy and Tuatara in New Zealand.

◄ Low- and no-alcohol
Our low- and no-alcohol category is benefiting from consumer trends towards alcohol moderation, naturalness and health consciousness. We have a growing portfolio in the category made up of distinct products. Our latest innovation in this category is Heineken® 0.0.

► Global cider portfolio
We are the world's biggest cider producer. Around the world, a growing number of consumers are discovering the appeal of cider. HEINEKEN is shaping the cider category with our portfolio of global and local cider brands.

Our business priorities (continued)

Drive end2end performance

HEINEKEN is leveraging the global scale of its operations to deliver increased efficiencies across the business. Driving end2end performance will fuel future growth and increase our margins.

Our end2end perspective starts with our consumers and customers and focuses on reducing non-value adding costs. Our strategy encompasses disciplined management of capital expenditure and working capital and a drive for functional efficiency. This means simplifying processes and eliminating duplication. As a global business we need to continue to realise the full benefit of our scale.

In 2017, we continued to invest in key developing markets. We added capacity in Ivory Coast and Vietnam and we started construction to extend our Kilinto brewery in Ethiopia. We are on schedule to open our brand new Meoqui brewery in Mexico in early 2018. We also laid the foundation stone of our first HEINEKEN brewery in Mozambique. The first bottle of beer is expected to come off the production line in the first half of 2019.

In procurement, we continue to leverage HEINEKEN's global scale with fewer, more strategic suppliers, supporting both top and bottom line growth. With this strategy, we have continued to reduce our cost base as well as leveraging our supplier financing tools and delivering cash benefits.

Applying continuous improvement to our New Product Implementation (NPI) process allows us to introduce more new products faster and more efficiently. Our Sales and Operational Planning Process capabilities are instrumental for matching supply versus demand and anticipating increasing market volatility. Through our Commercial Spend Productivity (CSP) initiative, we continued to focus on investing our commercial resources in the most efficient and effective way.

We made good progress on our BASE programme, which enables HEINEKEN to become more agile and efficient by standardising core business processes in Finance, Procurement, Production, Logistics and Sales supported by Enterprise Resource Planning (ERP) systems. Over the coming three years we plan to deploy BASE in various regions and territories: Asia Pacific, Africa, Middle East & Eastern Europe and the Caribbean.

Taken together, these efforts to improve our productivity contribute to increase our margins and fuel future growth.

▲ Global supply chain
64% of our beverage production sites reduced energy consumption and 63% reduced water consumption in 2017.

▼ Integration of Brasil Kirin into HEINEKEN Brazil
By using an end2end approach for the integration of Brasil Kirin, procurement, production and logistics played an instrumental role in identifying the synergies and optimising the supplier networks, contributing to a successful integration.

▼ HEINEKEN Financial Shared Services centre (HFSS)
In 2017, we continued to work end2end to achieve process improvements and seamless operations between HFSS and the countries.

► Media waves project
By aligning the commercial and procurement agendas, we have supported our Win with Brands strategy through the consolidation of the media spend into two global competitive partners. This allows us to build a sustainable relationship with our media partners whilst maximising our reach to the global consumers.

Our business priorities (continued)

Brew a Better World

We believe that sustainability can help drive business success, and that business can be a positive force for change. To achieve this we embed sustainability within our business strategy and priorities.

We have made good progress towards achieving our 2020 commitments but we need to do more in some areas.

We are setting our sights beyond 2020 as we begin to raise our ambitions for the future. Our new transformational programme 'Drop the C' will significantly reduce carbon emissions from across the business. It is a challenging plan with ambitious targets for 2030 that will require open collaboration and game-changing innovation from players covering the entire value chain. In 2018 we will start a similar exercise for our water ambitions beyond 2020, called 'Every Drop'.

We increased our efforts to make responsible consumption cool – extending our commitment of 10% media spend for Heineken® responsible drinking advertising from 14 operating companies to all consolidated companies[1] selling Heineken®. We also continued to innovate in the no-alcohol category with the successful launch of Heineken® 0.0, offering a great tasting, natural product without alcohol and with less calories.

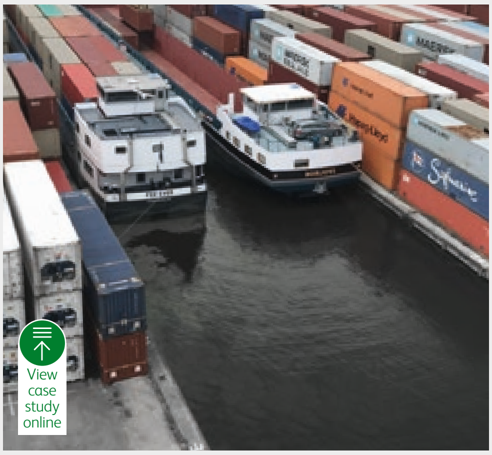
We reduced once again our accident frequency, but were deeply saddened that 14 people lost their lives while working within the HEINEKEN Company in 2017. Based on pilots in seven operating companies, we decided to make telematics mandatory for all Company-operated vehicles to monitor and improve safe driving behaviour.

Brewing a Better World continues to inspire our brands, like Tiger and Tecate, to align their purpose with some of the big issues affecting society. The Heineken® Worlds Apart campaign in the UK used the power of our global brand to inspire positive social change. At a time when people feel openness and tolerance in society is under threat, our social experiment resonated with millions of people – not just in the UK but worldwide.

As we continue our journey to embed Brewing a Better World in the business agenda, we are engaging our leaders through the introduction of a balanced scorecard that will better monitor and drive performance across our non-financial indicators.

We particularly value our ongoing collaboration and dialogue with stakeholders – including NGOs, investors, government ministries and many others. They help us to learn and improve our approach around key issues such as human rights and environmental protection. We will continue this dialogue in developing our sustainability actions beyond 2020, helping to achieve the UN Sustainable Development Goals.

For more on our Brewing a Better World commitments and performance, please turn to the Sustainability Review **on page 133.** More in-depth information can be found in the sustainability section of our Company **website.**



◄ **Green Corridor**
HEINEKEN, Nedcargo and the Port of Rotterdam Authority are taking steps towards a 'green corridor'. Together with other parties, we want to make the logistic activities between Alphen aan den Rijn and the port of Rotterdam climate neutral.

▼ **Stop and think**
10% of Heineken® media spend is on ads that actively promote moderation. The ads often show people choosing not to drink our beer. A bold move for a beer brand. But by being bold, we are making people stop and think.

▼ **Tiger helping Tigers**
Staying true to its name, Tiger Beer embarked on an ambitious six-year global partnership with the WWF network to create a global movement and help double the number of wild tigers by 2022.

◄ **Mexico: circular brewing**
Our new brewery in Meoqui, Chihuahua (Mexico) started operations in January 2018. Its design is based on circular practices, including recycling wastewater to be used in non-product applications, reusing brewer's grain as cattle feed and recovering waste heat from the neighbouring glass factory to be used in the brewing process.

[1] Exceptions are companies operating in 'dark markets' where above-the-line communication is not allowed according to regulations.

Our business priorities (continued)

Engage and develop our people

Two of our most important differentiators and competitive advantages are, and always have been, our people and our culture. To achieve our ambition of being a proud and independent global brewer committed to long-term value creation, engaging and developing our people will remain critical.

We believe the engagement, capability and diversity of all our people drives our continued success. This business priority has four elements: Develop great business driven leaders, Grow our talent pipeline at all levels, Build critical capabilities and strengthen functional excellence, and Leverage diversity and our culture.

We focus on developing great business-driven leaders, because we know that how we lead drives our business performance and shapes our culture. Our Leadership Expectations – introduced in 2017 and embedded in all of our key people processes – equip our leaders with a common understanding of what is expected of them in their roles, and provide a simple framework to guide their ongoing development.

To be successful today and in the future, we have to ensure that our talent management approach is aligned with the business strategy and that we are attracting, identifying, developing, engaging and retaining the best talent at all levels. We are making solid progress in this agenda and there is increasing ownership of talent management by business leaders.

Wherever we operate, we identify and develop the critical strategic capabilities to win in the market place. This includes building capability for operating in an increasingly 'digital' world. We focus our investments on developing these critical capabilities and, at the same time, strengthening our functional excellence in a practical and disciplined way whether it is in marketing, sales, production, finance, or other areas.

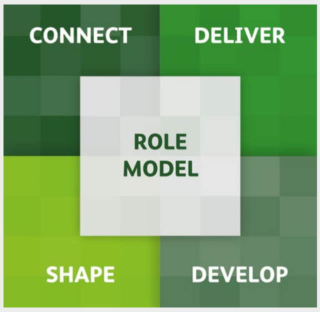
We know that our diversity across HEINEKEN can be a big driver of innovation, creativity and business success. This includes nationality, experiences, thinking styles and also gender where progress still needs to be made. To enable this we are driving the implementation of our Inclusion & Diversity strategy and action plan (see page 147).

We have a unique and compelling culture, reflected in 'We are HEINEKEN' which we launched last year. Our annual Climate Survey is a key barometer for how we are doing on culture and engagement and, in 2017, we again achieved excellent engagement scores, placing us in the top quartile of companies against the external benchmark[1].

Workplace by Facebook is our new internal digital engagement platform. It connects colleagues globally and is already enabling faster, more engaging sharing of information, stories and learning among HEINEKEN colleagues around the world.

[1] IBM external norm.

▲ **HIMAC**
Our flagship two week development programme for senior top talents, the HEINEKEN International Management Course (HIMAC), explores our key strategic and leadership challenges. Members of our Executive Team play an active part in the delivery. Last year it was delivered in partnership with INSEAD Business School. 44 high potential leaders from across HEINEKEN attended.



▲ **Leadership Expectations**
How we lead directly impacts our business performance and shapes our culture. In 2017 we launched our Leadership Expectations to provide a simple language that explains what it takes to lead HEINEKEN into the future. These common expectations are embedded in our approaches to performance management, reward, selection and development. For example, over the last year, more than 1,000 senior leaders have completed 360° feedback against these expectations.

▲ **BOOST**
To be successful today and in the future, we need to attract, develop and retain our talent. The Asia Pacific BOOST (Building Our Own Sustainable Talent) programme is one of many examples of how we are building our talent pipeline around the world through a clear focus on local talent attraction, identification, mobility and development – all underpinned by senior leader ownership.

► **Workplace by Facebook**
In 2017 we rolled out Workplace by Facebook at HEINEKEN. We are using this as a worldwide internal digital and mobile collaboration platform, building communities, sharing insights and learning from each other. Currently we already have around 59,000 colleagues from across the world connected and engaging with each other on this new platform.

Our balanced geographic footprint

Wherever you are in the world, you are able to enjoy one of our brands. We own, market and sell more than 300 brands in 190 countries.

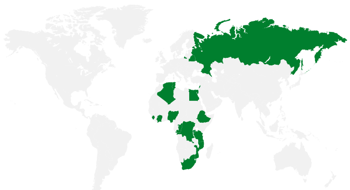
Further information:
Page 15

Further information:
Page 16

Further information:
Page 17

Further information:
Page 18

Regional Review (continued)

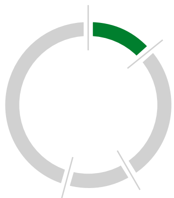


Africa, Middle East and Eastern Europe

We saw an acceleration of volume growth, despite a challenging trading environment across the region. Growth was particularly strong in Ethiopia, South Africa and Russia.

Key brands
Heineken®, Primus, Amstel, Walia, Ivoire

Regional revenue (beia) as % of total
13.6%



40.1mhl (2016: 38.4mhl) **Consolidated beer volume**	18.4% (2016: 19.2%) **Consolidated beer volume as % of total**
5.2mhl (2016: 4.6mhl) **Heineken® volume**	€3,059m (2016: €3,203m) **Revenue (beia)**
€388m (2016: €376m) **Operating profit (beia)**	9.9% (2016: 10.5%) **Operating profit (beia) as % of total**

In 2017, macro economic challenges continued in the region. Rising inflation and currency pressure weighed on performance, particularly in Nigeria and Egypt. Despite this, 2017 marked a return to positive volume growth in the region.

Heineken® performed well in South Africa with double digit volume growth and Strongbow saw triple digit growth. In Sedibeng, South Africa, we invested in additional capacity. In Ethiopia our Walia brand had continued success with double digit volume growth and consequently, we are extending our Kilinto brewery to add 1.5 million hectolitres capacity. In Russia, we saw strong performance of Heineken® 0.0.

Our balanced portfolio of premium, mainstream and economy brands continues to be part of our success in the region. We continued to invest in our existing brands and in product innovation. Following the successful launch of Ivoire, we also launched Mützig in Ivory Coast and, to support our strong growth in the country, we have invested in a new bottling line.

At the end of last year we commenced the construction of HEINEKEN's first brewery with the latest technologies in Mozambique, which is a major step forward for our presence in the country.

Hard currency shortages and devaluations in Africa have increased demand for local raw materials, which has put pressure on both availability and pricing.

Our 2017 local[1] sourcing percentage dropped to 42%[2], primarily because of a reduction in the availability and quality of sorghum in Nigeria in the early part of the year. We continue to invest in local sourcing to reach our target of 60% in 2020 and positively contribute to the communities where we operate.

[1] More than 80% of local raw materials are sourced domestically, with the remainder coming from other markets within the region.
[2] Estimate.

► First HEINEKEN brewery in Mozambique

In December 2017, we laid the foundation stone of our first brewery in Mozambique. This new brewery, incorporating the latest technologies, in the province of Maputo, will have a production capacity of 0.8 million hectolitres. The first bottle of beer is expected to come off the production line in the first half of 2019. Aligned with our ambition of sourcing 60% of our agricultural raw materials locally in Africa by 2020, HEINEKEN Mozambique is exploring the possibility of locally sourcing the raw materials it will need to produce its beers.

▲ Successful launch of Heineken® 0.0 in Russia

In Russia, Heineken® 0.0 has been very well received by consumers since its successful launch in 2017. Due to the strong Heineken® brand recognition in Russia and effective TV and digital campaigns for Heineken® 0.0, we are shaping the non-alcoholic beer segment in the market and making responsible beer consumption aspirational.

▼ Local sourcing project for rice in Ivory Coast

At the end of 2017, we launched the Korhogo Rice Sector Performance Improvement (KRISPI) pilot project, which is a partnership between Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) GmbH, Fair Match Support, Office National de Développement de la Riziculture, Société Conseil Organisation et Management de Côte d'Ivoire and HEINEKEN. The KRISPI project aims to help the local rice farmers to increase their livelihood and Brassivoire, our brewery in Ivory Coast to secure sufficient quantities of broken rice to use in beer production. The broken rice is a by-product of rice processing, which is not widely used as food.

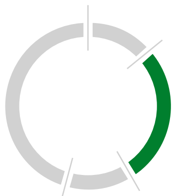
Americas

The Americas region continued its strong revenue and profit development, driven by a focus on top line growth supported by stringent cost initiatives and Excellent Outlet Execution. The Heineken® brand performed particularly well, most notably in Brazil, Mexico and Argentina. The acquisition of Brasil Kirin and full ownership of Lagunitas positions the region well for future performance.

Key brands
Heineken®, Tecate Light, Schin, Dos Equis, Lagunitas

Regional revenue (beia) as % of total

27.8%



72.1mhl (2016: 58.7mhl)
Consolidated beer volume

33.1% (2016: 29.3%)
Consolidated beer volume as % of total

10.7mhl (2016: 9.8mhl)
Heineken® volume

€6,258m (2016: €5,203m)
Revenue (beia)

€1,188m (2016: €1,021m)
Operating profit (beia)

30.4% (2016: 28.5%)
Operating profit (beia) as % of total

Mexico, Brazil and Haiti delivered strong results. The region successfully expanded volumes, revenue and profit in 2017.

Mexico, our largest market in the region, continued to deliver robust volume growth with excellent growth from Tecate and Dos Equis.

During the year, HEINEKEN acquired Brasil Kirin, one of the largest beer and soft drinks producers in Brazil. This acquisition transforms HEINEKEN's business by extending its portfolio and broadening its reach across Brazil. The integration of our business in Brazil with Brasil Kirin was successfully concluded ahead of our expectations. Increased scale and a strengthened brand portfolio will allow the business to accelerate premiumisation particularly with Heineken® and Sol, and enable further growth of the well-established Schin, Bavaria, Kaiser, Amstel and Devassa brands in the mainstream and value segments. The Eisenbahn brand is our fastest growing premium brand in Brazil which sold more than 1 million hectolitres in 2017.

The US beer market declined in 2017, weighing on our portfolio of brands. In this context, effective marketing and strong sales execution saw Heineken® lager return to growth, partially offsetting declines of Heineken® Light.

In May 2017, HEINEKEN acquired the remaining shares in Lagunitas Brewing Company. Lagunitas has continued to outperform the US craft beer market. Lagunitas is the market leader in the IPA segment, the fastest growing sub-segment within craft.

In Mexico, HEINEKEN donated water to earthquake survivors. HEINEKEN also supported communities in Puerto Rico and St. Maarten who were affected by hurricane Irma in 2017.

▲ Growth of Heineken® brand in Brazil
In 2017, Heineken® continued to grow double digit in Brazil, meeting consumers' demand for a premium international beer.

LAGUNITAS BREWING COMPANY

▲ Lagunitas
In 2017, HEINEKEN acquired the remaining shares in Lagunitas Brewing Company. To maintain the Lagunitas culture and free spirit, the company will continue to operate as an independent entity within HEINEKEN and will report within the HEINEKEN Americas Region.

◄ Earthquake water donations Mexico
HEINEKEN Mexico temporarily transformed one of its breweries to can and ship more than one million cans of water to survivors of the earthquake. We also made our Distribution Centres available to serve as collection centres for food, clothes, blankets, and other items.

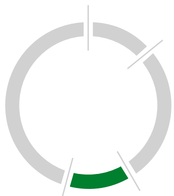
Regional Review (continued)

Asia Pacific

Asia Pacific saw strong growth in volume, revenue and profit.
The Tiger brand continued to perform very well across the region.

Key brands
Heineken®, Anchor, Larue, Tiger, Bintang

Regional revenue (beia) as % of total
13.3%



27.0mhl (2016: 24.4mhl) **Consolidated beer volume**	12.4% (2016: 12.2%) **Consolidated beer volume as % of total**
6.3mhl (2016: 6.6mhl) **Heineken® volume**	€2,996m (2016: €2,894m) **Revenue (beia)**
€962m (2016: €927m) **Operating profit (beia)**	24.6% (2016: 25.8%) **Operating profit (beia) as % of total**

Our performance in the Asia Pacific region was primarily driven by double digit volume growth in Vietnam and Cambodia. The strong growth of Tiger in Vietnam was driven by execution and distribution expansion to secondary cities and rural areas.

Significant new developments during the year included the merger of our Mongolian business with APU JSC, the country's leading beverage business. We also entered into a new Trade Mark Licensing Agreement for Heineken® and a distribution agreement for Birra Moretti to replace our joint venture HEINEKEN Lion Australia.

Tiger's growth continued, with the brand selling 11.5 million hectolitres of beer in 2017. Tiger is continuing to engage millennial consumers through the 'Tiger Air-Ink' campaign as well as the announced six year partnership with WWF to save the wild tiger.

Whilst Heineken® volume was under pressure in China and Vietnam, it experienced robust growth in other markets, and Heineken® Light was launched successfully in Indonesia. Anchor is performing well, with double digit growth driven by strong performance in Malaysia and Cambodia.

We continued to invest for growth in the Asia Pacific region, including extending our brewing capacity in Vietnam and Cambodia. We opened a new brewery in East Timor and acquired the Tuatara craft brewery in New Zealand.

We are developing a strong pool of local Asian talent, with over 100 Asia Pacific graduates in our accelerated talent pipeline.

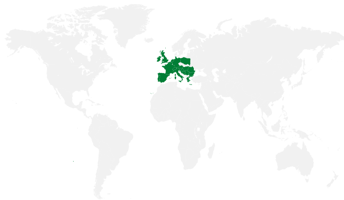
▲ **Go Bold & Go Smooth, Tiger Black and Tiger White**
APB Singapore took a bold strategy with the launch of two premium Tiger variants, Tiger Black and Tiger White, to excite and drive positive conversations among younger consumers. It was a successful campaign in terms of sales volumes, both in the on- and off-trade.

▼ **Sand from bottles, not from beaches**
New Zealand beer brand DB Export launched Beer Bottle Sand, an initiative to decrease commercial dependence on beach-dredged sand and encourage Kiwis to recycle by creating a sand substitute from empty bottles, diverted from landfill.

▲ **Malaysia launch of Apple Fox Cider**
HEINEKEN Malaysia recognised the growing number of consumers that are discovering the appeal of cider and launched Apple Fox Cider in 2017 as a mainstream cider brand to complement Strongbow Apple Ciders, our premium cider brand offering.

Regional Review (continued)

Europe

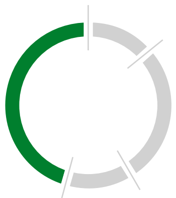


The region delivered another strong year. Our strategic focus on operational excellence, premiumisation and innovation, alongside further sales increase in bars and restaurants translated into revenue and profit growth.

Key brands
Heineken®, Cruzcampo, Birra Moretti, Żywiec, Strongbow

Regional revenue (beia) as % of total

45.4%



78.8mhl (2016: 78.6mhl)
Consolidated beer volume

36.1% (2016: 39.3%)
Consolidated beer volume as % of total

13.8mhl (2016: 13.4mhl)
Heineken® volume

€10,237m (2016: €10,112m)
Revenue (beia)

€1,371m (2016: €1,261m)
Operating profit (beia)

35.1% (2016: 35.2%)
Operating profit (beia) as % of total

Beer volumes across Europe grew moderately, but key markets including France, Italy, Spain and Portugal delivered a particularly strong performance. Our strategy of focusing on further premiumisation and innovation supported margin expansion, while our operational performance was helped by continuous cost management.

Poland decreased in beer volume partially due to fewer promotions at retailers. The UK also experienced a decline as a result of a partial delisting by a large customer.

Our UK pubs business continued to perform well and in 2017 we completed the acquisition of approximately 1,900 pubs from Punch Taverns. HEINEKEN now owns the largest pubs business in the market and, more than ever, this route to market is a key aspect of our strategy.

We launched Heineken® 0.0, demonstrating our commitment to growing in the low- and no-alcohol category. Its performance so far has been very positive across Europe.

HEINEKEN's cider strategy continues to deliver. We experienced particular strong performance in Austria, Poland, Greece, Croatia, Romania and Ireland. Strongbow Dark Fruit showed excellent performance, which is one-third of Strongbow volume in the UK, and now also launched in Poland, Czech Republic, Hungary, Slovakia and Slovenia. Orchard Thieves is growing fast and is now available in 14 European markets.

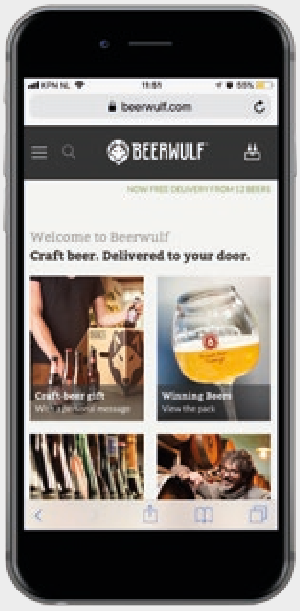
During 2017, HEINEKEN Netherlands entered into a strategic partnership for its Beer & Cider logistics in the Dutch Out-of-Home market with Sligro Food Group N.V. (Sligro). Simultaneously, HEINEKEN Netherlands divested its wholesale operations for the other (non-Beer & Cider) product categories to Sligro.

As part of our strategy to selectively expand in the craft & variety segment, HEINEKEN entered a partnership in the UK with Brixton, a London based craft brewery, and in Italy we acquired craft brewery HIBU.

▲ Ichnusa
As an example of our premiumisation strategy, HEINEKEN expanded Ichnusa, our local jewel brewed for over 100 years with passion in Sardinia, to the mainland of Italy. This was supported by an award-winning campaign showing the unique Sardinian soul of Ichnusa. As part of this roll-out we also launched Ichnusa Non Filtrata, a very successful innovation that builds on the craft & variety trend.

▼ Renewable energy, Spain
As part of our sustainability drive, HEINEKEN undertook a number of sustainability initiatives in Spain, including the creation of a renewable energy plant that will fulfil 100% of HEINEKEN Spain's electricity demand from 2020, a biomass plant that will fully power Jaén Brewery and a solar powered brewery in Seville.

▼ Beerwulf
Beerwulf, our online craft & variety e-commerce platform, is a great example of our e-commerce strategy, and has been successfully launched in the Netherlands, Belgium, UK, France and Germany.



A disciplined approach to managing our risks

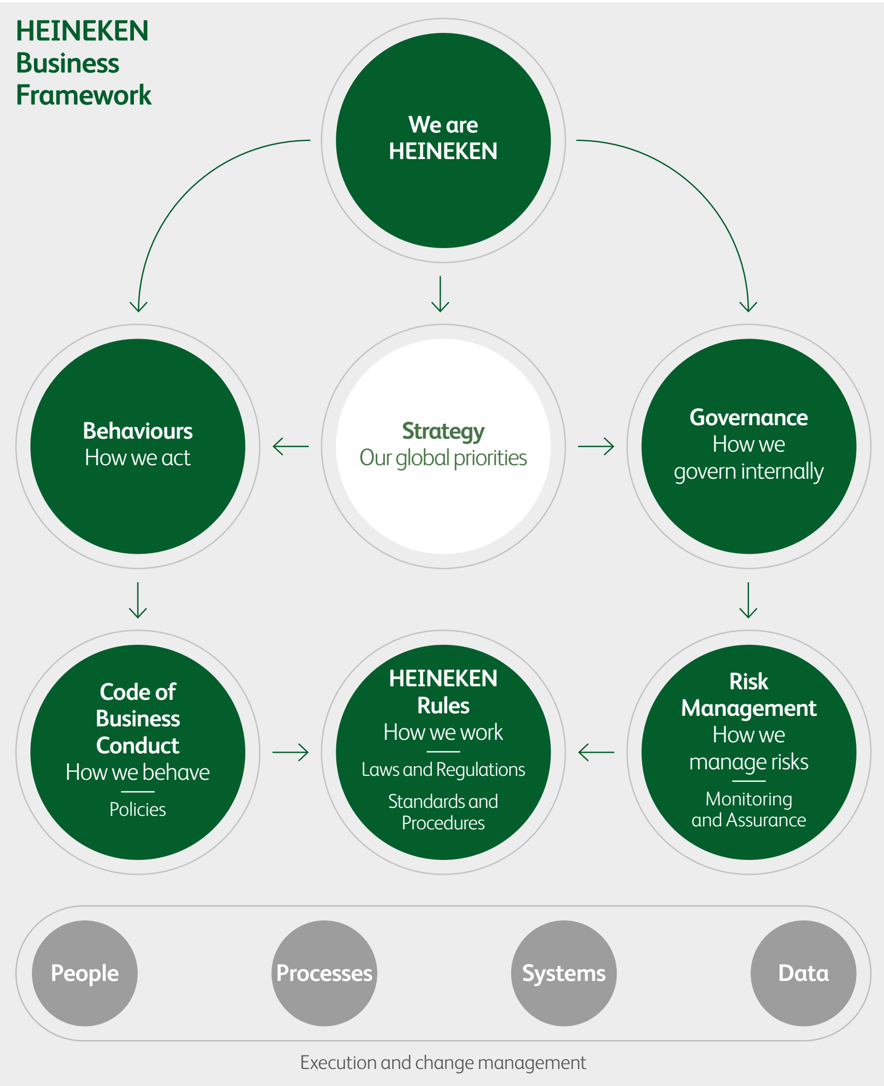
To deliver its strategy, HEINEKEN systematically manages the risks linked to its daily operations as well as the main risks and opportunities arising from its business environment.

Business Framework

HEINEKEN's Risk Management and Internal Control systems are based on the COSO reference models and form an integral part of the HEINEKEN Business Framework. This framework provides an overview of how HEINEKEN's vision, purpose and values 'We are HEINEKEN' underpin the Company's strategic objectives and ambition to deliver long-term value creation, enabled by HEINEKEN's Governance Cycle (planning and performance cycle), its organisational structure 'We are HEINEKEN', the HEINEKEN Code of Business Conduct and the HEINEKEN Rules.

The HEINEKEN Code of Business Conduct and its underlying policies promote doing business with fairness and integrity and explain to all HEINEKEN employees what is expected from them in this regard. Adherence to the Code and its policies is supported by regular communication and training as well as HEINEKEN's Speak Up framework. Speak Up allows and encourages employees and third parties to report (suspected) misconduct confidentially and without fear of retaliation.

The risk management cycle, the HEINEKEN Rules, and the process and control standards enable achievement of HEINEKEN's business objectives while protecting the Company's employees, assets and reputation.



Included in the performance reviews, our Leadership Expectations foster a culture of achievement, collaboration and growth, underpinned by integrity and accountability in everything we do. Together with the HEINEKEN Behaviours framework, they reflect the expected attitude in decision-making, including risk taking.

Organisation and Accountability

HEINEKEN's risk management and internal control activities are organised along three 'lines of defence':

- Operational management (first line of defence), has the ownership, responsibility and accountability for assessing, controlling and mitigating risks.
- Management is supported by second line of defence functions (e.g. internal control, business conduct and other functional risk management teams). These functions oversee compliance with HEINEKEN's policies, process and controls, facilitate the implementation of effective risk management practices and drive continuous improvements of internal controls.
- As third line of defence, HEINEKEN's internal audit function ('Global Audit') is mandated to perform Group-wide reviews of key processes, projects and systems, based on HEINEKEN's strategic priorities and most significant risk areas.
- Global Audit provides independent and objective assurance and consultancy services. It employs a systematic and disciplined approach to evaluate and improve the organisation's governance and risk management processes including reliability of information, compliance with laws, regulations and procedures, and efficient and effective use of resources. The methodology followed by Global Audit is in accordance with the standards of the Institute of Internal Auditors and other relevant governing bodies.

The Executive Board bears the ultimate responsibility for managing risks faced by the Company, in line with the risk appetite it has set, and for reviewing the adequacy of HEINEKEN's risk management and internal control activities.

Risk Management (continued)

To support the Executive Board's external representations, a formal bi-annual Letter of Representation (LoR) process is in place. It requires management to demonstrate accountability and covers financial and non-financial reporting disclosures, financial reporting controls, compliance with the Code of Conduct and other HEINEKEN Rules as well as fraud and irregularities.

Risk management

Effective management of risks forms an integral part of how HEINEKEN operates as a business and is embedded in day-to-day operations. HEINEKEN's risk management activities seek to identify and appropriately address any significant threat to the achievement of the Company's strategic objectives, its reputation, the continuity of its operations and the safety of its employees. HEINEKEN's risk management system enables management to identify, assess, prioritise and manage risks on a continuous and systematic basis, and covers all subsidiaries across regions, countries, markets and corporate functions.

Ongoing identification and assessment of risks, including new risks arising from changes in the global or local business environment, are an integral part of HEINEKEN's governance and performance management. Risk assessments are performed annually by every operating company and global function, and the implementation of adequate responses and progress of risk mitigating measures is monitored on a quarterly basis. In parallel, the outcome of these risk analyses is aggregated on a global level and serves as a basis to determine HEINEKEN's risk exposure and risk management priorities. Accountability for mitigating, monitoring and reporting on the most significant risks is assigned to functional directors, who report on progress and residual risk levels biannually to the risk committee.

Internal control

HEINEKEN's internal control activities aim to provide reasonable assurance as to the accuracy of financial information, the Company's compliance with applicable laws and internal policies, and the effectiveness of internal processes.

Internal controls have been defined at entity-level (HEINEKEN Rules, comprising all mandatory standards and procedures) and at process level (Process and Control Standards) for key processes, including financial reporting, IT and Tax. Compliance with company policies is periodically assessed both in OpCos and in Global Functions. Deviations from the defined standards are included in a global monitoring and follow-up tool, which supports management in addressing these deviations. Management is responsible for defining and timely implementation of action plans to remediate any deficiency identified as part of these assessments. The results are reported to the EB in the bi-annual Letter of Representations. The Company Rules, policies and controls are periodically updated to reflect both the Company key risks and the extent to which the Company is willing and able to mitigate them.

Risk profile

HEINEKEN is predominantly a single-product business, operating throughout the world in the alcohol industry. HEINEKEN is present in more than 70 countries, with a growing share of its revenues originated from emerging markets.

An increasingly negative perception in society towards alcohol could prompt legislators to implement further restrictive measures such as limitations on availability, advertising, sponsorships, distribution and points of sale and increased tax. This may cause changes in consumption trends, which could lead to a decrease in the brand equity and sales of HEINEKEN's products.

HEINEKEN has undertaken business activities with other market parties in the form of joint ventures and strategic partnerships. Where HEINEKEN does not have effective control, decisions taken by these entities may not be fully harmonised with HEINEKEN's strategic objectives. Moreover, HEINEKEN may not be able to identify and manage risks to the same extent as in the rest of the Group.

Risk appetite

The international spread of its business, a robust balance sheet and strong cash flow, as well as a commitment to prudent financial management, form the context based on which HEINEKEN determines its appetite to risk. A structured risk management process allows HEINEKEN to take risks in a managed and controlled manner. Key to determining the risk appetite is the nature of the risks:

Strategic:
Taking strategic risks is an inherent part of HEINEKEN's entrepreneurial heritage. In its pursuit of balanced growth, HEINEKEN is open to certain risks linked to its presence in a wide array of developing countries.

Operational:
Depending on the type of the operational risk, HEINEKEN's risk appetite can be described as cautious to averse. In particular, ensuring its employees' and contractors' safety, delivering the highest level of product quality and protecting its reputation have priority over any other business objective.

Reporting:
HEINEKEN is averse to any risks that could jeopardise the integrity of its reporting.

Compliance:
HEINEKEN is averse to the risk of non-compliance with applicable laws or regulations, as well as with its own Code of Business Conduct.

Main risks

The following risk overview highlights the main risks that could hinder HEINEKEN in achieving its financial and strategic objectives or could represent a threat to the business. This overview does not include all risks and uncertainties that may ultimately affect the Company: some risks currently deemed immaterial, could ultimately have an adverse impact on HEINEKEN's financial performance, reputation, business objectives, employees or assets. Timely discovery and accurate evaluation of such risks is at the core of HEINEKEN's risk management processes. The financial risks are dealt with separately in note 30 to the Financial Statements. The Statement of the Executive Board is included in the Corporate Governance Statement on page 31.

Strategic risks

Regulatory changes related to alcohol

What could happen

Alcohol remains under scrutiny in many markets. This may prompt regulators to take further measures limiting HEINEKEN's freedom to operate, such as restrictions or bans on advertising and marketing, sponsorship, availability of products, and increased taxes and duties leading to lower revenues and profit.

Recent developments

Restrictive measures on alcohol consumption and sale continue to be taken across geographies, especially through excise duties increases as in Vietnam, Greece, Egypt and Russia. Continued focus by WHO, OECD, UN and EU on alcohol as part of the Non-Communicable Disease agenda could lead to additional restrictions which would impact HEINEKEN's business across multiple geographies.

What we are doing to manage this risk

Responsible consumption is one of the priorities of HEINEKEN's Brewing a Better World sustainability programme. Using the power and reach of its brands, HEINEKEN strives to make responsible consumption aspirational and works closely with local governments, NGOs and specialists to prevent and reduce harm caused by abuses such as underage drinking or drinking and driving.

Explore Further:
– Advocating responsible consumption,
pages 135, 142-143

Strategic risks

Economic and political environment

What could happen

Throughout the world, local or regional economic and political uncertainties could impact our business and that of our customers. In particular, the risk of an economic recession, change of laws, trade restrictions, inflation, fluctuations in exchange rates, devaluation, nationalisation, financial crisis, or social unrest could adversely affect our revenues and profits.

Recent developments

Political risk has expanded beyond emerging markets and has become a permanent element of the economic landscape. Brexit and the change of administration in the US have created significant additional uncertainties. Agility has become a priority to enable businesses to navigate subsequent changes in laws, currency movements, import restrictions, scarcity of hard currencies, and their impact on the Company's profit.

What we are doing to manage this risk

HEINEKEN has set up various tools to limit the impact of such events on its business such as supplier management, short-term liquidity management, tight foreign exchange monitoring, prudent balance sheet measures, and scenario planning. For events which could threaten the continuity of the business, contingency plans are in place.

Risk Management (continued)

Strategic risks

Distribution channel transformation

What could happen
Maintaining strong relationships with our customers is key for brand positioning and availability to consumers. Consolidation among our customers, emergence of buying alliances and rise of e-commerce distribution channels may affect our ability to obtain favourable pricing and favourable trade terms and negatively impact our operating margin.

Recent developments
Retail consolidation and the rise of discounters have been reshaping the beverage industry distribution landscape. This has led HEINEKEN to develop its e-commerce channel, both B2B and B2C, and to develop a unique and innovative sales approach to boost its on-trade business, which has been being rolled out across all four regions.

What are we doing to manage this risk
HEINEKEN constantly invests in its business relationships and has developed joint business plans with distributors and key retailers, while enhancing sales performance through commercial capabilities programmes, customer relationship management at central and local level, and development of its e-commerce capabilities.

Explore Further:
– Deliver top line growth, **page 10**
– Europe, **page 18**

Strategic risks

Changing consumer preferences

What could happen
Consumers' preferences and behaviours are evolving, shaping an increasingly complex and fragmented beer category. This requires HEINEKEN to constantly adapt its product offering, innovate and invest to maintain the relevance and strength of its brands. Failure to do so would in the longer term affect our revenues , market share and possibly our brand equity.

Recent developments
The popularity of craft beer and the rise of low- and no-alcohol products have been the most noticeable changes in consumer tastes over the past years. HEINEKEN has fully embraced these trends, as shown by the acquisition of Lagunitas, the addition of several specialty beers to its craft portfolio and the launch of Heineken® 0.0. to complement its low- and no-alcohol category.

What are we doing to manage this risk
Over the past years, HEINEKEN has further strengthened its commercial organisation, its innovation programme and its marketing and sales capabilities. Significant investments have been made in consumer and market intelligence, new products and formats (both through innovation and through acquisitions) and in brand protection to anticipate and respond to industry changes.

Explore Further:
– Deliver top line growth, **page 10**
– Advocating responsible consumption, **page 143**

Strategic risks

Management capabilities

What could happen
HEINEKEN relies on the skills of its people to lead its growth agenda and deliver on its strategic ambitions. HEINEKEN may not be successful in attracting, developing and retaining diverse and talented people and leaders with the required capabilities, which may jeopardise its capacity to execute its strategy and achieve the targeted returns.

Recent developments
Hiring employees with particular expertise remains challenging, both in emerging markets due to competition between multinationals, and in developed markets where traditional industries face competition from new economy employers. HEINEKEN continues to invest in its global employer branding, targeting especially the young and diverse audience it needs to fuel its talent pipeline.

What are we doing to manage this risk
To secure a strong leadership pipeline, HEINEKEN has a robust performance management process in place which is supported by a leadership development curriculum with targeted development interventions for various levels of leaders across the organisation. Succession planning has been enhanced by the implementation of Functional Resource Committees and a renewed People Strategy that is focused on talent and leadership development and the responsibility of people managers to nurture our leaders of the future.

Explore Further:
– Engage and develop our people, **page 13**
– Values and behaviours, **page 147**

Risk Management (continued)

Strategic risks

Industry consolidation

What could happen

Consolidation of the alcoholic beverage industry may affect existing market dynamics in the future due to competitive disadvantage with suppliers and increased competition on commercial spend and customer acquisition strategies.

Recent developments

Despite recent market consolidation, beer remains a very local industry with respective country shares more relevant than global share. HEINEKEN remains committed to winning through a portfolio strategy focused on premium and led by Heineken®. Within individual markets, international and local brands complement Heineken® and provide valuable scale.

What are we doing to manage this risk

HEINEKEN is constantly working on improving its cost efficiency, while rolling out its strategy to maintain and develop its competitive advantages, in particular in the premium and cider markets. Through a number of acquisitions, HEINEKEN has evolved its footprint extensively to reach an optimal balance of both higher growth developing markets and more stable developed markets, and to build an extensive and complementary brand portfolio alongside its flagship Heineken® brand.

Explore Further:
– Deliver top line growth, **page 10**
– Drive end2end performance, **page 11**
– Main changes in consolidation, **page 26**

Operational risks

Health and Safety

What could happen

HEINEKEN is committed to providing a safe workplace for all employees and contractors. Despite the controls in place, incidents and accidents may happen in the brewery, our supply chain and in HEINEKEN's route-to-market, leading to physical injuries or fatalities to employees, contractors or members of the public.

Recent developments

Given its growing presence in emerging markets, safety is an ongoing challenge and a permanent focus area. Rolled up throughout all operations, the HEINEKEN Life Saving Rules target the activities that carry the greatest safety threats to employees and contractors. Despite these efforts, several significant fatal accidents have occurred, underlining the importance of realising further improvements in the area of safety. In particular, a specific programme to improve road safety, being one of the highest risk areas, has been set up and is being rolled out.

What are we doing to manage this risk

HEINEKEN has established 'Safety First' as a key employee behaviour and Health and Safety as a pillar of its Brewing a Better World programme. The global safety programme in place aims at enhancing global standards, organisation and processes, and strengthening safety leadership and safety behaviours. Continuous improvement is achieved through global compliance monitoring, systematic gap-closing and central reporting of accidents, incidents and near-misses.

Explore Further:
– Promoting Health and Safety, **pages 135, 144**

Operational risks

Product safety and integrity

What could happen

Poor quality or contamination of any of the HEINEKEN products, be it accidental or malicious, could result in health hazards, reputational damage, financial liabilities and product recalls.

Recent developments

Innovations and increased local sourcing have led HEINEKEN to further strengthen the controls on recipe governance and production processes in order to maintain its food safety and quality standards. Changes to the environment in recent years, such as high speed of information, growing impact of social media and tougher legal environment in certain jurisdictions can magnify the impact of any quality issues or allegation thereof.

What are we doing to manage this risk

HEINEKEN has established a comprehensive company-wide Quality Assurance programme covering production standards, recipe governance, suppliers' governance, production material risk and country risk. Should this risk materialise, Global recall and crisis procedures are in place to mitigate the impact.

Risk Management (continued)

Operational risks

Supply chain continuity

What could happen

Disruptions in the supply chain could lead to HEINEKEN's inability to deliver products to key customers, revenue loss and brand damage. Significant changes in the availability or price of raw materials, commodities, energy and water may result in a shortage of those resources or increased costs.

Recent developments

Political instability, terrorism, climate change and in particular growing water scarcity and its effects on crop yield and grain prices, require both the market and governments to take measures, which will in the short term result in additional costs to the business.

What are we doing to manage this risk

Business continuity plans have been developed for HEINEKEN's key brands in all key markets, and back-up plans are in place in all operating companies. Business resilience is further strengthened through ownership of several strategic malteries, long-term procurement contracts, water management plans and central management of global insurance policies. Taking a longer-term approach to business continuity, HEINEKEN has included water resources protection and sustainable sourcing in the priorities of its Brewing a Better World sustainability programme.

Operational risks

Information security

What could happen

HEINEKEN's business relies heavily on its IT infrastructure. Failure of its IT system or a breach in the security infrastructure may lead to business disruption, loss of confidential information, breach of data privacy, financial and reputational damage.

Recent developments

The rise of the Internet of Things and the expansion of Cloud uptake, combined with increasing professionalism of online threat actors puts Information Security on the map as a corporate risk, both in terms of business continuity and of data privacy. This is also recognised by global regulations, such as the General Data Protection Regulation (GDPR), where mismanagement of security and data breaches becomes financially punitive.

What are we doing to manage this risk

HEINEKEN has developed a comprehensive information security policy and framework addressing IT security, continuity and confidentiality. The dedicated Risk Management team performs central monitoring of IT controls and focuses on enhancing the resilience of HEINEKEN's IT infrastructure.

Operational risks

Digital media

What could happen

On social media, concerns related to HEINEKEN or any of its products, even when unfounded, could impact the Company's reputation and the image of its products. HEINEKEN may not be able to control information or respond in a timely manner to reputation threats, which could affect its brand equity and income-generating capacity at scale and at pace.

Recent developments

While robust social media risk management measures are now in place, social media crises increasingly happen via private channels (e.g. WhatsApp) and cannot therefore always be tracked. Moreover, malicious attempts to spread false material becomes ever more sophisticated with substantial spend behind it.

What are we doing to manage this risk

HEINEKEN has set up continuous monitoring of the main social media platforms, in several languages, employee training in digital communication, and an incident response system that includes a dedicated digital dashboard and a dedicated crisis communication team. Learnings from media crisis are shared in the organisation to drive continuous improvement.

Explore Further:
– Protecting water resources, **pages 134, 136–137**
– Reducing CO_2 emissions, **pages 134, 138–140**
– Sourcing sustainably, **pages 134, 140–141**

Risk Management (continued)

Operational risks

Execution and change management

What could happen

In the last years, HEINEKEN has engaged in several significant business improvement projects. The large number of operating companies and their varying level of integration represent a specific challenge to these projects. These strategic transformation programmes may not deliver the expected benefits or may incur significant cost or time overruns.

Recent developments

The Group portfolio of global projects now contains more than 40 programmes and has supported the implementation of new capabilities in the area of finance, supply chain, procurement and human resources, thereby serving HEINEKEN's efficiency targets and key risk mitigation.

What are we doing to manage this risk

By taking a portfolio approach, applying consistent project methodology and governance, and placing ownership of each of them at top management level, HEINEKEN is able to prioritise and optimise resource allocation across its major projects to ensure they deliver on their objectives.

Reporting risk

Reporting

What could happen

Historically HEINEKEN has grown its footprint organically and through mergers and acquisitions, which had led to a diverse landscape of processes and systems and a low level of centralisation. Deviations from the common accounting and reporting processes and related controls could impair the accuracy of the financial and non-financial data used for Group reporting and external communication.

Recent developments

Since 2015, HEINEKEN has engaged in a substantial process and IT simplification and standardisation project, which will help to achieve further efficiency gains while delivering fast and robust reporting, continuously strengthening its control environment.

What are we doing to manage this risk

HEINEKEN has implemented a common Risk and Control Framework across its operating companies which includes standardised internal controls on financial reporting, common accounting policies and standard chart of accounts, periodic mandatory training, and active monitoring of critical access and segregation of duties conflicts. In 2017, HEINEKEN evolved its governance around non-financial data to further improve the quality of the data reported under its Brewing a Better World programme.

Explore Further:
– Reporting basis and governance of non-financial indicators, **pages 148–149**

Compliance risk

Non-compliance

What could happen

Changes in the legal and regulatory environment tend to increase the risk of non-compliance to local and global laws and regulations. Failure to comply with applicable laws and regulations could lead to claims, enforcement and reputational damage.

Recent developments

Across many geographies, law enforcement has become more systematic than in the past, in particular with regard to anti-bribery and corruption, competition and data privacy laws, and human rights. This leads to an increased risk of being subject to allegations of violations of laws and regulations.
Over the years, HEINEKEN has constantly been looking to enhance its internal compliance system and resilience to the changes of the legal environment.

What are we doing to manage this risk

HEINEKEN has embedded legal compliance in its risk and controls system, and has established processes and governance to drive implementation and compliance with the Company Rules and its HEINEKEN Code of Business Conduct.

Explore Further:
– Values and behaviours, **pages 146–147**

Financial Review

Key figures

In millions of €	2016	Currency translation	Consolidation impact	Organic growth	2017	Organic growth %
Revenue (beia)	20,792	**(817)**	**891**	**1,042**	**21,908**	**5.0**
Total expenses (beia)	(17,252)	629	(812)	(714)	(18,149)	(4.1)
Operating profit (beia)	3,540	**(188)**	**80**	**328**	**3,759**	**9.3**
Net interest income/(expenses) (beia)	(355)	7	(45)	18	(374)	5.2
Other net finance income/(expenses) (beia)	(114)	22	(9)	(36)	(136)	(31.7)
Share of net profit of assoc./JVs (beia)	161	1	(4)	(4)	153	(2.5)
Income tax expense (beia)	(869)	50	3	(80)	(897)	(9.3)
Non-controlling interests (beia)	(265)	31	6	(31)	(258)	(11.6)
Net profit (beia)	2,098	**(77)**	**30**	**195**	**2,247**	**9.3**
Eia	(558)				(312)	
Net profit	1,540				**1,935**	

Main changes in consolidation

- On 1 February 2016, Grupa Żywiec completed the sale of 80% in Distribev Sp. z o.o., Grupa Żywiec's local sales and distribution company serving the traditional trade and horeca market, to the Orbico Group.
- An agreement with Asia Brewery Incorporated to create AB HEINEKEN Philippines Inc. was announced on 27 May 2016. The transaction closed on 15 November 2016.
- On 4 May 2017 HEINEKEN acquired all the remaining shares in Lagunitas Brewing Company.
- On 31 May 2017 HEINEKEN completed the acquisition of Brasil Kirin Holding S.A. ('Brasil Kirin') from Kirin Holdings Company Limited.
- On 29 August 2017 HEINEKEN completed, through HEINEKEN UK, a back-to-back deal to acquire Punch Securitisation A ('Punch A').
- On 1 September 2017 HEINEKEN transferred HEINEKEN Belarus to Oasis Group who now owns and operates the business, and has entered into license and distribution agreements with HEINEKEN.
- On 30 November 2017 HEINEKEN completed, through HEINEKEN Asia Pacific, the merger of its business in Mongolia with APU JSC. HEINEKEN retains 25% of the merged business.
- On 1 December 2017 HEINEKEN Nederland B.V. entered into a strategic partnership for its Beer & Cider logistics in the Dutch Out-of-Home market with Sligro Food Group N.V.. Simultaneously, HEINEKEN Nederland B.V. divested its wholesale operations for the other (non-Beer & Cider) product categories to Sligro Food Group N.V.

Revenue and revenue (beia)

Revenue increased by 5.3% to €21,888 million. Revenue (beia) increased by 5.0% organically to €21,908 million, with total consolidated volume growth of 2.9% and a 2.1% increase in revenue (beia) per hectolitre. Currency developments had a negative impact of €817 million, mainly driven by adverse development of the Nigerian Naira, the Congolese Franc, the Egyptian Pound, the British Pound and the Mexican Peso. The positive impact of consolidation changes was €891 million.

Total expenses (beia)

Total expenses (beia) were €18,149 million, up by 4.1% on an organic basis. Input costs saw an organic increase of 4.7% and of 1.8% on a per hectolitre basis, predominantly due to adverse currency movements leading to a negative transactional impact. Marketing and selling (beia) expenses increased organically by 0.9% to €2,888 million, representing 13.2% of revenues (2016: 13.6%).

Financial Review (continued)

Operating profit (beia)

Operating profit (beia) was €3,759 million, up 9.3% organically, excluding €188 million negative foreign currency impact and €80 million increase from consolidation changes. Growth was driven by higher revenue and cost efficiencies while we continued to increase the support to our brands with marketing and selling expenses.

Share of net profit of associates and joint ventures (beia)

Share of net profit of associates and joint ventures (beia) decreased €8 million to €153 million, reflecting lower net profit from the joint venture operation in the Republic of the Congo due to difficult market conditions.

Net finance expenses (beia)

Net interest expenses (beia) increased by €19 million to €374 million, reflecting a higher average net debt position. The average interest rate (beia) in 2017 was 3.0% (2016: 3.1%). Other net finance expenses (beia), which primarily includes the impact of currency revaluation on outstanding payables in foreign currencies, increased by €22 million to €136 million.

Income tax expense (beia)

The effective tax rate (beia) was 27.6%, a slight decrease on the rate in 2016 (28.3%) due to one-off tax benefits in 2017.

Net profit and net profit (beia)

Net profit increased by €395 million to €1,935 million. Net profit (beia) grew by €149 million to €2,247 million, an organic increase of 9.3%. The impact of currency was unfavourable at €77 million mainly driven by the Nigerian Naira, and consolidation changes had a positive impact of €30 million.

Earnings per share diluted

Earnings per share – diluted increased to €3.39 (2016: €2.70). Earnings per share – diluted (beia) increased by 7% from €3.68 to €3.94.

Exceptional items and amortisation of acquisition-related intangibles (eia)

The table below presents the reconciliation of operating profit (beia) to profit before income tax.

In millions of €	**2017**	2016
Operating profit (beia)	**3,759**	**3,540**
Amortisation of acquisition-related intangible assets and exceptional items included in operating profit	(407)	(785)
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	75	150
Net finance expenses	(519)	(493)
Profit before income tax	**2,908**	**2,412**

The table below provides an overview of the exceptional items and amortisation of acquisition-related intangibles in HEINEKEN's net profit:

In millions of €	**2017**	2016
Profit attributable to equity holders of the Company (net profit)	**1,935**	**1,540**
Amortisation of acquisition-related intangible assets included in operating profit	302	315
Exceptional items included in operating profit	105	470
Exceptional items included in net finance expenses/(income)	8	25
Exceptional items and amortisation of acquisition-related intangible assets included in share of profit of associates and joint ventures	78	10
Exceptional items included in income tax expense	(142)	(196)
Allocation of exceptional items and amortisation of acquisition-related intangibles to non-controlling interests	(39)	(66)
Net profit (beia)	**2,247**	**2,098**

Financial Review (continued)

The 2017 exceptional items and amortisation of acquisition-related intangibles on net profit amount to €312 million (2016: €558 million). This amount consists of:

- €302 million (2016: €315 million) of amortisation of acquisition-related intangibles recorded in operating profit.
- €105 million (2016: €470 million) of exceptional items recorded in operating profit, of which €20 million in revenue (2016: nil), €93 million of restructuring expenses (2016: €80 million), €19 million of reversal of impairments of property, plant and equipment (2016: €316 million impairment loss of which €286 million related to The Democratic Republic of Congo), €72 million of acquisition and integration costs (2016: €8 million) and €61 million of other exceptional net benefits (2016: €66 million expense). Other exceptional net benefits include the gain on sale of non-beer and cider wholesale operations in the Netherlands.
- €8 million (2016: €25 million) of exceptional items in net finance expenses, mainly related to the acquisitions of Punch and Brasil Kirin.
- €78 million of exceptional items and amortisation of acquisition-related intangibles included in share of profit of associates and joint ventures, which includes loss on previously-held equity interests and the recycling of foreign exchange from equity to profit and loss (2016: €10 million).
- €142 million (2016: €196 million) in income tax expense, which includes the tax impact on exceptional items and amortisation of acquisition-related intangible assets of €97 million (2016: €109 million) and an exceptional income tax benefit of €45 million (2016: €87 million), mainly due to the remeasurement of deferred tax positions following a nominal tax rate change in the United States.
- Total amount of eia allocated to non-controlling interests amounts to €39 million (2016: €66 million).

Reported to beia

In millions of €	Reported 2017	Eia 2017	Beia 2017	Reported 2016	Eia 2016	Beia 2016
Revenue	**21,888**	**20**	**21,908**	20,792	–	20,792
Other income	141	(141)	–	46	(46)	–
Total expenses	(18,677)	528	(18,149)	(18,083)	831	(17,252)
Operating profit	**3,352**	**407**	**3,759**	**2,755**	**785**	**3,540**
Share of net profit of assoc./JVs	75	78	153	150	10	161
Net interest income/(expenses)	(396)	22	(374)	(359)	4	(355)
Other net finance income/(expenses)	(123)	(13)	(136)	(134)	20	(114)
Income tax expense	(755)	(142)	(897)	(673)	(196)	(869)
Non-controlling interests	(218)	(40)	(258)	(199)	(66)	(265)
Net profit	**1,935**	**312**	**2,247**	**1,540**	**558**	**2,098**

Capital expenditure and cash flow

In millions of €	2017	2016
Cash flow from operations before changes in working capital and provisions	**4,980**	**4,713**
Total change in working capital	69	80
Change in provisions and employee benefits	(125)	(73)
Cash flow from operations	**4,924**	**4,720**
Cash flow related to interest, dividend and income tax	(1,042)	(1,002)
Cash flow from operating activities	**3,882**	**3,718**
Cash flow (used in)/from operational investing activities	(1,851)	(1,945)
Free operating cash flow	**2,031**	**1,773**
Cash flow (used in)/from acquisitions and disposals	(1,114)	(62)
Cash flow (used in)/from financing activities	(966)	(672)
Net cash flow	**(49)**	**1,039**
Cash conversion ratio	**81%**	**75%**

Financial Review (continued)

Capital expenditure related to property, plant and equipment amounted to €1,696 million in 2017 (2016: €1,757 million) representing 7.7% of revenues. The investments include new capacity in Ethiopia, Mexico, Cambodia, Vietnam, Haiti and a new brewery in the Ivory Coast.

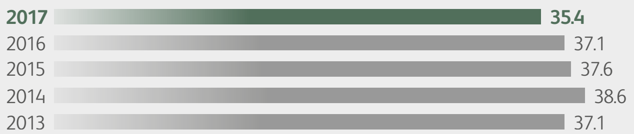
Free operating cash flow amounted to €2,031 million (2016: €1,773 million), higher than last year primarily due to higher cash flow generated from operations and lower operational investing activities. Cash flow from changes in working capital in 2017 was again positive, albeit lower than last year due to one offs in receivables and a less favourable change in inventories.

Financial structure and liquidity

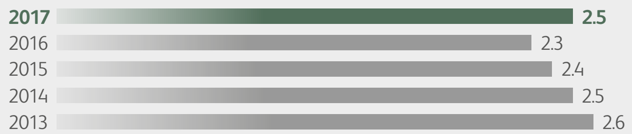
In millions of €	2017	%	206	%
Total equity	**14,521**	**35**	14,573	37
Deferred tax liabilities	**1,495**	**4**	1,672	4
Employee benefits	**1,289**	**3**	1,420	4
Provisions	**1,148**	**3**	456	1
Gross debt	**15,378**	**38**	14,570	38
Other liabilities	**7,203**	**18**	6,630	16
Total equity and liabilities	**41,034**	**101**	**39,321**	**100**

Total equity

as a percentage of total assets



Net debt/EBITDA (beia) ratio



Equity attributable to equity holders of the Company increased by €83 million to €13,321 million, mainly driven by net profit of €1,935 million being offset by a negative other comprehensive income impact of €1,054 million mainly relating to translation differences. Furthermore dividends paid out of €775 million reduced the equity attributable to the equity holders of the Company.

Total gross debt amounts to €15,378 million (2016: €14,570 million). The gross debt includes €1,062 million of overdrafts in the cash pool with legally enforceable rights to offset against cash. Net debt increased to €12,879 million (2016: €11,293 million) as cash outflow for dividends and acquisitions exceeded the positive free operating cash flow and positive foreign currency impact on debt.

HEINEKEN remains focused on cash flow generation and disciplined working capital management, with a commitment to a long-term target net debt/EBITDA (beia) ratio of below 2.5. The pro forma net debt/EBITDA (beia) ratio was 2.5 on 31 December 2017 (2016: 2.3).

In 2017 the following notes were issued under HEINEKEN's Euro Medium Term Note Programme:

- SDG150 million 5-year Notes with a floating rate coupon (February 2017)
- €500 million 15-year Notes with a coupon of 2.02% (May 2017)
- €800 million 12-year Notes with a coupon of 1.50% (October 2017)

On 20 March 2017, HEINEKEN extended and amended its €2.5 billion revolving credit facility maturing in May 2021. The facility has been increased to €3.5 billion and is now set to mature in May 2022. The facility is committed by a group of 19 banks and has two further one-year extension options.

On 29 March 2017, HEINEKEN placed USD 1.1 billion of long 10-year 144A/RegS US Notes with a coupon of 3.50%, and USD 650 million of 30 year 144A/RegS US Notes with a coupon of 4.35%.

Financial Review (continued)

The table below presents the reconciliation of EBIT to EBITDA (beia).

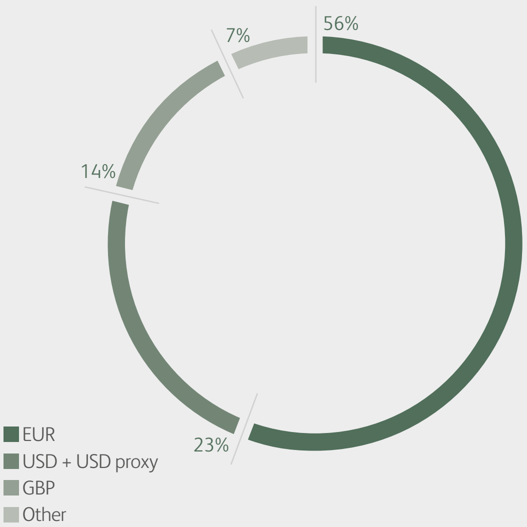
In millions of €	2017	2016
Operating profit	**3,352**	**2,755**
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	**75**	150
Depreciation and impairments of property, plant and equipment	**1,153**	1,437
Amortisation and impairment of intangible assets	**369**	380
EBITDA	**4,949**	**4,722**
Exceptional items	**166**	179
EBITDA (beia)	**5,115**	**4,901**

Heineken N.V. was assigned solid investment grade credit ratings by Moody's Investor Service and Standard & Poor's in 2012. The ratings from both agencies, Baa1/P-2 and BBB+/A-2 respectively, have 'stable' outlooks as per the date of the 2017 Annual Report.

Currency split of net debt

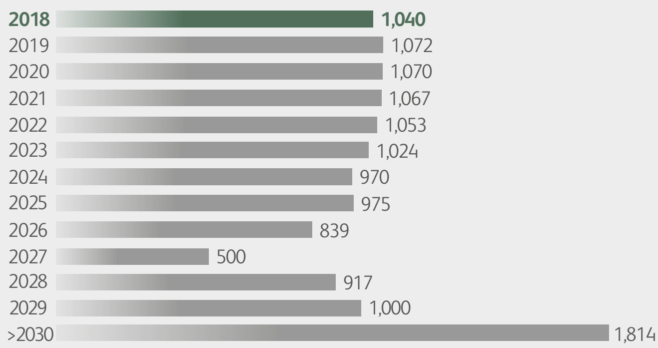
This currency breakdown includes the effect of derivatives, which are used to hedge intercompany lending denominated in currencies other than Euro. Of total net interest-bearing debt, 56% is denominated in Euro, 23% in US dollar and US dollar proxy currencies and 14% in British Pound. This is including the effect of cross-currency interest rate swaps on some of the non-Euro denominated debt. The fair value of the cross-currency interest rate swaps form part of net debt.

Currency split of net debt



Obligatory long-term debt repayments

in millions of €



Average number of shares

HEINEKEN has 576,002,613 shares in issue. For the calculation of 2017 basic EPS, the weighted impact of the treasury shares and shares purchased for the employee incentive programme reduced the number of weighted average shares outstanding to 570,074,335 (569,737,210 in 2016). For the calculation of 2017 diluted EPS, the number of weighted average outstanding shares is adjusted for the amount of shares to be delivered under the employee incentive programme, resulting in a weighted average diluted number of shares of 570,652,111 (570,370,392 in 2016).

Profit appropriation

The Heineken N.V. dividend policy is to pay out a ratio of 30% to 40% of full year net profit (beia). For 2017, payment of a total cash dividend of €1.47 per share (2016: €1.34) will be proposed to the Annual General Meeting of Shareholders (AGM) on 19 April 2018. This represents an increase of 9.7% versus 2016, translating into a 37.3% payout. If approved, a final dividend of €0.93 per share will be paid on 2 May 2018, as an interim dividend of €0.54 per share was paid on 10 August 2017. The payment will be subject to a 15% Dutch withholding tax. The ex-final dividend date for Heineken N.V. shares will be 23 April 2018.

Corporate Governance Statement

Introduction

Heineken N.V. (the 'Company') is a public company with limited liability incorporated under the laws of the Netherlands. Its shares are listed on the Amsterdam Stock Exchange, Euronext Amsterdam.

The Company's management and supervision structure is organised in a so-called two-tier system, which consists of an Executive Board (made up of two executive directors) and a Supervisory Board (made up of 10 non-executive directors). The Supervisory Board supervises the Executive Board and ensures that external experience and knowledge are embedded in the Company's way of operating. These two Boards are independent of one another and accountable to the Annual General Meeting (AGM).

The Company is required to comply with, among other regulations, the Dutch Corporate Governance Code which has been amended on 8 December 2016 (the 'Code'). Deviations from the Code are explained in accordance with the Code's "comply or explain" principle.

In this report, the Company addresses its corporate governance structure and states to what extent it applies the best practice provisions of the Code, and explains which best practice provisions of the Code the Company does not apply, and why. This report also includes the information that the Company is required to disclose pursuant to the Dutch governmental decree on Article 10 Takeover Directive and the governmental decree on Corporate Governance. Substantial changes in the Company's corporate governance structure and in the Company's compliance with the Code, if any, will be submitted to the AGM for discussion under a separate agenda item.

Executive Board

General

The role of the Executive Board is to manage the Company, which means, among other things, that it is responsible for setting and achieving the operational and financial objectives of the Company, the design of the strategy to achieve the objectives, the parameters to be applied in relation to the strategy (for example, in respect of the financial ratios), the Company culture aimed at long-term value creation, the associated risk profile, the development of results and corporate social responsibility issues that are relevant to the Company. Further detailed information can be found in the CEO statement, Our Performance, Our impact on society: from Barley to Bar, Our Business Priorities and the Risk Management section. The Executive Board is accountable for this to the Supervisory Board and to the AGM. In discharging its role, the Executive Board shall be guided by the interests of the Company and its affiliated enterprises, taking into consideration the interests of the Company's stakeholders. The Executive Board is responsible for complying with all primary and secondary legislation, for managing the risks associated with the Company's activities and for financing the Company.

The Company has four operating regions: Africa Middle East & Eastern Europe, Americas, Asia Pacific and Europe. Each region is headed by a President. The two members of the Executive Board, the four Presidents and four functional Chief Officers (namely Commercial, Corporate Affairs, Human Resources and Supply Chain) jointly form the Executive Team. The choice to work with an Executive Team is to ensure effective implementation of the key priorities and strategies across the organisation. Throughout the year, members of the Executive Team were invited to give presentations to the Supervisory Board. A two-day meeting was also held between the Supervisory Board and the Executive Board to discuss the Company's strategic priorities and main risks of the business also in light of its long-term value creation and Company culture contributing to this. During this meeting, members of the Executive Team presented their respective strategic topics and risks per region or function, as the case may be.

Executive Board members are appointed by the AGM from a non-binding nomination drawn up by the Supervisory Board. The Supervisory Board appoints one of the Executive Board members as Chairman/CEO. The AGM can dismiss members of the Executive Board by a majority of the votes cast, if the subject majority at least represents one-third of the issued capital.

At the 2017 AGM, the Supervisory Board nominated Mr. Jean-François van Boxmeer for re-appointment for a four-year term as member of the Executive Board and Chairman/CEO, which proposal was adopted.

Corporate Governance Statement (continued)

Composition of the Executive Board

The Executive Board currently consists of two members, Chairman/CEO Jean-François (J.F.M.L.) van Boxmeer and CFO Laurence (L.M.) Debroux. Information on these Executive Board members is provided below.

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

Belgian nationality; male.

Initial appointment in 2001;
Reappointment: 2017*;
four-year term ends in 2021;
Chairman/CEO (since 2005).
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**.
Other positions***: Mondelez International, USA; Henkel AG & Co., Germany; National Opera & Ballet, Netherlands (Chairman).

Laurence (L.M.) Debroux (1969)

French nationality; female.

Initial appointment in 2015;
four-year term ends in 2019;
CFO (since 2015).
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: EXOR Holding N.V., the Netherlands.
Other positions***: HEC (Ecole des Hautes Etudes Commerciales) Paris, France.

* For the maximum period of four years.
** Large Dutch Entities are Dutch N.V.s, B.V.s or Foundations (that are required to prepare annual accounts pursuant to Chapter 9 of Book 2 of the Dutch Civil Code or similar legislation) that meet two of the following criteria (on a consolidated basis) on two consecutive balance sheet dates:
(i) The value of the assets (according to the balance sheet with the explanatory notes and on the basis of acquisition and manufacturing costs) exceeds €20 million;
(ii) The net turnover exceeds €40 million;
(iii) The average number of employees is at least 250.
*** Under 'Other positions', other functions are mentioned that may be relevant to performance of the duties of the Executive Board.

Best practice provision 2.2.1 of the Code recommends that an Executive Board member is appointed for a maximum period of four years and that a member may be reappointed for a term of not more than four years at a time. In compliance with this best practice provision, the Supervisory Board has drawn up a rotation schedule in order to avoid, as far as possible, a situation in which Executive Board members retire at the same time.

Members of the Executive Board are not allowed to hold more than two supervisory board memberships or non-executive directorships in a Large Dutch Entity or foreign equivalent. Acceptance of such external supervisory board memberships or non-executive directorships by members of the Executive Board is subject to approval by the Supervisory Board, which has delegated this authority to the Selection & Appointment Committee.

Diversity

The importance of diversity is recognised by the Company as described in the Diversity Policy for the Supervisory Board, Executive Board and Executive Team, which considers the elements of a diverse composition in terms of nationality, gender, age, expertise and experience. It is the aim of the Company to reflect this in its composition and strives to give appropriate weight to the diversity policy in the selection and appointment process, while taking into account the overall profile and selection criteria for the appointments of suitable candidates to the Executive Board. In terms of gender diversity and pursuant to Dutch law, executive boards of large Dutch public companies, such as Heineken N.V., are deemed to have a balanced composition if they consist of at least 30% female and 30% male members. Currently, the Executive Board is composed of one male and one female member, and is therefore deemed to be balanced within the meaning of Dutch law.

Conflict of Interest

Dealing with (apparent) conflicts of interest between the Company and members of its Executive Board is governed by the Articles of Association of the Company (the 'Articles of Association') and the Code. A member of the Executive Board shall not take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a personal conflict of interest with the Company. Decisions to enter into transactions under which members have conflicts of interest that are of material significance to the Company and/or the relevant member(s) of the Executive Board require the approval of the Supervisory Board. Any such decisions shall be published in the Annual Report for the relevant year, along with a reference to the conflict of interest and a declaration that the relevant best practice provisions of the Code have been complied with. In 2017, no transactions were reported under which a member of the Executive Board had a conflict of interest that was of material significance.

Remuneration

In line with the remuneration policy adopted by the AGM, the remuneration of the members of the Executive Board is determined by the Supervisory Board, upon recommendation of the Remuneration Committee. The remuneration policy and the elements of the remuneration of the Executive Board members are set out in the Remuneration Report and Notes 27 and 33 to the Financial Statements. The main elements of the employment agreement with Mr. Van Boxmeer and the service agreement with Mrs. Debroux are available on our corporate website.

Corporate Governance Statement (continued)

Supervisory Board

General

The role of the Supervisory Board is to supervise the management of the Executive Board and the general affairs of the Company and its affiliated enterprises, as well as to assist the Executive Board by providing advice. In discharging its role, the Supervisory Board shall be guided by the interests of the Company and its affiliated enterprises and shall take into account the relevant interest of the Company's stakeholders.

The supervision of the Executive Board by the Supervisory Board includes the achievement of the Company's objectives, the corporate strategy and the risks inherent in the business activities, the design and effectiveness of the internal risk and control system, the financial reporting process, compliance with primary and secondary legislation, the Company-shareholder relationship and corporate social responsibility issues that are relevant to the Company. The Supervisory Board evaluates at least once a year the corporate strategy and main risks to the business, and the result of the assessment by the Executive Board of the design and effectiveness of the internal risk management and control system, as well as any significant changes thereto.

The division of duties within the Supervisory Board and the procedure of the Supervisory Board are laid down in the Regulations for the Supervisory Board, which are available on our corporate website.

The Supervisory Board members are appointed by the AGM from a non-binding nomination drawn up by the Supervisory Board. The AGM can dismiss members of the Supervisory Board by a majority of the votes cast, if the subject majority at least represents one-third of the issued capital.

Composition of the Supervisory Board

The Supervisory Board consists of 10 members: Hans Wijers (Chairman), José Antonio Fernández Carbajal (Vice-Chairman), Maarten Das, Michel de Carvalho, Annemiek Fentener van Vlissingen, Christophe Navarre, Javier Astaburuaga Sanjinés, Jean Marc Huët, Pamela Mars Wright and Yonca Brunini.

The Supervisory Board endorses the principle that the composition of the Supervisory Board shall be such that its members are able to act critically and independently of one another and of the Executive Board and any particular interests. Each Supervisory Board member is capable of assessing the broad outline of the overall strategy of the Company and its businesses and carrying out its duties properly.

Given the structure of the Heineken Group, the Company is of the opinion that, in the context of preserving the continuity of the Heineken Group and ensuring a focus on long-term value creation, it is in its best interest and that of its stakeholders that the Supervisory Board includes a fair and adequate representation of persons who are related by blood or marriage to the late Mr. A.H. Heineken (former Chairman of the Executive Board), or who are members of the Board of Directors of Heineken Holding N.V., even if those persons would not, formally speaking, be considered 'independent' within the meaning of best practice provision 2.1.8 of the Code.

Currently, the majority of the Supervisory Board (i.e. six of its 10 members) qualify as 'independent' as per best practice provision 2.1.8 of the Code. There are four members whom in a strictly formal sense do not meet the applicable criteria for being 'independent' as set out in the Code: Mr. de Carvalho (who is the spouse of Mrs. C.L. de Carvalho – Heineken, the daughter of the late Mr. A.H. Heineken, and also an executive director of Heineken Holding N.V.), Mr. Das (who is the Chairman of Heineken Holding N.V.), Mr. Fernández Carbajal (who is a non-executive director of Heineken Holding N.V. and representative of FEMSA) and Mr. Astaburuaga Sanjinés (who is a representative of FEMSA). However, the Supervisory Board has ascertained that Mr. de Carvalho, Mr. Das, Mr. Fernández Carbajal and Mr. Astaburuaga Sanjinés in fact act critically and independently. Since Mr. de Carvalho, Mr Das, Mr. Fernández Carbajal and Mr. Astaburuaga Sanjinés are representing or affiliated with Heineken Holding N.V. or FEMSA who (in)directly hold more than 10% of the shares in our Company, the maximum of one representative or affiliate per such shareholder of best practice provision 2.1.7 sub iii of the Code is not complied with and as a consequence, the Company also does not comply with best practice provision 2.1.10 of the Code, to the extent that this provision provides that the Supervisory Board report shall state that best practice provision 2.1.7 through 2.1.9 has been fulfilled.

In line with the belief that the focus on long-term value creation is best ensured by a fair and adequate representation of persons who are related by blood or marriage to the late Mr. A.H. Heineken (former Chairman of the Executive Board) or who are members of the Board of Directors of Heineken Holding N.V., best practice provision 2.2.2 of the Code is not applied to Mr. de Carvalho, Mr. Das and Mr. Fernández Carbajal which provides that a person may be appointed to the Supervisory Board for a maximum of two four-year terms, followed by two terms of two years each with an explanation in the Corporate Governance Statement. It should also be noted that a non-binding nomination for the reappointment of Mr. Fernandez Carbájal and Mr Astaburuaga Sanjinés for a period of four years shall be submitted to the AGM. Both are representatives of FEMSA (that (in)directly holds a 14.76% economic interest in the Company), and their respective appointments to the Supervisory Board are based on the Corporate Governance Agreement, which was concluded between (among others) the Company and FEMSA on 30 April 2010, and which was approved by the AGM on 22 April 2010 (in connection with the acquisition by the Company of FEMSA's beer activities). A reappointment of Mr. Fernández Carbajal and Mr. Astaburuaga Sanjinés for a period of four years is a deviation of the applicable two-year appointment term as per best practice provision 2.2.2. of the Code. It is however deemed to be in line with the profile of the Supervisory Board and a reflection of FEMSA's involvement as a long-term shareholder of the Company.

The Supervisory Board has drawn up a rotation schedule in order to avoid, as far as possible, a situation in which many Supervisory Board members retire at the same time. The rotation schedule is available on our corporate website.

Corporate Governance Statement (continued)

Profile and Diversity

The Supervisory Board has prepared a profile of its size and composition, taking account of the nature of the business, its activities and the desired expertise and background of the Supervisory Board members. The profile deals with the aspects of diversity in the composition of the Supervisory Board that are relevant to the Company and states what specific objective is pursued by the Supervisory Board in relation to diversity. At least one member of the Supervisory Board shall be a financial expert with relevant knowledge and experience of financial administration and accounting for listed companies or other large legal entities. The composition of the Supervisory Board shall be such that it is able to carry out its duties properly. The profile is available on our corporate website.

The importance of diversity is also described in the Diversity Policy for the Supervisory Board, Executive Board and Executive Team, which considers the elements of a diverse composition in terms of nationality, gender, age, expertise and experience. With respect to gender, Dutch law stipulates that supervisory boards of large Dutch public companies, such as Heineken N.V., are deemed to have a balanced composition if they consist of at least 30% female and 30% male members. The Supervisory Board currently consists of 10 members, seven male (70%) and three female (30%) members and is therefore deemed to be balanced within the meaning of Dutch law. The Supervisory Board will also take the balanced composition requirements into account when nominating and selecting new candidates for the Supervisory Board and has established a list of potential female candidates who will be considered should a vacancy in the Supervisory Board arise. The Supervisory Board also notes that, in its opinion, gender is only one element of diversity, and that experience, background, knowledge, skills and insight are equally important and relevant criteria in selecting new members as is also reflected in its profile.

Regulations of the Supervisory Board

The tasks and responsibilities, as well as internal procedural matters for the Supervisory Board, are addressed in the Regulations of the Supervisory Board, and are available on our corporate website.

The Supervisory Board appoints from its members a Chairman (currently Mr. G.J. Wijers). The Chairman of the Supervisory Board may not be a former member of the Executive Board. The Chairman of the Supervisory Board determines the agenda, chairs the meetings of the Supervisory Board, ensures the proper functioning of the Supervisory Board and its Committees, arranges for the adequate provision of information to its members and acts on behalf of the Supervisory Board as the main contact for the Executive Board and for shareholders regarding the functioning of the Executive Board and the Supervisory Board members. The Chairman also ensures the orderly and efficient conduct of the AGM.

The Chairman of the Supervisory Board is assisted in his role by the Company Secretary. All members of the Supervisory Board have access to the advice and services of the Company Secretary. The Company Secretary is responsible for ensuring that procedures are followed and that the Supervisory Board acts in accordance with its statutory obligations as well as its obligations under the Articles of Association.

The Supervisory Board appoints from its members a Vice-Chairman (currently Mr. J.A. Fernández Carbajal). The Vice-Chairman of the Supervisory Board acts as deputy for the Chairman. The Vice-Chairman acts as contact for individual Supervisory Board members and Executive Board members concerning the functioning of the Chairman of the Supervisory Board.

The Supervisory Board can only adopt resolutions in a meeting if the majority of its members is present or represented at that meeting. In such meetings, resolutions must be adopted by absolute majority of the votes cast. In addition, approval of a resolution by the Supervisory Board, as referred to in Article 8, section 6 under a, b and c of the Articles of Association, requires the affirmative vote of the delegated member.

Induction and training

After appointment to the Supervisory Board, members receive an induction programme, drawn up by the Company in consultation with the Chairman of the Supervisory Board. The programme includes a general information package in respect of the Company and its corporate governance, as well as meetings with members of the Executive Team and other senior management leaders, and a tour of our brewery in Zoeterwoude, the Netherlands. Furthermore, the Executive Board provides regular updates to the Supervisory Board on the Company's operations, legal matters, corporate governance, accounting and compliance.

Conflict of Interest

The Articles of Association and the Regulations of the Supervisory Board prescribe how to deal with (apparent) conflicts of interest between the Company and members of the Supervisory Board. A member of the Supervisory Board shall not take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a personal conflict of interest with the Company. Decisions to enter into transactions under which Supervisory Board members have conflicts of interest that are of material significance to the Company and/or the relevant member(s) of the Supervisory Board require the approval of the Supervisory Board. Any such decisions shall be published in the Annual Report for the relevant year, along with a reference to the conflict of interest and a declaration that the relevant best practice provisions of the Code have been complied with. Note 33 of the 2017 Financial Statements sets out related party transactions in 2017.

Remuneration

Supervisory Board members receive a fixed annual remuneration fee, as determined by the AGM. More information on the remuneration of Supervisory Board members can be found in Note 33 to the 2017 Financial Statements.

Corporate Governance Statement (continued)

Resolutions subject to Supervisory Board approval

Certain resolutions of the Executive Board are subject to the approval of the Supervisory Board. Examples are resolutions concerning the operational and financial objectives of the Company, the strategy designed to achieve the objectives, the parameters to be applied in relation to the strategy (for example, in respect of the financial ratios) and corporate social responsibility issues that are relevant to the Company. Also, decisions to enter into transactions under which Executive Board or Supervisory Board members would have conflicts of interest that are of material significance to the Company and/or to the relevant Executive Board member/Supervisory Board member require the approval of the Supervisory Board. Further reference is made to Article 8 paragraph 6 of the Articles of Association, which contains a list of resolutions of the Executive Board that require Supervisory Board approval.

Delegated Member

The AGM may appoint one of the Supervisory Board members as Delegated Member. Mr. M. Das currently acts as the Delegated Member. The delegation to the Delegated Member does not extend beyond the duties of the Supervisory Board and does not comprise the management of the Company. It intends to effect more intensive supervision and advice, and more regular consultation with the Executive Board. The Delegated Member has a veto right concerning resolutions of the Supervisory Board to approve the resolutions of the Executive Board referred to in Article 8 paragraph 6 under a, b and c of the Articles of Association of the Company.

The role of Delegated Member is consistent with best practice provision 2.3.8 of the Code, except insofar that the delegation is not temporary but is held for the term for which the member concerned is appointed by the AGM. The Company is of the opinion that the position of Delegated Member, which has been in existence since 1952, befits the structure of the Company.

Committees

The Supervisory Board has five committees: the Preparatory Committee, the Audit Committee, the Remuneration Committee, the Selection & Appointment Committee and the Americas Committee. The function of these committees is to prepare the decision-making of the Supervisory Board.

The Supervisory Board has drawn up regulations for each committee, setting out the role and responsibility of the committee concerned, its composition and the manner in which it discharges its duties. These regulations are available on our corporate website. In 2017, more than half of the members of the Audit Committee were independent within the meaning of best practice provision 2.1.8 of the Code. For the Remuneration Committee and the Selection and Appointment Committee the independence criteria of best practice provision 2.3.4 are not met.

The Report of the Supervisory Board states the composition of the committees, the number of committee meetings and the main items discussed.

Preparatory Committee

The Preparatory Committee prepares decision-making of the Supervisory Board on matters not already handled by any of the other committees, such as in relation to acquisitions and investments.

Audit Committee

The Audit Committee may not be chaired by the Chairman of the Supervisory Board or by a former member of the Executive Board.

At least one member of the Audit Committee shall be a financial expert with relevant knowledge and experience of financial administration and accounting for listed companies or other large legal entities.

The Audit Committee focuses on supervising the activities of the Executive Board with respect to (i) the operation of the internal risk management and control system, including the enforcement of the relevant primary and secondary legislation and supervising the operation of codes of conduct, (ii) the provision of financial information by the Company, (iii) compliance with recommendations and observations of internal and external auditors, (iv) the role and functioning of the internal audit function, (v) the policy of the Company on tax risk management, (vi) relations with the external auditor, including, in particular, its independence, remuneration and any non-audit services for the Company, (vii) the financing of the Company and (viii) the applications of information and communication technology.

The Audit Committee acts as the principal contact for the external auditor if the external auditor discovers irregularities in the content of the financial reporting.

The Audit Committee meets with the external auditor as often as it considers necessary, but at least once a year, without the Executive Board members being present.

Remuneration Committee

The Remuneration Committee may not be chaired by the Chairman of the Supervisory Board or by a former member of the Executive Board or by a Supervisory Board member who is a member of the management board of another listed company. However, given the structure of the Heineken Group and the character of the Board of Directors of Heineken Holding N.V., the regulations of the Remuneration Committee permit that the Remuneration Committee is chaired by a Supervisory Board member who is a member of the Board of Directors of Heineken Holding N.V. The current Chairman of the Remuneration Committee, Mr. M. Das, is a Non-Executive Director (and Chairman) of Heineken Holding N.V.

No more than one member of the Remuneration Committee may be a member of the management board of another Dutch listed company.

The Remuneration Committee, inter alia, makes the proposal to the Supervisory Board for the remuneration policy to be pursued, and makes a proposal for the remuneration of the individual members of the Executive Board for adoption by the Supervisory Board.

Corporate Governance Statement (continued)

Selection & Appointment Committee

The Selection & Appointment Committee, inter alia, (i) draws up selection criteria and appointment procedures for Supervisory Board members and Executive Board members, (ii) periodically assesses the size and composition of the Supervisory Board and the Executive Board, and makes a proposal for a composition profile of the Supervisory Board, (iii) periodically assesses the functioning of individual Supervisory Board members and Executive Board members and reports on this to the Supervisory Board, (iv) makes proposals for appointments and reappointments, (v) supervises the policy of the Executive Board on the selection criteria and appointment procedures for senior management, and (vi) decides on a request from Executive Board members to accept a board membership of a Large Dutch Entity (as defined above) or foreign equivalent.

Americas Committee

The Americas Committee advises the Supervisory Board on the overall strategic direction of the Americas Region and reviews and evaluates the performance, the organisation and the management in the Americas Region.

General Meeting of Shareholders

Annually, within six months of the end of the financial year in which the AGM should be held, inter alia, the following items shall be brought forward: (i) the discussion of the Annual Report, (ii) the discussion and adoption of the financial statements, (iii) discharge of the members of the Executive Board for their management, (iv) discharge of the members of the Supervisory Board for their supervision on the management and (v) appropriation of profits. The AGM shall be held in Amsterdam.

Convocation

Pursuant to the law, the Executive Board or the Supervisory Board shall convene the AGM with a convocation period of at least 42 days (excluding the date of the meeting, but including the convocation date).

The Executive Board and the Supervisory Board are obliged to convene an AGM upon request of shareholders individually or collectively owning 25% of the shares. Such meeting shall then be held within eight weeks from the request and shall deal with the subjects as stated by those who wish to hold the meeting.

Right to include items on the agenda

If the Executive Board has been requested in writing not later than 60 days prior to the date of the AGM to deal with an item by one or more shareholders who solely or jointly (i) represent at least 1% of the issued capital or (ii) at least represent a value of €50 million, then the item will be included in the convocation or announced in a similar way. A request of a shareholder for an item to be included on the agenda of the AGM needs to be substantiated. The principles of reasonableness and fairness may allow the Executive Board to refuse the request.

The Code provides the following in best practice provision 4.1.6: "A shareholder should only exercise the right to put items on the agenda after they have consulted with the management board on this. If one or more shareholders intend to request that an item be put on the agenda that may result in a change in the company's strategy, for example as a result of the dismissal of one or several management board or supervisory board members, the management board should be given the opportunity to stipulate a reasonable period in which to respond (the response time). The opportunity to stipulate the response time should also apply to an intention as referred to above for judicial leave to call a general meeting pursuant to Section 2:110 of the Dutch Civil Code. The relevant shareholder should respect the response time stipulated by the management board, within the meaning of best practice provision 4.1.7."

If the Executive Board invokes a response time, such period shall not exceed 180 days from the moment the Executive Board is informed by one or more shareholders of their intention to put an item on the agenda to the day of the general meeting at which the item is to be dealt with. The Executive Board shall use the response time for further deliberation and constructive consultation. This shall be monitored by the Supervisory Board. The response time shall be invoked only once for any given general meeting and shall not apply to an item in respect of which the response time has been previously invoked.

Record date

For each AGM, the Company shall determine a record date for the exercise of the voting rights and participation in the meeting. The record date shall be the 28th day prior to the date of the meeting. The record date shall be included in the convocation notice, as well as the manner in which those entitled to attend and/or vote in the meeting can be registered and the manner in which they may exercise their rights.

Only persons who are shareholders on the record date may participate and vote in the AGM.

Participation in person, by proxy or through electronic communication

Each shareholder is entitled, either personally or by proxy authorised in writing, to attend the AGM, to address the meeting and to exercise his or her voting rights.

The Executive Board may determine that the powers set out in the previous sentence may also be exercised by means of electronic communication.

If a shareholder wants to exercise his or her rights by proxy authorised in writing, the written power of attorney must be received by the Company no later than on the date indicated for that purpose in the convocation notice. Through its corporate website, the Company generally facilitates that shareholders can give electronic voting instructions.

Corporate Governance Statement (continued)

Attendance list

Each person entitled to vote or otherwise entitled to attend a meeting or such person's representative shall have to sign the attendance list, stating the number of shares and votes represented by such person.

Chairman of the AGM

The AGM shall be presided over by the Chairman or the Vice-Chairman of the Supervisory Board, or in his absence, by one of the Supervisory Board members present at the meeting, to be designated by them in mutual consultation. If no members of the Supervisory Board are present, the meeting shall appoint its own chairman.

Voting

All resolutions of the AGM shall be adopted by an absolute majority of the votes cast, except for those cases in which the law or the Articles of Association prescribe a larger majority.

Each share confers the right to one vote. Blank votes shall be considered as not having been cast.

The Executive Board may determine in the convocation notice that any vote cast prior to the AGM by means of electronic communication shall be deemed to be a vote cast in the AGM. Such a vote may not be cast prior to the record date. A shareholder who has cast his or her vote prior to the AGM by means of electronic communication remains entitled, whether or not represented by a holder of a written power of attorney, to participate in the AGM.

Minutes

The proceedings in the AGM shall be recorded in minutes taken by a secretary to be designated by the chairman of the meeting, which minutes shall be signed by the chairman of the meeting and the secretary. If, in deviation of the above, a notarial record of the proceedings of the AGM is drawn up, the chairman of the meeting shall countersign the notarial record. Upon request, the record of the proceedings of the AGM shall be submitted to shareholders ultimately within three months after the conclusion of the meeting.

Resolutions to be adopted by the AGM

The AGM has authority to adopt resolutions concerning, inter alia, the following matters:

Issue of shares by the Company or rights on shares (and to authorise the Executive Board to resolve that the Company issues shares or rights on shares)

Authorisation of the Executive Board to resolve that the Company acquires its own shares	Appointment of the Delegated Member of the Supervisory Board
Cancellation of shares and reduction of share capital	Adoption of the financial statements
Appointment of Executive Board members	Granting discharge to Executive and Supervisory Board members
The remuneration policy for Executive Board members	Dividend distributions
Suspension and dismissal of Executive Board members	A material change in the corporate governance structure
Appointment of Supervisory Board members	Appointment of the external auditor
The remuneration of Supervisory Board members	Amendment of the Articles of Association, and
Suspension and dismissal of Supervisory Board members	Liquidation.

Resolutions on a major change in the identity or character of the Company or enterprise shall be subject to the approval of the AGM. This would at least include (a) the transfer of the enterprise or the transfer of practically the entire enterprise of the Company to a third party, (b) the entering into or the termination of a lasting co-operation of the Company or a subsidiary with another legal entity or company or a fully liable partner in a limited partnership or general partnership, if such co-operation or termination is of fundamental importance to the Company and (c) acquiring or disposing of a participation in the capital of a company by the Company or a subsidiary amounting to at least one-third of the amount of assets according to the Company's consolidated balance sheet plus explanatory notes as laid down in the last adopted financial statements of the Company.

Article 10 of the EU Take-Over Directive Decree

Shares

The issued share capital of the Company amounts to €921,604,180.80, consisting of 576,002,613 shares of €1.60 each. Each share carries one vote. The shares are listed on Euronext Amsterdam.

All shares carry equal rights and are freely transferable (unless provided otherwise below).

Shares repurchased by the Company for the share-based Long-Term Variable (LTV) awards or for any other purpose do not carry any voting rights and dividend rights.

Shareholders who hold shares on a predetermined record date are entitled to attend and vote at the AGM. The record date for the AGM of 19 April 2018 is 28 days before the AGM, i.e. on 22 March 2018.

Corporate Governance Statement (continued)

Substantial shareholdings

Pursuant to the Financial Supervision Act (Wet op het financieel toezicht) and the Decree on Disclosure of Major Holdings and Capital Interests in Issuing Institutions (Besluit melding zeggenschap en kapitaalbelang in uitgevende instellingen), the Netherlands Authority for the Financial Markets has been notified about the following substantial shareholdings regarding the Company during 2017:

Mrs. C.L. de Carvalho-Heineken (indirectly 50.005%; the direct 50.005% shareholder is Heineken Holding N.V.).

Voting Trust (FEMSA) (indirectly 8.63%; the direct 8.63% shareholder is CB Equity LLP). It is noted that in 2017 Voting Trust (FEMSA)'s indirect shareholding in the Company has reduced from 12.53% to 8.63%.

Restrictions related to shares held by FEMSA

Upon completion (on 30 April 2010) of the acquisition of the beer operations of Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), CB Equity LLP (belonging to the FEMSA group) received Heineken N.V. shares (and Heineken Holding N.V. shares). Pursuant to the Corporate Governance Agreement of 30 April 2010 concluded between the Company, Heineken Holding N.V., L'Arche Green N.V., FEMSA and CB Equity LLP the following applies:

Subject to certain exceptions, FEMSA, CB Equity LLP, and any member of the FEMSA group shall not increase its shareholding in Heineken Holding N.V. above 20% and shall not increase its holding in the Heineken Group above a maximum of 20% economic interest (such capped percentages referred to as the 'Voting Ownership Cap').

Subject to certain exceptions, FEMSA, CB Equity LLP and any member of the FEMSA group may not exercise any voting rights in respect of any shares beneficially owned by it, if and to the extent that such shares are in excess of the applicable Voting Ownership Cap.

Unless FEMSA's economic interest in the Heineken Group were to fall below 14%, the current FEMSA control structure were to change or FEMSA were to be subject to a change of control, FEMSA is entitled to have two representatives on the Company's Supervisory Board, one of whom will be Vice-Chairman, who also serves as the FEMSA representative on the Board of Directors of Heineken Holding N.V.

Share plans

There is a share-based Long-Term Variable Award ('LTV') for both the Executive Board members and senior management. Eligibility for participation in the LTV by senior management is based on objective criteria.

Each year, performance shares are awarded to the participants. Depending on the fulfilment of certain predetermined performance conditions during a three-year performance period, the performance shares will vest and the participants will receive Heineken N.V. shares.

Shares received by Executive Board members upon vesting under the LTV Award are subject to a holding period of five years as from the date of award of the respective performance shares, which is approximately two years from the vesting date.

Under the Short-Term Variable Pay (STV) for the Executive Board, the Executive Board members are entitled to receive a cash bonus subject to the fulfilment of predetermined performance conditions. The Executive Board members are obliged to invest at least 25% of their STV payout in Heineken N.V. shares (investment shares) to be delivered by the Company; the maximum they can invest in Heineken N.V. shares is 50% of their STV payout (at their discretion).

The investment shares (which are acquired by the Executive Board members in the year after the year over which the STV payout is calculated) are subject to a holding period of five years as from 1 January of the year in which the investment shares are acquired. Executive Board members are entitled to receive one additional Heineken N.V. share (a matching share) for each investment share held by them at the end of the respective holding period. The entitlement to receive matching shares shall lapse upon the termination by the Company of the employment agreement (in respect of Mr. Van Boxmeer), or service agreement (in respect of Mrs. Debroux), as the case may be, for an urgent reason ('dringende reden') within the meaning of the law or in case of dismissal for cause ('ontslag met gegronde redenen') whereby the cause for dismissal concerns unsatisfactory functioning of the Executive Board member.

In exceptional situations, extraordinary share entitlements may be awarded by the Executive Board to employees. These share entitlements are usually non-performance-related and the employees involved are usually entitled to receive Heineken N.V. shares after the expiry of a period of time.

The shares required for the LTV, the STV and the extraordinary share entitlements will be acquired by the Company on the basis of an authorisation granted by the AGM and subject to approval of the Supervisory Board of the Company.

Change of control

There are no important agreements to which the Company is a party and that will automatically come into force, be amended or be terminated under the condition of a change of control over the Company as a result of a public offer.

However, the contractual conditions of most of the Company's important financing agreements and notes issued (potentially) entitle the banks and noteholders respectively to claim early repayment of the amounts borrowed by the Company in the situation of a change of control over the Company (as defined in the respective agreement).

Also, some of HEINEKEN's important joint venture agreements provide that in case of a change of control over HEINEKEN (as defined in the respective agreement), the other party to such agreement may exercise its right to purchase HEINEKEN's shares in the joint venture, as a result of which the respective joint venture agreement will terminate.

Corporate Governance Statement (continued)

Appointment and dismissal of Supervisory and Executive Board members

Members of the Supervisory Board and the Executive Board are appointed by the AGM on the basis of a non-binding nomination by the Supervisory Board.

The AGM can dismiss members of the Supervisory Board and the Executive Board by a majority of the votes cast, if the subject majority at least represents one-third of the issued capital.

Amendment of the Articles of Association

The Articles of Association can be amended by resolution of the AGM in which at least half of the issued capital is represented and exclusively either at the proposal of the Supervisory Board or at the proposal of the Executive Board that has been approved by the Supervisory Board, or at the proposal of one or more shareholders representing at least half of the issued capital.

Acquisition of own shares

On 20 April 2017, the AGM authorised the Executive Board (for the statutory maximum period of 18 months) to acquire own shares subject to the following conditions and with due observance of the law and the Articles of Association (which require the approval of the Supervisory Board):

The maximum number of shares which may be acquired is 10% of the issued share capital of the Company.

Transactions must be executed at a price between the nominal value of the shares and 110% of the opening price quoted for the shares in the Official Price List (Officiële Prijscourant) of Euronext Amsterdam on the date of the transaction or, in the absence of such a price, the latest price quoted therein.

Transactions may be executed on the stock exchange or otherwise.

The authorisation may be used in connection with the variable awards for the members of the Executive Board and the LTV for senior management, but may also serve other purposes, such as other acquisitions. A new authorisation will be submitted for approval at the next AGM on 19 April 2018.

Issue of shares

On 20 April 2017, the AGM also authorised the Executive Board (for a period of 18 months) to issue shares or grant rights to subscribe for shares and to restrict or exclude shareholders' pre-emption rights, with due observance of the law and Articles of Association (which require the approval of the Supervisory Board). The authorisation is limited to 10% of the Company's issued share capital, as per the date of issue. The authorisation may be used in connection with the LTV for the members of the Executive Board and the LTV for senior management, but may also serve other purposes, such as acquisitions. A new authorisation will be submitted for approval to the AGM at 19 April 2018.

Compliance with the Code

On 8 December 2016, a new Code was published which came into effect on 1 January 2017. The Code can be downloaded at http://www.mccg.nl.

As stated in the Code, there should be a basic recognition that corporate governance must be tailored to the company-specific situation and therefore that non-application of individual provisions by a company may be justified.

HEINEKEN in principle endorses the Code's principles and applies virtually all best practice provisions. However, given the structure of the HEINEKEN Group, and specifically the relationship between the Company and its controlling shareholder Heineken Holding N.V., the Company does not (fully) apply the following best practice provisions:

2.1.7, 2.1.8, 2.1.10 and 2.3.4:
Number of independent Supervisory Board members as well as number of independent members of the Remuneration and Selection & Appointment Committees; in that light the Supervisory Board report does not state that best practice provision 2.1.7 through 2.1.9 has been fulfilled.

2.2.2:
Maximum terms of appointment Supervisory Board members; and

2.3.8:
Temporary nature of appointing a delegated Supervisory Board member.

Furthermore, HEINEKEN does not fully apply best practice provision 3.2.3 (severance payment Executive Board members and notably the one-year salary limit for such payments) to Mr. Van Boxmeer, in view of his longstanding employment relationship (over 25 years in service) with the Company. The agreement with Mrs. Debroux was made in line with the best practice provisions of the 2008 Dutch Corporate Governance Code. Under the 2016 Code, the requirements regarding severance payments are more stringent and as such the Company strictly speaking does not comply with this best practice provision 3.2.3 during her first term (ending in April 2019). The Company shall comply with it in any subsequent terms after April 2019.
For more information please see the Remuneration Report.

Corporate Governance Statement (continued)

Other best practice provisions which are not applied relate to the fact that these principles and/or best practice provisions are not applicable to the Company:

1.3.6:
HEINEKEN has an internal audit function;

3.1.2 sub viii:
HEINEKEN does not grant options on shares;

4.1.5:
This best practice provision relates to shareholders;

4.2.6:
HEINEKEN has no anti-takeover measures;

4.3.1:
This best practice provision relates to shareholders;

4.3.4:
HEINEKEN has no financing preference shares;

4.3.5 and 4.3.6:
This best practice provision relates to institutional investors;

4.4:
HEINEKEN has no depositary receipts of shares, nor a trust office; and

4.3.3 and 5.1:
HEINEKEN does not have a one-tier management structure.

Statement of the Executive Board

The Report of the Executive Board, together with pages 133–154 of the Sustainability Review, serves as the management report for the purpose of section 391, Book 2 of the Dutch Civil Code.

In accordance with best practice provision 1.4.3 of the Code, we are of the opinion that, in respect of financial reporting risks, the internal risk management and control system, as described in the Risk Management section of this Annual Report 2017:

Provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;

The aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies in the design and operation of the internal risk management and control systems during the past financial year;

Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and

The report states those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of 12 months after the preparation of the report.

It should be noted that the foregoing does not imply that this system and these procedures provide absolute assurance as to the realisation of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliance with legislation, rules and regulations. For a detailed description of the risk management system and the principal risks identified, please refer to the Risk Management section.

In accordance with Article 5:25c paragraph 2 sub c of the Financial Markets Supervision Act, we confirm that, to the best of our knowledge, the financial statements in this Annual Report 2017 give a true and fair view of our assets and liabilities, our financial position at 31 December 2017, and the results of our consolidated operations for the financial year 2017; and

the Report of the Executive Board includes a fair review of the position at 31 December 2017 and the development and performance during the financial year 2017 of Heineken N.V. and the undertakings included in the consolidation taken as a whole, and describes the principal risks that Heineken N.V. faces.

This statement cannot be construed as a statement in accordance with the requirements of Section 404 of the US Sarbanes-Oxley Act, which Act is not applicable to Heineken N.V.

Executive Board

J.F.M.L. van Boxmeer
L.M. Debroux
Amsterdam, 9 February 2018
Heineken N.V. Annual Report 2017

To the Shareholders

During the year under review, the Supervisory Board performed its duties in accordance with primary and secondary legislation and the Articles of Association of Heineken N.V. and supervised and advised the Executive Board on an ongoing basis.

Financial statements and profit appropriation

The Supervisory Board hereby submits to the shareholders the financial statements and the report of the Executive Board for the financial year 2017, as prepared by the Executive Board and approved by the Supervisory Board in its meeting of 9 February 2018. Deloitte Accountants B.V. audited the financial statements. Its report can be found on page 156 in the Other Information section.

The Supervisory Board recommends that shareholders, in accordance with the Articles of Association, adopt these financial statements and, as proposed by the Executive Board, appropriate €838 million for payment of dividend. The underlying principle of the dividend policy is that 30-40% of net profit before exceptional items and amortisation of acquisition-related intangible assets (net profit beia) is placed at the disposal of shareholders for distribution as dividend. The proposed dividend amounts to €1.47 per share of €1.60 nominal value, of which €0.54 was paid as an interim dividend on 10 August 2017.

Supervisory Board composition, independence and remuneration

Composition

The Supervisory Board consists of 10 members: Hans Wijers (Chairman), José Antonio Fernández Carbajal (Vice-Chairman), Maarten Das, Michel de Carvalho, Annemiek Fentener van Vlissingen, Christophe Navarre, Javier Astaburuaga Sanjinés, Jean Marc Huët, Pamela Mars Wright and Yonca Brunini. The Annual General Meeting (AGM) on 20 April 2017 re-appointed Mr. Das and Mr. Navarre for a period of four years. Mr. Scheffers stepped down as member of the Supervisory Board after the 2017 AGM.

Information on the Supervisory Board members is provided below.

Hans (G.J.) Wijers (1951)

Dutch nationality; male.

Appointed in 2012; Chairman (as of 2013); latest reappointment in 2016*.
Profession: Company Director.
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: ING Groep N.V.
Other positions***: Royal Dutch Shell plc (Deputy Chairman and Senior Independent Director); HAL Holding N.V.; Natuurmonumenten (Chairman); Concertgebouw N.V. (Chairman).

José Antonio (J.A.) Fernández Carbajal (1954)

Mexican nationality; male.

Appointed in 2010; latest reappointment in 2014*.
Vice-Chairman (as of 2010).
Profession: Executive Chairman Fomento Económico Mexicano S.A.B. de C.V. (FEMSA).
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: Heineken Holding N.V.
Other positions***: Coca-Cola Femsa S.A.B. de C.V. (Chairman); Tecnológico de Monterrey (Chairman); Fundación Femsa (Chairman); participates on the Board of Industrias Peñoles; founding member of the Mexican chapter of the Woodrow Wilson Center; Term Member of the MIT Corporation.

Maarten (M.) Das (1948)

Dutch nationality; male.

Appointed in 1994; latest reappointment in 2017*.
Delegated Member (1995).
Profession: Lawyer.
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: Heineken Holding N.V. (Chairman) and Greenchoice B.V. (Chairman).
Other positions***: L'Arche Green N.V. (Chairman); Stichting Administratiekantoor Priores; L'Arche Holding B.V.; Greenfee B.V. (Chairman).

To the Shareholders (continued)

Michel (M.R.) de Carvalho (1944)

British nationality; male.

Appointed in 1996; latest reappointment in 2015*.
Profession: Banker, Vice-Chairman – Citigroup Investment Bank EMEA; Chairman – Citigroup Private Bank EMEA.
Executive Director of Heineken Holding N.V.
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**.
Other positions***: L'Arche Green N.V.

Annemiek (A.M.) Fentener van Vlissingen (1961)

Dutch nationality; female.

Appointed in 2006; latest reappointment in 2014*.
Profession: Company Director.
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: SHV Holdings N.V. (Chairman); EXOR Holding N.V.
Other positions***: Lhoist, Belgium; Board member Global Advisory Council Bank of America.

Christophe (V.C.O.B.J.) Navarre (1958)

Belgian nationality; male.

Appointed in 2009; latest reappointment in 2017*.
Profession: Chairman of Neptune International
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**.

Javier (J.G.) Astaburuaga Sanjinés (1959)

Mexican nationality; male.

Appointed in 2010; latest reappointment in 2014*.
Profession: Senior Vice President Corporate Development Fomento Económico Mexicano S.A.B. de C.V. (FEMSA).
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**.
Other positions***: Board member of Fomento Económico Mexicano S.A.B. de C.V. (FEMSA) and Coca-Cola Femsa S.A.B. de C.V.

Jean-Marc (J.M.) Huët (1969)

Dutch nationality; male.

Appointed in 2014*.
Profession: Company Director
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: SHV Holdings N.V.
Other positions***: Canada Goose Incorporated; J2 Acquisition Ltd.

Pamela (P.) Mars Wright (1960)

American nationality; female.

Appointed in 2016*.
Profession: Company Director.
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: SHV Holdings N.V.
Other positions***: Mars, Incorporated.

Yonca (Y.) Brunini (1969)

British nationality; female.

Appointed in 2016*.
Profession: VP Marketing EMEA at Google.
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**.
Other positions***: none.

* For the maximum period of four years.
** Large Dutch Entities are Dutch N.V.s, B.V.s or Foundations (that are required to prepare annual accounts pursuant to Chapter 9 of Book 2 of the Dutch Civil Code or similar legislation) that meet two of the following criteria (on a consolidated basis) on two consecutive balance sheet dates:
(i) The value of the assets (according to the balance sheet with the explanatory notes and on the basis of acquisition and manufacturing costs) exceeds €20 million;
(ii) The net turnover exceeds €40 million;
(iii) The average number of employees is at least 250.
*** Under 'Other positions', other functions are mentioned that may be relevant to performance of the duties of the Supervisory Board.

To the Shareholders (continued)

The Supervisory Board has a diverse composition in terms of experience, gender, nationality and age. Three out of 10 members are women and six out of 10 members are non-Dutch. There are five nationalities (American, Belgian, British, Dutch and Mexican) and age ranges between 46 and 73. The Supervisory Board is of the opinion that a diversity of experience and skills is represented on its board. The elements of a diverse composition of the Supervisory Board are laid down in the Diversity Policy of the Supervisory Board, Executive Board and Executive Team as per best practice provision 2.1.5 of the revised Dutch Corporate Governance Code, which was published on 8 December 2016 and which came into effect on 1 January 2017 (the 'Code').

In line with Dutch law, the profile of the Supervisory Board and the Diversity Policy state that the Supervisory Board shall pursue that at least 30% of the seats shall be held by men and at least 30% by women. Currently, 30% (i.e. three out of 10) of the Supervisory Board members are female and it is therefore deemed to be balanced within the meaning of Dutch law. Diversity and gender are important drivers in the selection process. With reference thereto, the Supervisory Board will retain an active and open attitude as regards selecting female candidates, and has established a list of potential female candidates who will be considered should a vacancy in the Supervisory Board arise. The Supervisory Board however also notes that, in its opinion, gender is only one element of diversity, and that experience, background, knowledge, skills and insight are equally important and relevant criteria in selecting new members.

Mr. J.A. Fernández Carbajal, Mr. J.G. Astaburuaga Sanjinés, Mr. J.M. Huët and Mrs. A.M. Fentener van Vlissingen will have completed their four year appointment terms per the end of the AGM on 19 April 2018. Mr. Huët is eligible for reappointment for a period of four years and a non-binding nomination shall be submitted to the AGM in that respect. A non-binding nomination for the reappointment of Mr. Fernández Carbajal and Mr. Astaburuaga Sanjinés for a period of four years shall also be submitted to the AGM. Both are representatives of FEMSA (that (in)directly holds a 14.76% economic interest in the Company), and their respective appointments are based on the Corporate Governance Agreement, which was concluded between (among others) the Company and FEMSA on 30 April 2010, and which was approved by the AGM on 22 April 2010 (in connection with the acquisition by the Company of FEMSA's beer activities). A reappointment of Mr. Fernández Carbajal and Mr. Astaburuaga Sanjinés for a period of four years is a deviation of the applicable two-year appointment term as per best practice provision 2.2.2. of the Code, it is however deemed to be in line with the profile of the Supervisory Board and a reflection of FEMSA's involvement as a long-term shareholder of the Company.

The Supervisory Board is grateful for the commitment of Mrs. Fentener van Vlissingen over the past 12 years and for the way she contributed to the Supervisory Board, as well as its Audit Committee and Selection & Appointment Committee.

A non-binding nomination will be submitted to the Annual General Meeting of Shareholders in 2018 to appoint Mrs. Marion Helmes as member of the Supervisory Board as of 19 April 2018 for a period of four years. It is the intention that Mrs. Helmes will join the Audit Committee and in time become the Chair of the Audit Committee, taking over this role from Mr. Huët who will remain a member of the Audit Committee.

Independence

The Supervisory Board endorses the principle that the composition of the Supervisory Board shall be such that its members are able to act critically and independently of one another and of the Executive Board and any particular interests.

Given the structure of the Heineken Group, the Company is of the opinion that, in the context of preserving the continuity of the Heineken Group and ensuring a focus on long-term value creation, it is in its best interest and that of its stakeholders that the Supervisory Board includes a fair and adequate representation of persons who are related by blood or marriage to the late Mr. A.H. Heineken (former Chairman of the Executive Board), or who are members of the Board of Directors of Heineken Holding N.V., even if those persons would not, formally speaking, be considered 'independent' within the meaning of best practice provision 2.1.8 of the Code.

Currently, the majority of the Supervisory Board (i.e. six of its 10 members) qualify as 'independent' as per best practice provision 2.1.8 of the Code. There are four members whom in a strictly formal sense do not meet the applicable criteria for being 'independent' as set out in the Code: Mr. de Carvalho (who is the spouse of Mrs. C.L. de Carvalho – Heineken, the daughter of the late Mr. A.H. Heineken, and also an executive director of Heineken Holding N.V.), Mr. Das (who is the Chairman of Heineken Holding N.V.), Mr. Fernández Carbajal (who is a non-executive director of Heineken Holding N.V. and representative of FEMSA) and Mr. Astaburuaga Sanjinés (who is a representative of FEMSA). However, the Supervisory Board has ascertained that Mr. de Carvalho, Mr. Das, Mr. Fernández Carbajal and Mr. Astaburuaga Sanjinés in fact act critically and independently.

Remuneration

The AGM determines the remuneration of the members of the Supervisory Board. In 2011, the AGM resolved to adjust the remuneration of the Supervisory Board effective 1 January 2011. The detailed amounts are stated in the notes to the financial statements.

To the Shareholders (continued)

Meetings and activities of the Supervisory Board

During 2017, the Supervisory Board held seven meetings with the Executive Board. The agenda regularly included subjects such as the development of and the manner in which the Executive Board implements the Company's strategy aimed at long-term value creation, as well as enabling Company culture aiming to ensuring proper monitoring by the Supervisory Board, its financial position, the results of the Regions and Operating Companies, acquisitions, large investment proposals, the yearly budget, management changes, the new Dutch Corporate Governance Code and the internal risk management and control system. The external auditor attended the meeting in which the annual results were discussed. In 2017, specific attention was given to the following:

The Supervisory Board had a two-day meeting with the Executive Board to discuss the Company's strategic priorities and main risks of the business associated with it in depth. During this meeting, members of the Executive Team presented their respective strategic topics and risks per region or function, as the case may be.

The Supervisory Board visited London, the United Kingdom, where the Managing Directors of Heineken UK, Heineken Italy and the Europe Region presented an update on business performance. In addition, a visit was made to the Google UK offices and the Mars Slough factory.

During the year, several representatives of senior management and the Executive Team were invited to give presentations to the Supervisory Board.

In 2017, the following subjects were presented in more detail:

- Sustainability
- Digital Commerce
- Human Resources and succession planning (including the remuneration of the members of the Executive Team)
- Global Information Systems, including Cyber Security

Regular Executive Sessions were held without the Executive Board being present. The purpose of these sessions was to evaluate the Supervisory Board meetings and, where relevant, further reflect on particular subjects discussed at the meetings. One Executive Session was dedicated to the evaluation of the Supervisory Board relating to the performance, working methods, procedures and functioning of the Supervisory Board, its committees and its individual members as well as the functioning of the Executive Board and its individual members. These evaluations were conducted on the basis of responses to a questionnaire submitted by the members of the Supervisory Board to the Chairman followed by individual interviews with the Chairman. The questionnaire and discussions with the Chairman covered topics such as the composition and expertise of the Supervisory Board, access to information, frequency and quality of the meetings, quality and timeliness of the meeting materials, and the nature of the topics discussed during meetings. The responses provided by the Supervisory Board members indicated that the Board continues to be a well-functioning team.

The Chairman of the Supervisory Board met frequently with the CEO to, among others, prepare the Supervisory Board meetings.

Committees

The Supervisory Board has five Committees: the Preparatory Committee, the Audit Committee, the Selection & Appointment Committee, the Remuneration Committee and the Americas Committee. The terms of reference for the Committees are posted on the Company's website.

Preparatory Committee

Composition: Mr. Wijers (Chairman), Mr. de Carvalho, Mr. Das and Mr. Fernández Carbajal. The Preparatory Committee met seven times. The Committee prepares decision-making by the Supervisory Board on matters not already handled by any of the other Committees, such as in relation to acquisitions and investments.

Audit Committee

Composition: Mr. Huët (Chairman), Mr. Astaburuaga Sanjinés, and Mrs. Fentener van Vlissingen. The Audit Committee met four times. The members collectively have the experience and financial expertise to supervise the Executive Board in its activities in relation to the publication of financial statements and operation of the internal risk management and control systems, including the risk profile of Heineken N.V.

The Executive Board attended all meetings, and so did the external auditor, the Executive Director Global Audit, and the Senior Director Global Accounting and Reporting.

The Executive Director Global Audit has direct access to the Audit Committee, primarily through its Chairman. During the year, the Audit Committee met once with the external auditors and once with the Executive Director Global Audit, in both instances without management being present. In addition, the Chairman of the Audit Committee and the Executive Director Global Audit held regular update meetings during the year.

To the Shareholders (continued)

The Committee supervises the activities of the Executive Board with respect to the publication of financial information. The Committee reviews, in the presence of the Executive Board and the external auditor, the appropriateness of the half-year reporting and the annual financial statements, focusing on:

- The decisions made on the selection and application of accounting policies.
- The reliability and completeness of disclosures.
- Compliance with financial, non-financial and other reporting requirements.
- Significant judgements, estimates and assumptions used in preparing the reports in respect of, among others, accounting for acquisitions and divestments, the annual impairment test and determining the level of provisions.

At the beginning of the year, the Committee reviews the audit plan of the external auditor as well as the internal audit plan. The Committee focuses mainly on the scoping, key risks, staffing and budget. During the year, the Committee reviews the reports of the external and the internal auditor.

Furthermore, the Committee in 2017 discussed recurring topics, such as:

- The effectiveness and the outcome of the internal control and risk management systems, as well as changes made and improvements planned to these systems.
- Functional updates in respect of Global Procurement, Financial Shared Services & Internal Control over Financial Reporting, Global Treasury and Tax, Pensions, Litigation and Risk Management.
- Update on new IFRS Standards: IFRS 9 (Financial instruments), IFRS 15 (Revenue from contracts with customers) and IFRS 16 (Leases).
- HEINEKEN's governance, risk and compliance (GRC) activities, including the HEINEKEN Company Rules and the HEINEKEN Code of Business Conduct.
- Post Audit Reviews of large investments.
- The outcome of the internal audit activities.
- The outcome of the annual Letter of Representation process and the report from the Integrity Committee related to fraud reporting and Speak Up policy.
- The evaluation of the external auditor, Deloitte Accountants B.V.

The Chairman of the Audit Committee informed the Supervisory Board of the discussions held in the Audit Committee in respect of these recurring topics.

Selection & Appointment Committee

Composition: Mr. Wijers (Chairman), Mr. de Carvalho, Mr. Das, Mr. Fernández Carbajal, and Mrs. Fentener van Vlissingen. The Selection & Appointment Committee met five times.

In 2017, the following subjects were discussed:

- The composition and rotation schedule of the Supervisory Board and its Committees.
- Female representation on the Supervisory Board, including a list of potential female candidates.
- Evaluation of the Supervisory Board and the Executive Board.
- Diversity Policy for the Supervisory Board, Executive Board and Executive Team.

To the Shareholders (continued)

Remuneration Committee
Composition: Mr. Das (Chairman), Mr. de Carvalho, Mr. Wijers and Ms. Brunini. The Remuneration Committee met four times in 2017.

The Remuneration Committee discussed the new Code and in particular the best practice provisions related to remuneration, including the pay ratio within the Company.

The Committee made recommendations to the Supervisory Board on 2017 target setting and 2016 payout levels for the STV pay and LTV awards to the Executive Board, all of which were endorsed by the Supervisory Board. As part of the recommendations the Remuneration Committee took note of the Executive Board member's views with regard to the amount and structure of their own remuneration.

The Remuneration Committee received a report on status and trends in executive remuneration and executive remuneration governance in order to fulfil its remuneration governance responsibilities. The report aimed to review, amongst other things, alignment of HEINEKEN's remuneration practices with its remuneration principles, to provide an overview of HEINEKEN's competitive remuneration positioning versus the market, to assess the relation between actual remuneration and performance and to update the Committee on executive compensation trends and regulatory development.
A copy of the report was also submitted to the full Supervisory Board.

In addition, a review was performed on the Executive Board Remuneration Policy as well as the Supervisory Board fees and recent developments were discussed in light of the new Code and the European Shareholders Rights Directive.

Americas Committee
Composition: Mr. Fernández Carbajal (Chairman), Mr. de Carvalho, Mr. Navarre, and Ms. Mars Wright.

The Committee advises the Supervisory Board on the overall strategic direction of the Americas Region and reviews and evaluates the performance, the organisation and the management in the Americas Region. The Chairman of the Executive Board and the President Americas also attend the Americas Committee meetings. The Committee met twice in 2017 and reviewed specific developments in the region, including financial results and strategic priorities, presented by the President Americas.

Attendance
The Supervisory Board confirms that all Supervisory Board members have adequate time available to give sufficient attention to the concerns of the Company. In 2017, the attendance rate was 92% for the Supervisory Board meetings and 82% including the Committee meetings. Many Supervisory Board members were able to attend all seven meetings. In case of absence, members are fully informed in advance, enabling them to provide input for the meeting, and they are also updated on the meeting outcome.

The table below provides an overview of the attendance record of the individual members of the Supervisory Board. Attendance is expressed as a number of meetings attended out of the number eligible to attend.

	Supervisory Board	Preparatory Committee	Audit Committee	Selection & Appointment Committee	Remuneration Committee	Americas Committee
Mr. Wijers	7/7	7/7		5/5	4/4	
Mr. Fernández Carbajal	7/7	7/7		5/5		2/2
Mr. Das	7/7	7/7		5/5	4/4	
Mr. de Carvalho	6/7	6/7		5/5	4/4	2/2
Mrs. Fentener van Vlissingen	6/7		3/4	4/5		
Mr. Navarre	6/7					1/2
Mr. Astaburuaga Sanjinés	6/7		4/4			
Mr. Huët	7/7		4/4			
Mrs. Mars Wright	5/7					2/2
Ms. Brunini	7/7				4/4	

To the Shareholders (continued)

Executive Board composition and remuneration

Composition

Best practice provision 2.2.1 of the Code recommends that an Executive Board member is appointed for a period of four years and that a member may be reappointed for a term of not more than four years at a time. In compliance with this best practice provision, the Supervisory Board has drawn up a rotation schedule in order to avoid, as far as possible, a situation in which Executive Board members retire at the same time.

Mr. Jean-François van Boxmeer was initially appointed for an indefinite term in 2001 and was reappointed for a period of four years in 2017. Mrs. Laurence Debroux was appointed in 2015 for a period of four years.

Pursuant to Dutch law, the Supervisory Board shall pursue that on the Executive Board at least 30% of the seats shall be held by men and at least 30% by women. The current composition of the Executive Board is compliant with this target. HEINEKEN also strives to appoint a well-balanced mix of men and women to its senior management. We note that there may be various pragmatic reasons – such as other relevant selection criteria and the availability of suitable candidates – that could play a complicating role in achieving a well-balanced mix of men and women to its senior management, at least in the short term.

Remuneration

The AGM approved the current remuneration policy for the Executive Board in 2011 and 2014, respectively. Details of the policy and its implementation are described in the Remuneration Report.

Appreciation

The Supervisory Board wishes to express its gratitude to the members of the Executive Board and all HEINEKEN employees for their hard work and dedication in 2017.

Supervisory Board Heineken N.V.

Wijers
Fernández Carbajal
Das
de Carvalho
Navarre

Fentener van Vlissingen
Huët
Astaburuaga Sanjinés
Mars Wright
Brunini

Amsterdam, 9 February 2018
Heineken N.V. Annual Report 2017

Remuneration Report

The Executive Board remuneration policy reflects our longstanding remuneration principles of supporting the business strategy, paying for performance, and paying competitively and fairly. The remuneration policy and underlying principles continue to support our business growth in the widely diverse markets in which we operate.

For 2017, the Remuneration Committee and Supervisory Board reviewed the Executive Board remuneration policy versus its implementation, and its outcome versus performance. With regard to policy, the Supervisory Board decided not to recommend any policy change to the 2018 Annual General Meeting of Shareholders. With regard to implementation, the Supervisory Board decided to realign the Executive Board base salaries with the aspired policy levels, to adjust the relative weights of the financial and operational measures within the Short-term variable pay plan, and to change the name of one of the measures in the Short-term and Long-term variable pay plans.

This Remuneration Report includes three sections:

Part I
Describes the prevailing Executive Board remuneration policy, as it was adopted by the AGM in 2011, and as it has been implemented in 2017 and will be implemented in 2018.

Part II
Provides details of the Executive Board actual remuneration for performance ending in, or at year-end, 2017.

Part III
Outlines adjustments to the Executive Board remuneration policy and implementation for 2018.

Part I – Executive Board remuneration policy

Remuneration principles

The Executive Board remuneration policy is designed to meet four key principles:

Support the business strategy
We align our remuneration policy with business strategies focused on creating long-term growth and shareholder value, while maintaining a tight focus on short-term financial results.

Pay for performance
We set clear and measurable targets for our short-term variable pay and long-term variable award policies, and we pay higher remuneration when targets are exceeded and lower remuneration when targets are not met.

Pay competitively
We set target remuneration to be competitive with other relevant multinational corporations of similar size and complexity.

Pay fairly
We set target remuneration to be internally consistent and fair; we regularly review internal pay relativities between the Executive Board and senior managers and aim to achieve consistency and alignment where possible.

Remuneration Report (continued)

Summary overview of remuneration elements

The Executive Board remuneration policy is simple and transparent in design, and consists of the following key elements:

Remuneration element	Description	Strategic role
Base salary	Involves fixed cash compensation Aims for the median of the labour market peer group	Facilitates attraction and is the basis for competitive pay Rewards performance of day-to-day activities
Short-term variable pay	Is based on achievements of annual measures, of which a weighted 75% relate to financial and operational measures for Heineken N.V. and 25% to individual leadership measures Aims, at target level, for the median of the labour market peer group Is partly paid in cash, and partly in investment shares with a holding period of five calendar years: – the part paid in shares is between 25% and 50% of the full gross pay, depending on the individual's choice whether, and to which extent, to exceed the mandatory 25% share investment – the part in cash is paid net of taxes (i.e. after deduction of withholding tax due on the full before-tax pay) Investment shares are matched on a 1:1 basis after the holding period	Drives and rewards annual HEINEKEN performance Drives and rewards sound business decisions for the long-term health of HEINEKEN Aligns Executive Board and shareholder interests
Long-term variable award	Is based on achievements of three-year financial targets for Heineken N.V. as specified on page 54 Aims, at target level, for the median of the labour market peer group Is awarded through the vesting of shares, net of taxes (i.e. after deduction of withholding tax due on the full before-tax award) Vested shares are blocked for another two years, to arrive at a five-year holding restriction after the date of the conditional performance grant	Drives and rewards sound business decisions for the long-term health of HEINEKEN Aligns Executive Board and shareholder interests Supports Executive Board retention
Pensions	Defined Contribution Pension Plan and/or Capital Creation Plan	Provides for employee welfare and retirement needs

Labour market peer group

A global labour market peer group was adopted by the AGM in 2011, and subsequently adjusted in 2012 and 2017. The median target remuneration of this peer group is a reference point for the target remuneration of the CEO and CFO. Each year, the Remuneration Committee validates the peer group to ensure relevance, and recommends adjustments to the Supervisory Board if needed. For 2017, the peer group consisted of the following companies:

Anheuser-Busch InBev (BE)	Diageo (UK)	Nestlé (CH)
Carlsberg (DK)	Henkel (DE)	Pepsico (US)
Coca-Cola (US)	Kimberley-Clark (US)	Pernod Ricard (FR)
Colgate-Palmolive (US)	Mondelēz International (US)	Unilever (NL)
Danone (FR)	L'Oréal (FR)	

Remuneration Report (continued)

The change for 2017 involved the replacement of Philips and SABMiller by Nestlé. Philips has been removed from the labour market peer group due to the divestment of its lighting business, thus leaving two smaller entities that are fairly remote from HEINEKEN industry-wise, and SABMiller has been removed due to its acquisition by Anheuser-Busch Inbev. As replacement, the Supervisory Board has decided to include Nestlé in the labour market peer group.

Base salary

Base salaries are determined by reference to the median base salary levels of the aforementioned labour market peer group. Every year, peer group and base salary levels are reviewed, and the Remuneration Committee may propose adjustments to the Supervisory Board taking into account the external labour market peer group data and internal pay relativities. The annual base salaries for 2017 were €1,200,000 for the CEO, and €720,000 for the CFO. For 2018 these base salary levels will be increased to €1,250,000 for the CEO and €735,000 for the CFO respectively, to realign these base salaries with the aspired policy levels following from the medians of the aforementioned Labour market peer group.

Short-term variable pay

The short-term variable pay (STV) is designed to drive and reward the achievements of HEINEKEN's annual performance targets. Through its payout in both cash and investment shares it also drives and rewards sound business decisions for HEINEKEN's long-term health while aligning Executive Board and shareholder interests at the same time. The target STV opportunities for both 2017 and 2018 are 140% of base salary for the CEO and 100% of base salary for the CFO. These percentage opportunities are well aligned with the labour market peer group medians.

The STV opportunities are for a weighted 75% based on financial and operational measures for Heineken N.V., and for a weighted 25% on individual leadership measures. At the beginning of each year, the Supervisory Board establishes the performance measures, their relative weights and corresponding targets based on HEINEKEN's business priorities for that year. The financial and operational measures and their relative weights are reported in the Remuneration Report upfront; the numerical performance targets themselves are not disclosed as they are considered to be commercially sensitive. In the first weeks of the following year, the Supervisory Board reviews the Company and individual performance against the pre-set targets, and approves the STV payout levels based on the performance achieved. The performance on each of the measures is reported in qualitative terms in the Remuneration Report after the end of the performance period (cf. Part II). The STV payout for 2017 is subject to four performance measures with equal weights of 25% each: Organic Revenue Growth, Organic Net Profit beia Growth, Free Operating Cash Flow and Individual Leadership measures. For 2018 the same performance measures will apply, yet with adjusted weights of 35%, 15%, 25% and 25% respectively, to further increase focus on top line growth. In addition, as from 2018 the name of the 2017 Organic Revenue Growth performance measure will be changed into Organic Net Revenue Growth, since IFRS has changed the definition of 'Revenue' to include certain types of excise duties whereas we wish to maintain the performance measure net of excise duties and thus unchanged in its content.

For each performance measure, a threshold, target and maximum performance level is set with the following STV payout, as a percentage of target payout:

Threshold performance
50% of target payout

Target performance
100% of target payout

Maximum performance
200% of target payout.

For each measure, payout in between these performance levels is on a straight-line basis; below threshold performance the payout is zero, whereas beyond maximum performance it is capped at 200% of payout at target.

In line with policy, 25% of the STV payout is paid out in shares, referred to as investment shares. At their discretion, the Executive Board members have the opportunity to indicate before the end of the performance year whether they wish to receive up to another 25% of their STV payout in additional investment shares. All investment shares thus received are then blocked and cannot be sold under any circumstance, including resignation, for five calendar years to link the value of the investment shares to long-term Company performance. Withholding tax on the investment shares and on the cash part of the STV payout is settled with the cash part at the time of payout. After the blocking period is completed after five calendar years, the Company will match the investment shares 1:1 in the first weeks of the following year, i.e. one matching share is granted for each investment share. As from then, there are no holding requirements on these investment shares anymore, and there are no holding requirements on the resulting matching shares that remain after withholding tax on these shares. According to plan rules, matching entitlements will be forfeited in case of dismissal by the Company for an urgent reason within the meaning of the law ('dringende reden'), or in case of dismissal for cause ('gegronde reden') whereby the cause for dismissal concerns unsatisfactory functioning of the Executive Board member. With this 'deferral-and-matching' proposition a significant share ownership by the Executive Board is ensured, creating an increased alignment with the interests of shareholders. The Supervisory Board has the power to revise the amount of the STV payout to an appropriate amount if the STV payout that would have been payable in accordance with the agreed payment schedule would be unacceptable according to standards of reasonableness and fairness. The Supervisory Board is entitled to claw back all or part of the STV payout (in cash, investment shares or matching shares) insofar as it has been made on the basis of incorrect information about achieving the performance conditions.

Remuneration Report (continued)

Long-term variable award

The long-term variable award (LTV) is designed to drive and reward sound business decisions for HEINEKEN's long-term health, and to align the Executive Board with shareholder interests. The target LTV opportunities for both 2017 and 2018 are 150% of base salary for the CEO and 125% of base salary for the CFO.

Each year, a target number of performance shares is conditionally granted based on the aforementioned target LTV opportunity percentage of that year, the base salary of that year, and the closing share price of 31 December of the preceding year. The vesting of these performance shares is contingent on HEINEKEN's performance over a period of three years on four fundamental financial performance measures:

Organic Revenue Growth
To drive top line growth

Organic Operating Profit beia Growth
To drive profitability and operational efficiency

Earnings Per Share (EPS) beia Growth
To drive overall long-term Company performance

Free Operating Cash Flow
To drive focus on cash.

These four performance measures have equal weights to minimise the risk that participants over-emphasise one performance measure to the detriment of others. At the beginning of each performance period, the Supervisory Board establishes the corresponding numerical targets for these performance measures based on HEINEKEN's business priorities. These targets are not disclosed upfront as they are considered to be commercially sensitive. In the first weeks after the end of the performance period, the Supervisory Board reviews the Company's performance against the pre-set targets, and approves the LTV vesting based on the performance achieved. The performance on each of the measures is reported in qualitative terms in the Remuneration Report after the performance period has been completed (cf. Part II).

For each performance measure, a threshold, target and maximum performance level is set with the following performance share vesting schedule:

Threshold performance
50% of performance shares vests

Target performance
100% of performance shares vests

Maximum performance
200% of performance shares vests.

For each measure, vesting in between these performance levels is on a straight-line basis; below threshold performance the vesting is zero, whereas beyond maximum performance it is capped at 200% of vesting at target.

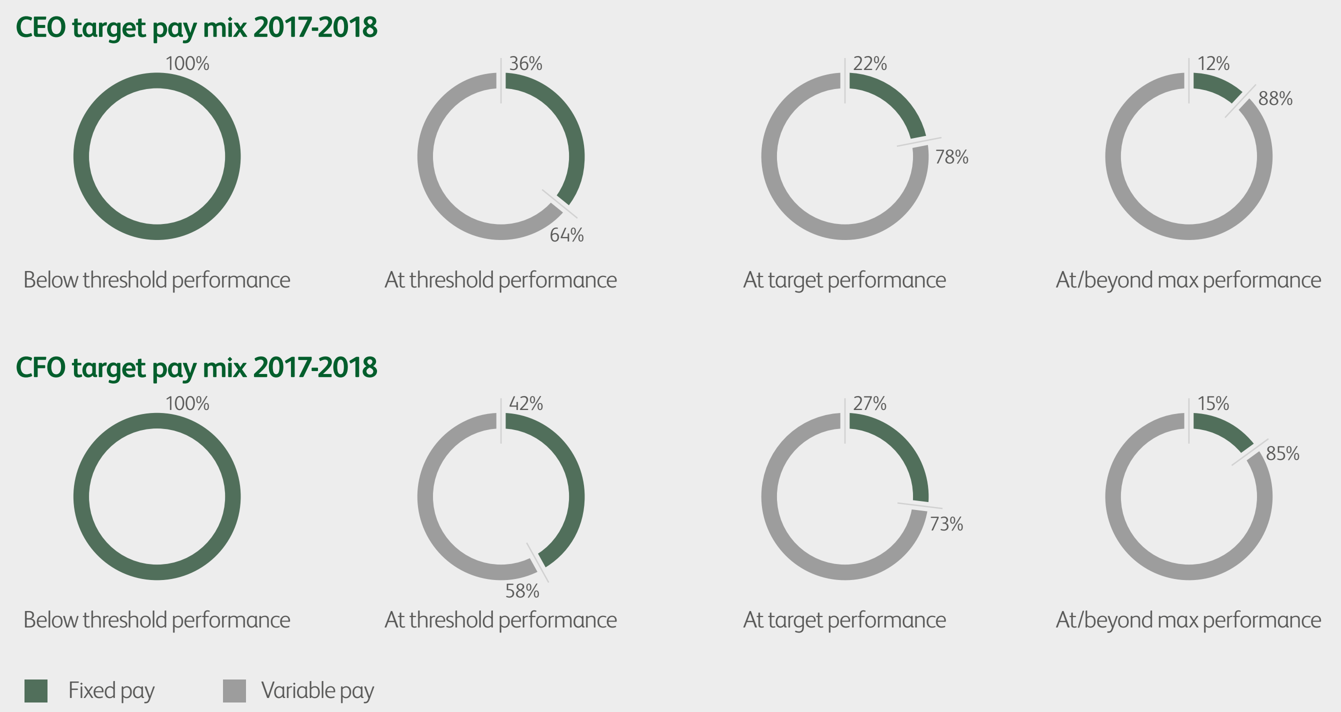
The Supervisory Board has the power to revise the amount of performance shares that will vest to an appropriate number if the number of performance shares that would have vested under the agreed vesting schedule would be unacceptable according to standards of reasonableness and fairness. The Supervisory Board is entitled to claw back all or part of the shares transferred to the Executive Board members upon vesting (or the value thereof) insofar as vesting occurred on the basis of incorrect information about achieving the performance conditions. The vested performance shares that remain after withholding tax are subject to an additional holding restriction of two years, to arrive at a five-year holding restriction after the date of the conditional performance grant.

As from the 2017 grant, the performance measure 'Organic Operating Profit beia Growth' replaced the performance measure 'Organic EBIT beia Growth', as approved by the Annual General Meeting of Shareholders on 20 April 2017. For the LTV grants for the performance period 2015-2017 and the performance period 2016-2018 the original EBIT targets remained in place. As from 2018 the name of the 2017 Organic Revenue Growth performance measure will be changed into Organic Net Revenue Growth, since IFRS has changed the definition of 'Revenue' to include certain types of excise duties whereas we wish to maintain the performance measure net of excise duties and thus unchanged in its content.

Pay mix

The mix between fixed pay and variable pay for various levels of performance is illustrated overleaf. In these charts, fixed pay refers to base salary only, excluding pensions and other emoluments, and variable pay consists of the aforementioned short-term variable pay and long-term variable award opportunities, including the 'deferral-and-matching' proposition. Share price movements during performance and holding periods are hereby not included since these are unknown in the context of target remuneration.

Remuneration Report (continued)



Pensions

The members of the Executive Board participate in a defined-contribution Capital Creation Plan. As of 2015, following pension reforms in the Netherlands, new members of the Executive Board receive the same contribution as new top executives under Dutch employment contract below the Executive Board, which is currently 18% of base salary. This applies to our current CFO who became an Executive Board member in 2015. For the CEO the same capital creation arrangement as for 2014 remained in force, since the existing top executives below the Executive Board at that time were compensated on an individual basis for the impact of the aforementioned pension reforms. The contribution to the CEO therefore remains an age-dependent percentage of base salary and STV payout. Both Executive Board members have chosen to receive their full pension contributions as taxable income, as opposed to applying tax deferral to the maximum amount possible.

Compensation rights on termination of employment/service agreement

If the Company gives notice of termination of the employment agreement of Mr. Van Boxmeer for a reason which is not an urgent reason ('dringende reden') within the meaning of the law, the Company shall pay severance compensation to Mr. Van Boxmeer on expiry of his employment agreement. This severance compensation shall be set on the basis of the notion of reasonableness taking into account all the circumstances of the matter, including whether Mr. Van Boxmeer shall be bound by a non-competition obligation and whether any allowance is paid by the Company in relation to this non-competition obligation. In case of dismissal for cause ('ontslag met gegronde reden') whereby the cause for dismissal concerns unsatisfactory functioning of Mr. Van Boxmeer, the severance compensation cannot exceed one year's base salary.

If the Company gives notice of termination of the service agreement of Mrs. Debroux for a reason which is not an urgent reason ('dringende reden') within the meaning of the law, or decides not to extend the service agreement upon its expiry, or if the AGM does not re-appoint Mrs. Debroux as member of the Executive Board for a subsequent term, the Company shall pay Mrs. Debroux an amount equal to two years of base salary (in the event of termination during or upon expiry of Mrs. Debroux's first four-year term), or an amount equal to one year base salary (in the event of termination during or upon expiry of any subsequent term), respectively. This agreement with Mrs. Debroux was made in line with the best practice provisions of the 2008 Dutch Corporate Governance Code. Under the revised 2016 Code, the requirements regarding severance payments are more stringent and as such the Company does not, strictly speaking, comply with best practice provision 3.2.3 during her first term (ending in April 2019). The Company shall comply with the requirements in any subsequent terms after April 2019.

Loans

HEINEKEN does not provide loans to the members of the Executive Board.

Remuneration Report (continued)

Part II – The Executive Board actual remuneration for performance ending in, or at year-end, 2017

The following table provides an overview of the Executive Board actual remuneration that became unconditional in, or at year-end, 2017. For disclosures in line with IFRS reporting requirements, which are 'accrual-based' over earning/performance periods and partly depend on estimations/assumptions, see note 33 'Related parties' on page 120. The Supervisory Board conducted a scenario analysis with respect to possible outcomes of the variable remuneration disclosed in this section.

			2015-2017 Long-term variable award		Matching entitlements			Extraordinary Share Grants		
	(1) Base salary in €	(2) 2017 Short-term variable pay in €	(3) No. of performance shares vesting	(4) Value of performance shares vesting in €	(5) No. of matching entitlements vesting	(6) Value of matching entitlements vesting in €	(7) Pension cost in €	(8) No. of extraordinary shares vesting	(9) Value of extraordinary shares vesting in €	(10) Other emoluments in €
Van Boxmeer	1,200,000	2,735,880	47,699	4,146,474	12,391	1,077,150	857,531	–	–	20,948
Debroux	720,000	1,172,520	19,327	1,680,096	–	–	142,157	–	–	162,511

ad (1) – Base salary

These base salaries have been paid to the members of the Executive Board for 2017.

ad (2) – 2017 Short-term variable pay

The 2017 Short-term variable pay (STV) relates to the performance year 2017, and becomes payable in 2018. The STV pay for 2017 was subject to four performance measures: Organic Revenue Growth, Organic Net Profit beia Growth, Free Operating Cash Flow and Individual leadership measures, each with a weight of 25%. The Supervisory Board determined the results against the pre-set targets on these measures as follows:

Organic Revenue Growth
between target and maximum performance

Organic Net Profit beia Growth
at maximum performance

Free Operating Cash Flow
at maximum performance

Individual leadership measures
between target and maximum performance

The resulting STV payout for 2017 is close to 163% of payout at target level for both members of the Executive Board. In line with policy, 25% of the STV payout is paid out in investment shares against the closing share price of 12 February 2018, the publication date of these financial statements. In addition, the Executive Board members have had the opportunity to indicate before the end of the 2017 performance year whether they wished to receive up to another 25% of their STV payout in additional investment shares; for 2017 the Executive Board members did not elect to receive additional investment shares beyond the mandatory 25% share investment. The investment shares are restricted for sale for five calendar years, after which they are matched 1:1 by matching shares. Revision and clawback provisions apply to this award, including the related matching share entitlement. The table below provides an overview of the investment shares at year-end that were awarded as part of STV payouts in the past, and that have remained blocked and await 1:1 matching by the Company, provided the conditions thereto are met. Only when the holding period of the investment shares has been completed, will the matching share entitlements be converted into shares and transferred to the recipient.

	STV payout for	% of STV payout invested in shares	Award date	No. of investment shares awarded[1]	Value of investment shares as of the award date in €	End of blocking period	Value of investment shares as of 31.12.2017 in €[2]
Van Boxmeer	2017	25%	13.02.2018	t.b.d.	683,970	31.12.2022	n.a.
	2016	25%	16.02.2017	11,106	839,947	31.12.2021	965,445
	2015	50%	11.02.2016	20,105	1,465,051	31.12.2020	1,747,728
	2014	25%	12.02.2015	10,427	692,249	31.12.2019	906,419
	2013	50%	13.02.2014	11,910	563,462	31.12.2018	1,035,336
Debroux	2017	25%	13.02.2018	t.b.d.	293,130	31.12.2022	n.a.
	2016	25%	16.02.2017	4,760	359,999	31.12.2021	413,787
	2015	50%	11.02.2016	5,713	416,306	31.12.2020	496,631

[1] The number of investment shares awarded in relation to the STV payout for 2013 and beyond is determined by dividing the part of the STV payout that is invested in shares by the closing share price of the date of publication of the financial statements for that year; the Award date of the investment shares is the day following.
[2] The share price as of 31 December 2017 is €86.93.

Remuneration Report (continued)

ad (3) – 2015-2017 Long-term variable award: number of performance shares vesting

The 2015-2017 Long-term variable award (LTV) relates to the performance period 2015-2017 and vests shortly after 12 February 2018, the publication date of these financial statements. The vesting of the LTV award for performance period 2015-2017 is subject to Heineken N.V. performance on four financial measures with equal weights. The Supervisory Board determined the results against the pre-set targets as follows:

Organic Revenue Growth
between target and maximum performance

Organic EBIT beia Growth
between target and maximum performance

Earnings Per Share (EPS) beia Growth
at maximum performance

Free Operating Cash Flow
between target and maximum performance.

As a result, the vesting of the LTV grant for performance period 2015-2017 will be equal to 163% of the vesting at target level. For the CEO this plan performance implies that 47,699 shares will vest shortly after 12 February 2018, as a result of the 29,263 conditional performance shares granted to him in 2015. For the CFO this plan performance implies that 19,327 shares will vest shortly after 12 February 2018, as a result of the 11,857 conditional performance shares granted to her in 2015. The resulting share awards are defined in before-tax terms (i.e. before deduction of withholding tax due); the actual net shares awarded (i.e. after withholding tax due) remain blocked for an additional period of two years until 12 February 2020, also in case of resignation during that period. Revision and clawback provisions apply to this award. The table below provides an overview of outstanding LTV awards (awards granted but not yet vested, or awards vested but still blocked) as of 31 December 2017.

	Grant date	No. of shares conditionally granted at target level[1]	Value of shares conditionally granted as of the grant date in €	Vesting date[2]	No. of shares vesting on the vesting date[3] (before tax)	No. of shares vesting on the vesting date[4] (after tax)	End of blocking period	Value of unvested or blocked shares as of 31.12.2017[5] in €
Van Boxmeer	2017	25,260	1,910,414	02.2020	t.b.d.	t.b.d.	16.02.2022	1,112,878
	2016	22,852	1,665,225	02.2019	t.b.d.	t.b.d.	11.02.2021	1,006,823
	2015	29,263	1,942,771	13.02.2018	47,699	24,175	12.02.2020	2,101,533
	2014	35,147	1,662,805	16.02.2017	61,508	31,143	13.02.2019	2,707,261
	2013	34,179	1,877,452	11.02.2016	58,447	29,593	13.02.2018	2,572,519
Debroux	2017	12,630	955,207	02.2020	t.b.d.	t.b.d.	16.02.2022	724,996
	2016	11,426	832,613	02.2019	t.b.d.	t.b.d.	11.02.2021	655,887
	2015	11,857	787,186	13.02.2018	19,327	12,762	24.04.2020	1,109,401

[1] Determined according to plan rules, using the closing share price of 31 December of the year preceding the grant date.
[2] The vesting date is shortly after the publication of the financial statements after completion of the performance period.
[3] Vested shares are disclosed in before-tax terms (i.e. before deduction of withholding tax due).
[4] Vested shares are disclosed in after-tax terms (i.e. after deduction of withholding tax due).
[5] The value for the grants in 2013, 2014 and 2015 is based on the actual number of shares vesting on the vesting date after tax withholding, i.e. after applying the relevant income tax rate, whereas the value for the grants in 2016 and 2017 is based on the number of performance shares conditionally granted at target level (since the number of performance shares vesting is yet unknown) after applying the currently prevailing income tax rate. The share price as of 31 December 2017 is €86.93.

ad (4) – 2015-2017 Long-term variable award: value of performance shares vesting

The value of performance shares vesting is based on the share price as of 31 December 2017 of €86.93.

ad (5) – Number of matching entitlements vesting

These entries refer to the number of matching share entitlements that vested after year-end 2017, as a result of the investment in shares of part of the STV payout for performance year 2012, and holding on to these investment shares until year-end 2017. For the CEO this number of matching shares is the result of a 50% investment of this STV payout in investment shares at the time. For the CFO there is no vesting from this plan yet, given her later appointment to the Executive Board on 23 April 2015.

ad (6) – Value of matching entitlements vesting

The value of matching share entitlements vesting is based on the share price as of 31 December 2017 of €86.93.

Remuneration Report (continued)

ad (7) – Pension cost

The pension costs involve the employer contributions paid in the Capital Creation Plan as well as the employer contributions to the risk insurances for death and disability.

ad (8) – Extraordinary share grants: number of shares vesting

The table below provides an overview of the Extraordinary share awards and the Retention share award that have vested prior to 2017 but are still blocked as of 31 December 2017; there are no such awards to members of the Executive Board that are still unvested or that vested in, or at year-end, 2017. The Retention share award to Mr. Van Boxmeer vested in April 2015; a further three-year holding period applies to this share award. The Extraordinary share award to Mr. Van Boxmeer vested at grant in 2013; to this share award a five-year holding period applies as from grant. The Extraordinary share awards to Mrs. Debroux vested in 2015 and 2016, yet are blocked for five years from the moment of grant, i.e. until 24 April 2020.

	Award	Grant date	No. of shares of the granted[1] in €	Value of shares conditionally granted as grant date	Vesting date	No. of shares vesting on the vesting date[2]	End of blocking period	Value of unvested or blocked shares as of 31.12.2017[3] in €
Van Boxmeer	Extraordinary share award	26.04.2013	45,893	2,520,000	26.04.2013	24,373	26.04.2018	2,118,745
	Retention share award	26.04.2013	27,317	1,500,000	26.04.2015	27,317	26.04.2018	2,374,667
Debroux	Extraordinary share award	24.04.2015	1,000	73,640	24.04.2015	681	24.04.2020	59,199
	Extraordinary share award	24.04.2015	1,000	73,640	24.04.2016	675	24.04.2020	58,678

[1] The 'Number of shares granted' refers to the grant in before-tax terms (i.e. before tax withholding).
[2] As the table reveals, income tax has been withheld from the Extraordinary share awards themselves; the Retention share award to Mr. Van Boxmeer has vested 'gross', i.e. withholding tax has been withheld and paid from other sources than the share award itself.
[3] The value of the share awards is based on the 'Number of shares vesting on the vesting date' against the share price as of 31 December 2017 of €86.93.

ad (9) – Extraordinary share grants: value of shares vesting

There are no such awards to members of the Executive Board that vested in, or at year-end, 2017.

ad (10) – Other emoluments

The amount for Mr. Van Boxmeer involves his car benefit-in-kind. The amount for Mrs. Debroux involves housing allowance (grossed-up), schooling cost for her children, and car benefit-in-kind.

Remuneration Report (continued)

Actual remuneration paid to former members of the Executive Board

The resignation per 1 May 2015 of the former CFO Mr. Hooft Graafland has been considered a retirement under the LTV Plan Rules. Existing agreements from 2005 for a specific group of senior managers (including the Executive Board members at the time) to compensate for the negative effects of a structural change in their variable pay plan designs, implied that unvested LTV awards as of his retirement date would continue to be subject to vesting at their regular vesting dates, insofar and to the extent that the predetermined performance conditions are met. Shares that may vest under these plans will be subject to a holding period of two years in accordance with the LTV Plan Rules, to arrive at a five-year holding restriction after the date of the conditional performance grant. For Mr. Hooft Graafland this involved the three Long-term variable award plans over performance years 2013-2015, 2014-2016 and 2015-2017 respectively. In the previous two years the remuneration related to the vesting of the former two plans has been disclosed. Following year-end 2017 the 2015-2017 plan has vested with a performance of 163% as mentioned under 'ad (3)' above, implying a vesting of 22,467 shares for Mr. Hooft Graafland and, given an end-of-year share price of €86.93, a value of €1,953,056. This concludes all remuneration to Mr. Hooft Graafland following his retirement.

	2015-2017 Long-term variable award	
	No. of performance shares vesting	Value of performance shares vesting in €
Hooft Graafland	22,467	1,953,056

Pay Ratio

In the Netherlands a revised corporate governance code has come into effect as of financial year 2017. This revised code requires Dutch stock-listed companies to consider pay ratios between Executive Board members and other employees within the Company when formulating the remuneration policy for the Executive Board, and to disclose these ratios in the Remuneration Report every year.

As is commonly understood, such ratios are specific to the company's industry, geographical footprint and organisational model. HEINEKEN has a truly wide geographical footprint, with the majority of its business and employees in emerging markets with widely different pay levels and structures compared to the Netherlands and Europe. In addition, HEINEKEN has a large number of breweries and sales forces in-house worldwide, which adds to the variety of pay within the Company. For other companies in other industries this will be different. Finally, pay ratios can also be quite volatile over time, as they can vary with exchange rate movements and can be very dependent on the Company's annual performance since that performance impacts the remuneration of the Executive Board much more than of all other employees.

The 2017 pay ratios for HEINEKEN are 215 for the CEO and 100 for the CFO. These ratios are obtained by dividing the 2017 total remuneration for the CEO and CFO by the 2017 average total remuneration of all other employees worldwide. The common denominator of these ratios is derived from note 10 on page 87 by dividing the 2017 total personnel expense (after subtracting the expense for contractors and for the Executive Board's remuneration), by the reported FTE (minus two; excluding contractors), leading to an amount of €42,074. The total remuneration for the CEO and CFO is retrieved from note 33 on page 119. The reason why the Executive Board's remuneration is obtained from note 33 rather than from this Remuneration Report is explained by the fact that the personnel expense in note 10 is based on IFRS valuation standards, which implies that the Executive Board's remuneration also needs to be based on these standards for reasons of comparability.

Part III – Adjustments to the Executive Board remuneration policy and implementation for 2018

Policy changes

The Supervisory Board reviewed the remuneration policy and decided not to submit any changes for approval to the 2018 Annual General Meeting of Shareholders.

Implementation changes

The Supervisory Board also reviewed the remuneration policy versus its implementation and decided to implement the following changes as from 2018 onwards.

– The Executive Board base salaries will be increased from €1,200,000 to €1,250,000 for the CEO and from €720,000 to €735,000 for the CFO, to realign these base salaries with the aspired policy levels following from the medians of the Labour market peer group.

– The relative weights of the financial and operational measures within the Short-term variable pay plan will change from 25% to 35% for Organic Revenue Growth, to further increase focus on top line growth, and from 25% to 15% for Organic Net Profit beia Growth; the relative weights for Free Operating Cash flow and the Individual leadership objectives will remain the same at 25% each.

– The name of the 2017 Organic Revenue Growth performance measure within the Short-term and Long-term variable pay plans will be changed into Organic Net Revenue Growth, since IFRS has changed the definition of 'Revenue' to include certain types of excise duties whereas we wish to maintain the performance measure net of excise duties and thus unchanged in its content.

Supervisory Board Heineken N.V.
Amsterdam, 9 February 2018

Consolidated Income Statement

For the year ended 31 December

In millions of €	Note	2017	2016
Revenue	5	**21,888**	**20,792**
Other income	8	**141**	**46**
Raw materials, consumables and services	9	(13,540)	(13,003)
Personnel expenses	10	(3,550)	(3,263)
Amortisation, depreciation and impairments	11	(1,587)	(1,817)
Total expenses		**(18,677)**	**(18,083)**
Operating profit		**3,352**	**2,755**
Interest income	12	72	60
Interest expenses	12	(468)	(419)
Other net finance income/(expenses)	12	(123)	(134)
Net finance expenses		**(519)**	**(493)**
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	16	75	150
Profit before income tax		**2,908**	**2,412**
Income tax expense	13	(755)	(673)
Profit		**2,153**	**1,739**
Attributable to:			
Equity holders of the Company (net profit)		1,935	1,540
Non-controlling interests		218	199
Profit		**2,153**	**1,739**
Weighted average number of shares – basic	23	570,074,335	569,737,210
Weighted average number of shares – diluted	23	570,652,111	570,370,392
Basic earnings per share (€)	23	3.39	2.70
Diluted earnings per share (€)	23	3.39	2.70

Consolidated Statement of Comprehensive Income

For the year ended 31 December

In millions of €	Note	2017	2016
Profit		**2,153**	**1,739**
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
Actuarial gains and losses	24	64	(252)
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences	24	(1,485)	(908)
Recycling of currency translation differences to profit or loss	24	59	–
Effective portion of net investment hedges	24	26	44
Effective portion of changes in fair value of cash flow hedges	24	109	6
Effective portion of cash flow hedges transferred to profit or loss	24	(3)	41
Net change in fair value available-for-sale investments	24	68	140
Share of other comprehensive income of associates/joint ventures	24	(7)	–
Other comprehensive income, net of tax	24	**(1,169)**	**(929)**
Total comprehensive income		**984**	**810**
Attributable to:			
Equity holders of the Company		881	660
Non-controlling interests		103	150
Total comprehensive income		**984**	**810**

Consolidated Statement of Financial Position

As at 31 December

In millions of €	Note	2017	2016
Assets			
Property, plant and equipment	14	11,117	9,232
Intangible assets	15	17,670	17,424
Investments in associates and joint ventures	16	1,841	2,166
Other investments and receivables	17	1,113	1,077
Advances to customers		277	274
Deferred tax assets	18	768	1,011
Total non-current assets		**32,786**	**31,184**
Inventories	19	1,814	1,618
Trade and other receivables	20	3,496	3,052
Prepayments		399	328
Current tax assets		64	47
Cash and cash equivalents	21	2,442	3,035
Assets classified as held for sale	7	33	57
Total current assets		**8,248**	**8,137**
Total assets		**41,034**	**39,321**
Equity			
Share capital	22	922	922
Share premium	22	2,701	2,701
Reserves		(2,129)	(1,173)
Retained earnings		11,827	10,788
Equity attributable to equity holders of the Company		**13,321**	**13,238**
Non-controlling interests	22	1,200	1,335
Total equity		**14,521**	**14,573**
Liabilities			
Loans and borrowings	25	12,301	10,954
Tax liabilities		–	3
Employee benefits	26	1,289	1,420
Provisions	28	970	302
Deferred tax liabilities	18	1,495	1,672
Total non-current liabilities		**16,055**	**14,351**
Bank overdrafts and commercial papers	21	1,265	1,669
Loans and borrowings	25	1,947	1,981
Trade and other payables	29	6,756	6,224
Current tax liabilities		310	352
Provisions	28	178	154
Liabilities associated with assets classified as held for sale	7	2	17
Total current liabilities		**10,458**	**10,397**
Total liabilities		**26,513**	**24,748**
Total equity and liabilities		**41,034**	**39,321**

Consolidated Statement of Cash Flows

For the year ended 31 December

In millions of €	Note	2017	2016
Operating activities			
Profit		**2,153**	**1,739**
Adjustments for:			
Amortisation, depreciation and impairments	11	**1,587**	1,817
Net interest expenses	12	**396**	359
Gain on sale of property, plant and equipment, intangible assets and subsidiaries, joint ventures and associates	8	**(141)**	(46)
Investment income and share of profit and impairments of associates and joint ventures and dividend income on available-for-sale and held-for-trading investments		**(84)**	(161)
Income tax expenses	13	**755**	673
Other non-cash items		**314**	332
Cash flow from operations before changes in working capital and provisions		**4,980**	**4,713**
Change in inventories		**(185)**	(20)
Change in trade and other receivables		**(241)**	(228)
Change in trade and other payables		**495**	328
Total change in working capital		**69**	**80**
Change in provisions and employee benefits		**(125)**	(73)
Cash flow from operations		**4,924**	**4,720**
Interest paid		**(463)**	(441)
Interest received		**98**	70
Dividends received		**109**	118
Income taxes paid		**(786)**	(749)
Cash flow related to interest, dividend and income tax		**(1,042)**	**(1,002)**
Cash flow from operating activities		**3,882**	**3,718**
Investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		**187**	116
Purchase of property, plant and equipment		**(1,696)**	(1,757)
Purchase of intangible assets		**(137)**	(109)
Loans issued to customers and other investments		**(259)**	(219)
Repayment on loans to customers		**54**	24
Cash flow (used in)/from operational investing activities		**(1,851)**	**(1,945)**
Free operating cash flow		**2,031**	**1,773**
Acquisition of subsidiaries, net of cash acquired		**(1,047)**	(9)
Acquisition of/additions to associates, joint ventures and other investments		**(93)**	(68)
Disposal of subsidiaries, net of cash disposed of		**10**	15
Disposal of associates, joint ventures and other investments		**16**	–
Cash flow (used in)/from acquisitions and disposals		**(1,114)**	**(62)**
Cash flow (used in)/from investing activities		**(2,965)**	**(2,007)**

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December

In millions of €	Note	2017	2016
Financing activities			
Proceeds from loans and borrowings		**3,268**	1,670
Repayment of loans and borrowings		**(3,205)**	(1,001)
Dividends paid		**(1,011)**	(1,031)
Purchase own shares and shares issued		**–**	(31)
Acquisition of non-controlling interests		**(18)**	(294)
Other		**–**	15
Cash flow (used in)/from financing activities		**(966)**	**(672)**
Net cash flow		**(49)**	**1,039**
Cash and cash equivalents as at 1 January		**1,366**	282
Effect of movements in exchange rates		**(140)**	45
Cash and cash equivalents as at 31 December	21	**1,177**	**1,366**

Consolidated Statement of Changes in Equity

In millions of €	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2016		**922**	**2,701**	**(1,017)**	**(47)**	**122**	**719**	**(432)**	**10,567**	**13,535**	**1,535**	**15,070**
Profit		–	–	–	–	–	153	–	1,387	1,540	199	1,739
Other comprehensive income	24	–	–	(812)	46	140	–	–	(254)	(880)	(49)	(929)
Total comprehensive income		–	–	**(812)**	**46**	**140**	**153**	–	**1,133**	**660**	**150**	**810**
Transfer to retained earnings		–	–	–	–	–	(34)	–	34	–	–	–
Dividends to shareholders		–	–	–	–	–	–	–	(786)	(786)	(261)	(1,047)
Purchase/reissuance own/non-controlling shares	22	–	–	–	–	–	–	(39)	–	(39)	8	(31)
Own shares delivered		–	–	–	–	–	–	28	(28)	–	–	–
Share-based payments		–	–	–	–	–	–	–	13	13	–	13
Acquisition of non-controlling interests without a change in control		–	–	–	–	–	–	–	(145)	(145)	(144)	(289)
Changes in consolidation/transfers within equity		–	–	–	–	–	–	–	–	–	47	47
Balance as at 31 December 2016		**922**	**2,701**	**(1,829)**	**(1)**	**262**	**838**	**(443)**	**10,788**	**13,238**	**1,335**	**14,573**

Consolidated Statement of Changes in Equity (continued)

In millions of €	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2017		**922**	**2,701**	**(1,829)**	**(1)**	**262**	**838**	**(443)**	**10,788**	**13,238**	**1,335**	**14,573**
Profit		–	–	–	–	–	153	–	1,782	1,935	218	2,153
Other comprehensive income	24	–	–	(1,295)	106	69	–	–	66	(1,054)	(115)	(1,169)
Total comprehensive income		**–**	**–**	**(1,295)**	**106**	**69**	**153**	**–**	**1,848**	**881**	**103**	**984**
Transfer to/(from) retained earnings		–	–	–	–	–	(29)	–	29	–	–	–
Dividends to shareholders		–	–	–	–	–	–	–	(775)	(775)	(245)	(1,020)
Purchase/reissuance own/non-controlling shares	22	–	–	–	–	–	–	–	–	–	–	–
Own shares delivered		–	–	–	–	–	–	33	(33)	–	–	–
Share-based payments		–	–	–	–	–	–	–	22	22	–	22
Acquisition of non-controlling interests without a change in control	6	–	–	–	–	–	–	–	(45)	(45)	28	(17)
Changes in consolidation/ transfers within equity		–	–	–	7	–	–	–	(7)	–	(21)	(21)
Balance as at 31 December 2017		**922**	**2,701**	**(3,124)**	**112**	**331**	**962**	**(410)**	**11,827**	**13,321**	**1,200**	**14,521**

Notes to the Consolidated Financial Statements

1. Reporting entity

Heineken N.V. (the 'Company') is a company domiciled in the Netherlands. The address of the Company's registered office is Tweede Weteringplantsoen 21, Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2017 comprise the Company, its subsidiaries (together referred to as 'HEINEKEN') and HEINEKEN's interest in joint ventures and associates. The Company is registered in the Trade Register of Amsterdam No. 33011433. HEINEKEN is primarily involved in the brewing and selling of beer and cider. Led by the Heineken® brand, HEINEKEN has a portfolio of more than 300 international, regional, local and speciality beers and ciders.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) effective year-end 2017 have been adopted by the EU. Consequently, the accounting policies applied by the Company also comply fully with IFRS as issued by the IASB.

The consolidated financial statements have been prepared by the Executive Board of the Company and authorised for issue on 9 February 2018 and will be submitted for adoption to the Annual General Meeting of Shareholders on 19 April 2018.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis unless otherwise indicated. The methods used to measure fair values are discussed further in notes 3 and 4.

(c) Functional and presentation currency

These consolidated financial statements are presented in Euro, which is the Company's functional currency. All financial information presented in Euro has been rounded to the nearest million unless stated otherwise.

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in the following notes and related accounting policies:

Note 5 Operating segments, particularly the estimation of discount accruals in revenue at the end of the year based on the individual customer agreements.

Note 6 Acquisitions and disposals of subsidiaries, particularly with regard to the identification and valuation of acquired assets and liabilities.

Note 15 Intangible assets, particularly the assumptions used in goodwill impairment testing.

Note 18 Deferred tax assets and liabilities, particularly with regard to the assessment of the recoverability of past tax losses.

Note 26 Employee benefits, particularly with regard to assumptions for discount rates, future pension increases and life expectancy to calculate the defined benefit obligation.

Note 28 Provisions and note 32 Contingencies, particularly with regard to estimating the likelihood and timing of potential cash outflows relating to claims and litigations.

Note 29 Trade and other payables, particularly with regard to the estimation of circulation times and market losses in determining the returnable packaging deposit liability.

Note 30 Financial risk management and financial instruments, particularly with regard to the estimation of the recoverability of loans and advances to customers and trade receivables.

Notes to the Consolidated Financial Statements (continued)

(e) Changes in accounting policies

HEINEKEN has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017:

– Disclosure Initiative (amendments to IAS 7)

– Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)

– Annual Improvements to IFRS's 2014-2016 Cycle – amendments to IFRS 12

These changes had no significant impact on the disclosures or amounts recognised in HEINEKEN's consolidated financial statements.

3. Significant accounting policies

General

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by HEINEKEN entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to HEINEKEN. HEINEKEN controls an entity when it has power over the investee, is exposed or has the right to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

HEINEKEN measures goodwill at the acquisition date as the fair value of the consideration transferred plus the fair value of any previously held equity interest in the acquiree and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that HEINEKEN incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent considerations are recognised in profit or loss.

Contingent liabilities assumed in a business combination are recognised at fair value even if it is not probable that an outflow will be required to settle the obligation. After initial recognition and until the liability is settled, cancelled or expired, the contingent liability is measured at the higher of the amount that would be recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the initial liability amount.

(ii) Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by HEINEKEN. HEINEKEN controls an entity when it has power over the investee, is exposed or has the right to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by HEINEKEN.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Loss of control

Upon the loss of control, HEINEKEN derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any resulting gain or loss is recognised in profit or loss. If HEINEKEN retains any interest in the previous subsidiary, such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset, depending on the level of influence retained.

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

(v) Interests in equity-accounted investees

HEINEKEN's investments in associates and joint ventures are accounted for using the equity method of accounting. Investments in associates are those entities in which HEINEKEN has significant influence, but no control or joint control, over the financial and operating policies. Joint ventures are the arrangements in which HEINEKEN has joint control, whereby HEINEKEN has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include HEINEKEN's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of HEINEKEN, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When HEINEKEN's share of losses exceeds the carrying amount of the associate or joint venture, including any long-term investments, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that HEINEKEN has an obligation or has made a payment on behalf of the associate or joint venture.

(vi) Transactions eliminated on consolidation

Intra-HEINEKEN balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-HEINEKEN transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted associates and JVs are eliminated against the investment to the extent of HEINEKEN's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of HEINEKEN entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss arising on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured at cost are translated into the functional currency using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale (equity) investments and foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment, which are recognised in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Euro at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Euro at exchange rates approximating to the exchange rates ruling at the dates of the transactions. Group entities, with a functional currency being the currency of a hyperinflationary economy, first restate their financial statements in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. The related income, costs and balance sheet amounts are translated at the foreign exchange rate ruling at the balance sheet date. In 2017 HEINEKEN did not have any foreign operations in hyperinflationary economies.

Foreign currency differences are recognised in other comprehensive income and are presented within equity in the translation reserve. However, if the operation is not a wholly owned subsidiary, the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When HEINEKEN disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When HEINEKEN disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the translation reserve.

Notes to the Consolidated Financial Statements (continued)

The following exchange rates, for the most important countries in which HEINEKEN has operations, were used while preparing these consolidated financial statements:

In €	**Year-end 2017**	Year-end 2016	**Average 2017**	Average 2016
Brazilian Real (BRL)	**0.2517**	0.2915	**0.2774**	0.2592
Great Britain Pound (GBP)	**1.1271**	1.1680	**1.1410**	1.2209
Mexican Peso (MXN)	**0.0425**	0.0463	**0.0469**	0.0484
Nigerian Naira (NGN)	**0.0025**	0.0030	**0.0027**	0.0036
Polish Zloty (PLN)	**0.2398**	0.2260	**0.2349**	0.2292
Russian Ruble (RUB)	**0.0144**	0.0156	**0.0152**	0.0135
Singapore Dollar (SGD)	**0.6241**	0.6564	**0.6417**	0.6547
United States Dollar (USD)	**0.8338**	0.9487	**0.8854**	0.9036
Vietnamese Dollar in 1,000 (VND)	**0.0367**	0.0417	**0.0389**	0.0404

(iii) Hedge of net investments in foreign operations
Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective and regardless of whether the net investment is held directly or through an intermediate parent. These differences are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(c) Non-derivative financial instruments

(i) General
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

If HEINEKEN has a legal right to offset financial assets with financial liabilities and if HEINEKEN intends either to settle on a net basis or to realise the asset and settle the liability simultaneously, financial assets and liabilities are presented in the statement of financial position as a net amount. The right of set-off is available today and not contingent on a future event and it is also legally enforceable for all counterparties in a normal course of business, as well as in the event of default, insolvency or bankruptcy.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts and commercial papers form an integral part of HEINEKEN's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting policies for interest income, interest expenses and other net finance income and expenses are discussed in note 3(r).

(ii) Held-to-maturity investments
If HEINEKEN has the positive intent and ability to hold debt securities to maturity, they are classified as held-to-maturity. Debt securities are loans and long-term receivables and are measured at amortised cost using the effective interest method, less any impairment losses. Investments held-to-maturity are recognised or derecognised on the day they are transferred to or by HEINEKEN.

(iii) Available-for-sale investments
HEINEKEN's investments in equity securities and certain debt securities are classified as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein – other than impairment losses (see note 3i(i)) and foreign currency differences on available-for-sale monetary items (see note 3b(i)) – are recognised in other comprehensive income and presented within equity in the fair value reserve. When these investments are derecognised, the relevant cumulative gain or loss in the fair value reserve is transferred to profit or loss.

Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. Available-for-sale investments are recognised or derecognised by HEINEKEN on the date it commits to purchase or sell the investments.

(iv) Other
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

3. Significant accounting policies (continued)

(d) Derivative financial instruments (including hedge accounting)

(i) General

HEINEKEN uses derivatives in the ordinary course of business in order to manage market risks. Generally, HEINEKEN applies hedge accounting in order to minimise the effects of foreign currency, interest rate or commodity price fluctuations in profit or loss.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, commodity swaps, spot and forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules approved and monitored by the Executive Board.

Derivative financial instruments are recognised initially at fair value, with attributable transaction costs recognised in profit or loss as incurred. Derivatives for which hedge accounting is not applied are accounted for as instruments at fair value through profit or loss. When derivatives qualify for hedge accounting, subsequent measurement is at fair value, and changes therein accounted for as described in 3b(iii), 3d(ii) or 3d(iii).

(ii) Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve within equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued. The cumulative unrealised gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity is recognised in profit or loss immediately. When a hedging instrument is terminated, but the hedged transaction still is expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above-mentioned policy when the transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in other comprehensive income is transferred to the same line of profit or loss in the same period that the hedged item affects profit or loss.

(iii) Fair value hedges

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss and adjusts the carrying amount of the hedged item.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(iv) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(e) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(ii) Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

(iii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

Notes to the Consolidated Financial Statements (continued)

(f) Property, plant and equipment

(i) Owned assets
Items of property, plant and equipment (P, P & E) are measured at cost less government grants received (refer to (q)), accumulated depreciation (refer to (iv)) and accumulated impairment losses (3i(ii)).

Cost comprises the initial purchase price increased with expenditures that are directly attributable to the acquisition of the asset (such as transports and non-recoverable taxes). The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use (refer to an appropriate proportion of production overheads), and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of P, P & E.

Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment or purchased software that is integral to the functionality of the related equipment are capitalised and amortised as part of that equipment. In all other cases, spare parts are carried as inventory and recognised in the income statement as consumed. Where an item of P, P & E comprises major components having different useful lives, they are accounted for as separate items (major components) of P, P & E.

Returnable bottles and kegs in circulation are recorded within P, P & E and a corresponding liability is recorded in respect of the obligation to repay the customers' deposits. Deposits paid by customers for returnable items are reflected in the consolidated statement of financial position within current liabilities.

(ii) Leased assets
Leases in terms of which HEINEKEN assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, P, P & E acquired by way of finance lease is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease. Lease payments are apportioned between the outstanding liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognised in HEINEKEN's statement of financial position. Payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(iii) Subsequent expenditure
The cost of replacing a part of an item of P, P & E is recognised in the carrying amount of the item or recognised as a separate asset, as appropriate, if it is probable that the future economic benefits embodied within the part will flow to HEINEKEN and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of P, P & E are recognised in profit or loss when incurred.

(iv) Depreciation
Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Land, except for financial leases on land over the contractual period, is not depreciated as it is deemed to have an infinite life. Depreciation on other P, P & E is charged to profit or loss on a straight-line basis over the estimated useful lives of items of P, P & E, and major components that are accounted for separately, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Assets under construction are not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that HEINEKEN will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative years are as follows:

– Buildings	30 – 40 years
– Plant and equipment	10 – 30 years
– Other fixed assets	3 – 10 years

Where parts of an item of P, P & E have different useful lives, they are accounted for as separate items of P, P & E.

The depreciation methods and residual value as well as the useful lives are reassessed, and adjusted if appropriate, at each financial year-end.

(v) Gains and losses on sale
Net gains on sale of items of P, P & E are presented in profit or loss as other income. Net losses on sale are included in depreciation. Net gains and losses are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and there is no continuing management involvement with the P, P & E.

3. Significant accounting policies (continued)

(g) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the cost of the acquisition over HEINEKEN's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill arising on the acquisition of associates and joint ventures is included in the carrying amount of the associates and joint ventures.

Goodwill is measured at cost less accumulated impairment losses (refer to accounting policy 3i(ii)). Goodwill is allocated to individual or groups of cash-generating units (CGUs) for the purpose of impairment testing and is tested annually for impairment. Negative goodwill is recognised directly in profit or loss as other income.

(ii) Brands

Brands acquired, separately or as part of a business combination, are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied.

Strategic brands are well-known international/local brands with a strong market position and an established brand name. Brands are amortised on an individual basis over the estimated useful life of the brand.

(iii) Customer-related, contract-based intangibles and reacquired rights

Customer-related and contract-based intangibles are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied. If the amounts are not material, these are included in the brand valuation. The relationship between brands and customer-related intangibles is carefully considered so that brands and customer-related intangibles are not both recognised on the basis of the same cash flows.

Reacquired rights are identifiable intangible assets recognised in an acquisition that represent the right an acquirer previously has granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets.

Customer-related and contract-based intangibles acquired as part of a business combination are valued at fair value. Customer-related and contract-based intangibles acquired separately are measured at cost.

Customer-related, contract-based intangibles and reacquired rights are amortised over the remaining useful life of the customer relationships or the period of the contractual arrangements.

(iv) Software, research and development and other intangible assets

Purchased software is measured at cost less accumulated amortisation (refer to (vi)) and impairment losses (refer to accounting policy 3i(ii)). Expenditure on internally developed software is capitalised when the expenditure qualifies as development activities, otherwise it is recognised in profit or loss when incurred.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products, software and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and HEINEKEN intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation (refer to (vi)) and accumulated impairment losses (refer to accounting policy 3i(ii)).

Other intangible assets that are acquired by HEINEKEN and have finite useful lives are measured at cost less accumulated amortisation (refer to (vi)) and impairment losses (refer to accounting policy 3i(ii)). Expenditure on internally generated goodwill and brands is recognised in profit or loss when incurred.

(v) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

Notes to the Consolidated Financial Statements (continued)

(vi) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives from the date they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

– Strategic brands	40 – 50 years
– Other brands	15 – 25 years
– Customer-related and contract-based intangibles	5 – 20 years
– Reacquired rights	3 – 12 years
– Software	3 – 7 years
– Capitalised development costs	3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(vii) Gains and losses on sale

Net gains on sale of intangible assets are presented in profit or loss as other income. Net losses on sale are included in amortisation. Net gains and losses are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and there is no continuing management involvement with the intangible assets.

(h) Inventories

(i) General

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(ii) Finished products and work in progress

Finished products and work in progress are measured at manufacturing cost based on weighted averages and taking into account the production stage reached. Costs include an appropriate share of direct production overheads based on normal operating capacity.

(iii) Other inventories and spare parts

The cost of other inventories is based on weighted averages. Spare parts are valued at the lower of cost and net realisable value. Value reductions and usage of parts are charged to profit or loss. Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment are initially capitalised and depreciated as part of the equipment.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income and presented in the fair value reserve in equity is transferred to profit or loss.

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of HEINEKEN's non-financial assets, other than inventories (refer to accounting policy (h)) and deferred tax assets (refer to accounting policy (s)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, 'CGU').

The recoverable amount of an asset or CGU is the higher of an asset's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the acquirer's CGUs, or groups of CGUs expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored on regional, sub-regional or country level depending on the characteristics of the acquisition, the synergies to be achieved and the level of integration.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate and joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate and joint venture is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(j) Assets or disposal groups classified as held for sale

Assets or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are measured at the lower of their carrying amount and fair value less costs of disposal. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee defined benefit plan assets, which continue to be measured in accordance with HEINEKEN's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and P, P & E once classified as held for sale are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan (pension plan) under which HEINEKEN pays fixed contributions into a separate entity. HEINEKEN has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employee renders the service are discounted to their present value.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan (pension plan) that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Notes to the Consolidated Financial Statements (continued)

HEINEKEN's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any defined benefit plan assets is deducted. The discount rate is the yield at balance sheet date on high-quality credit-rated bonds that have maturity dates approximating to the terms of HEINEKEN's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculations are performed annually by qualified actuaries using the projected unit credit method. When the calculation results in a benefit to HEINEKEN, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in HEINEKEN. An economic benefit is available to HEINEKEN if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are changed, the expense or benefit is recognised immediately in profit or loss.

HEINEKEN recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses and other net finance income and expenses in profit or loss.

(iii) Other long-term employee benefits

HEINEKEN's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at balance sheet date on high-quality credit-rated bonds that have maturity dates approximating to the terms of HEINEKEN's obligations. The obligation is calculated using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by HEINEKEN before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Termination benefits are recognised as an expense when HEINEKEN is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if HEINEKEN has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(v) Share-based payment plan (LTV)

HEINEKEN has a performance-based share plan (Long-Term Variable award (LTV)) for both the Executive Board and senior management (refer to note 27).

The grant date fair value, adjusted for expected dividends, of the share rights granted is recognised as personnel expenses with a corresponding increase in equity (equity-settled) over the period that the employees become unconditionally entitled to the share rights. The costs of the share plan for both the Executive Board and senior management members are spread evenly over the performance period, during which vesting conditions are applicable subject to continued services. The total amount to be expensed is determined taking into consideration the expected forfeitures.

At each balance sheet date, HEINEKEN revises its estimates of the number of share rights that are expected to vest, for the 100 per cent internal performance conditions of the running share plans for the senior management members and the Executive Board. It recognises the impact of the revision of original estimates (only applicable for non-market performance conditions, if any) in profit or loss, with a corresponding adjustment to equity.

(vi) Matching share entitlement

The Executive Board is entitled to matching shares (refer to note 33). The grant date fair value of the matching shares is recognised as personnel expenses in the income statement as it is deemed an equity-settled share-based payment.

(vii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term benefits if HEINEKEN has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

(l) Provisions

(i) General
A provision is recognised if, as a result of a past event, HEINEKEN has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as part of net finance expenses.

(ii) Restructuring
A provision for restructuring is recognised when HEINEKEN has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating losses are not provided for. The provision includes the benefit commitments in connection with early retirement and redundancy schemes.

(iii) Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by HEINEKEN from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract and taking into consideration any reasonably obtainable sub-leases for onerous lease contracts. Before a provision is established, HEINEKEN recognises any impairment loss on the assets associated with that contract.

(iv) Other
The other provisions, not being provisions for restructuring or onerous contracts, consist mainly of surety and guarantees, litigation and claims and environmental provisions.

(m) Loans and borrowings
Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Loans and borrowings included in a fair value hedge are stated at fair value in respect of the risk being hedged.

Loans and borrowings for which HEINEKEN has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date are classified as non-current liabilities.

(n) Revenue

(i) Products sold
Revenue relates to the sale and delivery of products (own-produced finished goods and goods for resale) in the ordinary course of business. The product portfolio of HEINEKEN mainly consists of beer, soft drinks and cider. Revenue is recognised in the income statement when all significant risks and rewards have been transferred to the customer and when the income can be reliably measured and no significant uncertainties remain regarding recovery of the consideration due, associated costs or the possible return of goods, and there is no continuing management involvement with the goods. For the majority of the sales transactions, the risks and rewards are transferred to the buyer on delivery of the products. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates, discounts for cash payments and excise taxes.

If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Other revenue
Other revenues are proceeds from royalties, rental income, pub management services and technical services to third parties, net of sales tax. Royalties are recognised in profit or loss on an accrual basis in accordance with the relevant agreement. Rental income, pub management services and technical services are recognised in profit or loss when the services have been delivered.

Notes to the Consolidated Financial Statements (continued)

(o) Other income

Other income includes gains from sale of P, P & E, intangible assets and (interests in) subsidiaries, joint ventures and associates, net of sales tax. They are recognised in profit or loss when risks and rewards have been transferred to the buyer.

(p) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

(ii) Finance lease payments

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(q) Government grants

Government grants are recognised at their fair value when it is reasonably assured that HEINEKEN will comply with the conditions attaching to them and the grants will be received.

Government grants relating to P, P & E are deducted from the carrying amount of the asset.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

(r) Interest income, interest expenses and other net finance income and expenses

Interest income and expenses are recognised as they accrue in profit or loss, using the effective interest method unless collectability is in doubt.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Other net finance income and expenses comprises dividend income, gains and losses on the disposal of available-for-sale investments, changes in the fair value of investments designated at fair value through profit or loss and held for trading investments, changes in fair value of hedging instruments that are recognised in profit or loss, unwinding of the discount on provisions, impairment losses recognised on investments and interest on the net defined benefit obligation. Dividend income is recognised in the income statement on the date that HEINEKEN's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Foreign currency gains and losses are reported on a net basis in the other net finance income and expenses.

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

(s) Income tax

Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

(i) Current tax

Current tax is the expected income tax payable or receivable in respect of taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to income tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax is not recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss

– temporary differences related to investments in subsidiaries, associates and joint ventures to the extent that HEINEKEN is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future

– taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which HEINEKEN expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

Deferred tax is provided for on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by HEINEKEN and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Uncertain tax positions

In determining the amount of current and deferred income tax, HEINEKEN takes into account the impact of uncertain income tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes HEINEKEN to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the income tax expense in the period that such a determination is made.

(t) Discontinued operations

A discontinued operation is a component of HEINEKEN's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

Notes to the Consolidated Financial Statements (continued)

(u) Earnings per share

HEINEKEN presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for the weighted average number of own shares purchased in the year. Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, adjusted for the weighted average number of own shares purchased in the year and for the effects of all dilutive potential ordinary shares which comprise share rights granted to employees.

(v) Cash flow statement

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, fair value changes, equity-settled share-based payments and other non-cash items have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to ordinary shareholders are included in financing activities. Dividends received are classified as operating activities. Interest paid is also included in operating activities.

(w) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Board, which is considered to be HEINEKEN's chief operating decision-maker. An operating segment is a component of HEINEKEN that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of HEINEKEN's other components. All operating segments' operating results are reviewed regularly by the Executive Board to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment results, assets and liabilities that are reported to the Executive Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated result items comprise net finance expenses and income tax expenses. Unallocated assets comprise current other investments and cash call deposits.

Segment capital expenditure is the total cost incurred during the period to acquire P, P & E, and intangible assets other than goodwill.

(x) Recently issued IFRS

New relevant standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017, which HEINEKEN has not applied in preparing these consolidated financial statements.

IFRS 9 Financial instruments

IFRS 9, was published in July 2014 and subsequently endorsed by the European Union on 9 November 2017. IFRS 9 includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. The standard replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. HEINEKEN will implement IFRS 9 per 1 January 2018 using the modified retrospective approach, meaning that the 2017 comparative numbers in the 2018 financial statements will not be restated. Any impact of IFRS 9 as of 1 January 2018 will be recognised directly in equity.

HEINEKEN has reviewed the impact of this new standard and has concluded that the impact is limited:

- With regard to the revised classification and measurement principles, IFRS 9 contains three classification categories: 'measured at amortised cost', 'fair value through other comprehensive income' (FVTOCI) and 'fair value through profit and loss' (FVTPL). The standard eliminates the existing IAS 39 categories: 'loans and receivables', 'held to maturity' and 'available-for-sale'. For HEINEKEN this new classification only means that the assets currently classified as available-for-sale will be measured at FVTOCI which constitutes no significant change, except for the accounting for accumulative gains or losses when equity securities measured at FVTOCI are disposed of. These cumulative gains or losses will not be recognised in the income statement upon disposal but kept in the fair value reserve. HEINEKEN has no investments classified as held to maturity and the other categories involve no change in measurement for HEINEKEN.
- With regard to the impact of the expected loss model on trade receivables and both advances and loans to customers HEINEKEN concluded that the impact is immaterial. The impact on HEINEKEN's future consolidated income statement is also expected to be immaterial as the standard requires provisions to be recorded earlier and the initial impact of this timing difference is recorded in equity upon implementation.
- For the new hedging requirements of IFRS 9 HEINEKEN concluded that all current hedging relationships will continue to qualify as hedging relationships upon application of IFRS 9. For existing hedges HEINEKEN will exclude the foreign currency basis spread from the hedge relation only when this improves hedge effectiveness by applying the cost of hedging approach. HEINEKEN will retrospectively apply the cost of hedging approach for these hedges and recognise any initial impact, which is expected to be immaterial, directly in equity upon implementation.

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15 'Revenue from Contracts with Customers', which was subsequently endorsed by the European Union on 22 September 2016. IFRS 15 establishes a framework for determining whether, how much and when revenue is recognised from contracts with customers. IFRS 15 supersedes existing standards and interpretations related to revenue. HEINEKEN will apply the new standard as per 1 January 2018. For implementation the full retrospective method will be applied, meaning prior period financial information will be restated. HEINEKEN concluded that IFRS 15 will not impact the timing of revenue recognition. However the amount of recognised revenue will be impacted by payments to customers and excise taxes. HEINEKEN has evaluated the available practical expedients for application of the standard and concluded that these options have no significant impact on HEINEKEN's revenue recognition. The practical expedients will therefore not be applied.

IFRS 15 will impact the accounting for certain payments to customers, such as listing fees and marketing support expenses. Most of these payments are currently recorded as operating expenses, but will be considered a reduction of revenue under IFRS 15. Only when these payments relate to a distinct service the amounts will continue to be recorded as operating expenses.

IFRS 15 will also impact the accounting for excise tax. Based on the current revenue standards different policies are applied by peers in our industry. Some companies include all excises in revenue, some record excise only for specific countries and some, like HEINEKEN, exclude all excise from revenue. The clarifications to IFRS 15 describes that an 'all or nothing' approach is no longer possible; an assessment of the excise tax needs to be done on a country by country basis. In most countries where HEINEKEN operates, excise duties are effectively a production tax. Increases in excise duty are not always (fully) passed on to customers and where customers fail to pay for products received, HEINEKEN cannot, or can only partly, reclaim the excise duty. In these countries the excise tax is borne by HEINEKEN and included in revenue applying IFRS 15. Only for those countries where excise tax is fully based on the sales value, HEINEKEN concluded that the excise tax is collected on behalf of a third party. For these countries the excise is excluded from revenue. The conclusion whether excise is collected on behalf of a third party or borne by HEINEKEN requires significant judgement due to the variety in excise tax legislation in the countries HEINEKEN operates in.

To provide full transparency on the impact of the accounting for excise, HEINEKEN will present the excise tax expense on a separate line below revenue in the consolidated income statement. A new subtotal called 'Net revenue' will be added. This 'Net revenue' subtotal is 'revenue' as defined in IFRS 15 (after discounts) minus the excise taxes for those countries where the excise is borne by HEINEKEN. HEINEKEN will furthermore disclose the excise collected on behalf of third parties, which is excluded from revenue, in the notes to the consolidated financial statements.

The IFRS 15 changes described above will have no impact on operating profit, net profit and EPS.

The following table presents 2017 figures, including the impact of applying IFRS 15. The final impact is still under review and as a result the actual restated financial information may differ materially from those included in this overview. However this table gives HEINEKEN's best estimate of the impact of IFRS 15:

For the year ended 31 December

In millions of €	2017	Estimated impact IFRS 15	2017 including impact IFRS 15
Revenue	**21,888**	3,865	**25,753**
Excise taxes		(4,162)	(4,162)
Net revenue		(297)	21,591
Other income	**141**		**141**
Raw materials, consumables and services	(13,540)	297	(13,243)
Personnel expenses	(3,550)		(3,550)
Amortisation, depreciation and impairments	(1,587)		(1,587)
Total expenses	**(18,677)**	297	**(18,380)**
Operating profit	**3,352**		**3,352**
Profit before income tax	**2,908**		**2,908**
Income tax expense	(755)		(755)
Profit	**2,153**		**2,153**
Attributable to:			
Equity holders of the Company (net profit)	1,935		1,935
Non-controlling interests	218		218

Notes to the Consolidated Financial Statements (continued)

IFRS 16 Leases

IFRS 16 'Leases' was published in January 2016 and subsequently endorsed by the European Union on 9 November 2017. IFRS 16 establishes a revised framework for determining whether a lease is recognised in the (Consolidated) Statement of Financial Position. The standard replaces existing guidance on leases, including IAS 17. HEINEKEN will implement IFRS 16 per 1 January 2019 by applying the modified retrospective method, meaning that the 2018 comparative numbers in the 2019 financial statements will not be restated to show the impact of IFRS 16. Under the new standard lease contracts will be recognised on HEINEKEN's balance sheet and subsequently depreciated on a straight line basis. The liability recognised upon transition is measured based on discounted future cash flows and the future interest will be recorded in interest expenses. Lease expenses currently recorded in the income statement will therefore be replaced by depreciation and interest expenses for all lease contracts within the scope of the standard. The financial impact of the new standard on HEINEKEN is not yet known.

HEINEKEN completed the selection of a lease contract management and accounting tool in 2017, which will support the implementation of the new standard. HEINEKEN has around 30,000 operating leases that will be recorded on HEINEKEN's balance sheet as a result of IFRS 16. These operating leases mainly relate to offices, warehouses, pubs, stores, cars and (forklift) trucks.

In selecting which practical expedients to apply HEINEKEN has focused on reducing the complexity of implementation. Based on analysis of the options available, HEINEKEN will:

– use the option to grandfather classification as a lease for the existing contracts

– measure the Right of Use Asset based on the lease liability recognised

– apply the short-term and low value exemptions

– not use the transition option for leases with a short remaining contract period

– apply the option to exclude non-lease components from the lease liability for real estate leases

– most likely not use the option to exclude non-lease components from the lease liability for equipment leases because the lessors of HEINEKEN are currently not able to provide a sufficiently reliable and consistent split for both the calculation and invoicing.

Other standards and interpretations

The following new or amended standards are not expected to have a significant impact of HEINEKEN's consolidated financial statements:

– Classification and measurement of Share-based Payments (amendments to IFRS 2)

– Foreign Currency Transactions and Advance Consideration (IFRIC 22)

– Uncertainty over tax treatments (IFRIC 23)

– Transfers of Investment Property (amendments to IAS 40)

– Annual Improvements to IFRS Standards 2014–2016 Cycle (amendments IFRS 1 and IAS 28).

Notes to the Consolidated Financial Statements (continued)

4. Determination of fair values

General

A number of HEINEKEN's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values or for the purpose of impairment testing is disclosed in the notes specific to that asset or liability.

Fair value as a result of business combinations

(i) Property, plant and equipment

The fair value of P, P & E recognised as a result of a business combination is based on depreciated replacement cost, taking into account economical and functional obsolescence, or market prices for similar items when available. For acquired pub estates, the fair values are based on the stabilised earnings valuation method.

(ii) Intangible assets

The fair value of brands acquired in a business combination is based on the relief from royalty method or determined using the multi-period excess earnings method (MEEM). The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, taking into account the historical chum rate of the acquired customer base. The valuation of customer relationships and brands (when using MEEM valuation) takes into account a fair return on all other assets that support the generation of the related cash flows. The fair value of reacquired rights and other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iv) Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(v) Provisions

Determining the fair value of acquired claims is subject to significant estimation. The fair value of these claims are recorded based on an estimate of the likelihood, the expected timing and the amount of a potential cash outflow. Contrary to accounting for provisions under IAS 37, provisions for civil and labour claims are also recognised for claims with a likelihood of less than probable, but more than remote. For income tax claims HEINEKEN applies IAS 12, which requires recognition of provisions only when the likelihood of cash outflow is considered probable.

Fair value from normal business

(i) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date or, if unquoted, determined using an appropriate valuation technique. The fair value of held-to-maturity investments is determined for disclosure purposes only. In case the quoted price does not exist at the date of exchange or in case the quoted price exists at the date of exchange but was not used as the cost, the investments are valued indirectly based on discounted cash flow models.

(ii) Derivative financial instruments

The fair value of derivative financial instruments is based on their listed market price, if available. If a listed market price is not available, fair value is in general estimated by discounting the difference between the cash flows based on contractual price and the cash flows based on current price for the residual maturity of the contact using observable interest yield curves, basis spread and foreign exchange rates.

Fair values include the instrument's credit risk and adjustments to take account of the credit risk of the HEINEKEN entity and counterparty when appropriate.

(iii) Non-derivative financial instruments

Fair value, which is determined for disclosure purposes or when fair value hedge accounting is applied, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

Fair values include the instrument's credit risk and adjustments to take account of the credit risk of the HEINEKEN entity and counterparty when appropriate.

5. Operating segments

HEINEKEN distinguishes the following five reportable segments:

– Africa, Middle East & Eastern Europe*

– Americas

– Asia Pacific

– Europe

– Head Office and Other/eliminations

* Within the Africa, Middle East & Eastern Europe segment, Eastern Europe consists of Belarus and Russia.

The first four reportable segments as stated above are HEINEKEN's business regions. These business regions are each managed separately by a Regional President. The Regional President is directly accountable for the functioning of the segment's assets, liabilities and results of the region and reports regularly to the Executive Board (the chief operating decision-maker) to discuss operating activities, regional forecasts and regional results. The Head Office operating segment falls directly under the responsibility of the Executive Board. The Executive Board reviews the performance of the segments based on internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in the table on the next page. Performance is measured based on operating profit (beia), as included in the internal management reports that are reviewed by the Executive Board. Operating profit beia has replaced EBIT beia as key measure of profitability as of 1 January 2017. Operating profit better reflects the profitability that is under the direct control of HEINEKEN. Exceptional items are defined as items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period. Operating profit and operating profit (beia) are not financial measures calculated in accordance with IFRS. Operating profit (beia) is used to measure performance as management believes that this measurement is the most relevant in evaluating the results of the segments.

HEINEKEN has multiple distribution models to deliver goods to end customers. There is no reliance on major clients. Deliveries to end consumers are done in some countries via own wholesalers or own pubs, in other markets directly and in some others via third parties. As such, distribution models are country-specific and diverse across HEINEKEN. In addition, these various distribution models are not centrally managed or monitored. Consequently, the Executive Board is not allocating resources and assessing the performance based on business type information and therefore no segment information is provided on business type.

Inter-segment pricing is determined on an arm's length basis. As net finance expenses and income tax expenses are monitored on a consolidated level (and not on an individual regional basis) and regional presidents are not accountable for that, net finance expenses and income tax expenses are not provided for the reportable segments.

Notes to the Consolidated Financial Statements (continued)

5. Operating segments (continued)

Information about reportable segments

		Europe		Americas	
In millions of €	Note	2017	2016	2017	2016
Total revenue (beia)[3]		**10,237**	10,112	**6,258**	5,203
Revenue					
Third party revenue[1]		**9,520**	9,422	**6,230**	5,200
Interregional revenue		**687**	690	**28**	3
Total revenue		**10,207**	**10,112**	**6,258**	**5,203**
Other income	8	**134**	39	**5**	12
Operating profit		**1,338**	**1,208**	**1,003**	**883**
Net finance expenses	12				
Share of profit of associates and joint ventures and impairments thereof	16	**(11)**	13	**20**	69
Income tax expense	13				
Profit					
Attributable to:					
Equity holders of the Company (net profit)					
Non-controlling interests					
Operating profit reconciliation					
Operating profit[2]		**1,338**	1,208	**1,003**	883
Eia[2]		**33**	53	**185**	138
Operating profit (beia)[2]		**1,371**	**1,261**	**1,188**	**1,021**
Current segment assets		**2,793**	2,898	**2,331**	2,003
Non-current segment assets		**11,364**	10,047	**7,787**	5,854
Investments in associates and joint ventures		**217**	162	**829**	1,203
Total segment assets		**14,374**	**13,107**	**10,947**	**9,060**
Unallocated assets					
Total assets					
Segment liabilities		**4,814**	4,804	**2,483**	1,383
Unallocated liabilities					
Total equity					
Total equity and liabilities					
Purchase of P, P & E	14	**537**	533	**615**	502
Acquisition of goodwill	15	**2**	6	**907**	4
Purchases of intangible assets	15	**42**	40	**20**	22
Depreciation of P, P & E	14	**(496)**	(487)	**(266)**	(230)
(Impairment) and reversal of impairment of P, P & E	14	**1**	11	**–**	10
Amortisation intangible assets	15	**(57)**	(60)	**(116)**	(97)
(Impairment) and reversal of impairment of intangible assets	15	**–**	–	**–**	–

[1] Includes other revenue of €361 million in 2017 and €343 million in 2016.

[2] Comparatives have been restated to reflect HEINEKEN's revised internal reporting measure. Note that these are non-GAAP measures.

[3] Note that this is a non-GAAP measure.

Notes to the Consolidated Financial Statements (continued)

	Africa, Middle East & Eastern Europe		Asia Pacific		Head Office & Other/eliminations		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	3,059	3,203	**2,996**	2,894	**(642)**	(620)	**21,908**	20,792
	3,058	3,200	**3,003**	2,891	**77**	79	**21,888**	20,792
	1	3	**2**	3	**(718)**	(699)	**–**	–
	3,059	**3,203**	**3,005**	**2,894**	**(641)**	**(620)**	**21,888**	**20,792**
	2	1	**–**	1	**–**	(7)	**141**	46
	326	**38**	**844**	**710**	**(159)**	**(84)**	**3,352**	**2,755**
							(519)	(493)
	44	49	**22**	19	**–**	–	**75**	150
							(755)	(673)
							2,153	**1,739**
							1,935	1,540
							218	199
							2,153	**1,739**
	326	38	**844**	710	**(159)**	(84)	**3,352**	2,755
	62	338	**118**	217	**9**	37	**407**	785
	388	**376**	**962**	**927**	**(150)**	**(47)**	**3,759**	**3,540**
	1,146	1,303	**1,226**	1,150	**1,000**	826	**8,496**	8,180
	2,316	2,620	**7,525**	8,668	**935**	775	**29,927**	27,964
	219	221	**575**	552	**1**	27	**1,841**	2,165
	3,681	**4,144**	**9,326**	**10,370**	**1,936**	**1,628**	**40,264**	**38,309**
							770	1,012
							41,034	**39,321**
	1,088	1,154	**900**	864	**1,790**	2,110	**11,075**	10,315
							15,438	14,433
							14,521	14,573
							41,034	**39,321**
	361	436	**163**	281	**20**	5	**1,696**	1,757
	1	4	**9**	11	**–**	–	**919**	25
	8	9	**2**	5	**66**	33	**138**	109
	(261)	(299)	**(134)**	(131)	**(15)**	(16)	**(1,172)**	(1,163)
	4	(276)	**14**	(19)	**–**	–	**19**	(274)
	(8)	(9)	**(174)**	(181)	**(25)**	(21)	**(380)**	(368)
	–	(1)	**11**	(11)	**–**	–	**11**	(12)

Notes to the Consolidated Financial Statements (continued)

5. Operating segments (continued)

Reconciliation of segment profit or loss

In the internal management reports, HEINEKEN measures its segmental performance primarily based on operating profit and operating profit beia (before exceptional items and amortisation of acquisition-related intangible assets). Operating profit beia is a non-GAAP measure not calculated in accordance with IFRS. Beia adjustments are also applied on other metrics. The presentation of these financial measures may not be comparable to similarly titled measures reported by other companies due to differences in the ways the measures are calculated.

The table below presents the reconciliation of operating profit (beia) to profit before income tax.

In millions of €	2017	2016
Operating profit (beia)	**3,759**	**3,540**
Amortisation of acquisition-related intangible assets included in operating profit	**(302)**	(315)
Exceptional items included in operating profit	**(105)**	(470)
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	**75**	150
Net finance expenses	**(519)**	(493)
Profit before income tax	**2,908**	**2,412**

The 2017 exceptional items and amortisation of acquisition-related intangibles in operating profit amounts to €407 million (2016: €785 million). This amount consists of:

- €302 million (2016: €315 million) of amortisation of acquisition-related intangibles recorded in operating profit.
- €105 million (2016: €470 million) of exceptional items recorded in operating profit, of which €20 million in revenue (2016: nil), €93 million of restructuring expenses (2016: €80 million), €19 million of reversal of impairments of property, plant and equipment (2016: €316 million impairment loss of which €286 million related to The Democratic Republic of Congo), €72 million of acquisition and integration costs (2016: €8 million) and €61 million of other exceptional net benefits (2016: €66 million expense). Other exceptional net benefits include the gain on sale of non-beer and cider wholesale operations in the Netherlands.

6. Acquisitions and disposals of subsidiaries

Acquisition of Brasil Kirin

On 13 February 2017, HEINEKEN announced that it had entered into an agreement with Kirin Holdings Company, Limited to acquire Brasil Kirin Holding S.A. ('Brasil Kirin'), one of the largest beer and soft drinks producers in Brazil, through its wholly owned subsidiary Bavaria S.A. The acquisition transforms HEINEKEN's existing business across the country by extending its footprint, increasing scale and further strengthening its brand portfolio. The transaction completed on 31 May 2017 as from which date Brasil Kirin is consolidated within HEINEKEN. The total consideration paid by HEINEKEN to Kirin for all the shares was €594 million, mainly paid in cash.

In the condensed consolidated interim financial statements for the six-month period ended 30 June 2017, the major classes of consideration transferred and the recognised provisional amounts of assets acquired and liabilities assumed at the acquisition date of 31 May 2017, have been disclosed. IFRS 3 requires the acquirer to retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The following table summarises the revised purchase price allocation as per 31 December 2017 for the acquisition of Brasil Kirin:

In millions of €	Provisional fair values Brasil Kirin disclosed in HY report 2017	Adjustments	Adjusted fair values Brasil Kirin
Property, plant and equipment	561	38	599
Intangible assets	374		374
Inventories	137	(5)	132
Trade and other receivables	173	(6)	167
Cash and cash equivalents	148		148
Other assets	166	113	279
Assets acquired	**1,559**	**140**	**1,699**
Short-term liabilities	734	15	749
Long-term liabilities	775	237	1,012
Liabilities assumed	**1,509**	**252**	**1,761**
Total net identifiable assets	**50**	**(112)**	**(62)**
Consideration transferred	594		594
Net identifiable assets acquired	50	(112)	(62)
Goodwill on acquisition (provisional)	**544**	**112**	**656**

Notes to the Consolidated Financial Statements (continued)

The main cause for the adjustments is that HEINEKEN had a short period to determine the opening balance, the complexity of the business and the high number of existing labour, civil and tax claims acquired. Per 31 December 2017 the provisional accounting period has been closed for all assets and liabilities, except for completion of the assessment on labour, tax and civil claims acquired given the aforementioned reason.

The goodwill is attributable to earnings beyond the period over which intangible assets are amortised, workforce, expected synergies and future customers. The goodwill for Brasil Kirin could potentially be tax deductible in the future.

Acquisition of Punch

On 15 December 2016, HEINEKEN announced that following Vine Acquisitions Limited's announcement of a recommended cash offer for Punch Taverns plc ('Punch'), HEINEKEN through HEINEKEN UK had agreed a back-to-back deal with Vine Acquisitions to acquire Punch Securitisation A ('Punch A'), comprising approximately 1,900 pubs across the UK. The transaction completed on 29 August 2017 as from which date Punch is consolidated within HEINEKEN. HEINEKEN believes that there is compelling strategic rationale for enlarging its existing pub business through the acquisition of Punch A. HEINEKEN considers pubs to be an integral part of British culture and believes that high-quality, well invested pubs run by skilled and motivated operators will continue to prosper.

HEINEKEN has paid an aggregate consideration of GBP308 million (€331 million) for all shares in Punch A. This consideration is mainly paid in cash.

The following table summarises the consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

In millions of €	Punch
Property, plant and equipment	1,349
Intangible assets	25
Inventories	1
Cash and cash equivalents	47
Other assets	74
Assets acquired	**1,496**
Short-term liabilities	1,154
Long-term liabilities	11
Liabilities assumed	**1,165**
Total net identifiable assets	**331**

In millions of €	
Consideration transferred	331
Net identifiable assets acquired	331
Goodwill on acquisition	**–**

HEINEKEN considers the measurement period for the acquisition of Punch to be closed as per 31 December 2017. Any adjustments afterwards will be recognised in the consolidated income statement.

In total €37 million of acquisition-related costs have been recognised for Kirin and Punch in the income statement for the period ended 31 December 2017.

The amount of revenue for the acquisition of Brasil Kirin and Punch after obtaining control amounts to €684 million and €97 million respectively; the amount of profit recognised after obtaining control amounts to €17 million and €28 million respectively. Would the acquisitions have taken place on 1 January 2017, revenue and profit for HEINEKEN would have been €22.4 billion and €2.1 billion respectively.

Notes to the Consolidated Financial Statements (continued)

7. Assets or disposal groups classified as held for sale

The assets and liabilities below are classified as held for sale following the commitment of HEINEKEN to a plan to sell these assets and liabilities. Efforts to sell these assets and liabilities have commenced and are expected to be completed during 2018.

Assets held for sale and liabilities associated with assets classified as held for sale

In millions of €	2017	2016
Current assets	–	13
Property, plant and equipment	29	38
Intangible assets	3	6
Other non-current assets	1	–
Assets classified as held for sale	**33**	**57**
Current liabilities	(2)	(11)
Non-current liabilities	–	(6)
Liabilities associated with assets classified as held for sale	**(2)**	**(17)**

8. Other income

In millions of €	Note	2017	2016
Gain on sale of property, plant and equipment		20	38
Gain on sale of intangible assets		87	–
Gain on sale of subsidiaries, joint ventures and associates		34	8
		141	**46**

The gain on sale of intangible assets mainly relates to the sale of the non-beer and cider related activities of the Dutch HEINEKEN beverages wholesale business to Sligro Food Group.

9. Raw materials, consumables and services

In millions of €	2017	2016
Raw materials	1,817	1,646
Non-returnable packaging	3,353	3,187
Goods for resale	1,591	1,523
Inventory movements	(130)	(54)
Marketing and selling expenses	2,913	2,836
Transport expenses	1,203	1,100
Energy and water	513	476
Repair and maintenance	509	475
Other expenses	1,771	1,814
	13,540	**13,003**

Other expenses mainly include rentals of €308 million (2016: €302 million), consultant expenses of €169 million (2016: €140 million), telecom and office automation of €227 million (2016: €220 million), warehousing expenses of €172 million (2016: €141 million), travel expenses of €162 million (2016: €148 million) and other taxes of €33 million (2016: €96 million).

Notes to the Consolidated Financial Statements (continued)

10. Personnel expenses

In millions of €	Note	2017	2016
Wages and salaries		2,339	2,158
Compulsory social security contributions		364	333
Contributions to defined contribution plans		47	48
Expenses/(income) related to defined benefit plans	26	59	88
Expenses related to other long-term employee benefits		3	1
Equity-settled share-based payment plan	27	55	42
Other personnel expenses		683	593
		3,550	3,263

Other personnel expenses includes expenses for contractors for an amount of €153 million (2016: €142 million) and restructuring costs for an amount of €82 million (2016: €38 million). Restructuring provisions are disclosed in note 28.

The average number of full-time equivalent (FTE) employees, excluding contractors, during the year was:

	2017	2016
The Netherlands	3,998	3,907
Other Europe	23,873	24,012
Americas	27,818	20,917
Africa, Middle East and Eastern Europe	14,475	15,193
Asia Pacific	10,261	9,496
	80,425	73,525

The increase in FTE in the region Americas mainly relates to the acquisition of Brasil Kirin.

11. Amortisation, depreciation and impairments

In millions of €	Note	2017	2016
Property, plant and equipment	14	1,153	1,437
Intangible assets	15	369	380
Recycling of currency translation differences		65	–
		1,587	1,817

In 2017 HEINEKEN recycled the negative currency translation reserves relating to disposed subsidiaries to the consolidated income statement.

12. Net finance income and expense

Recognised in profit or loss

In millions of €	2017	2016
Interest income	**72**	**60**
Interest expenses	**(468)**	**(419)**
Dividend income from available-for-sale investments	10	12
Net change in fair value of derivatives	(149)	19
Net foreign exchange gain/(loss)[1]	56	(114)
Unwinding discount on provisions	(14)	(1)
Interest on the net defined benefit obligation	(33)	(40)
Other	7	(10)
Other net finance income/(expenses)	**(123)**	**(134)**
Net finance income/(expenses)	**(519)**	**(493)**

[1] Transactional foreign exchange effects of working capital and foreign currency denominated loans, the latter being offset by net change in fair value of derivatives.

Notes to the Consolidated Financial Statements (continued)

13. Income tax expense

Recognised in profit or loss

In millions of €	2017	2016
Current tax expense		
Current year	815	807
Under/(over) provided in prior years	(16)	(11)
	799	796
Deferred tax expense		
Origination and reversal of temporary differences, tax losses and tax credits	(12)	(45)
De-recognition/(recognition) of deferred tax assets	11	(90)
Effect of changes in tax rates	(45)	2
Under/(over) provided in prior years	2	10
	(44)	(123)
Total income tax expense in profit or loss	755	673

Reconciliation of the effective tax rate

In millions of €	2017	2016
Profit before income tax	2,908	2,412
Share of net profit of associates and joint ventures and impairments thereof	(75)	(150)
Profit before income tax excluding share of profit of associates and joint ventures (including impairments thereof)	2,833	2,262

	%	2017	%	2016
Income tax using the Company's domestic tax rate	25.0	708	25.0	565
Effect of tax rates in foreign jurisdictions	0.6	17	(0.4)	(9)
Effect of non-deductible expenses	2.6	75	2.9	67
Effect of tax incentives and exempt income	(3.4)	(98)	(2.8)	(64)
De-recognition/(recognition) of deferred tax assets	0.4	11	(4.0)	(90)
Effect of unrecognised current year losses	1.7	49	6.8	154
Effect of changes in tax rates	(1.6)	(45)	0.1	2
Withholding taxes	2.3	65	3.1	70
Under/(over) provided in prior years	(0.5)	(14)	–	(1)
Other reconciling items	(0.4)	(13)	(1.0)	(21)
	26.7	755	29.7	673

The effective tax rate 2017 is impacted by one-off benefits in several jurisdictions, including the remeasurement of deferred tax positions following a nominal tax rate change in the United States. The effective tax rate 2016 included the impact of impairments for which no tax benefit could be recognised.

For the income tax impact on items recognised in other comprehensive income, please refer to note 24.

Notes to the Consolidated Financial Statements (continued)

14. Property, plant and equipment

In millions of €	Note	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost						
Balance as at 1 January 2016		**5,480**	**8,110**	**5,408**	**788**	**19,786**
Changes in consolidation		13	–	5	–	18
Purchases		113	163	338	1,143	1,757
Transfer of completed projects under construction		212	696	323	(1,231)	–
Transfer (to)/from assets classified as held for sale		(19)	(24)	(8)	(1)	(52)
Disposals		(58)	(131)	(620)	(4)	(813)
Effect of movements in exchange rates		(306)	(420)	(403)	(29)	(1,158)
Balance as at 31 December 2016		**5,435**	**8,394**	**5,043**	**666**	**19,538**
Balance as at 1 January 2017		**5,435**	**8,394**	**5,043**	**666**	**19,538**
Changes in consolidation		**1,611**	**257**	**150**	**92**	**2,110**
Purchases		**73**	**119**	**372**	**1,132**	**1,696**
Transfer of completed projects under construction		**197**	**425**	**284**	**(906)**	**–**
Transfer (to)/from assets classified as held for sale		**(17)**	**(9)**	**(6)**	**–**	**(32)**
Disposals		**(145)**	**(185)**	**(386)**	**(16)**	**(732)**
Effect of movements in exchange rates		**(243)**	**(608)**	**(291)**	**(66)**	**(1,208)**
Balance as at 31 December 2017		**6,911**	**8,393**	**5,166**	**902**	**21,372**
Depreciation and impairment losses						
Balance as at 1 January 2016		**(2,088)**	**(4,452)**	**(3,694)**	**–**	**(10,234)**
Changes in consolidation		1	–	(2)	–	(1)
Depreciation charge for the year	11	(158)	(441)	(564)	–	(1,163)
Impairment losses	11	(50)	(229)	(16)	–	(295)
Reversal impairment losses	11	7	4	10	–	21
Transfer to/(from) assets classified as held for sale		11	23	7	–	41
Disposals		37	128	585	–	750
Effect of movements in exchange rates		70	234	271	–	575
Balance as at 31 December 2016		**(2,170)**	**(4,733)**	**(3,403)**	**–**	**(10,306)**
Balance as at 1 January 2017		**(2,170)**	**(4,733)**	**(3,403)**	**–**	**(10,306)**
Changes in consolidation		**33**	**(15)**	**(28)**	**–**	**(10)**
Depreciation charge for the year	11	**(163)**	**(438)**	**(571)**	**–**	**(1,172)**
Impairment losses	11	**–**	**–**	**–**	**–**	**–**
Reversal impairment losses	11	**11**	**6**	**2**	**–**	**19**
Transfer to/(from) assets classified as held for sale		**6**	**4**	**2**	**–**	**12**
Disposals		**112**	**197**	**362**	**–**	**671**
Effect of movements in exchange rates		**82**	**273**	**176**	**–**	**531**
Balance as at 31 December 2017		**(2,089)**	**(4,706)**	**(3,460)**	**–**	**(10,255)**
Carrying amount						
As at 1 January 2016		3,392	3,658	1,714	788	9,552
As at 31 December 2016		3,265	3,661	1,640	666	9,232
As at 1 January 2017		**3,265**	**3,661**	**1,640**	**666**	**9,232**
As at 31 December 2017		**4,822**	**3,687**	**1,706**	**902**	**11,117**

14. Property, plant and equipment (continued)

Impairment losses

In 2017, no impairment loss was charged to profit or loss.

In 2016 impairment losses of €295 million were charged to profit or loss. These impairment losses were mainly related to The Democratic Republic of Congo (DRC). A slowdown of the expected future economic growth in DRC due to lower commodity prices, power constraints and lower investments and consumption resulting from political uncertainties, resulted in an impairment of assets in the cash generating unit (CGU). The impairment primarily related to property, plant and equipment and has been recorded on the line 'Amortisation, depreciation and impairments' in the Income Statement. The CGU DRC is part of the Africa, Middle East and Eastern Europe segment. The determination of the recoverable amount of these assets was based on a fair value less costs of disposal (FVLCD) valuation. The FVLCD was based on a discounted 10-year cash flow forecast (level 3). The key assumptions used to determine the cash flows are based on market expectations and management's best estimates. See the table below for the key assumptions used for the impairment in DRC in 2016:

in %	2017-2026	After that
Sales volume growth (CAGR)	3.4	0.0
Cost inflation	4.0	4.0
Discount rate – post tax	16.0	16.0

Property, plant and equipment under construction

P, P & E under construction mainly relates to extension of brewing capacity in various countries.

Notes to the Consolidated Financial Statements (continued)

15. Intangible assets

In millions of €	Note	Goodwill	Brands	Customer- related intangibles	Contract-based intangibles	Software, research and development and other	Total
Cost							
Balance as at 1 January 2016		**11,731**	**4,577**	**2,527**	**1,101**	**605**	**20,541**
Changes in consolidation and other transfers		25	1	15	19	–	60
Purchased/internally developed		–	1	2	12	94	109
Disposals		–	–	(2)	–	(4)	(6)
Effect of movements in exchange rates		(320)	(188)	(99)	(10)	(19)	(636)
Balance as at 31 December 2016		**11,436**	**4,391**	**2,443**	**1,122**	**676**	**20,068**
Balance as at 1 January 2017		**11,436**	**4,391**	**2,443**	**1,122**	**676**	**20,068**
Changes in consolidation and other transfers		**919**	**656**	**112**	**86**	**9**	**1,782**
Purchased/internally developed		**–**	**3**	**10**	**–**	**125**	**138**
Transfer (to)/from assets classified as held for sale		**–**	**(3)**	**–**	**–**	**–**	**(3)**
Disposals		**(6)**	**(1)**	**(12)**	**–**	**(7)**	**(26)**
Effect of movements in exchange rates		**(737)**	**(357)**	**(219)**	**(113)**	**(21)**	**(1,447)**
Balance as at 31 December 2017		**11,612**	**4,689**	**2,334**	**1,095**	**782**	**20,512**
Amortisation and impairment losses							
Balance as at 1 January 2016		**(407)**	**(571)**	**(808)**	**(202)**	**(370)**	**(2,358)**
Changes in consolidation		–	–	–	–	–	–
Amortisation charge for the year	11	–	(110)	(147)	(53)	(58)	(368)
Impairment losses	11	–	(1)	(11)	–	–	(12)
Disposals		–	–	–	–	3	3
Effect of movements in exchange rates		–	26	58	(9)	16	91
Balance as at 31 December 2016		**(407)**	**(656)**	**(908)**	**(264)**	**(409)**	**(2,644)**
Balance as at 1 January 2017		**(407)**	**(656)**	**(908)**	**(264)**	**(409)**	**(2,644)**
Changes in consolidation		**–**	**–**	**3**	**4**	**(20)**	**(13)**
Amortisation charge for the year	11	**–**	**(124)**	**(144)**	**(52)**	**(60)**	**(380)**
Impairment losses	11	**–**	**–**	**–**	**–**	**–**	**–**
Reversal impairment losses	11	**–**	**–**	**11**	**–**	**–**	**11**
Disposals		**–**	**–**	**–**	**–**	**6**	**6**
Effect of movements in exchange rates		**–**	**42**	**79**	**42**	**15**	**178**
Balance as at 31 December 2017		**(407)**	**(738)**	**(959)**	**(270)**	**(468)**	**(2,842)**
Carrying amount							
As at 1 January 2016		11,324	4,006	1,719	899	235	18,183
As at 31 December 2016		11,029	3,735	1,535	858	267	17,424
As at 1 January 2017		**11,029**	**3,735**	**1,535**	**858**	**267**	**17,424**
As at 31 December 2017		**11,205**	**3,951**	**1,375**	**825**	**314**	**17,670**

Brands, customer-related and contract-based intangibles

The main brands capitalised are the brands acquired in various acquisitions such as Fosters, Strongbow, Lagunitas, Dos Equis, Tiger and Bintang. The main customer-related and contract-based intangibles relate to customer relationships with retailers in Mexico and Asia Pacific (constituted either by way of a contractual agreement or by way of non-contractual relations) and reacquired rights.

Impairment tests for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill in respect of Europe, the Americas (excluding Brazil) and Asia Pacific is allocated and monitored on a regional basis. For Brazil and subsidiaries within Africa, Middle East and Eastern Europe and Head Office, goodwill is allocated and monitored on an individual country basis. The carrying amounts of goodwill allocated to each (group of) CGU(s) are as follows:

Notes to the Consolidated Financial Statements (continued)

15. Intangible assets (continued)

In millions of €	2017	2016
Europe	4,720	4,788
The Americas (excluding Brazil)	2,109	2,115
Brazil	668	78
Africa, Middle East and Eastern Europe (aggregated)	346	414
Asia Pacific	2,882	3,154
Head Office	480	480
	11,205	11,029

Throughout the year, goodwill increased mainly due to the Brasil Kirin acquisition offset by net foreign currency differences.

The recoverable amounts of the (group of) CGUs are based on the higher of the fair value less costs of disposal and value in use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit using a pre-tax discount rate.

The key assumptions used for the value in use calculations are as follows:

- Cash flows were projected based on actual operating results and the three-year business plan. Cash flows for a further seven-year period (except for Europe, where a further two-year period was applied) were extrapolated using expected annual per country volume growth rates, which are based on external sources. Management believes that this period is justified due to the long-term development of the local beer business and past experiences.
- The beer price growth per year after the first three-year period is assumed to be at specific per country expected annual long-term inflation, based on external sources.
- Cash flows after the first 10-year (Europe five-year) period were extrapolated using a perpetual growth rate equal to the expected annual long-term inflation, in order to calculate the terminal recoverable amount.
- A per CGU-specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.

The values assigned to the key assumptions used for the value in use calculations are as follows:

In %	Pre-tax WACC	Expected annual long-term inflation 2021-2027	Expected volume growth rates 2021-2027
Europe	9.2	1.9	0.5
The Americas (excluding Brazil)	14.2	3.1	3.3
Brazil	14.3	3.9	2.0
Africa, Middle East and Eastern Europe	17.7–27.4	3.5–12.3	0.0–8.5
Asia Pacific	15.4	4.8	3.7
Head Office	8.9	1.9	0.5

The outcome of these impairment tests in 2017 did not result in an impairment loss (2016: nil) being charged to profit or loss.

Sensitivity to changes in assumptions

The outcome of a sensitivity analysis of a 100 basis points adverse change in key assumptions (lower growth rates or higher discount rates respectively) did not result in a materially different outcome of the impairment test.

16. Investments in associates and joint ventures

HEINEKEN has interests in a number of individually insignificant joint ventures and associates.

Summarised financial information for equity accounted joint ventures and associates

The following table includes, in aggregate, the carrying amount and HEINEKEN's share of profit and OCI of joint ventures and associates:

	Joint ventures		Associates	
In millions of €	2017	2016	2017	2016
Carrying amount of interests	1,612	2,022	229	144
Share of:				
Profit or loss from continuing operations	43	124	32	26
Other comprehensive income	(13)	–	6	–
	30	124	38	26

The decrease in the carrying amount of interests is mainly due to the acquisition in 2017 of all the remaining shares in Lagunitas Brewing Company, which was formerly a joint venture.

Notes to the Consolidated Financial Statements (continued)

17. Other investments and receivables

In millions of €	Note	2017	2016
Non-current other investments and receivables			
Available-for-sale investments	30	481	427
Non-current derivatives	30	36	254
Loans to customers	30	54	58
Loans to joint ventures and associates	30	3	18
Long-term prepayments		346	145
Other receivables	30	193	175
		1,113	1,077

The increase in long-term prepayments is mainly related to deposits paid for existing legal proceedings which were inherited as part of the Brasil Kirin acquisition (refer to note 6).

The other receivables mainly originate from the acquisition of the beer operations of FEMSA and represent a receivable on the Brazilian authorities on which interest is calculated in accordance with Brazilian legislation. Collection of this receivable is expected to be beyond a period of five years. A part of the aforementioned receivable qualifies for indemnification towards FEMSA.

HEINEKEN has interests in several entities where it has less than significant influence. These are classified as available-for-sale investments and valued based on their share price when publicly listed. For investments that are not listed fair values are established using multiples. Debt securities (which are interest-bearing) with a carrying amount of €15 million (2016: €15 million) are included in available-for-sale investments.

Sensitivity analysis – equity price risk

As at 31 December 2017, an amount of €396 million (2016: €342 million) of available-for-sale investments and investments held for trading is listed on stock exchanges. An increase or decrease of 1% in the share price at the reporting date would not result in a material impact on HEINEKEN's financial position.

18. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
In millions of €	2017	2016	2017	2016	2017	2016
Property, plant and equipment	72	71	(521)	(547)	(449)	(476)
Intangible assets	41	56	(1,333)	(1,402)	(1,292)	(1,346)
Investments	54	126	(6)	(5)	48	121
Inventories	31	27	(9)	(1)	22	26
Loans and borrowings	32	2	(28)	(32)	4	(30)
Employee benefits	300	346	(6)	(6)	294	340
Provisions	131	125	(30)	(45)	101	80
Other items	467	413	(382)	(180)	85	233
Tax losses carried forward	460	391	–	–	460	391
Tax assets/(liabilities)	**1,588**	**1,557**	**(2,315)**	**(2,218)**	**(727)**	**(661)**
Set-off of tax	(820)	(546)	820	546	–	–
Net tax assets/(liabilities)	**768**	**1,011**	**(1,495)**	**(1,672)**	**(727)**	**(661)**

Of the total net deferred tax assets of €768 million as at 31 December 2017 (2016: €1,011 million), €253 million (2016: €405 million) is recognised in respect of subsidiaries in various countries where there have been tax losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise these deferred tax assets. This judgement is performed annually and based on budgets and business plans for the coming years, including planned commercial initiatives.

No deferred tax liability has been recognised in respect of undistributed earnings of subsidiaries, joint ventures and associates, with a net impact of €75 million (2016: €58 million). This because HEINEKEN is able to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

Tax losses carried forward

HEINEKEN has tax losses carried forward of €3,593 million as at 31 December 2017 (2016: €2,370 million), out of which €137 million (2016: €145 million) expires in the following five years. €434 million (2016: €338 million) will expire after five years and €3,023 million (2016: €1,887 million) can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of tax losses carried forward of €1,619 million (2016: €637 million) as it is not probable that taxable profit will be available to offset these losses. The increase in the amount of tax losses carried forward relates mainly to the acquisition of Brasil Kirin.

Notes to the Consolidated Financial Statements (continued)

18. Deferred tax assets and liabilities (continued)

Movement in deferred tax balances during the year

In millions of €	Balance 1 January 2017	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	Balance 31 December 2017
Property, plant and equipment	(476)	(15)	36	2	–	4	(449)
Intangible assets	(1,346)	(201)	127	132	–	(4)	(1,291)
Investments	121	–	(8)	(65)	–	–	48
Inventories	26	(3)	–	4	–	(5)	22
Loans and borrowings	(30)	21	24	–	(13)	2	4
Employee benefits	340	5	(8)	(33)	(9)	(1)	294
Provisions	80	2	(4)	18	–	5	101
Other items	233	24	(81)	(51)	(15)	(25)	85
Tax losses carried forward	391	48	(16)	37	–	–	460
Net tax assets/(liabilities)	**(661)**	**(119)**	**70**	**44**	**(37)**	**(24)**	**(727)**

In millions of €	Balance 1 January 2016	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	Balance 31 December 2016
Property, plant and equipment	(553)	1	52	22	–	2	(476)
Intangible assets	(1,429)	(10)	50	40	–	3	(1,346)
Investments	124	–	(13)	17	–	(7)	121
Inventories	26	–	(1)	1	–	–	26
Loans and borrowings	(12)	–	(4)	(1)	(13)	–	(30)
Employee benefits	331	–	(28)	(13)	49	1	340
Provisions	51	–	(4)	34	–	(1)	80
Other items	198	(3)	24	20	(10)	4	233
Tax losses carried forward	364	4	13	3	–	7	391
Net tax assets/(liabilities)	**(900)**	**(8)**	**89**	**123**	**26**	**9**	**(661)**

19. Inventories

In millions of €	2017	2016
Raw materials	316	247
Work in progress	234	225
Finished products	412	479
Goods for resale	311	168
Non-returnable packaging	204	187
Other inventories and spare parts	337	312
	1,814	**1,618**

During 2017 inventories were written down by €14 million to net realisable value (2016: €19 million).

Notes to the Consolidated Financial Statements (continued)

20. Trade and other receivables

In millions of €	Note	2017	2016
Trade receivables		**2,582**	2,283
Other receivables		**672**	701
Trade receivables due from associates and joint ventures		**23**	20
Derivatives		**219**	48
	30	**3,496**	**3,052**

A net impairment loss of €13 million (2016: €57 million) in respect of trade and other receivables was included in expenses for raw materials, consumables and services.

21. Cash and cash equivalents

In millions of €	Note	2017	2016
Cash and cash equivalents	30	**2,442**	3,035
Bank overdrafts and commercial papers	25	**(1,265)**	(1,669)
Cash and cash equivalents in the statement of cash flows		**1,177**	**1,366**

HEINEKEN has cash pooling arrangements with legally enforceable rights to offset cash and overdraft balances. Where there is an intention to settle on a net basis, cash and overdraft balances relating to the cash pooling arrangements are reported on a net basis in the statement of financial position.

The following table presents the recognised 'Cash and cash equivalents' and 'Bank overdrafts and commercial papers' and the impact of netting on the gross amounts. The column 'Net amount' shows the impact on HEINEKEN's balance sheet if all amounts subject to legal offset rights had been netted.

In millions of €	Gross amounts	Gross amounts offset in the statement of financial position	Net amounts presented in the statement of financial position	Amounts subject to legal offset rights	Net amount
Balance as at 31 December 2017					
Assets					
Cash and cash equivalents	**2,442**	**–**	**2,442**	**(1,062)**	**1,380**
Liabilities					
Bank overdrafts and commercial papers	**(1,265)**	**–**	**(1,265)**	**1,062**	**(203)**
Balance as at 31 December 2016					
Assets					
Cash and cash equivalents	3,097	(62)	**3,035**	(1,489)	**1,546**
Liabilities					
Bank overdrafts and commercial papers	(1,731)	62	**(1,669)**	1,489	**(180)**

HEINEKEN operates in a number of territories where there is limited availability of foreign currency resulting in restrictions on remittances. Mainly as a result of these restrictions, €208 million of cash included in cash and cash equivalents is restricted for use by the Company, yet available for use in the relevant subsidiary's day-to-day operations.

22. Capital and reserves

Share capital

As at 31 December 2017, the issued share capital comprised 576,002,613 ordinary shares (2016: 576,002,613). The ordinary shares have a par value of €1.60. All issued shares are fully paid. The share capital as at 31 December 2017 amounted to €922 million (2016: €922 million).

The Company's authorised capital amounts to €2,500 million, consisting of 1,562,500,000 shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by HEINEKEN, rights are suspended.

Notes to the Consolidated Financial Statements (continued)

22. Capital and reserves (continued)

Share premium

As at 31 December 2017, the share premium amounted to €2,701 million (2016: €2,701 million).

Translation reserve

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations of HEINEKEN (excluding amounts attributable to non-controlling interests) as well as value changes of the hedging instruments in the net investment hedges. HEINEKEN considers this a legal reserve.

Hedging reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred. HEINEKEN considers this a legal reserve.

Fair value reserve

This reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired. HEINEKEN considers this a legal reserve.

Other legal reserves

These reserves relate to the share of profit of joint ventures and associates over the distribution of which HEINEKEN does not have control. The movement in these reserves reflects retained earnings of joint ventures and associates minus dividends received. In case of a legal or other restriction which means that retained earnings of subsidiaries cannot be freely distributed, a legal reserve is recognised for the restricted part. Furthermore, part of the reserve comprises a legal reserve for capitalised development costs.

Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by HEINEKEN. As at 31 December 2017, HEINEKEN held 5,808,418 of the Company's shares (2016: 6,321,833).

Dividends

The following dividends were declared and paid by HEINEKEN:

In millions of €	2017	2016
Final dividend previous year €0.82, respectively €0.86 per qualifying ordinary share	468	490
Interim dividend current year €0.54, respectively €0.52 per qualifying ordinary share	307	296
Total dividend declared and paid	**775**	**786**

For 2017, a payment of a total cash dividend of €1.47 per share (2016: €1.34) will be proposed at the AGM. If approved, a final dividend of €0.93 per share will be paid on 2 May 2018, as an interim dividend of €0.54 per share was paid on 10 August 2017. The payment will be subject to 15% Dutch withholding tax.

After the balance sheet date, the Executive Board proposed the following appropriation of profit. The dividends, taking into account the interim dividends declared and paid, have not been provided for.

In millions of €	2017	2016
Dividend per qualifying ordinary share €1.47 (2016: €1.34)	838	763
Addition to retained earnings	1,097	777
Net profit	**1,935**	**1,540**

Non-controlling interests

The non-controlling interests (NCI) relate to minority stakes held by third parties in HEINEKEN consolidated subsidiaries. The total non-controlling interest as at 31 December 2017 amounted to €1,200 million (2016: €1,335 million).

Notes to the Consolidated Financial Statements (continued)

23. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the period ended 31 December 2017 is based on the profit attributable to ordinary shareholders of the Company (net profit) of €1,935 million (2016: €1,540 million) and a weighted average number of ordinary shares – basic outstanding during the year ended 31 December 2017 of 570,074,335 (2016: 569,737,210). Basic earnings per share for the year amounted to €3.39 (2016: €2.70).

Diluted earnings per share

The calculation of diluted earnings per share for the period ended 31 December 2017 is based on the profit attributable to ordinary shareholders of the Company (net profit) of €1,935 million (2016: €1,540 million) and a weighted average number of ordinary shares – basic outstanding after adjustment for the dilutive effect of share-based payment plan obligations of 570,652,111 (2016: 570,370,392). Diluted earnings per share for the year amounted to €3.39 (2016: €2.70).

Weighted average number of shares – basic and diluted

	2017	2016
Total number of shares issued	576,002,613	576,002,613
Effect of own shares held	(5,928,278)	(6,265,403)
Weighted average number of basic shares for the year	**570,074,335**	**569,737,210**
Dilutive effect of share-based payment plan obligations	577,776	633,182
Weighted average number of diluted shares for the year	**570,652,111**	**570,370,392**

24. Income tax on other comprehensive income

In millions of €	2017 Amount before tax	2017 Tax	2017 Amount net of tax	2016 Amount before tax	2016 Tax	2016 Amount net of tax
Other comprehensive income						
Actuarial gains and losses	73	(9)	64	(301)	49	(252)
Currency translation differences	(1,440)	(45)	(1,485)	(935)	27	(908)
Recycling of currency translation differences to profit or loss	59	–	59	–	–	–
Effective portion of net investment hedges	26	–	26	44	–	44
Effective portion of changes in fair value of cash flow hedges	145	(36)	109	18	(12)	6
Effective portion of cash flow hedges transferred to profit or loss	(13)	10	(3)	53	(12)	41
Net change in fair value available-for-sale investments	69	(1)	68	140	–	140
Share of other comprehensive income of associates/joint ventures	(7)	–	(7)	–	–	–
	(1,088)	**(81)**	**(1,169)**	**(981)**	**52**	**(929)**

Notes to the Consolidated Financial Statements (continued)

25. Loans and borrowings

This note provides information about the contractual terms of HEINEKEN's interest-bearing loans and borrowings. For more information about HEINEKEN's exposure to interest rate risk and foreign currency risk, refer to note 30.

Non-current liabilities

In millions of €	Note	2017	2016
Unsecured bond issues		11,789	9,432
Unsecured bank loans		109	239
Secured bank loans		105	84
Other non-current interest-bearing liabilities		163	1,165
Non-current interest-bearing liabilities		**12,166**	**10,920**
Non-current non-interest-bearing liabilities		78	24
Non-current derivatives		57	10
Non-current liabilities		**12,301**	**10,954**

Current interest-bearing liabilities

In millions of €	Note	2017	2016
Current portion of unsecured bonds issued		159	1,251
Current portion of unsecured bank loans		142	4
Current portion of secured bank loans		4	10
Current portion of other non-current interest-bearing liabilities		993	94
Total current portion of non-current interest-bearing liabilities		**1,298**	**1,359**
Deposits from third parties (mainly employee loans)		649	622
		1,947	**1,981**
Bank overdrafts and commercial papers	21	1,265	1,669
Current interest-bearing liabilities		**3,212**	**3,650**

For further details regarding the interest-bearing liabilities refer to terms and debt repayment schedule included in this note.

Net interest-bearing debt position

In millions of €	Note	2017	2016
Non-current interest-bearing liabilities		12,166	10,920
Current portion of non-current interest-bearing liabilities		1,298	1,359
Deposits from third parties (mainly employee deposits)		649	622
Total current and non-current loans and borrowings		**14,113**	**12,901**
Bank overdrafts and commercial papers	21	1,265	1,669
Gross debt		**15,378**	**14,570**
Market value of cross-currency interest rate swaps	30	(57)	(242)
Cash, cash equivalents and current other investments	17/21	(2,442)	(3,035)
Net interest-bearing debt position		**12,879**	**11,293**

Net interest-bearing debt is the key metric for HEINEKEN to measure debt and the basis for the calculation of the Net debt/EBITDA (beia) ratio as used for the long-term target net debt/EBITDA (beia) ratio and the incurrence covenant. Please refer to the end of this note for more information on the incurrence covenant calculation.

Notes to the Consolidated Financial Statements (continued)

Non-current liabilities

In millions of €	Unsecured bond issues	Unsecured bank loans	Secured bank loans	Other non-current interest-bearing liabilities	Non-current derivatives	Non-current non-interest-bearing liabilities	Total
Balance as at 1 January 2017	**9,432**	**239**	**84**	**1,165**	**10**	**24**	**10,954**
Consolidation changes	–	1	124	144	152	35	456
Effect of movements in exchange rates	(466)	(21)	(6)	(131)	52	25	(547)
Transfers to current liabilities	(163)	(134)	(3)	(1,045)	(5)	–	(1,350)
Proceeds	2,976	197	43	19	–	1	3,236
Repayments	–	(173)	(137)	(4)	(152)	(7)	(473)
Other	10	–	–	15	–	–	25
Balance as at 31 December 2017	**11,789**	**109**	**105**	**163**	**57**	**78**	**12,301**

Current interest-bearing liabilities excluding bank overdrafts and commercial papers

In millions of €	Current portion of unsecured bond issues	Current portion of unsecured bank loans	Current portion of secured bank loans	Current portion of other interest-bearing liabilities	Deposits from third parties	Total
Balance as at 1 January 2017	**1,251**	**4**	**10**	**94**	**622**	**1,981**
Consolidation changes	–	–	952	394	–	1,346
Effect of movements in exchange rates	(73)	8	40	(35)	(3)	(63)
Transfers from non-current liabilities	163	134	3	1,045	–	1,345
Proceeds	–	–	–	–	32	32
Repayments	(1,182)	(4)	(1,002)	(505)	–	(2,693)
Other	–	–	1	–	(2)	(1)
Balance as at 31 December 2017	**159**	**142**	**4**	**993**	**649**	**1,947**

The difference between the total repayment of loans and borrowings in the above tables and the total repayment of loans and borrowings in the consolidated statement of cash flows is caused by the settlement of short-term derivative liabilities of €39 million. As at 31 December 2017, the value of derivative assets used by HEINEKEN to manage the currency denomination of the interest-bearing debts was €117 million (2016: €242 million). The change in the value is caused by fair value movements.

Notes to the Consolidated Financial Statements (continued)

25. Loans and borrowings (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding non-current and current loans and borrowings were as follows:

In millions of €	Category	Currency	Nominal interest rate %	Repayment	**Carrying amount 2017**	**Face value 2017**	Carrying amount 2016	Face value 2016
Unsecured bond	issue under EMTN programme	SGD	1.4	2017	**–**	**–**	66	66
Unsecured bond	issue under EMTN programme	EUR	1.3	2018	**100**	**100**	100	100
Unsecured bond	issue under EMTN programme	SGD	2.2	2018	**59**	**59**	62	62
Unsecured bond	issue under EMTN programme	USD	2.5	2019	**167**	**167**	189	190
Unsecured bond	issue under EMTN programme	EUR	2.5	2019	**848**	**850**	847	850
Unsecured bond	issue under EMTN programme	EUR	2.1	2020	**998**	**1,000**	997	1,000
Unsecured bond	issue under EMTN programme	EUR	2.0	2021	**498**	**500**	498	500
Unsecured bond	issue under EMTN programme	EUR	1.3	2021	**498**	**500**	498	500
Unsecured bond	issue under EMTN programme	USD	3.3	2022	**166**	**167**	189	190
Unsecured bond	issue under EMTN programme	SGD	1.6	2022	**93**	**94**	–	–
Unsecured bond	issue under EMTN programme	EUR	1.7	2023	**140**	**140**	140	140
Unsecured bond	issue under EMTN programme	EUR	3.5	2024	**498**	**500**	497	500
Unsecured bond	issue under EMTN programme	EUR	1.5	2024	**455**	**460**	454	460
Unsecured bond	issue under EMTN programme	EUR	2.9	2025	**744**	**750**	743	750
Unsecured bond	issue under EMTN programme	EUR	2.0	2025	**224**	**225**	224	225
Unsecured bond	issue under EMTN programme	EUR	1.0	2026	**791**	**800**	790	800
Unsecured bond	issue under EMTN programme	EUR	1.4	2027	**496**	**500**	497	500
Unsecured bond	issue under EMTN programme	EUR	3.5	2029	**200**	**200**	199	200
Unsecured bond	issue under EMTN programme	EUR	1.5	2029	**790**	**800**	–	–
Unsecured bond	issue under EMTN programme	EUR	2.0	2032	**499**	**500**	–	–
Unsecured bond	issue under EMTN programme	EUR	3.3	2033	**177**	**180**	180	180
Unsecured bond	issue under EMTN programme	EUR	2.6	2033	**92**	**100**	92	100
Unsecured bond	issue under EMTN programme	EUR	3.5	2043	**75**	**75**	75	75
Unsecured bond	issue under APB MTN programme	SGD	3.8–4.0	2020–2022	**24**	**25**	25	25
Unsecured bond	issue under 144A/RegS	USD	1.4	2017	**–**	**–**	1,185	1,186
Unsecured bond	issue under 144A/RegS	USD	3.4	2022	**623**	**625**	709	712
Unsecured bond	issue under 144A/RegS	USD	2.8	2023	**831**	**834**	945	949
Unsecured bond	issue under 144A/RegS	USD	3.5	2028	**906**	**917**	–	–
Unsecured bond	issue under 144A/RegS	USD	4.0	2042	**408**	**417**	465	474
Unsecured bond	issue under 144A/RegS	USD	4.4	2047	**533**	**542**	–	–
Unsecured bond	various	EUR	3.0–4.5	2020	**15**	**15**	17	17
Unsecured bank loans	bank facilities	PLN	2.5	2019	**24**	**24**	34	34
Unsecured bank loans	bank facilities	NGN	20.0	2021	**20**	**20**	51	51
Unsecured bank loans	bank facilities	USD–RWF	5.2–12.5	2018–2022	**21**	**21**	26	26
Unsecured bank loans	bank facilities	ZAR	9.4–9.9	2018–2022	**170**	**170**	112	112
Unsecured bank loans	various	various	various	various	**16**	**16**	20	20

Notes to the Consolidated Financial Statements (continued)

In millions of €	Category	Currency	Nominal interest rate %	Repayment	Carrying amount 2017	Face value 2017	Carrying amount 2016	Face value 2016
Secured bank loans	bank facilities	ETB	9.5	2017	–	–	20	20
Secured bank loans	bank facilities	XOF	7.0	2026	83	83	57	56
Secured bank loans	various	various	various	various	26	26	17	20
Other interest-bearing liabilities	2008 US private placement	USD	2.8	2017	–	–	85	85
Other interest-bearing liabilities	2008 US private placement	GBP	7.2	2018	36	36	37	37
Other interest-bearing liabilities	2010 US private placement	USD	4.6	2018	605	605	688	688
Other interest-bearing liabilities	2008 US private placement	USD	6.3	2018	325	325	369	370
Other interest-bearing liabilities	facilities from JVs	EUR	various	various	4	4	4	4
Other interest-bearing liabilities	bank facilities	BRL	4.9 – 8.5	2020 – 2026	85	85	–	–
Other interest-bearing liabilities	various	various	various	various	101	101	76	76
Deposits from third parties	n.a.	various	various	various	649	649	622	622
					14,113	14,207	12,901	12,972

Financing headroom

The committed financing headroom at Group level was approximately €4.0 billion as at 31 December 2017 and consisted of the undrawn revolving credit facility and centrally available cash, minus the amount of commercial paper in issue at Group level.

Incurrence covenant

HEINEKEN has an incurrence covenant in some of its financing facilities. This incurrence covenant is calculated by dividing net debt (excluding the market value of cross-currency interest rate swaps) by EBITDA (beia) (both based on proportional consolidation of joint ventures and including acquisitions made in 2017 on a pro-forma basis). As at 31 December 2017 this ratio was 2.4 (2016: 2.3). If the ratio would be beyond a level of 3.5, the incurrence covenant would prevent HEINEKEN from conducting further significant debt financed acquisitions.

26. Employee benefits

In millions of €	2017	2016
Present value of unfunded defined benefit obligations	296	305
Present value of funded defined benefit obligations	8,792	8,865
Total present value of defined benefit obligations	**9,088**	**9,170**
Fair value of defined benefit plan assets	(7,908)	(7,815)
Present value of net obligations	**1,180**	**1,355**
Asset ceiling items	19	3
Defined benefit plans included under non-current assets	10	–
Recognised liability for defined benefit obligations	**1,209**	**1,358**
Other long-term employee benefits	80	62
	1,289	1,420

HEINEKEN makes contributions to defined benefit plans that provide pension benefits to (former) employees upon retirement in a number of countries. The defined benefit plans in The Netherlands and the UK represent the majority of the total defined benefit plan assets and the present value of the defined benefit obligations. Refer to the table below for share of the these plans in the total present value of the net obligations of the Company.

In millions of €	2017 UK	2016 UK	2017 NL	2016 NL	2017 Other	2016 Other	2017 Total	2016 Total
Total present value of defined benefit obligations	4,002	4,167	3,729	3,544	1,357	1,459	9,088	9,170
Fair value of defined benefit plan assets	(3,449)	(3,488)	(3,546)	(3,392)	(913)	(935)	(7,908)	(7,815)
Present value of net obligations	**553**	**679**	**183**	**152**	**444**	**524**	**1,180**	**1,355**

HEINEKEN provides employees in the Netherlands with an average pay pension plan based on earnings up to the legal tax limit. Indexation of accrued benefits is conditional on the funded status of the pension fund. HEINEKEN pays contributions to the fund up to a maximum level agreed with the Board of the pension fund and has no obligation to make additional contributions in case of a funding deficit. In 2017, HEINEKEN's cash contribution to the Dutch pension plan was at the maximum level. The same level is expected to be paid in 2018.

Notes to the Consolidated Financial Statements (continued)

26. Employee benefits (continued)

HEINEKEN's UK plan (Scottish & Newcastle pension plan 'SNPP') was closed to future accrual in 2010 and the liabilities thus relate to past service before plan closure. Based on the triennial review finalised in early 2016, HEINEKEN has renewed the funding plan (until 31 May 2023) including an annual Company contribution of GBP37.5 million in 2017, thereafter increasing with GBP1.7 million per year. Deficit payments as of 2019 will be reviewed and may be replaced following the upcoming triennial valuation. No additional liability has been recognised as the net present value of the minimum funding requirement does not exceed the net obligation.

Other countries where HEINEKEN offers a defined benefit plan to (former) employees include: Austria (closed in 2007 to new entrants), Belgium, France, Greece (closed in 2014 to new entrants), Ireland (closed in 2012 to all future accrual), Jamaica (closed in 2017 to all future accrual), Mexico (plan changed to hybrid defined contribution for majority of employees in 2014), Nigeria (closed to new entrants in 2007), Portugal, Spain (closed to management in 2010 and changed to a defined contribution plan for actives in 2017) and Switzerland.

The vast majority of benefit payments are from pension funds that are held in trusts (or equivalent); however, there is a small portion where HEINEKEN meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by Trustee Boards composed of HEINEKEN representatives and independent and/or member representation, in accordance with local regulations and practice in each country. The relationship and division of responsibility between HEINEKEN and the Trustee Board (or equivalent) including investment decisions and contribution schedules are carried out in accordance with the plan's regulations.

In other countries, retirement benefits are provided to employees via defined contribution plans.

Other long-term employee benefits mainly relate to long-term bonus plans, termination benefits, medical plans and jubilee benefits.

Movement in net defined benefit obligation

The movement in the net defined benefit obligation over the year is as follows:

		Present value of defined benefit obligations		Fair value of defined benefit plan assets		Present value of net obligations	
In millions of €	Note	2017	2016	2017	2016	2017	2016
Balance as at 1 January		**9,170**	**8,873**	**(7,815)**	**(7,661)**	**1,355**	**1,212**
Included in profit or loss							
Current service cost		85	86	–	–	85	86
Past service cost/(credit)		5	1	–	–	5	1
Administration expense		–	–	4	2	4	2
Effect of any settlement		(35)	(1)	–	–	(35)	(1)
Expense recognised in personnel expenses	10	**55**	**86**	**4**	**2**	**59**	**88**
Interest expense/(income)	12	196	257	(163)	(217)	33	40
		251	**343**	**(159)**	**(215)**	**92**	**128**
Included in OCI							
Remeasurement loss/(gain):							
Actuarial loss/(gain) arising from							
Demographic assumptions		79	20	–	–	79	20
Financial assumptions		190	1,080	–	–	190	1,080
Experience adjustments		(31)	(139)	–	–	(31)	(139)
Return on plan assets excluding interest income		–	–	(327)	(660)	(327)	(660)
Effect of movements in exchange rates		(200)	(674)	165	557	(35)	(117)
		38	**287**	**(162)**	**(103)**	**(124)**	**184**
Other							
Changes in consolidation and reclassification		42	(1)	(49)	–	(7)	(1)
Contributions paid:							
By the employer		–	–	(136)	(168)	(136)	(168)
By the plan participants		23	23	(23)	(23)	–	–
Benefits paid		(385)	(355)	385	355	–	–
Settlements		(51)	–	51	–	–	–
		(371)	**(333)**	**228**	**164**	**(143)**	**(169)**
Balance as at 31 December		**9,088**	**9,170**	**(7,908)**	**(7,815)**	**1,180**	**1,355**

Notes to the Consolidated Financial Statements (continued)

Defined benefit plan assets

In millions of €	Quoted	Unquoted	Total 2017	Quoted	Unquoted	Total 2016
Equity instruments:						
Europe	**985**	**–**	**985**	1,092	–	1,092
Northern America	**556**	**–**	**556**	403	–	403
Japan	**109**	**–**	**109**	113	–	113
Asia other	**122**	**–**	**122**	47	–	47
Other	**330**	**180**	**510**	478	246	724
	2,102	**180**	**2,282**	**2,133**	**246**	**2,379**
Debt instruments:						
Corporate bonds – investment grade	**2,258**	**1,524**	**3,782**	2,673	1,537	4,210
Corporate bonds – non-investment grade	**240**	**476**	**716**	297	102	399
	2,498	**2,000**	**4,498**	**2,970**	**1,639**	**4,609**
Derivatives	**11**	**(1,333)**	**(1,322)**	10	(1,389)	(1,379)
Properties and real estate	**270**	**437**	**707**	230	362	592
Cash and cash equivalents	**626**	**3**	**629**	180	116	296
Investment funds	**675**	**244**	**919**	711	350	1,061
Other plan assets	**119**	**76**	**195**	3	254	257
	1,701	**(573)**	**1,128**	**1,134**	**(307)**	**827**
Balance as at 31 December	**6,301**	**1,607**	**7,908**	**6,237**	**1,578**	**7,815**

The HEINEKEN pension funds monitor the mix of debt and equity securities in their investment portfolios based on market expectations. Material investments within the portfolio are managed on an individual basis. Through its defined benefit pension plans, HEINEKEN is exposed to a number of risks, the most significant which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the plan assets is less than the return on the liabilities implied by this assumption, this will create a deficit. Both the Netherlands and the UK plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term, while providing volatility and risk in the short term.

In the Netherlands, an Asset-Liability Matching (ALM) study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 38% equity securities, 40% bonds, 7% property and real estate and 15% other investments. The objective is to hedge currency risk on the US dollar, Japanese yen and British pound for 50% of the equity exposure in the strategic investment mix.

In the UK, an Asset-Liability Matching study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 45% of plan assets in liability driven investments, 18% in absolute return, 16% in equities (global and emerging markets), 5.5% in alternatives and 15.5% in private markets. The objective is to hedge 100% of currency risk on developed non-GBP equity market exposures in the strategic investment mix.

Interest rate risk

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' fixed rate instruments holdings.

In the Netherlands, interest rate risk is partly managed through fixed income investments. These investments match the liabilities for 22.9% (2016: 22.9%). In the UK, interest rate risk is partly managed through the use of a mixture of fixed income investments and interest rate swap instruments. These investments and instruments match 32% of the interest rate sensitivity of the total liabilities (2016: 28%).

Notes to the Consolidated Financial Statements (continued)

26. Employee benefits (continued)

Inflation risk

Some of the pension obligations are linked to inflation. Higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation. The majority of the plan assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will increase the deficit.

HEINEKEN provides employees in the Netherlands with an average pay pension plan, whereby indexation of accrued benefits is conditional on the funded status of the pension fund. In the UK, inflation is partly managed through the use of a mixture of inflation-linked derivative instruments. These instruments match 35% of the inflation-linked liabilities (2016: 41%).

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflation-linked increases result in higher sensitivity to changes in life expectancy. In 2015, the Trustee of SNPP implemented a longevity hedge to remove the risk of a higher increase in life expectancy than anticipated for the 2015 population pensioners.

Principal actuarial assumptions as at the balance sheet date

Based on the significance of the Dutch and UK pension plans compared with the other plans, the table below only includes the major actuarial assumptions for those two plans as at 31 December:

	The Netherlands		UK*	
In %	**2017**	2016	**2017**	2016
Discount rate as at 31 December	**1.7**	1.5	**2.5**	2.7
Future salary increases	**2.0**	2.0	**–**	–
Future pension increases	**0.9**	0.4	**2.9**	3.1

* The UK plan closed for future accrual, leading to certain assumptions being equal to zero.

For the other defined benefit plans, the following actuarial assumptions apply at 31 December:

	Europe		Americas		Africa, Middle East & Eastern Europe	
In %	**2017**	2016	**2017**	2016	**2017**	2016
Discount rate as at 31 December	**0.7-4.5**	0.6-6.8	**7.0-8.0**	7.0-7.6	**1.7-14.5**	1.5-15.5
Future salary increases	**0.0-3.5**	0.0-3.5	**0.0-4.5**	0.0-4.5	**0.0-5.0**	0.0-5.0
Future pension increases	**0.0-1.5**	0.0-1.5	**0.0-3.5**	0.0-3.5	**0.0-2.6**	0.0-3.5
Medical cost trend rate	**0.0-4.5**	0.0-4.5	**0.0-7.5**	0.0-5.0	**0.0-5.0**	0.0-5.0

Assumptions regarding future mortality rates are based on published statistics and mortality tables. For the Netherlands, the rates are obtained from the 'AG-Prognosetafel 2016', fully generational. Correction factors (2016) from 'Sprenkels en Verschuren' are applied on these rates. For the UK, the future mortality rates are obtained by applying the Continuous Mortality Investigation 2014 projection model with an assumed long term rate of 1.5% p.a. to the Self-Administered Pension Schemes Series 2 (year of birth) tables with a 112% (male)/109% (female) weighting for pensioners and a 105% (male)/106% (female) weighting for non-pensioners.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 18 years.

HEINEKEN expects the 2018 contributions to be paid for the defined benefit plans to be in line with 2017.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2017		31 December 2016	
Effect in millions of €	**Increase in assumption**	**Decrease in assumption**	Increase in assumption	Decrease in assumption
Discount rate (0.5% movement)	**(738)**	**846**	(695)	798
Future salary growth (0.25% movement)	**15**	**(15)**	23	(22)
Future pension growth (0.25% movement)	**355**	**(302)**	332	(309)
Medical cost trend rate (0.5% movement)	**5**	**(5)**	5	(4)
Life expectancy (1 year)	**305**	**(302)**	300	(301)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

Notes to the Consolidated Financial Statements (continued)

27. Share-based payments – Long-Term Variable Award

HEINEKEN has a performance-based share plan (Long-Term Variable award (LTV)) for the Executive Board and senior management. Under this LTV plan, share rights are conditionally awarded to incumbents on an annual basis. The vesting of these rights is subject to the performance of Heineken N.V. on specific internal performance conditions and continued service over a three-year period.

The performance conditions for LTV 2015-2017, LTV 2016-2018 and LTV 2017-2019 are the same for the Executive Board and senior management and comprise solely of internal financial measures, being Organic Revenue Growth, Organic operating profit (as of LTV 2017-2019. LTV 2015-2017 and 2016-2018 are on Organic EBIT beia growth), Earnings Per Share (EPS) beia growth and Free Operating Cash Flow.

At target performance, 100% of the awarded share rights vest. At threshold performance, 50% of the awarded share rights vest. At maximum performance, 200% of the awarded share rights vest for the Executive Board as well as senior managers contracted by the US, Mexico, Brazil and Singapore, and 175% vest for all other senior managers. As per LTIP 2017-2019 the maximum performance is set at 200% for all senior managers.

The performance period for the aforementioned plans are:

LTV	Performance period start	Performance period end
2015-2017	1 January 2015	31 December 2017
2016-2018	1 January 2016	31 December 2018
2017-2019	1 January 2017	31 December 2019

The vesting date for the Executive Board is shortly after the publication of the annual results of 2017, 2018 and 2019 respectively and for senior management on 1 April 2018, 2019 and 2020 respectively.

As HEINEKEN will withhold the tax related to vesting on behalf of the individual employees, the number of Heineken N.V. shares to be received will be a net number. The share rights are not dividend-bearing during the performance period. The fair value has been adjusted for expected dividends by applying a discount based on the dividend policy and historical dividend payouts, during the vesting period.

The number of share rights granted and share price at grant date are as follows:

Grant date/employees entitled	Number*	Based on share price
Share rights granted to Executive Board in 2015	54,903	58.95
Share rights granted to senior management in 2015	534,298	58.95
Share rights granted to Executive Board in 2016	34,278	78.77
Share rights granted to senior management in 2016	398,850	78.77
Share rights granted to Executive Board in 2017	**37,890**	**71.26**
Share rights granted to senior management in 2017	**472,116**	**71.26**

* The number of shares is based on at target payout performance (100%).

Under the LTV 2014-2016, a total of 61,508 (gross) shares vested for the Executive Board and 740,873 (gross) shares vested for senior management. The number of shares vested for the Executive Board only relates to Mr. Jean-François van Boxmeer, as Ms. Laurence Debroux received LTI as per LTIP 2015-2017.

Based on the performance conditions, it is expected that approximately 689,495 shares of the LTV 2015-2017 will vest in 2018 for senior management and the Executive Board.

The number, as adjusted for the expected performance for the various awards, and weighted average share price per share under the LTV of senior management and Executive Board are as follows:

	Weighted average share price 2017	**Number of share rights 2017**	Weighted average share price 2016	Number of share rights 2016
Outstanding as at 1 January	**60.40**	**1,873,347**	**52.26**	**1,854,782**
Granted during the year	**71.26**	**510,006**	78.77	433,128
Forfeited during the year	**69.41**	**(55,103)**	58.33	(121,026)
Vested during the year	**49.08**	**(802,381)**	50.47	(785,236)
Performance adjustment	**–**	**740,773**	–	491,699
Outstanding as at 31 December	**69.54**	**2,266,642**	**60.40**	**1,873,347**

Under the extraordinary share plans for senior management 1,489 shares were granted and 18,647 (gross) shares vested. These extraordinary grants only have a service condition and vest between one and five years. The expenses relating to these additional grants are recognised in profit or loss during the vesting period. Expenses recognised in 2017 are €1,0 million (2016: €1.3 million).

Matching shares, extraordinary shares and retention share awards granted to the Executive Board are disclosed in note 33.

Notes to the Consolidated Financial Statements (continued)

27. Share-based payments – Long-Term Variable Award (continued)

Personnel expenses

In millions of €	Note	2017	2016
Share rights granted in 2014		–	16
Share rights granted in 2015		18	12
Share rights granted in 2016		17	14
Share rights granted in 2017		20	–
Total expense recognised in personnel expenses	10	**55**	**42**

28. Provisions

In millions of €	Restructuring	Onerous contracts	Claims and litigation	Other	Total
Balance as at 1 January 2017	**99**	**50**	**149**	**158**	**456**
Changes in consolidation	–	24	323	519	866
Provisions made during the year	70	33	50	68	221
Provisions used during the year	(45)	(17)	(35)	(12)	(109)
Provisions reversed during the year	(19)	(31)	(48)	(99)	(197)
Effect of movements in exchange rates	(1)	(3)	(48)	(51)	(103)
Unwinding of discounts	–	–	12	2	14
Balance as at 31 December 2017	**104**	**56**	**403**	**585**	**1,148**
Non-current	40	19	388	523	970
Current	64	37	15	62	178

Restructuring

The provision for restructuring of €104 million (2016: €99 million) mainly relates to restructuring programmes in Spain and the Netherlands. For large restructurings, management assesses the timing of the costs to be incurred, which influences the classification as current or non-current liabilities.

Claims and litigation

The provision for claims and litigation of €403 million mainly relates to the litigation inherited from the acquisition of Brasil Kirin, as well as the beer operations of FEMSA in 2010 (refer to note 32). Management assesses provisions for claims and litigation on an ongoing basis. The outcome depends on future events, which are by nature uncertain. In assessing the likely outcome of lawsuits and tax disputes etc., management bases its assessment on internal and external legal assistance and established precedents.

Other provisions

Included are, among others, surety and guarantees provided of €42 million (2016: €35 million) and provisions for taxes of €498 million (2016: €56 million). The increase mainly relates to the acquisition of Brasil Kirin (refer to note 4 and 6) as tax legislation in Brazil is highly complex and subject to interpretation. The timing of the cash outflows for these provisions is uncertain.

Notes to the Consolidated Financial Statements (continued)

29. Trade and other payables

In millions of €	Note	2017	2016
Trade payables		**3,430**	2,934
Accruals		**1,344**	1,263
Taxation and social security contributions		**924**	879
Returnable packaging deposits		**607**	628
Interest		**168**	129
Derivatives		**21**	75
Dividends		**30**	45
Other payables		**232**	271
	30	**6,756**	**6,224**

The returnable packaging liability is based on the expected return of delivered returnable packaging materials with a deposit such as bottles, crates and kegs, where HEINEKEN has the legal or constructive obligation to buy back the materials. The expected return is determined based on measured circulation times and historical losses of returnable packaging materials in the market.

30. Financial risk management and financial instruments

Overview

HEINEKEN has exposure to the following risks from its use of financial instruments, as they arise in the normal course of HEINEKEN's business:

– Credit risk

– Liquidity risk

– Market risk

This note presents information about HEINEKEN's exposure to each of the above risks, and it summarises HEINEKEN's policies and processes that are in place for measuring and managing risk, including those related to capital management. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Executive Board, under the supervision of the Supervisory Board, has overall responsibility and sets rules for HEINEKEN's risk management and control systems. They are reviewed regularly to reflect changes in market conditions and HEINEKEN's activities. The Executive Board oversees the adequacy and functioning of the entire system of risk management and internal control, assisted by HEINEKEN Group departments.

The Global Treasury function focuses primarily on the management of financial risk and financial resources. Some of the risk management strategies include the use of derivatives, primarily in the form of spot and forward exchange contracts and interest rate swaps, but options can be used as well. It is HEINEKEN's policy that no speculative transactions are entered into.

Credit risk

Credit risk is the risk of financial loss to HEINEKEN if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and it arises principally from HEINEKEN's receivables from customers and investment securities.

All local operations are required to comply with the principles contained within the Global Credit Policy and develop local credit management procedures accordingly. HEINEKEN regularly reviews and updates the Global Credit Policy ensuring that adequate controls are in place to mitigate any identified risks in respect of customer credit risk.

As at the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial instrument, including derivative financial instruments, in the consolidated statement of financial position.

Loans and advances to customers

HEINEKEN's exposure to credit risk is mainly influenced by the individual characteristics of each customer. HEINEKEN's loans and receivables include loans and advances to customers, issued based on a loan or advance contract. Loans and advances to customers are secured by, among others, rights on property or intangible assets, such as the right to take possession of the premises of the customer. On loans to customers interest rates calculated by HEINEKEN are at least based on the risk-free rate plus a margin, which takes into account the risk profile of the customer and value of security given.

In a few countries HEINEKEN provides guarantees to third parties who issue loans to our customers.

Notes to the Consolidated Financial Statements (continued)

30. Financial risk management and financial instruments (continued)

Trade and other receivables

HEINEKEN's local management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Under the credit policies, all customers requiring credit over a certain amount are reviewed and new customers are analysed individually for creditworthiness before HEINEKEN's standard payment and delivery terms and conditions are offered. HEINEKEN's review can include external ratings, where available, and in some cases bank references. Credit limits are established for each customer and these limits are reviewed regularly. Customers that fail to meet HEINEKEN's benchmark creditworthiness may transact with HEINEKEN only on a prepayment basis.

In monitoring customer credit risk customers are, on a country basis, grouped according to their credit characteristics, including whether they are an individual or legal entity, which type of distribution channel they represent, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. Customers that are graded as high risk are placed on a restricted customer list, and sales are made on strict payment conditions only with approval of management. In addition HEINEKEN issued an Anti-Money Laundering and Sanction Letter to safeguard our reputation and operations. HEINEKEN considers it important to know with whom business is done and from whom HEINEKEN is receiving payments.

HEINEKEN has multiple distribution models to deliver goods to end customers. Deliveries are done via own wholesalers, directly or via third parties, depending the countries specifics. As such distribution models are country-specific and diverse across HEINEKEN, the results and the balance sheet items cannot be split between types of customers on a consolidated basis. The various distribution models are also not centrally managed or monitored.

Allowances

HEINEKEN establishes allowances for impairment of loans, trade and other receivables that represent the estimate of incurred losses. The main components of these allowances are specific loss components that relates to individually exposures, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics.

Investments

HEINEKEN limits its exposure to credit risk by only investing available cash balances in deposits and liquid securities and only with counterparties that have strong credit ratings. HEINEKEN actively monitors these credit ratings.

Guarantees

HEINEKEN's policy is to avoid issuing guarantees where possible unless this leads to substantial benefits for HEINEKEN. In cases where HEINEKEN does provide guarantees, such as to banks for loans (to third parties), HEINEKEN aims to receive security from the third party.

Heineken N.V. has issued a joint and several liability statement to the provisions of Section 403, Part 9, Book 2 of the Dutch Civil Code with respect to legal entities established in the Netherlands. Refer to Note 42 of the Company financial statements.

Exposure to credit risk

The carrying amount of financial assets and guarantees to banks for loans represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In millions of €	Note	2017	2016*
Cash and cash equivalents	21	2,442	3,035
Trade and other receivables, excluding derivatives	20	3,277	3,004
Current derivatives	20	219	48
Available-for-sale investments	17	481	427
Non-current derivatives and investments FVTPL	17	36	254
Loans to customers	17	54	58
Advances to customers		277	274
Loans to joint ventures and associates	17	3	18
Other non-current receivables	17	193	175
Guarantees to banks for loans (to third parties)	32	307	335
		7,289	7,628

* Revised to include advances to customers.

Notes to the Consolidated Financial Statements (continued)

The maximum exposure to credit risk for trade and other receivables (excluding current derivatives) at the reporting date by geographic region was:

In millions of €	2017	2016
Europe	1,435	1,412
Americas	836	636
Africa, Middle East & Eastern Europe	441	444
Asia Pacific	364	349
Head Office and Other/eliminations	201	163
	3,277	3,004

Impairment losses

The ageing of trade and other receivables (excluding current derivatives) at the reporting date was:

In millions of €	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
Not past due	2,477	(46)	2,499	(32)
Past due 0 – 30 days	487	(19)	238	(8)
Past due 31 – 120 days	255	(42)	263	(67)
More than 120 days	511	(346)	452	(341)
	3,730	(453)	3,452	(448)

The movement in the allowance for impairment in respect of trade and other receivables (excluding current derivatives) during the year was as follows:

In millions of €	2017	2016
Balance as at 1 January	**448**	**441**
Changes in consolidation	55	–
Impairment loss recognised	105	106
Allowance used	(45)	(37)
Allowance released	(92)	(49)
Effect of movements in exchange rates	(18)	(13)
Balance as at 31 December	**453**	**448**

The movement in the allowance for impairment in respect of loans and advances to customers during the year was as follows:

In millions of €	2017	2016*
Balance as at 1 January	**132**	**142**
Changes in consolidation	–	–
Impairment loss recognised	8	3
Allowance used	(2)	–
Allowance released	(8)	(9)
Effect of movements in exchange rates	(1)	(4)
Other	16	–
Balance as at 31 December	**145**	**132**

*Revised to reflect inclusion of advances to customers.

Impairment losses recognised for trade and other receivables (excluding current derivatives), loans and advances to customers are part of the other non-cash items in the consolidated statement of cash flows.

A net impairment loss of €13 million (2016: €57 million) in respect of trade and other receivables and in respect of loans and advances to customers nil (2016: €7 million gain) were included in expenses for raw materials, consumables and services.

The allowance accounts in respect of trade and other receivables and held-to-maturity investments are used to record impairment losses, unless HEINEKEN is satisfied that no recovery of the amount owing is possible; at that point, the amount considered irrecoverable is written off against the financial asset.

Notes to the Consolidated Financial Statements (continued)

30. Financial risk management and financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that HEINEKEN will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. HEINEKEN's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to HEINEKEN's reputation.

HEINEKEN has a clear focus on ensuring sufficient access to capital markets to finance long-term growth and to refinance maturing debt obligations. Financing strategies, including the diversification of funding sources are under continuous evaluation (information about borrowing facilities is presented in Note 25). In addition, HEINEKEN seeks to align the maturity profile of its long-term debts with its forecasted cash flow generation. Strong cost and cash management and controls over investment proposals are in place to ensure effective and efficient allocation of financial resources.

Contractual maturities

The following are the contractual maturities of non-derivative financial liabilities and derivative financial assets and liabilities, including interest payments:

						2017
In millions of €	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
Financial liabilities						
Interest-bearing liabilities	**(15,378)**	**(18,549)**	**(3,580)**	**(1,397)**	**(3,877)**	**(9,695)**
Trade and other payables (excluding interest payable, dividends and derivatives and including non-current part)	**(6,577)**	**(6,577)**	**(6,505)**	**(18)**	**(20)**	**(34)**
Derivative financial assets and (liabilities)						
Interest rate swaps used for hedge accounting (net)	**57**	**79**	**136**	**5**	**16**	**(78)**
Interest rate swaps not used for hedge accounting, (net)	**4**	**(18)**	**(7)**	**(6)**	**(5)**	**–**
Forward exchange contracts used for hedge accounting (net)	**46**	**29**	**30**	**(1)**	**–**	**–**
Commodity derivatives used for hedge accounting (net)	**77**	**78**	**46**	**6**	**26**	**–**
Derivatives not used for hedge accounting (net)	**(7)**	**(8)**	**(8)**	**–**	**–**	**–**
	(21,778)	**(24,966)**	**(9,888)**	**(1,411)**	**(3,860)**	**(9,807)**

						2016
In millions of €	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Financial liabilities						
Interest-bearing liabilities	(14,570)	(16,792)	(4,006)	(1,703)	(4,895)	(6,188)
Trade and other payables (excluding interest payable, dividends and derivatives and including non-current part)	(5,994)	(5,994)	(5,963)	(16)	(2)	(13)
Derivative financial assets and (liabilities)						
Interest rate swaps used for hedge accounting (net)	242	283	17	266	–	–
Forward exchange contracts used for hedge accounting (net)	(23)	(32)	(24)	(8)	–	–
Commodity derivatives used for hedge accounting (net)	11	11	4	2	5	–
Derivatives not used for hedge accounting (net)	(13)	(14)	(14)	–	–	–
	(20,347)	**(22,538)**	**(9,986)**	**(1,459)**	**(4,892)**	**(6,201)**

Notes to the Consolidated Financial Statements (continued)

The total carrying amount and contractual cash flows of derivatives are included in trade and other receivables (refer to note 20), other investments (refer to note 17), trade and other payables (refer to note 29) and non-current non-interest-bearing liabilities (refer to note 25).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will adversely affect HEINEKEN's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

HEINEKEN uses derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. Generally, HEINEKEN seeks to apply hedge accounting or make use of natural hedges in order to minimise the effects of foreign currency fluctuations in profit or loss.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, commodity swaps, spot and forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules approved and monitored by the Executive Board.

Foreign currency risk

HEINEKEN is exposed to foreign currency risk on (future) sales, (future) purchases, borrowings and dividends that are denominated in a currency other than the respective functional currencies of HEINEKEN entities. The main currencies that give rise to this risk are the US dollar, Mexican peso, Nigerian naira, British pound, Vietnamese dong and Euro. In 2017, the transactional exchange risk was hedged in line with the hedging policy to the extent possible, the resulting impact from currency movements was therefore partly mitigated. The negative translational impact was more profound.

In managing foreign currency risk, HEINEKEN aims to ensure the availability of these foreign currencies and to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in foreign exchange rates and the availability of foreign currencies, especially in emerging markets, will have an impact on profit.

HEINEKEN hedges up to 90% of its net US dollar export cash flows on the basis of rolling cash flow forecasts in respect to forecasted sales and purchases. Cash flows in other foreign currencies are also hedged on the basis of rolling cash flow forecasts. HEINEKEN mainly uses forward exchange contracts to hedge its foreign currency risk. The majority of the forward exchange contracts have maturities of less than one year after the balance sheet date.

HEINEKEN has a clear policy on hedging transactional exchange risks, which postpones the impact on financial results. Translation exchange risks are hedged to a limited extent, as the underlying currency positions are generally considered to be long term in nature. The result of the net investment hedging is recognised in the translation reserve, as can be seen in the consolidated statement of comprehensive income.

It is HEINEKEN's policy to provide intra-HEINEKEN financing in the functional currency of subsidiaries where possible to prevent foreign currency exposure on a subsidiary level. The resulting exposure at Group level is hedged by means of foreign currency denominated external debts and by forward exchange contracts. Intra-HEINEKEN financing in foreign currencies is mainly in British pounds, US dollars, Polish zloty and New Zealand dollar. In some cases, HEINEKEN elects to treat intra-HEINEKEN financing with a permanent character as equity and does not hedge the foreign currency exposure.

HEINEKEN maintains debt in foreign currencies like US dollar and British pound to hedge local operations, which generate cash flows that have the same respective functional currencies or have functional currencies that are closely correlated. Corresponding interest on these borrowings is also denominated in currencies that match the cash flows generated by the underlying operations of HEINEKEN.

In respect of other monetary assets and liabilities denominated in currencies other than the functional currencies of HEINEKEN and the various foreign operations, HEINEKEN ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Notes to the Consolidated Financial Statements (continued)

30. Financial risk management and financial instruments (continued)

Exposure to foreign currency risk

HEINEKEN's transactional exposure to the US dollar and Euro was as follows based on notional amounts. The Euro column relates to transactional exposure to the Euro within subsidiaries which are reporting in other currencies. Included in the amounts are intra-HEINEKEN cash flows.

	2017		2016	
In millions	**EUR**	**USD**	EUR	USD
Financial assets	**85**	**4,997**	146	5,260
Financial liabilities	**(2,284)**	**(6,657)**	(1,291)	(6,338)
Gross balance sheet exposure	**(2,199)**	**(1,660)**	**(1,145)**	**(1,078)**
Estimated forecast sales next year	**153**	**1,321**	207	1,330
Estimated forecast purchases next year	**(1,578)**	**(2,011)**	(1,965)	(1,818)
Gross exposure	**(3,624)**	**(2,350)**	**(2,903)**	**(1,566)**
Net notional amounts foreign exchange contracts	**411**	**1,670**	433	884
Net exposure	**(3,213)**	**(680)**	**(2,470)**	**(682)**
Sensitivity analysis				
Equity	**(149)**	**1**	(59)	(15)
Profit or loss	**(13)**	**(9)**	(4)	1

Sensitivity analysis

A 10% strengthening of the US dollar against the Euro or, in case of the Euro, a strengthening of the Euro against all other currencies as at 31 December would have affected the value of financial assets and liabilities (related to transactional exposure) recorded on the balance sheet and would have therefore decreased (increased) equity and profit by the amounts shown above. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% weakening of the US dollar against the Euro or, in case of the Euro, a weakening of the Euro against all other currencies as at 31 December would have had the equal but opposite effect on the basis that all other variables remain constant.

Interest rate risk

In managing interest rate risk, HEINEKEN aims to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit.

HEINEKEN opts for a mix of fixed and variable interest rates in its financing operations, combined with the use of interest rate instruments. Currently, HEINEKEN's interest rate position is more weighted towards fixed than floating. Interest rate instruments that can be used are (cross-currency) interest rate swaps, forward rate agreements, caps and floors.

Swap maturity follows the maturity of the related loans and borrowings which have swap rates for the fixed leg ranging from 2.3 to 6.5% (2016: from 3.8 to 6.5%).

Notes to the Consolidated Financial Statements (continued)

Interest rate risk – profile

At the reporting date, the interest rate profile of HEINEKEN's interest-bearing financial instruments was as follows:

In millions of €	2017	2016
Fixed rate instruments		
Financial assets	75	83
Financial liabilities	(13,002)	(11,984)
Net interest rate swaps	417	–
	(12,510)	(11,901)
Variable rate instruments		
Financial assets	2,599	3,214
Financial liabilities	(2,376)	(2,587)
Net interest rate swaps	(463)	–
	(240)	627

Cash flow sensitivity analysis for variable rate instruments

HEINEKEN applies fair value hedge accounting on certain fixed rate financial liabilities and designates derivatives as hedging instruments. A change of 100 basis points in interest rates constantly applied during the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below (after tax). This analysis assumes that all other variables, in particular foreign currency rates, remain constant and excludes any possible change in fair value of derivatives at period-end because of a change in interest rates. This analysis is performed on the same basis as for 2016.

	Profit or loss		Equity	
In millions of €	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2017				
Variable rate instruments	2	(2)	2	(2)
Net interest rate swaps	(3)	3	(3)	3
Cash flow sensitivity (net)	(1)	1	(1)	1
31 December 2016				
Variable rate instruments	5	(5)	5	(5)
Net interest rate swaps	–	–	–	–
Cash flow sensitivity (net)	5	(5)	5	(5)

Commodity price risk

Commodity price risk is the risk that changes in commodity prices will affect HEINEKEN's income. The objective of commodity price risk management is to manage and control commodity risk exposures within acceptable parameters, while optimising the return on risk. The main commodity exposure relates to the purchase of cans, glass bottles, malt and utilities. Commodity price risk is in principle addressed by negotiating fixed prices in supplier contracts with various contract durations. So far, commodity hedging with financial counterparties by HEINEKEN has been limited to aluminium hedging and to a limited extent gas, sugar and grains hedging, which are done in accordance with risk policies. HEINEKEN does not enter into commodity contracts other than to meet HEINEKEN's expected usage and sale requirements. As at 31 December 2017, the market value of commodity swaps was €77 million positive (2016: €11 million positive).

Notes to the Consolidated Financial Statements (continued)

30. Financial risk management and financial instruments (continued)

Sensitivity analysis for aluminium hedges

The table below shows an estimated pre-tax impact of 10% change in the market price of aluminium.

In millions of €	Equity 10% increase	Equity 10% decrease
31 December 2017		
Aluminium hedges	**50**	**(50)**

Cash flow hedges

The following table indicates the carrying amount of derivatives and the periods in which all the cash flows associated with derivatives that are cash flow hedges are expected to occur:

In millions of €						2017
	Carrying amount	**Expected cash flows**	**Less than 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
Cross-currency interest rate swaps						
Assets	**113**	**978**	**978**	**–**	**–**	**–**
Liabilities	**–**	**(847)**	**(847)**	**–**	**–**	**–**
Forward exchange contracts						
Assets	**50**	**1,159**	**1,126**	**33**	**–**	**–**
Liabilities	**(4)**	**(1,130)**	**(1,096)**	**(34)**	**–**	**–**
Commodity derivatives						
Assets	**81**	**81**	**49**	**6**	**26**	**–**
Liabilities	**(4)**	**(2)**	**(2)**	**–**	**–**	**–**
	236	**239**	**208**	**5**	**26**	**–**

In millions of €						2016
	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Cross-currency interest rate swaps						
Assets	242	1,167	55	1,112	–	–
Liabilities	–	(885)	(38)	(847)	–	–
Forward exchange contracts						
Assets	33	1,302	1,144	158	–	–
Liabilities	(56)	(1,335)	(1,169)	(166)	–	–
Commodity derivatives						
Assets	24	24	12	7	5	–
Liabilities	(13)	(13)	(8)	(5)	–	–
	230	**260**	**(4)**	**259**	**5**	**–**

The periods in which the cash flows associated with forward exchange contracts that are cash flow hedges are expected to impact profit or loss is typically one or two months earlier than the occurrence of the cash flows as in the above table.

HEINEKEN has entered into several cross-currency interest rate swaps which have been designated as cash flow hedges to hedge the foreign exchange rate risk on the principal amount and future interest payments of its US dollar borrowings. The borrowings and the cross-currency interest rate swaps have the same critical terms.

Notes to the Consolidated Financial Statements (continued)

Fair value hedges

The following table indicates the carrying amount of derivatives and the periods in which all the cash flows associated with derivatives that are fair value hedges are expected to occur:

						2017
In millions of €	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Cross-currency interest rate swaps						
Assets		481	12	12	35	422
Liabilities	(48)	(463)				(463)
	(48)	**18**	**12**	**12**	**35**	**(41)**

In 2017 HEINEKEN has entered into several cross-currency interest rate swaps which have been designated as fair value hedges to hedge the foreign exchange rate risk on the principal amount and future interest payments of its certain US dollar borrowings. The borrowings and the cross-currency interest rate swaps have the same critical terms.

The loss arising on derivatives as designated hedging instruments in fair value hedges amounts to €48 million. The gain arising on the adjustment for the hedged item attributable to the hedged risk in a designated fair value hedge accounting relationship amounts to €48 million.

Net investment hedges

HEINEKEN hedges its investments in certain subsidiaries by entering into local currency denominated borrowings and cross-currency interest rate swaps, which mitigate the foreign currency translation risk arising from the subsidiaries net assets. These borrowings and swaps are designated as net investment hedges and fully effective as such there was no ineffectiveness recognised in profit and loss in 2017 (2016: nil). The fair value of these borrowings at 31 December 2017 was €475 million (2016: €506 million) and the market value of these swaps at 31 December 2017 was €8 million negative (2016: nil).

Capital management

There were no major changes in HEINEKEN's approach to capital management during the year. The Executive Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and acquisitions. Capital is herein defined as equity attributable to equity holders of the Company (total equity minus non-controlling interests).

HEINEKEN is not subject to externally imposed capital requirements other than the legal reserves explained in note 22. Shares are purchased to meet the requirements of the share-based payment awards, as further explained in note 27.

Fair values

For bank loans and finance lease liabilities the carrying amount is a reasonable approximation of fair value. The fair value of the unsecured bond issues as at 31 December 2017 was €12,660 million (2016: €11,292 million) and the carrying amount was €11,948 million (2016: €10,683 million). The fair value of the other interest-bearing liabilities as at 31 December 2017 was €1,535 million (2016: €1,662 million) and the carrying amount was €1,515 million (2016: €1,597 million).

Basis for determining fair values

The significant methods and assumptions used in estimating the fair values of financial instruments are discussed in note 4.

Notes to the Consolidated Financial Statements (continued)

30. Financial risk management and financial instruments (continued)

Fair value hierarchy

The tables below present the financial instruments accounted for at fair value and amortised cost by level of the following fair value measurement hierarchy:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)

– Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

31 December 2017	Level 1	Level 2	Level 3
Available-for-sale investments	**396**	**–**	**84**
Non-current derivative assets	**–**	**36**	**–**
Current derivative assets	**–**	**219**	**–**
	396	**255**	**84**
Non-current derivative liabilities	**–**	**(57)**	**–**
Loans and borrowings	**(12,660)**	**(1,535)**	**–**
Current derivative liabilities	**–**	**(21)**	**–**
	(12,660)	**(1,613)**	**–**

31 December 2016	Level 1	Level 2	Level 3
Available-for-sale investments	342	–	85
Non-current derivative assets	–	254	–
Current derivative assets	–	48	–
	342	**302**	**85**
Non-current derivative liabilities	–	(10)	–
Loans and borrowings	(11,292)	(1,662)	–
Current derivative liabilities	–	(75)	–
	(11,292)	**(1,747)**	**–**

During the period ended 31 December 2017 there were no significant transfers between the three levels of the fair value hierarchy.

Level 2

HEINEKEN determines level 2 fair values for over-the-counter securities based on broker quotes. The fair values of simple over-the-counter derivative financial instruments are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where available.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates. These calculations are tested for reasonableness by comparing the outcome of the internal valuation with the valuation received from the counterparty. Fair values reflect the credit risk of the instrument and include adjustments to take into account the credit risk of HEINEKEN and counterparty when appropriate.

Notes to the Consolidated Financial Statements (continued)

Level 3

Details of the determination of level 3 fair value measurements as at 31 December 2017 are set out below:

In millions of €	2017	2016
Available-for-sale investments based on level 3		
Balance as at 1 January	**85**	**84**
Fair value adjustments recognised in other comprehensive income	2	(2)
Disposals	1	–
Transfer between levels	–	3
Transfer to associate	(4)	–
Balance as at 31 December	**84**	**85**

The fair values for the level 3 available-for-sale investments are based on the financial performance of the investments and the market multiples of comparable equity securities.

31. Off-balance sheet commitments

In millions of €	Total 2017	Less than 1 year	1-5 years	More than 5 years	2016
Operational lease commitments	1,704	269	645	790	1,460
Property, plant and equipment ordered	329	285	26	18	128
Raw materials purchase contracts	6,153	2,433	2,580	1,140	5,287
Marketing and merchandising commitments	647	242	401	4	391
Other off-balance sheet obligations	2,092	304	716	1,072	1,542
Off-balance sheet obligations	**10,925**	**3,533**	**4,368**	**3,024**	**8,808**
Undrawn committed bank facilities	**3,929**	**59**	**3,870**	**–**	**2,747**

HEINEKEN leases offices, warehouses, pubs, cars and other equipment in the ordinary course of business.

Raw material contracts include long-term purchase contracts with suppliers in which prices are fixed or will be agreed based upon predefined price formulas. These contracts mainly relate to malt, bottles and cans. The raw materials purchase commitments relate to purchase contracts with EMPAQUE which has become a third party supplier after the disposal in 2015.

During the year ended 31 December 2017, €364 million (2016: €302 million) was recognised as an expense in profit or loss in respect of operating leases and rent.

Other off-balance sheet obligations include energy, distribution and service contracts.

Committed bank facilities are credit facilities on which a commitment fee is paid as compensation for the bank's requirement to reserve capital. The bank is legally obliged to provide the facility under the terms and conditions of the agreement.

Notes to the Consolidated Financial Statements (continued)

32. Contingencies

HEINEKEN's significant contingencies are described below.

Tax

HEINEKEN operates in a high number of jurisdictions, and is subject to a wide variety of taxes per jurisdiction. Tax legislation can be highly complex and subject to interpretation. As a result, HEINEKEN is required to exercise significant judgement in the recognition of taxes payable and determination of tax contingencies.

The tax contingencies mainly relate to tax positions in Latin America and include a large number of cases with a risk assessment lower than probable but higher than remote. Assessing the amount of tax contingencies is highly judgemental, and the timing of possible outflows is uncertain. Our best estimate of tax related contingent liabilities is €897 million (2016: €443 million), out of which €170 million (2016: €188 million) qualifies for indemnification. For several tax contingencies that were part of acquisitions, an amount of €382 million (2016: €98 million) has been recognised as provisions in the balance sheet.

Other contingencies

HEINEKEN also has other contingencies, for which, in the opinion of management and its legal counsel, the risk of loss is possible but not probable. Contingencies involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. The most significant contingencies relate to civil cases in Brazil. Management's best estimate of the financial effect for these cases is €57 million (2016: €14 million). For the other contingencies that were part of acquisitions, an amount of €49 million (2016: nil) has been recognised on balance.

Guarantees

In millions of €	Total 2017	Less than 1 year	1-5 years	More than 5 years	Total 2016
Guarantees to banks for loans (to third parties)	307	94	202	11	335
Other guarantees	978	149	431	398	771
Guarantees	**1,285**	**243**	**633**	**409**	**1,106**

Guarantees to banks for loans relate to loans and advanced discounts to customers, which are given to external parties in the ordinary course of business of HEINEKEN. HEINEKEN provides guarantees to the banks to cover the risk related to these loans. The increase in other guarantees mainly relates to the acquisition of Brasil Kirin.

Notes to the Consolidated Financial Statements (continued)

33. Related parties

Identification of related parties

HEINEKEN's parent company is Heineken Holding N.V. HEINEKEN's ultimate controlling party is Mrs. de Carvalho-Heineken. Our shareholder structure is set out in the section 'Shareholder Information'.

In addition, HEINEKEN has related party relationships with its associates and joint ventures (refer to note 16), HEINEKEN pension funds (refer to note 26), Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), employees (refer to note 25) and with its key management personnel (the Executive Board and the Supervisory Board).

Best practice provisions 2.7.3, 2.7.4 and 2.7.5 of the Dutch Corporate Governance Code of 8 December 2016 have been observed where relevant in regard to transactions with related parties.

Key management remuneration

In millions of €	2017	2016
Executive Board	**13.3**	13.0
Supervisory Board	**1.0**	1.0
Total	**14.3**	**14.0**

Executive Board

The remuneration of the members of the Executive Board consists of a fixed component and a variable component. The variable component is made up of a Short-term variable pay (STV) and a Long-term variable award (LTV). The STV is based on financial and operational measures (75%) and on individual leadership measures (25%) as set by the Supervisory Board. For the LTV award we refer to note 27. The separate Remuneration Report is stated on pages 48–56.

As at 31 December 2017, Mr. Jean-François van Boxmeer held 240,695 Company shares and Mrs. Laurence Debroux held 11,829 Company shares (2016: Mr. Jean-François van Boxmeer 217,276, Mrs. Laurence Debroux 7,069).

			2017			2016
In thousands of €	**J.F.M.L. van Boxmeer**	**L. Debroux**	**Total**	J.F.M.L. van Boxmeer	L. Debroux	Total
Fixed salary	**1,200**	**720**	**1,920**	1,200	720	1,920
Short-Term Variable pay	**2,736**	**1,173**	**3,909**	3,360	1,440	4,800
Matching share entitlement	**622**	**266**	**888**	751	322	1,073
Long-Term Variable award	**3,623**	**1,739**	**5,362**	3,204	711	3,915
Extraordinary share award/Retention bonus	**–**	**–**	**–**	–	22	22
Pension contributions	**858**	**142**	**1,000**	944	139	1,083
Other emoluments	**21**	**163**	**184**	21	160	181
Total	**9,060**	**4,203**	**13,263**	**9,480**	**3,514**	**12,994**

The matching share entitlements for each year are based on the performance in that year. The Executive Board members receive 25% of their STV pay in (investment) shares. In addition they have the opportunity to indicate before year-end whether they wish to receive up to another 25% of their STV pay in (investment) shares. All (investment) shares are restricted for sale for five calendar years, after which they are matched 1:1 by (matching) shares. For 2017 the Executive Board members did not elect to receive additional (investment) shares, hence the 'Matching share entitlement' in the table above is based on a 25% investment. In 2016 the investment was 25% for both Executive Board members. From an accounting perspective the corresponding matching shares vest immediately and as such a fair value of €0.9 million was recognised in the 2017 income statement. The matching share entitlements are not dividend-bearing during the five calendar year holding period of the investment shares. Therefore, the fair value of the matching share entitlements has been adjusted for missed expected dividends by applying a discount based on the dividend policy and vesting period.

Notes to the Consolidated Financial Statements (continued)

33. Related parties (continued)

Supervisory Board

The individual members of the Supervisory Board received the following remuneration:

In thousands of €	2017	2016
G.J. Wijers	160	163
J.A. Fernández Carbajal	114	109
M. Das	85	88
M.R. de Carvalho	90	96
A.M. Fentener van Vlissingen	85	91
V.C.O.B.J. Navarre	70	74
J.G. Astaburuaga Sanjinés	99	99
H. Scheffers[1]	40	83
J.M. Huët	82	88
P. Mars-Wright[2]	95	49
Y. Brunini[3]	70	44
M.E. Minnick[4]	–	28
	990	1,012

[1] Stepped down as at 20 April 2017.
[2] Appointed as at 21 April 2016.
[3] Appointed as at 21 April 2016.
[4] Stepped down as at 21 April 2016.

Mr. Michel de Carvalho held 100,008 shares of Heineken N.V. as at 31 December 2017 (2016: 100,008 shares) and A.M. Fentener van Vlissingen 8,000 shares (2016: 0). As at 31 December 2017 and 2016, the Supervisory Board members did not hold any of the Company's bonds or option rights. Mr. Michel de Carvalho held 100,008 ordinary shares of Heineken Holding N.V. as at 31 December 2017 (2016: 100,008 ordinary shares).

Other related party transactions

	Transaction value		Balance outstanding as at 31 December	
In millions of €	2017	2016	2017	2016
Sale of products, services and royalties				
To associates and joint ventures	300	441	88	95
To FEMSA	1,168	797	238	170
	1,468	1,238	326	265
Purchase of raw materials, consumables and services				
From associates and joint ventures – goods for resale	63	5	6	–
From associates and joint ventures – other	416	370	62	37
From FEMSA	168	151	42	70
	647	526	110	107

Heineken Holding N.V.

In 2017, an amount of €714,412 (2016: €1,159,905) was paid to Heineken Holding N.V. for management services for HEINEKEN.

This payment is based on an agreement of 1977 as amended in 2001, providing that Heineken N.V. reimburses Heineken Holding N.V. for its costs.

Notes to the Consolidated Financial Statements (continued)

FEMSA

As consideration for HEINEKEN's acquisition of the beer operations of Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), FEMSA became a major shareholder of Heineken N.V. in 2010. Therefore, contracts between FEMSA and HEINEKEN are related party contracts.

34. HEINEKEN entities

Control of HEINEKEN

The shares and options of the Company are traded on Euronext Amsterdam, where the Company is included in the main AEX Index. Heineken Holding N.V. Amsterdam has an interest of 50.005% in the issued capital of the Company. The financial statements of the Company are included in the consolidated financial statements of Heineken Holding N.V.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued with respect to legal entities established in the Netherlands. The list of the legal entities for which the declaration has been issued is disclosed in the Heineken N.V. stand-alone financial statements.

Pursuant to the provisions of Section 357 of the Republic of Ireland Companies Act 2014, the Company irrevocably guarantees, in respect of the financial year from 1 January 2017 up to and including 31 December 2017, the liabilities referred to in Schedule 3 of the Republic of Ireland Companies Act 2014 of the wholly-owned subsidiary companies Heineken Ireland Limited, Heineken Ireland Sales Limited, The West Cork Bottling Company Limited, Western Beverages Limited, Beamish & Crawford Limited and Nash Beverages Limited.

Significant subsidiaries

Set out below are HEINEKEN's significant subsidiaries at 31 December 2017. The subsidiaries as listed below are held by the Company and the proportion of ownership interests held equals the proportion of the voting rights held by HEINEKEN. The country of incorporation or registration is also their principal place of business. The disclosed significant subsidiaries represent the largest subsidiaries and represent an approximate total revenue of €14 billion and total asset value of €23 billion and are structural contributors to the business.

There were no significant changes to the HEINEKEN structure and ownership interests, except for the acquisition of Brasil Kirin (refer to note 6).

		Percentage of ownership	
	Country of incorporation	**2017**	2016
Heineken International B.V.	The Netherlands	**100.0**	100.0
Heineken Brouwerijen B.V.	The Netherlands	**100.0**	100.0
Heineken Nederland B.V.	The Netherlands	**100.0**	100.0
Cuauhtémoc Moctezuma Holding, S.A. de C.V.	Mexico	**100.0**	100.0
Cervejarias Kaiser Brasil S.A.	Brazil	**100.0**	100.0
Bavaria S.A.	Brazil	**100.0**	–
Heineken France S.A.S.	France	**100.0**	100.0
Nigerian Breweries Plc.	Nigeria	**56.0**	55.4
Heineken USA Inc.	United States	**100.0**	100.0
Heineken UK Ltd	United Kingdom	**100.0**	100.0
Heineken España S.A.	Spain	**99.8**	99.8
Heineken Italia S.p.A.	Italy	**100.0**	100.0
Brau Union Österreich AG	Austria	**100.0**	100.0
Grupa Żywiec S.A.	Poland	**65.2**	65.2
LLC Heineken Breweries	Russia	**100.0**	100.0
Heineken Vietnam Brewery Limited Company	Vietnam	**60.0**	60.0

35. Subsequent events

No material subsequent events occurred.

Heineken N.V. Balance Sheet

Before appropriation of profit

As at 31 December

In millions of €	Note	2017	2016
Fixed assets			
Financial fixed assets			
Investments in participating interests	36	26,276	24,846
Other investments		3	242
Deferred tax assets		74	73
Total financial fixed assets		**26,353**	**25,161**
Trade and other receivables		122	14
Cash and cash equivalents		1	–
Total current assets		**123**	**14**
Total assets		**26,476**	**25,175**
Shareholders' equity			
Issued capital		922	922
Share premium		2,701	2,701
Translation reserve		(3,124)	(1,829)
Hedging reserve		112	(1)
Fair value reserve		331	262
Other legal reserves		962	838
Reserve for own shares		(410)	(443)
Retained earnings		9,892	9,248
Net profit		1,935	1,540
Total shareholders' equity	37	**13,321**	**13,238**
Liabilities			
Loans and borrowings	38	11,799	10,480
Total non-current liabilities		**11,799**	**10,480**
Loans and borrowings (current part)	38	1,126	1,338
Trade and other payables		228	117
Current tax liabilities		2	2
Total current liabilities		**1,356**	**1,457**
Total liabilities		**13,155**	**11,937**
Total shareholders' equity and liabilities		**26,476**	**25,175**

Heineken N.V. Income Statement

For the year ended 31 December

In millions of €	Note	2017	2016
Personnel expenses		**(14)**	(14)
Total expenses		**(14)**	**(14)**
Interest income		**111**	77
Interest expenses		**(355)**	(320)
Other net finance income/(expenses)		**502**	(90)
Net finance expenses		**258**	**(333)**
Share of profit of participating interests, after income tax		**1,749**	1,799
Profit before income tax		**1,993**	**1,452**
Income tax income/(expense)		**(58)**	88
Profit	37	**1,935**	**1,540**

Notes to the Heineken N.V. Financial Statements

Reporting entity

The Company financial statements of Heineken N.V. (the 'Company') are included in the consolidated financial statements of Heineken N.V.

Basis of preparation

The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e. only IFRS that is adopted for use in the EU at the date of authorisation) as explained further in the notes to the consolidated financial statements.

Significant accounting policies

Financial fixed assets

Participating interests (subsidiaries, joint ventures and associates) are measured on the basis of the equity method.

Shareholders' equity

The translation reserve and other legal reserves were previously formed under, and are still recognised in accordance with, the Dutch Civil Code.

Profit of participating interests

The share of profit of participating interests consists of the share of the Company in the results of these participating interests. Results on transactions, where the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests, themselves, are not recognised.

Notes to the Heineken N.V. Financial Statements (continued)

36. Investments in participating interests

In millions of €	Participating interests	Loans to participating interests	Total
Balance as at 1 January 2016	**17,156**	**7,366**	**24,522**
Profit of participating interests	1,799	–	1,799
Dividend payments by participating interests	(800)	800	–
Effect of movements in exchange rates	(804)	–	(804)
Changes in hedging and fair value adjustments	186	–	186
Actuarial gains/(losses)	(254)	–	(254)
Acquisition of non-controlling interests without a change in control	(148)	–	(148)
Investments/(repayments)	(1,457)	1,006	(451)
Other movements	(4)	–	(4)
Balance as at 31 December 2016	**15,674**	**9,172**	**24,846**
Balance as at 1 January 2017	**15,674**	**9,172**	**24,846**
Profit of participating interests	**1,749**	**–**	**1,749**
Dividend payments by participating interests	**(616)**	**616**	**–**
Effect of movements in exchange rates	**(1,297)**	**–**	**(1,297)**
Changes in hedging and fair value adjustments	**176**	**–**	**176**
Actuarial gains/(losses)	**66**	**–**	**66**
Acquisition of non-controlling interests without a change in control	**(50)**	**–**	**(50)**
Investments/(repayments)	**42**	**748**	**790**
Other movements	**(4)**	**–**	**(4)**
Balance as at 31 December 2017	**15,740**	**10,536**	**26,276**

Notes to the Heineken N.V. Financial Statements (continued)

37. Shareholders' equity

In millions of €	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve
Balance as at 1 January 2016	**922**	**2,701**	**(1,017)**	**(47)**	**122**
Profit	–	–	–	–	–
Other comprehensive income	–	–	(812)	46	140
Total comprehensive income	**–**	**–**	**(812)**	**46**	**140**
Transfer to retained earnings	–	–	–	–	–
Dividends to shareholders	–	–	–	–	–
Purchase/reissuance of own shares	–	–	–	–	–
Own shares granted	–	–	–	–	–
Share-based payments	–	–	–	–	–
Acquisition of non-controlling interests without a change in control	–	–	–	–	–
Balance as at 31 December 2016	**922**	**2,701**	**(1,829)**	**(1)**	**262**
Balance as at 1 January 2017	**922**	**2,701**	**(1,829)**	**(1)**	**262**
Profit	–	–	–	–	–
Other comprehensive income	–	–	(1,295)	106	69
Total comprehensive income	**–**	**–**	**(1,295)**	**106**	**69**
Transfer to retained earnings	–	–	–	–	–
Dividends to shareholders	–	–	–	–	–
Purchase/reissuance of own shares	–	–	–	–	–
Own shares granted	–	–	–	–	–
Share-based payments	–	–	–	–	–
Acquisition of non-controlling interests without a change in control	–	–	–	–	–
Changes in consolidation/transfers within equity	–	–	–	7	–
Balance as at 31 December 2017	**922**	**2,701**	**(3,124)**	**112**	**331**

Notes to the Heineken N.V. Financial Statements (continued)

In millions of €	Other legal reserve	Reserve for own shares	Retained earnings	Net profit	Shareholders' equity
Balance as at 1 January 2016	**719**	**(432)**	**8,675**	**1,892**	**13,535**
Profit	153	–	(153)	1,540	2
Other comprehensive income	–	–	(254)	–	(880)
Total comprehensive income	**153**	**–**	**(407)**	**1,540**	**660**
Transfer to retained earnings	(34)	–	1,926	(1,892)	–
Dividends to shareholders	–	–	(786)	–	(786)
Purchase/reissuance of own shares	–	(39)	–	–	(39)
Own shares granted	–	28	(28)	–	–
Share-based payments	–	–	13	–	13
Acquisition of non-controlling interests without a change in control	–	–	(145)	–	(145)
Balance as at 31 December 2016	**838**	**(443)**	**9,248**	**1,540**	**13,238**
Balance as at 1 January 2017	**838**	**(443)**	**9,248**	**1,540**	**13,238**
Profit	153	–	(153)	1,935	1,935
Other comprehensive income	–	–	66	–	(1,054)
Total comprehensive income	**153**	**–**	**(87)**	**1,935**	**881**
Transfer to retained earnings	(29)	–	1,569	(1,540)	–
Dividends to shareholders	–	–	(775)	–	(775)
Purchase/reissuance of own shares	–	–	–	–	–
Own shares granted	–	33	(33)	–	–
Share-based payments	–	–	22	–	22
Acquisition of non-controlling interests without a change in control	–	–	(45)	–	(45)
Changes in consolidation/transfers within equity	–	–	(7)	–	–
Balance as at 31 December 2017	**962**	**(410)**	**9,892**	**1,935**	**13,321**

For more details on reserves, refer to note 22 of the consolidated financial statements.

For more details on share-based payments, refer to note 27 of the consolidated financial statements.

Notes to the Heineken N.V. Financial Statements (continued)

38. Loans and borrowings

Non-current and current liabilities

In millions of €	2017	2016
Unsecured bond issues	11,902	10,637
Unsecured bank loans	–	–
Bank overdrafts and commercial papers	1	2
Other interest-bearing liabilities	966	1,179
Total interest-bearing liabilities	**12,869**	**11,818**
Non-interest-bearing liabilities	–	–
Non-current derivatives	56	–
Loans and borrowings	**12,925**	**11,818**

In millions of €	Unsecured bond issues	Bank overdrafts and commercial papers	Other interest-bearing liabilities	Non-current derivatives	Total
Balance as at 1 January 2017	**10,637**	**2**	**1,179**	**–**	**11,818**
Effects of movements of exchange rates	(536)	–	(137)	61	(612)
Transfers	–	–	–	–	–
Proceeds	2,976	–	–	–	2,976
Repayments	(1,182)	(1)	(76)	(5)	(1,264)
Other	7	–	–	–	7
Balance as at 31 December 2017	**11,902**	**1**	**966**	**56**	**12,925**

Notes to the Heineken N.V. Financial Statements (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In millions of €	Category	Currency	Nominal interest rate %	Repayment	**Carrying amount 2017**	**Face value 2017**	Carrying amount 2016	Face value 2016
Unsecured bond	issue under EMTN programme	SGD	1.4	2017	–	–	66	66
Unsecured bond	issue under EMTN programme	EUR	1.3	2018	100	100	100	100
Unsecured bond	issue under EMTN programme	SGD	2.2	2018	59	59	62	62
Unsecured bond	issue under EMTN programme	USD	2.5	2019	167	167	189	190
Unsecured bond	issue under EMTN programme	EUR	2.5	2019	848	850	847	850
Unsecured bond	issue under EMTN programme	EUR	2.1	2020	998	1,000	997	1,000
Unsecured bond	issue under EMTN programme	EUR	2.0	2021	498	500	498	500
Unsecured bond	issue under EMTN programme	EUR	1.3	2021	498	500	498	500
Unsecured bond	issue under EMTN programme	USD	3.3	2022	166	167	189	190
Unsecured bond	issue under EMTN programme	SGD	1.6	2022	93	94	–	–
Unsecured bond	issue under EMTN programme	EUR	1.7	2023	140	140	140	140
Unsecured bond	issue under EMTN programme	EUR	3.5	2024	498	500	497	500
Unsecured bond	issue under EMTN programme	EUR	1.5	2024	455	460	454	460
Unsecured bond	issue under EMTN programme	EUR	2.9	2025	744	750	743	750
Unsecured bond	issue under EMTN programme	EUR	2.0	2025	224	225	224	225
Unsecured bond	issue under EMTN programme	EUR	1.0	2026	791	800	790	800
Unsecured bond	issue under EMTN programme	EUR	1.4	2027	496	500	497	500
Unsecured bond	issue under EMTN programme	EUR	3.5	2029	200	200	199	200
Unsecured bond	issue under EMTN programme	EUR	1.5	2029	790	800	–	–
Unsecured bond	issue under EMTN programme	EUR	2.0	2032	499	500	–	–
Unsecured bond	issue under EMTN programme	EUR	3.3	2033	177	180	180	180
Unsecured bond	issue under EMTN programme	EUR	2.6	2033	92	100	92	100
Unsecured bond	issue under EMTN programme	EUR	3.5	2043	75	75	75	75
Unsecured bond	issue under 144A/RegS	USD	1.4	2017	–	–	1,185	1,186
Unsecured bond	issue under 144A/RegS	USD	3.4	2022	623	625	709	712
Unsecured bond	issue under 144A/RegS	USD	2.8	2023	831	834	945	949
Unsecured bond	issue under 144A/RegS	USD	4.0	2042	408	417	465	474
Unsecured bond	issue under 144A/RegS	USD	3.5	2028	906	917	–	–
Unsecured bond	issue under 144A/RegS	USD	4.4	2047	533	542	–	–
Other interest-bearing liabilities	2008 US private placement	USD	2.8	2017	–	–	85	85
Other interest-bearing liabilities	2008 US private placement	GBP	7.2	2018	36	36	37	37
Other interest-bearing liabilities	2010 US private placement	USD	4.6	2018	605	605	688	688
Other interest-bearing liabilities	2008 US private placement	USD	6.3	2018	325	325	369	370
					12,875	**12,968**	**11,820**	**11,889**

For financial risk management and financial instruments, refer to note 30.

Notes to the Heineken N.V. Financial Statements (continued)

39. Auditor fees

Other expenses in the consolidated financial statements include €10.1 million of fees in 2017 for services provided by Deloitte Accountants B.V. and its member firms and/or affiliates (2016: €9.8 million). Fees for audit services include the audit of the financial statements of the Company and its subsidiaries. Fees for other audit services include review of interim financial statements, sustainability, subsidy and other audits. Fees for tax services include tax compliance and tax advice. Fees for other non-audit services include agreed-upon procedures and advisory services. Fees for tax and other non-audit services are related to the network outside the Netherlands and are in accordance with local independence regulation.

	Deloitte Accountants B.V.	Deloitte Accountants B.V.	Other Deloitte member firms and affiliates	Other Deloitte member firms and affiliates	Total	
In millions of €	**2017**	2016	**2017**	2016	**2017**	2016
Audit of HEINEKEN and its subsidiaries	**2.8**	2.6	**6.3**	6.2	**9.1**	8.8
Other audit services	**0.5**	0.4	**0.3**	0.3	**0.8**	0.7
Tax services	**–**	–	**–**	0.1	**–**	0.1
Other non-audit services	**–**	–	**0.2**	0.2	**0.2**	0.2
Total	**3.3**	**3.0**	**6.8**	**6.8**	**10.1**	**9.8**

40. Off-balance sheet commitments

In millions of €	**Total 2017**	**Less than 1 year**	**1 – 5 years**	**More than 5 years**	Total 2016
Undrawn committed bank facility	**3,500**	**–**	**3,500**	**–**	**2,500**

	2017		2016	
	Third parties	**HEINEKEN companies**	Third parties	HEINEKEN companies
Declarations of joint and several liability	**–**	**3,288**	–	3,728

The declarations of joint and several liability include a conditional guarantee for the deficit of the defined benefit pension plan of HEINEKEN UK (Scottish and Newcastle pension plan) as calculated in accordance with IAS 19. Through this guarantee Heineken N.V. is ultimately liable for the payments, including any potential recovery payments, to the pension plan. Refer to note 26 for more information.

Fiscal unity

The Company is part of the fiscal unity of HEINEKEN in the Netherlands. As a result, the Company is liable for the tax liability of the fiscal unity in the Netherlands.

41. Subsequent events

For subsequent events, refer to note 35.

Notes to the Heineken N.V. Financial Statements (continued)

42. Participating interests

For disclosures of significant direct and indirect participating interests, refer to notes 16 and 34 to the consolidated financial statements.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued with respect to the following legal entities established in the Netherlands:

		Percentage of ownership	
	Country of incorporation	**2017**	2016
Heineken Nederlands Beheer B.V.	The Netherlands	**100%**	100%
Heineken Group B.V.	The Netherlands	**100%**	100%
Heineken Brouwerijen B.V.	The Netherlands	**100%**	100%
Heineken CEE Investments B.V.	The Netherlands	**100%**	100%
Heineken Nederland B.V.	The Netherlands	**100%**	100%
Heineken International B.V.	The Netherlands	**100%**	100%
Heineken Supply Chain B.V.	The Netherlands	**100%**	100%
Heineken Global Procurement B.V.	The Netherlands	**100%**	100%
Heineken Mexico B.V.	The Netherlands	**100%**	100%
HIBV Skopje Holdings B.V.	The Netherlands	**100%**	100%
Heineken Beer Systems B.V.	The Netherlands	**100%**	100%
Amstel Brouwerij B.V.	The Netherlands	**100%**	100%
Vrumona B.V.	The Netherlands	**100%**	100%
B.V. Beleggingsmaatschappij Limba	The Netherlands	**100%**	100%
Brand Bierbrouwerij B.V.	The Netherlands	**100%**	100%
Brasinvest B.V.	The Netherlands	**100%**	100%
Heineken Asia Pacific B.V.	The Netherlands	**100%**	100%
B.V. Handel- en Exploitatie Maatschappij Schoonhoven	The Netherlands	**100%**	100%
Distilled Trading International B.V.	The Netherlands	**100%**	100%
Premium Beverages International B.V.	The Netherlands	**100%**	100%
De Brouwketel B.V.	The Netherlands	**100%**	100%
Proseco B.V.	The Netherlands	**100%**	100%
Roeminck Insurance N.V.	The Netherlands	**100%**	100%
Heineken Americas B.V.	The Netherlands	**100%**	100%
Heineken Export Americas B.V.	The Netherlands	**100%**	100%
Amstel Export Americas B.V.	The Netherlands	**100%**	100%
Horeca European Buying B.V.	The Netherlands	**–**	100%
Heineken Brazil B.V.	The Netherlands	**100%**	100%
B.V. Panden Exploitatie Maatschappij PEM	The Netherlands	**100%**	100%
Heineken Exploitatie Maatschappij B.V.	The Netherlands	**100%**	100%
Hotel De L'Europe B.V.	The Netherlands	**100%**	100%
Hotel De L'Europe Monumenten I B.V.	The Netherlands	**100%**	100%
Hotel De L'Europe Monumenten II B.V.	The Netherlands	**100%**	100%
Heineken Groothandel B.V.	The Netherlands	**100%**	100%
Heineken Horeca Services B.V.	The Netherlands	**100%**	100%
Heineken Namibia B.V.	The Netherlands	**–**	100%
Online Drinks B.V.	The Netherlands	**100%**	100%
Beerwulf B.V.	The Netherlands	**100%**	100%

Notes to the Heineken N.V. Financial Statements (continued)

43. Other disclosures

Remuneration

Refer to note 33 of the consolidated financial statements for the remuneration and incentives of the Executive Board and Supervisory Board.

Executive and Supervisory Board statement

The members of the Supervisory Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101, paragraph 2, of the Dutch Civil Code.

The members of the Executive Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101, paragraph 2, of the Dutch Civil Code and Article 5:25c, paragraph 2 sub c, of the Financial Markets Supervision Act.

Amsterdam, 9 February 2018	Executive Board	Supervisory Board
	Van Boxmeer	Wijers
	Debroux	Fernández Carbajal
		Das
		de Carvalho
		Fentener van Vlissingen
		Navarre
		Astaburuaga Sanjinés
		Huët
		Mars-Wright
		Brunini

Sustainability Review

Brewing a Better World: our sustainability performance

Our sustainability strategy focuses on the areas where we can make the biggest difference and inspire our brands to align their brand purpose with environmental and social issues.

We are making good progress and are on track to reach the majority of our 2020 commitments, but with more to do in certain areas, like local sourcing and taking action on our Life Saving Rules.

We started to look beyond 2020 and define our 2030 commitments in alignment with the Paris Agreement on climate change (COP21), the UN Sustainable Development Goals (SDGs) and the expectations of our stakeholders.

The SDGs provide a powerful, common global agenda to end poverty, protect the planet and ensure prosperity. Climate action, access to water, good health and sustainable production are some of the priority areas we focus on in our contribution.

Visit our website to find more details on our Brewing a Better World strategy, material issues, stakeholder engagement and performance – along with case studies from our businesses around the world.

From March 2018, you will be able to explore additional non-financial indicators and the GRI Standards reference table.

This section is printed on beer paper, made from spent brewers' grains

Focus on areas where we can make a difference

Our sustainability strategy focuses on the areas where we can make the biggest difference. In this section we summarise the why and how of our strategy.

On track · More to do · Off track

'Every drop': protecting water resources

Supporting **SDG** 6

Water is the ultimate shared resource and we must all safeguard it for the future. Beer is 95% water, so it is a critical resource for our business. We use water throughout our supply chain – from growing crops to our finished products. We are working hard to **reduce our water use** in our breweries, especially in water-stressed areas. We are investing in new **water treatment** plants and technology to reuse our treated water and generate renewable energy from the treatment process – offering good potential for the future.

We have committed to **balance the water** we consume in water-stressed areas. The water stewardship projects that enable us to do it are increasingly varied – from restoring wetlands and testing whether barley planted among olive trees in Spain can help conserve water, to researching innovative new irrigation techniques with farmers in Mexico. But this is not an easy process and takes time. One of the challenges is mobilising stakeholders, as everyone has a role to play.

There is more to do and our next step is to look beyond 2020, defining our water strategy and related targets for 2030: 'Every Drop'.

2020 Commitment	Progress 2017
Reduce water consumption in our breweries 30%[1]	On track
Water balancing in water-stressed areas	More to do
All wastewater treated	On track

[1] Baseline 2008.

For more information about our progress in 2017: **See pages 136–137**

'Drop the C': reducing CO_2 emissions

Supporting **SDG** 7 13

Climate change is one of the greatest threats facing society, but still emissions continue to rise. From production and transport to refrigeration and waste, we focus on reducing emissions across our entire value chain, and we are on track to reach our 2020 targets. In our breweries, we are improving **energy efficiency** – investing in efficient processes and using more **renewable energy** to brew our beer, like at Ponta Grossa in Brazil where a new biomass boiler covers 100% of the brewery's thermal energy needs. For production we have set new targets for 2030: growing our share of renewable energy from 14% in 2017 to 70% by 2030. This would lead to an 80% reduction in our CO_2 emissions per hl for our production (breweries).

We are working hard to **reduce emissions from distribution** but we still have more to do – reducing the distance we drive, using more sustainable fuels and vehicles, and switching from road to rail and water. '**Green' fridges** have become the norm for cooling our beverages, but our biggest impact comes from our **packaging**. It is an area where we have more to do and we are bringing it into the scope of our target setting. In the next two years, we will set 2030 science based targets for reducing emissions in packaging, distribution and cooling. These three areas are difficult to tackle and require collaborative action across the whole value chain.

2020 Commitment	Progress 2017
Lower emissions in production by 40%[2]	On track
Lower emissions in distribution by 20%[3]	On track
Lower emissions from our fridges by 50%[4]	On track

[2] Baseline 2008.
[3] Baseline 2010/2011.
[4] Baseline 2010.

For more information about our progress in 2017: **See pages 138–140**

Sourcing sustainably

Supporting **SDG** 2 6 8 12

Responsible sourcing has never been more important. As pressure on resources grows, we are focused on securing a long-term, sustainable supply of raw materials, improving farmer livelihoods and raising supplier standards. Our **sustainable sourcing** approach is based on the principles of the Sustainable Agriculture Initiative Platform (SAI), a multinational partnership working towards a more sustainable food chain.

In Africa, we support **farmer livelihoods**, increase processing capacity and promote better access to markets, seeds and finance. At the same time, HEINEKEN benefits by reducing import-related duties and securing a sustainable supply of raw materials. But challenging economic conditions impacted our ability to source locally[5] in 2017.

Because many of our impacts happen through our supply chain, we depend on our suppliers to help us improve **supply chain standards**. Ensuring compliance with the HEINEKEN Supplier Code is just the starting point for many suppliers as we raise our expectations across topics such as human and labour rights.

2020 Commitment	Progress 2017
50% of raw materials sustainably sourced	On track
60% local sourcing in Africa	Off track
Compliance with Supplier Code Procedure	More to do

[5] More than 80% of local raw materials are sourced domestically, with the remainder coming from other markets within the region.

For more information about our progress in 2017: **See pages 140–141**

Sustainability Review (continued)

UN Sustainable Development Goals

On track | More to do | Off track

Advocating responsible consumption

Supporting **SDG** 3

Beer is a natural fermented drink, that when enjoyed in moderation can be part of a balanced lifestyle. But there are clear health and behavioural risks when alcohol is not consumed responsibly. For some people and on some occasions, it is better not to drink at all. We are committed to responsible consumption and use the power of the global Heineken® brand to make moderation cool. This year, we raised our ambition by directing **10% of media spend** to promoting responsible drinking across all operating companies[6] selling Heineken®, with a special eye on 'When You Drive, Never Drink.'

As well as being a signatory to the **Commitments to Reduce Harmful Drinking**, we are involved in **partnerships** in markets around the world.

We are also an advocate for increased consumer transparency and we aim to provide **ingredients and nutrition information** on pack or online for our beer and cider brands by 2018, ahead of the industry. We offer consumer choice by providing **low- and no-alcohol brands** and launched Heineken 0.0 in 2017.

2020 Commitment	Progress 2017
10% of Heineken® media budget invested in responsible consumption advertising	On track
Partnerships to address alcohol abuse	More to do
Deliver global industry commitments	More to do
Ingredients and nutrition on pack and online	On track

[6] Exceptions are companies operating in 'dark markets' where above-the-line communication is not allowed according to regulations.

For more information about our progress in 2017: **See pages 142–143**

Promoting Health & Safety

Supporting **SDG** 3 8

The safety of our people and those we work with is everything and it requires constant attention. Our goal is simple: zero fatalities and we want 'Safety First' to be our number one company behaviour. To achieve it, we launched the **12 HEINEKEN Life Saving Rules** in 2016. They set out clear and simple 'do's and 'dont's' for our highest-risk activities. These must be followed across all our operations and our companies are required to assess their safety performance against these goals and invest in projects to close any gaps.

But the challenges are complex. Most of our work-related accidents and fatalities happen outside our production sites when people are travelling or distributing our products. These are less controlled environments. Our global strategy is to systematically address safety across the whole of the Company, with a particular focus on **road safety**. Operating companies are required to have at least one road safety officer per 50 vehicles and, along with defensive driving training, we are making **telematics** mandatory for all company operated vehicles.

2020 Commitment	Progress 2017
100% Life Saving Rules implemented	More to do
Reduce accident frequency by 20%	On track

For more information about our progress in 2017: **See page 144**

Growing with Communities

Supporting **SDG** 3 4 6 8

We have an opportunity to use our business as a positive force for change. Helping communities prosper is good for society, and it is also good for HEINEKEN. Our biggest contribution is through our core business; the **jobs** we create, the **businesses** we support and the **taxes** we pay. We believe responsible tax behaviour is an essential element of our sustainability strategy.

Our social investments are based on three building blocks:

- **Direct local contributions to community projects:** from improving safe water supply for communities vulnerable to climate change in Vietnam, to building shelters for women who are survivors of domestic violence in Mexico,
- **Shared value projects:** creating social, economic and environmental value, for example through our local sourcing projects in Africa and elsewhere,
- **The HEINEKEN Africa Foundation:** investing in projects that address maternal healthcare and water, sanitation and hygiene, such as our partnership to provide clean water to 3,400 people in Burundi.

Since 1989 we have incorporated HIV/AIDS prevention for our employees in Africa in our medical programme, and since 2002 we provide lifelong antiretroviral medication for HIV-positive employees and their family members.

For more information about our progress in 2017: **See page 145**

Sustainability Review (continued)

'Every drop': protecting water resources

Water scarcity affects more than 40% of the global population and is projected to rise. More than 80% of wastewater resulting from human activities is discharged into rivers or sea without any treatment, leading to pollution[1]. It is vital we use water sustainably and ensure our suppliers do the same.

Reduce water consumption in our breweries

2020 commitment

Reduce average water consumption in our breweries to 3.5 hl/hl and in our breweries in water-stressed areas to 3.3 hl/hl.

2018 milestone

Reduce average water consumption in our breweries to 3.6 hl/hl.

Our progress in 2017

On track

The average water consumption in our breweries remained on 3.6 hl/hl, meeting our 2018 milestone and meeting our 2020 target for 58% of our total production volume (2016: 63%).

In water-stressed areas, we decreased average water consumption to 3.2 hl/hl. 35% of our sites in water-stressed areas have now achieved the 3.3 hl/hl target.

At a number of sites, water consumption is still too high. 36 sites still use above 5 hl/hl, representing 8% of our volume.

We are investing in technology for the reclaiming and recycling of water in our production processes, especially in water-stressed areas. Over the coming year, our breweries at Tangerang in Indonesia and Meoqui in Mexico will begin to reclaim and treat wastewater for use in non-product applications. A similar initiative is underway at our brewery in Singapore. We will assess the potential for installing technology at other sites on a case-by-case basis, depending on the situation at the brewery and the status of the surrounding watershed.

Looking ahead

In 2018, we will define our water strategy and related targets beyond 2020.

For more on our water stewardship approach and progress, **see our website** and **case studies**

[1] www.un.org/sustainabledevelopment/water-and-sanitation/.

► Water reclamation

In Indonesia, population growth, urbanisation and industrial development are putting water resources under pressure. Our brewery near Jakarta invested in technology that will enable to reclaim treated wastewater for use in cooling, steam and packaging.

29%
decrease in water consumption (hl/hl) compared with 2008

372
Olympic-sized pools – the equivalent of water we saved in 2017 compared to 2016

€14.7m
saved through water efficiency since 2009

Total water withdrawal, including sources

$86m\ m^3$

51%
Groundwater

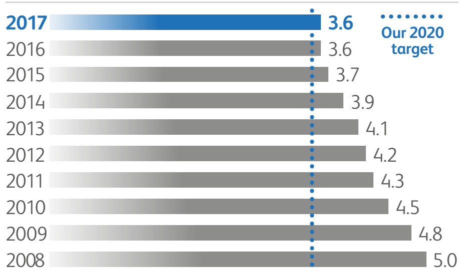
13%
Surface water, including water from wetlands, rivers, lakes and oceans

36%
Municipal water supplies or other water utilities

Water consumption (global average)

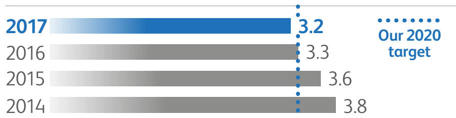
Hl/hl beer, cider, soft drinks and water

3.6 hl/hl



Water consumption – breweries in water-stressed areas

3.2 hl/hl



Sustainability Review (continued)

Significant water balancing in water-stressed areas[3]

2020 commitment

Aim for significant water balancing by our production units[2] in water-scarce and water-distressed areas.

2018 milestone

18 production units in water-scarce and water-distressed areas have started to implement action plans for water balancing.

Our progress in 2017

More to do

12 of the 23 production units in scope have begun to implement water balancing action plans.

Six of the remaining sites have completed the preparation phase, while three sites in Tunisia have yet to begin and one site each in Algeria and Mexico are at the project identification stage.

Based on a global assessment by WWF International, we identified 13 additional sites where we started investigating the water risks through local assessments. Studies were completed at seven sites in 2017 and six sites will be completed in 2018. When water risks are confirmed, we will launch Water Stewardship Initiatives to address them.

For more on our water balancing approach and progress, **see our website** and **case studies**

[2] 23 production units in Algeria, Egypt, Ethiopia, Indonesia, Mexico, Nigeria, Spain and Tunisia.
[3] This means redressing the balance between the amount of water we source from the watershed and the amount that isn't returned because it is used in our products, and through evaporation.

In Algeria, SARL Tango jointly hosted a three-day workshop with the United Nations Industrial Development Organisation (UNIDO) to engage government and industry stakeholders in developing a shared vision of the water issues facing the region and the action that is needed. We are exploring opportunities for a similar initiative in South Africa.

In Egypt, we launched a collaboration with the University of Ghent to develop early malting barley varieties that are more heat, drought and disease resistant.

HEINEKEN Spain has signed an agreement with the Valencia Regional Government to restore the riparian zone of the Poyo ravine by replacing cane with indigenous riparian plants.

In Mexico, pilot projects started to engage farmers on sustainable water use, in collaboration with the International Centre for Maize and Wheat Improvement.

Looking ahead

We will complete Source Water Vulnerability Assessments and deliver training in 2018 to enable the operating entity in Tunisia to begin the water balancing process.

▼ Promoting water filtration

Our innovative pilot at Jaén brewery in Spain is testing whether barley planted among olive trees can help improve water infiltration, prevent soil loss (erosion) and improve biodiversity and farmers' profitability.

Wastewater management

2020 commitment

All of our wastewater volumes are treated – by us or by a third party – before being discharged into surface water.

Our progress in 2017

On track

A new wastewater treatment plant became operational in Freetown (Sierra Leone) in 2017 and another is on track to be completed in Gisenyi (Rwanda) in 2018. Construction of a wastewater treatment plant has begun in Zajecar (Serbia) and we expect this to be operational in the course of 2019.

At the end of 2017, we had 12 sites still without a treatment plant: 11 beverage plants and one malting plant, representing 3.5% of production volume (2016: 13 sites, 3.5% volume). Those sites currently lacking wastewater treatment infrastructure are part of our future investment planning.

54.7
total wastewater volume in million m^3

96.5%
of wastewater volume was treated before discharge

For more on our wastewater approach and progress, **see our website** and **case studies**

▲ Biogas from wastewater

This brewery in Nigeria is one of the many sites where we generate biogas from the wastewater treatment process as resource to reduce CO_2 emissions.

Looking ahead

We will continue with generating biogas from wastewater treatment and we aim to intensify reuse of treated effluent for production purposes.

Sustainability Review (continued)

'Drop the C': reducing CO_2 emissions

Climate change is one of the top risks facing society[4], but still greenhouse gas emissions continue to rise. The potential impact on the lives and livelihoods of millions of people worldwide is severe. As a global company, we must reduce our CO_2 emissions across our entire value chain – from production and transport to packaging and cooling.

Lower emissions in production

2020 commitment

Reduce CO_2 emissions from production by 40%[5] to 6.4 kg CO_2-eq/hl.

2018 milestone

Reduce CO_2 emissions from production by 37% to 6.7 kg CO_2-eq/hl.

Our progress in 2017

On track

In 2017, we achieved a 41% reduction in relative CO_2 emissions from production, already surpassing our 2020 target (2016: 37%).

Our emissions are decreasing in absolute terms as well: even though our production volumes were 57% higher than in 2008, our emissions were 7% lower.

29% of our electrical energy and 7% of our thermal energy now comes from renewable sources (2016: 25% and 5%).

The reduction in CO_2 emissions has been achieved by improving our energy efficiency and by using more renewables and replacing high CO_2 fuels with lower-emission fuels.

Looking ahead

We have set ambitious new targets that align our efforts with the COP21 Paris Agreement: we will grow our renewable energy share (thermal and electricity combined) from 14% in 2017 to 70% in 2030. This also means that we aim for an 80% reduction in carbon emissions per hl compared to baseline year 2008.

We will start internal carbon shadow pricing to help drive sustainable investment and innovation decisions.

We joined the Alliance of CEO Climate Leaders, an informal network of leading CEOs committed to climate action, facilitated by the World Economic Forum.

We will submit our commitments to the Science Based Targets initiative.

For a more detailed breakdown of our total carbon footprint, **see our website**

[4] https://www.weforum.org/reports/the-global-risks-report-2017.
[5] Baseline 2008.

▲ Wind in Mexico

HEINEKEN Mexico has signed Power Purchase Agreements with three windfarms, which will cover around 65% of the total electricity needed in the coming years.

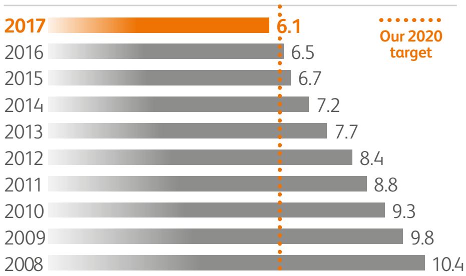
◄ Biomass in Brazil

In 2017, a new biomass boiler was fired up at our brewery in Ponta Grossa, Brazil, covering 100% of its thermal energy needs.

CO_2 emissions in production

Kg CO_2-eq/hl beer, cider, soft drinks and water

6.1 kg CO_2-eq/hl

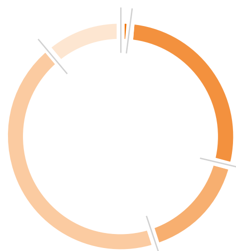


€83.3m saved through energy efficiency since 2009

29% of our total electrical energy comes from renewable sources

Electricity mix 2017

for Beverage production



Own renewable production	1%
Imported renewable (PPA* and green certificates)	28%
Country electricity mix (renewable)	16%
Country electricity mix (non-renewable)	44%
Own non-renewable production	11%

*Power Purchase Agreement

Sustainability Review (continued)

Reduced emissions from distribution in Europe and the Americas

2020 commitment

Reduce CO_2 emissions from distribution by 20% in Europe and the Americas[6].

2018 milestone

Reduce CO_2 emissions from distribution by 16% in Europe and 16% in the Americas[7].

Our progress in 2017

On track

We have reduced emissions from distribution by 9.7% since 2010/11 across Europe and the Americas combined (2016: 7.7%).

Emissions in Europe (including Russia) went down 0.2% from 2016 and 13.6% compared to baseline year, putting us on track to meet our commitment for the region. Excluding Russia, emissions decreased by 16.1%. In Russia, a change in footprint (closure Kaliningrad brewery) and external market factors (including new regulations and limited low-carbon alternatives for transport) saw emissions increase. Bulgaria, the Netherlands and Poland have already achieved the 2020 commitment of 20% reduction.

Emissions in Americas went down 4.1% from 2016 and 12.2% compared to baseline. USA has already surpassed the 2020 target.

We signed the Sustainable Fuel Buyers' Principles, which provide a framework to catalyse development and uptake of sustainable fuels. We are also piloting sustainable biofuel in a number of countries for road and water transport.

For more on how we reduce CO_2 emissions from distribution, **see our website** and **case studies**

Looking ahead

For the coming two years we commit to setting science based targets for 2030.

Having stepped up our fuel management programme in Spain, we plan to introduce the approach in more markets in 2018.

▲ Smart shipping in the Netherlands

Inauguration of electric inland vessel BON JOVI (renamed Gouwenaar II). It consumes 25% less fuel than similar vessels and is able to carry more containers of beer. To cut the vessel's CO_2 emissions to virtually zero, there are plans to replace the generators by a hydrogen cell in the future.

[6] Baseline year 2010 for Mexico and Netherlands, 2011 for all other HEINEKEN operating companies.
[7] We raised the milestone for Americas from 0% to 16%, based on progress and outlook for this region.

Lower emissions from our fridges

2020 commitment

Reduce the CO_2 emissions of our fridges by 50%[8].

2018 milestone

100% green fridges purchased.

Reduce the CO_2 emissions of our fridges by 47%.

Our progress in 2017

On track

Almost 100% of our 137,818 new fridges in 2017 had one or more green features: use of hydrocarbon refrigerant, LED illumination, an energy management system and energy efficient fans.

CO_2 emissions per fridge were almost 48% less than in 2010, putting us ahead of target in reaching our 2020 commitment (2016: 46%).

We are a strong supporter of phasing out Hydrofluorocarbons (HFCs), which contributes significantly to global warming today. Saving energy also means our customers incur less costs in their business.

For more on how we reduce CO_2 emissions from our fridges, **see our website** and **case studies**

▲ HEINEKEN UK's SmartDispense

In the UK, the SmartDispense cools beer as it leaves the keg, rather than refrigerating the entire cellar. This saves 20% of the energy used by traditional systems. On top of this, it reduces the need to clean beer lines from once a week to every four, cutting water and chemical use by 75%. More than 4,500 pubs are using this system, rolling out to 10,000.

Looking ahead

For the coming two years we commit to setting science based targets for 2030.

We are exploring the opportunity to introduce an energy reduction programme for Draught Beer Equipment.

We are exploring the possibilities of developing a more efficient, circular business model, based on cooling as a service.

[8] Baseline 2010.

Sustainability Review (continued)

Lower emissions in packaging

Packaging materials

Packaging is essential to the identity of our brands – it makes them unique and provides an arena for creative innovation. It also represents the largest part of our carbon footprint, from Barley to Bar.

In 2017, we applied a cross-functional approach to begin reducing the carbon footprint of our packaging without compromising the quality and identity of our brands. It is a complex challenge: as part of our indirect Scope 3 emissions, we started to engage with many suppliers to develop a deeper, shared understanding of the opportunities to achieve large scale, meaningful reductions in packaging emissions.

For example, we are working closely with our supplier, Ardagh, to reduce the impact of our packaging in European markets.

In parallel, we are embedding sustainability at the core of our packaging innovation processes.

For more information on waste recycling and how we move towards circular business models, **see our website**

Looking ahead

We will join the Aluminium Stewardship Initiative to scale up our industry wide collaborations.

We will continue working with expert NGOs to formalise our 2030 vision and identify science based targets for the coming two years, to reduce our carbon emissions from packaging materials.

View case study online

Recycling waste

Zero waste in production

We aim to fully recycle all residual products in our production facilities. In 2017, 97 of our production units sent virtually zero waste[9] to landfill (2016: 91 of 165 of our production units). This means that for these sites waste was recycled into feed, material loops, compost or energy. Brewer's grains and yeast, for example, have a high nutrition value and are recycled for animal or human consumption.

We will continue to roll out our Zero Waste programme to other sites, as part of our TPM framework.

[9] Less than 2% of total co-products and waste sent to landfill.

◂ **Glass production**
The Ardagh plant in Moerdijk in the Netherlands is our largest glass supplying plant. The installation of sensors in the glass furnaces help to decrease temperature fluctuations and, as a result, reduce CO_2 emissions.

Sourcing sustainably

With the global population on track to reach nine billion by 2050, agricultural productivity must increase while protecting natural resources and biodiversity. Securing a long-term supply of high quality raw materials is fundamental to our success. To achieve our commitments, we need to support farmer livelihoods and encourage better environmental and social standards, while increasing processing capacity and promoting access to quality seeds and finance.

Source raw materials from sustainable sources

2020 commitment

Aim for at least 50% of our main raw materials[10] to come from sustainable sources.

2018 milestone

Aim for at least 25% of our main raw materials to come from sustainable sources.

Our progress in 2017

On track

In 2017, 28%[11] of our main raw materials came from sustainable sources (2016: 17%).

With the expansion of the sustainable sourcing (agriculture) programme in 2016 from three to nine crops, monitoring progress has proven challenging. Our priority in 2017 has been to develop a robust and efficient monitoring process.

For more on our Sustainable Agriculture approach and progress, **see our website** and **case studies**

[10] In scope are barley, hops, apples, sugar beet, sugar cane, rice, sorghum, wheat and maize.
[11] 28% is an estimation. At the time of the publication, contract negotiations were still in progress.

Looking ahead

To reach our 2020 ambition, we are applying our sustainable agriculture programme to selected volumes of raw materials that are contracted locally.

▾ **Sustainable farming UK**
79% of cider apples sourced in the UK are from sustainable farmers, like the Skittery family farm in Herefordshire.

View case study online

Sustainability Review (continued)

Source agricultural raw materials locally in Africa

2020 commitment

Deliver 60% of agricultural raw materials in Africa via local sourcing within the continent[12].

2018 milestone

56% of agricultural raw materials used in Africa to be locally sourced from within the continent.

Our progress in 2017

Off track

We sourced 42%[13] of agricultural raw materials used in Africa and the Middle East locally in 2017 (2016: 49%). This includes two new operating companies consolidated since 2016: South Africa and Ivory Coast. When we look at like-for-like compared with the original scope, the percentage decreased from 53% to 46%.

Challenging economic conditions impacted our ability to source locally in 2017. In some operating companies, local currency devaluations and scarcity of hard currency (Forex) pushed up demand for local raw materials. This, combined with below average harvests in some countries, drove up the price of local crops. While these price increases are good news for many farmers, this volatility can make it difficult for us to secure the quantity and quality of local raw materials we require, at competitive prices.

We are now sourcing locally in 13 operating companies across 28 different value chains, including six Public-Private Partnerships (PPP). These projects support more than 150,000 farmer households.

We launched a new PPP in Ivory Coast which aims to develop the local rice value chain.

We have reached an agreement with The International Finance Corporation (IFC) to extend our barley project in Ethiopia into new geographical areas in 2018 and 2019, when two new malteries are expected to be operational.

For more on our Local Sourcing programme in Africa, progress in 2017 and initiatives in other markets like Jamaica and Haiti, **see our website** and **case studies**

Looking ahead

In our Public-Private Partnership, we continue to focus on improving farmer access to better seeds, other agricultural inputs and working capital financing.

Our global malting partners are exploring opportunities to invest in new processing capacity in Africa, and are developing and testing crop varieties that are well adapted to local conditions.

In Mozambique, we have begun building a new brewery and we are running pilots with smallholder farmers to decide which raw materials to use.

We are working with the African Studies Centre at Leiden University on an independent study into the social and economic impact of our sorghum value chain in Nigeria.

[12] Based upon volume (in tons). With local sourcing we refer to sourcing within the region of Africa and Middle East. More than 80% of local raw materials are sourced domestically, with the remainder coming from other markets within the region.
[13] Estimate.

▼ Ethiopia
Our local sourcing project in Ethiopia works directly with more than 20,000 farmers who produced around 80,000 tons of barley, of which an estimated 50% was sold to the brewing industry and the rest was sold on the local food market.

View case study online

Compliance with our Supplier Code Procedure

2020 commitment

Ongoing compliance with our Supplier Code Procedure.

2018 milestone

95% compliance with our four-step Supplier Code Procedure.

Our progress in 2017

More to do

In 2017, compliance with our four-step Supplier Code Procedure among the operating companies in scope, remained at 78%[14].

We stopped working with 85 suppliers because they were unwilling to sign our Supplier Code (47), refused to subscribe to EcoVadis (37) or refused to undergo a site audit (1).

Many more of our operating companies are working with suppliers at the site audit stage of our Supplier Code Procedure. The threshold for compliance is high and the required action can take many months for a supplier to implement. We are working to improve the support for operating companies in delivering the audit stage of our Procedure to implement our 2020 commitments.

For more details on our Supplier Code approach and 2017 progress, and to read our new Supplier Code, **see our website**

[14] See page 151 'Reporting basis and governance of non-financial indicators' for more information on the supplier procedure and how we calculate this percentage.

Looking ahead

Following a review by NGO Forum for the Future in 2016, we revised our Supplier Code to make it more comprehensive, precise and actionable. Applicable to all first tier suppliers, the topics it covers are: Integrity and Business Conduct; Human and Labour Rights; Health and Safety; and Protecting the Environment. The new Supplier Code will be rolled out in 2018.

We aim to identify our high risk areas so that we can prioritise future activities required to manage our Human Rights risks beyond our first tier supplier base.

Sustainability Review (continued)

Advocating responsible consumption

Our products are enjoyed in moderation by hundreds of millions of people worldwide. Our 2020 commitments are aimed at encouraging responsible attitudes and reducing the harmful use of alcohol. We want to make responsible drinking aspirational and we are driving innovation in the low- and no-alcohol category.

Make responsible consumption cool

2020 commitment

Invest 10% of Heineken® media budget[15] to support our responsible consumption programmes by every operating company selling Heineken®.

Our progress in 2017

On track

We have raised our ambition to dedicate 10% of media spend by all the operating companies[16] selling Heineken® to responsible drinking campaigns. Our previous commitment involved only 14 markets.

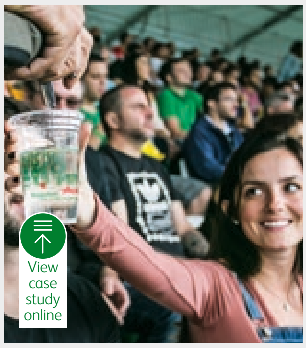
In 2017, 71%[17] of the operating companies in scope invested 10% of media spend, or more, in dedicated responsible consumption campaigns. The remaining markets invested less than 10% or are yet to start.

'When You Drive, Never Drink' our global Formula 1® partnership campaign, was activated by 36 markets around the world. Markets also continued to activate 'Moderate Drinkers Wanted', our third global campaign that shows how drinking in moderation is more attractive than drinking too much.

Looking ahead

In 2018, we will launch a new global campaign to demonstrate the benefits of positive drinking behaviour.

We have also commissioned a global study to explore the behavioural triggers that cause people to drink and drive. Based on the findings, we will develop a responsible drinking campaign to test and measure drink driving reduction initiatives based on nudge theory[18].



▲ **This One Is On Us**
To nudge people to drink responsibly, we started to offer a cup of water with every beer we serve during events.

[15] Investments dedicated to responsible consumption messaging with regards to Heineken® brand communication. This includes the 'Moderate Drinkers Wanted' campaign and 'When You Drive, Never Drink' Formula 1® campaign.
[16] Exceptions are companies operating in 'dark markets' where above-the-line communication is not allowed according to regulations.
[17] Estimate.
[18] Nudge theory focuses on providing consumer choices that encourage a certain behaviour.

Building partnerships to address alcohol-related harm

2020 commitment

Every market in scope has a relevant and active partnership addressing alcohol-related harm.

Our progress in 2017

More to do

83% of the 53 operating companies in scope have a partnership in place to address alcohol-related harm.

These partnerships aim to address alcohol-related harm such as underage drinking, drinking and driving or excessive drinking working with local governments, NGOs and other stakeholders. For examples, see our case studies from Burundi and Vietnam on our website.

Looking ahead

As every market has its own context, we are exploring a model for a community-based prevention programme to see if this can be adapted locally.

▼ **Vietnam**
In partnership with Uber and the National Traffic Safety Committee, HEINEKEN Vietnam launched a campaign addressing drink-driving.

For more of our partnership details, **see our website** and **case studies**

Sustainability Review (continued)

Deliver global industry commitments

2018 milestone

Deliver the Beer, Wine and Spirits Producers' industry commitments by end of 2017 and report in 2018 on our actions in five key areas: underage drinking; marketing codes of practice; consumer information and product innovation; drinking and driving; and retailer support.

For more information on our responsible marketing code, **see our website**

Our progress in 2017

More to do

A report on the progress of commitments was published in September 2017 and assured by KPMG. Drawing on case studies from nine countries, it highlights key lessons and insights and recognises that, while progress has been made, there is still much more to do.

The fifth and final progress report will be published in 2018 by the International Alliance for Responsible Drinking (IARD) – the industry body that administers the commitments.

Looking ahead

In 2018, the current set of commitments will come to an end. We will remain committed to promoting responsible consumption and will focus in particular on the Digital Guiding Principles (DGPs), which are part of the Producers' commitments. The DGPs are aimed at strengthening and expanding marketing codes of practice on digital platforms at a global level.

Drive innovation in the low- and no-alcohol category

There are some occasions when consumers want to enjoy the taste of an alcoholic drink, without the alcohol. We offer consumer choice by providing low- and no-alcohol brands.

In 2017, we successfully launched a 0.0 version of our flagship brand Heineken® in 16 markets. We have also seen strong performance on innovations such as Sofi Malt in Ethiopia, Radler Light in Slovakia and our first Hops Lemonade launch in Austria.

By end of 2017, low- and no-alcohol options made up 5.6% of HEINEKEN's total global volume.

Looking ahead

In 2018, we will accelerate the launch of Heineken® 0.0% in additional markets outside Europe.

View case study online

Increase transparency on ingredients and nutrition

Our 2018 commitment

Provide ingredient and nutrition information per 100 ml on pack and online for all beer brands[19] produced and sold in the EU by 2017.

For all our cider brands produced and sold in the EU, provide information on pack and online by the end of 2018.

Our progress in 2017

On track

Our commitment to provide ingredients and nutrition information on pack and online is ahead of industry and regulation. We believe consumers should be able to make fair comparisons between different beverages.

By the end of 2017, 100% of our beer brands in scope had ingredients and nutrition information on pack[20] (2016: 47%). 98% of brands also shared information online[21].

We raised our ambition by extending this commitment to our cider brands and we are working hard to comply by the end of 2018.

[19] Imported low volume non-European brands are not in scope, as well as no-and low-alcohol beer brands. Commitment is only applicable to consumer-facing products (bottles, cans).

[20] Label includes all ingredients, energy value (KJ/kcal)/100 ml, two out of three alcohol related symbols and ABV content.

[21] Branded website providing full ingredient and nutrition information (energy; fat, saturates, carbohydrates, sugars, protein, salt).

Looking ahead

We will further raise our ambition and commit to provide ingredients and nutrition information on pack or online for our beer and cider brands around the world, by end of 2018.

Sustainability Review (continued)

Promoting health and safety

The ILO estimates[22] that 337 million accidents occur on the job annually. The human and economic cost of this impact is vast. At HEINEKEN, nothing matters more than the safety of our people. That is why 'Safety First' is our number one company behaviour.

[22] ILO website – International Labour Standards on Occupational Safety and Health.

Implement Life Saving Rules

Our 2020 commitment

100% of Life Saving Rules action plans implemented.

Our 2018 milestone

Operating companies representing 95% of employees have carried out 80% of their Life Saving Rules action plans.

Our progress in 2017

More to do

Operating companies representing 95% of employees have now carried out 21% of the actions in these plans. We are assessing compliance through self-assessments and audits.

Looking ahead

We will continue supporting and monitoring operating companies' progress against their action plans. In some cases, action requires investment – for example to upgrade equipment – and this can take time to deliver.

Safety performance

Our 2020 commitment

Accident frequency reduced by 20% compared to 2015.

Our progress in 2017

On track

We were deeply saddened that 14 people lost their lives while working within the HEINEKEN Company in 2017 (2016: 15). Six of these people were direct HEINEKEN employees and eight were employed by contractors or suppliers. Four people lost their lives in Mexico, three in Democratic Republic of Congo, two in Brazil, one each in Ethiopia, Nigeria, Slovakia, South Africa and United States of America. Seven fatalities involved traffic accidents, four fatalities were crime related and three were due to falls.

For all fatalities, the operating company conducts a full investigation and submits a plan for improved safety in the future. The outcomes inform global Company-wide safety alerts and strategy.

There were 806 accidents among HEINEKEN employees in 2017, down 9.8% since 2016 (2016: 894).

Accident frequency reduced by 24.6% compared to 2015, ahead of our 2020 target.

459 accidents were in logistics and distribution, 167 in sales and marketing, 146 in production and 34 in support functions.

Our global strategy is systematically addressing safety across the whole of the Company, with a particular focus on road safety. Operating companies are required to have at least one road safety officer per 50 vehicles, and our defensive driving[26] training, called AlertDriving is mandatory for everyone driving for the Company.

For more detailed information on our health and safety performance, **see our website** and **case studies**

[23] Pending the opinion of the European Works Council.
[24] The reporting period for accidents is from December 2016 up till and including November 2017.
[25] The FTE is measured as the average of the month end FTEs for the in scope operating companies.
[26] An interactive training programme addressing risks during driving.

Looking ahead

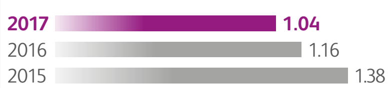
Based on pilots in seven operating companies, we decided to make telematics mandatory for all Company-operated vehicles to monitor and improve safe driving behaviour[23].

Fatalities and permanent disabilities	2015	2016	Company wide 2017
Fatalities of Company personnel	6	3	**6**
Fatalities of contractor personnel	16	12	**8**
Permanent disabilities of Company personnel	6	3	**1**
Accidents (absolute values)[24]			
Accidents of Company personnel	1,060	894	**806**
Accidents of contractor personnel	140	171	**272**
Lost days of Company personnel	31,008	27,240	**28,628**
Total workforce (FTE)[25]	76,956	77,215	**77,792**
Accidents (relative values)			
Accident frequency (accidents per 100 FTE Company personnel)	1.38	1.16	**1.04**
Accident severity (lost calendar days per 100 FTE Company personnel)	40	35	**37**

Accident frequency

accidents per 100 FTE

1.04



Accident severity

lost calendar days per 100 FTE

37

Growing with communities

People around the world are now healthier, more educated and better connected than ever before. But while we have seen poverty decline dramatically in recent decades, millions of people still face inequalities that limit their potential[27]. We contribute to the social and economic wellbeing of communities through our core business and through our targeted support and investment in community initiatives.

[27] United Nations – Report on the World Social Situation 2016.

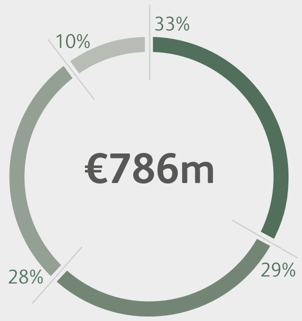
Creating economic and social impact

The taxes we pay make an important contribution to the economies and development of the countries in which we operate. We believe responsible tax behaviour is an essential element of our sustainability strategy. We support stable, transparent and predictable tax regimes that incentivise long-term investment and economic growth. We also support the principles that underpin the OECD's work on Base Erosion and Profit Shifting (BEPS), including country-by-country reporting to the tax authorities.

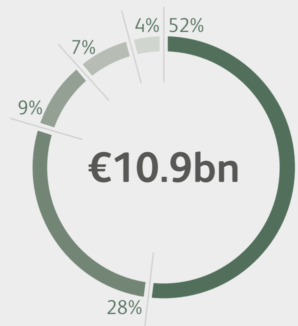
27.6%
effective income tax rate (beia)

For more on our approach to tax, **see our website**

Corporate income tax paid by geographical region



Total tax contribution per category



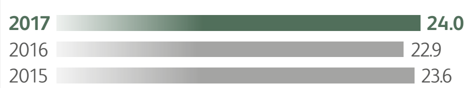
Investing in our communities

Direct contributions

In 2017, HEINEKEN operating companies contributed €24 million to local communities, including cash donations, time, in-kind donations and management costs. More than 2,700 employees in 32 markets spent over 34,000 hours volunteering.

Total direct contributions by our operating companies

€24m



For more detailed information on how we contributed and where, **see our website** and **case studies**

[28] Input is originally in US Dollars. Since 2017 we are following the average exchange rate as disclosed on page 67.

Shared value projects

Our local sourcing projects in Africa create jobs, strengthen the agricultural sector and improve the lives of rural households. Between 2009 and 2017, we invested €4.4 million in cash and €12.7 million in equipment and people through our PPP projects in Burundi, DRC, Ethiopia, Ivory Coast, Nigeria, Rwanda, Sierra Leone, South Africa. This excludes additional third party funding leveraged by our contribution[28]. Our local sourcing projects provide work to more than 150,000 farmer households.

The HEINEKEN Africa Foundation

Since it was established in 2007, the Foundation has committed €9.2 million to 104 projects, of which 41 projects were still running in 2017.

In 2017, the HEINEKEN Africa Foundation approved 10 new projects totalling an investment of €1 million. Four of these projects will provide access to safe drinking water to communities in Burundi, DRC, Kenya, and Sierra Leone, with the aim to benefit up to 82,000 people. Other projects will support the construction and renovation of health centres, purchase of mobile clinics and training of medical staff.

◄ Water in Burundi
Providing safe drinking water for 3,400 people in southern Burundi, reducing the time to collect water from hours to minutes.

Values and behaviours

In 'We are HEINEKEN' we summarise our purpose: who we are and what we stand for. We stand by our values: passion for quality, enjoyment of life, respect for people and for our planet. Our values are part of our company culture, and our Code of Business Conduct, Supplier & Marketing Codes.

Conducting business with integrity

Our values guide how we work and conduct our business, supporting the principles of the UN Global Compact and the OECD Guidelines for Multinational Enterprises. We are committed to conducting business with fairness, integrity and respect for the law and our values. The **HEINEKEN Code of Business Conduct** and its underlying policies communicate the basic principles that each employee must observe when acting for, or on behalf of, HEINEKEN. The Code and its policies are available in more than 40 languages both online and as a printed booklet.

Communication and training is provided to employees worldwide to raise awareness about the Code and its policies. A mandatory e-learning exposes all employees to practical business conduct dilemmas. By the end of 2017, more than 75,000 employees had completed this training, either online or in the classroom (2016: 50,000). We implemented our Business Conduct framework in four new operating companies.

As a multinational operating in more than 70 countries, we pay special attention to potential exposure to bribery and corruption. It is our principle never to engage in bribery, in any place, at any time.

HEINEKEN's anti-bribery framework consists of several key elements aimed at our operations to minimise the risk of and exposure to bribery related incidents, to support our employees with their daily challenges and to meet applicable legal requirements. These elements include screening of third parties and visits to selected operations to assess their bribery risks. Furthermore, we have an anti-bribery e-learning programme to help our employees recognise and deal with bribery dilemmas they may encounter during their work.

The programme consists of three training modules and is mandatory for key groups of employees across a range of functions. Module 1 and module 2 were completed almost 19,350 times (2016: 11,187). Module 3 was launched at the end of 2017 and completed more than 1,600 times. We keep reasonable and proportionate oversight on activities related to the implementation and effectiveness of the above through internal controls.

Speak Up

We encourage everyone to Speak Up in confidence and without fear of retaliation about any concerns they may have. We offer several Speak Up channels to raise questions and concerns, including Trusted Representatives and an external Speak Up service (telephone and online) which is run by an independent third party and available 24/7, 365 days a year.

We received 661 reports of suspected misconduct through Speak Up in 2017 (2016: 380). This increase is linked to an internal communication campaign promoting Speak Up, the implementation of Speak Up in newly acquired operations and the level of awareness and use of Speak Up at HEINEKEN Brazil, including our newly acquired operation. Reports related to misconduct or inappropriate behaviour (33%), fraud (31%), discrimination and harassment (12%), and other issues (24%).

56% of reports were substantiated and corrective and preventative actions were taken where relevant and possible, including process and control improvements. Actions included process and control improvements, reimbursement of financial loss and disciplinary measures.

In 2017, Transparency International Netherlands investigated the whistleblowing frameworks of 27 Dutch publicly listed companies, including HEINEKEN. The report can be downloaded on their website.

Respecting Human Rights

Our **global Employees' and Human Rights Policy** sets out 11 standards on Employee and Human Rights including non-discrimination, forced labour, harassment and child labour. This policy is an integral part of our Code of Business Conduct and builds on a foundation of existing policies and practices to achieve our goal of doing business with respect for Human Rights, such as our Speak Up process, our Health and Safety policies and programmes, the Supplier Code process and our sustainability programme 'Brewing a Better World'.

In order to better understand the Human Rights risks in our own operations and across our value chains, we began in 2016 developing a Human Rights Due Diligence process with expert support from Shift, the leading centre of expertise on the UN Guiding Principles on Business and Human Rights. We conducted a global gap analysis, reviewed if and how our existing internal policies and processes adequately manage Human Rights risks and initiated Human Rights due diligence workshops in Mexico, Myanmar and Nigeria.

Our salient Human Rights risks

Based on our work with Shift, we have identified seven salient Human Rights risks for our business in our own operations and/or our value chains: discrimination; trade union rights; fair wages and income; child labour in our supply chain; working hours; access to water; and health and safety. Most of the issues identified are especially a risk for our operating companies in emerging economies.

We will further test these salient risks internally and externally, without losing sight of other relevant Human Rights. We will also engage relevant stakeholders for feedback and advice on these risks.

Sustainability Review (continued)

Action plan

We have developed a Human Rights programme, which includes the following actions for 2018-2020:

– Building internal understanding – through training and communication – about how respecting Human Rights is relevant to our business, and what it means for our daily work. We need to bring that understanding to many colleagues, from global functions to our operating companies;

– Update the HEINEKEN Human Rights policy and strengthen compliance through the Code of Business Conduct framework;

– Leveraging our Supplier Code process to help better manage Human Rights risks with suppliers, and also look at ways to assess and manage our risks beyond first tier suppliers;

– Focusing our efforts on our identified salient Human Rights risks and on relatively high risk operating companies with support for risk assessment, action planning and implementation.

At the same time we will continuously review and assess all Human Rights related risks of our business activities.

We will continue our risk assessment with the expert support of Shift by organising Human Rights workshops in 10 more markets across all regions in 2018–2020. These workshops will focus on practical and impactful action planning to address identified Human Rights risks.

Based on input from stakeholder roundtables with NGOs and academic experts, we set up an internal cross-functional platform gathering HEINEKEN experts for the Africa and Middle East Region addressing Human Rights related issues relevant for the region. We also started to develop operational guidance, with support from Shift, on how to conduct business and operate in challenging social, political, and economic contexts.

Inclusion and diversity

As the most international brewer, it is the diversity of our workforce that sets us apart. Cultural diversity remains our strong point. In 2017, we had 64 different nationalities amongst our senior managers (2016: 53). Female representation at senior levels grew to 19% (2016: 17%). However, we know that we need to do more to increase our gender diversity. To leverage the true potential of our diversity, we need to provide an inclusive work environment within which every employee has equal opportunity to contribute and develop. This requires inclusive leaders who develop the business, their teams and themselves.

In 2017, we rolled out a renewed guide to Leadership Expectations and a new Inclusion and Diversity action plan to help us better leverage our global talent pool. We focus our efforts on four areas:

1. Building inclusive leadership capability to create awareness and understanding of what being an inclusive leader means at HEINEKEN;
2. Developing a global ambassador community to support and engage people in our overall inclusion and diversity agenda;
3. Developing a female mentoring programme that supports women in their personal development journey across the organisation;
4. Embedding inclusion and diversity principles throughout our people processes, including external recruitment, promotions and working practices.

Representation by gender in % (2017)	Male	Female
Supervisory Board	70	30
Executive Board	50	50
Executive Team	80	20
Senior Management	81	19

◄ **Nigeria: Human Rights Workshop**
A workshop with Nigerian Breweries and Shift aimed to build a better understanding of human rights issues.

Reporting basis and governance of non-financial indicators

As we continue our journey of integrated reporting, this is the second year we have disclosed our financial and Brewing a Better World performance together in one report. We believe it is important to provide independent confirmation that the information in this report is reliable and accurate, so we have asked Deloitte to provide limited assurance on 31 of the most important non-financial indicators[29]. More information about our actions and progress in 2017, remaining non-financial KPIs, and background information, can be found online. This includes datasheets and the GRI Standards table[30].

Brewing a Better World Governance

Our governance model for Brewing a Better World ensures we deliver on our priorities both globally and locally. Brewing a Better World progress is one of the key priority topics of the HEINEKEN Executive Team discussions, chaired by our CEO. In 2017, progress on our achievements was presented to the Supervisory Board. Supported by expert input from subject specialists, this ensures an effective implementation of Brewing a Better World initiatives across our business.

Focus on sustainability is embedded throughout our business, for example driven by Supply Chain (Water and CO_2), Procurement (Sustainable Sourcing), HR (Health and Safety) and Commerce (Responsible Consumption). On a day-to-day basis, Brewing a Better World is managed by the Global Sustainable Development team which is supported by the functions.

Around the world, each operating company has its own sustainability coordinator and a team engaged in delivering Brewing a Better World. Further, we form alliances (tribes) throughout the organisation and with our suppliers to develop new solutions. For example, following the Paris Agreement COP21, we will redouble our efforts to reduce emissions through our platform, which ensures it connects everyone in the company.

Operating companies in scope

The non-financial indicators in this report cover the performance of all our consolidated operating companies from 1 January 2017 up to and including 31 December 2017, unless stated otherwise. A different reporting period is applied to the accident frequency indicator (December 2016 – November 2017) as the current reporting cycle does not allow for reporting within the timelines required for the Annual Report. Newly acquired production units are required to start reporting directly after the first calendar year following the date of acquisition.

For the first time, we included our greenfield brewery in Ivory Coast in this report. Ownership of our businesses in Belarus and Mongolia changed in 2017, which means that the key performance indicators have been included up to the sale date. We also acquired or gained a majority interest in the following businesses during 2017: Brasil Kirin in Brazil, Tuatara craft brewery in New Zealand, Stellenbrau in South Africa, Punch Securisation A in the UK (comprising around 1,900 pubs) and Lagunitas in the USA. These businesses will be included in the 2018 Annual Report. We opened a new brewery in East Timor and started to build a greenfield brewery in Mozambique in December 2017, these two breweries will come into the scope of Annual Reporting the moment it has been in operation for a full year. The term 'production unit' means breweries, cider plants, soft drink plants, malteries, water plants and combinations of these, at which malt, beer, cider, soft drinks and water are produced. Two packaging material plants are also in the scope of production units, covering the manufacture of bottles and crates. Other plants have been included too, such as a winery, distillery and ice production facilities.

Indicators in scope

The content of the report is based on the material aspects for both our Company and our stakeholders and is directly linked to the Brewing a Better World strategy, our four focus areas and our 2020 commitments. We have selected the non-financial KPIs that are most material, based on the following criteria:

- The KPI is a Brewing a Better World commitment
- The KPI is a new target we publicly disclosed in our 2016 report
- The KPI is not related to a target but part of one of the Brewing a Better World focus areas and seen as important by our stakeholders
- The combination of KPIs should give a balanced, high level overview of our progress in 2017.

Scope and materiality of indicators are approved on an annual basis by the Disclosure Committee, and may be adjusted once a year with effect as of the following year.

Reporting systems

The main systems used for collection, validation and analysis of reported data:

- Safety data is reported quarterly via a global system named ARISO (Accident Reporting & Investigation Software system)
- The collection and validation of environmental data have been integrated in Business Comparison System (BCS). Production units submit environmental data on a monthly basis in BCS
- The Green Gauge reporting system allows us to monitor and report quarterly progress against 17 key areas, related to our commitments
- Other reporting systems include the HEINEKEN Sourcing database, the Spend Analysis Tool (SAT) and the EcoVadis Platform for Supplier Code and performance information, and Ethics Point for 'Speak Up' data
- The Annual Sustainability Survey is the source of information for all other data that is not covered by the previously mentioned data sources

[29] 27 of these indicators are included in this report, the remaining ones are published online by the end of March 2018.
[30] End of March 2018.

Reporting basis and governance of non-financial indicators (continued)

Reliability and accuracy of data

We have processes governing the collection, review and validation of the non-financial data included in this reporting, at both local operating company and global level. Subject matter experts are involved at various levels to validate and challenge the data and process.

We are continuously formulating and applying uniform definitions and instructions for reporting purposes, in order to improve the accuracy and comparability of data. Where possible, standard calculations are built into our systems to minimise errors. Despite the continuous strengthening of our data collection processes and the fact that our operating companies and data owners have reported to the best of their knowledge, in good faith and in accordance with agreed procedures, it is not possible to ascertain 100% completeness of data contained in our report. Our operating companies are at differing maturity levels with regards to implementing the various data collection processes. Where we have concerns, we highlight them in the report.

HEINEKEN Global Audit is involved in the annual review of the non-financial indicator reporting process, including reviewing the quality of control processes at various levels, data ownership and clarity of definitions. For 2017, Global Audit reviewed the text statements in this report.

Deloitte provides limited assurance on the selected indicators as described in detail in the Assurance report of the independent auditor.

Definitions and governance per indicator

We gather data in accordance with guidelines and definitions based on the Global Reporting Initiative (GRI Standards) Guidelines, unless stated otherwise. Overall, we aim to align with international standards, and, if not available, we work with industry partners such as the Beverage Industry and Environmental Roundtable (BIER) to develop common practices. For some of our responsible consumption measures, we track implementation in accordance with industry agreements (for example, labels on our packaging).

The table below provides more information on definitions and how we manage and govern the reported indicators. Additional information can be found in the sustainability section of the Company website and the document 'Basis of Preparation Non-Financial Indicators' accompanying this report.

'Every drop': protecting water resources	
Specific water consumption	Hectolitre water intake per hectolitre volume produced of beer, cider, soft drinks and water. Water intake minus water exported. We make detailed action plans for reducing water use in our breweries, embedded within the Total Productive Management (TPM) framework. Examples of actions are reducing water losses in the pasteuriser and solving leakages. We focus our water efforts on breweries in water-stressed areas, which is the reason why we have a separate water consumption target for these breweries
Total water withdrawal	The total volume of water withdrawn from the following sources: – Surface water, including water from wetlands, rivers, lakes, and oceans – Groundwater – Rainwater collected directly and stored by the organisation – Municipal water supplies or other water utilities
Wastewater treated	The volume of wastewater treated expressed in m^3. It is our policy to ensure all of our wastewater volumes are treated – by us or by a third party – before being discharged into surface water. Those breweries currently lacking wastewater treatment infrastructure are part of our future investment planning
Wastewater quantity[31]	All wastewater coming from the brewery (m^3)
Wastewater treatment plant	Plant removing contaminants from the brewery's wastewater and producing environmentally safe treated wastewater before releasing it into the environment. Third party plant: an external party (most often a municipal plant) taking care of the treatment of brewery wastewater and subsequent discharge into surface water
Effluent organic load to surface water (kg COD)[32]	This indicator relates to the pollution load of the effluent that is discharged into surface water from our breweries. This excludes the wastewater which is treated by third parties. COD stands for Chemical Oxygen Demand, which is a measure for the pollution of water with organic material
Water stress	Refers to the ability, or lack thereof, to meet human and ecological demand for water. Compared to scarcity, 'water stress' is a more inclusive and broader concept. It considers several physical aspects related to water resources, including water scarcity, but also water quality, environmental flows, and the accessibility of water. Every five years, we assess current and future risks arising from the watersheds in which our breweries are located. In 2015 we undertook a water risk assessment with WWF International across our total operational footprint – fully consolidated as well as Joint Ventures – and on our barley-sourcing areas. Production sites identified as potentially located in a water-stressed area need to complete a Source Vulnerability Assessment (SVA). This enables us to obtain a clear picture of the local water situation, identify relevant stakeholders and explore the need for activities that increase water retention or promote the health of ecosystems. The outcomes serve as a basis for local Source Water Protection Plans, which includes the plans for water balancing. The outcome of the assessment can also indicate that water risks are negligible and that no further actions are required

[31] This specific indicator will be disclosed by end of March 2018 in the sustainability section of the Company website.
[32] HEINEKEN Energy Efficiency Index is the energy consumption of the fridge divided by the average energy consumption of similar HEINEKEN fridges on the market in 2010, multiplied by 100.

Reporting basis and governance of non-financial indicators (continued)

Water balancing	Redressing the balance in water-stressed areas between the amount of water we source from the watershed and the amount that is not returned because it is used in our products, and through evaporation. One of the challenges is mobilising stakeholders, particularly at a government level. To help us, in February 2015, we entered into a partnership with the United Nations Industrial Development Organization (UNIDO). HEINEKEN and UNIDO are jointly organising three-day stakeholder engagement workshops to develop a shared vision on the most important water issues and on collective efforts needed to redress them in priority locations
Water balancing projects	Projects that aim to conserve or restore water quantity or quality in the local watershed; and/or improve access to clean water for the local communities. We consider a balancing project started once a Memorandum of Understanding has been signed with one or more partners. This is a change of definition compared to 2016, where we considered a project already started once a feasibility study was finalised. Since a study is not always followed by a concrete project, we think the new definition is more robust. This is the reason why the number of breweries compliant to this definition went down in 2017 from 13 to 12

'Drop the C': reducing CO_2 emissions

% of electrical energy coming from renewable sources	Quantity of renewable electrical energy use (kWh) divided by total electrical energy use (kWh). Sources can be: – Own renewable production = all electricity generated from renewable resources on-site (wind, solar, biogas) – Imported electricity under green certificates = all electricity streams for which certified green electricity is purchased
% of thermal energy coming from renewable sources	Quantity of renewable thermal energy use (MJ) divided by total thermal energy use (MJ). Sources are: biomass, biogas, solar thermal and imported heat (with 100% renewable % and 0 g CO_2/MJ)
CO_2 emissions in production (Scope 1 and 2, GHG Protocol)	This indicator includes CO_2-eq emissions caused by: – direct emissions from combustion of fuels – indirect emissions from imported heat and electricity – emissions from refrigerant losses The reduction in CO_2 emissions is being achieved by improving our energy efficiency for both thermal and electrical energy (as part of our TPM framework), and by using more renewables and replacing high CO_2 fuels such as fuel oil with lower-emission fuels such as natural gas
CO_2 emissions in distribution (Scope 3, GHG protocol)	This indicator refers to CO_2-eq emissions from outbound distribution of finished goods and returns of empty packaging material. It includes domestic and export transport by road, rail and sea. Excluded is inbound transport. We focus our actions on reducing the distance we drive, improving fuel efficiency with our transport partners, switching from road to rail and water, and using more carbon-efficient vehicles. As the majority of our transport is outsourced, we work in collaboration with our transport service providers and also with peer companies, customers, fuel providers, industry groups and other key stakeholders
CO_2 emissions from fridges (Scope 3, GHG protocol)	This indicator refers to CO_2-eq emissions as a result of the electricity used by beverage fridges (branded and non-branded) invoiced to HEINEKEN in the reporting year
Green fridges	HEINEKEN buys and supplies fridges used to store and display our beer products in supermarkets, bars and restaurants. This allows us to control the quality of the beer by setting the correct temperature, as well as the appearance of the fridge and our brands within it. To reduce our emissions, we focus on installing more energy-efficient fridges in conjunction with our suppliers. We ask our suppliers to test new fridges to determine the HEINEKEN Energy Efficiency Index (HEEI)[28]. In case our suppliers have not (yet) provided us with the HEEI, we calculate the HEEI based on the energy saving features of the fridge model. We judge our fridges as 'green' if they have one or more of the following green features: use of hydrocarbon refrigerant, LED illumination, an energy management system and energy-efficient fans. We further enhanced our data gathering method, and decreased our reliance on self-declared numbers by the operating companies to using our centralised procurement tool where possible
Waste destination per % and absolute value[33]	Destination of residual products from the brewing process: either recycled into feed, material loops, compost or energy, or – when not recycled – incinerated or sent to landfill. Brewer's grains and yeast, for example, have a high nutrition value and are recycled for animal or human consumption. It is our ambition to achieve zero waste to landfill in our production facilities, and this is part of our mandatory TPM framework

[33] This specific indicator will be disclosed by end of March 2018 in the sustainability section of the Company website.

Reporting basis and governance of non-financial indicators (continued)

Sourcing sustainably

Sustainable agriculture	By sourcing raw materials sustainably, we help improve farming practices and enable farmers all over the world to adopt better environmental and social standards. Our procedures for sourcing sustainably cultivated crops are based on the principles of the Sustainable Agriculture Initiative Platform (SAI), an organisation of multinational food companies working towards a more sustainable food chain. Suppliers allocating sustainably cultivated crops to us are required to follow our procedures and we encourage them to work with farmers who grow their crops sustainably. We follow the definition of the Sustainable Agriculture Initiative (SAI): The efficient production of safe, high quality agricultural products, in a way that protects and improves the natural environment, the social and economic conditions of farmers, their employees and local communities, and safeguards the health and welfare of all farmed species. Our sustainable sourcing reporting is based on the concept of 'mass balance'. This tracks what percentage of a suppliers' materials are produced sustainably and is fully auditable, from farm to brewery
% of our main agricultural raw materials from sustainable sources	Contracted sustainable volumes (tonnes)/Total contracted volumes (tonnes). Sustainable volume = any agricultural product in scope of the Sustainable Agriculture programme, that has been: 1. cultivated in accordance with an approved Code of Practice and 2. allocated to HEINEKEN by our supplier in accordance with the mass balance approach Volumes contracted in 2017 for delivery in 2018 are reported in the 2017 Annual Report
% of agricultural raw materials locally sourced in Africa	Quantity (in tons) of agricultural 'extract' producing raw materials (plus hops) that are cultivated in the Africa and Middle East region and that are purchased for use in the production of beers, soft drinks, cider, wine and spirits at our own production facilities in that region
Estimated number of smallholder farms involved	Calculation based on the total quantity of agricultural raw materials purchased (tons), divided by the average farm size (hectares) and the average yield per crop produced (tons per hectare). This gives the estimated number of smallholder farms involved
Number of different local sourcing initiatives	HEINEKEN operating companies sourcing any agricultural raw material within the AME Region. Each value chain is counted individually and some involve working with smallholder farmers, while others work with larger scale commercial farmers. As a large buyer of crops, we can have a significant economic impact on local agricultural communities. Our local sourcing PPP projects work with smallholder farmers and aim to help them raise yields and compete against imported crops. They empower farmers and their communities by helping to alleviate poverty and improve local food security. At the same time, HEINEKEN benefits by reducing import-related duties and securing a sustainable supply of raw materials. To achieve more, faster, we support a number of Public-Private Partnerships (PPP) in which HEINEKEN and a public sector donor (e.g. the Dutch Ministry of Foreign Affairs and the German GIZ development agency) jointly fund agricultural development projects. Other partners include the European Cooperative for Rural Development (EUCORD), International Finance Corporation (IFC), International Fertilizer Development Center (IFDC), and Dutch NGOs ICCO and FairMatch Support
HEINEKEN Supplier Code	Much of our impact lies indirectly with our suppliers, so we work with them to embed the right practices. Every supplier is asked to abide by our Supplier Code, which sets out clear guidelines for how we expect them to act in the areas of Integrity and Business Conduct, Human Rights, and the Environment. The Supplier Code procedure is implemented among first tier suppliers, and we expect our suppliers to ensure that their suppliers adhere to the same standards
Supplier	A supplier is an entity: – that delivers goods and/or services on a regular basis, more than once a calendar year, and – is registered in the vendor master database as an active supplier, and of which invoices are registered in the central systems for payment on behalf of Heineken N.V. or one of its affiliates, and – with which there has been spend in the 18 months preceding the assessment of the status of the supplier The definition excludes: tax authorities, charities, sponsorships, customer refunds and intercompany suppliers
Supplier Code four-step procedure	We safeguard compliance through a risk-based step-by-step process: 1. By signing the HEINEKEN Supplier Code, suppliers agree to comply with our principles of integrity, environmental care and human rights. 2. The intensity with which we monitor compliance against our Supplier Code depends on the risk profile of a supplier. Our supplier risk analysis (SRA) tool assesses suppliers based on their type of business and level of supplier-specific risk. All potentially high-risk suppliers are required to go through step three of the programme. 3. We use the EcoVadis[34] sustainability monitoring and scorecard to assess the strength of potentially high-risk suppliers' management systems for ensuring compliance with our Code. Suppliers complete an online questionnaire and provide supporting evidence, which EcoVadis analyses alongside a 360° scan which looks at whether a supplier has been mentioned positively or negatively in the media, by NGOs or trade unions. They then create a supplier scorecard. Suppliers that are still considered high-risk go on to Step 4 and undergo a site audit. 4. The final step is a site audit by a third party using our Supplier Code as the basic assessment criteria. We use the SMETA[35] four-pillar protocol. It enables us to contribute to and use the global database of audits held by AIM-Progress, the responsible-sourcing platform used by over 40 of the world's leading fast-moving consumer goods companies. We strive for continuous improvement to ensure ongoing compliance with our Supplier Code. If a case of non-compliance is found, we discuss corrective actions with the supplier and allow for commitment to correct the non-compliance within a given timeline. If commitment and action is not forthcoming, HEINEKEN will cease to do business with the supplier

[34] EcoVadis is a sustainability rating and collaborative platform enabling companies to monitor the sustainability performance of their suppliers, across 150 sectors and 110 countries. The evaluation covers 21 Corporate Social Responsibility (CSR) criteria and is used today by 120 global multinationals. EcoVadis engages approximately 20,000 suppliers a year whereby 70% of suppliers are SMEs (less than 1000 employees).
[35] SMETA (Sedex Members Ethical Trade Audit) describes an audit procedure which is a compilation of good practice in ethical audit technique.

Reporting basis and governance of non-financial indicators (continued)

Average level of compliance (%) of all operating companies with four-step Supplier Code Procedure	This KPI measures the overall performance over the four steps of our Supplier Code Procedure, per operating company. Depending on the availability of the data, we calculate the operating company's overall performance based on the average performance over the four steps or based on the percentage of suppliers compliant with all applicable steps. The reported % compliance reflects the simple average of all operating companies in scope
Number of contract terminations	Number of suppliers with which any commercial relationship ended, because: a) they were unwilling to sign our Supplier Code b) or refused to subscribe to EcoVadis c) or refused to undergo a site audit

Advocating responsible consumption

% of operating companies spending % of media spend for Heineken® in supporting dedicated responsible consumption campaigns	All expenses incurred for placing and broadcasting Heineken® brand dedicated responsible consumption campaigns (either supporting 'Enjoy Heineken® Responsibly' or 'When You Drive, Never Drink') amounting to a minimum of 10% of their actual Heineken® media spend, per market. Scope: In 2017, we raised our ambition, going from 14 markets in scope to all operating companies selling Heineken® and investing media spend. Exceptions are companies operating in 'dark markets' where above-the-line communication is not allowed according to regulations
Number of operating companies have an active and relevant partnership aimed at addressing alcohol-related harm	Working closely with third parties like local governments, NGOs and specialists, these partnerships address alcohol-related harm on issues like underage drinking, drinking and driving, or excessive drinking. In scope are all HEINEKEN operating companies with the exemption of those in Islamic countries, export markets, markets where we have a Joint Venture and one minimal-volume market (Laos) where allocating resource is unrealistic. South Africa is included as of 2017. Compared to last year's report, we have simplified and clarified definition and guidance of this commitment for our operating companies. Active partnerships means: meaningful, substantive engagement over a year or years, with each side benefiting and being challenged by the other. An active partnership should have a regular cadence of communication and a regular schedule for collaborations or joint executions. A relevant alcohol partnership is one that is responsive to the needs of the local community as identified by critical stakeholders and/or local trends
Low- and no-alcohol	All beer, cider, hop and/or malt based drinks with an ABV of 3.5% or less. This does not include soft drinks
Low- and no-alcohol as % of our global volume	Total low- and no-alcohol volume/Total consolidated beer and cider volume
Ingredients and nutrition information on pack and online for all our beer brands in the EU	This involves beer brands produced and sold by HEINEKEN operating companies in the European Union. Commitment is only applicable to consumer-facing products (bottles, cans). We committed to include ingredients and energy values (kcal) per 100ml on pack, and additional information on fat, sugars, protein and salt online. Out of scope are minimal volume brands (less than 1,000 hectolitres). We have expanded our target to our cider brands and other beer brands around the world, for completion by 2018
Beer, Wine and Spirits Producers' Commitments to Reduce Harmful Drinking	HEINEKEN is a signatory to the Producers' Commitments to Reduce Harmful Drinking. This is managed by the International Alliance for Responsible Drinking (IARD). The aim of the Producers' commitments, which run from 2013–2017, is to contribute as an industry to the global target set by the World Health Organization (WHO) of "at least a 10% relative reduction in the harmful use of alcohol" by 2025. We take action in five key areas: under-age drinking, marketing codes of practice, consumer information and product innovation, drinking and driving, and retailer support
Responsible Marketing Code	In 2015, we launched our renewed Responsible Marketing Code. This Code, which is fully in line with the Producers' commitments, guides us in the way we market our products. These rules help everyone at HEINEKEN who is involved in marketing and the sales of our products to ensure we do not contribute to excessive consumption or misuse. The Code covers all communications channels, the most common being: packaging, point of sale, signage, trade promotions, sponsorships, advertising, digital and social media

Promoting health & safety

% of Life Saving Rules action plans implemented	Our 'Safety First' approach is focused on improving safety across the whole company. Our global strategy is systematically addressing safety across the whole of the Company, with a particular focus on road safety. The 12 Life Saving Rules set out clear and simple 'do's and don'ts' for our highest-risk activities. All operating companies are required to assess their safety performance and close any gaps through action plans. In 2016 an operating company was compliant when an action plan was in place. In 2017 compliance is based on the number of actions implemented
Fatal accidents	All work-related fatal accidents of permanent, fixed-term or temporary personnel (own staff and contractor personnel)
Accidents	An accident which resulted in permanent disability or which requires hospitalisation for more than 24 hours or resulting in more than one lost day
Lost days	Lost days are counted from the first day after the case until the day the person returns to normal duties at work. All calendar days are counted
Accident frequency	Number of accidents resulting in absence from work per 100 FTE. This is an indicator of the state of health and safety at the workplace
Accident severity	Number of days lost from work as a result of disabling injuries per 100 FTE

Reporting basis and governance of non-financial indicators (continued)

Growing with communities

Our approach to tax	In support of HEINEKEN's business priorities we pursue a tax strategy that is sustainable and transparent. This strategy is annually reviewed and approved both by the Executive Board and the Audit Committee. Our tax strategy is based on a number of key principles: – Our commitment to comply with relevant tax laws and international regulations goes beyond legal compliance: ▪ Our way of working conforms with the HEINEKEN Code of Conduct; ▪ We expect to pay tax on our activities in the country where they take place; and ▪ We do not use tax havens for tax avoidance purposes. – We pursue an open and constructive dialogue with tax authorities that is based on respect, transparency and trust. We have developed co-operative compliance relationships with tax authorities in several countries including, amongst others, the Netherlands and in the United Kingdom. – We fully support and follow the OECD transfer pricing guidelines. Transactions between HEINEKEN companies are conducted at 'arm's length'. For more information on our tax strategy, governance and organisation, visit our website
Total Tax Contribution per category	The tax payments made by the fully consolidated HEINEKEN companies during the calendar year. The total tax contribution includes a limited degree of estimation. The scope of total tax contribution is limited to the consolidated reporting entities (not JVs and associates). The categories are: corporate income tax paid, excise duties paid, net VAT paid, employee taxes paid (incl. social security contributions, but excluding pension contributions), other taxes paid
Corporate income tax paid	Cash flows arising from taxes on income, reported by the fully consolidated Heineken companies
Effective income tax rate (beia)	Income tax expense expressed as a percentage of the profit before income tax, adjusted for share of profit of associates and joint ventures and impairments thereof (net of income tax)
Beia	Before exceptional items and amortisation of acquisition-related intangible assets
Total direct contributions	Voluntary contributions (in cash, knowledge, employee time, products and equipment) that help local communities and broader societies address their development priorities and increase the quality of life. The operating companies are free to establish which issues are relevant to both the community and the business. We provide guidelines how to prioritise projects within the focus areas of Brewing a Better World, for example on water stewardship and addressing alcohol related harm. In certain markets, community investments are coordinated through local foundations, like in Spain and Singapore. We encourage our employees to volunteer their time with local community organisations. Volunteerism enables employees to give their time and professional expertise to organisations in need of human resources, and it makes Brewing a Better World personal, relevant and a source of pride and ownership for our employees
HEINEKEN Africa Foundation	Donations as a voluntary engagement in collaboration with (non) governmental charitable organisations that extends beyond our core business activities, to help improve the health of the communities where we do business. The HEINEKEN Africa Foundation supports projects that improve health for the people who need it most. Over the years, the Foundation has developed strong expertise in Mother & Child Care and Water, Sanitation and Hygiene (WASH). The Foundation works closely together with the HEINEKEN breweries in Sub-Saharan Africa and (N)GOs. Underpinning HEINEKEN's longstanding commitment to Africa, projects are only carried out in the Sub-Saharan African countries in which HEINEKEN is operating. For each project a partnership is created between the HEINEKEN Africa Foundation, the local HEINEKEN brewery and a local or international (N)GO. The Foundation provides funding and administrative assistance. The local brewery supports through means of manpower, expertise and monitoring. The (N)GO is responsible for the implementation and continuation of the project. Visit the Foundation's website for more information

Values and behaviours

Speak Up policy (number of reports + breakdown)	The number of Speak Up reports is the total number of reports received via our Speak Up channels in which reporters raised a concern about a (possible) breach of the HEINEKEN Code of Business Conduct. A break-down per topic is presented to give insight into the main topics of said Speak Up reports. The Speak Up policy is available at the HEINEKEN Speak Up website (http://speakup.heineken.com)
Training Code of Business Conduct (number of employees)	The Code of Business Conduct training has to be completed by all HEINEKEN employees. It is expected to be completed as part of the induction for new joiners. Thereafter it is expected to be completed regularly (preferably on an annual basis). The training is facilitated by an e-learning module, which can be completed online, as well as during a classroom session for those employees without access to their own workstation. A training completion is counted if (i) an employee has completed the e-learning (this is automatically registered in a database), or (ii) if an employee has attended a classroom training and signed off an attendance form
Training anti-bribery (number of employees)	In 2015, we launched a three-year anti-bribery e-learning programme for key employees to ensure that they recognise and resist bribery. The anti-bribery training is mandatory for a selected audience (those above a certain job grade and those considered to be risk groups). A training completion is counted if an employee has completed the e-learning

Reporting basis and governance of non-financial indicators (continued)

List of operating companies in scope for non-financial indicators[36]

Africa, Middle East & Eastern Europe

Country	Operating Company/Business Unit
Algeria	Tango
Belarus[37]	Heineken Breweries
Burundi	Brarudi
Democratic Republic of Congo	Bralima
Egypt	Al Ahram Beverages Company
Ethiopia	Heineken Breweries
Ethiopia	Harar Brewery
Ethiopia	Bedele Brewery
Ivory Coast	Brassivoire
Kenya	Heineken East Africa Import Company
La Réunion	Brasseries de Bourbon
Lebanon	Almaza
Nigeria	Nigerian Breweries
Russia	Heineken Breweries
Rwanda	Bralirwa
Sierra Leone	Sierra Leone Brewery
South Africa	Heineken South Africa
Tunisia	Nouvelle de Brasserie 'Sonobra'

Americas

Bahamas	Commonwealth Brewery
Brazil	Cervejarias Kaiser Brasil
Brazil	Bavaria
Canada	Heineken Canada
Haiti	Brasserie Nationale d'Haiti
Jamaica	Desnoes & Geddes
Mexico	Cuauhtémoc Moctezuma
Panama	Cerveceria Panama
St. Lucia	Windward & Leeward Brewery
Surinam	Surinaamse Brouwerij
USA	Heineken USA

Asia Pacific

Cambodia	Cambodia Brewery
China	Heineken (Shanghai)
China	Heineken Brewery Guangzhou
China	Heineken Brewery Hainan
Hong Kong	Heineken Hong Kong
Indonesia	PT Multi Bintang Indonesia
Japan	Heineken Japan
Laos	Lao Asia Pacific Breweries
Malaysia	Heineken Malaysia Berhad
Mongolia[38]	MCS Asia Pacific Brewery
Myanmar	APB Alliance Brewery
New Caledonia	Grande Brasserie de Nouvelle Caledonie

Asia Pacific

Country	Operating Company/Business Unit
New Zealand	DB Breweries
Papua New Guinea	South Pacific Brewery
Philippines	AB Heineken Philippines
Singapore	Heineken Asia Pacific
Singapore	Asia Pacific Breweries (Singapore)
Singapore	Heineken Asia Pacific Export
Solomon Islands	Solomon Breweries
South Korea	Heineken Korea
Sri Lanka	Heineken Lanka
Taiwan	Heineken Taiwan
Vietnam	Heineken Hanoi Brewery
Vietnam	Heineken Vietnam Brewery

Europe

Austria	Brau Union Österreich
Belgium	Brouwerijen Alken-Maes
Belgium	Mouterij Albert
Belgium	Stassen
Bulgaria	Zagorka
Croatia	Heineken Hrvatska
Czech Republic	Heineken Ceská Republika
France	Heineken France
Germany	Heineken Deutschland
Greece	Athenian Brewery
Hungary	Heineken Hungaria
Ireland	Heineken Ireland
Italy	Heineken Italia
Netherlands	Heineken Nederland (including Vrumona)
Poland	Grupa Żywiec
Portugal	Sociedade Central de Cervejas e Bebidas
Romania	Heineken Romania
Serbia	Heineken Serbia
Slovakia	Heineken Slovensko
Slovenia	Pivovarna Lasko Union
Spain	Heineken España
Switzerland	Heineken Switzerland
UK	Heineken UK

Global

Various	Head Office, Regional Offices including export offices and Global Duty Free, HEINEKEN Financial Shared Services centre (Kraków, Poland)
Export	Other export markets

[36] Scope can vary per non-financial indicator. When not all operating companies are in scope, this is being indicated in the specific section, the Reporting Basis chapter and/or the appendix 'Basis of preparation non-financial indicators' which can be found on the Company website.
[37] Divested in September 2017; disclosures have been included up to the divestment date and only for applicable indicators.
[38] Divested in November 2017 while maintaining a minority stake; disclosures have been included up to the divestment date and only for applicable indicators.

Appropriation of Profit

Article 12, paragraph 7, of the Articles of Association stipulates:

"Of the profits, payment shall first be made, if possible, of a dividend of 6% of the issued part of the authorised share capital. The amount remaining shall be at the disposal of the General Meeting of Shareholders."

Civil Code

Heineken N.V. is not a 'structuurvennootschap' within the meaning of Section 2: 152-164 of the Dutch Civil Code. Heineken Holding N.V., a company listed on Euronext Amsterdam, holds 50.005% of the issued shares of Heineken N.V.

Authorised capital

The Company's authorised capital amounts to €2,500 million.

Independent Auditor's Report

To: The Annual General Meeting of Heineken N.V.

Report on the audit of the financial statements 2017 included in the Annual Report 2017

Our opinion

We have audited the accompanying financial statements 2017 of Heineken N.V. ('the Company'), based in Amsterdam. The financial statements include the consolidated financial statements and the Company financial statements.

In our opinion:

– The accompanying consolidated financial statements give a true and fair view of the financial position of Heineken N.V. as at 31 December 2017 and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union ('EU-IFRS') and with Part 9 of Book 2 of the Dutch Civil Code.

– The accompanying Company financial statements give a true and fair view of the financial position of Heineken N.V. as at 31 December 2017 and of its result for the year 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

– The consolidated statement of financial position as at 31 December 2017.

– The following consolidated statements for 2017: the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity.

– The notes comprising a summary of the significant accounting policies and other explanatory information.

The Company financial statements comprise:

– The Company balance sheet as at 31 December 2017.

– The Company income statement for 2017.

– The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section "Our responsibilities for the audit of the financial statements" of our report.

We are independent of Heineken N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at €150 million. The materiality is based on consolidated profit before taxation (5.2%). We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

Audits of Group entities (components) were performed using materiality levels determined by the judgement of the Group audit team, having regard to the materiality of the consolidated financial statements as a whole. Component materiality did not exceed €60 million and for the majority of the components, materiality is significantly less than this amount.

We agreed with the Supervisory Board that misstatements in excess of €7.5 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that, in our view, must be reported on qualitative grounds.

Scope of the Group audit

Heineken N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Heineken N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the Group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the Group entities (components). Decisive were size and/or risk profile of the components. On this basis, we selected components for which an audit or review had to be carried out on the complete set of financial information or specific items.

Independent Auditor's Report (continued)

Our Group audit mainly concentrated on significant components in terms of size and financial interest or where significant risks or complex activities were present, leading to full scope audits performed for 25 components.

We have performed audit procedures ourselves at corporate entities and the operations in the Netherlands. Furthermore, we performed audit procedures at Group level on areas such as consolidation, disclosures, goodwill, intangible assets, joint ventures, financial instruments, acquisitions and divestments. Specialists were involved amongst others in the areas of treasury, information technology, tax, accounting, pensions and valuation.

For selected component audit teams, the Group audit team provided detailed written instructions, which, in addition to communicating the requirements of component audit teams, detailed significant audit areas and information obtained centrally relevant to the audit of individual components including awareness for risk related to management override. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the Company and certain other risk characteristics. This included procedures such as visiting components (Mexico, D.R.Congo, Brazil, Cambodia, Singapore, Belgium, Poland, United Kingdom, Spain, Nigeria, South Africa, Ireland and Ivory Coast) during the year, performing file reviews, holding conference calls, attending meetings and reviewing component audit team deliverables to gain sufficient understanding of the work performed. For smaller components we have performed review procedures or specific audit procedures.

By performing the procedures mentioned above we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information to provide an opinion on the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Acquisition accounting: identification and valuation of intangible assets and valuation of liabilities

Risk	As set out in note 6, the Company concluded acquisitions throughout the year most notably the acquisition of Brasil Kirin on 31 May and Punch Taverns on 29 August 2017. Accounting for these acquisitions in accordance with IFRS 3 requires management to apply estimates to determine the fair value of the identifiable assets and liabilities, and any resulting goodwill, The valuation of intangible assets of €399 million and the valuation of property, plant and equipment of €1.948 million arising from the acquisitions were considered to be a key risk as the valuation is based on a number of assumptions such as discount rate and growth rate which are subject to significant judgement. We further considered there to be a risk in determining the fair value of acquired provisions and contingent liabilities within the Kirin acquisition of €1.761 million due to the estimates required in valuing liabilities of inherently uncertain outcome, such as the outcome of civil, labour and tax claims against the acquired company.
How the scope of our audit responded to the risk	We have obtained management's calculations for the accounting of the acquisition and evaluated management's determination of the fair value of the net assets acquired, focusing on the valuation of intangible assets, property, plant and equipment and provisions recognised. We evaluated the fair value of the acquired assets, focusing on the valuation methodologies and key assumptions applied. We further challenged management's methodology and assumptions underlying the valuation of provisions and contingent liabilities assumed. We evaluated the competence of specialists involved by management and involved internal valuation and real estate specialists to assist in our assessment of the fair value of the noncurrent assets acquired. We considered whether adjustments to the original valuations were appropriate in light of additional facts and circumstances that have become available in the measurement period to date. Further, we have evaluated the appropriateness of the related disclosures in note 6 of the financial statements.

Revenue recognition – Accruals for promotional allowances and volume rebates

Risk	Auditing standards require a presumed risk related to revenue recognition. Accounting for promotional allowances and volume rebates impacts the amounts of revenue recognised during the period. The revenue accounting policies are specified in note 3 to the financial statements. Management estimates the values of promotional allowances and volume rebates and this estimate is considered to be a key audit matter relevant to our audit of the financial statements.
How the scope of our audit responded to the risk	Our audit procedures included, amongst others, evaluating controls relating to management's process for determining the value of promotional allowances and the volume rebates. In addition we performed substantive testing and analytical procedures to test the accuracy and completeness of the underlying calculation of the accruals. These procedures included challenging the appropriateness of management's assumptions and estimates and agreeing input data, including pricing and allowance data to underlying agreements with customers.

Independent Auditor's Report (continued)

Intangible assets (including goodwill) and property, plant and equipment impairment test – Management assessment of recoverability	
Risk	Intangible assets (including goodwill) and property, plant and equipment represent 70% of the Statement of Financial Position. Procedures over management's annual impairment test were significant to our audit because the assessment process is complex and the test relies on estimates and assumptions.
How the scope of our audit responded to the risk	Intangibles and property, plant and equipment are allocated to Cash Generating Units (CGUs) and groups of CGUs. The Company uses assumptions in respect of future market and economic conditions such as economic growth, expected inflation rates, demographic developments, expected market share, revenue and margin development. The details on the accounting for intangibles and property, plant and equipment and disclosure requirements under IAS 36 Impairment of assets are included in notes 3, 14 and 15 to the financial statements. For our audit we assessed and tested the assumptions, the discount rates, methodologies and data used by the Company, for example by comparing them to external data such as expected inflation rates, external market growth expectations and by analysing sensitivities in the Company's valuation model. We included valuation specialists in our team to assist us. We specifically focused on the sensitivity in the available headroom of CGUs and whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of management's estimates. We assessed the adequacy of the Company's disclosure notes 14 and 15 in the financial statements about those assumptions to which the outcome of the impairment test is most sensitive.

Taxes – provisions for uncertain tax positions and valuation of deferred tax assets	
Risk	The Company operates across a number of different tax jurisdictions and is subject to periodic challenges by local tax authorities during the normal course of business, including transaction-related taxes and transfer pricing arrangements. In those cases where the amount of tax payable or recoverable is uncertain, the Company establishes provisions based on its judgement of the probable amount of the liability or recovery. Deferred tax assets for tax losses carried forward are recognised by the Company to the extent that it is probable that future taxable income will be available against which unused tax losses can be utilised. The income tax related accounting policies are specified in note 3 to the financial statements.
How the scope of our audit responded to the risk	We focused on these areas because of the level of judgement that is applied in quantifying appropriate provisions for uncertain tax positions and in determining assumptions about future market and economic conditions, as it relates to the recoverability of deferred tax assets. Using our own tax specialists, we obtained a detailed understanding of the Company's tax strategy including current transfer pricing arrangements. We assessed tax risks, legislative developments and the status of ongoing local tax authority audits. We evaluated and challenged the Company's judgements in respect of estimates of tax exposures, recoverable amounts and contingencies. We considered correspondence with tax authorities and relevant historical and recent judgements, and also assessed legal opinions from third party tax advisors. With regard to recorded deferred tax assets, we evaluated the Company's assumptions and estimates in relation to the likelihood of generating sufficient future taxable income based on budgets and business plans. Finally we considered the adequacy of the Company's disclosures in notes 13, 18, 24 and 32 regarding uncertain tax positions and recognised deferred tax assets.

Internal controls over financial reporting	
Risk	The Company operates various processes and procedures that are important for reliable financial reporting. These processes are operated both centrally as well as locally. We identified the Company's internal controls over financial reporting as an area of focus as we consider internal controls over financial reporting as a basis for designing our procedures for the audit. In those instances where accounting procedures, associated IT and process level controls are not designed and/or operating effectively, there are risks associated with financial reporting to which we need to tailor our audit procedures.
How the scope of our audit responded to the risk	We have performed audit procedures on both the centrally and locally established process level controls of the Company, including the diverse information technology landscape. We performed walkthroughs to gain an understanding of the entity and to identify relevant controls. We have tested the design of those controls and, where effective for the audit, we also tested their operating effectiveness. In cases of deficiencies, we have evaluated the compensating controls and measures of the Company and/or tailored procedures our procedures to address the risk. We are however not required nor engaged to perform an audit of internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal controls over financial reporting.

Independent Auditor's Report (continued)

Report on the other information included in the Annual Report

In addition to the financial statements and our Independent auditor's report, the Annual Report contains other information that consists of:

– Report of the Executive Board;

– Report of the Supervisory Board;

– Other Information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and

– Other information included in the Annual Report.

Based on the following procedures performed, we conclude that the other information:

– is consistent with the financial statements and does not contain material misstatements; and

– contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were appointed by the Annual General Meeting as auditor of Heineken N.V. on 24 April 2014. The audit for year 2017 was our third year audit.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of the Executive Board and the Supervisory Board for the Financial Statements

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as the Executive Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

For an overview of our responsibilities we refer to NBA's website www.nba.nl (Standard texts auditor's report).

Amsterdam, 9 February 2018

Deloitte Accountants B.V.
J. Dalhuisen

Assurance Report of the Independent Auditor

To: the Annual General Meeting and other stakeholders of Heineken N.V.

Our conclusion

We have reviewed a selection of sustainability data included in the accompanying Annual Report for the year ended 31 December 2017 ("the sustainability data") of Heineken N.V ("the Company"), based in Amsterdam.

Based on our review, nothing has come to our attention that causes us to believe that the sustainability data of the Company is not prepared in all material respects, in accordance with the internally applied Reporting Criteria.

The objective of the review was to provide limited assurance on the following sustainability data ("KPIs"):

'Every drop': protecting water resources

- Average water consumption in Breweries (hl/hl)
- Average water consumption in water-stressed areas (hl/hl)
- Total water withdrawal per source (m m^3)
- No. of production units in water-stressed areas that started to implement their action plan for Water Balancing
- No. of sites without water treatment plant

'Drop the C': reducing CO_2 emissions

- % reduction in relative CO_2 emissions from production
- % of electrical energy coming from renewable sources
- % of thermal energy coming from renewable sources
- % reduction CO_2 emissions in distribution across Europe and Americas
- % of new fridges bought in reporting year that have one or more green features
- % reduction CO_2 emissions of purchased fridges in 2017 compared to 2010

Sourcing sustainably

- % of our main raw materials from sustainable sources
- % of agricultural raw materials locally sourced in Africa
- % operating companies compliant with four-step Supplier Code Procedure

Advocating responsible consumption

- % of operating companies who achieved 10% target for annual EHR investment
- % of operating companies that have an active and relevant partnership aimed at addressing alcohol-related harm
- % of beer brands in the EU that disclose Ingredients and nutrition information on packaging and online

Promoting health & safety

- % of Life Saving Rules action plans carried out
- Total number of fatalities (personnel and contractors)
- Total number of accidents (personnel and contractors)
- Lost days of company personnel
- Accident frequency
- Accident severity

Growing with communities

- Corporate income tax per region (Euro)
- Total tax contribution per category (Euro)

Values and behaviours

- % Gender representation at Senior Management levels
- Total number of different nationalities at Senior Management

The information in scope of this engagement needs to be read and understood in conjunction with the Reporting Basis and Criteria non-financial indicators as included in the Annual Report 2017 on page 148.

Assurance Report of the Independent Auditor (continued)

Basis for our conclusion

We have performed our assurance engagement on the sustainability data in accordance with Dutch law, including Dutch Standard 3000A 'Assurance engagements other than audits or reviews of historical financial information'. This assurance engagement is aimed at obtaining limited assurance. Our responsibilities under this standard are further described in the 'Our responsibilities for the assurance engagement of the sustainability data' section of our report.

We are independent of the Company in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in The Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of the Executive Board and the Supervisory Board

The Executive Board of the Company is responsible for the preparation of the sustainability data in accordance with the internally applied Reporting Criteria, including the identification of the intended users and the criteria being applicable for the purposes of the intended users.

The Executive Board is also responsible for such internal control as it determines is necessary to enable the preparation of the sustainability data that is free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the Company's reporting process.

Our responsibilities for the assurance engagement of the sustainability data

Our responsibility is to plan and perform the assurance assignment in a manner that allows us to obtain sufficient and appropriate review evidence for our conclusion.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA)' and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the sustainability data. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

This assurance engagement is aimed at obtaining limited assurance. The procedures performed in order to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those aimed at obtaining reasonable assurance in an assurance engagement.

The performed procedures in this context consisted mainly of gathering information from officers of the Company and applying analytical procedures set out in relation to the sustainability data.

The assurance obtained in assurance engagements aimed at obtaining limited assurance is therefore significantly lower than the assurance obtained in assurance engagements aimed at obtaining reasonable assurance.

We have exercised professional judgement and have maintained professional scepticism throughout the assurance engagement, in accordance with the Dutch Standard 3000A.

Our assurance engagement included amongst others:

– gaining knowledge and obtaining an understanding of the sustainability data and other circumstances regarding the engagement including gaining knowledge regarding internal controls;

– an analytical review of the data and trends submitted;

– assessing the suitability of the Reporting Criteria.

Amsterdam, 9 February 2018

Deloitte Accountants B.V.
J. Dalhuisen

Shareholder Information

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. The Company does this through media releases, the Annual Report, presentations, webcasts, investor conferences and regular briefings with analysts, fund managers and shareholders.

Ownership structure

Heading the HEINEKEN Group, Heineken Holding N.V. is no ordinary holding company. Since its formation in 1952, the objective of Heineken Holding N.V., pursuant to its Articles of Association, has been to manage and/or supervise the HEINEKEN Group and to provide services for Heineken N.V. The role Heineken Holding N.V. has performed for the HEINEKEN Group since 1952 has been to safeguard its continuity, independence and stability and create conditions for controlled and steady growth of the activities of the HEINEKEN Group. The stability provided by this structure has enabled the HEINEKEN Group to remain independent and to rise to its present position as the brewer with the broadest international presence and one of the world's largest brewing groups.

Every Heineken N.V. share held by Heineken Holding N.V. is matched by one share issued by Heineken Holding N.V. The dividend payable on the two shares is identical. Historically, however, Heineken Holding N.V. shares have traded at a lower price due to technical factors that are market-specific. Heineken Holding N.V. holds 50.005% of the Heineken N.V. issued shares. L'Arche Green N.V. holds 52.599% of the Heineken Holding N.V. shares. The Heineken family holds 88.86% of L'Arche Green N.V. The remaining 11.14% of L'Arche Green N.V. is held by the Hoyer family. Mrs. de Carvalho-Heineken also owns a direct 0.03% stake in Heineken Holding N.V.

Heineken N.V. shares and options

Heineken N.V. shares are traded on Euronext Amsterdam, where the Company is included in the main AEX Index. The shares are listed under ISIN code NL0000009165. Prices for the ordinary shares may be accessed on Bloomberg under the symbol HEIA.NA and on the Reuters Equities 2000 Service under HEIA.AS. Options on Heineken N.V. shares are listed on Euronext Amsterdam.

In 2017, the average daily trading volume of Heineken N.V. shares was 654,537 shares.

Market capitalisation Heineken N.V.

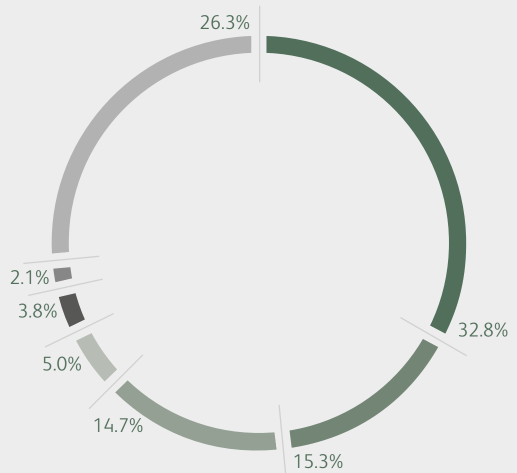
On 31 December 2017, there were 570,194,195 shares of €1.60 nominal value outstanding (excluding own shares held by the company).

At a year-end price of €86.93 on 29 December 2017, the market capitalisation of Heineken N.V. on the balance sheet date was €49.6 billion.

Year-end price	€86.93	29 December 2017
Highest closing price	€89.20	27 July 2017
Lowest closing price	€69.23	31 January 2017

Share distribution comparison year-on-year Heineken N.V. shares*

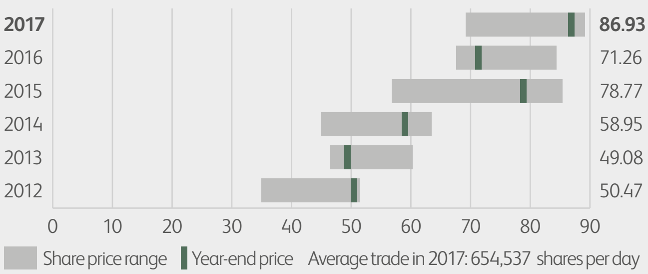
Based on free float (excluding the holding of Heineken Holding N.V. and FEMSA in Heineken N.V.). Based on 238.3 million shares in free float.



* Source: CMi2i estimate based on available information December 2017.

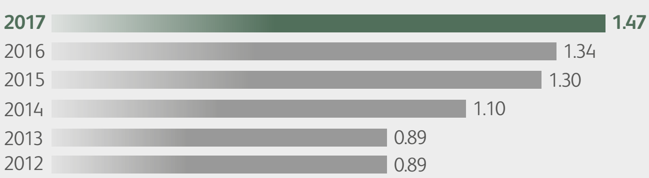
Heineken N.V. share price

In €, Euronext Amsterdam



Dividend per share

In €



Shareholder Information (continued)

Heineken Holding N.V. shares

The ordinary shares of Heineken Holding N.V. are traded on Euronext Amsterdam. The shares are listed under ISIN code NL0000008977. Prices for the ordinary shares may be accessed on Bloomberg under the symbol HEIO.NA and on the Reuters Equities 2000 Service under HEIO.AS.

In 2017, the average daily trading volume of Heineken Holding N.V. shares was 97,774 shares.

Market capitalisation Heineken Holding N.V.

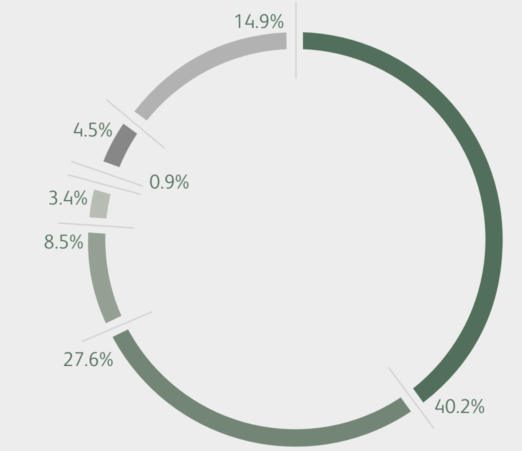
On 31 December 2017, there were 288,030,168 ordinary shares of €1.60 nominal value in issue and 250 priority shares of €2.00 nominal value in issue.

At a year-end price of €82.49 on 29 December 2017, the market capitalisation of Heineken Holding N.V. on balance sheet date was €23.8 billion.

Year-end price	€82.49	29 December 2017
Highest closing price	€83.90	27 July 2017
Lowest closing price	€64.98	31 January 2017

Share distribution comparison year-on-year Heineken Holding N.V. shares*

Based on free float (excluding the holding of L'Arche Green N.V. and FEMSA in Heineken Holding N.V.). Based on 101.2 million shares in free float.

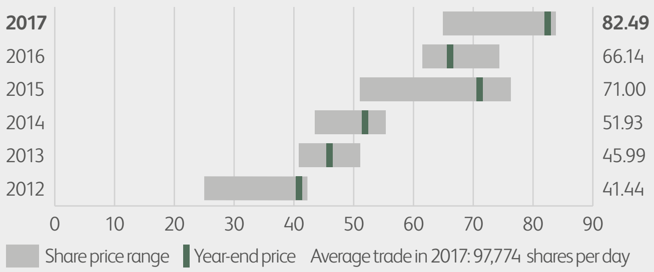


Americas	40.2%	Netherlands	0.9%
UK/Ireland	27.6%	Retail	4.5%
Rest of Europe	8.5%	Unidentified	14.9%
Rest of World	3.4%		

* Source: CMi2i estimate based on available information December 2017.

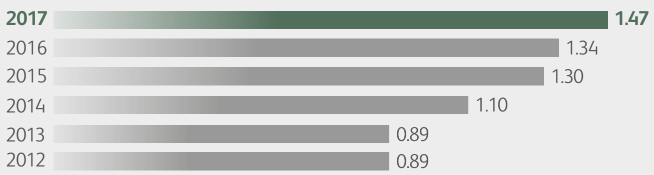
Heineken Holding N.V.

In €, Euronext Amsterdam



Dividend per share

In €



American Depositary Receipts (ADRs)

HEINEKEN's shares are trading Over-the-Counter (OTC) in the US as American Depositary Receipts (ADRs). There are two separate Heineken ADR programmes representing ownership respectively in: 1) Heineken N.V. and 2) Heineken Holding N.V. For both programmes, the ratio between HEINEKEN ADRs and the ordinary Dutch (€ denominated) shares is 2:1, i.e. two ADRs represent one HEINEKEN ordinary share. Deutsche Bank Trust Company Americas acts as depositary bank for HEINEKEN's ADR programmes.

Heineken N.V.
Ticker: HEINY
ISIN: US4230123014
CUSIP: 423012301
Structure: Sponsored Level I ADR
Exchange: OTCQX
Ratio (DR:ORD): 2:1

Heineken Holding N.V.
Ticker: HKHHY
ISIN: US4230081014
CUSIP: 423008101
Structure: Sponsored Level I ADR
Exchange: OTCQX
Ratio (DR:ORD): 2:1

Shareholder Information (continued)

ADR contact information

Deutsche Bank Shareholder Services
c/o American Stock Transfer & Trust Company
6201 15th Avenue Brooklyn, NY 11219, USA
E-mail: DB@amstock.com

Shareholder Service (toll-free) Tel. +1 866 249 2593

Shareholder Service (international) Tel. +1 718 921 8137

www.amstock.com

Contact details for ADR brokers and institutional investors

US Tel: +1 212 250 9100

UK Tel: +44 207 547 6500

The Company ADR programmes are sponsored by Deutsche Bank Trust Company Americas (Deutsche Bank). As the depositary bank, Deutsche Bank performs the following roles for ADR holders as further detailed in the Deposit Agreement:

- Records and maintains the register of ADR holders
- Is the stock transfer agent
- Distributes dividends in US dollars
- Facilitates the voting process and the exercise of the voting rights of ADR holders at any General Meeting of Shareholders if permitted by the Company and the Deposit Agreement
- Issues and cancels HEINEKEN American Depositary Receipts (ADRs)
- Can distribute circulars and documentation in connection with any General Meeting of Shareholders if applicable.

For those holders who are not registered because their ADRs are held through a 'Street name' (nominee account), your nominee will receive Company documents from time to time from Deutsche Bank to distribute to ADR holders. You need to make arrangements with your nominee if you wish to receive such documents and to be able to exercise your vote through the depositary bank at General Meetings (if applicable).

Financial calendar in 2018 for both Heineken N.V. and Heineken Holding N.V.

Announcement of 2017 results	12 February
Publication of Annual Report	19 February
Trading update first quarter 2018	18 April
Annual General Meeting of Shareholders	19 April
Quotation ex-final dividend 2017	23 April
Final dividend 2017 payable	2 May
Announcement of half-year results 2018	30 July
Quotation ex-interim dividend 2018	1 August
Interim dividend 2018 payable	9 August
Trading update third quarter 2018	24 October

Shareholder Information (continued)

Dividend policy

The dividend policy of Heineken N.V. intends to preserve the independence of the Company, to maintain a healthy financial structure and to retain sufficient earnings in order to grow the business both organically and through acquisitions.

The dividend payments which translates in a pay-out of 30% to 40% of full-year net profit (beia) are related to the annual development of the net profit before exceptional items and amortisation of acquisition-related intangible assets (net profit beia).

Dividends are paid in the form of an interim dividend and a final dividend. The interim dividend is fixed at 40% of the total dividend of the previous year. Annual dividend proposals will remain subject to shareholder approval.

Contact Heineken N.V. and Heineken Holding N.V.

Further information on Heineken N.V. and Heineken Holding N.V. is available from the Investor Relations department, telephone + 31 20 523 95 90 or by email: investors@heineken.com.

Further shareholder information is available on the Company's website: www.theHEINEKENcompany.com/investors.

Bondholder Information

In 2008, HEINEKEN established a Euro Medium Term Note (EMTN) Programme which was last updated in March 2017. The programme allows Heineken N.V. to issue Notes for a total amount of up to €15 billion. Currently approximately €8.7 billion is outstanding under the programme.

Heineken N.V. was assigned solid investment grade credit ratings by Moody's Investors Service and Standard & Poor's in 2012. The ratings from both agencies, Baa1/P-2 and BBB+/A-2 respectively, have 'stable' outlooks as per the date of the 2017 Annual Report.

In 2017 the following notes were placed under HEINEKEN's Euro Medium Term Note Programme:

SGD 150 million 5-year Notes with a floating rate coupon (February 2017)
EUR 500 million 15-year Notes with a coupon of 2.02% (May 2017)
EUR 800 million 12-year Notes with a coupon of 1.50% (October 2017)

On 29 March 2017, HEINEKEN placed USD 1.1 billion of long 10-year 144A/RegS US Notes with a coupon of 3.50%, and USD 650 million of 30-year 144A/RegS US Notes with a coupon of 4.35%.

In 2015, HEINEKEN has launched a €1.0 billion Euro Commercial Paper (ECP) programme to facilitate its cash management operations and to further diversify its funding sources. There was no ECP in issue per 31 December 2017.

Traded Heineken N.V. Notes	Issue date	Total face value	Interest rate	Maturity	ISIN code
EUR EMTN 2018	18 April 2013	EUR 100 million	1.250%	18 April 2018	XS0918766550
EUR EMTN 2019	19 March 2012	EUR 850 million	2.500%	19 March 2019	XS0758419658
EUR EMTN 2020	2 August 2012	EUR 1,000 million	2.125%	4 August 2020	XS0811554962
EUR EMTN 2021	4 April 2013	EUR 500 million	2.000%	6 April 2021	XS0911691003
EUR EMTN 2021	10 September 2015	EUR 500 million	1.250%	10 September 2021	XS1288852939
144A/RegS 2022	3 April 2012	USD 750 million	3.400%	1 April 2022	US423012AA16
144A/RegS 2023	10 October 2012	USD 1,000 million	2.750%	1 April 2023	US423012AD54
EUR EMTN 2023	23 October 2015	EUR 140 million	1.700%	23 October 2023	XS1310154536
EUR EMTN 2024	19 March 2012	EUR 500 million	3.500%	19 March 2024	XS0758420748
EUR EMTN 2024	7 December 2015	EUR 460 million	1.500%	7 December 2024	XS1330434389
EUR EMTN 2025	2 August 2012	EUR 750 million	2.875%	4 August 2025	XS0811555183
EUR EMTN 2025	20 October 2015	EUR 225 million	2.000%	20 October 2025	XS1309072020
EUR EMTN 2026	4 May 2016	EUR 800 million	1.000%	4 May 2026	XS1401174633
EUR EMTN 2027	29 November 2016	EUR 500 million	1.375%	29 January 2027	XS1527192485
144A/RegS 2028	29 March 2017	USD 1,100 million	3.500%	29 January 2028	US423012AF03
EUR EMTN 2029	30 January 2014	EUR 200 million	3.500%	30 July 2029	XS1024136282
EUR EMTN 2029	3 October 2017	EUR 800 million	1.500%	3 October 2029	XS1691781865
EUR EMTN 2032	12 May 2017	EUR 500 million	2.020%	12 May 2032	XS1611855237
EUR EMTN 2033	15 April 2013	EUR 180 million	3.250%	15 April 2033	XS0916345621
EUR EMTN 2033	19 April 2013	EUR 100 million	2.562%	19 April 2033	XS0920838371
144A/RegS 2042	10 October 2012	USD 500 million	4.000%	1 October 2042	US423012AE38
144A/RegS 2047	29 March 2017	USD 650 million	4.350%	29 March 2047	US423012AG85

The EMTN programme and the above Heineken N.V. Notes issued thereunder are listed on the Luxembourg Stock Exchange.

Traded Heineken Asia Pacific Pte. Ltd.* Notes	Issue date	Total face value	Interest rate	Maturity	ISIN code
SGD MTN 2020	March 3, 2009	SGD 21.75 million	3.780%	March 3, 2020	SG7V34954621
SGD MTN 2022	January 7, 2010	SGD 16.25 million	4.000%	January 7, 2022	SG7U93952517

The above Heineken Asia Pacific Pte. Ltd.* Notes are listed on the Singapore Exchange.

* After a name change Heineken Asia Pacific Pte. Ltd is currently registered as Heineken Asia MTN Pte. Ltd.

Historical Summary

	2017	2016	2015	2014	2013
Revenue and profit					
In millions of €					
Revenue	21,888	20,792	20,511	19,257	19,203
Operating profit	3,352	2,755	3,075	2,780	2,554
Operating profit (beia)	3,759	3,540	3,381	3,129	2,941
as % of revenue	17.2	17.0	16.5	16.2	15.3
as % of total assets	9.2	9.0	8.4[2]	9.0	8.8
Net profit	1,935	1,540	1,892	1,516	1,364
Net profit (beia)	2,247	2,098	2,048	1,758	1,585
as % of equity attributable to equity holders of the Company	16.9	15.8	15.1	14.2	13.9
Dividend (proposed)	838	763	741	632	512
as % of net profit (beia)	37.3	36.4	36.2	35.9	32.3
Per share					
In €					
Cash flow from operating activities	6.81	6.53	6.10	5.32	5.07
Net profit (beia) basic	3.94	3.68	3.58	3.06	2.76
Net profit (beia) diluted	3.94	3.68	3.57	3.05	2.75
Dividend (proposed)	1.47	1.34	1.30	1.10	0.89
Equity attributable to equity holders of the Company	23.37	23.24	23.65	21.58	19.83
Cash flow statement					
In millions of €					
Cash flow from operations	4,924	4,720	4,486	4,140	3,983
Cash flow related to interest, dividend and income tax	(1,042)	(1,002)	(997)	(1,082)	(1,069)
Cash flow from operating activities	**3,882**	**3,718**	**3,489**	**3,058**	**2,914**
Cash flow (used in)/from operational investing activities	(1,851)	(1,945)	(1,797)	(1,484)	(1,396)
Free operating cash flow	**2,031**	**1,773**	**1,692**	**1,574**	**1,518**
Cash flow (used in)/from acquisitions and disposals	(1,114)	(62)	(267)	(189)	555
Dividends paid	(1,011)	(1,031)	(909)	(723)	(710)
Cash flow (used in)/from financing activities, excluding dividend	45	359	(264)	(1,730)	(1,042)
Net cash flow	**(49)**	**1,039**	**252**	**(1,068)**	**321**
Cash conversion rate	81.1%	75.0%	73.3%	78.9%	84.0%
Financing ratios					
Net debt/EBITDA (beia)	2.5	2.3	2.4	2.5[1]	2.6

[1] Revised for the change in definition of net debt in 2015.

[2] Comparative figure for 2015 has been revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

Historical Summary (continued)

	2017	2016	2015[2]	2014	2013
Operating profit (beia)/net interest expense (beia)	10.1	10.0	9.6	7.7	5.5
Free operating cash flow/net debt	16%	16%	15%	14%[1]	14%
Net debt/total equity	0.89	0.77	0.76	0.82	0.9

Financing

In millions of €

Share capital	922	922	922	922	922
Reserves and retained earnings	12,399	12,316	12,613	11,487	10,480
Equity attributable to equity holders of the Company	**13,321**	**13,238**	**13,535**	**12,409**	**11,402**
Non-controlling interest	1,200	1,335	1,535	1,043	954
Total equity	**14,521**	**14,573**	**15,070**	**13,452**	**12,356**
Employee benefits	1,289	1,420	1,289	1,443	1,202
Provisions (including deferred tax liabilities)	2,643	2,128	2,332	2,066	1,982
Non-current loans and borrowings	12,301	10,954	10,658	9,499	9,853
Other liabilities (excluding provisions)	10,280	10,246	10,773	8,370	7,944
Liabilities (excluding provisions and employee benefits)	**22,581**	**21,200**	**21,431**	**17,869**	**17,797**
Total equity and liabilities	**41,034**	**39,321**	**40,122**	**34,830**	**33,337**
Equity attributable to equity holders of the Company/ (employee benefits, provisions and liabilities)	**0.50**	**0.53**	**0.54**	**0.58**	**0.58**

Employment of capital

In millions of €

Property, plant and equipment	11,117	9,232	9,552	8,718	8,454
Intangible assets	17,670	17,424	18,183	16,341	15,934
Other non-current assets	3,999	4,528	4,065	3,685	3,454
Total non-current assets	**32,786**	**31,184**	**31,800**	**28,744**	**27,842**
Inventories	1,814	1,618	1,702	1,634	1,512
Trade and other current assets	3,992	3,484	3,372	3,771	2,693
Cash, cash equivalents and current other investments	2,442	3,035	3,248	681	1,290
Total current assets	**8,248**	**8,137**	**8,322**	**6,086**	**5,495**
Total assets	**41,034**	**39,321**	**40,122**	**34,830**	**33,337**
Total equity/total non-current assets	**0.44**	**0.47**	**0.47**	**0.47**	**0.44**
Current assets/current liabilities (excluding provisions)	**0.80**	**0.79**	**0.77**	**0.73**	**0.70**

[1] Revised for the change in definition of net debt in 2015.

[2] Comparative figures for 2015 have been revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

Glossary

Acquisition-related intangible assets
Acquisition-related intangible assets are assets that HEINEKEN only recognises as part of a purchase price allocation following an acquisition. This includes, among others, brands, customer-related and certain contract-based intangibles.

Beia
Before exceptional items and amortisation of acquisition-related intangible assets.

Cash conversion ratio
Free operating cash flow/net profit (beia) before deduction of non-controlling interests.

Cash flow (used in)/from operational investing activities
This represents the total of cash flow from sale and purchase of property, plant and equipment and intangible assets, proceeds and receipts of loans to customers and other investments.

Consolidation changes
Changes as a result of business combinations or disposals.

Depletions
Sales by distributors to the retail trade.

Dividend payout
Proposed dividend as percentage of net profit (beia).

Earnings per share
Basic
Net profit divided by the weighted average number of shares – basic – during the year.

Diluted
Net profit divided by the weighted average number of shares – diluted – during the year.

EBITDA
Earnings before interest, taxes, net finance expenses, depreciation and amortisation. EBITDA includes HEINEKEN's share in net profit of joint ventures and associates.

Effective tax rate
Income tax expense expressed as a percentage of the profit before income tax, adjusted for share of profit of associates and joint ventures and impairments thereof (net of income tax).

Eia
Exceptional items and amortisation of acquisition-related intangible assets.

Exceptional items
Items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period.

Free operating cash flow
This represents the total of cash flow from operating activities and cash flow from operational investing activities.

Net debt
Non-current and current interest-bearing loans and borrowings, bank overdrafts and commercial papers and market value of cross-currency interest rate swaps less investments held for trading and cash.

Net profit
Profit after deduction of non-controlling interests (profit attributable to equity holders of the Company).

Organic growth
Growth excluding the effect of foreign currency translational effects, consolidation changes, exceptional items and amortisation of acquisition-related intangible assets.

Organic volume growth
Growth in volume, excluding the effect of consolidation changes.

Profit
Total profit of HEINEKEN before deduction of non-controlling interests.

®
All brand names mentioned in this report, including those brand names not marked by an ®, represent registered trademarks and are legally protected.

Region
A region is defined as HEINEKEN's managerial classification of countries into geographical units.

Volume
(Consolidated) beer volume
100% of beer volume produced and sold by consolidated companies.

Group beer volume
Consolidated beer volume plus attributable share of beer volume from joint ventures and associates.

Licensed & non-beer volume
HEINEKEN's brands produced and sold under licence by third parties as well as cider, soft drinks and other non-beer volume sold in consolidated companies.

Third party products volume
Volume of third party products sold through consolidated companies.

Total volume
100% of volume produced and sold by consolidated companies (including beer, cider, soft drinks and other beverages), volume of third party products and volume of HEINEKEN's brands produced and sold under licence by third parties.

Weighted average number of shares
Basic
Weighted average number of outstanding shares.

Diluted
Weighted average number of outstanding shares and the weighted average number of ordinary shares that would be issued on conversion of the dilutive potential ordinary shares into ordinary shares as a result of HEINEKEN's share-based payment plans.

Disclaimer

This Annual Report contains forward-looking statements with regard to the financial position and results of HEINEKEN's activities. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond HEINEKEN's ability to control or estimate precisely, such as future market and economic conditions, the behaviour of other market participants, changes in consumer preferences, the ability to successfully integrate acquired businesses and achieve anticipated synergies, costs of raw materials, interest-rate and exchange-rate fluctuations, changes in tax rates, changes in law, changes in pension costs, the actions of government regulators and weather conditions. These and other risk factors are detailed in this Annual Report.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report.

HEINEKEN does not undertake any obligation to update the forward-looking statements contained in this Annual Report. Market share estimates contained in this Annual Report are based on outside sources, such as specialised research institutes, in combination with management estimates.

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A Heineken N.V. publication
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The full Annual Report can be downloaded as a PDF at:
www.theHEINEKENcompany.com

Production and editing
Heineken N.V. Global Corporate Affairs

Text
HEINEKEN

Photography
Áron Süveg (page 8)

Graphic design and electronic publishing
Radley Yeldar: www.ry.com

Printing and binding
Boom + Verweij grafiservices, the Netherlands

Distribution
Hexspoor, the Netherlands

Paper
Circle offset 300 gsm inner cover
Circle offset 140 gsm inside pages
Bierpapier Lager 135 gsm Sustainability review

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Annual Report 2017