

2016
Annual

Established in Amsterdam

HEINEKEN HOLDING N.V.
ANNUAL REPORT 2016

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PROFILE

Heineken Holding N.V., which holds 50.005 per cent of the issued share capital of Heineken N.V., heads the HEINEKEN group.

The object of Heineken Holding N.V. pursuant to its Articles of Association is to manage or supervise the management of the HEINEKEN group and to provide services for Heineken N.V. It seeks to promote the continuity, independence and stability of the HEINEKEN group, thereby enabling Heineken N.V. to grow in a controlled and steady manner and to pursue its long-term policy in the interest of all stakeholders.

Heineken Holding N.V. does not engage in operational activities itself. These have been assigned within the HEINEKEN group to Heineken N.V. and its subsidiaries and associated companies. Heineken Holding N.V.'s income consists almost exclusively of dividends received on its interest in Heineken N.V.

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.

Heineken Holding N.V. ordinary shares are listed on Euronext Amsterdam.

*This Annual Report can be downloaded from
www.heinekenholding.com*

*Dit jaarverslag kan worden gedownload vanaf
de website www.heinekenholding.com*

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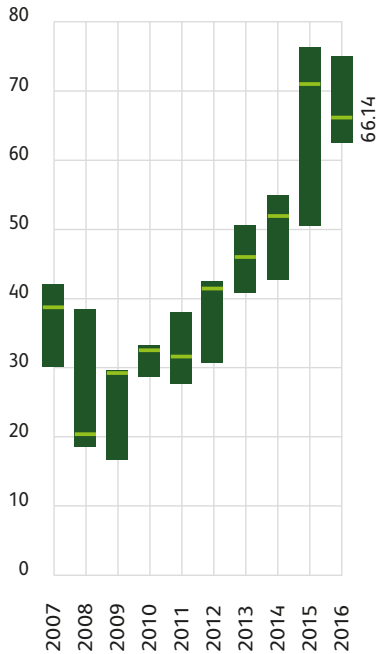
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SHAREHOLDER INFORMATION

Heineken Holding N.V. share price

in EUR

Euronext Amsterdam



share price range

year-end price

Average trade in 2016:
110,293 shares per day

Nationality Heineken Holding N.V. shareholders

in %

Based on 96.0 million shares in free float

(excluding the holding of L'Arche Green N.V.
and FEMSA in Heineken Holding N.V.)

2016



2015



	2016	2015
Americas	38.8	41.7
United Kingdom/Ireland	22.0	18.7
Netherlands	1.4	1.4
Rest of Europe	9.9	10.3
Rest of the world	4.3	4.0
Retail	4.7	4.7
Unidentified	18.9	19.2
	100.0	100.0

Source: CMI2i estimate based on
available information January 2017

HEINEKEN HOLDING N.V.

Heineken Holding N.V. ordinary shares are traded on Euronext Amsterdam. Heineken Holding N.V.'s ordinary shares are also trading Over-the-Counter (OTC) in the USA as American Depositary Receipts (ADRs). The ratio between Heineken Holding N.V. ADRs and the ordinary Dutch (EUR denominated) shares is 2:1, i.e. two ADRs represent one Heineken Holding N.V. ordinary share. Deutsche Bank Trust Company Americas acts as depositary bank for Heineken Holding N.V.'s ADR programme. In 2016, the average daily trading volume of Heineken Holding N.V. shares was 110,293 shares.

Dividend per ordinary share*in EUR*

2007	0.70
2008	0.62
2009	0.65
2010	0.76
2011	0.83
2012	0.89
2013	0.89
2014	1.10
2015	1.30
2016	1.34 (proposed)

Market capitalisation

Shares in issue and outstanding as at 31 December 2016: 288,030,168 ordinary shares of EUR1.60 nominal value; 250 priority shares of EUR2 nominal value.

At a year-end price of EUR66.14 on 30 December 2016, the market capitalisation of Heineken Holding N.V. as at the balance sheet date was EUR19.1 billion.

Year-end price	EUR66.14	30 December 2016
Highest closing price	EUR74.96	29 July 2016
Lowest closing price	EUR62.54	11 February 2016

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 Wft*), the Authority for the Financial Markets (AFM) has been notified of the following substantial shareholdings (i.e. of 3 per cent or more) regarding Heineken Holding N.V.:

- 1 November 2006: Mrs C.L. de Carvalho-Heineken (52.01 per cent, including a 50.005 per cent shareholding by L'Arche Holding S.A.)*;
- 30 April 2010: Voting Trust (FEMSA), through its affiliate CB Equity LLP (14.94 per cent);
- 1 July 2013: Gardner Russo & Gardner LLC (a capital and voting interest of 3.78 per cent, held directly);
- 15 January 2014: Harris Associates L.P. (a capital and voting interest of 3.05 per cent, held indirectly).

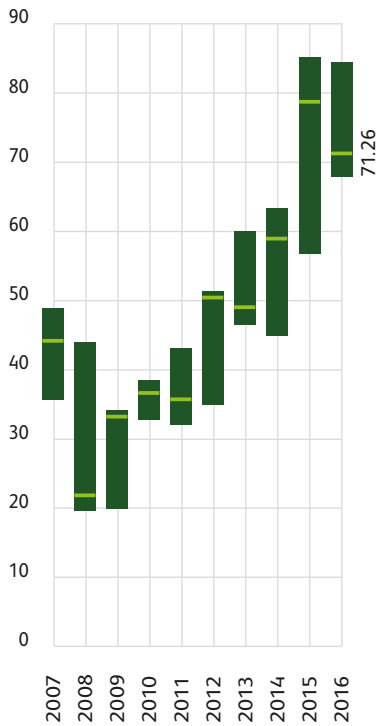
* The AFM register for substantial shareholdings is no longer up-to-date. For the present situation reference is made to the organisation chart on page 12.

SHAREHOLDER INFORMATION

Heineken N.V. share price

in EUR

Euronext Amsterdam



share price range

year-end price

Average trade in 2016:
700,968 shares per day

Nationality Heineken N.V. shareholders

in %

Based on 210.6 million shares in free float
(excluding the holding of Heineken Holding N.V.
and FEMSA in Heineken N.V.)

2016



2015



	2016	2015
Americas	39.8	40.5
United Kingdom/Ireland	14.6	14.3
Netherlands	2.3	4.5
Rest of Europe	19.0	19.5
Rest of the world	6.3	6.3
Retail	2.5	2.4
Unidentified	15.5	12.5
	100.0	100.0

Source: CMI2i estimate based on available information January 2017

HEINEKEN N.V.

The shares of Heineken N.V. are traded on Euronext Amsterdam, where the company is included in the AEX Index. Heineken N.V.'s shares are also trading Over-the-Counter (OTC) in the USA as American Depositary Receipts (ADRs). The ratio between Heineken N.V. ADRs and the ordinary Dutch (EUR denominated) shares is 2:1, i.e. two ADRs represent one Heineken N.V. share. Deutsche Bank Trust Company Americas acts as depositary bank for Heineken N.V.'s ADR programme.

Options on Heineken N.V. shares are listed on Euronext Amsterdam.

In 2016, the average daily trading volume of Heineken N.V. shares was 700,968 shares.

Market capitalisation

Shares outstanding as at 31 December 2016:

569,680,780 shares of EUR1.60 nominal value (excluding own shares held by Heineken N.V.).

At a year-end price of EUR71.26 on 30 December 2016, the market capitalisation of Heineken N.V. as at the balance sheet date was EUR40.6 billion.

Year-end price	EUR71.26	30 December 2016
Highest closing price	EUR84.44	29 July 2016
Lowest closing price	EUR67.97	5 December 2016

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 Wft*), the Authority for the Financial Markets (AFM) has been notified of the following substantial shareholdings (i.e. of 3 per cent or more) regarding Heineken N.V.:

- 1 November 2006: Mrs C.L. de Carvalho-Heineken (indirectly 50.005 per cent through L'Arche Holding S.A.; the direct 50.005 per cent shareholder is Heineken Holding N.V.)¹;
- 30 April 2010: Voting Trust (FEMSA), through its affiliate CB Equity LLP (10.14 per cent)¹;
- 12 May 2014: Massachusetts Financial Services Company (a capital interest of 2.67 per cent (of which 1.73 per cent is held directly and 0.94 per cent is held indirectly) and a voting interest of 4.97 per cent (of which 2.04 per cent is held directly and 2.94 per cent is held indirectly)) (initial notification: 2 February 2010).

¹ The AFM register for substantial shareholdings is no longer up-to-date. For the present situation reference is made to the organisation chart on page 12.

Bondholder information

In 2008, HEINEKEN established a Euro Medium Term Note (EMTN) programme which was last updated in March 2016. The programme allows Heineken N.V. to issue Notes for a total amount of up to EUR15 billion. Currently, approximately EUR7.2 billion is outstanding under the programme.

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 2016 Annual Report.

On 4 May 2016, HEINEKEN issued 10-year Notes for a principal amount of EUR800 million with a coupon of 1.00 per cent.

On 29 November 2016, long 10-year Notes for a principal amount of EUR500 million were issued with a coupon of 1.375 per cent.

All these Notes have been issued under HEINEKEN's Euro Medium Term Note Programme.

In 2015, HEINEKEN has launched a EUR1.0 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 as per 31 December 2016.

Financial calendar in 2017 for both

Heineken Holding N.V. and Heineken N.V.

Announcement of 2016 results	15 February
Publication of Annual Report	22 February
Trading update first quarter 2017	19 April
Annual General Meeting of Shareholders, Amsterdam ²	20 April
Quotation ex-final dividend 2016	24 April
Final dividend 2016 payable	3 May
Announcement of half-year results 2017	31 July
Quotation ex-interim dividend 2017	2 August
Interim dividend 2017 payable	10 August
Trading update third quarter 2017	25 October

² Shareholders Heineken Holding N.V. are entitled to attend the meetings of shareholders in Heineken N.V., to put questions at those meetings and to participate in the discussions.

SHAREHOLDER INFORMATION

Traded Heineken N.V. Notes	Issue date	Total face value	Interest rate (%)	Maturity	ISIN code
144A/RegS 2017	10 October 2012	USD1.25 billion	1.400	1 October 2017	US423012AB98
EUR EMTN 2018	18 April 2013	EUR100 million	1.250	18 April 2018	XS0918766550
EUR EMTN 2019	19 March 2012	EUR850 million	2.500	19 March 2019	XS0758419658
EUR EMTN 2020	2 August 2012	EUR1 billion	2.125	4 August 2020	XS0811554962
EUR EMTN 2021	4 April 2013	EUR500 million	2.000	6 April 2021	XS0911691003
EUR EMTN 2021	10 September 2015	EUR500 million	1.250	10 September 2021	XS1288852939
144A/RegS 2022	3 April 2012	USD750 million	3.400	1 April 2022	US423012AA16
144A/RegS 2023	10 October 2012	USD1 billion	2.750	1 April 2023	US423012AD54
EUR EMTN 2023	23 October 2015	EUR140 million	1.700	23 October 2023	XS1310154536
EUR EMTN 2024	19 March 2012	EUR500 million	3.500	19 March 2024	XS0758420748
EUR EMTN 2024	7 December 2015	EUR460 million	1.500	7 December 2024	XS1330434389
EUR EMTN 2025	2 August 2012	EUR750 million	2.875	4 August 2025	XS0811555183
EUR EMTN 2025	20 October 2015	EUR225 million	2.000	20 October 2025	XS1309072020
EUR EMTN 2026	4 May 2016	EUR800 million	1.000	4 May 2026	XS1401174633
EUR EMTN 2027	29 November 2016	EUR500 million	1.375	29 January 2027	XS1527192485
EUR EMTN 2029	30 January 2014	EUR200 million	3.500	30 July 2029	XS1024136282
EUR EMTN 2033	15 April 2013	EUR180 million	3.250	15 April 2033	XS0916345621
EUR EMTN 2033	19 April 2013	EUR100 million	2.562	19 April 2033	XS0920838371
144A/RegS 2042	10 October 2012	USD500 million	4.000	1 October 2042	US423012AE38

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	3 March 2009	SGD22.25 million	3.780	3 March 2020	SG7V34954621
SGD MTN 2022	7 January 2010	SGD16.25 million	4.000	7 January 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.

Contact Heineken Holding N.V. and Heineken N.V.

Further information on Heineken Holding N.V. is available by telephone +31 20 622 11 52. Information is also available from the Investor Relations department, telephone +31 20 523 95 90, or by e-mail: investors@heineken.com.

Further information on Heineken N.V. is available from the Investor Relations department, telephone +31 20 523 95 90, or by e-mail: investors@heineken.com.

The website www.heinekenholding.com also carries further information about both Heineken Holding N.V. and Heineken N.V.

BOARD OF DIRECTORS

Mr M. Das (1948)

Non-executive director (Chairman)

Dutch nationality

Appointed in 1994; reappointed in 2013*

Lawyer

Mr J.A. Fernández Carbajal (1954)

Non-executive director

Mexican nationality

Appointed in 2010; reappointed in 2014*

Executive Chairman Fomento Económico Mexicano,
S.A.B. de C.V. (FEMSA)

Mrs C.M. Kwist (1967)

Non-executive director

Dutch nationality

Appointed in 2011*; reappointed in 2015*

Consultant in brand management, marketing and
communication

Mr A.A.C. de Carvalho (1984)

Non-executive director

Dutch and English nationality

Appointed in 2013*

Director Lagunitas Brewing Company

Mrs C.L. de Carvalho-Heineken (1954)

Executive director

Dutch nationality

Appointed in 1988; reappointed in 2011* and 2015*

Mr M.R. de Carvalho (1944)

Executive director

English nationality

Appointed in 2015*

Vice-Chairman Citigroup Investment Banking EMEA and
Chairman Citigroup Private Bank EMEA

Member of the Supervisory Board of Heineken N.V. since 1996

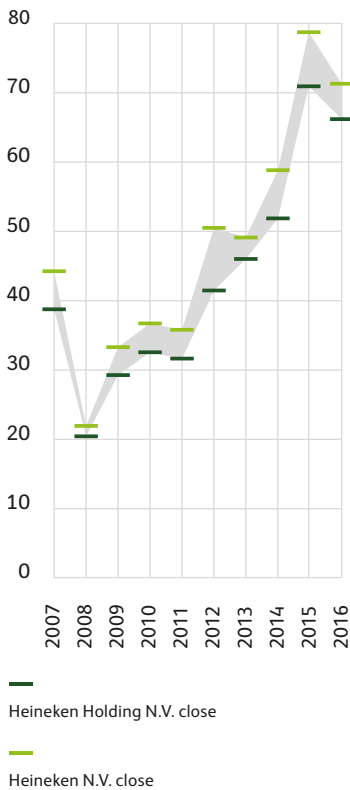
* For the maximum period of four years.

REPORT OF THE BOARD OF DIRECTORS

Gap between Heineken Holding N.V. and Heineken N.V. share price

in euros

Euronext Amsterdam



Heineken Holding N.V. close

Heineken N.V. close

POLICY PRINCIPLES

Heineken Holding N.V. has played an important role in the HEINEKEN group for over sixty years. The company seeks to promote the continuity, independence and stability of the HEINEKEN group. This creates the conditions which enable Heineken N.V. to pursue its long-term policy in the interest of the shareholders, the staff and other stakeholders.

The company's policy has been successful. Thanks in part to its unique and stable structure, the HEINEKEN group now has the widest international presence of all the world's brewing groups and the Heineken® brand is one of the best-known international premium lagers.

ACTIVITIES

The Board of Directors met with the Preparatory Committee of the Supervisory Board of Heineken N.V. on seven occasions in 2016. The Board of Directors also met separately on two occasions to discuss, among other things, the Report of the Board of Directors and the financial statements for 2015 and the first half of 2016. At the meeting of the Board of Directors at which the directors' report and the financial statements were discussed, Deloitte Accountants B.V., the external auditors, gave a comprehensive report on their activities.

Other matters considered during the year included proposals for acquisitions, investments, disposals and other opportunities such as the acquisition of Punch Taverns in the UK, and the situation around UBL. Also sponsorships such as the Formula I and UEFA were discussed.

The strategic plan, including the sustainability strategy, and the annual plan were presented to the Board of Directors. Important developments affecting the business in various countries were discussed, such as the political and economic situation in Nigeria, The Democratic Republic of Congo and Egypt, and also Russia and Brazil. Other items on the agenda included renewal of the credit facilities, cost control and dividend policy.

A recurrent element in all the meetings was a discussion of the results: volumes, revenues and gross margins, organic growth and foreign exchange effects were reviewed by region and country. A member of the Executive Board of Heineken N.V. outlined conditions in various markets and the changing consumer demand, paying special attention in all cases to the development of the Heineken® brand and the introduction of new products under the Heineken name, being H41 and H71 'wild lager' beers and Heineken 0.0. The developments in cash flows, funding ratios and share price were also discussed.

The composition of the Supervisory Board and the Executive Board of Heineken N.V. and management

development were recurring items on the agenda.

In addition, the reorganisation of the Heineken N.V. head office and regional offices was discussed.

There were informal discussions during the year regarding current business matters on which the opinion of the Board of Directors had been sought.

Mrs C.L. de Carvalho-Heineken, executive director, travelled to China for the opening of a brewery. In Brazil she visited the Holland Heineken House and opened a brewery. In Haiti, Hawaii, Malaysia, and Singapore she met with sales staff and management.

REVIEW OF 2016

Share price

The share price of the Heineken Holding N.V. share has fallen from EUR71 at the beginning of the year to EUR66.14 on 30 December. The gap between the Heineken N.V. and Heineken Holding N.V. share prices moved between 14 per cent and 6 per cent through the year, ending at 7.18 per cent on 30 December.

Price movements are shown in the graph on page 10. More information regarding the shares can be found on page 5 of this report.

Interest in Heineken N.V.

The nominal value of our company's interest in Heineken N.V. as at 31 December 2016 was EUR461 million (31 December 2015: EUR461 million).

The nominal value of the ordinary shares issued by our company as at the same date was also EUR461 million. As at 31 December 2016, our company's interest in Heineken N.V. represented 50.005 per cent of the issued capital (being 50.560 per cent of the outstanding capital) of Heineken N.V.

Results

With regard to the company's balance sheet and income statement, the Board of Directors has the following comments.

The Board of Directors has elected to avail itself of the option given by Section 362, subsection 8, of Book 2 of the Dutch Civil Code of using the same accounting policies for the valuation of assets and liabilities and determination of results in the company financial statements as those used for the preparation of the consolidated financial statements of Heineken Holding N.V. Since the interest in Heineken N.V. is measured using the net asset value method, the equity attributable to the equity holders of Heineken Holding N.V., amounting to EUR6,598 million, shown in the consolidated

statement of financial position, is equal to the shareholders' equity shown in the company balance sheet less the priority shares.

Our company's 50.560 per cent share in Heineken N.V.'s 2016 profit of EUR1,540 million is recognised as income of EUR779 million in the 2016 company income statement. This share in Heineken N.V.'s profit consists of both distributed and retained earnings for 2016.

HEINEKEN N.V. PERFORMANCE IN 2016 AND OUTLOOK

Performance

Heineken N.V. posted a net profit of EUR1,540 million in 2016.

After a strong first half and in line with HEINEKEN's guidance, operating profit (beia) growth slowed in the second half reflecting tougher comparatives, increased currency headwinds as well as further challenging economic conditions in some developing markets. In the full year, strong performance in Americas, Europe and Asia Pacific more than offset weaker performance in Africa, Middle East & Eastern Europe where both the difficult economic backdrop and currency pressure adversely impacted results. Revenue per hectolitre improved organically, with a positive contribution from both price and mix.

HEINEKEN continues to invest in key developing markets and in 2016 entered new countries including Ivory Coast and the Philippines, and expanded production capacity in China, Vietnam, Ethiopia and Cambodia.

Revenue increased 4.8 per cent organically, with a 2.6 per cent increase in total volume and a 2.2 per cent increase in revenue per hectolitre. In 2016 the underlying price mix impact was 1.7 per cent. In the second half revenue increased 5.0 per cent (1H16: 4.7 per cent), with volume growth of 1.5 per cent (1H16: 3.8 per cent), revenue per hectolitre up 3.4 per cent (1H16: 0.8 per cent) and underlying price mix impact of 2.6 per cent.

More information on the performance and sustainability is provided in Heineken N.V.'s Annual Report.

Outlook

- Economic conditions are expected to remain volatile and HEINEKEN has assumed a negative impact from currency comparable to 2016.
- HEINEKEN expects further organic revenue and profit growth.
- Excluding major unforeseen macro economic and political developments as well as the impact of the proposed acquisitions in Brazil and in the UK, HEINEKEN expects continued margin expansion in 2017 in line with

the medium term margin guidance of a year on year improvement in operating profit (beia) margin of around 40bps.

- HEINEKEN expects an average interest rate broadly in line with 2016 (2016: 3.1 per cent), and an effective tax rate (beia) also broadly in line with 2016 (2016: 28.3 per cent).
- Capital expenditure related to property, plant and equipment should be slightly below €2 billion (2016: €1.8 billion).

FINANCIAL STATEMENTS AND APPROPRIATION OF PROFIT

The Board of Directors will submit the financial statements for 2016 to the General Meeting of Shareholders. These financial statements, on pages 20 to 102 of this report, have been audited by Deloitte Accountants B.V., whose report can be found on page 104.

Heineken N.V. proposes to distribute a dividend for 2016 of EUR1.34 per share of EUR1.60 nominal value, of which EUR0.52 per share of EUR1.60 nominal value has already been paid as interim dividend.

With the approval of the meeting of priority shareholders, the Board of Directors has resolved to vote at the General Meeting of Shareholders of Heineken N.V. in favour of Heineken N.V.'s dividend proposal. On that basis, the dividend payable to our company for 2016 totals EUR386.0 million in cash, of which EUR149.8 million has already been received by way of interim dividend. The final dividend due will therefore be EUR236.2 million.

In accordance with the provisions of Article 10, paragraph 9, of the Articles of Association, an interim dividend of EUR0.52 per share of EUR1.60 nominal value was distributed to holders of ordinary shares on 11 August 2016. Pursuant to the provisions of Article 10 of the Articles of Association, a final dividend of EUR0.82 per share of EUR1.60 nominal value currently in issue will be payable to holders of ordinary shares from 3 May 2017. Like the holders of Heineken N.V. shares, holders of ordinary shares will therefore receive a total dividend for 2016 of EUR1.34 per share of EUR1.60 nominal value. A total of EUR386.0 million will be distributed to holders of ordinary shares and a total of EUR20 (4 per cent of the nominal value of EUR2 per share) will be distributed as dividend to holders of priority shares.

CORPORATE GOVERNANCE

On 10 December 2008, a revised Dutch Corporate Governance Code was published (the 'Code'), referred to in Section 391, subsection 5, of Book 2 of the Dutch

Civil Code, superseding the Dutch Corporate Governance Code of 9 December 2003. The Code is available at www.commissiecorporategovernance.nl.

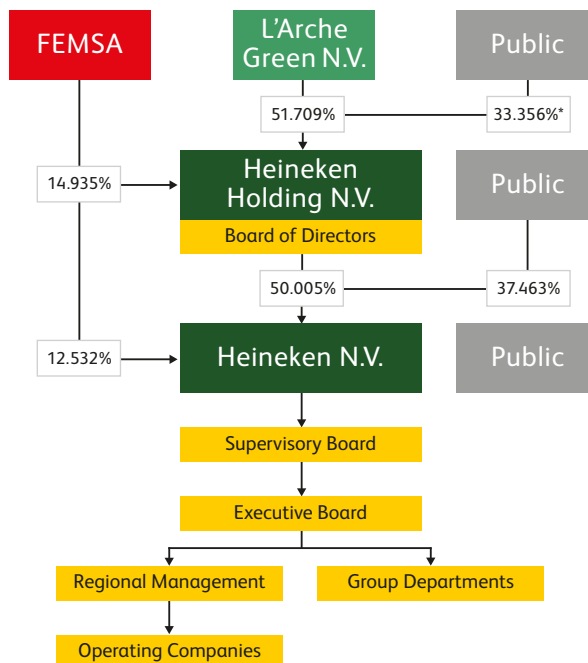
This report does not address the contemplated changes to the Code, as announced by the Monitoring Committee Corporate Governance on 8 December 2016, as these changes do not apply to the 2016 reporting year.

While Heineken Holding N.V. endorses the principles of the Code, the structure of the HEINEKEN group, and in particular the relationship between Heineken Holding N.V. and Heineken N.V., prevents Heineken Holding N.V. from applying a number of the Code's principles and best-practice provisions. At the General Meeting of Shareholders on 20 April 2005, this departure from the Dutch Corporate Governance Code of 9 December 2003 was put to the vote and approved.

The departure from the Code (as revised) was discussed at the General Meeting of Shareholders on 22 April 2010.

Structure of the HEINEKEN group

Heineken Holding N.V. has a 50.005 per cent interest in the issued share capital of Heineken N.V. Both companies are listed on Euronext Amsterdam.



█ Legal entities
█ Management
█ Public shareholders

* Including the 0.03% stake held directly by the Heineken family.

L'Arche Green N.V., a company owned by the Heineken family and the Hoyer family, holds as at 31 December 2016 51.709 per cent (31 December 2015: 51.709 per cent) interest of the issued share capital of Heineken Holding N.V. The Heineken family holds 88.67 per cent of the issued share capital of L'Arche Green N.V. and the remaining 11.33 per cent is held by the Hoyer family. The Heineken family also owns a direct 0.03 per cent stake in Heineken Holding N.V. FEMSA, through its affiliate CB Equity LLP, holds a 14.935 per cent interest of the issued share capital of Heineken Holding N.V. In combination with its Heineken N.V. shareholdings this represents a 20 per cent economic interest in the HEINEKEN group. Of the issued share capital of Heineken Holding N.V. 33.356 per cent is held by public shareholders.

A full description of rights conferred by the outstanding priority shares in the share capital of Heineken Holding N.V. is given in the paragraph headed 'Further Information pursuant to the Article 10 Takeover Directive Decree' and the 'Other Information' section (page 103) of this Annual Report.

Standing at the head of the HEINEKEN group, Heineken Holding N.V. is not an ordinary holding company. Since its formation in 1952, Heineken Holding N.V.'s main object pursuant to its Articles of Association has been to manage or supervise the management of the HEINEKEN group and to provide services for Heineken N.V., in accordance with the policy principles outlined above.

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

Heineken Holding N.V.'s governance structure and risk management and control system

Heineken Holding N.V. is managed by its Board of Directors, whose activities are directed towards implementing the policy principles outlined above.

On 25 April 2012, Heineken Holding N.V. implemented a one-tier board management structure. The Board of Directors now comprises two executive members (*uitvoerende bestuurders*) and four non-executive members (*niet-uitvoerende bestuurders*).

Because Heineken N.V. manages the HEINEKEN group companies, Heineken Holding N.V., unlike Heineken N.V., does not have an internal risk management and control system. Heineken Holding N.V. does not engage in any operational activities and employs no staff. As to Heineken N.V., the risk management and control system for the business is described in the Heineken N.V. Annual Report, page 21 and further. Note 30 to the consolidated financial statements

of Heineken Holding N.V. itemises the specific financial risks and explains the control systems relating to those risks.

Pursuant to Article 10, paragraph 6, of the Articles of Association of Heineken Holding N.V., holders of Heineken Holding N.V. ordinary shares receive the same dividend as holders of Heineken N.V. shares.

Within Heineken Holding N.V., there are established rules governing the disclosure of holdings of and transactions in Heineken Holding N.V. and Heineken N.V. shares and other securities that are applicable to the Board of Directors and, where required, other persons directly associated with the company.

Compliance with the Code

Heineken Holding N.V. intends to preserve its existing governance structure and does therefore not apply those principles and best-practice provisions which are inconsistent with this structure.

For the reasons stated above, Heineken Holding N.V. does not engage in any operational activities, employs no staff and has no internal risk management and control system. Pursuant to its Articles of Association, Heineken Holding N.V. distributes the dividend it receives from Heineken N.V. in full to its shareholders. Heineken Holding N.V. does not apply principles and best-practice provisions which presume that the actual situation is different.

Due to the one-tier management structure best-practice provisions III.8.1 and III.8.4 (in conjunction with III.2.2 sub a) of the Code are formally not applied, simply because most non-executive members of the current one-tier Board of Directors used to be members of the Board of Directors prior to the implementation of the new one-tier management structure, which formally only had an executive role. The Board of Directors considers a strict interpretation of these best-practice provisions, such that current executive members could not be chairman of the Board of Directors (III.8.1) or would not be regarded as independent (III.8.4) due to their previous formal executive role in the same Board of Directors, inconsistent with Heineken Holding N.V.'s governance structure.

Certain principles and best-practice provisions as required by the Code are fulfilled by Heineken N.V. due to the governance structure. Heineken Holding N.V. complies with the other principles and best-practice provisions of the Code.

BOARD OF DIRECTORS

The Board of Directors consists of six members: Mr M. Das, non-executive director (chairman), executive directors Mrs C.L. de Carvalho-Heineken

and Mr M.R. de Carvalho, and non-executive directors Mr J.A. Fernández Carbajal, Mrs C.M. Kwist and Mr A.A.C. de Carvalho.

The members of the Board of Directors are appointed by the General Meeting of Shareholders from a non-binding list of candidates drawn up by the meeting of priority shareholders. The General Meeting of Shareholders may appoint one or two of the members as executive director, who shall be charged in particular with the day-to-day management and the preparation and implementation of the Board of Directors' resolutions. The General Meeting of Shareholders may suspend and/or dismiss members of the Board of Directors by a resolution adopted by an absolute majority of the votes cast which represents at least one-third of the issued capital. An executive member of the Board of Directors may also be suspended by the Board of Directors. The relevant executive director shall not participate in decision-making on his suspension. A resolution to suspend an executive director shall require a unanimous vote by all the members of the Board of Directors except the member whose suspension is the subject of the motion. A suspension imposed by the Board of Directors may be lifted at any time by the General Meeting of Shareholders.

Remuneration policy

Remuneration of the members of the Board of Directors was enabled by an amendment to the company's Articles of Association in 2001. The policy on the remuneration of members of the Board of Directors was approved by the General Meeting of Shareholders in 2005. Under this policy, the members of the Board of Directors receive the same remuneration as the members of the Supervisory Board of Heineken N.V. For 2017, this means EUR90,000 a year for the chairman and EUR60,000 a year for the other members of the Board of Directors.

More information on how this policy was applied can be found in the notes to the consolidated financial statements (see note 33).

THE GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders shall be held each year within six months of the end of the financial year, the agenda for which shall, inter alia, include: (i) consideration of the annual report, (ii) consideration and adoption of the financial statements, (iii) discharge of the members of the Board of Directors in respect of their management and (iv) announcement of the appropriation of profit and dividend. General Meetings of Shareholders shall be held in Amsterdam.

Notice of meeting

Pursuant to the prevailing provisions of the law, the Board of Directors shall give at least forty-two (42) days' notice of General Meetings of Shareholders (excluding the date of the meeting, but including the date of the notice of meeting).

The Board of Directors is obliged to convene a General Meeting of Shareholders at the request of shareholders who together own at least 25 per cent of the issued share capital. Such meeting shall be held within eight weeks of receipt of the request and shall consider the matters specified by those requesting the meeting.

Right of shareholders to place items on agenda

An item that one or more holders of shares which alone or together (i) represent at least one per cent (1%) of the issued capital or (ii) have a value of at least EUR50 million have requested to be placed on the agenda shall be included in the notice of meeting or announced in a similar manner, provided that the Board of Directors receives the request in writing, which request is to be furnished with reasons or accompanied by a proposal for a resolution, not later than the 60th day before the date of the General Meeting of Shareholders. If shareholders have requested that an item be placed on the agenda, they shall explain this to the meeting and answer any questions thereon.

Best-practice provision IV.4.4 of the Code states: *'A shareholder shall exercise the right of putting an item on the agenda only after he consulted the management board about 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 through the dismissal of one or more management or supervisory board members, the management board shall be given the opportunity to stipulate a reasonable period in which to respond (the response time). This shall also apply to an intention as referred to above for judicial leave to call a general meeting of shareholders pursuant to Section 2:110 of the Dutch Civil Code. The shareholder shall respect the response time stipulated by the management board within the meaning of best-practice provision II.1.9.'*

Pursuant to best-practice provision II.1.9 of the Code, if the Board of Directors stipulates a response time, such period may not exceed 180 days from the date on which the Board of Directors is informed by one or more shareholders of their intention to place an item on the agenda to the date of the General Meeting of Shareholders at which the item is to be considered. The Board of Directors shall use the response time for further deliberation and constructive consultation. A response time may be stipulated only once for any

given General Meeting of Shareholders and may not apply to an item in respect of which the response time has been previously stipulated.

Record date

For each General Meeting of Shareholders, a record date for the exercise of the voting rights and attendance at the meeting shall apply. This record date is the 28th day prior to the date of the meeting. The record date shall be included in the notice of meeting, as well as the manner in which those entitled to attend and/or vote at the meeting can be registered and the manner in which they may exercise their rights.

Persons who are entitled to vote at and/or attend the General Meeting of Shareholders are those in whom those rights are vested on the record date.

Attendance by proxy or electronic communication

All shareholders are entitled, either in person or represented by a proxy appointed in writing, to attend the General Meeting of Shareholders, to address the meeting and to exercise their voting rights.

If shareholders wish to exercise their rights through a proxy appointed in writing, the instrument appointing the proxy must be received by the company no later than the date stated for that purpose in the notice of meeting. The Board of Directors may determine that the powers set out in the previous sentence may also be exercised by means of electronic communication.

The Board of Directors may impose certain conditions on the use of electronic communications, which will in that case be stated in the notice of meeting.

Attendance register

All persons present at a General Meeting of Shareholders entitled to vote or otherwise entitled to attend, or their representatives, shall sign the attendance register, stating the number of shares and votes they represent.

Chairman of the General Meeting of Shareholders

All General Meetings of Shareholders shall be presided over by the chairman of the Board of Directors or, in his absence, by one of the members of the Board of Directors present at the meeting, to be appointed by the latter in consultation. If none of the members of the Board of Directors is present, the meeting shall appoint its own chairman.

Voting

Adoption of resolutions at each General Meeting of Shareholders shall require an absolute majority of the

votes cast, except where a larger majority is required by law or the Articles of Association.

Each share confers the entitlement to cast one vote. Blank votes shall be deemed not to have been cast.

When convening a General Meeting of Shareholders, the Board of Directors may determine that votes cast electronically in advance of the meeting are to be equated to votes cast in the course of the meeting. Such votes may not be cast prior to the record date. A shareholder who has voted electronically in advance of a General Meeting of Shareholders shall still be entitled to attend and address the meeting, either in person or represented by a proxy appointed in writing.

Once cast, a vote cannot be retracted.

Minutes

Minutes shall be kept of the proceedings of General Meetings of Shareholders by a secretary appointed by the chairman. The minutes shall be adopted by the chairman and the secretary and shall be signed by them in evidence thereof. If a notarial record is made of the proceedings of a General Meeting of Shareholders, it shall be co-signed by the chairman of the meeting. Shareholders shall be provided on request with copies of the minutes of the General Meeting of Shareholders not later than three months after the end of the meeting and shall be given three months in which to comment on these minutes.

Resolutions to be adopted by the General Meeting of Shareholders

The General Meeting of Shareholders has authority to adopt resolutions concerning among others the following matters:

(i) issue of shares by the company or rights attaching to shares (and authorisation of the Board of Directors to resolve that the company issues shares or rights attaching to shares), (ii) authorisation of the Board of Directors to resolve that the company acquires its own shares, (iii) cancellation of shares and reduction of the share capital, but only after a motion of the meeting of priority shareholders, (iv) appointment of members of the Board of Directors from a non-binding list of candidates drawn up by the meeting of priority shareholders, (v) the remuneration policy for the Board of Directors, (vi) suspension and dismissal of members of the Board of Directors, (vii) adoption of the financial statements, (viii) discharge of the members of the Board of Directors in respect of their management, (ix) the profit reservation and distribution policy, (x) a substantial change in the corporate governance structure, (xi) (re)appointment of the external auditor, (xii) amendment of the Articles of Association and (xiii) winding-up of the company.

Board of Directors' resolutions on any material change in the nature or identity of the company or enterprise shall be subject to the approval of the meeting of priority shareholders and the General Meeting of Shareholders, in any event including resolutions relating to (a) transfer of all or virtually all of the company's enterprise to a third party, (b) entry into or termination of a lasting cooperation between the company or a subsidiary and another legal entity or partnership or as general partner in a limited partnership or general partnership where such cooperation or termination thereof has material significance for the company and (c) acquisition or disposal by the company or a subsidiary of an interest in the capital of another company amounting to one third or more of the company's assets as disclosed in its consolidated statement of financial position and notes thereto according to its most recently adopted financial statements.

Provision of information

The Board of Directors shall provide the General Meeting of Shareholders with all the information it may require, unless there are compelling reasons to withhold it in the company's interest. If the Board of Directors withholds information on the grounds of the company's interest, it shall give its reasons for doing so.

Priority shares

The company has issued 250 priority shares, 50 per cent of which are held by Stichting Administratiekantoor Piores, the other 50 per cent being held by Stichting Beheer Prioriteitsaandelen Heineken Holding N.V.

A full description of rights conferred by the priority shares is given in the paragraph headed 'Further Information pursuant to the Article 10 Takeover Directive Decree' and the 'Other Information' section (page 103) of this Annual Report.

FURTHER INFORMATION PURSUANT TO THE ARTICLE 10 TAKEOVER DIRECTIVE DECREE

Shares

Heineken Holding N.V.'s issued capital (the 'Capital') consists of 288,030,168 ordinary shares (representing 99.99 per cent of the Capital) with a nominal value of EUR1.60 each and 250 priority shares (representing 0.01 per cent of the Capital) with a nominal value of EUR2 each.

The priority shares are registered. The meeting of holders of priority shares has the right to draw up a non-binding list of candidates for each appointment of a member of the Board of Directors by the General Meeting of Shareholders. The approval of the meeting of the holders of priority

shares is required for resolutions of the Board of Directors relating to the exercise of voting rights on shares in public limited liability companies and other legal entities and the way in which such votes are to be cast. Pursuant to Section 107a of Book 2 of the Dutch Civil Code and the Articles of Association of the company, the approval of both the meeting of the holders of priority shares and the General Meeting of Shareholders is required for resolutions of the Board of Directors relating to any material change in the nature or identity of the company or the enterprise, in any event including and subject to the statutory limits, resolutions relating to the transfer of all or virtually all of the company's enterprise to a third party, entry into or termination of a lasting cooperation between the company or a subsidiary and another legal entity or relating to the acquisition or disposal by the company or a subsidiary of a substantial interest in the capital of another company.

Shares are issued pursuant to a resolution of the General Meeting of Shareholders, without prejudice to its right to delegate that authority. Such a resolution shall be valid only if prior or simultaneous approval is given by resolution of the meeting of holders of shares of the same class as that to which the issue relates, except in the case where the company is obliged pursuant to Article 10 of the Articles of Association to distribute stock dividend or bonus shares or grant pre-emptive rights to shareholders. Fully paid ordinary shares in its own capital may only be acquired by the company for no consideration or if (a) the shareholders' equity minus the purchase price is not less than the sum of the paid-in and called portion of the capital and the reserves prescribed by law and (b) the nominal amount of own shares which the company acquires, holds or keeps in pledge or which are held by a subsidiary does not exceed half of the issued capital.

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 Wft*), the Authority for the Financial Markets (AFM) has been notified of the following substantial shareholdings (i.e. of 3 per cent or more) in Heineken Holding N.V.:

- 1 November 2006: Mrs C.L. de Carvalho-Heineken (52.01 per cent, including a 50.005 per cent shareholding by L'Arche Holding S.A.*);
- 30 April 2010: Voting Trust (FEMSA), through its affiliate CB Equity LLP (14.94 per cent);
- 1 July 2013: Gardner Russo & Gardner LLC (a capital and voting interest of 3.78 per cent, held directly);

- 15 January 2014: Harris Associates L.P. (a capital and voting interest of 3.05 per cent, held indirectly).

* The AFM register for substantial shareholdings is no longer up-to-date. For the present situation reference is made to the organisation chart on page 12.

Restrictions related to shares

There are no restrictions on the voting rights on ordinary shares. Heineken Holding N.V. has no staff share plan or option plan. The company is party to an agreement providing for certain (customary) restrictions on the transfer of shares in the company held by a specific shareholder. This agreement also provides (subject to certain exceptions) for certain restrictions on the voting rights on the shares in the company beneficially owned by the specific shareholder (and by any of its group members), if and to the extent that any shares beneficially owned by this specific shareholder (and any of its group members) are in excess of (i) 20 per cent of all issued and outstanding ordinary shares in the capital of the company or (ii) a 20 per cent economic interest (as defined in the relevant agreement) in Heineken N.V.

Persons who hold shares on a predetermined record date may attend and exercise their voting rights at General Meetings of Shareholders. The record date for the General Meeting of Shareholders on 20 April 2017 has been set 28 days before the General Meeting of Shareholders, i.e. on 23 March 2017.

Appointment and dismissal of Board of Directors

The members of the Board of Directors are appointed by the General Meeting of Shareholders from a non-binding list of candidates drawn up by the meeting of priority shareholders.

Members of the Board of Directors may be suspended or dismissed by the General Meeting of Shareholders at any time by a resolution adopted by an absolute majority of the votes cast which represents at least one-third of the issued capital. An executive member of the Board of Directors may also be suspended by the Board of Directors. The relevant executive director shall not participate in decision-making on his suspension. A resolution to suspend an executive director shall require a unanimous vote by all members of the Board of Directors except the member whose suspension is the subject of the motion. A suspension imposed by the Board of Directors may be lifted at any time by the General Meeting of Shareholders.

Amendment of the Articles of Association

The Articles of Association may be amended by a resolution adopted by the General Meeting of Shareholders only on a motion of the meeting of priority shareholders and

only if at least half of the issued capital is represented. A resolution to amend the Articles of Association must in all cases be stated in the notice of meeting and a copy of the resolution, containing the literal text of the proposed amendment, must be deposited simultaneously at the company's offices for inspection by shareholders. If the required capital is not represented at the meeting, a second General Meeting of Shareholders must be held within eight weeks of that meeting, at which a resolution to amend the Articles of Association may be adopted irrespective of the capital represented.

Acquisition of own shares

The Annual General Meeting of Shareholders on 21 April 2016 extended, for the statutory maximum period of 18 months, commencing on 21 April 2016, the authorisation which it had granted to the Board of Directors on 23 April 2015 to acquire own shares subject to the following conditions and with due observance of the law and the Articles of Association:

- a the maximum number of shares which may be acquired is 10 per cent of the issued share capital of the company at any time during the period of authorisation;
- b transactions must be executed at a price between the nominal value of the shares and 110 per cent 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;
- c transactions may be executed on the stock exchange or otherwise.

Issue of shares

The Annual General Meeting of Shareholders on 21 April 2016 furthermore extended, for a period of 18 months, commencing on 21 April 2016, the authorisation which it had granted to the Board of Directors on 23 April 2015 to issue shares or grant rights to subscribe for shares, with due observance of the law and the Articles of Association. The authorisation is limited to 10 per cent of the issued share capital of the company on the date of issue.

The Annual General Meeting of Shareholders on 21 April 2016 also extended, for a period of 18 months, commencing on 21 April 2016, the authorisation which it had granted to the Board of Directors on 23 April 2015 to restrict or exclude shareholders' pre-emptive rights in relation to the issue of shares or the granting of rights to subscribe for shares, with due observance of the law and the Articles of Association.

Change of control

The company is not a party to material agreements which are in any way subject to or affected by a change of control over the company following a public offer as referred to in Section 5:70 of the Financial Supervision Act. There are no agreements under which Heineken Holding N.V. is liable to make any payment to members of the Board of Directors or employees on termination of employment following a public offer as referred to in Section 5:70 of the Financial Supervision Act.

STATEMENT OF THE BOARD OF DIRECTORS

In accordance with Article 5:25c paragraph 2 sub c of the Financial Supervision Act, we confirm that, to the best of our knowledge,

- the financial statements in this Annual Report 2016 give a true and fair view of our assets and liabilities, our financial position as at 31 December 2016, and the results of our consolidated operations for the financial year 2016; and
- the Report of the Board of Directors includes a fair review of the position as at 31 December 2016 and the development and performance during the financial year 2016 of Heineken Holding N.V. and the undertakings included in the consolidation taken as a whole, and describes the principal risks that Heineken Holding N.V. faces.

Amsterdam, 14 February 2017

Board of Directors

Mr M. Das

Mrs C.L. de Carvalho-Heineken

Mr M.R. de Carvalho

Mr J.A. Fernández Carbajal

Mrs C.M. Kwist

Mr A.A.C. de Carvalho

2016

FINANCIAL STATEMENTS 2016

HEINEKEN HOLDING N.V. BALANCE SHEET

Before appropriation of profit
As at 31 December

In millions of EUR	Note	2016	2015
ASSETS			
Financial fixed assets			
Participating interest in Heineken N.V.	I	6,598	6,750
Current assets			
Cash	II	—	—
		6,598	6,750
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital:			
Priority shares		—	—
Ordinary shares		461	461
		461	461
Share premium		1,257	1,257
Translation reserve		(920)	(509)
Hedging reserve		—	(23)
Fair value reserve		132	61
Other legal reserves		420	360
Retained earnings		4,469	4,186
Profit for the year		779	957
	III	6,598	6,750
Current liabilities			
Other payables		—	—
		6,598	6,750

HEINEKEN HOLDING N.V. INCOME STATEMENT

For the year ended 31 December

In millions of EUR	Note	2016	2015
Personnel expenses		—	—
Total expenses		—	—
Interest income		—	—
Interest expenses		—	—
Other net finance income/(expenses)		—	—
Net finance expenses		—	—
Share in result of participating interest in Heineken N.V. after income tax	IV	779	957
Profit before income tax		—	—
Income tax income/(expense)	V	—	—
Profit		779	957

NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2016 AND THE INCOME STATEMENT FOR 2016 OF HEINEKEN HOLDING N.V.

Reporting entity

Heineken Holding N.V. (the 'Company') is a company domiciled in the Netherlands.

Basis of preparation

The Company financial statements have been prepared in accordance with the provisions of Part 9 of Book 2 of the Dutch Civil Code. The Company uses the option of Section 362, subsection 8, of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements on the basis of the same accounting principles as those applied for 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.

The amounts disclosed in the notes to the balance sheet and income statement are in millions of Euro, unless otherwise indicated.

The financial statements have been prepared by the Board of Directors of the Company and authorised for issue on 14 February 2017 and will be submitted for adoption to the Annual General Meeting of Shareholders on 20 April 2017.

Significant accounting policies

Financial fixed assets

Participating interests in entities over which the Company has control are incorporated in the Company financial statements, using the net asset value method of accounting.

Shareholders' equity

The translation reserve and other legal reserves are recognised in accordance with the Dutch Civil Code.

Profit of participating interests

The share in the result of participating interests consists of the share of the Company in the result of these participating interests.

NOTE I PARTICIPATING INTEREST IN HEINEKEN N.V.

The interest of Heineken Holding N.V. in Heineken N.V. is 50.005 per cent of the issued capital (being 50.560 per cent (2015: 50.560 per cent) of the outstanding capital following the purchase of own shares by Heineken N.V.). The nominal value of the Heineken N.V. shares held by the Company amounted to EUR461 million as at 31 December 2016 (EUR461 million as at 31 December 2015).

The market capitalisation of the participating interest in Heineken N.V. as at 31 December 2016 amounted to EUR20.5 billion (31 December 2015: EUR22.7 billion).

Balance as at 1 January 2015	6,125
50.560% of the profit of Heineken N.V.	957
Dividend payments received	
by Heineken Holding N.V.	(340)
Movements in translation reserve	40
Movements cash flow hedges	26
Movements fair value adjustments	13
Actuarial gains and losses	51
Purchase own shares by Heineken N.V.	(194)
Positive dilution	54
Share-based payments by Heineken N.V.	16
Movement because of changes in consolidation	
by Heineken N.V.	2
Balance as at 31 December 2015	6,750
Balance as at 1 January 2016	6,750
50.560% of the profit of Heineken N.V.	779
Dividend payments received	
by Heineken Holding N.V.	(398)
Movements in translation reserve	(411)
Movements cash flow hedges	23
Movements fair value adjustments	71
Actuarial gains and losses	(128)
Purchase own shares by Heineken N.V.	(21)
Share-based payments by Heineken N.V.	7
Movement because of changes in consolidation	
by Heineken N.V.	(74)
Balance as at 31 December 2016	6,598

NOTE II CASH

This item relates to the balances as at balance sheet date on a current account and a deposit account relating to the priority shares.

NOTE III SHAREHOLDERS' EQUITY

In millions of EUR	Issued capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Retained earnings	Profit for the year	Total equity ¹
Balance as at 1 January 2015	461	1,257	(549)	(49)	48	372	3,825	760	6,125
Other comprehensive income ²	—	—	40	26	13	—	51	—	130
Profit for the year	—	—	—	—	—	93	(93)	957	957
Total comprehensive income	—	—	40	26	13	93	(42)	957	1,087
Transfer of profit to retained earnings	—	—	—	—	—	—	760	(760)	—
Transfer between reserves	—	—	—	—	—	(105)	105	—	—
Dividends to shareholders	—	—	—	—	—	—	(340)	—	(340)
Purchase own shares by Heineken N.V.	—	—	—	—	—	—	(194)	—	(194)
Positive dilution	—	—	—	—	—	—	54	—	54
Share-based payments by Heineken N.V.	—	—	—	—	—	—	16	—	16
Changes in consolidation by Heineken N.V.	—	—	—	—	—	—	2	—	2
Balance as at 31 December 2015	461	1,257	(509)	(23)	61	360	4,186	957	6,750
Balance as at 1 January 2016	461	1,257	(509)	(23)	61	360	4,186	957	6,750
Other comprehensive income ²	—	—	(411)	23	71	—	(128)	—	(445)
Profit for the year	—	—	—	—	—	77	(77)	779	779
Total comprehensive income	—	—	(411)	23	71	77	(205)	779	334
Transfer of profit to retained earnings	—	—	—	—	—	—	957	(957)	—
Transfer between reserves	—	—	—	—	—	(17)	17	—	—
Dividends to shareholders	—	—	—	—	—	—	(398)	—	(398)
Purchase own shares by Heineken N.V.	—	—	—	—	—	—	(21)	—	(21)
Share-based payments by Heineken N.V.	—	—	—	—	—	—	7	—	7
Changes in consolidation by Heineken N.V.	—	—	—	—	—	—	(74)	—	(74)
Balance as at 31 December 2016	461	1,257	(920)	—	132	420	4,469	779	6,598

¹ Total equity attributable to equity holders of Heineken Holding N.V.

² Net income recognised directly in equity is explained in the consolidated statement of comprehensive income.

For further explanation reference is made to note 22 to the consolidated financial statements.

NOTE IV SHARE IN RESULT OF PARTICIPATING INTEREST IN HEINEKEN N.V. AFTER INCOME TAX

Included here is the share in the profit of Heineken N.V. for 2016, being 50.560 per cent of EUR1,540 million (2015: 50.560 per cent of EUR1,892 million).

NOTE V OTHER REVENUES AND EXPENSES AFTER INCOME TAX

Expenses made to manage and provide services to Heineken N.V. amounting to EUR1,160 thousand (2015: EUR1,047 thousand) are reimbursed by Heineken N.V. to Heineken Holding N.V. in accordance with the management agreement.

The remuneration of the Board of Directors is disclosed in note 33 to the consolidated financial statements.

NOTE VI AUDITOR FEES

Other expenses in the consolidated financial statements include EUR9.8 million of fees in 2016 for services provided by Deloitte Accountants B.V. and its member firms and/or affiliates (2015: EUR9.5 million). Fees for audit services include the audit of the financial statements of Heineken Holding N.V. 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.

Comparative numbers have been revised for the effect of audit activities applicable to 2015 that have been finalised in 2016.

In millions of EUR	Deloitte Accountants B.V.		Other Deloitte member firms and affiliates		2016	Total 2015
	2016	2015	2016	2015		
Audit of Heineken Holding N.V. and its subsidiaries	2.6	2.7	6.2	5.9	8.8	8.6
Other audit services	0.4	0.4	0.3	0.3	0.7	0.7
Tax services	—	—	0.1	0.2	0.1	0.2
Other non-audit services	—	—	0.2	—	0.2	—
	3.0	3.1	6.8	6.4	9.8	9.5

Amsterdam, 14 February 2017

Board of Directors

Mr M. Das

Mrs C.L. de Carvalho-Heineken

Mr M.R. de Carvalho

Mr J.A. Fernández Carbajal

Mrs C.M. Kwist

Mr A.A.C. de Carvalho

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

In millions of EUR	Note	2016	2015
Revenue	5	20,792	20,511
Other income	8	46	411
Raw materials, consumables and services	9	(13,003)	(12,931)
Personnel expenses	10	(3,263)	(3,322)
Amortisation, depreciation and impairments	11	(1,817)	(1,594)
Total expenses		(18,083)	(17,847)
Results from operating activities		2,755	3,075
Interest income	12	60	60
Interest expenses	12	(419)	(412)
Other net finance income/(expenses)	12	(134)	(57)
Net finance expenses		(493)	(409)
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	16	150	172
Profit before income tax		2,412	2,838
Income tax expense	13	(673)	(697)
Profit		1,739	2,141
Attributable to:			
Equity holders of Heineken Holding N.V. (net profit)		779	957
Non-controlling interests in Heineken N.V.		761	935
Non-controlling interests in Heineken N.V. group companies		199	249
Profit		1,739	2,141
Weighted average number of ordinary shares – basic	23	288,030,168	288,030,168
Weighted average number of ordinary shares – diluted	23	288,030,168	288,030,168
Basic earnings per ordinary share (EUR)	23	2.70	3.32
Diluted earnings per ordinary share (EUR)	23	2.70	3.32*

* Revised

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

In millions of EUR	Note	2016	2015
Profit		1,739	2,141
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial gains and losses	24	(252)	95
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Currency translation differences	24	(908)	(43)
Recycling of currency translation differences to profit or loss	24	—	129
Effective portion of net investment hedges	24	44	15
Effective portion of changes in fair value of cash flow hedges	24	6	23
Effective portion of cash flow hedges transferred to profit or loss	24	41	24
Net change in fair value available-for-sale investments	24	140	43
Recycling of fair value of available-for-sale investments to profit or loss	24	—	(16)
Share of other comprehensive income of associates/joint ventures	24	—	7
Other comprehensive income, net of tax	24	(929)	277
Total comprehensive income		810	2,418
Attributable to:			
Equity holders of Heineken Holding N.V.		334	1,087
Non-controlling interests in Heineken N.V.		326	1,063
Non-controlling interests in Heineken N.V. group companies		150	268
Total comprehensive income		810	2,418

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

In millions of EUR	Note	2016	2015*
ASSETS			
Non-current assets			
Property, plant and equipment	14	9,232	9,552
Intangible assets	15	17,424	18,183
Investments in associates and joint ventures	16	2,166	1,985
Other investments and receivables	17	1,077	856
Advances to customers		274	266
Deferred tax assets	18	1,011	958
		31,184	31,800
Current assets			
Inventories	19	1,618	1,702
Other investments	17	—	16
Trade and other receivables	20	3,052	2,873
Prepayments		328	343
Income tax receivables		47	33
Cash and cash equivalents	21	3,035	3,232
Assets classified as held for sale	7	57	123
		8,137	8,322
		39,321	40,122

*Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset. Refer to note 2(e) changes in accounting policies and note 21 Cash and cash equivalents for further details.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

In millions of EUR	Note	2016	2015*
EQUITY			
Share capital	22	461	461
Share premium	22	1,257	1,257
Reserves		(368)	(111)
Retained earnings		5,248	5,143
Equity attributable to equity holders of Heineken Holding N.V.		6,598	6,750
Non-controlling interests in Heineken N.V.	22	6,640	6,785
Non-controlling interests in Heineken N.V. group companies	22	1,335	1,535
		14,573	15,070
LIABILITIES			
Non-current liabilities			
Loans and borrowings	25	10,954	10,658
Tax liabilities		3	3
Employee benefits	26	1,420	1,289
Provisions	28	302	320
Deferred tax liabilities	18	1,672	1,858
		14,351	14,128
Current liabilities			
Bank overdrafts and commercial papers	21	1,669	2,950
Loans and borrowings	25	1,981	1,397
Trade and other payables	29	6,224	6,013
Tax liabilities		352	379
Provisions	28	154	154
Liabilities classified as held for sale	7	17	31
		10,397	10,924
		24,748	25,052
		39,321	40,122

*Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset. Refer to note 2(e) changes in accounting policies and note 21 Cash and cash equivalents for further details.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

In millions of EUR	Note	2016	2015
OPERATING ACTIVITIES			
Profit		1,739	2,141
Adjustments for:			
Amortisation, depreciation and impairments	11	1,817	1,594
Net interest expenses	12	359	352
Gain on sale of property, plant and equipment, intangible assets and subsidiaries, joint ventures and associates	8	(46)	(411)
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		(161)	(182)
Income tax expenses	13	673	697
Other non-cash items		332	89
Cash flow from operations before changes in working capital and provisions		4,713	4,280
Change in inventories		(20)	27
Change in trade and other receivables		(228)	(59)
Change in trade and other payables		328	403
Total change in working capital		80	371
Change in provisions and employee benefits		(73)	(165)
Cash flow from operations		4,720	4,486
Interest paid		(441)	(446)
Interest received		70	87
Dividends received		118	159
Income taxes paid		(749)	(797)
Cash flow related to interest, dividend and income tax		(1,002)	(997)
Cash flow from operating activities		3,718	3,489

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

In millions of EUR	Note	2016	2015
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		116	83
Purchase of property, plant and equipment		(1,757)	(1,638)
Purchase of intangible assets		(109)	(92)
Loans issued to customers and other investments		(219)	(195)
Repayment on loans to customers		24	45
Cash flow (used in)/from operational investing activities		(1,945)	(1,797)
<i>Free operating cash flow</i>		1,773	1,692
Acquisition of subsidiaries, net of cash acquired	6	(9)	(757)
Acquisition of/additions to associates, joint ventures and other investments		(68)	(543)
Disposal of subsidiaries, net of cash disposed of	6/7	15	979
Disposal of associates, joint ventures and other investments		—	54
Cash flow (used in)/from acquisitions and disposals		(62)	(267)
Cash flow (used in)/from investing activities		(2,007)	(2,064)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		1,670	1,888
Repayment of loans and borrowings		(1,001)	(1,753)
Dividends paid		(1,031)	(909)
Purchase own shares and share issuance by Heineken N.V.		(31)	(377)
Acquisition of non-controlling interests		(294)	(21)
Other		15	(1)
Cash flow (used in)/from financing activities		(672)	(1,173)
Net cash flow		1,039	252
Cash and cash equivalents as at 1 January		282	73
Effect of movements in exchange rates		45	(43)
Cash and cash equivalents as at 31 December	21	1,366	282

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of EUR	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Retained earnings	Equity*	Non-controlling interests in Heineken N.V.	Non-controlling interests in Heineken N.V. group companies	Total equity
Balance as at 1 January 2015		461	1,257	(549)	(49)	48	372	4,585	6,125	6,284	1,043	13,452
Profit		—	—	—	—	—	93	864	957	935	249	2,141
Other comprehensive income	24	—	—	40	26	13	—	51	130	128	19	277
Total comprehensive income		—	—	40	26	13	93	915	1,087	1,063	268	2,418
Transfer to retained earnings		—	—	—	—	—	(105)	105	—	—	—	—
Dividends to shareholders		—	—	—	—	—	—	(340)	(340)	(336)	(248)	(924)
Purchase own shares by Heineken N.V.	22	—	—	—	—	—	—	(194)	(194)	(190)	10	(374)
Positive dilution		—	—	—	—	—	—	54	54	(54)	—	—
Share-based payments by Heineken N.V.		—	—	—	—	—	—	16	16	16	—	32
Acquisition of non-controlling interests in Heineken N.V. group companies without a change in control	6	—	—	—	—	—	—	2	2	2	(2)	2
Changes in consolidation		—	—	—	—	—	—	—	—	—	464	464
Balance as at 31 December 2015		461	1,257	(509)	(23)	61	360	5,143	6,750	6,785	1,535	15,070
Balance as at 1 January 2016		461	1,257	(509)	(23)	61	360	5,143	6,750	6,785	1,535	15,070
Profit		—	—	—	—	—	77	702	779	761	199	1,739
Other comprehensive income	24	—	—	(411)	23	71	—	(128)	(445)	(435)	(49)	(929)
Total comprehensive income		—	—	(411)	23	71	77	574	334	326	150	810
Transfer to retained earnings		—	—	—	—	—	(17)	17	—	—	—	—
Dividends to shareholders		—	—	—	—	—	—	(398)	(398)	(388)	(261)	(1,047)
Purchase own shares by Heineken N.V.	22	—	—	—	—	—	—	(21)	(21)	(18)	8	(31)
Share-based payments by Heineken N.V.		—	—	—	—	—	—	7	7	6	—	13
Acquisition of non-controlling interests in Heineken N.V. group companies without a change in control	6	—	—	—	—	—	—	(74)	(74)	(71)	(144)	(289)
Changes in consolidation		—	—	—	—	—	—	—	—	—	47	47
Balance as at 31 December 2016		461	1,257	(920)	—	132	420	5,248	6,598	6,640	1,335	14,573

* Equity attributable to equity holders of Heineken Holding N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Heineken Holding N.V. (the 'Company') is a company domiciled in the Netherlands. The address of the Company's registered office is Tweede Weteringplantsoen 5, Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise Heineken Holding N.V., Heineken N.V., its subsidiaries (together referred to as 'HEINEKEN' and individually as 'HEINEKEN' entities) and HEINEKEN's interest in jointly controlled entities and associates. The Company is registered in the Trade Register of Amsterdam No. 33078624. HEINEKEN is primarily involved in the brewing and selling of beer.

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 2016 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 Board of Directors of the Company and authorised for issue on 14 February 2017 and will be submitted for adoption to the Annual General Meeting of Shareholders on 20 April 2017.

(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.

In particular, 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:

Note 6	Acquisitions and disposals of subsidiaries and non-controlling interests
Note 15	Intangible assets
Note 16	Investments in associates and joint ventures
Note 17	Other investments and receivables
Note 18	Deferred tax assets and liabilities
Note 26	Employee benefits
Note 28	Provisions
Note 29	Trade and other payables
Note 30	Financial risk management and financial instruments
Note 32	Contingencies

(e) Changes in accounting policies

(i) Netting cash pooling arrangements with legally enforceable rights to offset

HEINEKEN previously presented the cash and overdraft balances within cash pooling arrangements on a net basis in the statement of financial position, based on the legally enforceable right to offset and the intention to settle on a net basis. In March 2016 the IFRS Interpretations Committee (IFRIC) decided on when and whether entities are able to offset balances in accordance with IAS 32. HEINEKEN has revised its accounting policy accordingly, by applying the stricter IFRIC interpretation on the intention to settle on a net basis.

This change in accounting policy has been accounted for retrospectively and as a result of this, the amount of 'Cash and cash equivalents' and 'Bank overdrafts and commercial papers' increased by EUR2,408 million as per 31 December 2015. Legal offset rights for the cash pooling arrangements continue to be in place. The amount subject to legal offset rights, but not netted in the statement of financial position is EUR1,489 million per 31 December 2016. If netted, 'Cash and cash equivalents' would amount to EUR1,546 million and 'Bank overdrafts and commercial papers' to EUR180 million. Refer to note 21 for further details. The Net interest-bearing debt position remains unchanged.

(ii) Other changes

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 2016:

- Disclosure Initiative (amendments to IAS 1)
- Regulatory Deferral Accounts (IFRS 14)
- Accounting for Acquisitions of Interests in Joint Operations (amendments to IFRS 11)
- Bearer Plants (amendments to IAS 16 and IAS 41)
- Classification of Acceptable Methods of Depreciation and Amortisation (amendments to IAS 16 and IAS 38)
- Applying the consolidation exemption (amendment to IFRS 10, IFRS 12 and IAS 28)
- Equity method in separate financial statements (amendments to IAS 27)
- Annual Improvements to IFRS's 2012-2014 Cycle

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 is exposed to, or has rights 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.

(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 is exposed to, or has rights 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.

(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.

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.

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

In EUR	Year-end 2016	Year-end 2015	Average 2016	Average 2015
Brazilian Real (BRL)	0.2915	0.2319	0.2592	0.2705
Great Britain Pound (GBP)	1.1680	1.3625	1.2209	1.3772
Mexican Peso (MXN)	0.0463	0.0530	0.0484	0.0568
Nigerian Naira (NGN)	0.0030	0.0046	0.0036	0.0047
Polish Zloty (PLN)	0.2260	0.2357	0.2292	0.2390
Russian Ruble (RUB)	0.0156	0.0124	0.0135	0.0147
Singapore Dollar (SGD)	0.6564	0.6486	0.6547	0.6556
United States Dollar (USD)	0.9487	0.9185	0.9036	0.9011
Vietnamese Dollar in 1,000 (VND)	0.0417	0.0409	0.0404	0.0411

(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.

(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 of Heineken N.V.

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.

(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.

(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. Strategic brands are amortised on an individual basis over the estimated useful life of the brand. Other brands are amortised on a portfolio basis per country.

(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.

(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.

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.

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)

As from 1 January 2005, HEINEKEN established a share plan for the Executive Board of Heineken N.V. and, as from 1 January 2006, HEINEKEN also established a share plan for 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 of Heineken N.V. 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 of Heineken N.V. 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

As from 21 April 2011, HEINEKEN established a matching share entitlement for the Executive Board of Heineken N.V. 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.

(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 from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of sales tax, excise duties, returns, customer discounts and other sales-related discounts. Revenue from the sale of products is recognised in profit or loss when the amount of revenue can be measured reliably, the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, and there is no continuing management involvement with the products.

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 substance of the relevant agreement. Rental income, pub management services and technical services are recognised in profit or loss when the services have been delivered.

(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.

(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 jointly controlled entities 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.

(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 of Heineken N.V. which is considered to be 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 of Heineken N.V. 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 of Heineken N.V. 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 2016, which HEINEKEN has not applied in preparing these consolidated financial statements.

IFRS 9, published in July 2014, replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. 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. HEINEKEN will implement IFRS 9 per 1 January 2018. Based on preliminary assessments HEINEKEN is expecting IFRS 9 will have limited impact on its consolidated financial statements.

IFRS 15 'Revenue from Contracts with Customers', published in May 2014, establishes a framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance and will be implemented by HEINEKEN per 1 January 2018. HEINEKEN has started workshops with key Operating Companies (OpCos) to identify the areas where IFRS 15 changes the current accounting policies. HEINEKEN also provided training to all OpCos and made a high level impact assessment. Based on these preliminary assessments HEINEKEN concluded that IFRS 15 impacts the presentation in profit or loss of 'payments to customers for services received', such as payments to customers for marketing support. Most of these marketing support payments are currently classified as marketing expenses, but could be considered a reduction of revenue under IFRS 15 if the fair value of the service received cannot be reasonably estimated. The impact of the standard will be further investigated in 2017.

IFRS 16 'Leases', published in January 2016, establishes a revised framework for determining whether a lease is recognised on the (Consolidated) Statement of Financial Position. It replaces existing guidance on leases, including IAS 17. HEINEKEN expects to implement IFRS 16 per 1 January 2019. In 2016, HEINEKEN has completed an internal questionnaire and has started to collect rental and lease contracts from the OpCos. HEINEKEN is currently in the process of determining to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect HEINEKEN's profit and classification of cash flows. Operating leases that will be recorded on HEINEKEN's balance sheet as a result of IFRS 16 will mainly be for offices, warehouses, pubs, stores, cars and (forklift) trucks. HEINEKEN will further analyse the lease contracts in 2017 to prepare an initial impact assessment.

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

- Disclosure Initiative (amendments to IAS 7)
- Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)
- Classification and measurement of Share-based Payments (amendments to IFRS 2)

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 market prices for similar items when available and replacement cost when appropriate.

(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. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating 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.

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 contract 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
- Heineken N.V. 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 of Heineken N.V. (the chief operating decision-maker) to discuss operating activities, regional forecasts and regional results. The Heineken N.V. Head Office operating segment falls directly under the responsibility of the Executive Board of Heineken N.V. The Executive Board of Heineken N.V. 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 pages 56 and 57. Performance is measured based on EBIT (beia), as included in the internal management reports that are reviewed by the Executive Board of Heineken N.V. EBIT (beia) is defined as earnings before interest and taxes and net finance expenses, before exceptional items and amortisation of acquisition-related intangibles. 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. EBIT and EBIT (beia) are not financial measures calculated in accordance with IFRS. EBIT (beia) is used to measure performance as management believes that this measurement is the most relevant in evaluating the results of these 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 of Heineken N.V. 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.

Information about reportable segments

In millions of EUR	Note	2016	Europe 2015	2016	Americas 2015	2016	Africa, Middle East & Eastern Europe 2015
Revenue							
Third party revenue ¹		9,422	9,510	5,200	5,154	3,200	3,260
Interregional revenue		690	717	3	5	3	3
Total revenue		10,112	10,227	5,203	5,159	3,203	3,263
Other income	8	39	34	12	6	1	51
Results from operating activities		1,208	1,039	883	807	38	487
Net finance expenses	12						
Share of profit of associates and joint ventures and impairments thereof	16	13	16	69	74	49	52
Income tax expense	13						
Profit							
Attributable to:							
Equity holders of Heineken Holding N.V. (net profit)							
Non-controlling interests in Heineken N.V.							
Non-controlling interests in Heineken N.V. group companies							
EBIT reconciliation							
EBIT ²		1,221	1,055	952	881	87	539
Eia ²		54	159	149	97	337	92
EBIT (beia)²		1,275	1,214	1,101	978	424	631
Current segment assets ³		2,898	3,392	2,003	1,814	1,303	1,423
Non-current segment assets		10,047	10,605	5,854	5,877	2,620	3,186
Investments in associates and joint ventures		162	190	1,203	1,098	221	217
Total segment assets		13,107	14,187	9,060	8,789	4,144	4,826
Unallocated assets							
Total assets							
Segment liabilities ³		4,804	5,193	1,383	1,354	1,154	1,305
Unallocated liabilities							
Total equity and liabilities							
Purchase of P, P & E	14	533	548	502	369	436	432
Acquisition of goodwill	15	6	51	4	132	4	44
Purchases of intangible assets	15	40	22	22	14	9	4
Depreciation of P, P & E (Impairment) and reversal of impairment of P, P & E	14	(487)	(517)	(230)	(226)	(299)	(286)
Amortisation intangible assets (Impairment) and reversal of impairment of intangible assets	15	(60)	(69)	(97)	(96)	(9)	(16)
	15	—	(4)	—	—	(1)	—

¹Includes other revenue of EUR343 million in 2016 and EUR386 million in 2015.

²Note that these are non-GAAP measures.

³Comparatives for current segment assets and segment liabilities are revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2016	Asia Pacific	Heineken N.V. Head Office & Other/eliminations		2016	Consolidated
	2015	2016	2015		2015
2,891	2,480	79	107	20,792	20,511
3	3	(699)	(728)	—	—
2,894	2,483	(620)	(621)	20,792	20,511
1	(62)	(7)	382	46	411
710	417	(84)	325	2,755 (493)	3,075 (409)
19	30	—	—	150 (673)	172 (697)
				1,739	2,141
				779	957
				761	935
				199	249
				1,739	2,141
729	447	(84)	325	2,905	3,247
217	288	38	(325)	795	311
946	735	(46)	—	3,700	3,558
1,150	1,042	826	635	8,180	8,306
8,668	8,107	775	1,080	27,964	28,855
552	417	27	63	2,165	1,985
10,370	9,566	1,628	1,778	38,309	39,146
				1,012	976
				39,321	40,122
864	748	2,110	2,654	10,315	11,254
				14,433	13,798
				14,573	15,070
				39,321	40,122
281	284	5	7	1,757	1,640
11	392	—	—	25	619
5	2	33	51	109	93
(131)	(110)	(16)	(12)	(1,163)	(1,151)
(19)	(15)	—	—	(274)	(71)
(181)	(169)	(21)	(18)	(368)	(368)
(11)	—	—	—	(12)	(4)

Reconciliation of segment profit or loss

In the internal management reports, HEINEKEN measures its performance primarily based on EBIT and EBIT beia (before exceptional items and amortisation of acquisition-related intangible assets). Both are non-GAAP measures not calculated in accordance with IFRS. Beia adjustments are also applied on profit 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 EBIT (beia) to profit before tax of Heineken N.V.

In millions of EUR	2016	2015
EBIT (beia)	3,700	3,558
Exceptional items and amortisation of acquisition-related intangible assets included in EBIT	(795)	(311)
EBIT	2,905	3,247
Net finance expenses	(493)	(409)
Profit before income tax	2,412	2,838

Exceptional items and amortisation of acquisition-related intangibles (Eia) in net profit

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

In millions of EUR	2016	2015
Profit attributable to equity holders of Heineken Holding N.V. (net profit)	779	957
Non-controlling interests in Heineken N.V.	761	935
	1,540	1,892
Amortisation of acquisition-related intangible assets included in EBIT	315	321
Exceptional items included in EBIT	480	(10)
Exceptional items included in net finance expenses/(income)	25	(18)
Exceptional items included in income tax expense	(196)	(124)
Exceptional items included in non-controlling interest	(66)	(13)
Net profit (beia)	2,098	2,048

The 2016 exceptional items and amortisation of acquisition-related intangibles on net profit amounts to EUR558 million (2015: EUR156 million). This amount consists of:

- EUR315 million (2015: EUR321 million) of amortisation of acquisition-related intangibles recorded in EBIT. EUR10 million (2015: EUR5 million) of this amount is included in share of net profit of associates and joint ventures.
- EUR480 million (2015: EUR10 million income) of exceptional items recorded in EBIT. This includes restructuring expenses of EUR80 million (2015: EUR106 million), impairments of EUR328 million (2015: EUR78 million) of which EUR286 million relates to The Democratic Republic of Congo (DRC). Other exceptional expenses in EBIT amounted to EUR72 million (2015: EUR194 million income which included EUR379 million disposal gain for EMPAQUE). This includes asset write downs and the recording of provisions for an amount of EUR62 million (2015: EUR79 million).
- EUR25 million (2015: EUR18 million income) of exceptional items in net finance expenses, mainly related to the currency impact on dividend receivables from Nigeria.
- EUR196 million (2015: EUR124 million) in income tax expense includes the tax impact on amortisation of acquisition-related intangible assets of EUR73 million (2015: EUR75 million), the tax impact on exceptional items of EUR36 million (2015: EUR58 million) and an exceptional income tax benefit of EUR87 million (2015: EUR9 million expense), mainly relating to previously unrecognised deferred tax assets in 2016.
- Total amount of Eia allocated to non-controlling interest amounts to EUR66 million (2015: EUR13 million).

6. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND NON-CONTROLLING INTERESTS

Acquisition of subsidiaries

During 2016, HEINEKEN completed several immaterial acquisitions, amongst others in the Philippines.

Accounting for prior year acquisitions

The accounting for the acquisitions of Heineken South Africa (Pty) Limited (formerly known as DHN Drinks (Pty) Limited) and Sedibeng Brewery (Pty) Limited (South Africa), Desnoes & Geddes (Jamaica), GAPL Pte Ltd (Malaysia) and Pivovarna Lasko (Slovenia) has been finalised in the fourth quarter of 2016 without any significant adjustments.

Acquisitions of non-controlling interests

During 2016 HEINEKEN acquired 22.5 per cent of the floating shares in Desnoes & Geddes ('D&G'). HEINEKEN owned a 95.8 per cent stake in D&G as at 31 December 2016. Furthermore, during 2016 HEINEKEN acquired the remaining 46.6 per cent floating shares in Pivovarna Lasko Union, d.o.o. (formerly known as Pivovarna Laško d.d.). The consideration paid for the acquisition of non-controlling interests in 2016 and the related equity impact (result of buy out) are disclosed in the table below:

In millions of EUR	Consideration paid	Value of non-controlling interest	Result buy-out
Desnoes & Geddes (Jamaica)	150	85	65
Pivovarna Lasko (Slovenia)	104	54	50
Other	40	5	35
	294	144	150

Disposal of Distribev

On 1 February 2016, HEINEKEN completed the sale of 80 per cent in Distribev Sp. z o.o., Grupa Żywiec S.A.'s local sales and distribution company serving the traditional trade and horeca market, to the Orbico Group. A EUR8 million pre-tax gain was recorded in other income.

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 the assets and liabilities classified as held for sale have commenced and are expected to be completed during 2017.

Assets and liabilities classified as held for sale

In millions of EUR	2016	2015
Current assets	13	53
Property, plant and equipment	38	67
Intangible assets	6	—
Other non-current assets	—	3
Assets classified as held for sale	57	123
Current liabilities	(11)	(31)
Non-current liabilities	(6)	—
Liabilities classified as held for sale	(17)	(31)

In 2015, the assets and liabilities held for sale mainly related to Dtribev Sp. z.o.o. (Grupa Żywiec S.A.'s sales and distribution company serving the traditional trade and horeca market) in Poland. Closing of the transaction occurred on 1 February 2016.

8. OTHER INCOME

In millions of EUR	Note	2016	2015
Gain on sale of property, plant and equipment		38	37
Gain on sale of subsidiaries, joint ventures and associates	6	8	374
		46	411

In 2015 HEINEKEN recorded a post-tax disposal gain on the divestment of EMPAQUE.

9. RAW MATERIALS, CONSUMABLES AND SERVICES

In millions of EUR	2016	2015
Raw materials	1,646	1,616
Non-returnable packaging	3,187	3,049
Goods for resale	1,523	1,775
Inventory movements	(54)	(141)
Marketing and selling expenses	2,836	2,755
Transport expenses	1,100	1,139
Energy and water	476	517
Repair and maintenance	475	485
Other expenses	1,814	1,736
	13,003	12,931

Other expenses mainly include rentals of EUR302 million (2015: EUR301 million), consultant expenses of EUR140 million (2015: EUR142 million), telecom and office automation of EUR220 million (2015: EUR206 million), distribution expenses of EUR141 million (2015: EUR135 million), travel expenses of EUR148 million (2015: EUR151 million) and other taxes of EUR96 million (2015: EUR144 million).

10. PERSONNEL EXPENSES

In millions of EUR	Note	2016	2015
Wages and salaries		2,158	2,178
Compulsory social security contributions		333	346
Contributions to defined contribution plans		48	47
Expenses/(income) related to defined benefit plans	26	88	78
Expenses related to other long-term employee benefits		1	3
Equity-settled share-based payment plan	27	42	33
Other personnel expenses		593	637
		3,263	3,322

In other personnel expenses, restructuring costs are included for an amount of EUR38 million (2015: EUR90 million). Restructuring is disclosed in the provisions (refer to note 28).

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

	2016	2015*
The Netherlands	3,907	3,936
Other Europe	24,012	25,161
Americas	20,917	20,985
Africa, Middle East and Eastern Europe	15,193	15,102
Asia Pacific	9,496	8,728
	73,525	73,912

*Revised

11. AMORTISATION, DEPRECIATION AND IMPAIRMENTS

In millions of EUR	Note	2016	2015
Property, plant and equipment	14	1,437	1,222
Intangible assets	15	380	372
		1,817	1,594

12. NET FINANCE INCOME AND EXPENSE

Recognised in profit or loss

In millions of EUR	2016	2015
Interest income	60	60
Interest expenses	(419)	(412)
Dividend income from available-for-sale investments	12	10
Gain/(loss) on disposal of available-for-sale investments	—	18
Net change in fair value of derivatives	19	143
Net foreign exchange gain/(loss)*	(114)	(179)
Unwinding discount on provisions	(1)	(3)
Interest on the net defined benefit obligation	(40)	(44)
Other	(10)	(2)
Other net finance income/(expenses)	(134)	(57)
Net finance income/(expenses)	(493)	(409)

* Transactional foreign exchange effects of working capital.

13. INCOME TAX EXPENSE

Recognised in profit or loss

In millions of EUR	2016	2015
<i>Current tax expense</i>		
Current year	807	799
Under/(over) provided in prior years	(11)	(3)
	796	796
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences, tax losses and tax credits	(45)	(83)
Derecognition/(recognition) of deferred tax assets	(90)	(3)
Effect of changes in tax rates	2	20
Under/(over) provided in prior years	10	(33)
	(123)	(99)
Total income tax expense in profit or loss	673	697

Reconciliation of the effective tax rate

In millions of EUR	2016	2015
Profit before income tax	2,412	2,838
Share of net profit of associates and joint ventures and impairments thereof	(150)	(172)
Profit before income tax excluding share of profit of associates and joint ventures (including impairments thereof)	2,262	2,666

	%	2016	%	2015*
Income tax using the Company's domestic tax rate	25.0	565	25.0	667
Effect of tax rates in foreign jurisdictions	(0.4)	(9)	2.1	57
Effect of non-deductible expenses	2.9	67	2.6	69
Effect of tax incentives and exempt income	(2.8)	(64)	(7.6)	(205)
Derecognition/(recognition)	(4.0)	(90)	(0.1)	(2)
Effect of unrecognised current year losses	6.8	154	2.1	56
Effect of changes in tax rates	0.1	2	0.8	20
Withholding taxes	3.1	70	1.9	50
Under/(over) provided in prior years	—	(1)	(1.4)	(36)
Other reconciling items	(1.0)	(21)	0.8	21
	29.7	673	26.2	697

* Revised for comparative purposes

The effective tax rate 2016 includes the impact of impairments for which no tax benefit could be recognised. Partly offset by the recognition of previously unrecognised deferred tax assets. The effective tax rate 2015 included the gain on sale of EMPAQUE, which was tax exempt.

For the income tax impact on items recognised directly in equity and in other comprehensive income, please refer to note 24.

14. PROPERTY, PLANT AND EQUIPMENT

In millions of EUR	Note	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
COST						
Balance as at 1 January 2015		4,989	7,305	5,051	793	18,138
Changes in consolidation		256	280	132	22	690
Purchases		84	99	428	1,029	1,640
Transfer of completed projects under construction		240	607	206	(1,053)	—
Transfer (to)/from assets classified as held for sale		(50)	(1)	(8)	—	(59)
Disposals		(54)	(126)	(354)	(3)	(537)
Effect of movements in exchange rates		15	(54)	(47)	—	(86)
Balance as at 31 December 2015		5,480	8,110	5,408	788	19,786
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
DEPRECIATION AND IMPAIRMENT LOSSES						
Balance as at 1 January 2015		(1,906)	(4,099)	(3,415)	—	(9,420)
Changes in consolidation		(35)	(51)	(61)	—	(147)
Depreciation charge for the year	11	(157)	(424)	(570)	—	(1,151)
Impairment losses	11	(18)	(36)	(17)	—	(71)
Transfer to/(from) assets classified as held for sale		14	—	5	—	19
Disposals		29	136	332	—	497
Effect of movements in exchange rates		(15)	22	32	—	39
Balance as at 31 December 2015		(2,088)	(4,452)	(3,694)	—	(10,234)
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)
CARRYING AMOUNT						
As at 1 January 2015		3,083	3,206	1,636	793	8,718
As at 31 December 2015		3,392	3,658	1,714	788	9,552
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

Impairment losses

In 2016, a total impairment loss of EUR295 million (2015: EUR71 million) was charged to profit or loss. These impairment losses mainly relate 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 relates 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 and Middle East and Eastern Europe segment. The determination of the recoverable amount of these assets is based on a fair value less costs of disposal (FVLCD) valuation. The FVLCD is based on a discounted ten-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:

in per cent	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.

15. INTANGIBLE ASSETS

In millions of EUR	Note	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total
COST							
Balance as at 1 January 2015		10,803	4,072	2,174	773	514	18,336
Changes in consolidation and other transfers		611	475	333	296	18	1,733
Purchased/internally developed		—	—	—	—	93	93
Disposals		—	—	—	—	(18)	(18)
Effect of movements in exchange rates		317	30	20	32	(2)	397
Balance as at 31 December 2015		11,731	4,577	2,527	1,101	605	20,541
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
AMORTISATION AND IMPAIRMENT LOSSES							
Balance as at 1 January 2015		(407)	(462)	(650)	(143)	(333)	(1,995)
Changes in consolidation		—	—	—	(1)	(1)	(2)
Amortisation charge for the year	11	—	(108)	(165)	(44)	(51)	(368)
Impairment losses	11	—	(3)	—	—	(1)	(4)
Disposals		—	—	—	—	15	15
Effect of movements in exchange rates		—	2	7	(14)	1	(4)
Balance as at 31 December 2015		(407)	(571)	(808)	(202)	(370)	(2,358)
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)
CARRYING AMOUNT							
As at 1 January 2015		10,396	3,610	1,524	630	181	16,341
As at 31 December 2015		11,324	4,006	1,719	899	235	18,183
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

Brands, customer-related and contract-based intangibles

The main brands capitalised are the brands acquired in various acquisitions such as Fosters, Strongbow, 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 Heineken N.V. 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:

In millions of EUR	2016	2015
Europe	4,788	5,060
The Americas (excluding Brazil)	2,115	2,124
Brazil	78	62
Africa, Middle East and Eastern Europe (aggregated)	414	508
Asia Pacific	3,154	3,090
Heineken N.V. Head Office	480	480
	11,029	11,324

Throughout the year, goodwill decreased mainly due to net foreign currency differences.

The recoverable amounts of the (group of) CGUs are based on 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 ten-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 per cent	Pre-tax WACC	Expected annual long-term inflation 2020-2026	Expected volume growth rates 2020-2026
Europe	9.3	1.8	0.5
The Americas (excluding Brazil)	13.6	3.2	3.4
Brazil	16.9	4.9	3.4
Africa, Middle East and Eastern Europe	15.4-24.4	2.7-12.2	0.7-8.7
Asia Pacific	14.5	4.6	3.2
Heineken N.V. Head Office	9.4	1.8	0.5

The outcome of these impairment tests in 2016 did not result in an impairment loss (2015: 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:

In millions of EUR	Joint ventures		Associates	
	2016	2015	2016	2015
Carrying amount of interests	2,022	1,852	144	133
Share of:				
Profit or loss from continuing operations	124	151	26	21
Other comprehensive income	—	7	—	—
	124	158	26	21

17. OTHER INVESTMENTS AND RECEIVABLES

In millions of EUR	Note	2016	2015
Non-current other investments and receivables			
Available-for-sale investments	30	427	287
Non-current derivatives	30	254	210
Loans to customers	30	58	69
Loans to joint ventures and associates	30	18	22
Long-term prepayments		145	115
Held-to-maturity investments	30	1	1
Other receivables	30	174	152
		1,077	856
Current other investments			
Investments held for trading	30	—	16
		—	16

Effective interest rates on loans to customers range from 0 -16.0 per cent.

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 EUR15 million (2015: EUR15 million) are included in available-for-sale investments.

Sensitivity analysis – equity price risk

As at 31 December 2016, an amount of EUR342 million (2015: EUR98 million) of available-for-sale investments and investments held for trading is listed on stock exchanges. An increase or decrease of 1 per cent 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:

In millions of EUR	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property, plant and equipment	71	54	(547)	(607)	(476)	(553)
Intangible assets	56	78	(1,402)	(1,507)	(1,346)	(1,429)
Investments	126	129	(5)	(5)	121	124
Inventories	27	28	(1)	(2)	26	26
Loans and borrowings	2	11	(32)	(23)	(30)	(12)
Employee benefits	346	334	(6)	(3)	340	331
Provisions	125	93	(45)	(42)	80	51
Other items	413	332	(180)	(134)	233	198
Tax losses carry forward	391	364	—	—	391	364
Tax assets/(liabilities)	1,557	1,423	(2,218)	(2,323)	(661)	(900)
Set-off of tax	(546)	(465)	546	465	—	—
Net tax assets/(liabilities)	1,011	958	(1,672)	(1,858)	(661)	(900)

Of the total net deferred tax assets of EUR1,011 million as at 31 December 2016 (2015: EUR958 million), EUR405 million (2015: EUR363 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.

No deferred tax liability has been recognised in respect of undistributed earnings of subsidiaries, joint ventures and associates, net impact EUR58 million (2015: EUR50 million). This is 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 carry forward

HEINEKEN has tax losses carry forward for an amount of EUR2,370 million as at 31 December 2016 (2015: EUR2,363 million), which expire in the following years:

In millions of EUR	2016	2015
2016	—	24
2017	20	26
2018	36	57
2019	19	16
2020	9	11
2021	61	—
After 2021 respectively 2020 but not unlimited	338	513
Unlimited	1,887	1,716
	2,370	2,363
Recognised as deferred tax assets (gross)	(1,733)	(1,564)
Unrecognised	637	799

The unrecognised losses relate to entities for which it is not probable that taxable profit will be available to offset these losses.

Movement in deferred tax balances during the year

In millions of EUR	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 carry forward	364	4	13	3	—	7	391
Net tax assets/(liabilities)	(900)	(8)	89	123	26	9	(661)

In millions of EUR	Balance 1 January 2015	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	Balance 31 December 2015
Property, plant and equipment	(527)	(54)	23	6	—	(1)	(553)
Intangible assets	(1,257)	(261)	(3)	91	—	1	(1,429)
Investments	123	7	(7)	2	1	(2)	124
Inventories	19	(4)	—	10	—	1	26
Loans and borrowings	(9)	—	(13)	1	6	3	(12)
Employee benefits	365	—	4	(7)	(33)	2	331
Provisions	92	2	1	(25)	—	(19)	51
Other items	175	(12)	93	10	1	(69)	198
Tax losses carry forward	177	125	(14)	11	—	65	364
Net tax assets/(liabilities)	(842)	(197)	84	99	(25)	(19)	(900)

19. INVENTORIES

In millions of EUR	2016	2015
Raw materials	247	247
Work in progress	225	223
Finished products	479	479
Goods for resale	168	197
Non-returnable packaging	187	195
Other inventories and spare parts	312	361
	1,618	1,702

During 2016 inventories were written down by EUR19 million to net realisable value (2015: EUR23 million).

20. TRADE AND OTHER RECEIVABLES

In millions of EUR	Note	2016	2015
Trade receivables		2,283	2,169
Other receivables		701	625
Trade receivables due from associates and joint ventures		20	27
Derivatives		48	52
	30	3,052	2,873

A net impairment loss of EUR57 million (2015: EUR61 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 EUR	Note	2016	2015*
Cash and cash equivalents	30	3,035	3,232
Bank overdrafts and commercial papers	25	(1,669)	(2,950)
Cash and cash equivalents in the statement of cash flows		1,366	282

*Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

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 EUR	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 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)
Balance as at 31 December 2015					
ASSETS					
Cash and cash equivalents	3,677	(445)	3,232	(2,408)	824
LIABILITIES					
Bank overdrafts and commercial papers	(3,395)	445	(2,950)	2,408	(542)

22. CAPITAL AND RESERVES

Share capital

As at 31 December 2016, the issued share capital comprised 288,030,168 ordinary shares (2015: 288,030,168) with a par value of EUR1.60 and 250 priority shares (2015: 250) with a par value of EUR2. All issued shares are fully paid. The share capital as at 31 December 2016 amounted to EUR461 million (2015: EUR461 million). The Company's authorised capital amounted to EUR1,500,000,500, consisting of 937,500,000 ordinary shares and 250 priority 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. For the rights of the priority shareholders reference is made to the Other information on page 103.

Share premium

As at 31 December 2016, the share premium amounted to EUR1,257 million (2015: EUR1,257 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.

Purchase own shares by Heineken N.V.

As at 31 December 2016, Heineken N.V. held 6,321,833 own shares (2015: 6,318,958). This results in an increased interest in shareholding by Heineken Holding N.V.

The related dilution effect has been recognised directly in equity.

Share-based payments by Heineken N.V.

During the period from 1 January to 31 December 2016, Heineken N.V. acquired 505,000 Heineken N.V. shares for an amount of EUR39 million for delivery against LTV and other share-based payment plans.

Dividends

The following dividends were declared and paid by Heineken Holding N.V.:

In millions of EUR	2016	2015
Final dividend previous year EUR0.86, respectively EUR0.74 per ordinary share	248	213
Interim dividend current year EUR0.52, respectively EUR0.44 per ordinary share	150	127
Total dividend declared and paid	398	340

For 2016, a payment of a total cash dividend of EUR1.34 per share (2015: EUR1.30) will be proposed at the AGM of Heineken N.V. If approved, a final dividend of EUR0.82 per share will be paid on 3 May 2017, as an interim dividend of EUR0.52 per share was paid on 11 August 2016. The payment will be subject to 15 per cent Dutch withholding tax.

Pursuant to Article 10, paragraph 6, of the Articles of Association of Heineken Holding N.V., holders of Heineken Holding N.V. ordinary shares receive the same dividend as holders of Heineken N.V. shares.

After the balance sheet date, the Board of Directors announced the following appropriation of profit. The dividends, taking into account the interim dividends declared and paid, have not been provided for.

In millions of EUR	2016	2015
Per ordinary share EUR1.34 (2015: EUR1.30)	386	374
Addition to the reserves	393	583
Net profit	779	957

Non-controlling interests in the activities and cash flows of Heineken N.V.

In millions of EUR	2016	2015*
NCI percentage	49.44% ¹	49.44% ¹
Non-current assets	31,184	31,800
Current assets	8,137	8,322
Non-current liabilities	(14,351)	(14,128)
Current liabilities	(10,397)	(10,924)
Net assets	14,573	15,070
Carrying amount of NCI	6,640	6,785
Revenue	20,792	20,511
Profit	1,739	2,141
OCI	(929)	277
Total comprehensive income	810	2,418
Profit allocated to NCI ²	761	935
OCI allocated to NCI ²	326	1,063
Cash flow from operating activities	3,718	3,489
Cash flow from investing activities	(2,007)	(2,064)
Cash flow from financing activities	(672)	(1,173)
Net increase (decrease) in cash and cash equivalents	1,039	252
Final dividend previous year	490	425
Interim dividend current year	296	251
Total dividend	786	676
Dividend allocated to NCI	388	336

*Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

¹ Of which 12.532 per cent relates to FEMSA and 37.463 per cent to the public.

² Calculated based on 49.44 per cent (2015: 49.44 per cent) of the equity attributable to Heineken N.V.

Non-controlling interests in Heineken N.V. group companies

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 2016 amounted to EUR1,335 million (2015: EUR1,535 million).

23. EARNINGS PER SHARE**Basic earnings per share**

The calculation of basic earnings per share for the period ended 31 December 2016 is based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR779 million (2015: EUR957 million) and a weighted average number of ordinary shares – basic outstanding during the year ended 31 December 2016 of 288,030,168 (2015: 288,030,168). Basic earnings per share for the year amounted to EUR2.70 (2015: EUR3.32).

Weighted average number of shares – basic and diluted

	2016	2015
Number of ordinary shares 1 January	288,030,168	288,030,168
Weighted average number of basic ordinary shares for the year	288,030,168	288,030,168

24. INCOME TAX ON OTHER COMPREHENSIVE INCOME

In millions of EUR			2016		2015	
	Amount before tax	Tax	Amount net of tax	Amount before tax	Tax	Amount net of tax
Other comprehensive income						
Actuarial gains and losses	(301)	49	(252)	128	(33)	95
Currency translation differences	(935)	27	(908)	(120)	77	(43)
Recycling of currency translation differences to profit or loss	—	—	—	129	—	129
Effective portion of net investment hedges	44	—	44	15	—	15
Effective portion of changes in fair value of cash flow hedges	18	(12)	6	(3)	26	23
Effective portion of cash flow hedges transferred to profit or loss	53	(12)	41	36	(12)	24
Net change in fair value available-for-sale investments	140	—	140	46	(3)	43
Recycling of fair value of available-for-sale investments to profit or loss	—	—	—	(16)	—	(16)
Share of other comprehensive income of associates/joint ventures	—	—	—	7	—	7
	(981)	52	(929)	222	55	277

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 EUR	2016	2015
Unsecured bond issues	9,432	9,269
Unsecured bank loans	239	126
Secured bank loans	84	38
Other non-current interest-bearing liabilities	1,165	1,193
Non-current interest-bearing liabilities	10,920	10,626
Non-current non-interest-bearing liabilities	24	—
Non-current derivatives	10	32
Non-current liabilities	10,954	10,658

Current interest-bearing liabilities

In millions of EUR	Note	2016	2015*
Current portion of unsecured bonds issued		1,251	400
Current portion of unsecured bank loans		4	354
Current portion of secured bank loans		10	8
Current portion of other non-current interest-bearing liabilities		94	40
Total current portion of non-current interest-bearing liabilities		1,359	802
Deposits from third parties (mainly employee loans)		622	595
		1,981	1,397
Bank overdrafts and commercial papers	21	1,669	2,950
Current interest-bearing liabilities		3,650	4,347

*Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

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 EUR	Note	2016	2015*
Non-current interest-bearing liabilities		10,920	10,626
Current portion of non-current interest-bearing liabilities		1,359	802
Deposits from third parties (mainly employee deposits)		622	595
		12,901	12,023
Bank overdrafts and commercial papers	21	1,669	2,950
Market value of cross-currency interest rate swaps	30	(242)	(215)
		14,328	14,758
Cash, cash equivalents and current other investments	17/21	(3,035)	(3,248)
Net interest-bearing debt position		11,293	11,510

*Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

Non-current liabilities

In millions of EUR	Unsecured bond issues	Unsecured bank loans	Secured bank loans	Other	Non-current derivatives	Non-current	Total
				non-current interest-bearing liabilities		non-interest-bearing liabilities	
Balance as at 1 January 2016	9,269	126	38	1,193	32	—	10,658
Consolidation changes	—	—	—	16	—	—	16
Effect of movements in exchange rates	51	5	2	18	(21)	33	88
Transfers to current liabilities	(1,173)	14	(6)	(109)	(2)	(2)	(1,278)
Proceeds	1,303	264	57	30	1	—	1,655
Repayments	(18)	(170)	(7)	(18)	—	(7)	(220)
Other	—	—	—	35	—	—	35
Balance as at 31 December 2016	9,432	239	84	1,165	10	24	10,954

Terms and debt repayment schedule

Terms and conditions of outstanding non-current and current loans and borrowings were as follows:

In millions of EUR	Category	Currency	Nominal interest rate %	Repayment	Carrying amount 2016	Face value 2016	Carrying amount 2015	Face value 2015
Unsecured bond	issue under EMTN programme	EUR	4.6	2016	—	—	400	400
Unsecured bond	issue under EMTN programme	SGD	1.4	2017	66	66	64	65
Unsecured bond	issue under EMTN programme	EUR	1.3	2018	100	100	100	100
Unsecured bond	issue under EMTN programme	SGD	2.2	2018	62	62	62	62
Unsecured bond	issue under EMTN programme	USD	1.5	2019	189	190	183	184
Unsecured bond	issue under EMTN programme	EUR	2.5	2019	847	850	845	850
Unsecured bond	issue under EMTN programme	EUR	2.1	2020	997	1,000	997	1,000
Unsecured bond	issue under EMTN programme	EUR	2.0	2021	498	500	497	500
Unsecured bond	issue under EMTN programme	EUR	1.3	2021	498	500	497	500
Unsecured bond	issue under EMTN programme	USD	3.3	2022	189	190	183	184
Unsecured bond	issue under EMTN programme	EUR	1.7	2023	140	140	140	140
Unsecured bond	issue under EMTN programme	EUR	3.5	2024	497	500	497	500
Unsecured bond	issue under EMTN programme	EUR	1.5	2024	454	460	454	460
Unsecured bond	issue under EMTN programme	EUR	2.9	2025	743	750	742	750
Unsecured bond	issue under EMTN programme	EUR	2.0	2025	224	225	224	225
Unsecured bond	issue under EMTN programme	EUR	3.5	2029	199	200	199	200
Unsecured bond	issue under EMTN programme	EUR	3.3	2033	180	180	179	180
Unsecured bond	issue under EMTN programme	EUR	2.6	2033	92	100	91	100
Unsecured bond	issue under EMTN programme	EUR	3.5	2043	75	75	75	75
Unsecured bond	issue under EMTN programme	EUR	1.0	2026	790	800	—	—
Unsecured bond	issue under EMTN programme	EUR	1.4	2027	497	500	—	—
Unsecured bond	issue under APB MTN programme	SGD	3.0 - 4.0	2020-2022	25	25	25	25
Unsecured bond	issue under 144A/RegS	USD	1.4	2017	1,185	1,186	1,146	1,148
Unsecured bond	issue under 144A/RegS	USD	3.4	2022	709	712	685	689
Unsecured bond	issue under 144A/RegS	USD	2.8	2023	945	949	915	919
Unsecured bond	issue under 144A/RegS	USD	4.0	2042	465	474	450	459
Unsecured bond	n.a.	EUR	3.5 - 4.5	2020	17	17	19	19
Unsecured bank loans	bank facilities	EUR	4.8	2016	—	—	207	207
Unsecured bank loans	bank facilities	NGN	15 - 17	2021	51	51	14	16
Unsecured bank loans	German Schuldschein notes	EUR	1.8 - 6.2	2016	—	—	111	111
Unsecured bank loans	bank facilities	MYR	3.5 - 4.5	2016	—	—	19	19
Unsecured bank loans	bank facilities	ZAR	8.6	2018	112	112	71	71
Unsecured bank loans	various	various	various	various	80	80	58	58
Secured bank loans	bank facilities	XOF	7.0	2026	57	56	—	—
Secured bank loans	bank facilities	ETB	9.5	2021	20	20	22	22
Secured bank loans	various	various	various	various	17	20	24	25
Other interest-bearing liabilities	2011 US private placement	GBP	7.3	2016	—	—	34	34
Other interest-bearing liabilities	2008 US private placement	USD	2.8	2017	85	85	83	83
Other interest-bearing liabilities	2008 US private placement	GBP	7.2	2018	37	37	44	44
Other interest-bearing liabilities	2010 US private placement	USD	4.6	2018	688	688	665	666
Other interest-bearing liabilities	2008 US private placement	USD	6.3	2018	369	370	357	358
Other interest-bearing liabilities	facilities from JVs	EUR	various	various	4	4	17	17
Other interest-bearing liabilities	various	various	various	various	76	76	33	33
Deposits from third parties	n.a.	various	various	various	622	622	595	595
					12,901	12,972	12,023	12,093

Financing headroom

As at 31 December 2016, no amounts were drawn on the existing revolving credit facility of EUR2,500 million. This revolving credit facility was extended by one year in May 2016 and matures in 2021. The committed financing headroom at Group level was EUR3,112 million as at 31 December 2016 and consisted of an undrawn revolving credit facility and centrally available cash, minus 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 2016 on a pro-forma basis). As at 31 December 2016 this ratio was 2.3 (2015: 2.4). 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 EUR	2016	2015
Present value of unfunded defined benefit obligations	305	329
Present value of funded defined benefit obligations	8,865	8,544
Total present value of defined benefit obligations	9,170	8,873
Fair value of defined benefit plan assets	(7,815)	(7,661)
Present value of net obligations	1,355	1,212
Asset ceiling items	3	4
Recognised liability for defined benefit obligations	1,358	1,216
Other long-term employee benefits	62	73
	1,420	1,289

HEINEKEN makes contributions to defined benefit plans that provide pension benefits for employees upon retirement in a number of countries. The defined benefit plans in the Netherlands and the UK combined cover 88.0 per cent of the total defined benefit plan assets (2015: 88.4 per cent), 84.1 per cent of the present value of the defined benefit obligations (2015: 83.9 per cent) and 61.2 per cent of the present value of net obligations (2015: 55.2 per cent) as at 31 December 2016.

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 2016, HEINEKEN's cash contribution to the Dutch pension plan was at the maximum level. The same level is expected to be paid in 2017.

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 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 next triennial valuation which will take place in 2019. As at 31 December 2016, the IAS 19 present value of the net obligations of SNPP represents a GBP581 million (EUR679 million) deficit. No additional liability has to be 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 (to be 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 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:

In millions of EUR	Note	Present value of defined benefit obligations		Fair value of defined benefit plan assets		Present value of net obligations	
		2016	2015	2016	2015	2016	2015
Balance as at 1 January		8,873	8,909	(7,661)	(7,547)	1,212	1,362
<i>Included in profit or loss</i>							
Current service cost		86	83	—	—	86	83
Past service cost/(credit)		1	(9)	—	—	1	(9)
Administration expense		—	—	2	6	2	6
Effect of any settlement		(1)	(2)	—	—	(1)	(2)
Expense recognised							
in personnel expenses	10	86	72	2	6	88	78
Interest expense/(income)	12	257	258	(217)	(214)	40	44
		343	330	(215)	(208)	128	122
<i>Included in OCI</i>							
Remeasurement loss/(gain):							
Actuarial loss/(gain) arising from							
Demographic assumptions		20	(62)	—	—	20	(62)
Financial assumptions		1,080	(191)	—	—	1,080	(191)
Experience adjustments		(139)	(41)	—	—	(139)	(41)
Return on plan assets excluding interest income		—	—	(660)	166	(660)	166
Effect of movements in exchange rates		(674)	259	557	(236)	(117)	23
		287	(35)	(103)	(70)	184	(105)
<i>Other</i>							
Changes in consolidation and reclassification		(1)	13	—	—	(1)	13
Contributions paid:							
By the employer		—	—	(168)	(180)	(168)	(180)
By the plan participants		23	26	(23)	(26)	—	—
Benefits paid		(355)	(370)	355	370	—	—
		(333)	(331)	164	164	(169)	(167)
Balance as at 31 December		9,170	8,873	(7,815)	(7,661)	1,355	1,212

Defined benefit plan assets

In millions of EUR	2016			2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
<i>Equity instruments:</i>						
Europe	1,092	—	1,092	746	—	746
Northern America	403	—	403	511	—	511
Japan	113	—	113	212	—	212
Asia other	47	—	47	153	—	153
Other	478	246	724	249	1	250
	2,133	246	2,379	1,871	1	1,872
<i>Debt instruments:</i>						
Corporate bonds – investment grade	2,673	1,537	4,210	2,791	1,355	4,146
Corporate bonds – non-investment grade	297	102	399	131	178	309
	2,970	1,639	4,609	2,922	1,533	4,455
Derivatives	10	(1,389)	(1,379)	16	(1,229)	(1,213)
Properties and real estate	230	362	592	253	267	520
Cash and cash equivalents	180	116	296	195	47	242
Investment funds	711	350	1,061	1,219	292	1,511
Other plan assets	3	254	257	4	270	274
	1,134	(307)	827	1,687	(353)	1,334
Balance as at 31 December	6,237	1,578	7,815	6,480	1,181	7,661

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 per cent equity securities, 40 per cent bonds, 7 per cent property and real estate and 15 per cent other investments. The objective is to hedge currency risk on the US dollar, Japanese yen and British pound for 50 per cent 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 40 per cent of plan assets in liability driven investments, 19 per cent in absolute return, 20 per cent in equities (global and emerging markets), 5.5 per cent in alternatives and 15.5 per cent in private markets. The objective is to hedge 100 per cent 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' bond holdings.

In the Netherlands, interest rate risk is partly managed through fixed income investments. These investments match the liabilities for 22.9 per cent (2015: 22.7 per cent). 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 28 per cent of the interest rate sensitivity of the total liabilities (2015: 24.7 per cent).

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 41 per cent of the inflation-linked liabilities (2015: 39 per cent).

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 current 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:

In per cent	The Netherlands		UK*	
	2016	2015	2016	2015
Discount rate as at 31 December	1.5	2.3	2.7	3.9
Future salary increases	2.0	2.0	—	—
Future pension increases	0.4	0.9	3.1	3.0

* 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:

In per cent	2016	Europe	2016	Americas	Africa, Middle East & Eastern Europe	
		2015		2015	2016	2015
Discount rate as at 31 December	0.6-6.8	0.8-2.3	7.0-7.6	7.0	1.5-15.5	12.0
Future salary increases	0.0-3.5	0.0-3.5	0.0-4.5	4.5	0.0-5.0	7.5
Future pension increases	0.0-1.5	0.0-1.2	0.0-3.5	3.5	0.0-3.5	3.0
Medical cost trend rate	0.0-4.5	0.0-4.5	0.0-5.0	5.1	0.0-5.0	4.5

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 from Towers Watson 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 per cent p.a. to the Self-Administered Pension Schemes Series 2 (year of birth) tables with a 112 per cent (male)/109 per cent (female) weighting for pensioners and a 105 per cent (male)/106 per cent (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 2017 contributions to be paid for the defined benefit plans to be in line with 2016.

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:

Effect in millions of EUR	31 December 2016		31 December 2015	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (0.5% movement)	(695)	798	(677)	771
Future salary growth (0.25% movement)	23	(22)	21	(20)
Future pension growth (0.25% movement)	332	(309)	300	(292)
Medical cost trend rate (0.5% movement)	5	(4)	6	(5)
Life expectancy (1 year)	300	(301)	287	(290)

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.

27. SHARE-BASED PAYMENTS – LONG-TERM VARIABLE AWARD

HEINEKEN has a performance-based share plan (Long-Term Variable award (LTV)) for the Executive Board of Heineken N.V. and senior management. Under this LTV plan, Heineken N.V. 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 2014-2016, LTV 2015-2017 and LTV 2016-2018 are the same for the Executive Board of Heineken N.V. and senior management and comprise solely of internal financial measures, being Organic Revenue Growth, Organic EBIT beia growth, Earnings Per Share (EPS) beia growth and Free Operating Cash Flow.

At target performance, 100 per cent of the awarded share rights vest. At threshold performance, 50 per cent of the awarded share rights vest. At maximum performance, 200 per cent of the awarded share rights vest for the Executive Board of Heineken N.V. as well as senior managers contracted by the US, Mexico, Brazil and Singapore, and 175 per cent vest for all other senior managers.

The performance period for the aforementioned plans are:

LTV	Performance period start	Performance period end
2014-2016	1 January 2014	31 December 2016
2015-2017	1 January 2015	31 December 2017
2016-2018	1 January 2016	31 December 2018

The vesting date for the Executive Board of Heineken N.V. is shortly after the publication of the annual results of 2016, 2017 and 2018 respectively and for senior management on 1 April 2017, 2018 and 2019 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 terms and conditions of the Heineken N.V. share rights granted are as follows:

Grant date/employees entitled	Number*	Based on share price
Share rights granted to Executive Board in 2014	51,702	49.08
Share rights granted to senior management in 2014	597,744	49.08
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

*The number of shares is based on at target payout performance (100 per cent).

Under the LTV 2013-2015 a total of 58,447 (gross) shares vested for the Executive Board of Heineken N.V. and 726,789 (gross) shares vested for senior management. The number of shares vested for the Executive Board relates to J.F.M.L. van Boxmeer, as D.R. Hooft Graafland was no longer member of the Executive Board at vesting and L. Debroux received LTI as per LTIP 2015-2017.

Based on the performance conditions, it is expected that approximately 786,093 shares of the LTV 2014-2016 will vest in 2017 for senior management and the Executive Board of Heineken N.V.

The number, as corrected for the expected performance for the various awards, and weighted average share price per share under the LTV of senior management and Executive Board of Heineken N.V. are as follows:

	Weighted average share price 2016	Number of share rights 2016	Weighted average share price 2015	Number of share rights 2015
Outstanding as at 1 January	52.26	1,854,782	44.42	2,401,418
Granted during the year	78.77	433,128	58.95	589,201
Forfeited during the year	58.33	(121,026)	50.95	(235,289)
Vested during the year	50.47	(785,236)	35.89	(891,409)
Performance adjustment	—	491,699	—	(9,139)
Outstanding as at 31 December	60.40	1,873,347	52.26	1,854,782

Under the extraordinary share plans for senior management of Heineken N.V. 24,550 shares were granted and 7,850 (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 2016 are EUR1.3 million (2015: EUR1.0 million).

Matching shares, extraordinary shares and retention share awards granted to the Executive Board of Heineken N.V. and are disclosed in note 33.

Personnel expenses

In millions of EUR	Note	2016	2015
Share rights granted in 2012		—	1
Share rights granted in 2013		—	12
Share rights granted in 2014		16	10
Share rights granted in 2015		12	10
Share rights granted in 2016		14	—
Total expense recognised in personnel expenses	10	42	33

28. PROVISIONS

In millions of EUR	Restructuring	Onerous contracts	Claims and litigation	Other	Total
Balance as at 1 January 2016	132	54	122	166	474
Changes in consolidation	—	—	—	4	4
Provisions made during the year	38	23	34	66	161
Provisions used during the year	(63)	(8)	(1)	(7)	(79)
Provisions reversed during the year	(7)	(13)	(26)	(53)	(99)
Effect of movements in exchange rates	(1)	(6)	18	(15)	(4)
Unwinding of discounts	—	—	2	(3)	(1)
Balance as at 31 December 2016	99	50	149	158	456
Non-current	41	38	129	94	302
Current	58	12	20	64	154

Restructuring

The provision for restructuring of EUR99 million mainly relates to restructuring programmes in Spain and the Netherlands.

Claims and litigation

The provision for claims and litigation of EUR149 million mainly relates to the litigation inherited from the acquisition of the beer operations of FEMSA in 2010 (refer to note 32).

Other provisions

Included are, among others, surety and guarantees provided of EUR35 million (2015: EUR39 million) and provisions for other taxes of EUR56 million (2015: EUR42 million).

29. TRADE AND OTHER PAYABLES

In millions of EUR	Note	2016	2015
Trade payables		2,934	2,797
Accruals and deferred income		1,263	1,270
Taxation and social security contributions		879	806
Returnable packaging deposits		628	606
Interest		129	131
Derivatives		75	89
Dividends		45	46
Other payables		271	268
	30	6,224	6,013

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 of Heineken N.V., under the supervision of the Supervisory Board of Heineken N.V., 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 of Heineken N.V. 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.

Following the economic crisis of 2008, HEINEKEN placed particular focus on strengthening credit management and a Global Credit Policy was implemented. All local operations are required to comply with the principles contained within the Global Credit Policy and develop local credit management procedures accordingly. HEINEKEN annually reviews compliance with these procedures and continuous focus is placed on ensuring that adequate controls are in place to mitigate any identified risks in respect of both customer and supplier 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 to customers

HEINEKEN's exposure to credit risk is mainly influenced by the individual characteristics of each customer. HEINEKEN's held-to-maturity investments include loans to customers, issued based on a loan contract. Loans to customers are ideally secured by, among others, rights on property or intangible assets, such as the right to take possession of the premises of the customer. 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.

HEINEKEN establishes an allowance for impairment of loans that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant 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.

In a few countries, the issuance of new loans is outsourced to third parties. In most cases, HEINEKEN issues guarantees to the third party for the risk of default by the customer.

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 includes external ratings, where available, and in some cases bank references. Purchase 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 future sales are made on a prepayment basis only with approval of management.

HEINEKEN has multiple distribution models to deliver goods to end customers. Deliveries are done in some countries via own wholesalers, in other markets directly and in some others via third parties. 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.

HEINEKEN establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The components of this allowance are a specific loss component and a collective loss component.

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.

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 EUR	Note	2016	2015*
Cash and cash equivalents	21	3,035	3,232
Trade and other receivables, excluding derivatives	20	3,004	2,821
Current derivatives	20	48	52
Investments held for trading	17	—	16
Available-for-sale investments	17	427	287
Non-current derivatives and investments FVTPL	17	254	210
Loans to customers	17	58	69
Loans to joint ventures and associates	17	18	22
Held-to-maturity investments	17	1	1
Other non-current receivables	17	174	152
Guarantees to banks for loans (to third parties)	18	335	473
		7,354	7,335

*Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

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 EUR	2016	2015
Europe	1,412	1,424
Americas	636	542
Africa, Middle East & Eastern Europe	444	449
Asia Pacific	349	308
Heineken N.V. Head Office and Other/ eliminations	163	98
	3,004	2,821

Impairment losses

The ageing of trade and other receivables (excluding current derivatives) at the reporting date was:

In millions of EUR	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
Not past due	2,499	(32)	2,475	(54)
Past due 0 – 30 days	238	(8)	207	(13)
Past due 31 – 120 days	263	(67)	233	(64)
More than 120 days	452	(341)	347	(310)
	3,452	(448)	3,262	(441)

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 EUR	2016	2015
Balance as at 1 January	441	404
Changes in consolidation	—	7
Impairment loss recognised	106	103
Allowance used	(37)	(29)
Allowance released	(49)	(42)
Effect of movements in exchange rates	(13)	(2)
Balance as at 31 December	448	441

The movement in the allowance for impairment in respect of loans to customers during the year was as follows:

In millions of EUR	2016	2015
Balance as at 1 January	121	135
Changes in consolidation	—	1
Impairment loss recognised	1	—
Allowance used	—	—
Allowance released	(8)	(14)
Effect of movements in exchange rates	(3)	(1)
Balance as at 31 December	111	121

Impairment losses recognised for trade and other receivables (excluding current derivatives) and loans to customers are part of the other non-cash items in the consolidated statement of cash flows.

The income statement impact of EUR7 million gain (2015: EUR14 million gain) in respect of loans to customers and EUR57 million expense (2015: EUR61 million expense) in respect of trade and other receivables (excluding current derivatives) 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.

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:

	2016					
In millions of EUR	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)
						2015*
In millions of EUR	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Financial liabilities						
Interest-bearing liabilities	(14,973)	(17,158)	(4,422)	(1,742)	(5,193)	(5,801)
Trade and other payables (excluding interest payable, dividends and derivatives and including non-current part)	(5,744)	(5,744)	(5,658)	(62)	(12)	(12)
Derivative financial assets and (liabilities)						
Interest rate swaps used for hedge accounting (net)	214	265	20	15	230	—
Forward exchange contracts used for hedge accounting (net)	(2)	(16)	(12)	(4)	—	—
Commodity derivatives used for hedge accounting (net)	(70)	(70)	(42)	(20)	(8)	—
Derivatives not used for hedge accounting (net)	(1)	(1)	(1)	—	—	—
	(20,576)	(22,724)	(10,115)	(1,813)	(4,983)	(5,813)

*Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

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 of Heineken N.V.

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 2016, the year-end exchange rate of US dollar moved to 1.05 vs the year-end 2015 rate of 1.09. This change had a limited translational and transactional impact on financial statements. The Mexican peso exchange rate depreciated from 18.88 per year-end 2015 to 21.60 per year-end 2016. The transactional exchange risk was hedged in line with the hedging policy, the resulting impact was therefore mitigated. The negative translational impact was more profound. The exchange rate for Vietnamese dong slightly moved from 24.438 per year-end 2015 to 23.969 per year-end 2016, having a limited translational and transactional impact on financial statements. In June 2016, Central Bank of Nigeria officially devalued the Nigerian naira. The Nigerian naira depreciated from year-end 2015 rate of 215.98 to 332.23 per year-end 2016. This devaluation had negative translational and transactional impact on HEINEKEN's financial statements. Following the result of the United Kingdom referendum to leave the EU, the year-end 2016 rate was 0.86 in comparison to 0.73 per year-end 2015. The transactional risk was hedged in line with the hedging policy, the resulting impact was therefore mitigated. The negative translational impact was more profound. The exchange rates mentioned in this paragraph are quoted vs Euro.

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 per cent 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, Swiss francs, South African rand and Polish zloty. In some cases, HEINEKEN elects to treat intra-HEINEKEN financing with a permanent character as equity and does not hedge the foreign currency exposure.

The principal amounts of HEINEKEN's US dollar, British pound, Nigerian naira, Singapore dollar bank loans and bond issues are used 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. This provides an economic hedge without derivatives being entered into.

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.

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.

In millions	2016		2015	
	EUR	USD	EUR	USD
Financial assets	146	5,260	124	5,035
Financial liabilities	(1,291)	(6,338)	(1,080)	(6,214)
Gross balance sheet exposure	(1,145)	(1,078)	(956)	(1,179)
Estimated forecast sales next year	207	1,330	168	1,353
Estimated forecast purchases next year	(1,965)	(1,818)	(1,765)	(1,534)
Gross exposure	(2,903)	(1,566)	(2,553)	(1,360)
Net notional amounts foreign exchange contracts	433	884	406	748
Net exposure	(2,470)	(682)	(2,147)	(612)
Sensitivity analysis				
Equity	(59)	(15)	(46)	(33)
Profit or loss	(4)	1	(8)	(6)

Sensitivity analysis

A 10 per cent 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 per cent 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 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 3.8 to 6.5 per cent (2015: from 3.8 to 7.3 per cent).

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 EUR	2016	2015
Fixed rate instruments		
Financial assets	83	93
Financial liabilities	(11,984)	(11,057)
Net interest rate swaps	—	(42)
	<u>(11,901)</u>	<u>(11,006)</u>
Variable rate instruments		
Financial assets	3,214	1,023
Financial liabilities	(2,587)	(1,508)
Net interest rate swaps	—	42
	<u>627</u>	<u>(443)</u>

Cash flow sensitivity analysis for variable rate instruments

HEINEKEN applies cash flow hedge accounting on certain floating 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 2015.

In millions of EUR	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2016				
Variable rate instruments	5	(5)	5	(5)
Net interest rate swaps	—	—	—	—
Cash flow sensitivity (net)	5	(5)	5	(5)
31 December 2015				
Variable rate instruments	(4)	4	(4)	4
Net interest rate swaps	—	—	—	—
Cash flow sensitivity (net)	(4)	4	(4)	4

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 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 2016, the market value of commodity swaps was EUR11 million positive (2015: EUR70 million negative).

Sensitivity analysis for aluminium hedges

The table below shows an estimated pre-tax impact of 10 per cent change in the market price of aluminium.

In millions of EUR	Equity	
	10 per cent increase	10 per cent decrease
31 December 2016		
Aluminium hedges	40	(40)

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:

		2016				
In millions of EUR	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Interest rate swaps						
Assets	—	—	—	—	—	—
Liabilities	—	—	—	—	—	—
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	—
		2015				
In millions of EUR	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Interest rate swaps						
Assets	—	—	—	—	—	—
Liabilities	(1)	(2)	(2)	—	—	—
Cross-currency interest rate swaps						
Assets	215	1,220	90	53	1,077	—
Liabilities	—	(953)	(68)	(38)	(847)	—
Forward exchange contracts						
Assets	37	1,437	1,289	148	—	—
Liabilities	(39)	(1,453)	(1,301)	(152)	—	—
Commodity derivatives						
Assets	1	1	1	—	—	—
Liabilities	(71)	(70)	(42)	(20)	(8)	—
	142	180	(33)	(9)	222	—

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.

Net investment hedges

HEINEKEN hedges its investments in certain subsidiaries by entering into local currency denominated borrowings, which mitigate the foreign currency translation risk arising from the subsidiaries net assets. These borrowings are designated as a net investment hedge. The fair value of these borrowings at 31 December 2016 was EUR506 million (2015: EUR536 million), and no ineffectiveness was recognised in profit and loss in 2016 (2015: nil).

Capital management

Heineken Holding N.V.'s capital management is strongly related to Heineken N.V.'s capital management because every Heineken N.V. share held by Heineken Holding N.V. is matched by one share issued by Heineken Holding N.V. This enables Heineken N.V. to pursue its long-term policy in the interest of the Heineken N.V. shareholders.

There were no major changes in Heineken Holding N.V.'s approach to capital management during the year. The policy of the Board of Directors of Heineken Holding N.V. 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 of Heineken N.V. Capital is herein defined as equity attributable to equity holders of Heineken Holding N.V. (total equity minus non-controlling interests).

Heineken Holding N.V. is not subject to externally imposed capital requirements other than the legal reserves explained in note 22.

Pursuant to Article 10, paragraph 6, of the Articles of Association of Heineken Holding N.V., holders of Heineken Holding N.V. ordinary shares receive the same dividend as holders of Heineken N.V. shares.

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 2016 was EUR11,292 million (2015: EUR10,025 million) and the carrying amount was EUR10,683 million (2015: EUR9,669 million). The fair value of the other interest-bearing liabilities as at 31 December 2016 was EUR1,662 million (2015: EUR1,870 million) and the carrying amount was EUR1,597 million (2015: EUR1,759 million).

Basis for determining fair values

The significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above are discussed in note 4.

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)

	Level 1	Level 2	Level 3
31 December 2016			
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)	—

	Level 1	Level 2	Level 3
31 December 2015			
Available-for-sale investments	98	105	84
Non-current derivative assets	—	210	—
Current derivative assets	—	52	—
Investments held for trading	16	—	—
	114	367	84
Non-current derivative liabilities	—	(32)	—
Loans and borrowings	(10,025)	(1,870)	—
Current derivative liabilities	—	(89)	—
	(10,025)	(1,991)	—

During the period ended 31 December 2016 there were no significant transfers between the three levels of the fair value hierarchy, except within the available-for-sale investments. Within this category the investment in Saigon Alcohol Beer and Beverages Corporation ('SABECO', Vietnam) has been transferred from Level 2 to Level 1 due to the fact that SABECO shares are no longer traded over-the-counter, but have become listed on the Ho Chi Minh Stock Exchange in December 2016. The transferred amount as per 31 December 2016 is EUR249 million. The fair value adjustment of EUR144 million during the year is recognised in other comprehensive income and presented within equity in the fair value reserve.

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.

Level 3

Details of the determination of level 3 fair value measurements as at 31 December 2016 are set out below:

In millions of EUR	2016	2015
<i>Available-for-sale investments based on level 3</i>		
Balance as at 1 January	84	68
Fair value adjustments recognised in other comprehensive income	(2)	16
Disposals	—	—
Transfers	3	—
Balance as at 31 December	85	84

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 EUR	Total 2016	Less than 1 year	1-5 years	More than 5 years	Total 2015*
Operational lease commitments	1,460	231	552	677	1,114
Property, plant and equipment ordered	128	120	8	—	293
Raw materials purchase contracts	5,287	1,569	2,455	1,263	5,989
Marketing and merchandising commitments	391	177	209	5	370
Other off-balance sheet obligations	1,542	687	509	346	1,766
Off-balance sheet obligations	8,808	2,784	3,733	2,291	9,532
Undrawn committed bank facilities	2,747	—	2,747	—	2,930

*Revised

HEINEKEN leases buildings, cars and 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 relates to purchase contracts with EMPAQUE which has become a third party supplier after the disposal in 2015.

During the year ended 31 December 2016, EUR302 million (2015: EUR301 million) was recognised as an expense in profit or loss in respect of operating leases and rent.

On 15 December 2016 HEINEKEN has announced that following Vine Acquisitions Limited's announcement of a recommended cash offer for Punch Taverns plc, HEINEKEN through HEINEKEN UK has agreed a back-to-back deal with Vine Acquisitions to acquire Punch Securitisation A ('Punch A'), comprising approximately 1,900 pubs across the UK. HEINEKEN will pay an aggregate consideration of GBP305.0 million (EUR356 million as per 31 December 2016) for the shares in Punch A and assumed intercompany debts due from Punch A to Punch Taverns plc. As at 20 August external debts (nominal value) and derivatives of Punch A amounted to GBP962.3 million. On 1 November 2016, Punch Taverns plc reduced the Punch A external debt by redeeming GBP65 million of its class B4 notes. The acquisition of Punch A is subject, amongst other things, to approval by the relevant regulatory authorities.

The EUR356 million cash consideration is included in the other off-balance sheet commitments (less than 1 year).

Next to the above mentioned consideration for Punch A, other off-balance sheet obligations includes 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.

32. CONTINGENCIES

HEINEKEN has contingencies for which, in the opinion of management and its legal counsel, the risk of loss is possible but not probable and therefore no provisions have been recorded. For example, HEINEKEN is from time to time involved in legal and arbitration proceedings arising in the ordinary course of business. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. HEINEKEN cannot reliably estimate the likely timing and amount of resolution for the majority of these matters.

Furthermore, HEINEKEN operates in a high number of tax jurisdictions, and is subject to a wide variety of taxes per tax jurisdiction (for example excise duties, VAT, corporate income tax and local taxes). In some cases, tax legislation is highly complex and subject to interpretation. As a result, HEINEKEN is required to exercise judgement in the recognition of the probable amount of taxes payable or recoverable and determination of contingencies.

HEINEKEN's significant contingencies are described below.

Brazil

As part of the acquisition of the beer operations of FEMSA in 2010, HEINEKEN inherited existing legal proceedings with labour unions, tax authorities and other parties of its, now wholly-owned, subsidiaries Cervejarias Kaiser Brasil and Cervejarias Kaiser Nordeste (jointly, Heineken Brasil). The proceedings have arisen in the ordinary course of business and are common to the current economic and legal environment of Brazil. The proceedings have partly been provided for (refer to note 28). The contingent amount being claimed against Heineken Brasil resulting from such proceedings as at 31 December 2016 is EUR348 million. Such contingencies were classified by legal counsel as less than probable of being settled against Heineken Brasil, but more than remote. However, HEINEKEN believes that the ultimate resolution of such legal proceedings will not have a material adverse effect on its consolidated financial position or result of operations. HEINEKEN does not expect any significant liability to arise from these contingencies. A part of the aforementioned contingencies (EUR269 million) is tax-related and qualifies for indemnification by FEMSA .

As is customary in Brazil, Heineken Brasil has been requested by the tax authorities to collateralise tax contingencies currently in litigation amounting to EUR521 million by either pledging fixed assets or entering into available lines of credit which cover such contingencies.

Guarantees

In millions of EUR	Total 2016	Less than 1 year	1-5 years	More than 5 years	Total 2015
Guarantees to banks for loans (to third parties)	335	137	187	11	473
Other guarantees	771	171	331	269	564
	1,106	308	518	280	1,037

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.

33. RELATED PARTIES

Identification of related parties

Heineken Holding N.V. has a related party relationship with its Board of Directors, the Executive Board and Supervisory Board of Heineken N.V., L'Arche Green N.V., Stichting Administratiekantoor Priors, Stichting Beheer Prioriteitsaandelen Heineken Holding N.V., Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), associates and joint ventures (refer to note 16), HEINEKEN pension funds (refer to note 26) and employees (refer to note 25). Heineken Holding N.V.'s ultimate controlling party is C.L. de Carvalho-Heineken. For the structure of the HEINEKEN Group reference is made to the Report of the Board of Directors, page 12.

Board of Directors of Heineken Holding N.V. remuneration

In thousands of EUR	2016	2015
C.L. de Carvalho-Heineken	60	60
M.R. de Carvalho ¹	60	41
<i>Remuneration executive members</i>	120	101
M. Das	90	90
J.A. Fernández Carbajal	60	60
C.M. Kwist	60	60
A.A.C. de Carvalho	60	60
<i>Remuneration non-executive members</i>	270	270
	390	371

¹Appointed as at 23 April 2015.

As at 31 December 2016, the Board of Directors represented 149,121,046 ordinary shares in the Company (2015:149,121,046 ordinary shares).

Executive Board of Heineken N.V.

The remuneration of the members of the Executive Board of Heineken N.V. 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 per cent) and on individual leadership measures (25 per cent) as set by the Supervisory Board of Heineken N.V. For the LTV award refer to note 27.

As at 31 December 2016, J.F.M.L. van Boxmeer held 217,276 Heineken N.V. shares and L. Debroux held 7,069 Heineken N.V. shares (2015: J.F.M.L. van Boxmeer 179,838, L. Debroux 681).

Executive Board of Heineken N.V. remuneration

In thousands of EUR	2016			2015			
	J.F.M.L. van Boxmeer	L. Debroux	Total	J.F.M.L. van Boxmeer	L. Debroux	D.R. Hoof Graafland*	Total
Fixed salary	1,200	720	1,920	1,150	421	201	1,772
Short-Term Variable pay	3,360	1,440	4,800	2,930	833	394	4,157
Matching share entitlement	751	322	1,073	1,353	385	182	1,920
Long-Term Variable award	3,204	711	3,915	2,706	158	1,825	4,689
Extraordinary share award/Retention bonus	—	22	22	236	124	—	360
Pension contributions	944	139	1,083	723	82	33	838
Other emoluments	21	160	181	21	134	7	162
	9,480	3,514	12,994	9,119	2,137	2,642	13,898

* In 2015, an estimated tax penalty of EUR2.8 million to the Dutch tax authorities was recognised in relation to the remuneration of D.R. Hoof Graafland. This tax was an expense to the employer and therefore not included in the table above.

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 2016 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 2015 the investment was 50% for both Executive Board members. From an accounting perspective the corresponding matching shares vest immediately and as such a fair value of EUR1.1 million was recognised in the 2016 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.

Supervisory Board of Heineken N.V. remuneration

The individual members of the Supervisory Board received the following remuneration:

In thousands of EUR	2016	2015
G.J. Wijers	163	160
J.A. Fernández Carbajal	109	105
M. Das	88	85
M.R. de Carvalho	96	104
A.M. Fentener van Vlissingen	91	85
M.E. Minnick ¹	28	80
V.C.O.B.J. Navarre	74	70
J.G. Astaburuaga Sanjinés	99	96
H. Scheffers	83	80
J.M. Huët	88	75
P. Mars-Wright ²	49	—
Y. Brunini ²	44	—
	1,012	940

¹Stepped down as at 21 April 2016.

²Appointed as at 21 April 2016.

M.R. de Carvalho held 100,008 shares of Heineken N.V. as at 31 December 2016 (2015: 100,008 shares). As at 31 December 2016 and 2015, the Supervisory Board members did not hold any of the Heineken N.V. bonds or option rights. M.R. de Carvalho held 100,008 ordinary shares of Heineken Holding N.V. as at 31 December 2016 (2015: 100,008 ordinary shares).

Other related party transactions

In millions of EUR	Transaction value		Balance outstanding as at 31 December	
	2016	2015*	2016	2015*
Sale of products, services and royalties				
To associates and joint ventures	441	286	95	54
To FEMSA	797	817	170	137
	1,238	1,103	265	191
Raw materials, consumables and services				
Goods for resale – joint ventures	5	2	—	—
Other expenses – joint ventures	370	356	37	24
Other expenses FEMSA	151	197	70	59
	526	555	107	83

*Revised

There are no significant transactions with L'Arche Green N.V.

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 Holding N.V. and Heineken N.V. Therefore, several existing contracts between FEMSA and former FEMSA-owned companies acquired by HEINEKEN have become related party contracts.

34. HEINEKEN ENTITIES**Control of HEINEKEN**

The ordinary shares of the Company are traded on Euronext Amsterdam.

Heineken Holding N.V. holds an interest in Heineken N.V. of 50.005 per cent of the issued capital (being 50.560 per cent (2015: 50.560 per cent) of the outstanding capital following the purchase of own shares by Heineken N.V.).

L'Arche Green N.V. holds 51.709 per cent (2015: 51.709 per cent) of the Heineken Holding N.V. ordinary shares.

The Heineken family has an interest of 88.67 per cent in L'Arche Green N.V. The Heineken family also owns a direct 0.03 per cent stake in 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 by Heineken N.V. 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 on page 133.

Pursuant to the provisions of Section 357 of the Republic of Ireland Companies Act 2014, Heineken N.V. irrevocably guarantees, in respect of the financial year from 1 January 2016 up to and including 31 December 2016, 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 N.V.'s significant subsidiaries at 31 December 2016. The subsidiaries as listed below are held by Heineken N.V. 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 EUR13 billion and total asset value of EUR22 billion and are structural contributors to the business.

There were no significant changes to the HEINEKEN structure and ownership interests.

Significant subsidiaries of Heineken N.V.

	Country of incorporation	Percentage of ownership held by Heineken N.V.	
		2016	2015
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
Heineken France S.A.S.	France	100.0	100.0
Nigerian Breweries Plc.	Nigeria	55.4	54.3
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 Zywiec 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

Non-controlling interests in Heineken N.V. group companies

None of the non-controlling interests are considered to be material to HEINEKEN.

35. SUBSEQUENT EVENTS

On 13 February 2017, HEINEKEN announced that it had reached an agreement with Kirin Holdings Company Limited to acquire Brasil Kirin Holding S.A. for a consideration of EUR664 million (enterprise value of EUR1,025 million for HEINEKEN). Through the acquisition HEINEKEN acquires Kirin's Brazilian activities. The transaction is expected to close in the first half of 2017.

Amsterdam, 14 February 2017

Board of Directors

Mr M. Das

Mrs C.L. de Carvalho-Heineken

Mr M.R. de Carvalho

Mr J.A. Fernández Carbajal

Mrs C.M. Kwist

Mr A.A.C. de Carvalho

OTHER INFORMATION

Rights of holders of priority shares

The priority shares in issue with a nominal value of EUR500, which comprise 250 shares of EUR2 nominal value, are held by:

Stichting Administratiekantoor Prioeres
(125 priority shares)

The members of the board of this foundation are
Mrs C.L. de Carvalho-Heineken, chairman
Mr M. Das
Mr R.H. Meppelink

Stichting Beheer Prioriteits aandelen
Heineken Holding N.V.
(125 priority shares)

The members of the board of this foundation are
Mr H.A. Oosters, chairman
Mr P.E.B. Corten

For the rights conferred by the priority shares, reference is made to the following articles of the company's Articles of Association:

Article 4, para. 8

(cooperation of the meeting of priority shareholders in issue of depositary receipts for shares)

Article 7, para. 5

(the meeting of priority shareholders draws up non-binding list of candidates for appointments to the Board of Directors by the General Meeting)

Article 8, para. 7

(the meeting of priority shareholders gives approval for exercising voting rights on shares)

Article 8, para. 8

(the meeting of priority shareholders and the General Meeting give approval for resolutions relating to any material change in the nature or identity of the company or the enterprise)

Article 9, para. 3

(appointment of representative by the meeting of priority shareholders in the event of absence or inability to act of all members of the Board of Directors)

Article 10, para. 6

(4 per cent dividend, after distribution of dividend to holders of ordinary shares)

Article 13, para. 1

(the meeting of priority shareholders brings resolutions to amend the Articles of Association or wind up the company to the General Meeting)

Article 14, para. 3

(priority shareholders' claims to liquidation surplus are subordinated).

Provisions of the Articles of Association concerning appropriation of profit

The relevant provisions of the Articles of Association concerning appropriation of profit read as follows:

Article 10, para. 4: Profit distributions may only be made if the shareholders' equity of the company exceeds the sum of the paid-up and called capital and the reserves prescribed by law.

Article 10, para. 6: Out of the profit as shown by the income statement adopted by the General Meeting, the ordinary shareholders shall first be paid the same dividend per share as paid by Heineken N.V. for the year concerned, having due regard to the provisions of paragraph 4. If and to the extent that the dividend paid by Heineken N.V. is in the form of a stock dividend, the dividend paid to the ordinary shareholders shall also be in the form of a stock dividend. From what remains after the distribution to the ordinary shareholders, the priority shareholders shall be paid a dividend of four per cent (4%) of the nominal value of the priority shares and the remainder shall be appropriated to the reserves. On a motion of the meeting of priority shareholders, the General Meeting shall be authorised to make distributions from the reserves.

Remuneration of the Board of Directors

Pursuant to the company's Articles of Association, Article 7, para. 8, the meeting of holders of priority shares may pass resolutions fixing the remuneration of the members of the Board of Directors.

Shares held by the Board of Directors

As at 31 December 2016, the Board of Directors represented 149,121,046 ordinary shares of the company.

INDEPENDENT AUDITOR'S REPORT

To: The Annual General Meeting of Heineken Holding N.V.

Report on the Financial Statements 2016 included in the Annual report 2016

Our Opinion

We have audited the financial statements 2016 of Heineken Holding N.V. ('the Company'), based in Amsterdam.

The financial statements include the company financial statements and the consolidated financial statements.

In our opinion:

- The company financial statements give a true and fair view of the financial position of Heineken Holding N.V. as at 31 December 2016 and of its result for the year 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.
- The consolidated financial statements give a true and fair view of the financial position of Heineken Holding N.V. as at 31 December 2016 and of its result and its cash flows for 2016 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 company financial statements comprise:

- The company balance sheet as at 31 December 2016.
- The company income statement for 2016.
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2016.
- The following consolidated statements for 2016: 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

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 Holding N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-op-

drachten" ('ViO') and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" ('VGBA').

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 EUR150 million. The materiality is based on consolidated profit before taxation (6.2 per cent). 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 EUR50 million and for the majority of the components, materiality is significantly less than this amount.

We agreed with the Board of Directors that misstatements in excess of EUR7.5 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 Holding 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 Holding 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.

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, acqui-

sitions 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, China, Vietnam, Italy, HGSS Poland, France, Austria, Papua New Guinea, New Zealand, Nigeria, South Africa, Russia, Jamaica and Chile) 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 Board of Directors. 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.

Revenue recognition - Accruals for promotional allowances and volume rebates

Accounting for promotional allowances and volume rebates impacts the amounts of revenue recognized during the period. The revenue accounting policies are specified in note 3(n) to the consolidated financial statements. Significant management judgement is required to estimate the values of promotional allowances and volume rebates. This estimate is considered to be a key audit matter relevant to our audit of the financial statements.

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.

Intangible assets (including goodwill) and property, plant and equipment impairment test - Management assessment of recoverability

Intangible assets (including goodwill) and property, plant and equipment represent 68 per cent of the consolidated 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. 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(f, g and i), 14 and 15 to the consolidated 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 in these audit activities. 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

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 recognized by the Company to the extent that it is probable that future taxable income will be available against which unused tax losses can be utilized. The income tax related accounting policies are specified in notes 3(s), 13 and 18 to the consolidated financial statements.

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 3, 13 and 18 regarding uncertain tax positions and recognized deferred tax assets.

Internal controls over financial reporting

The Company operates various processes and procedures, both centrally (e.g. the shared service centre in Poland, the Heineken Global Procurement function and the central Information Technology organisation) as well as locally, that are important for reliable financial reporting. During 2016 the Company further deployed its test program for internal controls over financial reporting. We considered the Company's internal controls over financial reporting as a basis for designing audit procedures that are appropriate for our audit. 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.

We have tailored our procedures performed to the diverse Information Technology landscapes and the locally established business processes of the Company. We have performed walkthroughs to gain our detailed understanding of the entity and identify the relevant controls. Where

effective for the audit we have tested the operating effectiveness of controls. In cases of deficiencies we have evaluated the compensating controls and measures of the Company and/or carried out tailored procedures to address the risk.

Report on the other information included in the Annual Report

In addition to the financial statements and our auditor's report, the annual report contains other information that consists of:

- Report of the Board of Directors;
- 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.

The Board of Directors is responsible for the preparation of other information, including the Report of the Board of Directors 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 Holding N.V. on 24 April 2014. The audit for year 2016 was our second year audit.

DESCRIPTION OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors 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 Board of Directors in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors 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 Board of Directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors 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 Board of Directors 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 non-executives of the Board of Directors are 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.

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, 14 February 2017

Deloitte Accountants B.V.

J. Dalhuisen

REFERENCE INFORMATION

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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

foreign exchange 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.